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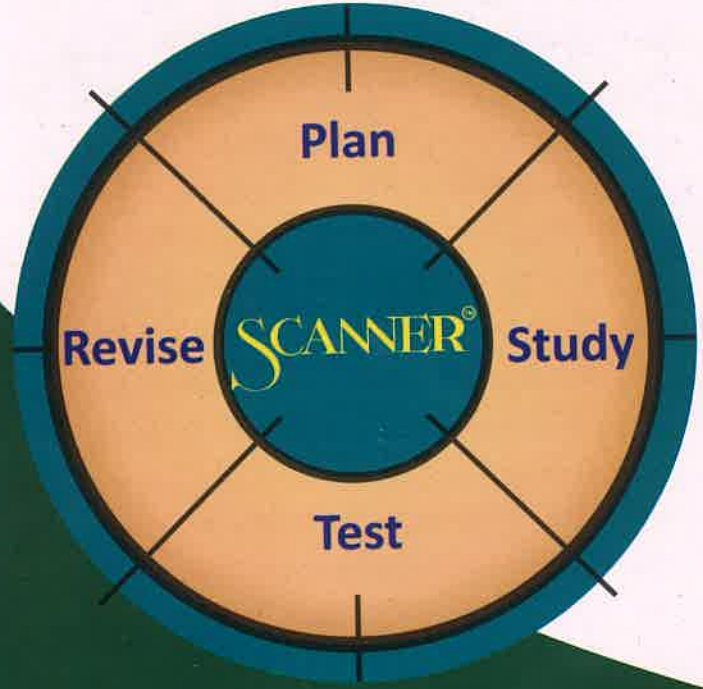
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[CA]



CA Foundation
PAPER-1
ACCOUNTING

Last 20 Exam Questions with Solutions

FEATURES

- Coverage of Past 20 Exam Questions Including May 2025 Exam
- Trend Analysis of Past Exams
- Chapter-wise Marks Distribution
- Covering All Topics as per Study Material
- Strictly Designed and Prepared as per New Syllabus

For Sep. 25, Jan. 26 & May 26

CA Amar Omar
CA Rasika Goenka
CA Nishant Kumar

67th EDITION

Shuchita Prakashan (P) Ltd.

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विद्या ददाति विनयं।

Knowledge is the highest aim.
True learning brings humility.

Welcome and Congratulations!

Congratulations on taking your first step towards becoming a Chartered Accountant!!

Best of Luck for CA Foundation!

For any help, contact me:

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Prof. Arun Kumar
Editor-in-Chief

SCANNER™

Accounting

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Sources of Questions in this Scanner

Paper 1: Accounting

Ch. No.	Chapter Name	Sources of Questions from Old Course (2012)
9. to 11.6.	Chapter 9 to 11.6.	CA Foundation Paper-5 CA Inter Paper-1 CA Inter Paper-2 CA Inter Paper-4 CA Inter Paper-5

Note:

1. When Questions/Chapters are taken from different levels of same course (e.g. from Final level in papers of Inter, or from Inter level in papers of Final) or from different courses (e.g. from CS or CMA in CA) then following are not prepared in the Scanner for such Questions/Chapters:
   (a) Paper Trend Analysis
   (b) Chapter Marks Trend Graph
   (c) Chapter-Wise Marks Analysis
   (d) Chapter-Wise Compulsory Questions Analysis
   (e) Chapter Trend Analysis in Chapters
   (f) Similarly Asked Questions

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PYQ's: 2015 May to 2025 May (21 Exams)

Syllabus

Paper 1 **Accounting** **(100 marks)**
(One paper – Three hours)

Objective:

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

Contents:

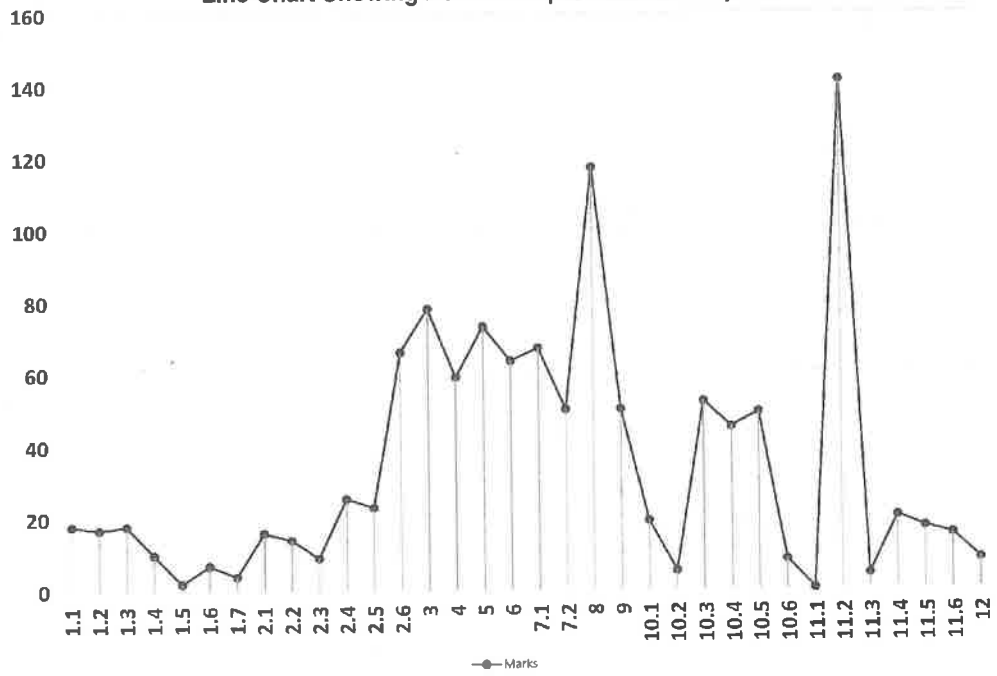
1. **Theoretical framework**
   (i) Meaning and Scope of accounting
   (ii) Accounting Concepts, Principles and Conventions
   (iii) Capital and revenue expenditure, Capital and revenue receipts, Contingent assets and contingent liabilities
   (iv) Accounting Policies
   (v) Accounting as a Measurement Discipline – Valuation Principles, Accounting Estimates.
   (vi) Accounting Standards – Concepts and Objectives.
2. **Accounting Process**
   (i) Recording accounting transactions: principles of double entry book-keeping, books of original entry - journal, subsidiary books, cash book, ledger-format, posting from journal and subsidiary books, balancing of accounts
   (ii) Preparation of Trial Balance
   (iii) Rectification of Errors.
3. **Bank Reconciliation Statement**
   Introduction, reasons, preparation of Bank Reconciliation Statement.
4. **Inventories**
   Meaning, Basis and technique of inventory valuation, Cost of Inventory, Net Realizable value and Record System.

5. **Depreciation and Amortisation**
   Tangible and Intangible Assets - Meaning and difference, concepts, methods of computation and accounting treatment of depreciation/ amortisation, change in depreciation method.
6. **Bills of Exchange and Promissory Notes**
   Meaning of Bills of Exchange and Promissory Notes and their accounting treatment; Accommodation Bills.
7. **Preparation of Final accounts of Sole Proprietors**
   Elements of financial statements, Closing Adjustment Entries, Trading Account, Profit and Loss Account and Balance Sheet of Manufacturing and Non-manufacturing entities.
8. **Financial Statements of Not-for-Profit Organizations**
   Significance and preparation of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet, difference between Profit and Loss Account and Income and Expenditure Account.
9. **Accounts from Incomplete Records (excluding preparation of accounts based on ratios)**
10. **Partnership and LLP Accounts**
    (i) Final Accounts of Partnership Firms and LLPs
    (ii) Admission, Retirement and Death of a Partner including Treatment of Goodwill
    (iii) Dissolution of partnership firms and LLPs including piecemeal distribution of assets.
11. **Company Accounts**
    (i) Definition of shares and debentures
    (ii) Issue of shares and debentures, forfeiture of shares, re-issue of forfeited shares
    (iii) Redemption of preference shares and debentures (excluding purchase and redemption of own debentures and sinking fund method)
    (iv) Accounting for Bonus Issue and Right Issue

Chapter Marks Trend Graph

Accounting

Line Chart Showing Relative Importance of Chapters



Chapter-wise Marks Analysis

Chap. No.	Chapter Name / Years	21 Jul	21 Dec	22 Jun	22 Nov	23 Jun	23 Dec	24 Jun	24 Sep	25 Jan	25 May	Total	Ave.
1.1.	Meaning and Scope of Accounting	-	-	-	-	-	5	1	4	8	-	18	1.8
1.2.	Accounting Concepts, Principles and Conv...	-	-	-	4	4	2	1	2	2	2	17	1.7
1.3	Capital and Revenue Expenditure and Receipts	4	4	2	2	2	2	-	2	-	-	18	1.8
1.4	Contingent Assets and Contingent Liabilities	-	2	-	6	-	-	-	-	-	2	10	1.0
1.5	Accounting Policies	-	-	-	-	-	-	2	-	-	-	2	0.2
1.6	Accounting as a measurement discipline -...	-	-	-	-	-	2	-	-	-	5	7	0.7
1.7	Accounting Standards	-	-	-	-	-	-	2	-	-	2	4	0.4
2.1	Basis Accounting Procedures : Journal Entries	-	-	-	-	5	-	4	2	5	-	16	1.6
2.2	Ledgers	-	10	2	-	-	-	-	-	2	-	14	1.4
2.3	Trial Balance	-	5	4	-	-	-	-	-	-	-	9	0.9
2.4	Subsidiary Books	10	-	-	-	4	-	5	-	4	3	26	2.6
2.5	Cash Book	2	2	5	5	-	7	-	-	-	2	23	2.3
2.6	Rectification of Errors	10	10	2	12	2	-	16	4	-	10	66	6.6
3.	Bank Reconciliation Statement	5	10	5	10	5	8	5	10	10	10	78	7.8
4.	Inventories	7	4	5	7	5	5	5	10	7	4	59	5.9
5.	Depreciation and Amortisation	4	5	10	4	10	12	8	5	10	5	73	7.3
6.	Bills of Exchange and Promissory Notes	-	10	2	15	5	10	2	12	5	3	64	6.4
7.1	Final Accounts of Non-Manufacturing Entities	15	2	-	-	-	15	-	10	15	10	67	6.7

Chap. No.	Chapter Name / Years	21 Jul	21 Dec	22 Jun	22 Nov	23 Jun	23 Dec	24 Jun	24 Sep	25 Jan	25 May	Total	Ave.
7.2	Final Accounts of Manufacturing Entities	-	15	20	10	-	-	5	-	-	-	50	5.0
8.	Financial Statements of Not-for-Profit Organi...	10	10	10	10	15	12	12	12	10	16	117	11.7
9.	Accounts from Incomplete Records	10	-	12	10	-	-	8	5	5	-	50	5.0
10.1	Introduction to Partnership Accounts	-	-	-	-	5	5	-	-	5	4	19	1.9
10.2	Treatment of Goodwill in Partnership Accounts	-	5	-	-	-	-	-	-	-	-	5	0.5
10.3	Admission of a New Partner	-	10	-	10	-	-	14	10	-	8	52	5.2
10.4	Retirement of a Partner	5	-	10	-	-	10	-	10	-	10	45	4.5
10.5	Death of a Partner	12	-	-	-	20	-	-	2	15	-	49	4.9
10.6	Dissolution of Partnership Firms and LLPs	-	-	-	-	-	-	8	-	-	-	8	0.8
11.1	Introduction to Company Accounts	-	-	-	-	-	-	-		-	-	0	0.0
11.2	Issue, Forfeiture and Re-Issue of Shares	19	17	15	15	15	15	-	15	15	15	141	14.1
11.3	Issue of Debentures	-	2	-	-	2	-	-	-	-	-	4	0.4
11.4	Accounting for Bonus Issue and Rights Issue	-	-	-	-	-	-	10	-	-	10	20	2.0
11.5	Redemption of Preference Shares	-	-	-	-	-	-	15	-	2	-	17	1.7
11.6	Redemption of Debentures	-	-	-	-	-	-	-	10	5	-	15	1.5
12	Accounting Terminology Glossary	-	4	-	-	4	-	-	-	-	-	8	0.8

Chapter-Wise Compulsory Questions Analysis

Chap. No.	Chapter Name / Years	21 Jul	21 Dec	22 Jun	22 Nov	23 Jun	23 Dec	24 Jun	24 Sep	25 Jan	25 May	Total	Ave.
1.1.	Meaning and Scope of Accounting	-	-	-	-	-	-	1	4	8	-	13	1.3
1.2.	Accounting Concepts, Principles and Conv...	-	-	-	4	4	2	1	2	2	2	17	1.7
1.3	Capital and Revenue Expenditure and Receipts	-	4	2	2	2	2	-	2	-	-	14	1.4
1.4	Contingent Assets and Contingent Liabilities	-	-	2	6	-	-	-	-	-	2	10	1.0
1.5	Accounting Policies	-	-	-	-	-	-	2	-	-	-	2	0.2
1.6	Accounting as a measurement discipline -...	-	-	-	-	-	2	-	-	-	-	2	0.2
1.7	Accounting Standards	-	-	-	-	-	-	-	-	-	2	2	0.2
2.1	Basis Accounting Procedures : Journal Entries	-	-	-	-	-	-	4	2	-	-	6	0.6
2.2	Ledgers	-	-	2	-	-	-	-	-	2	-	4	0.4
2.3	Trial Balance	-	-	4	-	-	-	-	-	-	-	4	0.4
2.4	Subsidiary Books	-	-	-	-	-	4	-	-	4	-	8	0.8
2.5	Cash Book	2	2	-	-	-	-	2	-	-	2	8	0.8
2.6	Rectification of Errors	-	-	2	2	2	-	4	4	-	-	14	1.4
3.	Bank Reconciliation Statement	-	-	-	-	-	-	-	-	-	-	0	0.0
4.	Inventories	2	4	-	2	-	5	-	-	2	4	19	1.9
5.	Depreciation and Amortisation	4	-	-	4	-	7	-	-	-	-	15	1.5
6.	Bills of Exchange and Promissory Notes	-	-	2	-	-	-	2	2	-	-	6	0.6
7.1	Final Accounts of Non-Manufacturing Entities	-	2	-	-	-	-	-	-	-	-	2	0.2

Chap. No.	Chapter Name	Years	21 Jul	21 Dec	22 Jun	22 Nov	23 Jun	23 Dec	24 Jun	24 Sep	25 Jan	25 May	Total	Ave.
7.2	Final Accounts of Manufacturing Entities		-	-	-	-	-	-	-	-	-	-	0	0.0
8.	Financial Statements of Not-for-Profit Organis...		-	-	-	-	-	-	-	2	-	4	6	0.6
9.	Accounts from Incomplete Records		-	-	-	-	-	-	-	-	-	-	0	0.0
10.1	Introduction to Partnership Accounts		-	-	-	-	-	-	-	-	-	4	4	0.4
10.2	Treatment of Goodwill in Partnership Accounts		-	-	-	-	-	-	-	-	-	-	0	0.0
10.3	Admission of a New Partner		-	-	-	-	-	-	2	-	-	-	2	0.2
10.4	Retirement of a Partner		-	-	-	-	-	-	-	-	-	-	0	0.0
10.5	Death of a Partner		2	-	-	-	-	-	-	2	-	-	4	0.4
10.6	Dissolution of Partnership Firms and LLPs		-	-	-	-	-	-	-	-	-	-	0	0.0
11.1	Introduction to Company Accounts		-	-	-	-	-	-	-	-	-	-	0	0.0
11.2	Issue, Forfeiture and Re-Issue of Shares		4	2	-	-	-	-	-	-	-	-	6	0.6
11.3	Issue of Debentures		-	-	2	-	2	-	-	-	-	-	4	0.4
11.4	Accounting for Bonus Issue and Rights Issue		-	-	-	-	-	-	-	-	-	-	0	0.0
11.5	Redemption of Preference Shares		-	-	-	-	-	-	-	-	2	-	2	0.2
11.6	Redemption of Debentures		-	-	-	-	-	-	-	-	-	-	0	0.0
12	Accounting Terminology Glossary		-	-	-	-	-	-	-	-	-	-	0	0.0

Paper Trend Analysis

Paper-1
Accounting

Year	Q. No.		{C}	No.	Chapter Name	Mks.	Ctg.	No.
2023	1	a (i)	{C}	1.6	Accounting as a meas.....	2	TF	46
Dec		a (ii)	{C}	5	Depreciation and Amor..	2	"	190
		a (v)	{C}	1.3	Capital and Revenue Exp..	2	"	31
		b (i)	{C}	4	Inventories	1	DQ	166
		b (iii)	{C}	1.2	Accounting Concepts, Pri..	1	"	20
		b (iv)	{C}	1.2	Accounting Concepts, Pri..	1	"	20
		c	{C}	4	Inventories	4	PQ	175
	2	a		3	Bank Reconciliation..	8	"	151
		b		8	Financial Statements of..	12	"	317
	3	a		6	Bills of Exchange and..	10	"	228
	4	a		7.1	Final Accounts of Non..	15	"	256
		b		10.1	Introduction to Partnership.	5	"	388
	5	a		10.4	Retirement of a Partner	10	"	465
		b		5	Depreciation and Amor..	5	"	204
		c		2.5	Cash Book	5	"	96
	6	a		11.2	Issue, Forfeiture and Re..	15	"	578
		b		1.1	Meaning and Scope of..	5	"	6
2024	1	a (i)	{C}	7.1	Final Accounts of Non..	2	TF	243
Jun		a (ii)	{C}	2.6	Rectification of Errors	2	"	106
		a (iii)	{C}	1.7	Accounting Standards	2	"	51
		a (iv)	{C}	6	Bills of Exchange and..	2	"	219
		a (v)	{C}	2.6	Rectification of Errors	2	"	106
		a (vi)	{C}	10.3	Admission of a New..	2	"	399
		b (i)	{C}	1.5	Accounting Policies	2	DQ	43
		b (ii) 1	{C}	1.1	Meaning and Scope of..	1	"	7

Year	Q. No.		{C}	No.	Chapter Name	Mks.	Ctg.	No.
		b (ii) 2	{C}	1.2	Accounting Concepts,..	1	"	20
		c	{C}	2.1	Basis Accounting Proc..	4	PQ	58
	2	(a)		2.6	Rectification of Errors	12	"	125
		(b)		5	Depreciation and Amor..	8	"	206
	3	(a)		8	Financial Statements of..	12	"	320
		(b)		10.6	Dissolution of Partnership.	8	"	524
	4	(a)		10.3	Admission of a New..	12	"	428
		(b)		9	Accounts from Incomplete.	8	"	376
	5	(a)		4	Inventories	5	"	176
		b (i)		7.2	Final Accounts of Manu..	5	"	282
		b (ii)		3	Bank Reconciliation..	5	"	151
		(c)		11.4	Accounting for Bonus..	10	"	609
	6	(a)		11.5	Redemption of Prefe..	15	"	640
		(b)		2.4	Subsidiary Books	5	"	80
2024	1	a (i)	{C}	2.1	Basis Accounting Proc..	2	TF	219
Sep		a (ii)	{C}	1.3	Capital and Revenue Exp.	2	"	32
		a (iii)	{C}	1.2	Accounting Concepts,..	2	"	21
		a (iv)	{C}	6	Accounting as a measu..	2	"	219
		a (v)	{C}	8	Financial Statements of..	2	"	289
		a (vi)	{C}	10.5	Death of a Partner	2	"	474
		b	{C}	1.1	Meaning and Scope of..	4	DB	8
		c	{C}	2.6	Rectification of Errors	4	PQ	127
	2	a		3	Bank Reconciliation..	10	"	153
	3	a		7.1	Final Accounts of Non-...	10	"	260
		b		10.3	Admission of a New..	10	"	430
	4	a		10.4	Retirement of a Partner	10	"	468
		b		8	Financial Statements of..	10	"	323
	5	a		4	Inventories	5	"	177
		b (i)		5	Depreciation and Amor..	5	"	208
		b or (ii)		9	Accounts from Incomplete.	5	"	378
		c		11.6	Redemption of Deb..	10	"	664

Year	Q. No.		{C}	No.	Chapter Name	Mks.	Ctg.	No.
	6	a		11.2	Issue, Forfeiture and..	15	"	581
		b		4	Inventories	5	DB	166
2025	1	a (i)	{C}	1.2	Accounting Concepts,..	2	TF	21
Jan		a (ii)	{C}	1.1	Meaning and Scope of..	2	"	8
		a (iii)	{C}	4	Inventories	2	"	167
		a (iv)	{C}	11.5	Redemption of Prefe..	2	"	616
		a (v)	{C}	1.1	Meaning and Scope of..	2	"	8
		a (vi)	{C}	2.2	Ledgers	2	"	63
		b	{C}	1.1	Meaning and Scope of..	4	DQ	9
		c	{C}	2.4	Subsidiary Books	4	PQ	83
	2	a		5	Depreciation and Amor..	10	"	209
		b		3	Bank Reconciliation..	10	"	155
	3	a		7.1	Final Accounts of Non-...	15	"	264
		b		10.1	Introduction to Partn....	5	"	389
	4	a		10.5	Death of a Partner	15	"	491
		b		9	Accounts from Incomplete.	5	"	379
	5	a		8	Financial Statements of..	10	"	326
		b (i)		6	Accounting as a measu..	5	"	232
		(Or) (ii)		4	Inventories	5	"	179
		c		11.6	Redemption of Deb..	5	"	668
	6	a		11.2	Issue, Forfeiture and..	15	"	582
		b		2.1	Basis Accounting Proc..	5	DQ	57
2025	1	a (i)	{C}	2.5	Cash Book	2	TF	93
May		a (ii)	{C}	1.2	Accounting Concepts,..	2	"	21
		a (iii)	{C}	8	Financial Statements of..	2	"	289
		a (iv)	{C}	10.1	Introduction to Partn....	2	"	385
		a (v)	{C}	10.1	Introduction to Partn....	2	"	385
		a (vi)	{C}	8	Financial Statements of..	2	"	289
		b (i)	{C}	1.7	Accounting Standards	2	DQ	52

Year	Q. No.		{C}	No.	Chapter Name	Mks.	Ctg.	No.
		b (ii)	{C}	1.4	Contingent Assets and...	2	DB	37
	2	a		2.6	Rectification of Errors	10	PQ	128
		b		3	Bank Reconciliation..	10	"	158
	3	a		8	Financial Statements of..	12	"	329
		b		10.3	Admission of a New..	8	"	432
	4	a		10.4	Retirement of a Partner	10	"	470
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Legend:
TF: True and False Questions
DB: Distinguish Between
DQ: Descriptive Questions
PQ: Practical Questions

Star Rating of Chapter

No.	Chapter Name	No. of Attempts	Maximum Marks	Compulsory Questions
1.1.	Meaning and Scope of Accounting			★
1.2.	Accounting Concepts, Principles...	★★		★★★★
1.3.	Capital and Revenue Expenditure...	★★		★★
1.4.	Contingent Assets and Contingent...			
1.5.	Accounting Policies			
1.6.	Accounting as a measurement...			
1.7.	Accounting Standards			
2.1.	Basis Accounting Procedures :...			
2.2.	Ledgers			
2.3.	Trial Balance			
2.4.	Subsidiary Books			
2.5.	Cash Book	★		
2.6.	Rectification of Errors	★★★		★★
3.	Bank Reconciliation Statement	★★★★★	★★★	
4.	Inventories	★★★★★		★★★★★
5.	Depreciation and Amortisation	★★★★★	★★	★★★
6.	Bills of Exchange and Promissory...	★★★★		
7.1.	Final Accounts of Non-Manufactu...	★	★	
7.2.	Final Accounts of Manufacturing...			
8.	Financial Statements of Not-for-Prof..	★★★★★	★★★★	
9.	Accounts from Incomplete Records	★		
10.1.	Introduction to Partnership Accounts			
10.2.	Treatment of Goodwill in Partnership.			
10.3.	Admission of a New Partner			
10.4.	Retirement of a Partner			
10.5.	Death of a Partner			
10.6.	Dissolution of Partnership Firms and..			
11.1.	Introduction to Company Accounts			
11.2.	Issue, Forfeiture and Re-Issue of..	★★★★	★★★★★	
11.3.	Issue of Debentures			
11.4.	Accounting for Bonus Issue and...			
11.5.	Redemption of Preference Shares			
11.6.	Redemption of Debentures			
12.	Accounting Terminology Glossary			

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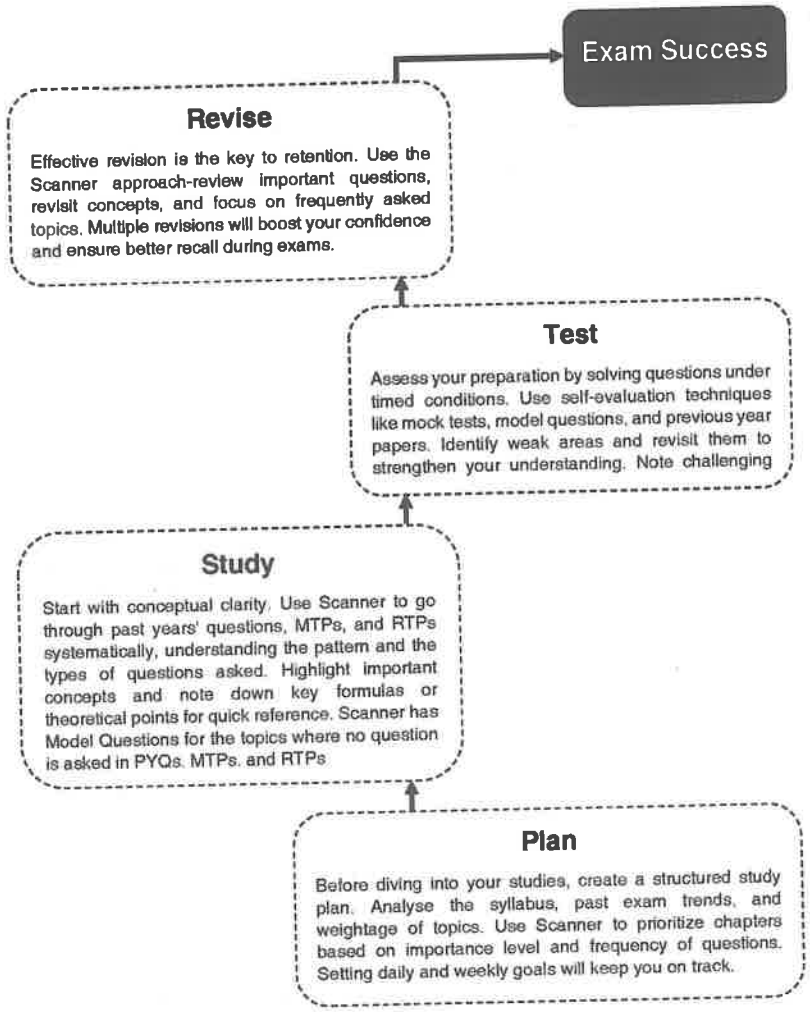
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Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.1	**Meaning and Scope of Accounting**

THEORY QUESTIONS

PYQ	1998-Nov [5]	DESC	3×5 = 15 Marks

Discuss briefly the relationship of Accounting with:

(i) Economics.
(ii) Statistics.
(iii) Mathematics.
(iv) Law.
(v) Management.

Answer:

(i) Accounting & Economics:

Accounting has some economic specialty of its own. It deals with prices and not the values. It deals with the prices of property and services and not with the property and services themselves. Accounting uses price because it can serve as a quantitative representation of the physical and actual property and services. From the viewpoint of economists, there is a very close relationship between accounting and economics. Emphasis has been laid down to test the economic theories and to apply the economic principles in the concern where accounting is a rich source. Accounting is a major supplier of information to economic agents about the various aspects.

(ii) Accounting and statistics:

Statistical methods are very helpful and useful in the interpretation and development of the accounting data. While the accounting records generally take a view of events in short term and are mainly confined to a year, a statistical analysis is more useful if a long-term view is taken for the purpose. Statistical tools are very helpful in taking decisions when they are applied to accounting data.

(iii) Accounting and Mathematics:

The dual aspect concept of fundamental accounting assumption is expressed in terms of mathematical equation, which is popularly known as Accounting Equation i.e.

Assets = Capital + Liabilities.

Mathematics has a useful impact on the users of the accounts. If the mathematics of the user is strong, its accounting may also be strong because the knowledge of mathematics helps in computations and calculations. The econometric models are also being developed for the users.

(iv) Accounting and Law:

An enterprise works under various statutory laws. The transactions and accounts are also affected by various laws such as companies Act, Sales of goods Act, Negotiable Instrument Act, Customs Act, etc. The financial statements must be prepared in accordance with relevant provisions of the applicable laws.

(v) Accounting and Management:

Accounting provides necessary information to the management for discharging its functions. Since an accountant plays an active role in management, he knows the needs of the system and data. A large portion of accounting information is made for management's decision making. Thus management and accounting are related to each other.

PYQ	1999-May [6] (ii)	SN	5 Marks
Write short note on the following: Double Entry System.			

Answer:

Double Entry System:

It is a system of book keeping. It was developed in England. It is a system which recognises that every transaction has a two fold effect. Under "Double Entry System" there are two approaches of recording business transactions:

(i) Traditional Approach i.e. Book Keeping Approach.

(ii) Modern Approach i.e. Accounting-equation Approach.

Under the traditional approach, transactions are recorded into different books of accounts i.e. Journal, Ledger, Subsidiary Book, etc.

Under the modern approach, business transactions are recorded through accounting equation i.e. Assets = Capital + Liabilities.

Advantages:

1. There is a complete record of every transaction because under this system all the accounts i.e. personal, real and nominal are maintained and all the aspects of debit and credit are recorded.
2. It provides all day-to-day and reliable information.
3. It easily makes available the full details of every transaction.
4. It helps in checking of unnecessary expenditures.
5. It helps in testing of ledger posting by trial balance and also the arithmetical accuracy.
6. It helps in ascertaining the financial position of the business by preparing Balance Sheet.

PYQ	2002-Nov [5] (d)	TF	2 Marks
State with reasons whether the following statement is True or False: Assets and Liabilities of a particular accounting period are shown in the Balance Sheet.			

Answer:

False: A balance sheet shows the position of the assets and liabilities as on a particular date.

PYQ	2003-May [5]	TF	2x3 = 6 Marks
State with reasons whether the following statements are True or False: (i) Accounting can be viewed as an information system which has its input processing methods and output. (ii) The value of human resources is generally shown as assets in the Balance Sheet. (ix) Equity + LTL - CL = FA + CA.			

Answer:

(i) **True:** Accounting is a processing system whose input is financial transaction and output is financial statements communicating various information to various interested groups.

(ii) **False:** The human recourse still cannot be defined in terms of money.

(ix) **False:** The correct equation is as follows:–

Equity + LTL + CL = CA + FA.

PYQ	2003-Nov [5] (i)	TF	2 Marks
State with reasons whether the following statement is True or False: Accounting involves communication.			

Answer:

True: Accounting starts only when there is a communication of business transactions to the accounting department. It also communicates the results obtained from arranging of data to interested parties like investors, creditors, employees etc.

PYQ	2004-Nov [6] (v)	SN	5 Marks
Write short note on the following: Role of Accountants in society.			

Answer:

Role of Accountants in society: In the present competitive scenario, accountants play a dual role. They not only look into conventional matters relating to tax, costing, management accounting, company legislation etc., but also act in matters of modern concepts like financial policies, economic principles etc.

In brief, we can put forward the role of accountants in the following points:

(i) They maintain the books and accounts of the business in a way that they show a true & fair view of the position of the business.

(ii) They act as an auditor both internal and external.

(iii) They provide service as an tax consultant.

(iv) They act as financial advisors.

(v) They also assist in the share registration, registration of company etc.

PYQ	2020-Nov [1] (b) {C}	DESC	4 Marks
What services can a Chartered Accountant provide to the society?			

Answer:

Services that a Chartered Accountant can provide to the society may include the following:

1. Maintenance of books of accounts.
2. Statutory audit.
3. Internal audit.
4. Taxation services.
5. Management Accounting and Consultancy services.
6. Financial Advice.
7. Investigations.
8. Secretarial work.
9. Company Formation.
10. Arbitrations.
11. Liquidation of Company.
12. Share Registration work.

PYQ	2023-Dec [6] (b)	DESC	5 Marks
What are the sub-fields of Accounting?			

Answer:

Accounting is the art of recording, classifying and summarising in a signification 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:

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 an on the given date.

Management Accounting: It is concerned with internal reporting to the managers of a business unit to discharge the function of stewardship planning control and decisions-making the management needs variety of information. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control.

Cost Accounting: The terminology of cost accounting published by the Institute of Cost and Management Accountants of Englands defines cost accounting as:

The Process of accounting for cost which begins with the recording of income and expenditure in the bases on which they are calculated and ends with the preparation of periodical statement and reports for ascertaining and controlling cost.

Social Responsibility Accounting: The demand for social responsibility accounting systems from increasing social awareness about the undesirable by-products of economic activities. As already discussed earlier social responsibility accounting is concerned with accounting for social costs incurred by enterprise and social benefits created.

Human Resource Accounting: Human resource accounting is an attempt to identify, quantity and report investments made in human resources of an organization that are not presently accounting for under conventional accounting practice.

PYQ	2024-Jun [1] (b) (ii) (1) {C}	DESC	1 Mark
Explain the following: Cash Basis of Accounting			

Answer:

Cash Basis Accounting: It is a system of accounting 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 is due.

PYQ	2024-Sep [1] (b) {C}	DB	4 Marks
Differentiate between Book-keeping and Accounting.			

Answer:

Basis of Difference	Book Keeping	Accounting
1. Scope	Recording of transaction in a systematic manner	Summarising of the recorded transactions
2. Stage	Primary Stage or initial stage	Accounting begins where book keeping ends.
3. Decision-making	Cannot be done	Can be done.
4. Nature of job	Clerical and routine. Can be done by lower staff	Analytical in nature an requires special know-ledge and ability.
5. Objective	Accurate and complete record of financial trans-action of business.	Apply further financial analysis to financial records.
6. Financial Position of business	Cannot be ascertained	Can be ascertained.

PYQ	2025-Jan [1] (a) {C}	TF	2×2 = 4 Marks
State with reasons, whether the following statements are True or False: (ii) Customers of business should not be considered as users of accounts prepared by business. They are not interested in knowing the performance of the business. (v) Book keeping and accounting are not synonymous terms; they are different from each other.			

Answer:

(ii) **False:** Customers are also concerned with stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods.

(v) **True:** Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records.

PYQ	2025-Jan [1] (b) {C}	DESC	4 Marks
Explain four main functions of Accounting.			

Answer:

Four Main Functions of Accounting:

Measurement: Accounting measures the financial performance of a business entity by quantifying past transactions and determining the current financial position. This involves the systematic recording of all financial data.

Forecasting: Using historical accounting data, business can predict future financial trends and performance. This helps in planning and decision-making for future operations and investments.

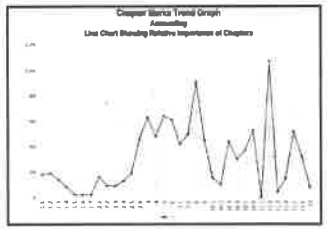
Decision Making: Accounting provides critical financial information to various stakeholders, including management, investors, and auditors, enabling them to make informed decisions about resource allocation and other strategic matters.

Comparison and Evaluation: By summarizing financial data, accounting allows for the assessment of a business' performance against set targets or benchmarks. It includes evaluating financial results, accounting policies, and contingent liabilities for better predictability and comparison.

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Smart Study with Scanner	Chapter Marks Trend Graph
	At page no. { ix } • Graph of the total marks allocated to each chapter across multiple exams • Analyzes trends to identify high-priority chapters • Enables smarter revisions based on data-driven patterns

Motivational Thoughts

- "Accounting is the foundation of every successful business—master it to unlock financial clarity."
- "Numbers don't lie—understanding them gives you the power to control your financial future."
- "Think of accounting as a flashlight in the dark—it lights up the path to smart decisions."
- "Success in accounting means bridging the gap between knowledge and application."

Checklist for Studying

- Understand and memorize the basic accounting equation: Assets = Liabilities + Equity.
- List down the key objectives of accounting, such as financial reporting and decision-making.
- Learn definitions like bookkeeping, journal, ledger, and financial statements.
- Practice writing journal entries for simple business transactions.
- Review accounting standards and principles in your syllabus.

Fun Facts

- The oldest known records of accounting date back to 7,000 years in Mesopotamia.
- Double-entry bookkeeping was first formalized by Luca Pacioli in 1494.
- Some of the most successful companies like Amazon rely heavily on accounting insights for growth.
- Accounting is considered one of the most recession-proof professions.
- The term "audit" comes from the Latin word "audire," meaning "to hear."

Fun Flow

- Relate accounting concepts to managing your pocket money or household budget.
- Create a flowchart of the accounting cycle: Transactions - Journal - Ledger - Trial Balance - Financial Statements.
- Develop rhymes to remember the golden rules of accounting.
- Imagine a business and write down its income and expenses to create a trial balance.
- Use storytelling to explain the accounting process—turn numbers into narratives.

Last-Minute Analysis

- Revise the scope and objectives of accounting in 5 minutes.
- Highlight and reread important definitions like "Accounting," "Financial Reporting," and "Bookkeeping."
- Review solved examples to reinforce key concepts.
- Focus on memorizing formulas and golden rules of accounting.
- Practice writing the accounting equation and its application.

Smart Study Tips

- Divide the chapter into small sections and study each separately.
- Use sticky notes to highlight challenging areas for quick review later.
- Turn theory into practice by solving questions after reading each subtopic.
- Teach the concepts to a friend or sibling to reinforce understanding.
- Use accounting apps or videos for additional explanations.

Quick Study Tips

- Allocate 10 minutes to skim the chapter's key terms and definitions.
- Create flashcards for important terms like "Liabilities" and "Assets."
- Write down one practical example for every theoretical concept.
- Use a timer to focus on studying in short, productive intervals.
- Summarize each section into a one-liner to capture the essence.

Practical Analysis

- Analyze how personal budgeting mirrors accounting processes.
- Relate depreciation to everyday items like cars and gadgets.
- Compare the balance sheets of two companies (use textbook examples).
- Apply the concept of accounting to track your monthly income and expenses.
- Observe how businesses use financial statements to plan their growth strategies.

Memory Boosters

- Create acronyms to memorize complex accounting principles.
- Turn important definitions into flashcards for quick revisions.
- Use color codes to distinguish between assets, liabilities, and equity.
- Practice writing the accounting equation repeatedly until it sticks.
- Summarize the chapter visually using mind maps or diagrams.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.2	**Accounting Concepts, Principles and Conventions**

THEORY QUESTIONS

PYQ	2005-Nov [6]	SN	3×2 = 6 Marks

Write short notes on the following:
(i) Accrual basis of Accounting.
(ii) Qualitative characteristics of Financial Statements.

Answer:

(i) Accrual basis of Accounting: Accrual or mercantile basis of accounting refers to a system of recording revenues and expenses whether or not they have been received or paid in cash at the time of recording.

Accounting on accrual basis signifies that owner's equity is affected by the profit earned or loss suffered by an enterprise during the accounting period, and not as money is received or paid.

Therefore, while ascertaining the profit or loss, not only those expenses which have been paid in cash should be considered, but also expenses which have become due though not paid should be taken into account. Similarly all the incomes earned during the accounting period should be considered whether they have been received in cash or not.

(ii) Qualitative Characteristics of Financial Statements: Financial statements have some qualitative characteristics so that they may provide more information to the users. These are the qualitative characteristics of financial statements:

(1) Understandability;
(2) Relevance;
(3) Reliability;

(4) Comparability;
(5) Faithful Representation; and
(6) Completeness.

(1) Understandability: Required quality of information should be provided so that financial statements become more understandable for users. For this reason, it is assumed that users have a reasonable knowledge of business and economic activities and they study information with reasonable diligence. Information regarding complicated matters should be included in the statement because of its relevance to the economic decision-making needs of the users and it should not be excluded merely on the ground that it may be too difficult for some users to understand.

(2) Relevance: Incorporate that information in the financial statements which is relevant for decision making. Quality of relevance of the information is determined when it influences the economic decisions of users.

(3) Reliability: Information must be reliable. Level of reliability of the information is high when it is free from material errors and biased decisions. Information may be relevant but so unreliable in nature or representation that its recognition may be badly misleading.

(4) Comparability: Financial Statements should be prepared in such a way that users of the financial statements must be able to compare their information with other information or financial statements in order to identify trends in performance, Cash flows, and financial position.

(5) Faithful Representation: Information must be represented faithfully so that its degree of reliability is high.

(6) Completeness: In order to present more reliable information in the financial statements, it must be complete within the boundary of materiality and cost. An omission of information may cause information to be false or misleading and therefore unreliable and deficient in terms of relevance.

PYQ	2006-May [6] (i)	SN	5 Marks
Write short note on the following: Fundamental Accounting Assumptions.			

Answer:

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

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

PYQ	2019-Jun [1] (b)	DB	4 Marks
Distinguish between Going Concern concept and Cost concept.			

Answer:

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 operation for the foreseeable future. Hence, it is assumed that enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such intention exists, the statements will have to prepared on different basis, and, if so, the basis used is disclosed.

Cost Concept:

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

PYQ	2020-Nov [1] (a) (vi) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False. A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.			

Answer:

False: If a concern proposes to discontinue its business, then financial statements have to be prepared on a different basis as going concern is lost Assets should be shown at realisable value and not on historical cost.

PYQ	2022-Jun [1] (b) {C}	DESC	4 Marks
PYQ 2006-Nov |			
Briefly explain the following Concepts of Accounting: (i) Money Measurement Concept. (ii) Periodicity Concept.			

Answer:

(i) **Money Measurement Concept:**

(a) As per this concept, only those transactions, which can be measured in terms of money are recorded in books of accounts.

(b) Money is the medium of exchange and thus, this concept requires that those transactions alone that are capable of being measured in terms of money to be only recorded in books of accounts.

(c) Those transactions that cannot be expressed in monetary terms are not recorded in business books e.g. employees of the organization are no doubt, assets of the organization, but their measurement in money terms is not possible, thus not included in books.

(ii) **Periodicity Concept:**

(a) This is also called the concept of definite accounting period concept. It will be impossible for a business entity to measure performance over an indefinite life of the entity.

(b) So, a small fraction out of infinite life of business is chosen to measure the performance and look at the position of the entity. It is known as one period and generally one year period is taken up.

(c) Accordingly, accounts are to be prepared after every period, and not at the end of the life of the entity. We generally follow from 1st April of a year to 31st March of immediate next year.

PYQ	2022-Dec [1] (a) {C}	TF	2×2 = 4 Marks
State with reasons, whether the following statements are True or False: (i) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.			

(iii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

Answer:

(i) **False:** The going concern principle is the assumption that an entity will remain in business for the forceable future. If the company is not a going concern and the financial statements are prepared, accordingly, management must disclose the fact, the reason why and the basis on which the financial statements are prepared.

(iii) **True:** Accounting conservatism is a principle that requires company accounts to be prepared with caution and high degrees of verification. All probable losses are recorded when they are discovered, while gains can only be registered when they are fully realized.

PYQ	2023-Jun [1] (a) (i) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: As per Concept of Conservatism the accountant should provide for all possible losses, but should not anticipate income.			

Answer:

True: Conservatism states that the accountant should not anticipate income but provide for all possible losses.

PYQ	2023-Jun [1] (b) {C}	DESC	1×2 =2 Marks
Briefly explain the following terms: (i) Materiality (ii) Conservatism			

Answer:

(i) Materiality: Concept is a concept according to which the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements which might influence the decisions of the user of financial statements.

(ii) Conservatism: It says that an accountant should not anticipate any future income, but should provide for all possible losses. The golden rule of stock valuation 'lower of cost or market price' has originated from this concept.

PYQ	2023-Dec [1] (b) {C}	DESC	1×2= 2 Marks
Briefly explain the following term: (iii) Money Measurement Concept (iv) Realisation Concept			

Answer:

*Please refer 2022-Jun [1] (b) (i) on page no. **18***

(iv) Realisation Concept:

According to the Realisation accounting concept revenue is only recognised only when it is actually realised.

Any charge in the value of an asset is to be recorded only when the business realises it i.e. at the time of actual sale/deposit or when the company is reasonably and completely certain that the payment against the same will be received from the customer.

PYQ	2024-Jun [1] (b) (ii) (2) {C}	DESC	1 Marks
Explain the following: Going Concern concept			

Answer:

Going Concern Concept:

- The financial statements of the enterprise are prepared on the basis of the assumption that the entity is a going concern, i.e., it will carry on its business operations for a foreseeable period.
- It is assumed that there is no intention that the business will stop its operations in the near future, and thus, the expenses are classified as revenue expenditure and capital expenditure. Revenue expenditure is

that the benefits of which are realised in a short span of time, say, one year; while capital expenditure is that the benefit of which is realised in a long run.

- Depreciation on fixed assets (PPE) is charged on the basis of useful life of the asset.

PYQ	2024-Sep [1] (a) (iii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Valuation of inventory at cost or net realizable value is based on Principle of Conservatism.			

Answer:

True: The conservation concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or not realisable value, whichever is less, therefore is based on principle of conservatism.

PYQ	2025-Jan [1] (a) (i) {C}	TF	2 Marks
State with reason, whether the following statement are True or False: Matching concept is based on accrual concept.			

Answer:

True: Matching concept is based on accrual concept as it considers the occurrence of expenses and income and do not concentrate on actual inflow or outflow of cash.

PYQ	2025-May [1] (a) (ii) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: Money measurement concept means transactions are to be recorded at a uniform-monetary units.			

PRACTICAL QUESTIONS

PYQ	2021-Jan [5] (b)	5 Marks
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 ₹ 3,00,000 advance from customers of which ₹ 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 ₹ 7,50,000. You are required to compute: (i) Total income for the year 2019-20. (ii) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000.		

Answer:

Computation of Income for the year 2019-20

	₹
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**

Advance from Customers A/c

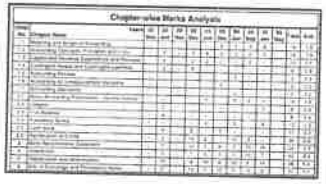
Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2016	By Balance b/d	3,00,000
31.3.20	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			**4,80,000**

So, total money received during the year is:

	₹
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**

Scanner Preparation Key

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Smart Study with Scanner	**Chapter wise Marks Analysis**
	• At page no. **{ x }** • Total and average marks for each chapter • Helps prioritize chapters based on marks • Enables focused revisions for chapters with varying trends

Motivational Thoughts

- "Accounting principles are the pillars of financial accuracy—learn them well to build a strong foundation."
- "Success lies in mastering the basics—understand the 'why' behind every principle."
- "Accounting conventions are like guidelines on a map—they ensure you never lose your way."
- "Great accountants don't just memorize—they analyze and apply concepts creatively."

Checklist for Studying

- Memorize the key accounting principles: consistency, accrual, matching, and prudence.
- Understand the difference between concepts (e.g., Going Concern) and conventions (e.g., Materiality).
- Practice examples where accounting principles are applied, like depreciation under the Matching concept.
- Ensure you can define and explain basic principles such as conservatism and dual aspect.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.3	**Capital and Revenue Expenditure and Receipts**

THEORY QUESTIONS

PYQ	2004-Nov [6] (iv)	SN	5 Marks

PYQ 1997-May | **PYQ** 2001-Nov |

Write short note on the following:
Capital Expenditure and Revenue Expenditure.

Answer:

Capital Expenditure: An expenditure intended to benefit future periods is known as capital expenditure. In other words, if the benefit of an expenditure is not exhausted in one accounting period, but is spread over future periods, the expenditure is known as capital expenditure. For instance, a table or a chair bought during the current accounting period is intended to be used over and over again, so that the benefit of its usage is spread over a number of future accounting periods. The same is true of land, buildings, plant and machinery, etc.

Accordingly, any expenditure incurred in the acquisition of an asset to be used over a number of years is capital expenditure. Similarly, an expenditure on an existing asset, in the form the additions or improvements, with a view to increasing its revenue earning capacity, is also a capital expenditure.

Revenue Expenditure: Revenue expenditure benefits a current period. Accordingly, an expenditure, the benefit of which is exhausted in the period in which it is incurred, is known as revenue expenditure. A revenue expenditure neither results in the acquisition of an asset, nor is it incurred to increase the revenue earning capacity of an existing asset. It is, in fact, incurred to retain the original revenue earning capacity of an asset. As such, the expenditure is of a revenue nature.

PYQ	2006-Nov [6] (iv)	DB	5 Marks
PYQ 1997-May | **PYQ** 1998-May |			
Distinguish between the following: Capital Receipts v/s Revenue Receipts.			

Answer:

Capital Receipt: These are the money received from the activities other than normal business activities e.g. Issue of shares and debentures, sale of fixed assets (PPE). Such receipts are of non-recurring nature. They do not affect profit and are shown as a liability or as a reduction from the assets.

Revenue Receipt: These are the money received in the course of normal business activities. e.g. Sales, interest, dividend, etc. Such receipts are of recurring nature and for general purpose. They are shown on the credit side of profit & loss A/c.

PYQ	2018-May [1] (a) (i) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.			

Answer:

False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

PYQ	2018-Nov [1] (a) (i) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.			

Answer:

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

PYQ	2019-Jun [1] (a) (i)	TF	2 Marks
State with reasons, whether the following statement is true or false: 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.			

Answer:

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.

PYQ	2019-Nov [1] (a) (ii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False. M/s. XYZ & Co. runs a café. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.			

Answer:

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

PYQ	2020-Nov [1] (a) (iii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.			

Answer:
True: Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not in the ordinary cause of business.

PYQ	2021-Jan [1] (a) (ii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.			

Answer:
True: Subsidy received from Government for working capital by a manufacturing concern is treated as revenue receipts because it will be utilized in meeting day to day routine expenses.

PYQ	2021-Jul [1] (b)	DB	4 Marks
Discuss the basic considerations in distinguishing between capital and revenue expenditure.			

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

(a) **Nature of business:** Nature of business is a very important criteria in separating an expenditure between capital and revenue.
Eg. For an electronics dealer, purchase of T.V. is a revenue expenditure but for any other trade purchase of T.V. should be treated as capital expenditure and shown in Balance Sheet as an asset.

(b) **Recurring nature of expenditure:** If the frequency of an expense is quite often in a year then it should be treated as revenue expenditure, however, if it is infrequent then it is capital expenditure in nature.
E.g. Salary paid each month is revenue expenditure but purchase of machinery in a year is capital expenditure.

(c) **Purpose of expense:** Expenses incurred on maintaining an asset are revenue in nature like repair but those incurred to increase its productive capacity are capital in nature.

(d) **Effect on revenue generating capacity of business:** Expenses which help to generate income in one period only are revenue expenditure but those which generate income over more than one accounting period are capital expenditure in nature.

(e) **Materiality of the amount involved:** Proportion of the amount involved is also a consideration. If the amount involved is huge, it may be a capital expenditure.

PYQ	2021-Dec [1] (a) {C}	TF	2x2 = 4 Marks
State with reasons, whether the following statements are True or False: (i) Any amount spent to minimize the working expenses is revenue expenditure. (ii) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.			

Answer:

(i) **False:** It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long term benefits to the entity. It becomes part of intangible fixed assets if it is in the form of technical know how and tangible fixed assets if it is in the form of additional replacement of any of the existing tangible fixed assets. So this is capital expenditure.

(ii) **True:** Expenses incurred on the repairs for the first time on purchase of an old building are incurred to put the building in usable condition. These are the parts of the cost of building. Accordingly, these are capital expenditure.

PYQ	2022-Jun [1] (a) (iv) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Any amount spent for replacement of worn out part of a machine is capital expenditure.			

Answer:

False: Amount spent on replacement of any worn out part of a machine is a revenue expenditure, as it is incurred to maintain the asset.

PYQ	2022-Dec [1] (a) (v) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.			

Answer:

True: Receipts and payment account is prepared to record all the receipts and payments of a particular period. This account is normally prepared by those organisation which are running with no profit motive. It records all receipts and payments including capital and revenue nature.

PYQ	2023-Jun [1] (a) (ii) {C}	TF	2 Marks
State **with reasons,** whether the following statem-ents are True or False: Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.			

Answer:

False: The cinema hall could not be started without a license. Expenditure incurred to obtain the license is pre-operative expense which is capitalised such expenses are not revenue and hence, amortized over a period of time.

PYQ	2023-Dec [1] (a) (v) {C}	TF	2 Marks
State with reason, whether the following statement are True or False: Inauguration expenses of ₹ 10 lakhs incurred on the new unit in an existing business is a capital expenditure.			

Answer:

False: Inauguration expenses of ₹ 10 lacs incurred on the new unit in an existing business might help in marketing or exploring new customers but may not ensure enduring benefit which may last for more than a year. Hence, this expenditure will be considered in the nature of revenue expenditure.

Example: Inaugural decoration marketing etc.

PYQ	2024-Sep [1] (a) (ii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Overhaul Expenses of a second-hand machinery purchased are Revenue Expenditure.			

Answer:

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

Student Experience & Requests

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Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.4	**Contingent Assets and Contingent Liabilities**

THEORY QUESTIONS

PYQ	1998-May [6] (a)	DB	5 Marks
Briefly explain the differences between the following: Contingent Liability and Other Liabilities.			

Answer:

Contingent Liability and Other Liabilities: Liability is defined as the financial obligation of an enterprise other than owner's fund. They may be classified into current liabilities and long-term liabilities. Creditors, bills payable and outstanding expenses are examples of current liabilities whereas debentures and term loans from banks and financial institutions are examples of long-term liabilities.

Guidance Note on Terms Used in Financial Statements defines contingent liability as "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." Contingent liability may be in respect of bills discounted, pending suits etc. Thus, it is not an actual liability and as such it is not recorded in the balance sheet. It is simply mentioned by way of foot note to the balance sheet.

PYQ	2005-May [6] (iii)	SN	5 Marks
PYQ 1998-Nov | **PYQ** 2001-May |			
Write short note on the following: Contingent liability.			

Answer:
Accounting Standard (AS) 29 on 'Provisions, Contingent Liabilities and Contingent Assets' defines contingent liability as

- a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or
- a present obligation that arises from past events but it is not recognised because
  (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

or

(b) a reliable estimate of the amount of the obligation cannot be made.

A contingent liability should not be recongnised but only disclosed. Also contingent liability should be periodically reviewed by the enterprise.

PYQ	2022-Jun [1] (a) (i) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability.			

Answer:
False: A contingent asset gives rise to the possibility of an inflow of economic benefits. Accordingly, a claim that an enterprise is pursuing through legal process, where outcome is uncertain, a contingent asset.

PYQ	2022-Dec [1] (a) (vi) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: A fixed charge generally covers all the assets of the company including future one.			

Answer:
False: The fixed charge covers those assets that are specific, ascertainable and existing during the creation of charge whereas, floating charge, covers present or future assets.

PYQ	2022-Dec [1] (b) {C}	DB	4 Marks
PYQ 2018-May | **PYQ** 2019-Nov |			
Differentiate between Provisions and Contingent Liabilities.			

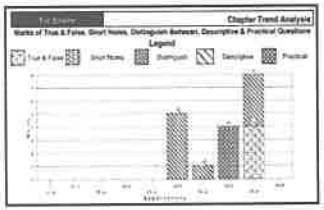
Answer:
Difference between Provision and Contingent Liability

	Provision	Contingent Liability
1.	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
2.	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
3.	Provision is recognized when 1. an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and 2. 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.

PYQ	2025-May [1] (b) (ii) {C}	DB	2 Marks
Explain the following: What is the difference between liability and contingent liability?			

Scanner Preparation Key

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Smart Study with Scanner	Chapter Trend Analysis
	• At the **Beginning of Chapter** • Analyses chapter's mark contribution over time • Highlights the frequency of high-scoring question patterns • Provides a visual summary for quick analysis and study prioritization

Motivational Thoughts

- "Understanding contingencies helps you prepare for the unexpected—stay ready, stay informed."
- "A strong grasp of contingent liabilities can safeguard businesses from financial pitfalls."
- "Contingent assets remind us that opportunities often come with uncertainty."
- "The key to smart decision-making is knowing when to account for possibilities and when to wait."
- "Accounting for contingencies is like having a safety net—essential for managing risks."

Checklist for Studying

- Memorize the definitions of contingent assets and liabilities.
- Understand the recognition criteria: when to record and when to disclose in notes.
- Review examples like pending lawsuits for contingent liabilities and potential claim wins for contingent assets.
- Study the difference between contingent liabilities and provisions.
- Highlight key points from relevant accounting standards (e.g., IAS 37/AS 29).

Fun Facts

- A contingent liability might never happen—it's all about probabilities!
- Contingent assets are never recorded until the income is virtually certain.
- The concept of contingencies is rooted in the principle of prudence (account for losses but not anticipated gains).
- Famous legal cases have created massive contingent liabilities for corporations.
- Many companies disclose contingencies in their financial statements to maintain transparency.

Fun Flow

- Relate contingent liabilities to a "what if" scenario—e.g., what if you get fined for a mistake?
- Create a story about a company involved in a lawsuit and how it might account for the outcome.
- Imagine contingent assets as lottery tickets—they might result in a gain but are uncertain.
- Use flashcards with scenarios like "pending litigation" to classify as contingent or actual.
- Compare contingent liabilities to carrying an umbrella—you prepare for rain, but it might not come.

Last-Minute Analysis

- Focus on definitions and examples of contingencies for quick revision.
- Review the flowchart of when to recognize, disclose, or ignore contingent items.
- Memorize a few key examples of each (e.g., warranties for liabilities, legal claims for assets).
- Highlight the key differences between provisions and contingent liabilities.
- Practice one or two case-based questions to ensure concept clarity.

Smart Study Tips

- Use flowcharts to simplify when to record, disclose, or ignore contingencies.
- Study contingent liabilities by comparing them to provisions for better understanding.
- Practice writing notes to the financial statements as if you're disclosing contingencies.
- Use real-world cases (like lawsuits or claims) to relate theoretical concepts to practice.
- Study in intervals, revisiting key points every 30 minutes for reinforcement.

Quick Study Tips

- Create mnemonics like "CDR" (Contingency = Consider, Disclose, Record) to remember treatment.
- Spend 5 minutes on each type: definition, examples, and recognition rules.
- Use color codes in your notes—green for assets, red for liabilities.
- Test yourself by classifying 10 scenarios as contingent assets or liabilities.
- Summarize the chapter in 3 bullet points for quick recall.

Practical Analysis

- Analyze how a company might disclose a lawsuit as a contingent liability in its financial statements.
- Discuss how contingent liabilities can impact a company's stock price or investor confidence.
- Explore the financial impact of not disclosing a significant contingent liability.
- Relate contingent assets to real-life scenarios like pending insurance claims.
- Examine how businesses use notes to explain uncertainties to stakeholders.

Real-World Experience

- Research a company that faced significant contingent liabilities (e.g., BP's oil spill lawsuits).
- Study examples of how legal claims are treated as contingent assets in annual reports.
- Discuss with a professional accountant how they handle contingencies in practice.
- Watch videos or webinars explaining contingent liabilities and their impact on businesses.
- Explore news articles about lawsuits or penalties involving corporate contingencies.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.5	**Accounting Policies**

THEORY QUESTIONS

PYQ	2005-Nov [3] (b)	DESC	3 Marks
Explain the meaning of Accounting Policies.			

Answer:

The meaning of Accounting Policies:

Accounting Standard 1 on "Disclosure of Accounting Policies" defines the nature and significance of accounting policies. The accounting policies refer to the specific accounting principles and methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements. There is no single list of accounting policies which are applicable to all circumstances. The accounting policies followed vary from enterprise to enterprise. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The management of each enterprise has to select appropriate accounting policies having regard to the nature and circumstances in which the enterprise is operating.

Some of the areas in which different accounting policies may be adopted by different enterprises are:

(a) Methods of depreciation, depletion and amortisation
(b) Valuation of inventories
(c) Valuation of investments.

PYQ	2021-Jan [1] (a) (vi) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Accounting Standards for non-corporate entities in India are issued by the Central Government.			

Answer:

False: Accounting standards for non-corporate entities are issued by ICAI and not Central Government.

PYQ	2024-Jun [1] (b) (i) {C}	DESC	2 Marks
Define accounting policy. What are the conditions under which a company can change its accounting policy?			

Answer:

Meaning of Accounting Policies:

Accounting policies refer to specific accounting principles and methods of applying these principles adopted by enterprise in preparation and presentation of financial statements.

Conditions under which a company can change its accounting policy:

- If it is required with any statute or accounting standard OR
- It would result in better representation of financial statements.

Student Experience & Requests

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Motivational Thoughts

- "Accounting policies are the rules of the game—learn them well to play it right."
- "Consistency in policies ensures trust in financial statements—master them to build confidence."
- "Strong accounting policies lay the groundwork for transparency and fairness."
- "Every financial statement tells a story, and accounting policies are the language it uses."
- "Understanding accounting policies is the first step to making informed decisions."

Checklist for Studying

- Memorize the definition of accounting policies: specific principles, bases, conventions, rules, and practices applied in preparing financial statements.
- Identify examples of policies, such as inventory valuation methods (FIFO or LIFO) and depreciation methods.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.6	**Accounting as a measurement discipline-Valuation Principles, Accounting Estimates**

THEORY QUESTIONS

PYQ	1999-Nov [5] (vii)	TF	2 Marks
State with reason whether the following statement is True or False. Current cost gives an alternative measurement base.			

Answer:

True: Generally, the value of an asset is determined on the basis of acquisition cost. Current cost is another alternative measurement basis according to which assets are carried at the amount of cash or cash equivalents required to be paid if the same or an equivalent asset has to be acquired currently.

PYQ	2023-Dec [1] (a) (i) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle.			

Answer:

True: As per AS-1 Disclosure of Accounting policies the financial statements must disclose all the relevant, reliable and significant accounting policies which are followed in preparing and presenting financial statements.

PYQ	2025-May [6] (b)	DESC	5 Marks
Define Measurement and Valuation Principles in brief.			

Scanner Preparation Key

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Motivational Thoughts

- "Accounting transforms numbers into meaningful measurements—master it to uncover value."
- "Valuation is the art of assigning worth—an essential skill for decision-making."
- "Understanding measurement in accounting is like having a magnifying glass—it reveals the true financial picture."
- "The right measurement today paves the way for better decisions tomorrow."
- "Valuation isn't just about numbers; it's about understanding the story they tell."

Checklist for Studying

- Memorize key valuation methods: historical cost, fair value, net realizable value, and present value.
- Understand the principles of measurement in accounting, including reliability and relevance.
- Study how valuation affects financial statements, such as assets, liabilities, and equity.
- Review examples where valuation changes impact profits or financial position.
- Learn the role of accounting standards in guiding valuation practices.

Fun Facts

- Historical cost valuation records an asset at its purchase price, regardless of its current value.
- Fair value represents the price an asset would fetch in an open market transaction.
- The concept of valuation has roots in ancient trade, where goods were assigned worth through bartering.
- Major financial crises often lead to revisions in valuation practices to improve accuracy.
- Measurement and valuation principles are universally applied across industries, from agriculture to tech.

Fun Flow

- Relate historical cost to keeping receipts for purchases—it shows what you originally paid.
- Imagine valuation as an appraisal for a house: its market price reflects fair value.
- Create flashcards with terms like "fair value" and "present value" to quiz yourself.
- Develop a story where a company revalues its assets to understand market trends.
- Visualize valuation methods through a flowchart linking assets, valuation methods, and financial outcomes.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	THEORETICAL FRAMEWORK
1.7	**Accounting Standards**

THEORY QUESTIONS

PYQ	2003-Nov [6] (a)	DESC	5 Marks

Briefly explain the following:
What is the objective of 'Accounting Standards'? State the advantage of setting Accounting Standards.

Answer:

Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board 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.

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

The other advantages are as follows:

1. Reduction in variations.
2. Disclosure beyond that required by law.
3. Facilitates comparison.

PYQ	2006-Nov [6] (v)	DESC	5 Marks
Briefly explain the following: Advantages of Accounting Standards.			

Answer:

Advantages of Accounting Standard: The Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies economic performance.

The setting of accounting standards has the following advantages:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that difference in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practiced in different countries.

(iv) Adoption of accounting standards in the preparation of financial statements has reduced the chances of manipulations, frauds, insufficient disclosures or the use of inappropriate accounting policies.

PYQ	2024-Jun [1] (a) (iii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Accounting Standards can override the statute.			

Answer:

False, Accounting Standards can never override statute. The standards are required within ambit of prevailing statutes.

PYQ	2025-May [1] (b) (i) {C}	DESC	2 Marks
Explain the following: What are the objectives of accounting standards?			

Student Experience & Requests

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Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	ACCOUNTING PROCESS
2.1	**Basic Accounting Procedures: Journal Entries**

THEORY QUESTIONS

PYQ	1997-Nov [6] (a)	DESC	5 Marks
Real Account and Nominal Account.			

Answer:

Real Account and Nominal Account:

A Real Account is a 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, income 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.

PYQ	1999-Nov [6] (c)	DESC	5 Marks
Personal and Impersonal Accounts.			

Answer:

Personal and Impersonal Accounts:

Personal accounts relate to persons, debtors or creditors. Examples would be the account of Ram & Co., a credit customer or the account of Jhaveri & Co., a supplier of goods. The capital account is the account of the proprietor and, therefore, it is also personal but adjustments on account of profits and losses are made in it.

Accounts which are not personal such as machinery account, cash account, rent account, etc. are called impersonal accounts. These can be further subdivided as: real accounts and nominal accounts. Accounts which relate to assets of the firm but not debts are real accounts. For example, accounts regarding land, buildings, investments, fixed deposits, cash in hand and bank balances etc. are real accounts in nature. Nominal accounts relate to expenses, losses, gains, revenues etc. like salary account, interest paid account, commission received account. 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.

PYQ	2004-May [5] (viii)	TF	2 Marks
State with reason whether the following statement is True or False: Patent-Right is in the nature of Real Account.			

Answer:

True: Patent-right is an intangible asset. So, it is in the nature of real account.

PYQ	2005-May [5] (ii)	TF	2 Marks
State with reason whether the following statement is True or False: Rent paid account is a Nominal Account whereas, rent received account is a Real Account.			

Answer:

False: Rent paid and rent received – both are nominal accounts as they relate with expenses and incomes.

PYQ	2005-Nov [5] (i)	TF	2 Marks
State with reason whether the following statement is True or False: Salary paid to Ram will be debited to Ram's Personal account.			

Answer:

False: Salary paid to Ram will be debited to Salaries account.

PYQ	2005-Nov [5] (v)	TF	2 Marks
State with reason whether the following statement is True or False: Cash at Bank is a real account.			

Answer:

True: Cash at bank is a real account. Accounts which relate to assets of the firm but not debts are real accounts. Land, Building, investments, cash in hand and cash at bank are examples of real accounts.

PYQ	2006-Nov [5] (i)	TF	2 Marks
State with reason whether the following statement is True or False: 'Rent Outstanding' account comes under the category of Nominal account.			

Answer:

False: This account is personal account representing landlord.

PYQ	2006-Nov [5] (x)	TF	2 Marks
State with reason whether the following statement is True or False: The debit balance in a nominal account shows gains.			

Answer:

False: The debit balance in a nominal account shows expenses. The credit balance of a nominal account shows gain or income.

PYQ	2019-Nov [1] (a) (i) {C}	TF	2 Marks
State with reason, whether the following statement is True or False. Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.			

Answer:

False: Trade discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

PYQ	2023-Jun [6] (b)	DESC	5 Marks
What are the importance of Journal?			

Answer:

Advantages of Journal:

Journal helps to record the transactions on double entry system and has the following advantages:

1. Transactions are recorded in chronological order which provides information on time basis.
2. Each journal entry is supported by a "narration" which provides adequate explanation for each transaction.
3. Journal entries help in ledger posting.
4. As both aspects of debit and credit are recorded, it reduces chances of committing errors.
5. All transactions can be easily located at one place.

PYQ	2024-Sep [1] (a) (i) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Nominal Accounts are balanced at the end of the Accounting Year.			

Answer:

False: Nominal accounts are not balanced at the end of an accounting year, but instead they are closed and their balances are transferred to Profit and Loss Account.

PYQ	2025-Jan [6] (b)	DESC	5 Marks
What are the advantages of Double Entry System?			

Answer:

Advantages of Double Entry System:

(i) By the use of this system, the accuracy of the accounting book 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.

PRACTICAL QUESTIONS

PYQ	2024-Jun [1] (c) {C}	4 Marks
Pass journal entries for the following transactions in the books of Mr. Kapil: (i) Purchased goods from Sonu for ₹ 1,50,000 at a trade discount of 10% plus CGST and SGST @ 6% each. (ii) Sold goods to Mohit for ₹ 50,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately. (iii) Goods costing ₹ 25,000 withdrawn for personal use. Such Goods were purchased by paying CGST and SGST @ 6% each. (iv) Machinery purchased from M/s Bright Industries for ₹ 2,00,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months.		

Answer:

Journal Entries in the books of Kapil

Particulars		L/F	Debit (₹)	Credit (₹)
Purchases A/c	Dr.		1,35,000	
Input CGST A/c	Dr.		8,100	
Input SGST A/c	Dr.		8,100	
To Sonu A/c				1,51,200
(Being purchases made from Sonu @ 10% trade discount and 6% CGST and SGST each)				
Bank A/c	Dr.		22,000	
Mohit A/c	Dr.		33,000	
To Sales A/c				50,000
To Output CGST A/c				2,500
To Output SGST A/c				2,500
(Being sales made to Mohit @ 5% each CGST and SGST and received 40% by cheque)				
Drawings A/c	Dr.		28,000	
To Purchases A/c				25,000
To Input CGST A/c				1,500
To Input SGST A/c				1,500
(Being goods withdrawn for personal use)				
Machinery A/c	Dr.		2,00,000	
Input CGST A/c	Dr.		18,000	
Input SGST A/c	Dr.		18,000	
To Bank				1,00,000
To M/s Bright A/c				1,36,000
(Being Machinery purchased)				

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "Journal entries are the first step to unraveling the financial story—master them to build confidence."
- "Every successful accountant began with journal entries—this is your gateway to understanding business transactions."
- "Recording is the foundation of accounting—if you can journalize well, you can analyze better."
- "Accuracy in journal entries paves the way for financial clarity."
- "Think of journal entries as writing a diary for a business—record each event truthfully and systematically."

Checklist for Studying

- Memorize the golden rules of accounting: real, personal, and nominal accounts.
- Understand the format of journal entries: Date, Particulars, Debit, Credit, and Narration.
- Practice writing journal entries for at least 10 common business transactions.
- Differentiate between cash and credit transactions while journalizing.
- Learn the common abbreviations and terminologies used in journals (e.g., Dr., Cr., To, By).

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	ACCOUNTING PROCESS
2.2	**Ledgers**

THEORY QUESTIONS

PYQ	2001-Nov [6] (a)	DB	5 Marks
Difference between Journal and Ledger.			

Answer:

Journal and Ledger:

Transactions are first entered in a book called 'Journal' to show which account should be debited and which 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 orderly manner. Journal gives details regarding any transaction. Thus Journal tells the amounts to be debited and credited and also the accounts involved.

On the basis of entries made in the Journal, accounts are prepared; the book which contains the accounts is called 'Ledger'. Ledger creates final record and is also known as principle book. Ledger can not give details of any particular transaction. On the basis of the entries recorded in the journal, the postings to the required accounts are done in the ledger. After posting the accounts in the ledger, the trial balance can be prepared to show separately the debit and credit balances.

PYQ	2021-Dec [6] (b)	DESC	5 Marks
Discuss the following: (i) What do you mean by principal books of accounts? (ii) What are the rules of posting of journal entries into the Ledger?			

Answer:

(i) 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)

(ii) Rules regarding posting of entries in the ledger:

(a) Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly.

(b) It is a practice to use words 'to' and 'by' while posting transactions in the ledger. The word 'To' is used in the particulars column with the accounts written on the debit side while 'By' is used with the accounts written in the particulars column of the credit side. These 'To' and 'by' do not have any meanings but are used to the account debited and credited.

(c) The concerned account debited in the journal should also be debited in the ledger but reference should be of respective credit account.

PYQ	2022-Jun [1] (a) (ii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: At the end of the accounting year, all the nominal accounts of the ledger book are balanced.			

Answer:

False: Nominal accounts are not balanced, the balance in the end is transferred to the profit and loss account. Only personal and real accounts, ultimately show balances.

PYQ	2025-Jan [1] (a) (vi) {C}	TF	2 Marks
State with reason, whether the following statement are True or False: A ledger is also known as the principal books of accounts.			

Answer:

True: Since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial Balance, a ledger is also known as Principal Books of accounts.

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Motivational Thoughts

- "Ledgers are the foundation of financial organization—master them to uncover meaningful insights."
- "Think of ledgers as your financial GPS—they guide you to accurate records and informed decisions."
- "Organized ledgers make accounting a breeze—stay consistent and precise."
- "The ledger is where the magic happens—transactions transform into financial clarity."
- "A well-maintained ledger is the backbone of trust in financial reporting."

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	ACCOUNTING PROCESS
2.3	**Trial Balance**

THEORY QUESTIONS

PYQ	1997-Nov [5] (2)	TF	2 Marks
State with reasons whether following statement is True False: The Trial balance ensures the arithmetical accuracy of the books.			

Answer:
True: The Trial Balance helps to establish the arithmetical accuracy of ledger balances.

PYQ	1999-Nov [5] (ii)	TF	2 Marks
State with reasons whether following statement is True False: Tallying of the trial balance only proves arithmetical accuracy.			

Answer:
True: Trial balance helps to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal errors of principle and compensating errors.

PYQ	2000-May [5] (vi)	TF	2 Marks
State with reasons whether following statement is True False: A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.			

Answer:
False: Trial balance only checks the arithmetical accuracy of books. Errors of principles and errors of omissions affect the agreement of the Trial Balance.

PYQ	2001-Nov [5] (ix)	TF	2 Marks
State with reasons whether following statement is True False: The Trial Balance does not ensure the arithmetical accuracy of the books.			

Answer:

False: Trial balance helps to establish the arithmetical accuracy of ledger balances. However, a tallied trial balance will not reveal errors of principle and compensating errors.

PYQ	2003-May [5] (viii)	TF	2 Marks
State with reasons whether following statement is True False: A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.			

Answer:

False: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

PYQ	2004-May [5] (ii)	TF	2 Marks
State with reasons whether following statement is True False: The Trial Balance does not ensure the arithmetical accuracy of the books			

Answer:

False: Trial Balance helps to establish the arithmetical accuracy of ledger balances. However, a tallied trial balance will not reveal errors of principle and compensating errors.

PYQ	2004-Nov [5] (ii)	TF	2 Marks
State with reasons whether following statement is True False: Trial Balance is an absolute proof of the accuracy of the books of accounts.			

Answer:

False: Agreement of trial balance is not an absolute proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not effect the agreement of trial balance.

PYQ	2006-May [5] (iv)	TF	2 Marks
State with reasons whether following statement is True False: Closing Stock will never appear in the Trial Balance.			

Answer:

False: When cost of goods sold or gross profit are given in Trial Balance, closing stock will appear in the Trial Balance.

PYQ	2006-May [6] (ii)	SN	5 Marks
Objectives of preparing Trial Balance.			

Answer:

Objectives of preparing Trial Balance:

The preparation of Trial Balance has the following objectives:

1. 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 arithmetical accuracy of the books.
2. Financial statements are normally prepared on the basis of agreed trial balance; otherwise the work may be cumbersome. Preparation of financial statements, therefore, is the second objective.
3. The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.

PRACTICAL QUESTIONS

PYQ | 2019-Nov [5] (a) | 5 Marks

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

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

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

Answer:

Trial Balance
as on 31st March, 2019

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	–	250
Cash Credit Account	–	1,654
Capital	–	4,591
Trade Payables	–	1,637
Due from Customers	2,983	–
Discount Received	–	252
Discount Allowed	733	–
Drawings	1,200	–
Office Furniture	2,155	–
Carriage Inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364
Suspense Account (Balancing Figure)	1,225	–
Total	25,630	25,630

PYQ | 2021-Dec [2] (a) | 5 Marks

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

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return Outwards	700
Rent and Taxes	1,200	Plant and Machinery	80,700
Stock on 1st April, 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 31 st March, 2021	20,500		

Answer:

Trial Balance
In the books of Shri M
(as on 31st March, 2021)

Heads of Accounts	L.f.	(₹) Dr.	(₹) Cr.
Capital		-	140,000
Purchases		36,000	-
Discount allowed		1,200	-
Carriage Inward		8,700	-
Carriage Outward		2,300	-
Sales		-	60,000
Return Inward		300	-
Return Outward		-	700
Rent & taxes		1,200	-
Plant & Machine		80,700	
Stock on 1.4.2020		15,500	
Sundry debtor		20,200	
Sundry Creditors		-	12,000
Investment		3,600	
Commission received			1,800
Cash in hand		100	
Cash at Bank		10,100	
Motor cycle		34,600	
Total		2,14,500	2,14,500

Value of Closing stock on 31st March, 2021 is ₹ 20,500.

PYQ	2022-Jun [1] (c) {C}	4 Marks

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

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

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

Answer:

Corrected Trial Balance of Mr. X.
as on 31.03.2022

Name of Account	Dr. (₹)	Cr. (₹)
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from customers	1,590	

Purchases	3,777	
Purchase Return		792
Loan from Bank		768
Trade Expense	2,100	
Trade Payable		1,584
Bills Payable		300
Salaries and wages	1,800	
Cash at Bank	678	
Opening Inventory	792	
Rent and Rates	1,389	
Sales Return	294	
	16,362	16,362

Reasons:

1. Due from customer is an asset, so its balance will be a debit balance.
2. Purchase return has a credit balance as goods are going out.
3. Trade payable is a liability, hence it has a credit balance.
4. Bills payable is a liability, so its balance is a credit balance.
5. Opening inventory, represents an asset, so it has a debit balance.
6. Sales Return account has a debit balance as goods are coming in.

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "The trial balance is the accountant's litmus test—get it right, and you're on the path to accurate financial statements."
- "Think of the trial balance as a checkpoint—it ensures your financial journey is on track."
- "Balancing debits and credits is like balancing your life—both need precision and consistency."
- "A well-prepared trial balance reflects a well-organized accounting system."

Checklist for Studying

- Memorize the format of a trial balance: Account Name, Debit Amount, Credit Amount.
- Understand its purpose: to test the arithmetical accuracy of ledger postings.
- Learn the reasons for preparing a trial balance and its limitations.
- Practice preparing trial balances from given ledger balances.
- Highlight the types of errors that a trial balance can and cannot detect.

Fun Facts

- The trial balance originated from the double-entry bookkeeping system, ensuring every debit has a corresponding credit.
- It's called a "trial" because it's a preliminary check before preparing final accounts.
- The trial balance cannot detect errors of omission or compensating errors—accounting still needs human judgment!
- Accounting software generates automated trial balances, but manual checks are still vital.
- A balanced trial balance does not always mean there are no errors—it only confirms arithmetic accuracy.

Fun Flow
- Relate the trial balance to a chef tasting their dish before serving—it ensures everything is on point.
- Imagine preparing a trial balance as organizing items into two equally weighted baskets (debit and credit).
- Create a flowchart to visualize how ledger balances move into the trial balance.
- Turn common errors into a puzzle game: identify missing or mismatched entries.
- Think of the trial balance as a safety net—it catches errors before they escalate.

Last-Minute Analysis
- Revise the format and purpose of the trial balance.
- Focus on practicing at least 2–3 trial balance questions.
- Memorize common errors that affect trial balances (e.g., errors of omission, commission).
- Review the connection between ledger postings and trial balance preparation.
- Highlight examples of errors that a trial balance cannot detect.

Smart Study Tips
- Use tables to compare correct and incorrect trial balance entries.
- Highlight frequently occurring errors like transposition or misposting.
- Practice trial balance preparation using ledger balances from previous exercises.
- Record voice notes explaining the trial balance process for auditory revision.

Quick Study Tips
- Spend 5 minutes revising the trial balance format and rules.
- Write down examples of transactions that affect debit and credit balances.
- Use mnemonics like "AERC" (Arithmetic, Errors, Rectify, Check) to remember trial balance steps.
- Solve one trial balance problem to test your understanding.

Practical Analysis
- Prepare a trial balance using a given set of ledger balances.
- Analyze how errors in ledger postings affect trial balance accuracy.
- Explore the impact of transposition errors on trial balance totals.
- Compare trial balances of two businesses to understand their financial data organization.
- Discuss how trial balances serve as a preliminary step to final accounts.

Real-World Experience
- Research how businesses prepare trial balances manually or using software.
- Study a real trial balance to identify patterns or trends in business transactions.
- Watch videos demonstrating the preparation of a trial balance step-by-step.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	ACCOUNTING PROCESS
2.4	**Subsidiary Books**

THEORY QUESTIONS

PYQ	2001-Nov [6]	DB	5 Marks

Briefly explain the difference between the following:
(b) Sales Day-book and Sales Account.

Answer:

The Sales Day-Book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Day Book. Credit sales of things other than the goods dealt in by the firm are not entered in the Sales Day Book; they are journalised. It is a subsidiary book and posting is made from it to the sales account and accounts of the customers. The total of the Sales Day Book shows the credit sales made during any particular day; the amount is credited to the sales account.

Sales Account is a final record and postings are made to it from Cash Book (cash sales) and Sales Day Book (credit sales). Sales Account is maintained in the ledger in the manner, the other accounts are maintained. Sales Account is a nominal account and its balance is used for ascertaining gross profit or gross loss.

PYQ	2004-May [5] (iv)	TF	2 Marks

State with reason whether following statement is True or False:
The Sales Day-book is a part of the Ledger.

Answer:

False: Sales Day-Book is a book of prime entry and hence it is a part of the Journal.

PYQ	2005-May [5] (xi)	TF	2 Marks
State with reason whether following statement is True or False: Where subsidiary books are maintained, journal is not required.			

Answer:
False: Journal is required even when subsidiary books are maintained. This is so because many entries such as opening and closing entry, rectification entry etc. are recorded in journal.

PYQ	2005-Nov [5] (iii)	TF	2 Marks
State with reason whether following statement is True or False: Sales day book is the summary of both cash and credit sales of the concern.			

Answer:
False: The sales book is a register specifically kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

PYQ	2006-Nov [5] (ii)	TF	2 Marks
State with reason whether following statement is True or False: The transaction of 'Return of goods by a customer' to whom money is refunded immediately will not be recorded in "Sales Return Book".			

Answer:
True: The transaction will be recorded in the Cash Book.

PYQ	2006-Nov [5] (xii)	TF	2 Marks
State with reason whether following statement is True or False: The total of purchase return-book is posted to the debit side of purchase return account.			

Answer:
False: The total of purchase return book is posted to the credit side of purchase return account.

PYQ	2021-Jan [1] (a) (iii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: The Sale Book is kept to record both the cash and credit sales.			

Answer:
False: Sales book records only goods sold on credit basis. Cash sales will be recorded in Cash book (if maintained) or Journal Proper (If not maintained)

PYQ	2024-Jun [6] (b)	DESC	5 Marks
PYQ 2021-Jul |			
What are the advantages of Subsidiary Books?			

Answer:
The use of subsidiary books affords the under mentioned advantages:

1. **Division of work:**
   Accounting work will be divided amongst a number of clerks as in place of one journal there will be many subsidiary books.
2. **Specialization and efficiency:**
   When a person does the same work over a period of time, he acquires full knowledge of it and becomes efficient in it. Thus, work gets done efficiently.
3. **Saving of the time:**
   Various processes can be taken simultaneously because of the number of books. Thus, work gets completed quickly.
4. **Availability of information:**
   All information gets available at one place as a separate register is kept for each class of transaction.
5. **Facility in checking:**
   When trial balance does not agree, locating errors becomes easy with the existence of separate books. Errors of commission can also be traced quickly.

PRACTICAL QUESTIONS

PYQ	2020-Nov [1] (c) {C}	4 Marks

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

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

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

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

Answer:

Sales Book
M/s Kamal & Sons

Date	Invoice No.	Name of Customers	LF	Details	Amount ₹
		M/s Ashok & Mahesh			
		40 shirts @ 900 per		36,000	
		30 trousers @ 1000 per		30,000	
				66,000	
		Less: Trade Dis. 10%		6,600	59,400
31-3		Sales A/c	Cr.		59,400

Note: II transaction not to be record because related to sale of an asset
III transaction related to cash hence, not to record.

PYQ	2021-Jul [5] (a)	5 Marks

From the following information prepare the Purchase Book of M/s. Shyam & Company:

(i) Purchased from Red & Company on Credit:
- 10 pair of black shoes @ ₹ 800 per pair
- 5 pair of brown shoes @ 900 per pair
Less: Trade Discount @ 10%

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

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

Answer:

Books of M/s Shyam & Co.
Purchase Book

S. No.	Particulars	L/F	Details	Amount (₹)
(i)	Red & Company per			
	10 pair of black shoes @ 800 per pair		8,000	
	5 pair brown shoes @ 900 per pair		4,500	
			12,500	
	Less: Trade Discount @ 10%		1,250	
	Total			**11,250**

Notes:

(a) Purchase of computer from M/s. Rahul Enterprises on credit for ₹ 40,000 will be recorded in journal proper and not in Purchase Book.

(b) Purchase from Blue & Company in cash will be recorded in cash book and not in purchase book. In purchase book, only credit purchase of goods are recorded.

PYQ	2023-Jun [1] (c) {C}	4 Marks

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

2022 January	
5	Sold to Praneet Electri cals 10 pieces of microwaves @ ₹ 8,500/each less trade discount 15%

10	Sold to Ajanta plaza 8 pieces of Mixer grinders @ ₹ 12,500/each less trade discount 10%
20	Sold to Naveen traders, 15 pieces of juicers @ ₹ 5,500/each less trade discount 5%

Answer:

Books of Gurgaon Engineers
Sales Journal

Date	Particulars	Invoice No.	L/F	Details	Amount (₹)
2022	**Praneet Electrical:**				
Jan. 5	10 pieces of Micro Wave (10 × 8,500)			85,000	
	Less: Trade Discount @ 15%			(12,750)	72,250
Jan. 10	**Ajanta Plaza:**				
	8 pieces of Mixer Grinder (8 × 12,500)			1,00,000	
	Less: Trade Discount @ 10%			10,000	90,000
Jan. 20	**Naveen Traders:**				
	15 pieces of Juicer (15 × 5,500)			82,500	
	Less: Trade Discount @ 5%			(4,125)	78,375
	Total				**2,40,625**

PYQ	2025-Jan [1] (c) {C}	4 Marks

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

Date	Particulars
06/12/2024	Return received from Aar Store 30 shirts @ ₹ 300/- and 15 trousers @ ₹ 500/- each *Less:* Trade Discount @ 8%

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

Answer:

Sales Returns Book of Kay & Co.
for December 2024

Date	Particulars	Details	Amount ₹
6/12/24	Aar Store		
	30 Shirts @ ₹ 300/-	9,000	
	15 Trousers @ ₹ 500/-	7,500	
		16,500	
	Less: Trade Discount = 8%	1,320	15,180
16/12/24	Tulip Store		
	12 T-Shirts @ ₹ 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.

PYQ	2025-May [5] (b) (ii)	2.5 Marks

The following are some of the transactions of Digital Stores for the year 2024-25 as per their Rough Book:

Sold to M/s Alpha Industries
10 Laptops @ ₹ 77,000 per laptop
5 LaserJet Printers @ ₹ 21,000 per printer
Less: Trade Discount @ 15%

Sold old furniture to Singh Consultants on credit ₹ 19,000
Sold 20 Desktops to Brown & Co. @ ₹ 34,000 per desktop on credit
Sold 10 Tablets to GOKU Institute @ ₹ 7,000 per tablet for cash
Sold on credit to JAT Enterprises
15 Mobile phone @ ₹ 25,000 per mobile phone
10 External Hard Disk @ ₹ 4,500 per external hard disk
Less: Trade Discount @ 10%
Make out the Sales Book of Digital Store.

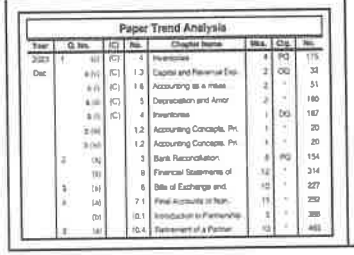
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Smart Study with Scanner

Paper Trend Analysis



- At page no. **{ xiv }**
- Shows question spread across each examination
- Breaks down question types: theoretical vs. practical
- Maps marks allocation for specific topics over time

Motivational Thoughts

- "Subsidiary books are the backbone of organized accounting—master them to streamline your records."
- "Think of subsidiary books as the chapters of a book—they make the story of transactions clear and structured."
- "A well-maintained set of subsidiary books ensures accuracy and saves time in accounting."
- "Mastering subsidiary books builds a strong foundation for advanced financial management."
- "Organized records in subsidiary books lead to better decisions and trust in financial data."

Checklist for Studying

- Memorize the types of subsidiary books: Purchase Book, Sales Book, Purchase Returns Book, Sales Returns Book, Cash Book, Bills Receivable Book, and Bills Payable Book.
- Learn the purpose and format of each type of subsidiary book.
- Practice recording transactions in different subsidiary books.
- Understand the difference between cash and credit transactions for classification.
- Highlight the advantages of maintaining subsidiary books over a single journal.

Fun Facts

- Subsidiary books eliminate the need for bulky journals by categorizing transactions.
- The practice of using subsidiary books dates back to the early days of organized trade.
- Purchase and sales books are exclusive to credit transactions—cash transactions are recorded in the Cash Book.
- Bills Receivable and Bills Payable Books are critical for managing trade credit and liabilities.
- The system of subsidiary books ensures that specialized teams can handle specific types of transactions efficiently.

Fun Flow

- Relate subsidiary books to different drawers in a filing cabinet—each drawer holds specific types of transactions.
- Visualize the Purchase Book and Sales Book as mirrors—they reflect what the business buys and sells on credit.
- Create flashcards for different subsidiary books and their purposes.
- Practice recording transactions in a game format, assigning each transaction to the correct subsidiary book.
- Use a flowchart to show how transactions move from subsidiary books to the ledger.

Last-Minute Analysis

- Review the formats and purposes of each type of subsidiary book.
- Memorize examples of transactions that go into each book (e.g., credit purchases ? Purchase Book).
- Highlight common errors in recording transactions in subsidiary books.
- Summarize the advantages of subsidiary books in one line for quick recall.

Smart Study Tips

- Create a comparison chart of subsidiary books with their definitions, formats, and examples.
- Highlight key points like the exclusive use of credit transactions in Purchase and Sales Books.
- Use mnemonics to remember the order: "PCSRBB" (Purchase, Sales, Cash, Returns, Bills Receivable, Bills Payable).
- Solve problems involving entries in multiple subsidiary books for better understanding.
- Record voice notes summarizing the functions of each subsidiary book and listen for reinforcement.

Quick Study Tips

- Spend 5 minutes revising the purpose and examples of each subsidiary book.
- Write down examples of transactions for different books for quick reference.
- Practice at least three transaction entries for each book.
- Memorize the formats by repeatedly writing them down.
- Highlight the differences between subsidiary books and a general journal.

Practical Analysis

- Analyze how a business uses subsidiary books to manage high transaction volumes.
- Compare the Purchase Book and Sales Book to understand the flow of credit transactions.
- Discuss how errors in subsidiary books affect ledgers and trial balances.
- Practice categorizing mixed transactions into the correct subsidiary books.
- Explore the impact of organized subsidiary books on financial reporting and decision-making.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	ACCOUNTING PROCESS
2.5	**Cash Book**

THEORY QUESTIONS

PYQ	2000-May [5] (viii)	TF	2 Marks

State with reasons whether the following statement is True or False:
Discount account in Cash-book should be balanced.

Answer:

False: Discount account in Cash-book should not be balanced. Debit total of discount column represents discount allowed and that of credit side represents discount received.

PYQ	2002-Nov [5] (b)	TF	2 Marks

State with reasons whether the following statement is True or False:
Bank Column of the Cash-book will show only a Debit Balance.

Answer:

False: Bank column of the cash book will show credit balance if the bank account has an overdraft balance.

PYQ	2003-Nov [5] (iii)	TF	2 Marks

State with reasons whether the following statement is True or False:
If a cheque received is further endorsed, it must be entered on both sides of the Cash Book.

Answer:

True: When a cheque received is further endorsed, it must be entered on both sides of the cash book. The cash book is debited when the cheque is received and it is credited when it is endorsed in favour of somebody.

PYQ	2005-May [5] (iv)	TF	2 Marks
State with reasons whether the following statement is True or False: Petty cash is an expense.			

Answer:

False: Petty cash is an asset. It is shown on the asset side of the balance sheet under the heading 'Cash and bank balances.'

PYQ	2006-May [5] (vi)	TF	2 Marks
State with reasons whether the following statement is True or False: Cash column of a Cash-book may show a debit or credit balance.			

Answer:

False: Cash column of a cash book will always show a debit balance. Bank column of a cash book may show a debit or credit balance.

PYQ	2006-Nov [2] (c)	DESC	3 Marks
State the advantages of Petty Cash-book.			

Answer:

In a business, besides large payments, a number of small payments, such as conveyance, stationery, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unwieldy. Also the main cashier will be overburdened with the work. Therefore, it is usual for firms to record these small payments, say, below ₹ 250, in a separate cash book known as petty cash book.

The advantages of the petty cash book are as follows:

1. **Saving of Time:** Saving of time of the chief cashier.
2. **Control:** It provides control over small payments.
3. **Convenience in preparing Ledger Account:** The totals are only taken to post them into Ledger. No unnecessary details are to be given. Hence, it is convenient to post these directly into ledger.
4. **Rectification of mistakes:** The record of petty cash is checked by the head cashier, periodically, so that a mistake, if committed, is soon rectified.

PYQ	2021-Jul [1] (a) (vi) {C}	TF	2 Marks
State **with reasons**, whether the following statement is True or False: Cash book is a subsidiary book as well as a principal book.			

Answer:

True: Cash book is a book of recording and its balance is directly taken to Trial Balance.

PYQ	2021-Dec [1] (a) (vi) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Discount column of the cash book is never balanced.			

Answer:

True: Discount column is totalled and transferred to the discount allowed or received account.

PYQ	2022-Jun [6] (b)	DESC	5 Marks
What is petty cash book? Write it's any two advantages.			

Answer:

Petty Cash Book: In a business house a number of small payments are made on a regular basis such as for telegrams, taxi fare, cartage, etc. If all these payments are recorded in the cash book, it will become unnecessarily heavy, as well as 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 (petty) payments to him. He will be reimbursed by the main cashier at periodical intervals for the payments made by him. The cash book maintained by such petty cashier, showing the details of small payments made is known as 'Petty Cash Book'.

It is made on 'Imprest System'. Under this system, a fixed amount is made available in the hands of the petty cashier and he is reimbursed for the payments made by him at periodical intervals.

Advantages of Petty Cash Book:

There are mainly Three advantages:

1. Saving of time of chief cashier.
2. Saving in labour in writing up the cash book and posting into the ledger, and
3. Control over small payments.

PYQ	2023-Dec [1] (a) (vi) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Discount column of cash book records the trade discount.			

Answer:

FALSE: Discount column of cash book records cash discount only. Trade discounts are not recorded in the books of accounts as sales are recorded based on net price as follows.

Net price = List price – Trade discount.

PYQ	2025-May [1] (a) (i) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: Trade discount is recorded in the discount column in triple column cash book.			

PRACTICAL QUESTIONS

PYQ	2022-Dec [5] (a)	5 Marks

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

			₹
2022			
March	1	Cash in hand	30,000
	1	Cash at bank	1,20,000
	2	Paid into bank	10,000
	5	Bought furniture and issued cheque	15,000
	8	Purchased goods for cash	5,000
	12	Received cash from Mohan	9,800
		Discount allowed to him	200
	14	Cash sales	50,000
	16	Paid to Lata by cheque	14,500
		Discount received	500
	19	Paid into Bank	5,000
	23	Withdrawn from Bank for Private expenses	6,000
	24	Received cheque from Gupta	14,300
		Allowed him discount	200
	26	Deposited Gupta's cheque into Bank	—
	28	Withdrew cash from Bank for Office use	20,000
	30	Paid rent by cheque	8,000

Answer:

Triple Column Cash book of M/s Raj Agencies
(for the 1year ending on 31st March, 2022)

Date 2022	Particulars	L/f	Disc-ount	Cash	Bank	Date 2022	Particulars	L/f	Disc-ount	Cash	Bank
1st March	To Bal. b/d	-	-	30,000	1,20,000	2nd March	By Bank	C	-	10,000	-
2nd March	To Cash	C	-	-	10,000	5th March	By Furniture	-	-	-	15,000
12th March	To Mohan	-	200	9,800	-	8th March	By Purchase	-	-	5,000	-
14th March	To Sales	-	-	50,000	-	16th March	By Lata	-	500	-	14,500
19th March	To Cash	C	-	-	5,000	19th March	By Bank	C	-	5,000	-
21st March	To Gupta	-	200	14,300	-	23rd March	By Drawings	-	-	-	6,000
26th March	To Cash	C	-	-	14,300	26th March	By Bank	C	-	14,300	-
28th March	To Bank	C	-	20,000	-	28th March	By Cash	C	-	-	20,000
31st March	To Bal. c/d	-		-	-	30th March	By Rent	-	-	-	8,000
						31st March	By Bal. c/d	-	-	89,800	85,800
			400	1,24,100	1,49,300				500	1,24,100	1,49,300

PYQ 2023-Dec [5] (c) **5 Marks**

Prepare a Triple Column Cash Book from the following transactions of G. Enterprises for the month of January, 2023.

Date	Particulars	Amount ₹
01.01.2023	Cash in hand	14,500
	Cash at 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
07.01.2023	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 from R (in full settlement of her account ₹ 6,500) by cheque	6,350
17.01.2023	Withdrew from bank for personal use	15,000
18.01.2023	Paid electricity bill by cheque	5,000
20.01.2023	Cash purchases of stationary	1,200
31.01.2023	Deposit the entire cash in bank in excess of ₹ 10,000	

Answer:

Triple Column Cash Book of G Enterprises for January, 2023

Date	Receipts	L.f	Dis.	Cash (₹)	Bank (₹)	Date	Payment	L.f	Dis.	Cash (₹)	Bank (₹)
2023			All			2023	By Cash A/c	©	Rec.	-	3,000
Jan. 1	To Bal b/d			14,500	1,95,000	Jan. 7	By B A/c		410	-	10,590
Jan. 3	To K A/c		400	7,300	15,000	Jan. 12	By Drawing			-	15,000
Jan. 6	To Sales A/c			9,100	-	Jan. 17	By Ele. Bill			-	5,000
Jan. 7	To Bank A/c	©	-	3,000	-	Jan. 18	By Station			1,200	-
Jan. 14	To R A/c		150	-	6,350	Jan. 20	By Bank A/c	©		22,700	-
Jan. 31	To Cash A/c	©		-	22,700	Jan. 31	By Bal C/d			10,000	2,05,460
			550	33,900	2,39,050				410	33,900	2,39,050
Feb. 1	To Bal b/d			10,000	2,05,460						

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "The cash book is the lifeline of any business—manage it well to ensure financial health."
- "Accuracy in your cash book reflects discipline and control in financial management."
- "Think of the cash book as your financial diary—record every movement of money with care."
- "Mastering the cash book builds the foundation for efficient cash flow management."
- "A well-maintained cash book paves the way for business success and transparency."

Checklist for Studying

- Understand the types of cash books: single-column, double-column, and triple-column.
- Learn the format and components: Date, Particulars, Voucher Number, Debit, and Credit.
- Memorize the difference between cash transactions and bank transactions.
- Practice recording different types of transactions in the appropriate cash book columns.
- Highlight the differences between cash books and other subsidiary books.

Fun Facts

- The cash book is both a journal and a ledger—it records and summarizes cash and bank transactions.
- In early commerce, merchants used ledgers similar to cash books for trade records.
- Petty cash books were designed to track small, day-to-day expenses.
- Automated accounting systems have digital cash books, but the principles remain unchanged.

Fun Flow

- Visualize the cash book as a balance scale—every debit has a corresponding credit.
- Relate the cash book to a household budget—it tracks every rupee coming in and going out.
- Imagine cash books as financial maps—they show where your money comes from and where it goes.
- Create flashcards for different types of transactions to practice their placement in the cash book.

Last-Minute Analysis

- Review the formats of single, double, and triple-column cash books.
- Memorize key terms like contra entries, discount columns, and balancing.
- Practice one or two problems to reinforce the concept of contra entries.
- Highlight the differences between cash books and petty cash books.
- Summarize the purpose of cash books in one sentence for quick recall.

Ethical Perspectives

- Reflect on the importance of accurate cash book entries for ethical financial reporting.
- Discuss the consequences of falsifying cash book records on business integrity.
- Analyze case studies where poor cash book maintenance led to financial fraud.
- Debate whether digital cash books improve or compromise financial transparency.
- Understand the ethical responsibility of maintaining complete and accurate cash records.

Memory Boosters

- Use flashcards to memorize the format and purpose of each type of cash book.
- Create a flowchart showing the movement of transactions from cash books to final accounts.
- Write down examples repeatedly to reinforce understanding of contra entries.
- Record short summaries explaining the differences between single, double, and triple-column cash books.
- Use mnemonics to remember cash book components: "DPVDC" (Date, Particulars, Voucher, Debit, Credit).

Concept Connections

- Relate cash books to a checkbook register—it tracks incoming and outgoing transactions.
- Compare cash books to a fitness tracker—they monitor the financial health of a business.
- Discuss how cash books link journals and ledgers in the accounting cycle.
- Explore how cash books simplify preparing bank reconciliations and trial balances.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	ACCOUNTING PROCESS
2.6	**Rectification of Errors**

THEORY QUESTIONS

PYQ	1997-Nov [4] (a)	DESC	5 Marks
Briefly explain 'Suspense Account' appearing in Trial Balance.			

Answer:

- The trial balance extracted at the end of the accounting period may not agree, and in spite of the best efforts made to locate the errors, all the errors may not be discovered.
- In such a case, the trial balance is artificially made to agree in spite of errors by opening a new account, called "Suspense Account".
- If the total of the credit column in the trial balance exceeds the total of the debit column, the "suspense account" is debited; it is credited in the other case.
- Thus, "suspense account" is an account to which the difference in the trial balance is put temporarily.
- When errors are traced, entries are made with the help of suspense account.

PYQ	1999-Nov [6] (b)	DB	5 Marks
Briefly explain the difference between the following: Errors of Principle and Errors of Omission.			

Answer:

Error of Principle: It is the error which arises when transactions are recorded ignoring the difference being the capital and revenue items. Error of Principle is involved whenever the amount paid or received is not properly

allocated between revenue and capital. This error does not affect the trial balance. E.g. Furniture purchased on credit wrongly recorded in purchase Journal instead of Journal proper.

Error of Omission: It is the error which arises when a transaction is partially or completely not recorded in books of accounts. This error may or may not affect the trial balance. E.g. Furniture purchased from Sohan was not recorded anywhere in the books of account.

PYQ	2001-May [6]	DESC	5 Marks
Explain briefly Errors of Principle.			

Answer:

Errors of Principle: The error of principle arises when the transactions are recorded ignoring the difference between the capital and revenue items. In other words, it involves a wrong allocation of receipt and expenditure between the capital and revenue items. This error does not affect the Trial Balance. Any wrong allocation would disturb the final result as disclosed by the financial statement, therefore it is necessary that the correct allocation between capital and Revenue items should be done.

E.g. Furniture purchased on credit wrongly recorded in Purchase account.

PYQ	2002-May [3] (b)	DESC	5 Marks
State which type of errors are not disclosed by the agreement of the trial Balance.			

Answer:

The types of errors which are not disclosed by the agreement of the Trial Balance may be discussed as follows:

1. **Error of Omission:** If any transaction is not recorded in the books of original entry, it will not affect the ledger account from which the trial Balance is prepared.

2. **Error of commission:** These errors are due to wrong posting, recording or casting etc. these are also known as mis-postings. These errors do not affect the trial balance if debit balances are equal to credit balances.
3. **Error of Principle:** *Please refer 2001-May [6] on page no.* ***103***
4. **Compensating Errors:** When two or more errors are committed which may compensate the effect of each other, they are called compensating errors. Such errors compensate each other and they will also not effect the trial balance.
5. **Error in Subsidiary Book:** An error in the books of original entry will also not affect the trial balance if debit balances are equal to credit balances.

PYQ	2018-May [1] (a) (iii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.			

Answer:

False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

PYQ	2019-Jun [1] (a) (ii)	TF	2 Marks
State with reason, whether the following statement is True or False: If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.			

Answer:

False: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

PYQ	2020-Nov [1] (a) (iv) {C}	TF	2 Marks
State **with reason,** whether the following statement is True or False. Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.			

Answer:
False: Purchase of office furniture and fixtures of ₹ 2,500 debited to General Expenses account is an error of principle.

PYQ	2022-Jun [1] (a) (vi) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.			

Answer:
False: Only those errors which affect the agreement if the trial balance are rectified through suspense account. So, all the errors detected after preparing trial balance, are not rectified through suspense account e.g. error of principle, can be rectified without suspense account.

PYQ	2022-Dec [1] (a) (iv) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.			

Answer:
False: After preparation of trial balance only one sided errors i.e., the errors which affects only one side of an account of the journal entry are rectified through creating a suspense account.

PYQ	2023-Jun [1] (a) (iii) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: Under or over - casting of a subsidiary book is an example of error of commission.			

Answer:
True: Those errors where amount is posted in wrong account or it is written on wrong side or the totals are wrong or a wrong balance is struck, it will be a case of 'errors of commission." So mistake in casting of subsidiary book is an error of commission.

PYQ	2024-Jun [1] (a) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: (ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle. (v) All errors are rectified by means of journal entries.			

Answer:
(ii) **False:** if the amounts are written on wrong side or wrong account then these are called Errors of Commission.
(v) **False:** Not all errors are rectified through journal entries. Some errors are detected before the preparation of trial balance and can be rectified without a journal entry which is expected to continue operating indefinitely in the future.

OR

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation in a foreseeable future. Hence, is assumed that the enterprise is neither the intention nor the need to liquidate in near future.

PRACTICAL QUESTIONS

PYQ	2018-May [1] (c) {C}	4 Marks
Give journal entries (narrations not required) to rectify the following: (i) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300. (ii) A Sales Return of ₹ 5,000 to Joythy was not entered in the financial accounts though it was duly taken in the stock book.		

(iii) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.
(iv) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Answer:

Journal Entries

	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(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

PYQ | **2018-May [6] (b)** | **10 Marks**

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

Answer:

Journal Entries in the books of Miss Daisy

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(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, ₹ 4,617, instead of ₹ 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	Dr.		6,000	
	To Mr. Paul Account				6,000
	(Credit purchase of goods from Mr. Paul sale last year, now rectified)				
(vii)	Daisy's Capital A/c	Dr.		13,750	
	To Profit and Loss Adjustment Account				13,750
	(Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c-Refer W.N.1)				
(viii)	Suspense A/c	Dr.		8,450	
	To Daisy's Capital A/c				8,450
	(Being balance of Suspense A/c transferred to Capital A/c-Refer W.N. 2)				

*Considering that the difference was posted to Suspense account.

Working Notes:

1. **Profit and Loss Adjustment Account**

Particulars	₹	Particulars	₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c (Bal.	13,750

To Machinery A/c	1,800	Transfer)	
To Mr. Paul's A/c	6,000		
	16,250		16,250

2. **Suspense Account**

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

PYQ **2018-Nov [2] (a)** **5 Marks**

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

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

Answer:

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

Suspense A/c

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

PYQ	2019-Jun [1] (c)	4 Marks

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

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

(ii) A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/S Sobhag Traders at ₹ 2,670

(iii) ₹ 35,000 paid for purchase of Airconditioner for the personal use of proprietor debited to Machinery A/c.

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

Answer:

S. No.	Particulars		Debit (₹)	Credit (₹)
(i)	Commission A/c	Dr.	4,500	
	To Interest Received			4,500
	(Correcting wrong entry of interest received into commission account)			
(ii)	M/s Sobhag Traders A/c	Dr.	90	
	To Suspense A/c			90
	(Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobhag Traders A/c less by 90, now rectified)			
(iii)	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)			
(iv)	Return Inward A/c	Dr.	5,000	
	To Debtors (Personal) A/c			5,000
	(Correction of omission to record return of goods by customers)			

PYQ	2019-Nov [2] (b)	10 Marks

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

(1) The sales book has been totalled ₹ 2,100 short.

(2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.

(3) Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.

(4) Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.

(5) Discount received from Black and White ₹ 1,200 has not been entered in the books.

(6) Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

Answer:

(i) If Suspense Account is not opened:

1. Since sales book has been totalled ₹ 2,100 short, the Sales Account has been credited short by ₹ 2,100. The rectifying entry is to credit the Sales Account by ₹ 2,100 as "By wrong totalling of the Sales Book ₹ 2,100".
2. Following entry will be passed to rectify the omission:

Particulars	Dr. (₹)	Cr. (₹)
Return Inwards A/c	1,800	
To Gaurav & Co.		1,800
(Being Goods returned by Gaurav & Co. previously omitted from the Return inwards Book)		

3. Sen Brothers have been debited with ₹ 2,250 instead of being credited. This account should now be credited by ₹ 4,500 to remove the wrong debit and to give the correct credit. The entry will be on the credit side... "By errors in posting ₹ 4,500".
4. Instead of debiting Furniture A/c, Purchases A/c has been debited. The rectifying entry would be:

Particulars		Dr. (₹)	Cr. (₹)
Furniture A/c	Dr.	15,000	
To Purchases A/c			15,000
(Being rectification of error by which Purchases A/c was debited instead of Furniture A/c)			

5. This is an error of omission. The rectifying entry would be:

Particulars		Dr. (₹)	Cr. (₹)
Black and White	Dr.	1,200	
To Discount Received A/c			1,200
(Being rectification of error by which discount received from Black and White was omitted to be recorded)			

6. In this case, the account of the customer has been correctly posted; the Discount Account has been debited ₹ 180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be debited by the entry: "To Omission of entry in the Cash Book ₹ 180."

(ii) If Suspense A/c is opened:

Date	Particulars		Dr. (₹)	Cr. (₹)
1.	Suspense A/c	Dr.	2,100	
	To Sales A/c			2,100
	(Being the correction arising from under casting of Sales Book)			
2.	Return Inwards A/c	Dr.	1,800	
	To Gaurav & Co.			1,800
	(Being the recording of unrecorded items)			
3.	Suspense A/c	Dr.	4,500	
	To Sen Brothers			4,500
	(Being the correction of the error by which Sen Brothers were debited instead of being credited by ₹ 2,250)			
4.	Furniture A/c	Dr.	15,000	
	To Purchases A/c			15,000
	(Being the correction of recording purchase of furniture as ordinary purchases)			

5.	Black and White	Dr.	1,200	
	To Discount Received A/c			1,200
	(Being the recording of discount omitted to be recorded)			
6.	Discount Allowed A/c	Dr.	180	
	To Suspense A/c			180
	(Being the correction of omission of the discount allowed from Cash Book; customer's account already posted correctly).			

Suspense A/c

Particulars	₹	Particulars	₹
To Sales A/c	2,100	By Difference in Trial Balance (bal. fig.)	6,420
To Sen Brothers	4,500	By Discount Allowed A/c	180
	6,600		6,600

PYQ | **2020-Nov [5] (a)** | **5 Marks**

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

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

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

(iii) Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.

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

(v) A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

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

Answer:

Journal

S. No.	Particulars	₹	₹
(i)	P/L Adjustment A/c Dr. To Building A/c (Being building wrongly debited now rectified)	12,500	12,500
(ii)	P/L Adjustment A/c Dr. To Suspense A/c (Being freight was short by 1,500)	1,500	1,500
(iii)	Suspense A/c Dr. To Rani A/c (Being Rani wrongly debited now corrected)	2,100	2,100
(iv)	P/L Adjustment A/c Dr. To Furniture A/c (Being wrong entry rectified)	30,000	30,000
(v)	Raja A/c Dr. To Bills receivable A/c (Being B/R wrongly debited)	20,000	20,000

PYQ	2021-Jan [2] (a)	10 Marks

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, ₹ 5,615 was carried forward to the next page as ₹ 6,551.
(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.
(iii) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
(iv) Cash received from Senu, ₹ 895 was posted to debit of Sethu.
(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.
(vii) ₹ 600 due from Mr. Q was omitted to be taken to the trial balance.
(viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

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

Answer:

In the books of Mr. Joshi Journal Entries

Date/Sl. No.	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Being Rectification or error by which Purchase Account was over debited last year - ₹ 6,551 carried forward instead of ₹ 5,615)		936	936
(ii)	Customer A/c Dr. Profit and loss Adjustment A/c Dr. To Suspense A/c (Being correction of entry by which (a) Sales account was over credited by ₹ 540 (b) Customer was credited by ₹ 821 instead of being debited by ₹ 281)		1,102 540	 1,642
(iii)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Being rectification of error by which return inward was debited by 295 instead of return outwards being credited by ₹ 295)		590	590
(iv)	Suspense A/c Dr. To Senu A/c To Sethu A/c (Being removal of wrong debit to Sethu and giving credit to Senu from whom cash was received)		1,790	 895 895

(v)	Customer A/c Dr. To Profit & Loss Adjustment A/c (Being rectification of error arising from non- preparation of invoice for goods delivered)		1,400	1,400
(vi)	Profit and loss Adjustment A/c Dr. Inventory A/c Dr. To Customer A/c (Being the Customer account is credited with ₹ 1600 for goods not yet purchased by him; Cost of goods debited to inventory and "Profit" debited to Profit and Loss Adjustment Account)		320 1,280	 1,600
(vii)	Trade Receivable (Q) A/c Dr. To Suspense A/c (Being ₹ 600 due from Q not taken into trial balance, now rectified)		600	600
(viii)	R A/c Dr. To Profit & Loss Adjustment A/c (Being Sale to R omitted last year, now adjusted)		3,000	3,000
(ix)	Profit and Loss adjustment A/c Dr. To Capital A/c (Being Balance of Profit and loss adjustment account transferred to Capital A/c)		5,066	5,066

Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Suspense A/c	540	By Suspense A/c	936
To Customer A/c	320	By Suspense A/c	590
To Capital A/c (Bal fig)	5,066	By Customer A/c	1,400
		By R A/c	3,000
	5,926		**5,926**

PYQ | **2021-Jul [2] (a)** | **10 Marks**

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

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

Suggest the necessary rectification entries.

Answer:

Journal Entries in the books of Mr. Ratan

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Motor Vehicles A/c Dr. To Profit and Loss Adj. A/c (Purchase of Scooter wrongly debited to conveyance account now rectified)		27,000	27,000
2.	Suspense A/c Dr. To Profit and Loss Adj. A/c (Purchase Account overcast in the previous year, error now rectified)		1,00,000	1,00,000
3.	Profit and Loss Adj. A/c Dr. To X's A/c (Credit purchase of goods from X ₹20,000, entered as sale last year now rectified)		40,000	40,000

4.	Bhaskar's A/c Dr. To Anand's A/c (Amount received from Anand wrongly posted to the account of Bhaskar now rectified)		10,000	10,000
5.	Suspense A/c Dr. To Chandu's A/c (₹ 5,000 received from Chandu wrongly debited to his account now rectified)		10,000	10,000
6.	Trade receivables A/c Dr. To Suspense A/c (₹ 5,000 due by Ramesh was omitted to be taken to Trial Balance now rectified)		5,000	5,000
7.	Ram's A/c To Profit and Loss Adj. A/c Dr. (Sales to Ram omitted last year now rectified)		20,000	20,000
8.	Suspense A/c Dr. To Profit and Loss Adj. A/c (Purchase A/c overcast last year by ₹1,980 now rectified)		1,980	1,980
9.	Profit and Loss Adj. A/c Dr. To Ratan's Capital A/c (Balance of P/L Adj. transferred to capital account)		1,08,980	1,08,980
10.	Ratan's Capital A/c Dr. To Suspense A/c (Balance of Suspense Account transferred to capital A/c)		1,06,980	1,06,980

PYQ	2021-Dec [3] (c)	5 Marks

Attempt the following:

(ii) A,B and C are partners in a firm. On 1st April, 2019, their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.
As per the provisions of partnership deed:
(1) C was entitled for a salary of ₹ 5000 p.a.
(2) All the partners were entitled to interest on capital at 5% p.a.
(3) Profits and losses were to be shared in the ratio of Capitals of the partners.
Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March, 2021 of ₹ 45,000, was divided equally without providing for the above adjustments.
You are required to pass an adjustment journal entry to rectify the above errors.

Answer:

Statement of Calculations of Past Adjustments

Particulars	A		B		C		Firm	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Profits of 2019- 2020 distributed equally	11,000	—	11,000	—	11,000	—	—	33,000
Profits of 2020-21 distributed equally	15,000	—	15,000	—	15,000	—	—	45,000
Salary to C for 2019-20 and 2020-21 ₹5,000 p.a.	—	—	—	—	—	10,000	10,000	—
Int. on capital for 2019-20 & 20-21	—	5,000	—	2,500	—	2,500	10,000	—
	26,000	5,000	26,000	2,500	26,000	12,500	20,000	78,000
Cr. balance of firm dividend in capital Ratio (2:1:1)	—	29,000	—	14,500	—	14,500	58,000	—
	26,000	34,000	26,000	17,000	26,000	27,000	78,000	78,000
Net Balance	—	8,000	9,000	—	—	1,000	—	—

Adjustment Entry:

B's current A/c	Dr.	9,000	
To A's current A/c			8,000
To C's current A/c			1,000

PYQ	2021-Dec [5] (a)	5 Marks

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

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

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

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

(iv) Goods (Cost being ₹ 5,000 and Sales price being ₹ 6,000) distributed as free samples among prospective customers were not recorded anywhere.

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

Answer:

Journal Entries

	Particulars		L.F.	(₹)	(₹)
1.	Building A/c	Dr.		20,000	
	To Wages A/c				20,000
	(Being rectified entry has passed)				
2.	Ramesh A/c	Dr.		2,400	
	To Sales A/c				1,200
	To Purchases A/c				1,200
	(Being rectified entry has passed)				
3.	Mahesh Chand A/c	Dr.		2,000	
	To Bad debts recovered A/c				2,000
	(Being rectified entry has passed)				

4.	Advertisement A/c Dr. To Purchases A/c (Being rectified entry has passed)		5,000	5,000
5.	Return Inward A/c Dr. To Green (Being rectified entry has passed)		1,500	1,500

PYQ	2022-Dec [2] (b)	10 Marks

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 ₹ 1,850 were debited to the Building Account.

(ii) An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.

(iii) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.

(iv) Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.

(v) College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.

(vi) Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.

(vii) Goods amounting to ₹ 6,200 had been returned by a customer and were taken in to inventory, but no entry was made in the books.

(viii) ₹ 1,500 paid for wages to workmen for making office furniture had been charged to wages account.

(ix) Salary paid to a clerk ₹ 12,000 has been debited to his personal Account.

(x) A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.

Answer:

Journal Entries
(In the books of Hare Rama & Sons
(for the year ending on 31st March, 2021)

Date	Particulars	Dr. (₹) Amt.	Cr. (₹) Amt.
	Repairs A/c Dr. To building A/c (Being repairs expenses debited to building a/c now rectified)	1,850	1,850
	Shyam Lal A/c Dr. To bad debits recovered (Being corrections in Shyam Lal a/c made)	3,000	3,000
	Furniture A/c Dr. To purchase A/c (Being corrections made for wrong entry in purchase book)	20,000	20,000
	Purchase A/c Dr. To Ram Singh A/c (Being correction for omitted entry rectified)	8,000	8,000
	Drawing A/c Dr. To Audit fees A/c (Being correction for Audit fees made)	15,000	15,000
	Pinki Rani A/c Dr. To Meet Kumar (Being collection of cash from Meet Kumar rectified)	4,500	4,500
	Sales Return A/c Dr. To Trade Receivables A/c (Being Sales returned entry passed)	6,200	6,200
	Furniture A/c Dr. To Wages A/c (Being corrections for wages A/c rectified)	1,500	1,500
	Salary A/c Dr. To Clerk's personal A/c (Being error for salary rectified)	12,000	12,000

	Sales A/c	Dr.	20,000	
	Purchase A/c	Dr.	20,000	
	To Raghav's A/c			40,000
	(Being error in purchase books rectified)			

PYQ	2024-Jun [2] (a)	12 Marks

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

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

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

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

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

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

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

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

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

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

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

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

Answer:

Journal Entries in the books of "Mr. Sarvesh Kumar"

Particulars	L/F	Debit (₹)	Credit (₹)
Sales Return A/c Dr.		1,000	
To Suspense A/c			1,000
(Being sales return under cost rectified)			
Machinery A/c Dr.		6,500	
To Freight A/c			5,600
To Suspense A/c			900
(Being freight paid for installation of machinery rectified)			
Sales A/c Dr.		2,500	
Sales Return A/c Dr.		2,500	
To Suspense A/c			5,000
(Being goods returned rectified)			
Drawings A/c Dr.		18,000	
To Conveyance A/c			18,000
(Being purchase of motorcycle for personal use rectified)			
Suspense A/c Dr.		700	
To Creditors A/c			700
(Being creditors account posted as 6,000 instead of 6,700 rectified)			
Suspense A/c Dr.		10,000	
To Avinash A/c			10,000
(Being cash received from Avinash wrongly debited to his account rectified)			
Alok A/c Dr.		2,500	
To Ashok A/c			2,500
(Being cheque received from Alok dishonoured wrongly debited to Ashok rectified)			
Deepak A/c Dr.		17,000	
To Suspense A/c			17,000
(Being Deepak A/c wrongly credited instead of debited his account rectified)			

Discount allowed A/c Dr. To Suspense A/c (Being total of discount allowed not posted rectified)			3,800	3,800
Sales A/c Dr. To Furniture A/c (Being sale of old table wrongly treated as sales of goods being rectified)			2,200	2,200

Suspense A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance B/d	17,000	By Sales return	1,000
To creditors A/c	700	By Machinery	900
To Avinash A/c	10,000	By Sales A/c	2,500
		By Sales return A/c	2,500
		By Deepak A/c	17,000
		By Dis. allowed a/c	3,800
	27,700		27,700

PYQ	2024-Sep [1] (c) {C}	4 Marks

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

(i) Goods of the value of ₹ 500 returned by Mr. A were entered in the Sales Day Book and posted there from to the credit of his account;

(ii) ₹ 250 entered in the Sales Returns Book, has been posted to the debit of Mr. R, who returned the goods;

(iii) A sale of ₹ 700 made to Mr. Q was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. S as ₹ 70;

(iv) The total of "Discount allowed" Column in the Cash Book for September amounting to ₹ 350 was not posted.

Answer:

Journal Entries

S. No.	Particulars	L .F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Sales A/c Dr. Sales Return A/c Dr. To Suspense A/c (The value of goods returned by Mr. A wrongly posted to Sales and omission of debit to Sales Return account, now rectified)		500 500	 1,000
(ii)	Suspense A/c Dr. To Mr. R (Wrong debit to Mr. R for goods returned by him, now rectified)		500	 500
(iii)	Mr. Q's A/c Dr. To Mr. S's A/c To Suspense A/c (Omission of debit to Mr. Q and wrong credit to Mr. S for sale of ₹ 700, now rectified)		700	 70 630
(iv)	Discount A/c Dr. To Suspense A/c (The total of discount allowed during September not posted from the cash book, now rectified)		350	 350

PYQ	2025-May [2] (a)	10 Marks

Following errors were found in the books of XYZ. Give necessary entries to correct them :

(i) A purchase of goods from R amounting to ₹ 10,000 has been wrongly entered through the sales book.

(ii) Furniture purchased for office use amounting to ₹ 25,000 has been entered in the purchase day book.

(iii) Minor repairs to the Furniture Account amounting to ₹ 1,500 were debited to Furniture Account.

(iv) Wages amounting to ₹ 3,000 paid to workmen for making Office

Furniture has been charged as wages account.

(v) Tuition Fees of proprietor's son ₹ 25,000 has been debited to Audit fees A/c.

(vi) An amount of ₹ 10,000 due from Mohan which had been written off as bad debt in the previous year was unexpectedly recovered and has been posted to the personal account of Mohan.

(vii) Goods (Cost being ₹ 7,000 and sales price being ₹ 10,000) distributed as free samples among prospective customers were not recorded anywhere.

(viii) Goods amount to ₹ 1,000 returned by a customer, G & Co. were entered in the Sales Day Book and posted there from to the credit of his account.

(ix) A bill of Exchange (received from SS & Co.) for ₹ 10,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

(x) A Bills Receivable for ₹ 2,500 was passed through Bills Payable Book. The Bill was given by Jack.

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Motivational Thoughts

- "Errors are opportunities to learn—rectify them to achieve perfection in accounting."
- "Mistakes in accounting are like detours; correcting them brings you back on track."
- "Mastering error rectification ensures the integrity of your financial records."
- "In accounting, as in life, acknowledging and correcting mistakes leads to success."
- "Every rectified error is a step closer to accurate and trustworthy financial reporting."

Checklist for Studying

- Memorize the types of errors: Errors of Omission, Commission, Principle, and Compensating Errors.
- Understand the impact of errors on trial balances and financial statements.
- Learn the methods of rectification: before and after preparing the trial balance.

Fun Facts

- Even large corporations make accounting errors—efficient rectification saves them from big losses.
- The Suspense Account acts as a temporary parking spot for unidentified errors.
- Some errors, like compensating errors, balance each other out and are harder to detect.
- Automation reduces manual errors, but system bugs can still create inaccuracies.
- Early accounting systems required days to detect and rectify errors manually.

Fun Flow

- Visualize error rectification as solving a puzzle—identify, analyze, and fix the missing pieces.
- Relate Suspense Accounts to a "lost and found" box for unclassified entries.
- Practice rectification through roleplay—one person makes errors, and another rectifies them.
- Turn error detection into a game: find and correct intentional mistakes in provided examples.

Last-Minute Analysis

- Review the types of errors and their effects on the trial balance.
- Memorize common rectification entries for Errors of Principle and Omission.
- Focus on understanding how Suspense Accounts are closed after rectification.
- Solve at least two problems involving multiple errors in a single question.
- Highlight key differences in rectifying errors before and after trial balance preparation.

Smart Study Tips

- Use tables to categorize errors and their corresponding rectification methods.
- Practice solving error rectification problems with increasing complexity.
- Highlight the steps for rectifying errors: Identify, Analyze, Rectify, and Adjust.
- Record voice notes explaining the process of using Suspense Accounts for error rectification.
- Solve past exam questions to identify common patterns in error rectification problems.

Quick Study Tips

- Revise the definition and examples of each type of error in 5 minutes.
- Write down the format of journal entries for rectifying one-sided and two-sided errors.
- Use mnemonics like "OCPC" (Omission, Commission, Principle, Compensating) to recall error types.
- Practice balancing Suspense Accounts for quick understanding.
- Highlight frequently tested rectification problems in your notes.

Practical Analysis

- Analyze the impact of Errors of Omission on financial statements and trial balances.
- Compare how Errors of Principle differ from Errors of Commission in real-world examples.
- Practice identifying errors in a trial balance and preparing rectification entries.
- Explore how unresolved Suspense Accounts affect final accounts.
- Discuss how timely error rectification ensures accurate and reliable financial reporting.

Real-World Experience

- Research real-life cases of financial errors and how companies rectified them.
- Study how automation tools like accounting software detect and highlight errors.
- Interview an accountant about common mistakes they encounter and how they rectify them.
- Watch videos demonstrating the rectification of errors in accounting systems.
- Explore case studies where timely error correction saved businesses from regulatory penalties.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	
3	**Bank Reconciliation Statement**

THEORY QUESTIONS

PYQ	2000-May [6] (d)	DB	5 Marks
Causes of difference between the balance shown by the Pass-book and the Cash book			

Answer:

Theoretically there should be no difference between the balance shown by the Pass Book and the Cash Book. However, on a given date, it is possible that some entries may have been recorded in the cash book but not in the passbook and *vice versa*. As a result, the cashbook and the passbook may show different balances on a given date.

The differences may arise due to:

1. Cheques issued but not yet presented for payment.
2. Cheques paid into the bank but not yet cleared.
3. Interest allowed by bank.
4. Dishonor of cheques or bills.
5. An error committed by the bank.
6. Interest and expenses charged by the bank.
7. Direct payments by the bank.
8. Interest and other charges debited by the bank.
9. Interest and dividend collected by the bank.
10. Bills collected by the bank on behalf of the customer.

PYQ	2003-May [5] (x)	TF	2 Marks
State with reasons whether the following statement is True or False: If the balance as per Cash Book and Pass Book are the same, there is no need to prepare a Reconciliation Statement.			

Answer:

True: The reconciliation statement is prepared only when any difference in the balances arises.

PYQ	2004-Nov [5] (vii)	TF	2 Marks
State with reasons whether the following statement is True or False: Bank reconciliation statement is not prepared to arrive at the bank balance.			

Answer:

True: Object of preparation of BRS is to reconcile the pass book balance and the cash book balance in order to find out the causes of difference between these two books on a particular date.

PYQ	2004-Nov [6] (vi)	SN	5 Marks
Write a short note on the following: (Maximum limit 150 words) Importance of bank reconciliation statement to a industrial unit.			

Answer:

Importance of Bank Reconciliation statement to an industrial unit:

Banks are essential to modem society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of 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, as well as there may be some deposits which has been deposited in bank, but not collected so far. Some expenses might have been debited or bills might have been dishonoured. If it is not known to 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 a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

PYQ	2005-May [6] (ii)	SN	5 Marks
Write short note on the following: Importance of Bank Reconciliation statement.			

Answer:

- Bank Reconciliation Statement (BRS) in prepared to reconcile and explain the causes of difference between bank balance as per cash book and passbook or bank statement on a particular date.
- Generally the two balances do not happen to be equal due to the various reasons of disagreement, so, it becomes necessary to prepare a reconciliation statement for the purpose of ascertaining the correct bank balance which is shown while preparing the Balance sheet.
- It is important to an accountant because the accountant must satisfy that both the balances (i.e. cash book and pass book balance) are identical at a certain point of time.
- It helps to detect any mistake in the cash book or the pass book.
- It helps in prevention of fraud.
- It helps us to know whether there is any undue delay in clearing of cheques.

PYQ	2006-May [5] (viii)	TF	2 Marks

State with brief reasons whether the following statement is True or False: Direct collection received by the bank on behalf of its customers will increase the balance as per the Bank Pass-book as compared to the balance as per the Cash-book.

Answer:

True: Direct collection received by the bank on behalf of its customer will increase the balance of pass book, as compared to the balance as per cash book, till the customer gets an intimation from the bank.

PYQ	2006-Nov [5] (xi)	TF	2 Marks

State with reasons whether the following statement is True or False: Cheques issued, but not presented for payment will have to be deducted from balance as per the Pass book while arriving at the balance as per the Cash book.

Answer:

True: While preparing Bank Reconciliation Statement, cheques issued but not presented for payment will have to be deducted from balance as per Pass book, while arriving at the balance as per Cash book.

PRACTICAL QUESTIONS

PYQ	2018-May [6] (a)	10 Marks

The Bank Pass Book of Account No. 5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March, 2018. On going through the Pass Book, the accountant found the following:

(i) A Cheque of ₹ 1,080 credited in the pass book on 28th March, 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 15th April, 2018.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March, 2018, cheques amounting to ₹ 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given her wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No. 8765.

(vi) A Cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(vii) A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishonoured but advice was received on 1st April, 2018.

(viii) A Bill for ₹ 10,000 was retired/paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018.

Answer:

In the books of Mrs. Rani

Bank Reconciliation Statement as on 31st March, 2018

Particulars		₹
Balance as per Pass Book (Dr.) (Overdraft)		33,575
Add: Dishonour of cheque of ₹ 1,080 (Note)	–	
Interest collected by bank	2,800	
Cheques drawn but not encashed	2,500	
Wrong credit by Bank	500	
Rebate not entered in Cash Book	175	

Cheque deposited but omitted to be recorded in Cash Book	2,400	8,375
		41,950
Less: Cheques paid in but not collected	7,500	
Wrong debit by Bank	300	
Cheque omitted to be banked	1,000	
Bill previously discounted, dishonoured	5,200	14,000
Balance as per Cash Book (Cr.) (Overdraft)		27,950

Note: Since the Pass Book was debited on 1st April, 2018, on adjustment is required for (i) as there would be no difference as on 31st March, 2018.

PYQ	2018-Nov [4] (b)	10 Marks

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

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

Answer:

Bank Reconciliation Statement as on 31st March, 2018

Particulars		₹
Balance as per Cash Book (Dr.) (Favourable)		18,60,000
Add: Cheques issued but not yet presented	3,60,000	
Dividend received by Bank	2,50,000	
Interest allowed by Bank	6,250	6,16,250
		24,76,250
Less: Cheques deposited but not yet collected	7,70,000	
Bank charges	1,000	
Cheque dishonoured	1,60,000	
House tax paid by Bank	1,75,000	11,06,000
Balance as per Pass Book (Cr.) (Favourable)		13,70,250

PYQ	2019-Jun [2] (a)	10 Marks

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

(i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2018.

(ii) A cheque worth ₹ 400 directly deposited into Bank by a customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2018.

(iv) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the bank.

(v) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
(1)Cheques collected before 30th June, 2018, ₹ 14,000
(2)Cheques collected on 10th July, 2018, ₹ 4,000
(3)Cheques collected on 12th July, 2018, ₹ 2,000.

(vi) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.

(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was undercast by ₹ 2,000.

Answer:

Bank Reconciliation Statement as on 30th June, 2018

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented ₹ (34,000 - 20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Overdraft as per Cash Book		25,210

PYQ	2019-Nov [2] (a)	10 Marks

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

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

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

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

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

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

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

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

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

You are required:

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

Answer:

In the books of XYZ

Adjusted Cash Book (Bank Column Only)

Dr. Cr.

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
2018 Sept. 30	To Party A/c	18,000	2018 Sept. 30	By Balance b/d	8,062
	To Customer's A/c (Direct Deposit)	1,15,400		By Bank Charges	280
	To Bills Receivable A/c (₹ 60,000 - ₹ 1,000)	59,000		By Customer's A/c (Bill Dishonoured)	1,60,000
	To Balance c/d	1,75,942		By Bills Payable A/c	2,00,000
		3,68,342			3,68,342

Bank Reconciliation Statement as on 30th September, 2018

Particulars		₹
Balance as per Cash Book (Cr.) (Overdraft)		1,75,942
Add: Cheques deposited but not credited		11,14,000
		12,89,942
Less: Incorrect credit by Bank	30,000	
Cheques issued but not presented	13,46,000	13,76,000
Balance as per Pass Book (Cr.) (Favourable)		86,058

PYQ	2020-Nov [2] (a)	10 Marks

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

(1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

(2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

(5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April, 2020.

(7) The bank allowed interest on deposit ₹ 1,000.

(8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 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.

Answer:

Bank Reconciliation Statement as on 31-03-2020

		Plus	Minus
	Overdraft as per cash book		98,700
1.	cheque issued but not presented till 31-3-2020 7,400 + 1,500	8,900	
2.	Cheque deposited not clear & another cheque dishonor 2,600 + 500		3,100
3.	Bank charges not record in Cash Book		35
	Bank interest charged not in Cash Book		2,860
4.	Cheque wrongly credited	1,550	
5.	Cheque drawn not present	800	
6.	Debited by Bank		3,500
7.	Bank allowed interest	1,000	
8.	Cheque recorded in Cash Book includes discount		4,000
		12,250	1,12,195
	Overdraft as per Pass Book		99,945

PYQ	2021-Jan [1] (c) {C}	4 Marks

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

Particulars	₹
Bank Balances 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

Answer:

Bank Reconciliation Statement of_____ as at 31st December, 2020

Particulars	₹	₹
Bank Balance As per Cash Book		1,98,000
Add:		
Received from Debtors Vide RTGS	1,00,000	

Unpresented Cheque	45,000	
Instructions given to bank for payment on 31st but bank made payment on 1st January, 2021	4,000	1,49,000
Less:		
Bank Charges debited by bank	34,000	
Uncleared Cheque	25,000	
Dishonor of cheque not recorded in Cash book	5,000	(64,000)
Bank Balance as per Passbook		2,83,000

PYQ | 2021-Jul [2] (b) | 5 Marks

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 ₹ 3,500.
(ii) A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.
(iii) During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.
(iv) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonoured. The Bank debited the account, but no entry was passed in the Cash Book.
(v) A Cheque for ₹ 1,500 was debited twice in the cash book.

Answer:

Bank Reconciliation Statement of Mr. Bajaj as on 31.3.2021

Particulars		Amount (₹)	Amount (₹)
Balance as per pass book (Dr.)			3,500
Add:	Bills directly collected by bank not recorded in CB.	3,000	3,000
			6,500
Less: (1)	Cheque deposited returned dishonoured not recorded in cash book	(2,500)	
(2)	Discounted bill dishonoured not recorded in cash book	(5,000)	
(3)	Cheque debited twice in cash book	(1,500)	(9,000)
Balance as per cash book	(Dr.)		(2,500)

PYQ | 2021-Dec [2] (c) | 10 Marks

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

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

Your are required:

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

Answer:

Cash Book (Bank Column)

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

Bank Reconciliation Statement (as on 30th June, 2021)

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

PYQ	2022-Jun [2] (c)	5 Marks

From the following particulars, prepare a Bank Reconciliation Statement on 31st March, 2021:

Particulars	Amount (₹)
Bank balance as per Pass Book	25,00,000
Bills discounted dishonored not recorded in Cash Book	12,50,000
Cheque received entered twice in Cash Book	25,000
Bank Charges entered twice in Cash Book	5,000
Insurance premium paid directly by Bank under standing instruction	1,50,000
Cheque issued but not presented to Bank for payment	12,50,000
Cheque received, but not sent to Bank	28,00,000
Cheque deposited in Bank, but no entry passed in the Cash Book	12,50,000
Credit side of the Bank column cast short	5,000

Answer:

Bank Reconciliation Statement as on 31.3.21

Particulars		Amount (₹)	Amount (₹)
Balance as per pass book (Cr.)			25,00,000
Add:			
(i)	Discounted bills dishonoured not recorded in cash book	12,50,000	
(ii)	Cheque received, entered twice in cash book	25,000	
(iii)	Insurance premium paid under standing instructions	1,50,000	
(iv)	Cheques received, but not sent to bank	28,00,000	
(v)	Credit side of bank column cast short	5,000	42,30,000
			67,30,000
Less:			
(i)	Bank charges entered twice in cash book	5,000	
(ii)	Cheque issued but not presented to bank for payment	12,50,000	
(iii)	Cheque deposited in bank, but not entered in cash book	12,50,000	(25,05,000)
Balance as per cash book (Dr.)			42,25,000

PYQ	2022-Dec [2] (a)	10 Marks

The cash book of Mr. Karan shows ₹ 2,60,400 as the balance of bank as on 31st December, 2021 but you find that it does not agree with the balance as per the bank pass book. On analysis, you found the following discrepancies:

(i) On 15th December, 2021 the payment side of the cash book was overcast by ₹ 10,000.

(ii) A Cheque for ₹ 1,18,000 issued on 6th December, 2021 was not taken in the bank Column.

(iii) On 20th December, 2021 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.

(iv) Of the total cheques amounting to ₹ 12,370 drawn in the last week of December 2021, cheques aggregating ₹ 9,360 were encashed in December, 2021.

(v) Dividends of ₹ 35,000, collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded, in the cash book.

(vi) A Cheque issued to a creditor of ₹ 1,75,000 was recorded twice in the cash book.

(vii) Bill for collection amounting to ₹ 53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.

(viii) A Customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.

You are required to prepare the bank reconciliation statement as on 31st December, 2021.

Answer:

Bank Reconciliation Statement of Mr. Karan
(for the period ended on 31st December, 2021)

	Particulars	Amt. (₹)	Amt. (₹)
	Bank balance as per cash book		2,60,400
	Add:		
(i)	Overcasting of payment side	10,000	
(ii)	Debit balance carried forward as credit balance	16,920	
(iii)	Cheque issued but not presented into bank	3,010	
(iv)	Dividend collected by bank but not entered in cash book	35,000	
(v)	Cheque issued but recorded twice in cash book	1,75,000	
(vi)	Bills collected by bank but not recorded in cash book	53,000	2,92,930
			5,53,330
	Less:		
(i)	Cheque issued but not taken in bank column	(1,18,000)	
(ii)	Insurance premium paid by bank	(7,900)	
(iii)	Discount allowed recorded in cash book	(1,800)	(1,27,700)
	Balance as per pass book		4,25,630

PYQ	2023-Jun [2] (b)	5 Marks

From the following information prepare a Bank Reconciliation Statement as on 31st March, 2022 for A Ltd.

		₹
	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	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 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

Answer:

Bank Reconciliation Statement of A Ltd. as on 31st March, 2022

Particulars	Amount (₹)	Amount (₹)
Overdraft as per cash book:		15,50,750
Add:		
(a) Cheques deposited but not credited in bank upto 31st March	12,50,000	
(b) Interest debited in passbook but not entered in cash book	1,75,500	
(c) Draft deposited in bank but not entered in pass book	12,75,000	
(d) Bank charges charged by bank	2,85,000	29,85,500
		45,36,250
Less:		
(a) Cheques issued but not presented to bank	7,75,000	
(b) Wrong credit given by bank in pass book	1,50,000	
(c) Bills for collection collected directly	9,45,000	
(d) Transport subsidy received directly by bank not entered in cash book overdraft as per pass book	17,50,000	
		(36,20,000)
Overdraft as per Pass Book		9,16,250

PYQ	2023-Dec [2] (a)	8 Marks

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 ₹ 1,40,000 only were presented for payment.

(iii) A Cheque for ₹ 19,200 drawn for the payment of telephone bill had been entered in the cash book as ₹ 29,200 but was shown correctly in the bank statement.
(iv) A Cheque received of ₹ 37,520 entered twice in the Cash Book.
(v) A Cheque for ₹ 1,17,000 was issued for purchase of merchandise and was paid by the bank but not recorded in cash book.
(vi) Interest on overdraft and bank charges amounting to ₹ 3,500 were not entered in the Cash Book.
(vii) A Cheque for ₹ 45,000 was credited in the Pass Book but was not recorded in the Cash Book.
(viii) A bill of exchange for ₹ 26,200 which was discounted with bank, returned dishonored but no entry was made in the cash book.
(ix) Payment side of the Cash Book has been undercast by ₹ 12,000.

Answer:

Bank Reconciliation Statement as on 31st December, 2022:

Particulars			Amount (₹)	Amount (₹)
Debit Balance as per passbook				2,48,000
Add:	(i)	Cheques issued, but not presented till BRS date (2,10,000 – 1,40,000)	70,000	
	(ii)	Cheques drawn for telephone bill entered in the cash book wrongly (29,200 – 19,200)	10,000	
	(iii)	Cheques credited in the passbook but not recorded in the cash book	45,000	1,25,000
		Total		3,73,000
Less:	(i)	A cheques received entered twice in the cash book	37,520	
	(ii)	Interest an overdraft and bank charges were not recorded in cash book.	3,500	
	(iii)	Bills of exchange which is discounted with the bank dishonoured not recorded in cash book	26,200	
	(iv)	Cheques issued for purchases, not recorded in cash book.	1,17,000	
	(v)	Under casting of payment side of CB.	12,000	1,96,220
Credit Balance as per Cash Book.				1,76,780

PYQ	2024-Jun [5] (b) (ii)	5 Marks

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

Sl. No.	Particulars	₹
1.	Bank Overdraft as per cash book	24,000
2.	Cheque deposited as per bank statement but not recorded in cash book	4,000
3.	Cash received from Exe was entered in bank column of cash book.	3,150
4.	Debit side of the bank column casted short	1,000
5.	A cheque for ₹ 9,000 deposited but collection as per bank statement	8,950
6.	Bills sent to the bank for collection, collected by the bank but not recorded in cash book	4,200
7.	Bank charges recorded twice in cash book	40
8.	Nothing charges debited in Pass Book for Discounted bill dishonored	60
9.	Cheques deposited on 25th March, 2024 but collected by Bank on 5th April, 2024	4,800
10.	Cheques issued on 26th March, 2024 but presented for encashment on 6th April, 2024	3,000

Answer:

Bank Reconciliation Statement

Particulars	Amount (₹)	Amount (₹)
Overdraft balance as per cashbook		24,000
Add: Cash received wrongly entered in bank column of cash book	3,150	
Cheque collection charges	50	
Noting charges debited by bank	60	
Cheque deposited but not collected	4,800	8,060
Total		32,060
Less: Cheque deposited but not recorded in cash book	4,000	
Understating of debit side of cash book	1,000	

Bills collected by bank but not recorded	4,200	
Bank charges wrongly recorded twice	40	
Cheque issued but not presented	3,000	12,240
Overdraft balance as per P.B.		19,820

PYQ	2024-Sep [2] (a)	10 Marks

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

(i) Dividend of ₹ 18,000 was deposited in the bank of which Hari had no information.

(ii) Cheque was issued to Suresh of ₹ 14,780 on 18.12.2023 which was recorded in cash book as ₹ 14,870.

(iii) Cheques totalling of ₹ 55,000 were deposited into bank on 30.12.2023 which were not cleared until 31.12.2023.

(iv) Mediclaim premium of ₹ 14,160 was paid as per the standing instruction of Hari which was not recorded in cash book.

(v) Goods amounting ₹ 1,60,000 were sold to Ajay in November 2023. He deposited cheque on 15.12.2023 after deducted 4% cash discount. This entry was missed while preparing cash book.

(vi) Bank charges for issue of cheque book ₹ 150 was skipped while preparing cash book.

(vii) Hari received a UPI of ₹ 1,000 on 29.12.2023 for sale of scrap which was not entered in cash book.

(viii) Cheques amounting to ₹ 1,80,000 were issued during the month but cheques of ₹ 1,44,000 were only presented during the month for payment.

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

Answer:

If the books are not closed on 31-12-2023:

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

Particulars	Details (₹)	Amount (₹)
Balance as per Cash Book		1,36,800
Add:		
Dividends directly deposited in the bank but not yet entered in the Cash Book	18,000	
Cheque issued to Suresh but wrong amount recorded in Cash Book	90	
Omission in Cash Book of sale to Ajay (deducting 4%)	1,53,600	
Sale of Scrap omitted	1,000	
Cheque issued but not presented	36,000	2,08,690
		3,45,490
Less:		
Cheque deposited but not cleared	55,000	
Mediclaim premium paid but not recorded in Cash Book	14,160	
Bank Charges omitted	150	(69,310)
Balance as per Pass Book		2,76,180

If the books are to be closed on 31-12-2023, then adjusted cash book will be prepared as given below:

Adjusted Cash Book

Particulars		Amount (₹)	Particulars		Amount (₹)
To	Balance b/d	1,36,800	By	Mediclaim Premium	14,160
To	Dividends Collected by Bank	18,000	By	Bank Charges	150
To	Mr. Ajay (Omission)	1,53,600	By	Balance c/d	2,95,180
To	Sale of Scrap	1,000			
To	Wrong amount posted (excess)	90			
		3,09,490			3,09,490

Bank Reconciliation Statement

Particulars	Amount (₹)
Balance as per Cash Book (corrected)	2,95,180
Add: Cheque issued but not presented (1,80,000 – 1,44,000)	36,000
	3,31,180
Less: Cheque deposited but not collected upto 31-12-2023	(55,000)
	2,76,180

PYQ 2025-Jan [2] (b) — 10 Marks

From the following information, prepare a Bank Reconciliation Statement as on June 30, 2024 for M/s XYZ Limited:

(i) The Bank column of Cash Book was overdrawn to the extent of 24,768.
(ii) Bank charges amounting to ₹ 350 had not been entered in the Cash Book.
(iii) Cheque amounting to ₹ 88,678 issued before June 30, 2024 but not yet presented to Bank.
(iv) One payment of ₹ 4,590 was recorded in the Cash Book as if there is no bank column.
(v) The company paid ₹ 15,500 to a creditor and received a cash discount @ 2%. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
(vi) A debit of ₹ 5,700 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into the Bank again on July 8, 2024.
(vii) Cheques deposited in bank but not yet cleared amount to ₹ 45,789.
(viii) Dividends of ₹ 1,980 collected by the Bank was not recorded in the Cash Book.
(ix) Amount of ₹ 2,340 wrongly credited by bank to company account for which no details are available.
(x) On June 25, 2024 the credit side of bank column of the Cash Book was overcast by ₹ 6,789.

Answer:

Bank Reconciliation Statement of M/s XYZ Limited as on 30th June, 2024

Particulars	Details ₹	Amount ₹
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 bot 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 book	4,590

To balance c/d	26,329	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 of June 30, 2024

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book (Cr.)		24,768
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 Amount wrongly credited by Bank	(88,678)
Amount wrongly credit by Bank	(2,340)
Balance as per Pass Book (Cr.)	(18,906)

PYQ	2025-May [2] (b)	10 Marks

Prepare the Bank Reconciliation Statement of M/s. XYZ Brothers on 31st March, 2025 from the particulars given below :

(i) The Bank Pass Book had a debit balance of ₹ 62,500 on 31st March, 2025.

(ii) A cheque worth ₹ 1,000 directly deposited into Bank by customer but no entry was made in the Cash Book.
(iii) Out of cheques issued worth ₹ 85,000, cheques amounting to ₹ 50,000 only were presented for payment till 31st March, 2025.
(iv) A cheque for ₹ 10,000 received and entered in the Cash Book but it was not sent to the Bank.
(v) Cheques worth ₹ 50,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
(1) Cheques collected before 31st March, 2025, ₹ 35,000.
(2) Cheques collected on 10th April, 2025, ₹ 10,000.
(3) Cheques collected on 12th April, 2025, ₹ 5,000.
(vi) The Bank made a direct payment of ₹ 1,500 which was not recorded in the Cash Book.
(vii) Interest on Overdraft charged by the bank ₹ 4,000 was not recorded in the Cash Book.
(viii) Bank charges worth ₹ 200 have been entered twice in the cash book whereas Insurance charges for ₹ 175 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 ₹ 5,000.

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "Bank reconciliation is like finding harmony between two notes—ensure accuracy for financial clarity."
- "Balancing your accounts with the bank is the key to trust and transparency in financial management."
- "A well-prepared Bank Reconciliation Statement ensures peace of mind in financial dealings."
- "Accuracy in reconciliation reflects discipline in accounting."
- "Think of bank reconciliation as a financial health check—balance your books to ensure stability."

Checklist for Studying

- Understand the concept and purpose of a Bank Reconciliation Statement (BRS).
- Memorize the common reasons for differences between cash books and bank statements.
- Learn the format of a BRS and its components: deposits, withdrawals, and errors.
- Practice solving BRS problems using adjusted cash book and bank statement data.
- Highlight scenarios where reconciliations are mandatory, such as for audits and tax filings.

Fun Facts

- Bank reconciliation dates back to the 1800s when merchants first matched cash records with bank accounts.
- Modern accounting software often automates BRS preparation, saving time and reducing errors.
- Differences in dates (e.g., cheque clearance delays) are among the most common reconciliation issues.
- A mismatch in BRS can indicate potential fraud or accounting errors.
- Even global corporations rely on BRS for cash flow management and internal controls.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	
4	**Inventories**

THEORY QUESTIONS

PYQ	1998-Nov [6] (iii)	SN	4 Marks

Write short note on the following:
First in first out and Last in first out basis of valuation of stock.

Answer:

First in first out and Last in first out basis of valuation of stock:

Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase price 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 are entered in 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 price paid for the latest purchases and closing inventories should be valued at the price paid for earlier purchases. In other words, under LIFO method, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase price. In an inflationary environment, older and hence lower costs remain in the balance sheet as value of inventories under LIFO basis and newer and higher costs are included in cost included in cost of inventories consumed. Thus, during inflation, reported profits fall due to higher cost of goods sold when LIFO method is followed.

PYQ	1999-May [6] (iv)	SN	5 Marks
Write a short note on the following: Adjusted Selling Price Method of Valuation of Stock.			

Answer:

Adjusted Selling Price Method of Valuation of Stock:

This method is also called retail inventory method. It is used widely in retail 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. The calculation of the estimated gross margin of profit may be made for individual items or groups of items or by departments, as may be appropriate to the circumstances.

PYQ	2002-May [6] (c)	SN	5 Marks
Write short note on the following: FIFO and Weighted Average price method of Stock Valuation.			

Answer:

FIFO method and weighted average price method of stock valuation:

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.

PYQ	2005-May [6] (i)	SN	5 Marks
Write short note on the following: Accounting Standard relating to valuation of inventories.			

Answer:

Accounting Standard (AS) relating to valuation of inventories:

AS-2 (Revised 2016) specifies the methods of computation of cost of inventories and the method of determination of the value of inventory to be shown in the financial statements. The standard should be applied in accounting for inventories other than (i) work in progress arising under construction, contracts, including directly related service contracts, (ii) work in progress arising in the ordinary course of business of service providers, (iii) shares, debentures and other financial instruments held as stock-in-trade and (iv) producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realizable value in accordance with well established practices in those industries.

As per the standard, the cost of inventories should comprise of costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The principle of valuation is that inventories should be valued at the lower of cost and net realizable value. 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. The standard recommends the use of first-in, first-out (FIFO) or weighted average cost formula for determining the cost of inventories where the specific identification of individual costs is not possible. The standard also dispenses with the direct costing method and allows only the absorption costing method for arriving at the cost of finished goods.

PYQ	2019-Nov [1] (a) (iii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False. Valuation of inventory at cost or net realizable value is based on principle of Conservatism.			

Answer:

True: As per the principle of conservatism, the anticipated losses should be recognised while anticipated gains should be ignored. Therefore, the valuation of inventories at lower of cost or net realisable value is based on the principle of conservatism.

PYQ	2021-Jul [1] (a) (iii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.			

Answer:

False: According to AS-2 'Valuation of Inventory', the cost incurred to maintain the inventory e.g. Storage cost should not be included in cost of finished inventory.

PYQ	2022-Dec [1] (a) (ii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.			

Answer:

True: In a periodic inventory system, a company physically counts inventory at the end of each period to determine what's on hand and the cost of goods sold. Many companies choose monthly, quarterly or annual periods depending on their product and accounting needs.

PYQ	2022-Dec [6] (b)	DESC	5 Marks
"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.'			

Answer:

Directly Attributable Cost: It means a cost which is directly and unambiguously related to a service or product but is not rewarded in the financial accounts against the product or service to which it is related. The cost of property, plant and equipment comprises of any cost directly attributed to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

Following are the five examples of such directly attributable costs.

1. Site preparation costs
2. Initial delivery and handling costs
3. Transportation costs
4. Professional fees/charges and trial run expenses
5. Installation and assemble costs.

PYQ	2023-Dec [1] (b) {C}	DESC	1 Marks
Briefly explain the following term: (i) Conversion Cost			

Answer:

Conversion Cost:

Conversion Cost is the cost incurred to convert raw materials into the finished products/Semi-finished goods.

It is the sum of direct labour and manufacturing overheads costs incurred to turn raw materials into a finished product.

Cost of Conversion = Direct Labour + Direct Expenses + Production Overheads.

This normally includes costs which are related to units of production i.e. direct labour, direct expenses, production overheads. However, production overheads in this case will exclude general administration, finance, selling and distribution expenses etc.

PYQ	2024-Sep [6] (b)	DB	5 Marks
PYQ 2019-Nov |			
Differentiate between 'Periodic Inventory System' and 'Perpetual Inventory System.'			

Answer:

Distinction between Periodic Inventory System and Perpetual Inventory System:

S. No.	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	This system is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date.	This system provides continuous information about inventory and cost of sales.
3.	This system determines inventory, and takes cost of goods sold as residual figure.	This system directly determines cost of goods sold, and computes inventory as balancing figure.
4.	Goods which are not physically available are all considered to be sold. Therefore, the goods which are lost, are included in Cost of Goods Sold.	Goods which are not sold are all assumed to be the part of closing inventory. Therefore, the goods which are lost, are included in closing inventory.
5.	Under this method, inventory control is not possible.	Under this method, inventory control is possible.
6.	This system is simple and less expensive.	This system is costlier.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

PYQ	2025-Jan [1] (a) (iii) {C}	TF	2 Marks
State with reasons, whether the following statement are True or False: Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.			

Answer:

False: Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.

PRACTICAL QUESTIONS

PYQ	2019-Jun [6] (c)	5 Marks

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

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

(iii) Sales between 1st April, 2019 to 9th April, 2019 amounting to ₹ 20,000 as per Sales Day Book.

(iv) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.

(v) Purchases during 1st April, 2019 to 9th April, 2019 amounting to ₹ 10,000 but goods amount to ₹ 2,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March, 2019 but the goods were not included in stock. Rate of Gross Profit is 25% on cost.

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

Answer:

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

		₹	₹
Value of stock as on 10th April, 2019			1,25,000
Add:	Cost of sales during the intervening period sales made between 1.4.2019 and 9.4.2019	20,000	

Less: Gross profit @ 20% on sales	(4,000)	16,000
Free sample		4,000
		1,45,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2019 to 9.4.2019	10,000	
Less: Goods not received upto 9.4.2019	(2,000)	(8,000)
		1,37,000
Add: Purchases during March, 2019 but not recorded in stock		20,000
Value of physical stock as on 31.3.2019		1,57,000

PYQ	2020-Nov [2] (b)	10 Marks

Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020:

(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.

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

(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.

(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

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

Answer:

Statement of Valuation of Stock as on 29th February, 2020

Value of stock as on 23rd February, 2020		28,00,000
Add: unsold stock out of the goods sent on Consignment	2,30,000	
Purchases during the period 23.2.20 to 29.2.20	1,80,000	
Goods in transit on 29.2.20	1,20,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	6,58,000
		34,58,000
Less: Cost of sales during the period 23.2.20 to 29.2.20		
Sales (13,60,000 – 1,60,000)	12,00,000	
Less: Gross Profit	1,20,000	10,80,000
Value of stock as on 29th February, 2020		23,78,000

Working Notes:

1. **Calculation of normal Sales:**

Actual Sales		13,60,000
Less: Abnormal Sales	1,50,000	
Returning goods on approval	1,60,000	3,10,000
		10,50,000

2. **Calculation of Gross Profits:**

G.P. on normal sales (10,50,000 × 20%)	2,10,000
Less: Loss on abnormal sales (2,40,000 – 1,50,000)	90,000
	G.P. 1,20,000

PYQ	2021-Jan [5] (a)	5 Marks

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

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

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20% on sales.

Answer:

Statement of Valuation of Stock as on March 31, 2020

Particulars	₹	₹
Stock as on March 31, 2019	3,50,000	
Less: Book value of abnormal stock (₹ 55,000 - ₹ 20,000)	(35,000)	3,15,000
Add: Purchases		12,00,000
Add: Manufacturing expenses		1,00,000
		16,15,000
Less: Cost of Sales		
Sales as per book	18,50,000	
Less: Sales of abnormal item	(50,000)	
	18,00,000	
Less: Gross Profit @ 20% stock	(3,60,000)	(14,40,000)
Value of Inventory as on March 31, 2020		**1,75,000**

Note: Selling and Distribution expenses and Administration expenses are NOT directly attributable to bringing the inventories to its present location and condition and hence, excluded from the above computation as they are not direct expenses.

PYQ	2021-Jul [2] (c)	5 Marks

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

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

Answer:

Calculation of gross margin of profit:

Sales	7,50,000
Add: Closing inventory at Selling Price	1,00,000
Selling Price of goods available for sale	8,50,000
Less: Cost of goods available for sale	5,00,000
Gross Margin	3,50,000

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

$= 41.18\%$

Cost of Closing Inventory = 1,00,000 – 41.18%

= 58,820/- (approx)

PYQ	2021-Dec [1] (b) {C}	4 Marks

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 @ ₹ 300 per unit
15-1-2021	Issued for consumption	5 units
1-2-2021	Purchases	20 units @ ₹ 400 per unit
15-2-2021	Issued for consumption	10 units
20-2-2021	Issued for consumption	10 units

Find out the value of Inventory as on 31-3-2021, if the company follows Weighted Average Method.

Answer:

Weighted Average Method:

Oil Mills

(Calculation of the value of Inventory as on 31st March, 2021)

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
2021		(₹)	(₹)		(₹)	(₹)		(₹)	(₹)
1.1.21	-	-	-	-	-	-	-	Nil	
1.1.21	10	300	3,000	-	-	-	10	300	3,000
15.1.21	-	-	-	5	300	1,500	5	300	1,500
1.2.21	20	400	8,000	-	-	-	25	380	9,500
15.2.21	-	-	-	10	380	3,800	15	380	5,700
20.2.21	-	-	-	10	380	3,800	5	380	1,900
31.3.21	-	-	-	-	-	-	5	380	1,900

Value of Inventory as on 31st March, 2021 ₹ 1,900 (5 units @ ₹ 380)

PYQ	2022-Jun [2] (b)	5 Marks

Zed Enterprises furnishes the following information for the year ended 31st March, 2021

Particulars	Amount (₹)
Value of Stock as on 1st April, 2020	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

The following further information is also provided:

(i) At the time of valuing stock in 31st March, 2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March, 2021 for ₹ 6,40,000.

(ii) Except for the above transaction, the Rate of Gross Profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March, 2021

Answer:

Statement showing valuation of inventory as on 31.03.21

Particulars	Amount (₹)	Amount (₹)
Inventory as of 1.4.20	28,00,000	
Less: Book value of abnormal inventory (8,00,000 - 2,40,000)	5,60,000	22,40,000
Add: Purchases		1,38,40,000
Manufacturing expenses		28,00,000
		1,88,80,000
Less: Cost of goods sold:		
Sales as per books	2,08,80,000	
Less: Sale of abnormal item	6,40,000	
	2,02,40,000	
Less: Gross profit @ 25%	50,60,000	1,51,80,000
Inventory as on 31.3.21		37,00,000

PYQ	2023-Jun [2] (c)	5 Marks

The Profit and Loss account of Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books.

(i) Purchases for the year included ₹ 10,500 paid for electrical fittings of the shop.

(ii) Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.

(iii) Invoices for goods amounting to ₹ 1,85,000 have been entered on 29th March 2022 but were not included in the stock.

(iv) Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2022.

(v) Goods costing ₹ 55,000 were sent on sale or return basis in March 2022 at a margin of profit of 33⅓% on cost. Approval was given in April 2022 but these were considered as sales in March, 2022.

Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended 2022.

Answer:

Books of Ram

Profit and Loss Adjustment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Advertisement (Samples)	25,000	By Net profit	5,75,000
		By Electric fittings	10,500
To Sales (Goods to be taken in April sales) [55,000 + 18,333]	73,333	By Samples	25,000
		By Stock (March purchases not included in stock)	1,85,000
To Adjusted net profit	9,57,167		
		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:

Particulars	Amount (₹)
Stock as on 31st March, 2022, (given)	2,55,000
Add: Purchases of March, 2022 not included in the stock	1,85,000
Add: Goods with customer on approval	55,000
Value of inventory as on 31st March, 2022	4,95,000

PYQ	2023-Dec [1] (c) {C}	4 Marks

From the following information, ascertain the value of Closing Stock as on 31st March, 2023.

Particulars	(₹)
Opening Stock	1,47,500
Cash Sales	5,50,000
Credit Sales	4,00,000
Purchases	8,85,000
Manufacturing Expenses	1,35,000
Advertisement Expenses	43,000
Rate of Gross Profit on Cost	25%

At the time of valuing inventory as on 31st March, 2022, a sum of ₹ 12,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 40,000.

Answer:

Statement showing the value of inventory as on 31st March, 2023:

Particulars	Amount (₹)	Amount (₹)
Opening stock	1,47,500	
Less: Book Value of Abnormal Inventories (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:		
Total Sales (5,50,000 + 4,00,000)	9,50,000	
Sales of Abnormal items	(40,000)	
	9,10,000	
Less: Gross Profit @ 20% on Sales	(1,82,000)	(7,28,000)
Value of inventory in trade as on 31st March, 2023		4,02,000

PYQ	2024-Jun [5] (a)	5 Marks

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

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

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

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

Answer:

Statement Showing Inventory as on 31.3.24

Particulars	Amount (₹)	Amount (₹)
Stock as on 10.4.24		4,50,000
+ Cost of Goods Sold		
Sales	1,10,000	
- Returns	10,000	
	1,00,000	

- G.P. Margin (1,00,000 × 25/125)		20,000	80,000
			5,30,000
Less: Net Purchases	85,000		
- Returns	2,500	82,500	
Goods received on consignment basis (15,000 × 40%)		6,000	
Loss on valuation on slow-moving goods at NRV (14,850 - 9,500)		5,350	(93,850)
Value of Inventory on 31.3.24			4,36,150

PYQ	2024-Sep [5] (a)	5 Marks

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

(i) Out of the Goods sent on consignment, Goods at cost worth ₹ 24,000 were unsold.

(ii) Purchase of ₹ 40,000 were made out of which Goods worth ₹ 16,000 were delivered on 5th July, 2023.

(iii) Sales were ₹ 1,36,000 which include Goods worth ₹ 32,000 sent on approval. Half of these Goods were returned before 30th June, 2023, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However, Goods costing ₹ 24,000 had been sold for ₹ 12,000.

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

Answer:

Statement of Valuation of Stock on 30th June, 2023

		₹
Value of stock as on 23rd June, 2023		4,80,000
Add: Unsold stock out of the goods sent on consignment	24,000	
Purchases during the period from 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 ₹ 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 (₹ 1,36,000 - ₹ 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 × ₹ 1,08,000		21,600
Less: Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000)		(12,000)
Gross profit		9,600

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

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

Particulars		₹	Particulars	₹
To Opening Stock		4,80,000	By Sales including abnormal sales	1,20,000
To Purchase	40,000		By Closing stock as on June 30 (b/f)	3,93,600
Less: Goods In transit	16,000	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	₹	₹
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 16,000)	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 × ₹ 1,08,000		21,600
Less: Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000)		12,000
Gross profit		9,600

PYQ	2025-Jan [5] (Or) (b) (i)	5 Marks
The following details are available of raw material of a manufacturing unit:		
1-5-2024	Opening Inventory	100 units @ ₹ 15 per unit
2-5-2024	Purchases	300 units @ ₹ 18 per unit
5-5-2024	Issued for consumption	250 units
16-5-2024	Purchases	500 units @ ₹ 21 per unit
21-5-2024	Issued for consumption	100 units
25-5-2024	Issued for consumption	450 units
The manufacturer also incurred the following expenses:		

- Freight of ₹ 300 and unloading charges of ₹ 150 at the time of every purchase respectively.
- Warehouse rent of ₹ 2,000 per month.
- Administrative Expenses of ₹ 1,500 per month.

You are required to find out the value of inventory as on May 31, 2024 if the company follows:

(a) Weighted Average method for inventory valuation.

(b) First in First Out method for inventory valuation.

Answer:

(a) Weighted Average basis

Calculation of the value of Inventory as on 31-5-2024

	Receipts			Issues			Balance		
Date	Units	Rate	Amount (₹)	Units	Rate	Amount (₹)	Units	Rate	Amount (₹)
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	4,593.75	150	18.375	2,756.25
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	9,409.5	100	21.09	2,109

Therefore, the value of Inventory is as follow:

Value as per weighted Method as on 31.5.2024: 100 units @ 21.09 = ₹ 2,109

(b) First- In- First Out basis

Calculation of the value of Inventory as on 31.05.2024

	Receipts			Issues			Balances		
Date	Units	Rate	Amount (₹)	Units	Rate	Amount	Units	Rate	Amount (₹)
1.5.24	Balance						100	15	1,500
2.5.24	300	19.5	5,850				100	15	1,500
							300	19.5	5,850
5.5.24				100	15	500			
				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
							500	21.9	10,950
25.5.24				50	19.5	975			
				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 @ ₹ 21.9 = ₹ 2,190

Working Note:

(i) Per unit cost of raw material purchased on May 2,2024

$= \frac{300 \times 18 + 300 + 150}{300} = ₹ 19.5$

(ii) Per unit cost of raw material purchased on May 16,2024

$= \frac{500 \times 21 + 300 + 150}{500} = ₹ 21.9$

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.

PYQ	2025-May [1] (c) {C}	4 Marks

A trader prepared his final accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2025 on which date total cost of goods in his store came to ₹ 1,50,000.

The following facts were established between 31st March and 15th April, 2025:

Sales (Credit)	₹ 70,000
Sales (Cash)	₹ 25,000
Purchases (Cash)	₹ 15,000
Purchases (Credit)	₹ 25,000

On 25th March, goods of the sale value of ₹ 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 25% of the goods on 12th April, approving the rest; the customer was billed on 25th April.

The trader had also received goods costing ₹ 10,000 in March, for sale on consignment basis. 50% of the goods had been sold by 31st March and another 25% by 15th April. These sales are not included in above sales. Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of inventory as on 31st March, 2025.

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Motivational Thoughts

- "Inventory is the heart of any business—manage it well to ensure profitability and efficiency."
- "Think of inventory as your hidden wealth—optimize it to unlock financial success."
- "Every well-managed inventory tells a story of discipline and precision in business operations."
- "Accurate inventory management is the secret to minimizing waste and maximizing profits."
- "Mastering inventory concepts ensures a steady flow of goods and a stronger bottom line."

Checklist for Studying

- Understand the definition and types of inventory: raw materials, work-in-progress, and finished goods.
- Learn inventory valuation methods: FIFO, LIFO, Weighted Average, and Specific Identification.
- Memorize the importance of inventory management in financial reporting and decision-making.
- Study how inventory impacts cost of goods sold (COGS) and net income.
- Highlight key accounting standards related to inventory, such as AS 2 or IAS 2.

Fun Facts

- The concept of inventory dates back to ancient civilizations, where merchants tracked goods manually.
- FIFO (First-In, First-Out) is commonly used in businesses dealing with perishable goods, like food industries.
- LIFO (Last-In, First-Out) is banned in many countries for financial reporting due to its impact on taxes.

Fun Flow

- Visualize inventory as a treasure chest—each item contributes to the business's value.
- Relate inventory valuation methods to everyday tasks, like organizing groceries (FIFO vs. LIFO).
- Create flashcards for inventory types and valuation methods for quick revision.
- Use flowcharts to map the movement of inventory through the production cycle.

Last-Minute Analysis

- Focus on understanding the differences between FIFO, LIFO, and Weighted Average methods.
- Revise how inventory affects the balance sheet and profit and loss account.
- Solve at least one problem involving inventory valuation using different methods.
- Highlight the impact of inventory errors on financial statements.
- Summarize the importance of inventory management in one sentence:

Smart Study Tips

- Create a comparison table for Straight Line and Diminishing Balance Methods.
- Highlight the impact of depreciation on financial statements in your notes.
- Solve practical problems to understand the effects of salvage value and useful life on calculations.
- Record voice notes summarizing depreciation concepts for auditory learning.
- Use real-life examples like machinery, vehicles, or patents to relate to the topic.

Quick Study Tips

- Spend 5 minutes revising the difference between tangible and intangible assets.
- Memorize key formulas like annual depreciation under different methods.
- Solve a quick depreciation calculation to test your understanding.
- Write down the differences between depreciation and amortization in two sentences.
- Highlight common errors in depreciation calculations for quick recall.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER **5**

Depreciation and Amortisation

THEORY QUESTIONS

PYQ	1998-May [3] (b)	SN	Marks
Write a short note on 'Depletion Method' of providing for depreciation.			

Answer:

This method of depreciation is used in case of the exhaustion of natural resources such as mineral deposits, oil wells, timber stands, etc. The accounting process of conversion of the cost of these resources to expense is called depletion.

Rate of depreciation is calculated by dividing the cost of asset by the estimated available quantity of product. The annual depreciation will be the quantity extracted multiplied by rate per unit.

For e.g.

Cost of the asset	₹ 30,00,000	
Estimated Quantity	60,00,000	tonnes
Output in an accounting year	2,00,000	tonnes

∴ Depreciation rate = $\frac{30,00,000}{60,00,000}$ = ₹ 0.50 per tonne

& Depreciation to be written off = 2,00,000 × 0.50 = ₹ 1,00,000

PYQ	1998-Nov [6]	SN	5 Marks
Write short note on the following: (ii) Revaluation method of providing depreciation.			

Answer:

Under this method, the assets are revalued with the help of experts. The value of the assets is determined at the end of the year and compared with the value at the beginning of the year. The reduced amount is shown as depreciation in the profit & loss A/c. This method is simple and easy; but there is a difficulty in the valuation of old assets. The valuation is done by the experts. While valuation, the experts consider the market value of the asset.

PYQ	2001-May [5] (7)	TF	2 Marks
State with reasons whether the following statement is True or False: Land is also a depreciable asset.			

Answer:

False: Land is not a depreciable asset.

PYQ	2002-May [6]	DB	5 Marks
Briefly explain the differences between the following: (d) Provision for depreciation under Straight Line method and Written Down Value Method.			

Answer:

	Straight Line Method	Written Down Value Method
(i)	Depreciation is calculated on the original cost.	Depreciation is calculated on the written down value.
(ii)	The instalment of depreciation is same every year.	The instalment of depreciation diminishes every year.
(iii)	It is easy to calculate depreciation.	It is difficult to calculate depreciation.
(iv)	The balance in asset a/c will reduce to zero at the end of the working life of asset.	The balance in asset a/c will never be zero.

(v)	The cost on account of repairs and maintenance and depreciation is low in initial years as compared to later years.	The Cost on account of depreciation and repairs and maintenance is more or less equal throughout the working life of the asset.
(vi)	It is suitable for the assets which get depreciated more on account of expiry of time.	It is suitable for the assets which required heavy repairs in the later years.

PYQ	2002-Nov [5] (h)	TF	2 Marks
State with reasons whether the following statement is True or False: Depreciation need not be provided on Plant and Machinery, as its Market value is much higher than Cost of Purchase.			

Answer:

False: Plant and Machinery is held with an intension of being used for the purpose of producing goods or providing services and is not held for resale in the ordinary course of business. Depreciation is to be charged on plant and machinery irrespective of its market value.

PYQ	2003-Nov [5] (vi)	TF	2 Marks
State with reasons whether the following statement is True or False: Depreciation is a process of allocation of the cost of fixed asset.			

Answer:

True: It is measure of wear and tear of an asset. On charging depreciation, the cost of fixed asset is allocated during the period it is used.

PYQ	2006-Nov [5] (vii)	TF	2 Marks
State with reasons whether the following statement is True or False: In a business concern, depreciation need not be provided on building in use, as its market value is higher than book value.			

Answer:
False: Building is being used in the business concern and is not held for resale in the ordinary course of business. Depreciation is to be charged irrespective of the market value.

PYQ	2006-May [6]	SN	5 Marks
Write short note on the following: (iv) Machine Hour Rate method of calculating depreciation.			

Answer:
Machine Hour Rate method of calculating depreciation: Machine hour rate method is useful in case of machines whose life is fixed in terms of hours. Hourly rate of depreciation is worked out by dividing the cost of the machine by the total number of hours for which the machine is expected to be used. Depreciation to be written off in a year will be ascertained by multiplying the hourly rate of depreciation by the number of hours that the machine actually runs in the year:

$$\text{Machine Hour Rate} = \frac{\text{Cost of the Machine}}{\text{Estinated total hours of life}}$$

Depreciation = Machine hour rate × Service hours used during the year.

PYQ	2018-Nov [1] (a) (ii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Depreciation is a non-cash expense and does not result in any cash outflow.			

Answer:
True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result is any cash outflow.

PYQ	2020-Nov [6] (c)	DESC	5 Marks
Discuss the factors taken into consideration for calculation of depreciation.			

Answer:
Factors in the Measurement of Depreciation:
Generally following factors are taken into consideration for calculation of depreciation:

1. Cost of asset including expenses for installation, commissioning, trial run, etc.
2. Estimated useful life of the asset.
3. Estimated scrap value (if any) at the end of useful life of the asset.

PYQ	2023-Dec [1] (a) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: (ii) The gain from sale of capital assets is added to revenue to ascertain the net profit of the business. (iii) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits. (iv) Sum of the year's digit method is an example of accelerated method of charging depreciation.			

Answer:
(ii) **TRUE:** The gain from sale of capital assets is added to revenue is credited to profit and loss account and it increases the net profit of the business.
Profit on sale of capital assets also reflects overcharging of depreciation over the years which has now resulted into profit through "gain on sales".

(iii) **FALSE:** Depreciation is a non-cash and non-operating expense but is compulsory to be debited in P/L account irrespective of profits. Even though business suffers a loss then also depreciation is to be charged to profit and loss account so that correct profit or loss can be ascertained and to show asset at correct value in the balance sheet and to provide for its replacement.

(iv) **TRUE:** Sum of years digit method is an example of accelerated method of charging depreciation in which higher depreciation is charged in the earlier years. This can be explained by an example below:

Say useful life of the asset is 5 years then sum of the years will be 5 + 4 + 3 + 2 + 1 = 15 and depreciation of the first year will be a proportion of 5/15 of the value of the asset and depreciation of the second year will be 4/15 and so on for the remaining years.

PYQ	2023-Dec [1] (b) (ii) {C}	DESC	1 Marks
Briefly explain the following term: Diminishing Balance Method			

Answer:

Diminishing Balance Method:

The Diminishing balance method means a method by which the amount on which depreciation is calculated falls year by year in all subsequent years.

A fixed percentage of the diminishing value of the asset is written off each year so as to reduce the asset to its residual value till the end of it's life.

PRACTICAL QUESTIONS

PYQ	2018-Nov [1] (c) {C}	4 Marks
A Plant & Machinery costing ₹10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year.		

Answer:

Depreciation per year = ₹ 10,00,000/10 = ₹ 1,00,000

Depreciation on Sum Basis for 4 years

= ₹ 1,00,000 × 4 years = ₹ 4,00,000.

Book Value of Machine at the end of

4th year = ₹ 10,00,000 – 4,00,000

= ₹ 6,00,000.

Depreciable amount after revaluation

= 6,00,000 + 40,000

= ₹ 6,40,000

Remaining useful life as per revised estimate = 8 years

Depreciation for fifth year and

Onwards = ₹ 6,40,000/8

= ₹ 80,000/-

PYQ	2019-Jun [2] (b)	10 Marks
A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2015 and spent ₹ 3,000 on its overhauling. On 1st July 2016, another machine was purchased for ₹ 10,000. On 1st July 2017, the machinery which was purchased on 1st January 2015, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2018, the machine which was purchased on 1st July, 2016 was sold for ₹ 2,000. Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 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.		

Answer:

In the books of Firm
Machinery Account

Date	Particulars	₹	Date	Particulars	₹
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 (₹5,400 + ₹750)	6,150
1.7.2016	To Bank A/c	10,000	31.12.2016	By Balance c/d (₹30,600 + ₹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 (₹2,295 + ₹1,388 + ₹1,875)	5,558
				By Balance c/d (₹7,862 + ₹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 (₹590 + ₹3,469)	4,059
			31.12.2018	By Balance c/d	19,656
		30,987			30,987

Working Note:

Book Value of machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost of all machinery (Machinery cost for 2015)	40,000	10,000	25,000
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

PYQ	2019-Nov [1] (c) {C}	4 Marks

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

Answer:

In the Books of X

Machinery A/c

Date	Particulars	₹	Date	Particulars		₹
01-01-17	To Bank A/c (Mach. I)	4,80,000	31-12-17	By Depreciation A/c		
01-01-17	To Bank A/c (Installation Charges)	20,000		Mach. I (10% of ₹ 5,00,000)	50,000	
01-07-17	To Bank A/c (Mach. II)	2,00,000		Mach. II (10% of ₹ 2,00,000×6/12)	10,000	60,000
			31-12-17	By Balance c/d		
				Mach. I (₹ 5,00,000 - ₹ 50,000)	4,50,000	
				Mach. II (₹ 2,00,000 - ₹ 10,000)	1,90,000	6,40,000
		7,00,000				7,00,000
01-01-18	To Balance b/d	6,40,000	01-07-18	By Depreciation A/c		
01-07-18	To Bank A/c (Mach. III)	5,00,000		Mach. I (10% of ₹ 4,50,000×6/12)		22,500
			01-07-18	By Bank A/c (Sale Proceeds)		2,90,000
			01-07-18	By Profit & Loss A/c (Loss on Sale - W. N. 1)		1,37,500
			31-12-18	By Depreciation A/c		
				Mach. II (10% of ₹ 1,90,000)	19,000	
				Mach. III (10% of ₹ 5,00,000×6/12)	25,000	44,000
			31-12-18	By Balance c/d		
				Mach. II (₹ 1,90,000 - ₹ 19,000)	1,71,000	
				Mach. III (₹ 5,00,000 - ₹ 25,000)	4,75,000	6,46,000
		11,40,000				11,40,000

Working Notes:

W. N. 1 - Calculation of Profit/ (Loss) on Sale of Machine I

Particulars		₹
Sale Proceeds		2,90,000
Less: W.D.V. as on 01-07-2018		
W.D.V. as on 01-01-2018	4,50,000	
Less: Depreciation from 01-01-2018 to 01-07-2018 (10% of ₹ 4,50,000 x 6/12)	22,500	4,27,500
Profit/ (Loss) on Sale of Machine		(1,37,500)

PYQ	2021-Jan [2] (b)	10 Marks

M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year.

Give the motor truck account for two years ending 31st December, 2020.

Answer:

In the Books of Dayal Transport Company Trucks Account

Date	Particulars	Amount	Date	Particulars	Amount
1-1-2019	To Balance b/d [WN-1]	3,50,00,000	1-10-2019	By Depreciation a/c [50,00,000 × 20%× (9/12)]	7,50,000
1-10-2019	To Profit on settlement of Truck [35,00,000 – 27,50,000]	7,50,000	1-10-2019	By Bank a/c	35,00,000
1-10-2019	To Bank a/c	60,00,000	31-12-2019	By Depreciation a/c [(4,50,00,000 × 20%) + (60,00,000 × 20% × (3/12))]	93,00,000
			31-12-2019	By Balance c/d	2,82,00,000
		4,17,50,000			**4,17,50,000**
1-1-2020	To Balance b/d	2,82,00,000	31-12-2020	By Depreciation [5,10,00,000 × 20%]	1,02,00,000
			31-12-2010	By Balance c/d	1,80,00,000
		2,82,00,000			**2,82,00,000**

Working Note:

(1) **Computation of opening WDV:**

Particulars	Amount in ₹
Cost of trucks purchased on 1st July, 2017 [₹ 50,00,000 × 10]	5,00,00,000
Less: Depreciation for 6 months in 2017 [500,00,000 × 20% × 0.5]	(50,00,000)
Carrying Value as on 31st December, 2017	4,50,00,000
Less: Depreciation for 2018 [5,00,00,000 × 20%]	(1,00,00,000)
Carrying Value as on 31st December, 2018	**3,50,00,000**

PYQ	2021-Jul [1] (c) {C}	4 Marks

The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

Answer:

Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
1.4.20	To Bal b/d	28,54,000	1.7.20	By Depreciation	8,100
1.7.20	To Bank	4,58,000	1.7.20	By Bank (sale)	82,000
1.7.20	To Bank (Erection Charges)	22,000	1.7.20	By P/L (Loss on Sale)	1,25,900
			31.3.21	By Depreciation (W.N.2)	4,84,700
1.11.20	To Bank	5,60,000	31.3.21	By Bal c/d	31,93,300
		38,94,000			38,94,000

Working Notes:

1. Depreciation an plant sold on 1.7.20

$2,16,000 \times 15\% \times \frac{3}{12} = 8,100$

Book value of plant on 1.7.20

2,16,000 – 8,100 = 2,07,900

Loss on Sale = 2,07,900 – 82,000

= 1,25,900

2. Depreciation on 31.3.21

1. $28,54,000 - 2,16,000 = 26,38,000 \times 15\%$ = 3,95,700
2. $4,58,000 + 22,000 = 4,80,000 \times 15\% \times \frac{9}{12}$ = 54,000
3. $5,60,000 \times 15\% \times \frac{5}{12}$ = 35,000

4,84,700

Total depreciation for the year ended 31st March, 2021 is ₹ 4,92,800/-

PYQ	2021-Dec [2] (b)	5 Marks

On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000. The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31st March, 2021 and gain or loss on the destroyed Bus.

Answer:

Statement showing calculation of WDV of asset as on 1.7.2020:

		(₹)
Cost on 1.1.2019		8,00,000
Less:	Dep. @ 20% upto 31.3.2019	40,000
	WDV on 1.4.2019	7,60,000
Less:	Dep. @ 20% upto 31.3.2020	1,52,000

	WDV as on 1.4.2020	6,08,000
Less:	Dep. @ 20% upto 1.7.2020	30,400
	WDV on 1.7.2020	5,77,600

Calculation of profit or loss on destroyed Bus.

Insurance claim received = 6,00,000
less: WDV on 1.7.2020 = 5,77,600
profit = 22,400

Calculation of depreciation for the year ended 31 March, 2021:

On destroyed Bus $= 6,08,000 \times \frac{20}{100} \times \frac{3}{12} = 30,400$

On New Bus $= 10,00,000 \times \frac{20}{100} \times \frac{9}{12} = 1,50,000$

30,400 + 1,50,000 = 1,80,400

PYQ	2022-Jun [2] (a)	10 Marks

The Machinery Account of a Factory showed a balance of ₹ 95 lakhs on 1st April, 2020. The Books of Accounts of the Factory are closed on 31st March every year and Depreciation is written off @ 10% per annum under the Diminishing Balance Method. On 1st September, 2020 a new machine was acquired at a cost of ₹ 14 lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2020 a machine which had cost ₹ 21,87,000 on 1st April, 2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April, 2019 was scrapped on 1st September, 2020 and it realized nothing.

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

Answer:

Plant and Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.20	To bal b/d	95,00,000	1.9.20	By Bank (Sales)	3,75,000
1.4.20	To Bank	14,44,600		By Depreciation (5 months)	73,811
				By Loss on sale of machine	13,22,659
				By Loss on scrapping of machine	18,84,561
				By Dep. (5m) on scrapped machine	81,939
				By Dep. (Current year)	6,60,471
				By Bal c/d	65,46,159
		1,09,44,600			1,09,44,600

Working Notes:

1. Calculation of loss on sale of Machine on 1.9.20.

	₹
Cost on 1.4.18	21,87,000
Less: Dep @ 10%	2,18,700
W.D.V. on 31.3.19	19,68,300
Less: Dep @ 10%	1,96,830
W.D.V. on 31.3.20	17,71,470
Less: Dep @ 10% for 5 months	73,811
W.D.V. on 1.9.20	16,97,659
Less: Sale Proceeds	3,75,000
Loss on sale	13,22,659

2. Calculation of loss on scrapping of Machine

Cost on 1.4.19	21,85,000
Less: Dep @ 10%	2,18,500
W.D.V. on 31.3.20	19,66,500
Less: Dep @ 10% for 5 months loss	81,939
	18,84,561

3. Calculation of depreciation-

Balance of Machinery on 1.4.20	95,00,000
Less: W.D.V. of machinery sold	17,71,470
Less: W.D.V. of machine scrapped	19,66,500
W.D.V. of other machinery on 1.4.20	57,62,030
Dep @ 10% on 57,62,030	5,76,203
Dep @ 10% on 14,44,600 for 7m.	84,268
	6,60,471

PYQ	2022-Dec [1] (c) {C}	4 Marks

A purchased a machinery for ₹ 1,30,000 on 1st April, 2019 and paid ₹ 20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold old machinery for ₹ 1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022.

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.

Answer:

Machinery Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.19	To Bank A/c	1,30,000	31.3.20	By Depreciation (W.N.1)	30,000
	To Bank A/c (Freight)	20,000		By Balance c/d	1,20,000
		1,50,000			**1,50,000**
1.4.20	To Balance b/d	1,20,000	31.3.21	By Depreciation	30,000
				By Balance c/d	90,000
		1,20,000			**1,20,000**
1.4.21	To Balance b/d	90,000	1.10.21	By Depreciation (on machinery purchased on 1.4.2019) (W.N.2)	15,000
1.10.21	To Profit on sale of machinery (purchased on 1.4.2019)	25,000			
1.1.22	To Bank A/c	50,000	1.10.21	By Bank (Sale)	1,00,000
			31.3.22	By Depreciation (on machinery purchased on 1st Oct., 2021) (W.N.3)	1,875
			31.3.22	By Balance c/d	48,125
		1,65,000			**1,65,000**

Working Notes:

1. Depreciation on Machinery 1 (Purchased on 1.4.2019)

$$\text{Depreciation} = \frac{\text{Cost of an asset} \times \text{Rate of Depreciation}}{100}$$

$$= \frac{1,50,000 \times 20}{100}$$

$$= ₹\ 30,000$$

2. Depreciation on Machinery 1 (Sold on 1.10.21)

$$\text{Depreciation} = 1,50,000 \times \frac{20}{100} \times \frac{6}{12}$$

$$= ₹\ 15,000$$

3. Depreciation on Machinery 2 (Purchased on 1.10.21)

$$\text{Depreciation} = 50,000 \times 15\% \times \frac{3}{12}$$

$$= ₹\ 1,875$$

An machinery 2 has been purchased on 1.10.2021 but it was installed and started working from 1st January, 2020. Hence, the amount of depreciation will be calculated from the period in which machinery was installed and not from when it was purchased.

PYQ	2023-Jun [2] (a)	10 Marks

The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	12,00,000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

Answer:

In the Books of Dheeraj Enterprises

Machinery Account (At Original Cost)

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.21	To Balance b/d	12,00,000	1.10.21	By Machinery Disposal A/c	2,00,000
1.10.21	To Bank A/c	4,80,000	31.3.22	By Balance c/d	14,80,000
		16,80,000			16,80,000
1.4.22	To Balance b/d	14,80,000			

Provision for Depreciation Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.10.21	To Machinery Disposal A/c [W.N. 1]	61,490	1.4.21	By Balance b/d	4,65,000
31.3.22	To Balance c/d	4,93,720	1.10.21	By Depreciation [W.N. 1]	7,290
			31.3.22	By Depreciation [W.N. 2]	82,920
		5,55,210			**5,55,210**
			1.4.22	By Balance b/d	4,93,720

Machinery Disposal Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.10.21	To Machinery A/c	2,00,000	1.10.21	By Provision for Depreciation [W.N. 1]	61,490
				By Bank A/c	1,10,000
				By P/L A/c	28,510
		2,00,000			**2,00,000**

Working Notes:

1. **Calculation of Profit/Loss on Sale of Machinery:**

Particulars	Amount (₹)
Cost of asset on 1.4.18	2,00,000
Less: Depreciation on 31.3.19 @ 10%	20,000
	1,80,000
Less: Depreciation on 31.3.20 @ 10%	18,000
	1,62,000
Less: Depreciation on 31.3.21 @10%	16,200
	1,45,800
Less: Depreciation on 1.10.21 @10% for 6m	7,290
W.D.V. of asset as on 1.10.21	1,38,510
Less: Sale proceeds	1,10,000
Loss on sale	28,510

Provision for depreciation upto 1.4.21 is ₹ 54,200
(20,000 + 18,000 + 16,200)
Provision depreciation upto 1.10.21 is ₹ 61,490
(20,000 + 18,000 + 16,200 + 7,290)

2. **Calculation of depreciation for current year on the remaining machines:**

S. No.	Particulars	Amount (₹)
(a)	Original cost of old machinery	10,00,000
	Less: Provision for depreciation upto 31.3.22	4,10,800
	(4,65,000 – 54,200)	5,89,200
	W.D.V of asset on 1.4.21	
	Depreciation on above @ 10%	58,920
(b)	Depreciation on new machinery for 6m	24,000
	(1.10.21 – 31.3.22) (4,80,000 x 10% x 6/12)	
	Total	82,920

PYQ	2023-Dec [5] (b)	5 Marks
From the following transactions of a concern, prepare the Machinery Account for the year ending 31st December, 2022:		
01.01.21	Purchased a second-hand Machinery for ₹ 2,00,000	
01.01.21	Spent ₹ 50,000 on repairs for making it serviceable	
30.06.21	Purchased additional new Machinery for ₹ 3,50,000	
30.06.21	Installation charge of new Machine ₹ 15,000	
01.04.22	Repairs and maintenance of Machinery ₹ 30,000	
30.06.22	Sold second hand Machinery purchased on 01.01.21 for ₹ 1,55,000	
31.12.22	Depreciate the Machinery at 10% per annum by WDV method	

Answer:

Dr. Machinery A/C Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2022 Jan.1	To Balance b/d	5,71,750	2022 Jun. 30	By Depreciation A/c	11,250
				By Bank A/c	1,55,000
				By P & L A/c (Loss)	58,750
				By Depreciation A/c	34,675
				By Balance c/d	3,12,075
		5,71,750			5,71,750

Note: On 1/4/2022, amount spent for repairs & maintenance is a revenue expenditure. Therefore, it should not be added to the machinery.

Working Note:

(1) Calculation of Book Value of Machinery on 1/1/22

Particulars	IInd Mach.	New Mach.
Original cost of Machinery	2,50,000	3,65,000
Less: Depreciation for 2021	(25,000)	(18,250)
Book Value on 1/1/22	2,25,000	3,46,750
Less: Depreciation for 2022	(11,250)	-
Book Value on the date of sale	2,13,750	-
Less: Sale Price	(1,55,000)	-
Loss on Sale of second hand machine	58,750	-
Less: Depreciation for 2022 up to 31st Dec.	-	(34,675)
Book Value on 1/1/2023	-	3,12,075

PYQ	2024-Jun [2] (b)	8 Marks
On 1st April, 2022. LMP Co. which depreciates its machinery @ 10% p.a. on diminishing balance method, had ₹ 9,72,000 to the debit of Machinery Account. On 1st October, 2022 part of machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000. Also, a new machinery at a cost of ₹ 1,50,000 was purchased on 1st October, 2022 and installed on the same date and installation charges being ₹ 8,000. The company changed the method of depreciation from diminishing balance method to straight line method with effect from 1st April, 2020 and adjusted the difference on 31st March, 2023. The rate of depreciation remains the same. Show the Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation in 2022-23.		

Answer:

Books of LMP Co. Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.22	To Bal b/d	9,72,000	1.10.22	By Depreciation	4,000
1.10.22	To Bank A/c	1,58,000	1.10.22	By Bank A/c	45,000
			1.10.22	By P/L A/c (WN. 2)	15,000
			31.3.23	By Dep. (WN. 3)	1,19,900
			31.3.23	By P/L A/c (WN. 4)	12,000
			31.3.23	By Bal c/d	9,34,100
		11,30,000			11,30,000

Working Notes:

1. **Calculation of WDV of Machinery as 1.4.20**

Particulars	Amount (₹)
WDV of Machinery on 1.4.22	9,72,000
+ Dep. during 1.4.21 - 31.3.22	1,08,000
WDV of Machinery on 1.4.21	10,80,000
+ Dep. during 1.4.20 - 31.3.21	1,20,000
WDV of Machinery on 1.4.20	12,00,000

2. **Calculation of Loss of Sale of Machinery**

Particulars	Amount (₹)
Original cost of Machinery on 1.4.20	80,000
- Dep. for 2.5 years @ 10%	20,000
WDV of Machinery on 1.10.22	60,000
- Sales Proceeds	45,000
Loss on sales of Machinery	15,000

3. **Calculation of Depreciation for 1.4.22 - 31.3.23**

Particulars	Amount (₹)
On Machines existing as on 1.4.22 @ 10% on (12,00,000 - 80,000)	1,12,000
On new machine @ 10% from 1.10.22 - 31.3.23 $\left(1,58,000 \times 10\% \times \frac{6}{12}\right)$	7,900
	1,19,900

4. **Calculation of Difference in Amount of Depreciation under Old Method and New Method on the Machinery**

Particulars	Amount (₹)
Depreciation on SLM basis for 2 years (12,00,000 × 10% × 2)	2,40,000
– Dep. on WDV for 2 years $\left(12,00,000 \times \frac{90}{100} \times \frac{90}{100}\right)$ = 9,72,000	
and 12,00,000 – 9,72,000 Difference to be adjusted	2,28,000
	12,000

PYQ	2024-Sep [5] (b)	5 Marks

Attempt any **ONE** of the two sub-parts i.e. **either (i) or (ii):**

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

Date	Amount
01.04.2021	₹ 1,50,000
01.04.2023	₹ 1,00,000

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

Answer:

Computer A/c in the books of PQR associates

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	JF	Amount (₹)
1/4/23	To bal b/d		1,98,400	31/3/24	By depreciation (12,800 + 12,000 + 12,500)		37,300
1/4/23	To bank (C)		1,00,000	31/3/24	By bal c/d		
					A 89,600		
					B 84,000		
					C 87,500		2,61,100
	Total		2,98,400				2,98,400

Working note:

Year	Purchased on	A (₹) 1/4/2020	B (₹) 1/4/2021	C (₹) 1/4/2023
2020	Cost	2,00,000	-	-
	Less: depreciation	(40,000)	-	-
2021	= WDV on 1/4/2021	1,60,000	-	-
	+ Cost	-	1,50,000	-
	Less: depreciation	(32,000)	(30,000)	-
2022	= WDV on 1/4/2022	1,28,000	1,20,000	-

	Less: depreciation	(25,600)	(24,000)	-
2023	= WDV on 1/4/2023	1,02,400	96,000	-
	Cost	-	-	1,00,000
	Less: depreciation	(12,800)	(12,000)	(12,500)
2024	= WDV on 1/4/2024	89,600	84,000	87,500

Calculation of depreciation for year 2023-24

	A	B	C
Depreciation = WDV as 1/4/2023 / Remaining life	1,02,400 / 8 year	96,000 / 8 year	1,00,000 / 8 year
	₹ 12,800	₹ 12,000	₹ 12,500

PYQ	2025-Jan [2] (a)	10 Marks

A firm purchased a second-hand machinery on April 1, 2021 for ₹ 15,00,000 subsequent to which ₹ 2,00,000 were spent on its repairs and installation. On October 1, 2021 another machinery was purchased for ₹ 9,00,000 and cost of installing the machine in a new plant is ₹ 20,000. The firm also shifted the machinery purchased on April 1, 2021 to the new plant and incurred freight of ₹ 10,000. They adopted a policy of charging depreciation @ 12% per annum on diminishing balance method.

On April 1, 2023 it was decided to change the method and rate of depreciation to straight line basis. On this date, the remaining useful life was assessed as 5 years for both the machines purchased with no scrap value.

On October 1, 2023 the first machine become outdated and sold for ₹ 2,50,000. On the same date, another machinery was purchased for ₹ 8,50,000. The estimated useful life of the machine is 10 years and residual value is ₹ 30,000.

You are required to prepare the machinery account for the year ending March 31, 2024.

Answer:

Machinery Account

Date	Particulars		Amount (₹)	Date	Particulars		Amount (₹)
2023				2023			
April 1	To Bal b/d-			Oct. 1	By Depreciation-on		1,31,648
	Machine 1	13,16,480			machinery 1 sold		
	Machine 2	7,61,024	20,77,504	Oct. 1	By Bank- machinery 1 sold		2,50,000
Oct. 1	To Bank A/c (Machine 3)		8,50,000	Oct.1			
					By Profit & Loss-Loss on		9,34,832
				2024 Mar. 31	Sale of machinery (WN.1)		
					By Depreciation (W.N.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 (₹)		Machine 2 purchased on Oct 1, 2021 (₹)
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)	(2,04,000)		
Machine 2 (6 months)		(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 31.03.2023	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	(2,50,0000)		
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 = ₹ 1,31,648
2. Machine 2 (purchased on 1st Oct,2021) = 9,20,000 – 55,200 – 1,03,776 = 7,61,024 / 5 = ₹ 1,52,205
3. Machine 3 (purchased on 1st Oct,2023) = $\frac{8,50,000 - 30,000}{10}$ = 82,000 /2 = ₹ 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.

PYQ	2025-May [5] (a)	5 Marks

On 1st July, 2022, Maritime Limited purchased second hand machine for ₹ 1,20,000 and reconditioned the same by spending ₹ 18,000. In 1st January, 2023 a new machine was purchased for ₹ 72,000.
On 30th June, 2024 the machine purchased on 1st January, 2023 was sold for ₹ 48,000 and another machine was installed at a cost of ₹ 90,000.
Rate of depreciation is 15% on original cost every year.
Show the Machinery Account from 1st July, 2022 to 31st March, 2025.

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "Depreciation is not just an expense—it's a lesson in understanding asset value over time."
- "Tracking depreciation ensures businesses plan wisely for the future."
- "Mastering depreciation concepts is the key to accurate asset management and financial reporting."
- "Think of amortization as spreading the cost of intangible assets wisely across their useful life."
- "Depreciation and amortization remind us that every resource has a timeline—use it effectively."

Checklist for Studying

- Understand the definitions of depreciation (tangible assets) and amortization (intangible assets).
- Memorize the key methods of depreciation: Straight Line and Diminishing Balance Methods.
- Learn the formula for annual depreciation under different methods.
- Understand the concept of salvage value and its role in depreciation calculations.
- Study accounting standards related to depreciation, such as AS 10 or IAS 16.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	
6	**Bills of Exchange and Promissory Notes**

THEORY QUESTIONS

PYQ	2000-Nov [6] (b)	DB	5 Marks
PYQ 1997-Nov | **PYQ** 1999-Nov |			
Briefly explain the difference between the following: Bill of Exchange and Promissory Note.			

Answer:

Difference between Bills of Exchange and Promissory Note

Sl. No.	Base	Bills of Exchange	Promissory Note
1.	Nature	It is an order to pay.	It is a promise to pay.
2.	Parties Involved	There are three parties involved drawer, Drawee and payee.	There are only two parties involved promissory (maker) and Payee.
3.	Who draws	It is drawn by the creditor.	It is drawn by the debtor.
4.	Liability	The liability of the drawer of a bill is secondary and conditional	The liability of the maker of a note is primary and absolute.
5.	Contingent Party	In case of bill the drawer and payee may be the same person	In case of promissory note, the maker and payee are not the same person.

6.	For Acceptance	The acceptance of bill is necessary.	The acceptance is not required as it is drawn by the promisor.
7.	Conditionality	A Bill of exchange is unconditional but it can be accepted conditionally with the consent of holder.	A Promissory note can never be conditional.
8.	Notice of dishonor	Notice of dishonour must be given by the holder to the drawer and immediate endorsers.	There is no need of giving the notice of dishonour.
9.	Payable	It may be made payable to a bearer.	It cannot be made payable to a bearer.
10.	Discharge of responsibility	Presentation for payment is required otherwise drawer will be discharged by delay.	Presentation for payment is not required unless the promissory note is payable after sight.

PYQ	2001-May [3] (a)	DESC	6 Marks
Explain a Bill of Exchange and the various parties to it.			

Answer:

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 payment. The drawer in many cases is also the payee.

PYQ	2003-May [6] (c)	DESC	5 Marks
Briefly explain the following: Noting charges.			

Answer:

Noting Charges:

- It is necessary that the fact of dishonour and the causes of dishonour should be established.
- If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public".
- These officials present the bill for payment and if the money is received, they will hand over the money to the original party.
- If the bill is dishonoured, they will note the fact of dishonour, and the reasons given and give the bill back to their client.
- For this service, they charge a small fee. This fee is known as noting charges.
- The amount of noting charges is recoverable from the party which is responsible for dishonour.

PYQ	2003-Nov [6] (d)	DESC	5 Marks
Briefly explain the following: Retirement of bills of exchange.			

Answer:

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.

PYQ	2005-May [6] (iv)	SN	5 Marks
Write short note on the following: Accommodation bills.			

Answer:

- Bills of exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. However, the mechanism of bill can be utilized to raise finance also.
- Therefore, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties. It is not a genuine trade bill.
- Suppose A needs finance for three months. In that case, he may persuade his friend B to accept his drafted bill. The bill of exchange may then be taken by A to his bank and discounted there.
- Thus, A will be able to make use of funds. When the three months' period comes to a close, A will send the requisite amount to B and B will meet the bill. Thus, A is able to raise money for his use.
- If both A and B need money, the same device can be used. Either A accepts a bill of exchange or B does. In either case, the bill will be discounted with the bank and the proceeds divided between the two parties according to mutual agreement. The discounting charges must also be borne by the two parties in the same ratio in which the proceeds are divided. On the due date the acceptor will receive his share from the drawer party. The bill will then be met.

- When bills are used for such a purpose, they are known as accommodation bills.
- Entries are passed in the books of two parties exactly in the same manner as for ordinary bills.
- The only additional entry to be passed is for sending the remittance to the other party and also for debiting the other party with the requisite amount of discount.

PYQ	2006-May [6] (v)	DB	5 Marks
Briefly explain the differences between the following: Trade bill v/s Accommodation bill.			

Answer:

Distinction between Trade Bill and Accommodation Bill:

- 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.
- 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.
- Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.
- Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.
- 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.

PYQ	2019-Nov [1] (a) (iv) {C}	TF	2 Marks
State with reason, whether the following statement is True or False. In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.			

Answer:

False: In case of Bills 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.

PYQ	2022-Jun [1] (a) (iii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: The specific due date excludes the addition of grace days to arrive at the due date.			

Answer:

True: When the bill is made payable on a specific date, then that specific date will be the due date and no days of grace will be added to it.

PYQ	2024-Jun [1] (a) (iv) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: Promissory Note is different from Bill of Exchange because the amount is paid by the maker in case of former and by the acceptor in the later.			

Answer:

True, in case of Promissory Note, it is generally the maker who makes the payment, but in case of Bills of Exchange, the acceptor of bill has to make the payment.

PYQ	2024-Sep [1] (a) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: (iv) A Promissory Note can be made payable to the Bearer.			

Answer:

False: Under Section 31(2) of the Reserve Bank of India Act, a promissory note cannot be made payable to bearer and payee name should be mentioned with certainty.

PRACTICAL QUESTIONS

PYQ	2019-Jun [3] (b)	5 Marks
On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest @ 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate. Show the journal entries (with narrations) in the books of Akshay.		

Answer:

Journal Entries In Books of Mr. Akshay

Date	Particulars		Amount (₹)	Amount (₹)
1.1.18	Bills Receivable (No.1) A/c	Dr.	16,000	
	Bills Receivable (No.2) A/c	Dr.	25,000	
	To Vishal's A/c			41,000
	(Being drawing of bills receivable No.1 due for maturity on 4.3.18 and Bill receivable No.2 due for maturity on 4.4.18)			
4.3.18	Vishal's A/c	Dr.	16,000	
	To Bills Receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 an agreed renewal)			
4.3.18	Bill Receivable (No.3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal's A/c			16,000
	(Being the drawing of Bill of Exchange No.3 due for maturity on 7.5.18 together with interest at 15% p.a. in lieu of the original acceptance of Vishal)			
25.3.18	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills Receivable (No.2) A/c			25,000

	Being the amount received on retirement of bill No.2 before the due date)			
7.5.18	Vishal's A/c Dr. To Bills Receivable (No.3) A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)		16,400	16,400
7.5.18	Bank A/c Dr. Bad-debts A/c Dr. To Vishal's A/c (Being amount received from official assignee of Vishal at 50 paise per rupee and balance w/o as bad-debts)		8,200 8,200	16,400

PYQ | **2020-Nov [3] (c)** | **10 Marks**

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

Pass necessary Journal entries for the above transactions in the books of Suresh.

Answer:

In the books of Suresh

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
15 April	Bills Receivable Dr. To Anup (Being acceptance received)		15,000	15,000
	Bank A/c Dr. Discount A/c Dr. To B/R (Being bill discounted)		14,700 300	15,000
	Anup Dr. To Bank To Discount (Being 1/3 proceeds remitted)		5,000	4,900 100
18 July	Anup Dr. To Bills payable (Being acceptance given)		17,500	17,500
	Bank A/c Dr. Discount A/c Dr. To Anup (Being amount received from Anup)		2,825 300	3,125
	Bills payable Dr. To Anup (Being bill dishonor)		17,500	17,500
	Anup Dr. To Bank To Deficiency (Being 50% paid from estate)		13,125	6,562.50 6,562.50

PYQ | **2021-Dec [3] (a)** | **10 Marks**

On 12th May, 2020 A sold goods to B for ₹ 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.

On 5th June, 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 ₹ 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October, 2020 B approached A offering ₹ 12,240 for retirement of his acceptance. A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

Answer:

Journal Entries (In the books of A)

Date	Particulars	L.F.	(₹) Dr. Amount	(₹) Cr. Amount
2020				
12 May	B A/c Dr.		36,470	
	To Sales A/c			36,470
	(Being goods sold to B)			
12 May	Bills receivable A/c (1) Dr.		16,470	
	Bills receivable A/c (2) Dr.		20,000	
	To B A/c			36,470
	(Being bills accepted by B)			
5 June	Bill sent for collection A/c Dr.		36,470	
	To Bills receivable(1)			16,470
	To Bills receivable (2)			20,000
	(Being bills sent to bank for collection)			
15 June	Bank A/c Dr.		16,470	
	To Bills sent for collection			16,470
	(Being bill sent for collection collected)			
14 Aug.	B A/c Dr.		20,020	
	To Bill sent for collection			20,000
	To Bank A/c			20
	(Being bill dishonoured by B)			
16 Aug.	Cash A/c Dr.		8,020	
	To B A/c			8,020
	(Being part payment received from B)			
16 Aug.	Bills receivable A/c Dr.		12,480	
	To B's A/c			12,000
	To Interest A/c			480
	(Being new bill accepted by B with interest)			
16 Aug.	Bills sent for collection A/c Dr.		12,480	
	To B/R A/c			12,480
	(Being bill sent to bank for collection)			
1 Oct.	Bank A/c Dr.		12,240	
	Rebate A/c Dr.		240	
	To bills sent for collection			12,480
	(Being early payment made by B)			

Working Note:

Calculation of due date for two bills

First Bill:

12 May, 2020 to 12 June, 2020 = 1 Month

12 June, 2020

Add: 3 days

15 June, 2020

Second Bill:

12 May, 2020 to 12 June, 2020

12 June, 2020 to 12 July, 2020

12 July, 2020 to 12 August, 2020

12 August 2020

+ 3 days

15 August, 2020 ⇒ 14 August, 2020

PYQ	2022-Dec [3] (a)	15 Marks

T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72, 800. T immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill. T becomes bankrupt and his estate paying fifty paisa in a rupee.

Give the journal entries in the books of T and J.

Answer:

Journal Entries
In the books of T
(for the year ending on 31st March, 20XX)

Note	Particulars	L/F	Dr.	Cr.
2022 1st April	Bills receivable A/c Dr. To J (Being bill drawn for 3 months)		1,80,000	1,80,000
1st April	Cash A/c Dr. Discount A/c Dr. To Bills receivable A/c (Being bill discounted)		1,72,800 7,200	1,80,000
1st April	J A/c Dr. To Cash A/c To Discount A/c (Being 1/3rd amount of proceeds remitted to J)		60,000	57,600 2,400
4th July	J A/c Dr. To Bills payable A/c (Being B/p accepted)		2,52,000	2,52,000
4th July	Cash A/c Dr. Discount A/c Dr. To J A/c (Being cash received) (Working Note-1)		40,440 7,560	48,000
7th Oct.	Bills payable A/c Dr. To J A/c (Being bill accepted previously dishonored)		2,52,000	2,52,000
7th Oct.	J A/c (1,20,000 + 48,000) Dr. To Cash A/c (50%) To Deficiency A/c (50%) (Being cash paid for final settlement)		1,68,000	84,000 84,000

Journal Entries
In the books of J
(for the year ending on 31st March, 20XX)

Date	Particulars	L/F	Dr. (₹)	Cr. (₹)
2022 1st April	T A/c Dr. To Bills payable A/c (Being bill accepted)		1,80,000	1,80,000
1st April	Cash A/c Dr. Discount A/c Dr. To T's A/c (Being amount received)		57,600 2,400	60,000
4th July	Bills receivable A/c Dr. To T (Being bill drawn)		2,52,000	2,52,000
4th July	Cash A/c Dr. Discount A/c Dr. To bills receivable A/c (Being bill discounted)		2,40,660 11,340	2,52,000
4th July	Bills payable A/c Dr. To Cash A/c (Being bill remitted)		1,80,000	1,80,000
4th July	T A/c Dr. To Cash A/c To Discount (Being amount remitted to T)		48,000	40,440 7,560
7th Oct.	T A/c Dr. To Bank A/c (Being bill accepted by T dishonored)		2,52,000	2,52,000
7th Oct.	Cash A/c Dr. Bad debts A/c Dr. To T's A/c (Being amount received as final settlement)		84,000 84,000	1,68,000

Working Note:

(i) Calculation of Discounted bill amount:

1,20,000 + 40,440 = 1,60,440

$$= 1,60,440 \times \frac{11,340}{2,40,660}$$

= ₹ 7,560

Hence, the discount amount for the Bill in the books of T will be ₹ 7,560.

PYQ	2023-Jun [3] (b)	5 Marks

Journalise the following transactions in the books of Karthik:

(i) Karthik accepted a bill to Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.

(ii) Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.

(iii) Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.

(iv) Karthik's acceptance to Prem for ₹ 6,500 discharged by Prem. Ashok's acceptance to Karthik for a similar amount.

Answer:

Journal entries in the books of Karthik

Date	Particulars		L/F	Amount (₹)	Amount (₹)
(i)	Bills Payable A/c	Dr.		3,500	
	Interest A/c	Dr.		75	
	To Cash A/c				1,500
	To Bills payable A/c				2,075
	(Being bills payable to Babu discharged by cash payment of ₹ 1,000/ and a new bill of ₹ 2,075 including ₹ 75 as interest)				
(ii)	Gopal's A/c	Dr.		4,550	
	To Mohan's A/c				4,550
	(Being Gopal's acceptance for ₹ 4,500 endorsed to Mohan, dishonoured ₹ 50 paid by Mohan as discounting charges)				
	Mohan's A/c	Dr.		4,550	
	To Bank A/c				4,550
	(Being payment to Mohan on withdrawal of bill earlier received from Gopal)				
(iii)	Bank A/c	Dr.		2,475	
	Rebate A/c	Dr.		25	
	To Bills Receivable A/c				2,500
	(Being payment received from Doshi against his acceptance for ₹ 2,500 allowed him discount of ₹ 25)				
(iv)	Bills Payable A/c	Dr.		6,500	
	To Bills Receivable A/c				6,500
	(Being bills receivable from Ashok endorsed to Prem in settlement of bills payable issued to him earlier)				

PYQ	2023-Dec [3] (a)	10 Marks

R draws a bill of exchange on P for ₹ 2,00,000 on 1st July, 2022 for 4 months. P accepted the bill and sent it to R. R discounts the bill from his bankers for ₹ 1,88,000. R immediately remits ₹ 75,200 to P. On the due date, R, being unable to remit the amount due, accepts a bill for ₹ 2,50,000 for 4 months which is discounted by P for ₹ 2,36,250. P sends ₹ 56,700 to R. Before the bill is due for payment R becomes insolvent, his estate is paying fifty paise in the rupee.

Give the journal entries in the books of P. Also show R's account in P's books.

Answer:

Journal Entries in the Books of P

Date 2022	Particulars		L.F.	Amount (₹)	Amount (₹)
July 1	R A/c	Dr.		2,00,000	
	To Bills Payable A/c				2,00,000
	(Being acceptance given to R for mutual accommodation)				
July 1	Cash A/c	Dr.		75,200	
	Discount A/c (12,000 × 75,200/1,88,000)	Dr.		4,800	
	To R A/c				80,000
	(Being the amount received from R towards mutual accommodation)				

Nov. 4	Bill Receivables A/c Dr. To R A/c (Being the bill accepted by R)		2,50,000	2,50,000
Nov. 4	Bills Payable A/c Dr. To Cash A/c (Being the amount met on due date)		2,00,000	2,00,000
Nov. 4	Bank A/c Dr. Discount A/c Dr. To Bills Receivables A/c (Being R's acceptance discounted with the bank)		2,36,250 13,750	2,50,000
Nov. 4	R A/c (56,700 + 10,284) Dr. To Cash To Discount A/c $\left(\frac{1,20,000+56,700}{2,36,250}\right) \times 13,750$ (Being amount sent to R on mutual accommodation)		66,984	56,700 10,284
Nov. 24	R A/c Dr. To Bank A/c (Being R's acceptance, which was discounted dishonoured due to R's bankruptcy)		2,50,000	2,50,000
Nov. 24	Cash A/c (1,86,984 x 0.50) Dr. Bad debts (1,86,984 x 0.50 Dr. To R A/c (Being the amount received from R and the balance being written off as bad)		93,492 93,492	1,86,984

PYQ	2024-Sep [2] (b)	10 Marks

Harry draws a bill on Sejal for ₹ 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for ₹ 56,000. Harry remits 1/4th amount to Sejal. On the due date, Harry was unable to remit his share to Sejal, rather accepts a bill of ₹ 80,000 for a period of 3 months. This bill was discounted by Sejal for ₹ 74,600. Sejal after making the payment of first bill sent 3/4th of the amount remaining to Harry. On maturity of the bill, Harry became bankrupt and his estate paying 40 paise in the rupee.

Give journal entries in the books of Sejal. Also prepare ledger account of Harry. All workings should form part of the answer.

Answer:

In the Books of Sejal

Journal Entries

Date	Particulars		L.F	(₹) Dr.	(₹) Cr.
1.1.23	Harry' A/c	Dr.		60,000	
	To Bills Payable A/c				60,000
	(Being bill of exchange accepted and sent to Mr. Harry)				
	Bank A/c (56,000 x 1/4)	Dr.		14,000	
	Discounting Charges A/c (4,000 x 1/4)	Dr.		1,000	
	To Harry's A/c				15,000
	(Being the amount received from Harry on account of the bills receivable)				
1.4.23	Bills Receivable A/c	Dr.		80,000	
	To Harry's A/c				80,000
	(Being the bill accepted by Harry)				
	Bills Payable A/c	Dr.		60,000	
	To Bank A/c				60,000
	(Being the amount met on the due date)				
	Bank A/c	Dr.		74,600	
	Discounting Charges A/c	Dr.		5,400	
	To Bill Receivable A/c				80,000
	(Being bill discounted by Sejal)				
	Harry's A/c	Dr.		15,000	
	To Bank A/c				10,950

	To Discount A/c				4,050
	(Being the amount received and the discount debited to Harry)				
	Harry's A/c	Dr.		80,000	
	To Bank A/c				80,000
	(Being Harry's acceptance which was discounted dishonoured due to Harry's bankruptcy)				
	Bank A/c (40%)	Dr.		24,000	
	Bad Debts A/c (60%)	Dr.		36,000	
	To Harry's A/c				60,000
	(Being amount received from Harry and the balance being written off as debt)				

Harry's Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bill 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 A/c	80,000
To Bank A/c	80,000	By Bank A/c	24,000
		By Bad Debts A/c	36,000
	1,55,000		1,55,000

Note: No entry should be made for discounting bill by Harry in the books of Sejal.

PYQ	2025-Jan [5] (b) (i)	5 Marks

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.

Answer:

In the Books of Mr. B
Journal Entries

Date 2024	Particulars		L/F	Debit	Credit
1st June	Bills Receivable A/c	Dr. [I]		1,50,000	
	Bills Receivable A/c	Dr. [II]		60,000	
	To Mr. A's A/c				2,10,000
	(Being two bills drawn on Mr. A by Mr. B)				
3rd June	Bank A/C	Dr.		1,49,000	
	Discounting Charges A/c	Dr.		1,000	
	To Bills Receivable A/c [I]				1,50,000
	(Being bill got discounted with bank for ₹1,49,000)				
2nd August	Mr. A's A/c	Dr.		2,10,000	
	To Bank A/c	[I]			1,50,000
	To Bills Receivable A/c	[II]			60,000
	(Being bills cancelled by Mr. A)				
2nd August	Bills Receivable A/c	Dr.[III]		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.	Mr. A's A/c	Dr.		2,14,200	
	To Bills Receivable A/c				2,14,200
	(Being bill dishonoured by Mr. A)				
3rd Sep	Bank A/c	Dr.		85,680	
	Bad Debt A/c	Dr.		1,28,520	
	To Mr. A's A/c				2,14,200
	(Being Mr. A became insolvent, only 40% could be recovered from his estate)				

PYQ	2025-May [5] (b) (i)	2.5 Marks

For mutual accommodation of himself and Gagan, Aman drew upon Gagan a bill of ₹ 7,500 at 3 months on 01.04.2024. Gagan accepted the bill and returned to Aman who discounted it immediately @ 8% p.a. According to agreement, Aman and Gagan shared the proceeds as 2 : 1. On the date of Maturity Aman remitted his share to Gagan who honoured the bill by payment.
Show journal entries in the books of Aman and Gagan.

Student Experience & Requests

CA Foundation

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Motivational Thoughts

- "Bills of exchange and promissory notes are the pillars of trust in business transactions—learn them to master financial commitments."
- "Think of these instruments as the promises that keep businesses running smoothly."
- "Every bill or note is a bridge between trust and accountability in financial dealings."

Checklist for Studying

- Memorize the definitions of bills of exchange and promissory notes.
- Learn the key components: drawer, drawee, payee, date, term, and amount.
- Understand the differences between a bill of exchange and a promissory note.
- Study how bills and notes are recorded in accounting books (journal and ledger entries).
- Practice solving numerical problems on discounting, endorsement, and maturity.

Fun Facts

- Bills of exchange date back to the Middle Ages, facilitating trade across regions.
- Promissory notes are one of the earliest forms of written financial instruments, used even in ancient Rome.
- A bill of exchange can be endorsed multiple times, creating a chain of trust.
- Dishonored bills may lead to legal action, emphasizing their importance in credit management.
- Bills of exchange are widely used in international trade to secure payments between exporters and importers.

Fun Flow

- Visualize a bill of exchange as a handshake—one party promises to pay, and the other accepts it.
- Relate a promissory note to an IOU—it's a written promise to repay money.
- Create flashcards for the key parties in bills of exchange and their roles.
- Use a flowchart to show the life cycle of a bill: creation, acceptance, discounting, endorsement, and maturity.
- Practice role-playing as drawer, drawee, and payee to understand their responsibilities.

Last-Minute Analysis

- Revise the key differences between a bill of exchange and a promissory note.
- Memorize the terms related to maturity: due date, grace period, and dishonor.
- Solve one or two problems on discounting and endorsement of bills.
- Highlight the journal entries for transactions involving bills and notes.
- Summarize the purpose of these instruments: "They facilitate secure credit transactions in business."

Smart Study Tips

- Use tables to compare bills of exchange and promissory notes, highlighting their similarities and differences.
- Practice numerical problems involving calculations of due dates and discounts.
- Highlight the significance of endorsement and discounting in real-life applications.
- Record voice notes explaining the flow of bills of exchange for auditory reinforcement.
- Solve case-based questions to understand the practical implications of dishonor and renewal.

Quick Study Tips

- Spend 5 minutes revising the components of a bill of exchange and promissory note.
- Memorize key terms like drawer, drawee, payee, discounting, and endorsement.
- Solve a quick problem on calculating the maturity date of a bill.
- Write down the difference between trade bills and accommodation bills for clarity.
- Highlight the journal entries for dishonor and renewal of bills in your notes.

Practical Analysis

- Analyze how bills of exchange simplify credit transactions in businesses.
- Discuss the financial impact of discounting bills with banks for immediate cash.
- Explore the role of promissory notes in securing loans or credit lines.
- Practice preparing journal entries for the acceptance, endorsement, and dishonor of bills.
- Examine how businesses use these instruments to manage their working capital efficiently.

Real-World Experience

- Research how businesses use bills of exchange in international trade.
- Study real-life examples of promissory notes issued for loans or advances.
- Interview a banker or accountant to understand the process of discounting bills.
- Watch videos demonstrating the endorsement and maturity of bills of exchange.
- Explore case studies where dishonored bills led to legal disputes or financial setbacks.

Ethical Perspectives

- Reflect on the importance of honoring financial commitments made through bills and notes.
- Discuss the ethical implications of issuing a bill or note without the intent to pay.
- Analyze cases where fraudulent use of bills of exchange led to financial fraud.
- Debate whether stringent laws around dishonored bills ensure ethical financial practices.
- Understand how transparency in recording these instruments builds trust in business.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS
7.1	**Final Accounts of Non-Manufacturing Entities**

THEORY QUESTIONS

PYQ	2000-Nov [6] (c)	DB	5 Marks

Briefly explain the difference between the following:
Provisions and Reserves.

Answer:

- Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in value of assets, or retained by way of providing for any known liabilities of which the amount cannot be determined with substantial accuracy".
- The Following are instances of amount retained in the business out of earning for different purposes that are described as provisions:
  (a) Amount provided for meeting claims which are admissible in principle but the amount whereof has not been ascertained;
  (b) Amount provided for payment of taxes still to be assessed;
  (c) Amount set aside for writing off bad debts or payment of discounts, etc.

Reserve:

- Profit retained in the business not having any of the attributes of a provision is treated as a reserve.
- Also, provisions in excess of the amount considered necessary for the purpose they were originally made, are to be considered as reserve.
- It is thus evident that provisions are a charge against profits, while reserve is an appropriation of profits.

PYQ	2001-Nov [3] (b)	DESC	5 Marks
What is "Balance Sheet"?			

Answer:

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 particular point of time. Balance sheet is prepared only after preparation of the profit and loss account. A balance sheet consists mainly of personal and real account balances and is generally prepared annually, and in some cases half-yearly or quarterly. Since capital always equals the difference between assets and liabilities and since the capital account will independently arrive at this figure, the two sides of the balance sheet must have the same totals. If it is not so, there is certainly an error somewhere.

PYQ	2001-Nov [6] (c)	DB	5 Marks
Briefly explain the difference between the following: Charge against Profit and Appropriation of Profit.			

Answer:

Charge against Profit: It means a deduction from the revenue. It may be shown by writing the amount to the debit side of the profit and loss a/c to arrive at the net profit or net loss. It is done before the appropriation of profits.

Appropriation of Profit: It means the distribution of net profit to various heads of the accounts. It may be in any form such as dividend reserves, or distribution of profits. It may be done only if there is earning of profit. It is debit to profit and loss appropriation A/c.

PYQ	2002-May [6] (b)	DB	5 Marks
PYQ 1997-May | **PYQ** 1998-May |			
Explain the difference between the following: Trial Balance and Balance Sheet.			

Answer:

- A Trial Balance is a statement prepared as on a particular date to check primarily the arithmetical accuracy of ledger balances. A Balance Sheet, on the other hand, is a statement on the financial position of an enterprise as at a given date, which exhibits its assets, liabilities, and equities at their respective book value.
- A Trial Balance may be prepared monthly, quarterly, half yearly or annually but Balance Sheet is prepared annually and in some cases half yearly.
- A Trial Balance lists ledger balances of all accounts irrespective of their nature. A Balance Sheet consists mainly of personal and real account balances.
- Trial Balance is the basis on which financial statements like Profit & Loss Account and Balance Sheet are prepared.

PYQ	2002-Nov [6] (b)	DB	3 Marks
Distinguish between the following: Cash Discount and Trade Discount			

Answer:

Cash Discount:

- Cash discount is the discount offered by the supplier in consideration of immediate payment.
- It may vary with the period of payment.
- Such discount encourages the debtors to pay within a specified period of time.
- It is usually shown in the financial statements as financial expense or income.

Trade Discount:

- Trade discount is a discount on the selling price payable by customer for bulk purchase.
- This is a discount given by a manufacturer or wholesale dealer to dealer or retail dealer.
- It is also called quantity discount.

- Trade discount is a technique of sales promotion and is offered generally to customers for purchasing above a minimum quantity.
- Trade discount is deducted from the sale price in the invoice itself.
- It does not form part of the accounting entries as the discount is deducted in the invoice and net amount is entered in the books of account.
- The objective of this discount is to help the retailer to earn profit as he sells the goods at a fixed price (catalogue price).

PYQ	2004-Nov [5] (vi)	TF	2 Marks
State with reason whether the following statement is True or False: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.			

Answer:

True: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who may make their payment promptly after getting the discount.

PYQ	2005-May [5] (i)	TF	2 Marks
State with reason whether the following statement is True or False: Goods worth ₹600 taken by the proprietor for personal use should be credited to purchase account.			

Answer:

True: Goods taken by the proprietor for personal use should be debited to Drawings Account and Credited to Purchase Account.

PYQ	2006-May [5]	TF	2+2 = 4 Marks
State with reason whether the following statements are True or False: (iii) "Marshalling" and "Grouping" have the same meaning. (vii) Sundry debtors are liquid assets.			

Answer:

(iii) False: 'Marshalling' means presentation of assets and liabilities in a Balance Sheet in the order of liquidity or permanency. When similar items are grouped together under a common heading for the purpose of clarity, it is known as 'Grouping'.

(vii) True: Liquid assets are those assets, which are immediately convertible into cash without much loss. Liquid assets are part of current assets and all current assets excluding inventories and prepaid expenses are liquid assets.

PYQ	2018-Nov [1] (a) (iv) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: If Closing Stock appears in the Trial Balance: The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.			

Answer:

True: If closing stock appears in the Trial Balance, then closing stock is not entered in the trading account, but only shown in the Balance Sheet. This is because it has already been adjusted to arrive at cost of goods sold.

PYQ	2018-Nov [1] (b) {C}	DESC	4 Marks
Discuss the limitations which must be kept in mind while evaluating the Financial Statements.			

Answer:

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

1. The qualitative 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.
2. 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 the long run, and not for the past date.

3. Accounting ignores changes in some money factors like inflation etc.
4. There are occasions when accounting principles conflict with each other.
5. Certain accounting estimates depend on the sheer personal judgment of the accountant.
6. Different accounting policies for the treatment of same item adds to the probability of manipulations.

PYQ	2021-Dec [1] (a) (iii) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: The provision for bad debts is debited to sundry debtors account.			

Answer:

False: Provision for bad debts is debited to Profit and Loss A/c.

PYQ	2024-Jun [1] (a) (i) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: If Closing Stock appears in the Trial Balance then it does not enter in Trading Account. It is shown only in the Balance Sheet.			

Answer:

True: If a closing stock appears in trial balance it means that it is already adjusted with purchases. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.

PRACTICAL QUESTIONS

PYQ	2018-May [3]	20 Marks
The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates., at Chennai:		

Particulars	Debit (₹)	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 to 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 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

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

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
(b) Value of stock at the close of the year was ₹ 4,10,000.
(c) One month rent for godown is outstanding.
(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017.
(e) 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 01.04.2017 to 30.06.2018.

Answer:

In books of M/s. Raghuram & Associates

Trading Account for the year Ended 31.3.18

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		3,20,000	By Sales	15,00,000	
			– Sales Return	24,000	14,76,000
To Purchases	12,00,000				
– Pur. Ret	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. Raghuram & Associates

Profit/Loss Account for the year ended 31.3.18

Particulars		Amount (₹)	Particulars	Amount (₹)
To Carriage Outward		8,500	By G.P. c/d	3,22,000
To Rent of godown	55,000		By Discount received	12,000
+ O/s for interest	5,000	60,000		
To Rate & Taxes		24,000		
To Salaries		72,000		
To Disallowed		7,500		
To Printing & Stat.		6,000		
To Ins. Premium (W.N.2)		4,800		
To Electricity Charges		14,000		
To Gen. Expenses		11,000		
To Bank Charges		3,800		
To Provision for bad debts (W.N.3)		16,200		
To Repair to Vehicle		13,000		
To Interest on loan (W.N.4)		4,500		
To Depreciation:				
Building	25,000			
Furniture	5,000			
Office Equipment	30,000			
Motor Car	20,000	80,000		
To Net Profit c/d		8,700		
		3,34,000		3,34,000

Balance Sheet of M/s. Raghuram & Associates as at 31.3.18

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	14,11,400		Motor van	1,00,000	
Add: N.P.	8,700		– Dep.	20,000	80,000
Less: Drawings	20,000		Land & Building	5,00,000	
Less: Ins. Premium	42,000	13,58,100	– Dep.	25,000	4,75,000
Loan from Rajan		60,000	Office Equity	2,00,000	
Interest payables on above loan		100	– Dep.	30,000	1,70,000
			Furniture	50,000	
Sundry Creditors		62,000	– Dep.	5,000	45,000
Outstanding rent of godown		5,000	Stock		4,10,000
			Debtors	2,80,000	
			Provision for Bad Debts	14,000	2,66,000
			Prepaid Insurance		1,200
			Cash at Bank		22,000
			Cash in hand		16,000
Total		14,85,200			14,85,200

Working Notes:

1. Outstanding Rent of godown

$\frac{55,000}{11} \times 1 = ₹5,000$

2. Insurance Premium

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

3. Provision for bad-debts

Bad-debts	12,200
Add: Prov. Req. as on 31.3.18 (2,80,000 × 5%)	14,000
	26,200
Less: Prov. As on 1.4.17	10,000
Transfer to P/L	16,200

4. Interest on loan

$60,000 \times 10\% \times \frac{9}{12} = 4,500$

∴ 100 is payable interest

PYQ	2018-Nov [3] (b)	5 Marks

Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P & L Account is as follows:

Trading and P & L A/c for the year ended 31st March, 2018.

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit C/d	?		
	?		45,00,000
To Salaries paid	12,00,000	By Gross Profit B/d	?

To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	?		
To Commission to Manager (On Net profit before charging such commission)	1,00,000		
To Net Profit	?		
	?		?

Selling expenses amount to 1% of total Sales.

You are required to compute the missing figure.

Answer:

Trading and P&L A/c for the year ended 31.3.2018

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d (b/f)	23,00,000		
	45,00,000		45,00,000
To Salaries	12,00,000	By G.P. b/d	23,00,000
To Gen. Exp.	6,00,000	By Other Income	45,000
To Selling Exp. (45,00,000 × 1%)	45,000		
To Commission to Manager	1,00,000		
To Net Profit	4,00,000		
(b/f)	23,45,000		23,45,000

% of Commission = 20% (1,00,000/5,00,000).

PYQ	2019-Jun [4] (b)	10 Marks

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

Particulars	Amount ₹	Particulars	Amount ₹
Debit Balances:		Credit balances:	
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	Reserve 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 receivable	3,000		
	35,000		35,000

Other information:

(i) Closing stock was valued at ₹ 4,500

(ii) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.

(iii) Commission received in advance is ₹ 100

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

(vi) Reserve for bad debts is to be kept at ₹ 1,000

(vii) Depreciation on furniture is to be charged @ 10%

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

Answer:

In the books of Mr. Sandeep Trading Account for the year ended 31.12.18

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		1,400	By Sales	9,000	
To Purchases	12,000		*Less:* Sales Return	1,000	8,000
Less: Purchase Return	2,000	10,000	By Closing Stock		4,500
To Gross Profit		1,100			
		12,500			**12,500**

Profit and Loss Account for the year ended 31.12.18

Particulars		₹		Particulars		₹
To Salaries	2,500			By Gross Profit		1,100
Add: O/s	100	2,600		By Commission	500	
To Taxes & Ins.	500			*Less:* Received in adv.	100	400
Add: O/s Tax	200					
Less: Ins. Prepaid	50	650		By Interest on investments		210
To Reserve for bad debts	1,000					
Add: Bad-debts	500			By Net loss (b/f)		2,500
	1,500					
Less: Old Provision	1,000	500				
To Int on Overdraft		300				
To Dep on furniture		160				
		4,210				**4,210**

Balance Sheet as on 31.12.18

Liabilities		₹	Assets		₹
Capital	16,000		Furniture	1,600	
Less: Drawings	2,000		– Dep.	160	1,440
	14,000		Investments		4,000
Less: Net loss	2,500	11,500	Accrued interest on investments		210
Bank overdraft		2,000	Debtors	5,000	
Int. on overdraft unpaid		300	– Res. for B/D	1,000	4,000
Creditors		2,000	Stock		4,500
Bills payable		2,500	Bills receivable		3,000
Salary outstanding		100	Prepaid Insurance		50
Taxes outstanding		200	Cash in hand		1,500
Commission recd. in advance		100			
		18,700			**18,700**

PYQ	2019-Nov [5] (c)	10 Marks

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% and on Furniture and Fixtures @ 5%.

(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 Draw up revised Profit and Loss account and Balance Sheet at the end of the year.

Answer:

Profit & Loss A/c (Revised) for the year ended 31-12-2018

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 as on 31-12-2018

Liabilities		₹	Assets		₹
Capital	51,00,000		Plant and Machinery	31,00,000	
Add: Net Profit	13,50,000		*Less:* Depreciation @ 10%	3,10,000	27,90,000
Interest on Capital (6%	3,06,000		Furniture and Fixture	4,00,000	
of ₹ 51,00,000)	67,56,000		*Less:* Depreciation @ 5%	20,000	3,80,000
Less: Drawings	6,20,000	61,36,000	Trade Receivable	21,00,000	
Trade Payables		13,84,000	*Less:* Provision for Doubtful Debts @5%	1,05,000	19,95,000
Outstanding Expenses		1,85,000	Inventories		19,95,000
			Prepaid Insurance		25,000
			Cast at Bank		5,20,000
		77,05,000			77,05,000

PYQ | **2020-Nov [5] (b)** | **5 Marks**

Max & Co. employs a team of 9 worker who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.

On 1st July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

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

(ii) Amount actually paid as salaries during 2019.

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

Answer:

(i) Amount of Salaries Charged to Profit and Loss A/c

For year 2019

Salaries × Worker × Month

Worker : 44,000 × 9 × 12 = 47,52,000

Trainer : 21,000 × 2 × 6 = 2,52,000

50,04,000

(ii) Salaries paid

Opening O/s	40,000 × 9 × 1	=	3,60,000
11 Months	44,000 × 9 × 11	=	43,56,000
Trainer	21,000 × 2 × 5	=	2,10,000
			49,26,000

(iii) O/s Salaries as on 31.12.19

Worker 44,000 × 9 × 1	=	3,96,000
Trainer 21,000 × 2 × 1	=	42,000
		4,38,000

PYQ | **2021-Jul [4] (a)** | **10 Marks**

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 Purchase	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 on 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.

Answer:

In the books of M/s Designer wear

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

	Particulars		₹		Particulars	₹
To	Purchase		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 Exp.		45,000			
To	Maintenance expenses		25,000			
To	Entertainment expenses		5,000			
To	Electricity exp.	40,000				
To	*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
			Telephone		
Bank Loan	3,00,000		Bank		89,700
Less: Repayment	60,000	2,40,000	Closing stock		5,50,000
Outstanding electricity Exp.		20,000			
		12,25,700			12,25,700

Bank A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Capital A/c	3,00,000	By Bank Loan A/c	60,000
To Bank Loan A/c	3,00,000	By Building A/c	6,00,000
To Capital A/c	2,00,000	By Interest A/c	33,300
To Sales A/c	20,00,000	By Sec. deposit A/c	7,000
		By Furniture A/c	10,000
		By Electricity A/c	40,000
		By Carriage outward	60,000
		By Ent. Exp. A/c	5,000
		By Misc. Exp. A/c	15,000
		By Purchase A/c	17,00,000
		By Telephone charges	50,000
		By Traveling Exp.	45,000
		By Maint. Exp.	25,000
		By Drawings A/c	60,000
		By bal c/d	89,700
	28,00,000		28,00,000

PYQ | **2021-Jul [5] (b) (ii)** | **5 Marks**

Attempt the following:

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

(1) Liability for Income Tax -₹ 40,000

(2) Retained Profit - ₹ 2,00,000

(3) Proposed Dividend -₹ 20,000

(4) Increase in Provision for Doubtful Debts -₹ 25,000

(5) Bad Debts written off -₹ 20,000

State which one of the items above is-(a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

Answer:

(a) Transfer to Provisions - (1) and (4)
(b) Transfer to reserves - (2)
(c) Neither related to provisions nor reserves - (3) and (5)

PYQ | **2023-Dec [4] (a)** | **15 Marks**

The following is the schedule of balances as on 31.03.2023 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 in hand	21,000	
Discount allowed	36,000	
Discount received		24,000
Drawings	1,80,000	
Electricity Charges	33,000	
Freight on purchases	18,000	
Furniture & fixtures	3,21,000	
General office expenses	45,000	
Insurance Premium	82,500	
Interest on loan	35,000	

Loan		6,00,000
Printing and Stationery	27,000	
Purchase Returns		39,000
Purchases	21,30,000	
Rent for Godown	82,500	
Salaries	1,65,000	
Sales		35,50,000
Sales Returns	63,000	
Stock on 1.4.2022	9,30,000	
Sundry Creditors		6,45,000
Sundry Debtors	12,90,000	
Vehicles	3,00,000	
Vehicles running expenses	54,000	
TOTAL	68,06,000	68,06,000

Prepare Trading and Profit & Loss Account for the year ended 31st March, 2023, and the Balance Sheet as at that date after making provision for the following:

(i) Value of stock as on 31.03.2023 is ₹ 4,10,000. This includes goods returned by customers on 31st March, 2023 to the value of ₹ 22,000 for which no entry has been passed in the books.

(ii) Purchases include furniture purchased on 01.10.2022 for ₹ 30,000.

(iii) Depreciate:
- (1) Building by 5%
- (2) Furniture and Fixtures by 10%
- (3) Vehicles by 20%

(iv) Sundry debtors include ₹ 25,000 due from Goku and Sundry creditors include ₹ 25,000 due to him

(v) Provision for bad debts is to be maintained at 4% of Sundry Debtors.

(vi) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.05.2022 to 30.4.2023.

Answer:

Trading & P/L Account of M/S RM & Co. for the year ended 31/3/2023

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Opening Stock		9,30,000	By Sales 35,50,000	
To Purchases	21,30,000		*Less:* Returns (85,000)	34,65,000
Less: Returns	(39,000)		By Closing Stock	4,10,000
Less: Furniture	(30,000)	20,61,000		
To Freight on Purchase		18,000		
To P & L A/c (Gross profit)		8,66,000		
		38,75,000		38,75,000
To Salaries		1,65,000	By Trading A/c	8,66,000
To Vehicles running exp.		54,000	By Discount rec.	24,000
To Rent for godown		82,500		
To Interest on Loan		35,000		
To Insurance Premium	82,500			
Less: LIC Premium	(42,000)			
Less: Prepaid (40,500 ×1/12)	(3,375)	37,125		
To Printing/Stationary		27,000		
To General office exp.		45,000		
To Electricity charges		33,000		
To Discount allowed		36,000		
To Carriage outward		30,000		
To Provision for bad debt		49,720		
To Depreciation		1,38,600		
To Bank charges		24,000		
To Capital A/c		1,33,055		
		8,90,000		8,90,000

Balance Sheet of M/S RM & Co.
as on 31/3/2023

Dr. **Cr.**

Liabilities	Amount	Assets	Amount
Capital	19,48,000	Buildings	9,00,000
Add: Net profit	1,33,055	*Less:* Depreciation	(45,000)
	20,81,055		8,55,000
Less: Drawings	(1,80,000)	Furniture & Fixture	3,21,000
LIC Premium	(42,000)	*Add:* Additions	30,000
	18,59,055		3,51,000
Loan	6,00,000	*Less:* Depreciation	(33,600)
Sundry Creditor	6,45,000	Vehicles	3,00,000
Less: Due to Goku	(25,000)	*Less:* Depreciation	(60,000)
	6,20,000	Closing stock	4,10,000
		Sundry debtors	12,43,000
		Less: PBD	(49,720)
		Pre-paid insurance	3,375
		Cash at Bank	39,000
		Cash in hand	21,000
	30,79,055		30,79,055

Working Note 1:
Calculations of Provisions for Bad Debts:

Sundry Debtors		12,90,000
(-) Sales Return		(22,000)
(-) Due from Goku		(25,000)
		12,43,000
Provision for bad debts required (12,43,000 × 4%)		49,720
(-) Old Provision		Nil
To be Transferred to P/Law		49,720

Working Note 2:
Calculation of Depreciation on Fixed Asset:

On Building (9,00,000 × 5%)		45,000
On Furniture & Fixture:		
(i) On opening balance (3,21,000 × 10%)	32,100	
(ii) On addition (30,000 × 10% × 6/12)	1,500	33,600
On vehicles 3,00,000 × 20%		60,000
Total		**1,38,600**

PYQ **2024-Sep [3] (a)** **10 Marks**

The following Trial Balance is the Trial Balance of a Proprietor as on March 31st 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%.

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:* Sales Return Inward	93,000	47,07,000
Less: Plant and Machinery included in purchases	3,00,000		By Closing Stock		5,20,000
Less: Return 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	37,000
To Insurance	63,000		
To General expenses	10,000		
To Discount Allowed	65,000		
To Provision for doubtful debts (W.N.1)	37,000		
To Provision for discount on debtors (W.N.2)	8,400		
To Depreciation (W.N. 3)	93,300		
To Net Profit transferred to Capital a/c	10,16,300		
	14,93,000		14,93,00

Balance Sheet as on 31st March, 2024

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital A/c-			Plant & Machinery		
Balance	4,00,000		Balance	5,00,000	
Add: Net Profit	10,16,300		*Add:* Additions	3,00,000	
Less: Drawings	(70,000)	13,46,300	*Less:* Depreciation	(80,000)	7,20,000
Outstanding Rent		3,000	Furniture	26,000	
Bills Payable		56,000	*Less:* Depreciation	(1,300)	24,700
Sundry Creditors		5,20,000	Van	1,20,000	
			Less: Depreciation	(12,000)	1,08,000
			Debtors	4,57,000	
			Less: Bad Debts	(7,000)	
			Less: Provision	(30,000)	
			Less: Discount	(8,400)	4,11,600
			Bills Receivable		72,000
			Cash in Hand		4,000
			Cash at Bank		65,000
			Closing Stock		5,20,000
		19,25,300			19,25,300

PYQ	2025-Jan [3] (a)	15 Marks

From the following schedule of balances extracted from the books of Mr. Piyush, prepare Trading and Profit and Loss Account for the year ended 31st March, 2024 and the Balance Sheet as on that date after making the necessary adjustments:

Particulars	Dr. (₹)	Cr. (₹)
Capital Account		8,85,000
Stock on 1.4.2023	3,86,000	
Cash in hand	18,500	
Cash at Bank	73,500	
Investments (at 9%) as on 1.4.2023	50,000	
Deposits (at 10%) as on 1.4.2023	3,00,000	
Drawings	78,000	
Purchases	24,95,000	
Sales		29,86,000
Return Inwards	1,10,000	
Return outwards		1,38,000
Carriage inwards	1,26,000	
Rent	66,000	
Salaries	1,15,000	
Sundry Debtors	2,35,000	
Sundry Creditors		1,37,500
Bank Loan (at 12%) as on 1.10.2023		2,00,000
Furniture as on 1.4.2023	25,000	
Interest paid	12,500	
Interest received		28,500

Advertisement	40,300	
Printing & Stationery	32,200	
Electricity Charges	57,700	
Discount allowed	55,200	
Discount received		24,600
Bad debts	18,500	
General expenses	36,800	
Motor Car Expenses	8,500	
Insurance Premium	30,000	
Travelling Expenses	21,800	
Postage & Courier	8,100	
	43,99,600	43,99,600

Adjustments:

(i) The value of stock as on 31st March, 2024 is 7,65,000. This includes goods returned by customers on 31st March, 2024 to the value of ₹ 25,000 for which no entry has been passed in the books.

(ii) Purchases include one furniture item purchased on 1st January, 2024 for ₹ 10,000. Depreciation @ 10% p.a. is to be provided on furniture.

(iii) One month's rent is outstanding and ₹ 12,000 is payable towards salary.

(iv) Interest paid includes ₹ 9,000 paid against Bank loan and Interest received pertains to Investments and Deposits.

(v) Provide for interest payable on Bank Loan and interest receivable on investments and deposits.

(vi) Make provision for doubtful debts at 5% on the balance under sundry debtors.

(vii) Insurance premium includes ₹ 18,000 paid towards proprietor's life insurance policy.

Answer:

Mr. Piyush

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

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening stock		3,86,000	By Sales	29,86,000	
To Purchases	24,95,000		*Less:* Sales Returns	(135,000)	28,51,000
Less: Furniture	(10,000)		Closing stock		7,65,000
Less: Purchase Return	(1,38,000)	23,47,000			
To Carriage Inwards		1,26,000			
To Gross profit c/d		7,57,000			
Total		**36,16,000**			**36,16,000**

Mr. Piyush

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

To Salaries	1,15,000		By Gross profit b/d		7,57,000
Add: Outstanding	12,000	1,27,000	By Interest		34,500
			By Discount received		24,600
To Rent	66,000				
Add: Outstanding	6,000	72,000			
To Advertisement		40,300			
To Printing & stationery		32,200			
To Electricity charges		57,700			
To Interest (₹ 12,500 + 3,000)		15,500			
To Discount allowed		55,200			
To Bad Debts	18,500				
Add: Provision for Doubtful Debts	10,500	29,000			
To General expenses		36,800			
To Motor Car expenses		8,500			
To Insurance premium	30,000				
Less: Drawings	18,000	12,000			
To Travelling expenses		21,800			
To Postage & courier		8,100			
To Depreciation on furniture (WN 4)		2,750			
To Capital A/c (Net profit transferred)		2,97,250			
		8,16,100			**8,16,100**

Balance Sheet as at 31st March,2024

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account:			Furniture	25,000	
Balance on 1st April, 2023	8,85,000		Additions during the year	10,000	

Add: Net profit	2,97,250			35,000	
	11,82,250		*Less:* Depreciation	(2,750)	32,250
Less: Drawings	(78,000)		9% Investments		50,000
Less: Insurance premium	(18,000)	10,86,250			
12% Bank Loan		2,00,000	10% Deposits		3,00,000
Interest accrued on bank loan (W.N.2)		3,000	Interest accrued on investment & deposits (W N. 3)		6,000
Sundry creditors		1,37,500	Stock in trade		7,65,000
Outstanding Rent		6,000	Sundry debtors (W N.1)		1,99,500
Outstanding Salary		12,000	Cash in hand		18,500
			Cash at Bank		73,500
		14,44,750			**14,44,750**

PYQ **2025-May [4] (b)** **10 Marks**

The balance sheet of ABC as on 1st April, 2024 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Sundry Creditors	8,12,500	Furniture and Fixtures	8,12,500
Expenses Payable	93,750	Vehicle	3,43,750
Capital	27,50,000	Trade Receivable	13,75,000
		Cash at Bank	5,93,750
		Inventories	5,31,250
	36,56,250		**36,56,250**

During 2024-25, his Profit and Loss Account revealed a net profit of ₹ 8,37,500. This was after allowing for the following:

(i) Commission paid to selling agent ₹ 81,250
(ii) Discount received from creditors ₹ 93,750
(iii) Purchased a vehicle of ₹ 62,500 on 31st March, 2025
(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, 2025, but while preparing the Profit and Loss Account he had forgotten to provide for
(1) Prepaid expenses ₹ 18,750 and
(2) Outstanding commission ₹ 43,750.

His current assets and liabilities on 31st March, 2025 were : Inventories ₹ 8,12,500, Trade Receivables ₹ 16,25,000 (before provision for doubtful debts), Cash at Bank ₹ 6,87,500 and Trade Payables ₹ 1,82,500. During the year he introduced further capital of ₹ 3,75,000 into the business. You are required to prepare the balance sheet as at March 31, 2025.

Scanner Preparation Key

Scan & go to "My Books"

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS
7.2	**Final Accounts of Manufacturing Entities**

PRACTICAL QUESTIONS

PYQ	2019-Nov [5] (b)	5 Marks

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

	₹
Opening work-in-progress (9,000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P	
Repairs and maintenance	1,80,000
Units produced 5,00,000 units	

Required a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

Answer:

In the books of Mr. Shyamal
Manufacturing A/c for the year ended 31-03-2019

Particulars	Units	₹	Particulars	Units	₹
To Opening Work-in-Progress	9,000	26,000	By Closing Work-in-Progress	14,000	48,000
To Raw Materials Consumed:			By Trading A/c-		
To Opening Inventory 2,60,000			Cost of Finished Goods Transferred	5,00,000	19,33,600
Add: Purchases 8,20,000					
10,80,000					
Less: Closing Inventory 3,20,000		7,60,000			
To Direct Wages (W.N.1)		4,05,600			
To Direct Expenses:					
Hire Charges of Machine (5,00,000 x ₹ 0.70)		3,50,000			
To Indirect Expenses:					
Hire Charges of Factory		2,60,000			
Repairs and Maintenance		1,80,000			
		19,81,600			19,81,600

W.N.1- Calculation of Direct Wages

Particulars	₹
On 5,00,000 units @ ₹ 0.80 p.u.	4,00,000
On 14,000 units @ ₹ 0.40 p.u.	5,600
Total Direct Wages	4,05,600

PYQ	2020-Nov [5] (c)	10 Marks

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

Raw Material A/c.

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

Creditors A/c.

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

Manufacturing A/c

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

Additional Information:

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

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

(iii) Direct expenses including following:

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

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

Answer:

Manufacturing A/c

Particulars	₹	Particulars	₹
To Raw Material Consumed	9,15,000	By Trading A/c (W.N.4)	18,32,000

	(Balancing Figure)			
To	Wages (W.N. 2)	3,15,000		
To	Depreciation (W.N.1)	3,95,000		
To	Direct Expenses (W.N. 3)	2,07,000		
		18,32,000		18,32,000

Raw Material A/c

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

Working Notes:

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

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

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	22,000
Total expenses not part of Direct Expenses	42,000

=> Revised Direct Expenses = ₹ (2,49,000 - 42,000)
= ₹ 2,07,000

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

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

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

(5) **Creditors A/c**

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

PYQ **2021-Dec [5] (b)** **15 Marks**

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

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2020:		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of Scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchases	15,000		
Bills Receivables	1,50,000	Capital account	10,00,000
Wages	1,30,000	Sales	16,72,000
Salaries	1,00,000	Bank overdraft	85,000
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cast at Bank	1,70,000		
Office Furniture	1,00,000		

Repairs to Plant	11,000		
Purchases	8,50,000		
Plant and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		30,28,000

The following additional information is available :

Stocks on 31st March, 2021 were:

Raw materials	₹ 1,62,000
Finished goods	₹ 1,81,000
Work-in-progress	₹ 78,000

Salaries and wages unpaid for the year ended 31st March, 2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by $7^{1/2}$%. A provision for doubtful debts is to be maintained @ 1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office. Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March 2021.

Answer:

In the books of Mr. Black
Manufacturing Account
(for the year ended on 31st March, 2021)

Particulars		Amount (₹)	Particulars	Amount (₹)
Raw material consumed:			By Closing stock of work in progress	78,000
To Opening stock of Raw Materials	2,10,000		By Sale of scrap	25,000
Add: Purchases	8,50,000		By Cost of goods manufactured (transferred to trading account	11,90,000
	10,60,000			
Less: Closing stock	1,62,000	8,98,000		
To Opening stock of W.I.P		95,000		
To Wages	130,000			
Add: O/S wages	20,000	1,50,000		
To Carriage on purchases		15,000		
To Repairs to plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
To Depreciation on plant		70,000		
		12,93,000		12,93,000

Trading Account
(for the year ended on 31 March, 2020)

Particulars	(₹) Amount	Particulars	(₹) Amount
To Opening stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross profit c/d	5,08,000		
	18,53,000		18,53,000

Profit and Loss A/c
(for the year ended 31st March, 2020)

Particulars		Amount	Particulars	Amount
To Salaries		1,00,000	By Gross profit b/d	5,08,000
Add: Outstanding		9,000	By Commission	4,500
To Telephone & postage		10,000		
To Repairs to furniture		3,500		
To Dep. of Furniture		7,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		4,500		
To General exp.		15,000		
To Prov. for doubtful debts Required (1% of ₹ 16,72,000)	16,720			
Less: Existing provision	16,500	220		
To Net profit		3,47,780		
		5,12,500		5,12,500

PYQ	2022-Jun [5]	20 Marks

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

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad	
Plant and Machinery	1,05,000	and doubtful debts	7,000
Investments	87,500	Sales	29,75,000
Cash in Hand	70,000	Bank Overdraft	80,500
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage Outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

(i) Stock of finished goods at the end of the year was ₹ 3,50,000.

(ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building ₹ 3,500 and Machinery ₹ 10,500.

(iii) Accrued commission is ₹ 43,750. Interest has accrued on investment ₹ 52,500.

(iv) Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

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

Answer:

In the books of Mr. B

Manufacturing A/c for the year Ended 31.3.21

Particulars		Amount (₹)	Particulars	Amount (₹)
To Opening Stock of Raw Material		5,25,000	By cost of goods manufactured (transferred to trading A/c)	28,28,000
To Purchase of raw material	17,50,000			
Less: purch. return	17,500	17,32,500		
To Carriage Inwards		52,500		
To Direct wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent & Rates		70,000		
To Depreciation on machinery		10,500		
		28,28,000		28,28,000

Trading A/c and Profit & Loss A/c of Mr. B for the year Ending 31.3.21

Particulars		Amount (₹)	Particulars		Amount (₹)
To Op. stock of Finished Goods		2,62,500	By Sales	29,75,000	
To Cost of goods mfg. (transferred from manuf-acturing)		28,28,000	*Less:* Sales return	35,000	29,40,000
			By Closing stock of Finished Goods		3,50,000
To Gross profit c/d		1,99,500			
		32,90,000			32,90,000
To Carriage Outward		24,500	By Gross Profit b/d		1,99,500
To Discount allowed		10,500	By Accrued commission		43,750
To Comm. Paid		17,500	By Accrued Interest		52,500
To Dividend paid		14,000			
To Gen. Expenses		14,000			
To Advertisement		17,500			
To Salaries	70,000				
+ o/s @ End	7,000	77,000			
To Interest	24,500				
- Prepaid @ End	5,250	19,250			
To Provision for Bad & Doubtful Debts	7,000				
+ Bad - debts	14,000				
	21,000				
- Old Provision	7,000	14,000			
To Depreciation on Building		3,500			
To Net Profit		84,000			
		2,95,750			2,95,750

Balance Sheet of Mr. B as at 31.3.21

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	3,50,000		Plant and Mach.	1,05,000	
+ Net Profit	84,000		- Dep.	10,500	94,500
	4,34,000				
- Drawings	70,000	3,64,000	Land & Building	3,50,000	
Long term loans		7,00,000	- Dep.	3500	3,46,500
Bills Payable		84,000	Furniture & Fix		52,500
Creditors		1,75,000	Investments		87,500
O/S Salaries		7,000	Closing Stock		3,50,000
Bank Overdraft		80,500	Loose tools		1,05,000
			Debtors	1,40,000	
			- P. Bad. debts	7,000	1,33,000
			Bills receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in hand		70,000
			Cash at bank		17,500
		14,10,500			14,10,500

PYQ | **2022-Dec [5] (c)** | **10 Marks**

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.

Answer:

Balance Sheet of S as on 31st March, 2022

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital (W.N. 1)	31,50,000	Furniture and Fixtures	6,50,000	
Trade payables	1,46,000	*Less:* Depreciation @10%	(65,000)	5,85,000
Outstanding commission	35,000	Vehicle	2,75,000	
		Add: Purchased	50,000	
		Less: Depreciation @20%	(55,000)	2,70,000
		Trade Receivable	13,00,000	
		Less: Provision @3%	(39,000)	12,61,000
		Cash @Bank		5,50,000
		Inventories		6,50,000
		Prepaid expenses		15,000
	33,31,000			33,31,000

Working Notes:

1. Calculation of Capital on 31.3.2022

Capital as on 1 April, 2021	–	22,00,000
Add: Additional Capital	–	3,00,000
Add: Net profit of 2021-22 (correct)	–	
Profit given 6,70,000		
Add: prepaid expenses 15,000		
Less: Outstanding commission – (35,000)	–	6,50,000
Capital as on 31st March, 2022	–	31,50,000

PYQ | **2024-Jun [5] (b) (i)** | **5 Marks**

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.

Answer:

Manufacturing A/c of Mr. Prakash for year ending 31.3.24

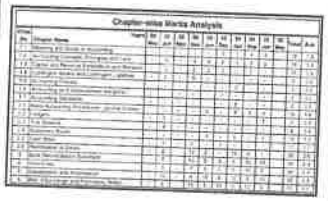
Particulars		Amount (₹)	Particulars	Amount (₹)
To Opening WIP		6,25,000	By Closing WIP	7,15,000
To Raw Material consumed:			By Sale of scrap	36,000
Op. Stock	5,85,000		By Cost of production transferred to Trading A/c	31,82,000
+ Purchases	18,74,000			
- Closing stock	4,70,000			
- Returns	95,000	18,94,000		
To Direct Wages		3,97,000		

To Indirect wages expenses:			
Indirect material	1,88,000		
Indirect wages	82,000		
Power & Electricity	1,76,000		
Repairs & Maintenance	2,65,000		
Dep. on Factory shed	1,44,000		
Plant & Machinery	1,62,000		
	39,33,000		39,33,000

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Smart Study with Scanner	Chapter wise Marks Analysis
	• At page no. { x } • Total and average marks for each chapter • Helps prioritize chapters based on marks • Enables focused revisions for chapters with varying trends

Motivational Thoughts

- "Final accounts for manufacturing entities reveal the true cost of creating value—understanding them empowers financial clarity."
- "Think of these accounts as the blueprint of a factory's efficiency and profitability."
- "Mastering manufacturing accounts helps identify waste, optimize costs, and enhance profits."
- "Every entry in manufacturing accounts reflects a step toward business growth and transparency."
- "Understanding manufacturing accounts enables you to connect production with performance."

Checklist for Studying

- Learn the structure of final accounts for manufacturing entities: Manufacturing Account, Trading Account, Profit & Loss Account, and Balance Sheet.
- Understand key terms like prime cost, factory overheads, work-in-progress, and cost of production.
- Memorize the adjustments specific to manufacturing accounts, such as depreciation, factory wages, and indirect expenses.
- Study the classification of direct and indirect expenses.
- Practice preparing final accounts from raw trial balances with adjustments.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	
8	**Financial Statement of Non-Profit Organisations**

THEORY QUESTIONS

PYQ	1999-May [6]	SN	5 Marks
Write short note on the following: (iii) Income and Expenditure Account.			

Answer:

- In the case of professionals, Receipts and Payments Account, Income and Expenditure Account and Balance Sheet are generally prepared to show the results of their activities and their financial position.
- However, some professionals also prepare Receipts and Expenditure Account to show final result of their professional activities.
- As the title indicates, such an account includes all expenses on the basis of mercantile system, i.e., accrual basis, but for recording income, cash system is followed.
- In other words, to find out the profit, all outstanding expenses are taken into account but the fees and charges that are outstanding or the work-in-progress are not considered.
- The reason for this treatment is that professionals consider it imprudent and risky to recognise the outstanding fees.
- Therefore, the difference between the profit as shown by Income and Expenditure Account and Receipts and Expenditure Account arises on account of non-recognition of outstanding fees and charges and work-in-progress in Receipts and Expenditure Account.

PYQ	2000-May [6] (c)	SN	5 Marks
Write short note on the following: Receipts and Payments Account.			

Answer:

Receipts and Payments Account:

Receipts and Payments Account is an elementary form of account commonly adopted by non-profit making concerns such as hospitals, clubs, societies etc. for recording cash and bank transactions. It starts with the opening cash or bank balance (or an overdraft) and is debited with all sums received and credited with amounts paid out whether or not such receipts and payments relate to that period. All the receipts and payments whether of a revenue or capital nature are included in the account. The balance of this account at the end of year represents the difference between the amount received and paid out i.e., the balance of cash in hand and at bank or bank overdraft.

PYQ	2003-Nov [6] (c)	SN	3 Marks
Write short note on the following: Receipts and Expenditure Account for Professional Firms.			

Answer:

Please refer 1999 - May [6] (iii) on page no. ***286***

PYQ	2005-May [5] (v)	TF	2 Marks
State with reasons whether the following statement is True or False: All receipts and expenses of capital nature are shown in Receipts and Payments Account.			

Answer:

True: Receipts and Payments Account records all receipts and payments whether they are of capital or revenue in nature.

PYQ	2005-May [6] (v)	DB	5 Marks
Distinction between Receipt and Payment Account and Income and Expenditure Account.			

Answer:

Non-profit making organizations such as public hospitals, public education institutions, clubs etc., conventionally prepare receipts and payments account and income and expenditure account to show periodic performance for a particular accounting period.

Receipts and Payments Account:

- Receipts and payments 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 the cash book.
- All the receipts and payments whether of revenue or capital nature are included in this account.
- 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:

- Income and Expenditure Account resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern as the latter mentioned account does for a firm, carrying on business or trade.
- Income and Expenditure Account is drawn up in the same form as the Profit and Loss Account.
- Expenditure of Revenue nature only is shown on the debit side, and incomes 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 period of account, whether received or paid out 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 closing balance represents the amount by which the income exceeds the expenditure or *vice-versa*.

PYQ	2005-Nov [5] (viii)	TF	2 Marks
State with reasons whether the following statement is True or False: Only revenue items are disclosed in Income and Expenditure account.			

Answer:
True: Only revenue items are disclosed in Income and Expenditure accounts.

PYQ	2018-Nov [1] (a) (iii) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: Fees received for Life Membership is a revenue receipt as it is of recurring nature.			

Answer:
False: Fees received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

PYQ	2024-Sep [1] (a) (v) {C}	TF	2 Marks
State with reason, whether the following statement is True or False: The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.			

Answer:
False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.

PYQ	2025-May [1] (a) {C}	TF	2x2=4 Marks
State with reasons, whether the following statements are True or False: (iii) If a society (Non-profit organization) has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation. (vi) A Non-Profit Organization registered under Section 8 of Companies Act, 2013 can distribute its surplus among its members.			

PRACTICAL QUESTIONS

PYQ	2018-Nov [5] (a)	10 Marks

You are provided with the followings:

Balance Sheet as on 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advance	6,000	Outstanding Subscription	3,800
		Outstanding Locker Rent	2,400
Outstanding Expenses	14,000	Cash in Hand	20,000
Loan	40,000		
Sundry Creditors	10,000		
Total	1,76,200	**Total**	1,76,200

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts		(₹)	Payments		(₹)
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	2,000		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).

Answer:

Income and Expenditure Account for the year ending 31st March, 2018

Expenditure	₹	Income	₹
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 (₹)	Assets	Amount (₹)
Capital Fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017) (3,800 - 2,000)	1,800
Add: Entrance fee	38,000			
Add: Surplus	12,900	1,57,100	Cash in hand	18,300
Loan		40,000		
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.

PYQ	2019-Jun [5] (b)	10 Marks

From the following information supplied by M.B.S. Club prepare Receipts and Payments account and Income and Expenditure. Account for the year ended 31st March, 2019.

	01.04.2018 ₹	31.03.2019 ₹
Outstanding subscription	1,40,000	2,00,000
Advance Subscription	25,000	30,000
Outstanding Salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports Goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on Investments was received ₹ 14,000. Furniture was sold for ₹ 8000 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: ₹ 50,000

Rent : ₹ 24,000 out of which ₹ 2,000 outstanding

Misc. Expenses : ₹ 5,000

Answer:

Receipts and Payments Account for the year ended 31.3.2019

Receipts	₹	Payments	₹
To Balance b/d		By Salaries	60,000
Cash and Bank	1,10,000	By Purchase of sports goods ₹ (25,000 - 15,000)	10,000
To Subscription received (W.N. 1)	2,45,000		
To Sale of investments (W.N. 2)	70,000	By Purchase of machinery ₹ (20,000 - 10,000)	10,000
To Interest received on investment	14,000		
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid ₹ (24,000 - 2,000)	22,000
		By Miscellaneous expenses	5,000
		By Balance c/d	
		Cash and bank	2,90,000
	4,47,000		4,47,000

Income and Expenditure Account
for the year ended 31.3.2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on Investment Received	14,000	
	78,000		Accrued (W.N. 5)	3,500	17,500
Less: Outstanding for 2018	(15,000)	63,000			
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture (W.N. 3)		6,000			
To Depreciation (W.N. 4)					
Furniture	1,400				
Machinery	1,500				
Sport goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			3,17,500

Working Notes:

1. Calculation of subscription received during the year 2018-19

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

2. **Calculation of Sale price and profit on sale of investment**
   Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500
   Sale price: ₹ 87,500 × 80% = ₹ 70,000
   Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000
   Profit/loss on sale of investment: ₹ 70,000 - ₹ 70,000 = NIL

3. **Loss on sale of furniture**

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. **Depreciation**

Furniture - ₹ 14,000 × 10%	=	1,400
Machinery - ₹ 10,000 × 15%	=	1,500
Sports goods - ₹ 15,000 × 15%	=	2,250

5. **Interest accrued on Investment**

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

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

PYQ | **2019-Nov [4] (b)** | **10 Marks**

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	₹	Particulars	₹
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		₹	Assets	₹
Subscription in advance (2019-20)			110 Furniture	9,900
Prize Fund:				
Opening balance	27,500			
Add: Interest	1,100			

	28,600		Ground and Building	51,700
Less: Prizes given	2,200	26,400		
			Prize Fund Investment	22,000
General Fund:			Cash in Hand	2,530
Opening balance	62,062			
Less: Deficit	2,387			
	59,675		Subscription (outstanding)	770
Add: Entrance Fee	715	60,390	(2018-2019)	
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) Upkeep of ground ₹ 660 and printing ₹ 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 ₹ 880 and for 2018-19 ₹ 770

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

(v) Furniture was purchased during the year

Answer:

Receipts and Payments A/c
for the year ending 31st March, 2019

Receipts		₹	Payments		₹
To Balance b/d (Balancing Figure)		16,126	By Upkeep of Ground	11,000	
To Subscriptions:			*Add:* Paid in 2018-19 related to 2017-18	660	11,660
As per Income & Expenditure A/c	19,052		By Printing	1,100	
Add: Outstanding in 2017-18	880		*Add:* Paid in 2018-19 related to 2017-18	264	1,364
Add: Received in Advance in 2018-19	110		By Salaries		11,100
	20,042		By Rent		1,660
Less: Outstanding in 2018-19	770		By Prizes Distributed		2,200
	19,272		By Furniture:		
Less: Received in Advance in 2017-18	220	19,052	Value as on 31-03-2019	9,900	
To Sale of Newspapers (Old)		286	*Add:* Depreciation during the year	1,100	11,000
To Lectures (Fee)		1,650	By Balance c/d		2,530
To Entrance Fee:					
As per Income & Expenditure A/c	2,145				
Add: Capitalised	715	2,860			
To Miscellaneous Income		440			
To Interest on Prize Fund Investments		1,100			
		41,514			41,514

Subscriptions A/c

Date	Particulars	₹	Date	Particulars	₹
2018 Apr. 1	To Subscription Outstanding (2017-18)	880	2018 Apr. 1	By Subscription in Advance (2017-18)	220
2019 Mar.31	To Income & Expenditure A/c	19,052	2019 Mar. 31	By Cash (Balancing Figure)	19,052
	To Subscription in Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
		20,042			20,042

PYQ | **2020-Nov [4] (b)** | **10 Marks**

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

Particulars	Amount (₹)	Amount (₹)
Security Deposit – Students	–	1,55,000
Capital Fund	–	13,08,000
Building Fund	–	19,10,000
Tuition Fee Received	–	8,10,000
Government Grants	–	5,01,000
Interest & Dividends on Investments	–	1,75,000
Hostel Room Rent	–	1,65,000
Mess Receipts (Net)	–	2,05,000
College Stores – Sales	–	7,60,000
Outstanding expenses	–	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	–
Purchases – Stores & Supplies	8,20,000	–

Salaries – Teaching	8,75,000	–
Salaries – Research	1,25,000	–
Scholarships	85,000	–
Students Welfare expenses	37,000	–
Games & Sports expenses	52,000	–
Other investments	12,75,000	–
Land	1,50,000	–
Building	15,50,000	–
Plant and Machinery	8,50,000	–
Furniture and Fittings	5,40,000	–
Motor Vehicle	2,40,000	–
Provision for Depreciation:		
Building	–	4,90,000
Plant & Equipment	–	5,05,000
Furniture & Fittings	–	3,26,000
Cash at Bank	3,16,000	
Library	3,20,000	
	75,45,000	**75,45,000**

Adjustments:

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

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

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

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

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

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

Answer:

Balance Sheet
of AS College for the year ended
31-3-2020

Cap. Fund	13,08,000		Tuition fee Receivable	82,000
- Deficit	1,86,500	11,21,500	Investments	12,75,000
Security Deposit		1,55,000	Building	
Building Fund		19,10,000	15,50,000 - 5,67,500	9,82,500
Govt. Grant		5,01,000	Furniture	
Outstanding expenses		2,35,000	5,40,000 - 3,80,000	1,60,000
			Plant	
			8,50,000 - 5,90,000	2,60,000
			Motor Vehicle	
			2,40,000 - 48,000	1,92,000
			Cash	3,16,000
			Library	3,20,000
			Stock Stores	1,85,000
			Land	1,50,000
		39,22,500		39,22,500

Income and Expenditure A/c
of As college at 31-3-2020

To Salaries (Teaching)		8,75,000	By Tuition fee	8,10,000	
To Salaries (Res.)		1,25,000	+ Receivable	82,000	8,92,000
To Scholarship		85,000	By Int. & Dividend		1,75,000
To Student welfare		37,000	By Hostel Rent		1,65,000
To Games & Sports		52,000	By Mess Receipts		2,05,000
To Stores Consume			Profit on stores		1,14,000
Teaching	52,000		Deficity		1,86,500
Research	1,45,000				
Students Welfare	78,000				
Games	24,000	2,99,000			
Dep. (Year)					
Building		77,500			
Plant		85,000			

Furniture	54,000		
Motor	48,000		
	17,37,500		17,37,500

Stores & Supplies A/c

To Opening Stock	3,10,000	By Sales		7,60,000
To Purchase	8,20,000	By Stores Consumed		
To G.P. 15% of Sales	1,14,000	Teaching	52,000	
		Research	1,45,000	
		Students	78,000	
		Games	24,000	2,99,000
		By Closing stock		1,85,000
	12,44,000			12,44,000

PYQ | **2021-Jan [4] (b)** | **10 Marks**

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

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

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

Answer:

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

Expenditure	₹	Income	₹
To Medicines consumed		By Prescription fees	6,60,000
Purchases 2,45,000		By Visiting fees	2,50,000
Less: Stock on 31.3.20 (95,000)	1,50,000	By Fees from lectures	24,000
To Motor car expense (1,20,000 X 2/3)	80,000		
To Wages and salaries (1,05,000 – 30,000)	75,000		
To Rent of clinic	60,000		
To General charges	49,000		
To Interest on loan	36,000		
To Net Income	**4,84,000**		
	9,34,000		**9,34,000**

Capital Account for the year ended 31st March, 2020

Particulars	₹	Particulars	₹
To Drawings:		By Cash bank	2,00,000
Motor car expenses (1,20,000X 1/3)	40,000	By Cash bank (pension)	3,00,000
Household expenses	1,80,000	By Net income from practice (derived from income and expenditure A/c)	4,84,000
Household furniture	25,000		

Daughter's marriage exp.	2,15,000		
Wages of domestic servants	30,000		
To Balance c/d	4,94,000		9,84,000
	9,84,000		

PYQ | **2021-Jan [5] (c)** | **10 Marks**

From the following Income and Expenditure Account and additional information of ATK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

ATK Club

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

Expenditure	₹	Income	₹
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

Answer:

Receipts and Payment Account of ATK Club for the year ended on 31st March, 2020

Receipts	₹	Payments	₹
To Balance B/d [Bal. fig]	54,400	By Salaries (W.N.3)	4,72,000
To Subscription (W.N.2)	6,53,600	By Audit Fees (W.N.3)	8,000
To Entrance Fees	16,000	By Sports Equipment	72,000
To Misc Income	1,44,000	By Printing and Stationery	24,000
		By Postage	2,000
		By Telephone	6,000
		By Office Expenses	48,000
		By Bank Interest	22,000
		By Annual General Meeting Exp	1,00,000
		By Balance C/d	1,14,000
	8,68,000		**8,68,000**

Balance Sheet of ATK Club as at 31-03-2020

Liabilities		₹	Assets		₹
Capital Fund (W.N.1)	8,82,400		Sports Equipment	2,08,000	
Add; Surplus	1,20,000	10,02,400	*Add:* Addition	72,000	
				2,80,000	
			Less: Dep.	(28,000)	2,52,000
Bank Loan		1,20,000	Club Premises		7,60,000
Outstanding Salaries		32,000	Subscription Outstanding		72,000
Audit fees payable		10,000	Cash in hand		1,14,000

Subscription received in advance	33,600		
	11,98,000		**11,98,000**

Working Notes:

1.

Balance Sheet of ATK Club as at 31-03-2019

Liabilities	₹	Assets	₹
Capital Fund (Bal Fig)	8,82,400	Sports Equipment	2,08,000
Bank Loan	1,20,000	Club Premises	7,60,000
Outstanding Salaries	24,000	Subscription Outstanding	64,000
Audit fees payable	8,000	Cash in hand	54,400
Subscription received in advance	52,000		
	10,86,400		**10,86,400**

2.

Subscription Account

Particulars	₹	Particulars	₹
To Outstanding Subscription	64,000	By Subscription Received in Adv	52,000
To Income & Expenditure	6,80,000	By Cash/bank (R & P) (bal Fig)	6,53,600
To Subscription Received in Adv	33,600	To Outstanding Subscription	72,000
	7,77,600		**7,77,600**

3.

Particulars	Salaries (₹)	Audit Fees (₹)
Expenses paid (Bal. Fig)	4,72,000	8,000
+ Closing Outstanding	32,000	10,000
(-) Opening Outstanding	(24,000)	(8,000)
Expenses debited to Income & Expenditure Account	4,80,000	10,000

PYQ	2021-Jul [4] (b)	10 Marks

Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

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

Additional Information:

Particulars	01.04.2020	31.03.2021
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4,80,000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021.

Answer:

Income and Expenditure A/c of 'AMA Society' for the year ended 31.3.21

Expenditure	Amount (₹)	Income	Amount (₹)
To Medicine Consumed (W.N.3)	2,90,000	By Subscription (W.N.1)	5,12,000
To Honorarium to Doctors	1,00,000	By Donation	1,50,000
To Salaries	2,80,000	By Int. on Invst.	90,000

To	Sundry Expenses	10,000	By Profit on Charity show collections		
To	Dep. Equipment (W.N..4)	60,000		1,25,000	
To	Dep. on Building (5,00,000-4,80,000)	20,000	*Less:* Exp.	15,000	1,10,000
To	Excess of Income over expenditure (Surplus)	1,02,000			
		8,62,000			**8,62,000**

1. Balance Sheet of 'AMA Society' as on 31.3.21

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Fund:		Building	5,00,000	
Opening balance 18,03,000		*Less:* Dep.	20,000	4,80,000
Add: Surplus 1,02,000	19,05,000	Equipment (W.N.4)	2,10,000	
Subscription received in advance	7,000	*Add:* Purchase	1,50,000	
Creditor for medicine	1,30,000		3,60,000	
		Less: Dep.	60,000	3,00,000
		Stock of Medicine		1,50,000
		9% Investments		10,00,000
		Subscription receivable		22,000
		Cash in hand		90,000
	20,42,000			20,42,000

Working Note 1: Calculation of subscriptions to be shown in Income and expenditure account:

Subscriptions A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Subs receivable	15,000	By Subs received in advance	12,000
To Income & Exp. A/c (bal fig)	5,12,000		
To Subscription in Advance	7,000	By R&P A/c	5,00,000
		By Subs receivable	22,000
	5,34,000		**5,34,000**

2. Calculation of Purchase of Medicine during the year:

Creditor for Medicine A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Receipt & Payment A/c	3,00,000	By bal b/d	90,000
To Bal c/d	1,30,000	By Medicines purchased (b/f)	3,40,000
	4,30,000		**4,30,000**

3. Calculation of Medicine consumed during the year:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,00,000	By Medicines consumed (b/f)	2,90,000
To Medicines Purchased	3,40,000	By Closing stock	1,50,000
	4,40,000		**4,40,000**

4. Calculation of Depreciation on Equipment:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bal b/d	2,10,000	By Dep.(b/f)	60,000
To Equipment purchase	1,50,000	By Bal c/d	3,00,000
	3,60,000		**3,60,000**

PYQ	2021-Dec [4] (a)	10 Marks

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

Expenditure	₹	Income	₹
To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for	10,000
To Secretary's Honorarium	10,000	Annual Dinner	
To Stationary and Printing	4,500	By Annual Sports Meet	7,500
To Annual Dinner Expenses	15,000	Receipts	
To Interest and Bank charges	1,500		

To Depreciation	3,000		
To Surplus	6,000		
	95,000		95,000

This account had been prepared after the following adjustments:

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

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

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹ 27,000. In the year 2020, the Club had raised a bank loan of ₹ 20,000. This was outstanding throughout the year 2021. On 31st December, 2021 cash in hand was ₹ 16,000.

You are required to:

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

Answer:

In the books of Women Club
Receipts and Payment A/c
(for the year ending 31st December, 2021)

Receipts		(₹) Amount	Payments		(₹) Amount
To Balance b/d (B/f)		13,900	By Salaries	47,500	
To Subscription	75,000		*Add:* Opening o/s	4,000	
Add: Opening o/s	6,000		*Less:* Closing o/s	(4,500)	47,000
Less: Opening advances	(4,500)		By General Exp.	5,000	
Add: Closing advance	2,700		Add: Closing Adv	600	5,600
Less: Closing o/s	(7,500)	71,700	By Audit fee		2,000
To Entrance fees		2,500	By Honorarium		10,000
To Annual dinner contribution		10,000	By Stationery		4,500
To Sports meet receipt		7,500	By Annual dinner exp.		15,000
			By Int & bank charges		1,500
			By Purchase of sports equipment		4,000
			By Bal c/d		16,000
		1,05,600			1,05,600

Balance Sheet
(as at 31st December, 2021)

Liabilities		(₹) Amount	Assets		(₹) Amount
Capital fund	1,15,400		Sports equip.	26000	
Add: Surplus	6,000	1,21,400	*Less:* Dep.	(3000)	
Advance subscription		2,700	*Add:* Purchases	4000	27,000
Outstanding salary		4,500	Freehold Ground		1,00,000
Outstanding audit fees		2,500	Prepaid Insurance		600
Bank loan		20,000	Outstanding Subscript.		7,500
			Cash		16,000
		1,51,100			**1,51,100**

Balance Sheet
(as at 1st January, 2021)

Liabilities	(₹)		(₹) Amount
Advance Subscription	4,500	O/s Subscription	6,000
O/s salaries	4,000	Freehold Ground	1,00,000
Unpaid audit fees	2,000	Sport is equipment	26,000
Bank loan	20,000	Cash	13,900
Capital fund (bf)	1,15,400		
	1,45,900		**1,45,900**

PYQ	2022-Jun [4] (a)	10 Marks

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

Receipt and Payment Account of Mumbai Club

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

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

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

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March, 2021 and the Balance Sheet as at that date.

Answer:

Income and Expenditure Account of Mumbai Club for the year Ending 31.3.21

Expenditure	₹	Income	₹
To Groundman's fee	75,000	By Donation & Subscription recd 2,50,000	
To Bonus to ground man	20,000	-o/s@beg (15,000)	
To Rent of Ground	25,000	+o/s @end 10,000	2,45,000
To Depreciation on machinery & equipment (W.W.)	52,000	By Bank Interest (5,000 + 2,000)	7,000
To Printing & Office Exp. 30,000		By Contribution to club night	10,000
-o/s @beg (10,000)		By Bar room receipts	20,000
+o/s @end 8000	28,000	By Receipts from club night net of Expenses (78,000 - 38,000)	40,000
To Repairs (50,000 - 30000 + 25,000)	45,000		
To Honorarium to Secretary	60,000		
To Excess of Income Over Expenditure (Surplus) (b/f)	17,000		
	3,22,000		3,22,000

Balance Sheet of Mumbai Club as on 31.3.2021

Liabilities		₹	Assets	₹
Capital Fund:			Machinery & Equipment (W.N)	1,75,000
Opening	2,88,000		Interest due	2,000
Add: Surplus	17,000		Subscription due	10,000
Add: Entrance fees	18,000	3,23,000	Saving A/c	2,04,000
Outstanding Exp:-			Cash in hand	25,000
Bonus ground man	20,000			

Printing	8,000			
Honorarium	60,000	88,000		
Bank Overdraft (20,000 - 25,000)		5,000		
		4,16,000		4,16,000

Balance Sheet of Mumbai club as on 1.4.2020

Liabilities	₹	Assets	₹
Capital Fund (b/f)	2,88,000	Machinery & Equipment	80,000
Honorarium o/s	40,000	Subscription Due	15,000
Printing o/s	10,000	Cash in Current A/c (60,000 - 30,000)	30,000
		Savings Account	1,93,000
		Cash in hand	20,000
	3,38,000		3,38,000

Machinery & Equipment Account

To bal. b/d	80,000	By R & P (Sale)	8,000
To R & P (purchase)	1,55,000	By Dep (In/Ex. A/c) (b/f)	52,000
		By bal c/d	1,75,000
	2,35,000		2,35,000

Note:- It has been assumed that, equipment has been sold at book value.

PYQ | **2022-Dec [4] (b)** | **10 marks**

The Income and Expenditure Account of the Young Boys Club for the year 2022 is as follows:

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	3,750	By Subscription	8,500
To General Expenses	1,500	By Entrance Fees	250
To Audit fees	250	By Contribution for Annual Dinner	1,000
To Secretary's Honorarium	1,000		
To Stationery and Printing	450	By Annual sports meet receipts	750
To Annual Dinner expenses	1,500		
To Interest and Bank Charges	150		
To Depreciation	400		
To Surplus	1,500		
	10,500		10,500

This Account has been prepared after the following adjustments:

	Amount (₹)
Subscription outstanding on 31st December, 2021	700
Subscription received in advance on 31st December, 2021	550
Subscription received in advance on 31st December, 2022	370
Subscription outstanding on 31st December, 2022	750

Salaries outstanding at the beginning and at the end of 2022 were respectively ₹ 600 and ₹ 450. General Expenses include insurance prepaid to the extent of ₹ 150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.

The club owned a freehold lease of ground valued at ₹ 20,000. The club had sports equipment on 1st January, 2022 valued at ₹ 2,600. At the end of the year, after depreciation, the balance of equipment amounted to ₹ 3,600. In 2021, the club raised a bank loan of ₹ 5,000. This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1,600.

You are required to prepare:

(i) Receipts and Payments Account for 2022
(ii) Balance Sheet as on 31st December, 2022
(iii) Balance Sheet as on 31st December, 2021.

Answer:

Receipts and Payments A/c (for the year ended 31st December, 2022)

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening balance (b/f)	1,580	By Purchase of Sports Equipment	
To Subscription Received	8,270		1,400
To Entrance Fees	250 1,000	(3,600 + 400 - 2,600)	
To Contribution for dinner		By Salary	3,900

To Annual sports meet	750		(3,750 + 600 - 450)	
		By	Printing Stationery	450
		By	Annual dinner expenses	1,500
		By	Audit fee	200
		By	Honorarium to Secretary	1,000
		By	Interest and bank charges	150
		By	Closing balance (given)	1,600
		By	General Expense (1,500 + 150)	1,650
	11,850			11,850

Balance Sheet
(As on 31st December, 2022)

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	18,530		Freehold Ground	20,000
Add: Surplus	1,500	20,030	Sports equipment	3,600
Loan from bank		5,000	O/s Subscription	750
Advance Subscription		370	Cash in hand	1,600
O/s Salary		450	Prepaid insurance	150
O/s Audit fees		250		
		26,100		26,100

Balance Sheet
(As on 31st December, 2021)

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (b/f)	18,530	Freehold lease	20,000
Loan from bank	5,000	Sports equipment	2,600
Advance Subscription	550	O/s Subscription	700
O/s Salary	600	Cash in hand	1,580
O/s Audit fees	200		
	24,880		24,880

Subscription A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d (O/s)	700	By Balance b/d (Ad.)	550
To Income and Exp. A/c	8,500	By Bank (b/f)	8,270
To Balance c/d (advance)	370	By balance c/d	750
	9,570		9,570

PYQ **2023-Jun [4] (a)** **15 Marks**

Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31.12.2022.

Receipts and Payments Account for the year ended 31.12.2022

Receipts	Amount ₹	Payments	Amount ₹
To Opening cash in hand	12,000	By Medicine supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000
To Interest on Investment (10%)	10,000	By Sundry expenses	950
To Charity show collection	16,500	By Purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	13,800
	1,28,500		**1,28,500**

The following is the additional information provided.

	01-01-2022	31-12-2022
	Amount (₹)	Amount (₹)
Subscription due	2,500	3,100
Subscription received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500

Value of equipment	21,500	37,200
Value of building	65,000	61,750
You are required to prepare Income and Expenditure account and Balance sheet as on 31-12-2022.		

Answer:

Income and Expenditure A/c of
Pune Medical Aid Society
for the year ended 31st December, 2022

Expenditure	Amount (₹)	Income	Amount (₹)
To Medicines Consumed (W.N. 3)	34,750	By Subscription (W.N.1)	66,000
		By Donations	25,000
To Honorarium to Doctors	15,000	By Interest on Investment	10,000
To Salaries	36,000	By Profit on charity show	
To Sundry Expenses	950	Collations 16,500	
To Depreciation:		- Expenses 2,750	13,750
Equipment (W.N.4) 9,300			
Buildings (65,000- 61,750) 3,250	12,550		
To Excess of Income over Expenditure (Surplus)	15,500		
	1,14,750		**1,14,750**

Balance Sheet of Pune Medical Aid Society
as at 31-12-2022

Liabilities	(₹)	Assets		(₹)
Capital Fund:		Building	65,000	
Opening balance 1,99,700		*Less:* Depreciation	3,250	61,750
Add: Surplus 15,500	2,15,200	Equipment	21,500	
Subscription in advance	1,400	*Add:* Purchase	25,000	
Amount due for medicine	16,500		46,500	
		Less: Depreciation	(9,300)	37,200
		Stock of Medicine		17,250
		10% investments		1,00,000
		Subscription receivable		3,100
		Cash in hand		13,800
	2,33,100			**2,33,100**

Working Notes:

1. Subscription A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Subs due @ beg	2,500	By Subs received in advance @ beg	1,800
To Income & Expenditure (b/f)	66,000	By R & P	65,000
To Subs received in advance @end	1,400	By Subs due @ end	3,100
	69,900		**69,900**

2. Creditors for Medicine A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To R & P (Payments)	35,000	By Bal. b/d	12,000
To Bal. c/d	16,500	By Medicine purchased (b/f)	39,500
	51,500		**51,500**

3. Medicine Stock A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	12,500	By Income & Expenditure (Medicine consumed)	34,750
To Medicine Purchased	39,500	By Stock of Medicine	17,250
	52,000		**52,000**

4. **Equipment A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bal. b/d	21,500	By Income & Expenditure (dep.)	9,300
To Purchases (R&P)	25,000	By Bal. c/d	37,200
	46,500		**46,500**

5. **Balance Sheet of Pune Medical Aid Society as at 1.1.2022**

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital fund (b/f)	1,99,700	Building	65,000
Subscription received in advance	1,800	Equipment	21,500
		Investments	
Amount due for medicine supply	12,000	(10,000 × 100/10)	1,00,000
		Stock of Medicines	12,500
		Subscription receivable	2,500
		Cash in hand	12,000
	2,13,500		**2,13,500**

PYQ	2023-Dec [2] (b)	12 Marks

ABC sports club had the following income and expenditure account for the year ended 31st December, 2022.

Income and Expenditure Account for the year ended 31st December, 2022

Particulars	Amount ₹	Particulars	Amount ₹
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 Expenditure	63,300		
	3,83,000		3,83,000

Additional information:

	31-12-2021 ₹	31-12-2022 ₹
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 ₹ 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.

Answer:

Receipts and Payments A/c of ABC Sports club for the period ending 31st December, 2022.

Receipts		Amount (₹)	Payments		Amount (₹)
To Balance b/d		1,08,000	By Salaries	2,35,000	
To Subscriptions	2,50,000		*Less:* Current year unpaid	(15,000)	
Less: Current year O/s	(1,00,000)		*Add:* Previous year unpaid	10,000	2,30,000
Add: Previous year O/s	70,000		By Stationary Expenses		30,000
Add: Current year adv.	6,000		By Rent and taxes		5,000
Less: Previous year adv.	(2,000)	2,24,000	By Insurance		2,000
To Interest		90,000	By Office Expenses		8,000
To Donations		40,000	By Office Furniture		1,000

To Miscellaneous receipts	3,000	By Sports Equipments	5,000
		By Purchase of Stat	2,500
		By Balance c/d (b/f)	1,81,500
	4,65,000		4,65,000

Balance Sheet as on 31st December, 2022

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital Fund	40,24,000		Furniture	19,800
Add: Surplus	63,300	40,87,300	Land & Building	19,62,500
Outstanding Salaries		15,000	Sports Equipment	39,000
Subscriptions received in advance		6,000	Stock of Stationary	5,500
			Govt. Securities	18,00,000
			Subscription received	1,00,000
			Cash in hand	1,81,500
		41,08,300		41,08,300

Balance sheet as on 31st December, 2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund (b/f)	40,24,000	Furniture	20,000
Outstanding Salaries	10,000	Land & Building	20,00,000
Subscription received in advance	2,000	Sports Equipments	35,000
		Stock of Stationary	3,000
		Govt. Securities	18,00,000
		Subscription received	70,000
		Cash in hand	1,08,000
	40,36,000		40,36,000

Working Note:

1. **Subscriptions A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Income and Expenditure	2,50,000	By Cash (b/f)	2,24,000
To Subscription Receivable	70,000	By Subscription Received	1,00,000
To Subscription Advance	6,000	By Subscription Advance	2,000
	3,26,000		3,26,000

2. **Furniture A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	20,000	By Depreciation	1,200
To Bank A/c (b/f)	1,000	By Balance c/d	19,800
	21,000		21,000

3. **Sports Equipment A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	35,000	By Depreciation	1,000
To Bank A/c (b/f)	5,000	By Balance c/d	39,000
	40,000		40,000

4. **Land & Building A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	20,00,000	By Depreciation	37,500
		By Balance c/d	19,62,500
	20,00,000		20,00,000

PYQ | **2024-Jun [3] (a)** | **12 Marks**

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

Receipts and Payments Account

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

		By Balance c/d		
		Cash in Hand	8,750	
		Cash at Bank	53,400	62,150
	4,13,550			4,13,550

Details of other assets and liabilities are furnished as follows:

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

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

You are required to prepare:

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

(ii) Balance Sheet as on 31st March, 2024

Answer:

Books of Vandana Sports Club

Income & Expenditure A/c for the year ended 31.3.24

Expenditure		Amount (₹)	Income		Amount (₹)
To Salaries	1,55,000		By Subscription	2,95,000	
- O/s (PY)	10,200		- O/s (PY)	18,700	
+ O/s (CY)	12,400	1,57,200	+ O/s (CY)	20,600	
To Rent & Electricity	69,750		+ Advance	7,000	
- O/s (PY)	6,500		- Rec. in adv.	8,400	2,95,500
+ O/s (CY)	7,600	70,850	By Interest on investments	8,000	
To Dep. on Furniture	6,550		- O/s (PY)	2,000	
Sports Equipment	10,500		+ O/s (CY)	2,000	8,000
Library Books (WN. 2)	2,500		By Entrance fee		20,000
To Newspapers	16,600		By Misc. inc.		19,850
To Sundry expenses	71,050				
To Surplus (Excess of income over expenditure)	8,100				
	3,43,350				3,43,350

Balance Sheet as on 31.3.24

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital fund	2,66,700		Furniture	65,500	
+ Surplus	8,100		- Dep.	6,550	58,950
+ Entr. fees	30,000	3,04,800	Sports Equip.	41,500	
Outstanding salaries		12,400	+ Add.	28,500	
O/s Rent & Electricity		7,600	- Dep.	10,500	59,500
Subscription received in advance		8,400	Library Books	22,000	
			+ Add.	10,500	
			- Dep.	2,500	30,000
			Investment		1,00,000
			Interest accrued		2,000
			Subscriptions		20,600
			Cash in Hand		8,750
			Cash at Bank		53,400
		3,33,200			3,33,200

Working Note:

1. **Balance Sheet of Vandana Sports Club on 31.3.23**

Liabilities	Amount (₹)	Assets	Amount (₹)
Cap. fund (b/f)	2,66,700	Investments	1,00,000
O/s Salaries	10,200	Interest accrued on bonds	
O/s Rent & Elect.	6,500		2,000

Subscription rec. in advance	7,000	Subscription rec.	18,700
		Furniture	65,500
		Sports Equip.	41,500
		Library Books	22,000
		Cash in Hand	5,200
		Cash at Bank	35,500
	2,90,400		2,90,400

2. **Calculation of dep. amount on library books to be shown in P/L A/c**

Particulars	Amount (₹)
Opening balance of library books as on 1.4.23	22,000
+ Add. Made during year	10,500
– Closing value of library books on 31.3.24	30,000
Dep. to be charged to P/L A/c	2,500

PYQ | **2024-Sep [4] (b)** | **10 Marks**

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

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

		Cash in hand (Closing)	4,500
		Cash at Bank (Closing)	11,050
	43,600		43,600

Information:

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

Answer:

(a)

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

Expenditure	₹	Income		₹
To Salary	3,000	By Subscript on (W.N.-ii)		10,650
To Repairs expenses	500	By Donations (50%)		3,500
To Miscellaneous expenses	410	By Interest on investments* (100 + 200)		300
To Insurance premium	380	By Entrance fees		1,500
To Paper, Ink etc	250	By Interest received from Bank		400
To Excess of Income over expenditure	12,810	By Sale of old newspaper		250
		By Sale of drama tickets	1,250	
		Less: expenses	500	750
	17,350			17,350

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

Liabilities		₹	Assets	₹
Capital Fund:			Furniture	7,000
Opening balance (W.N.1)	43,100		Investment	6,000

Add: Excess of income. over exp	12,810		Billiards table**	30,000
Add: Donations	3,500	59,410	Cash in hand	4,500
Insurance Premium payable		80	Cash at Bank	11,050
Subscription received in advance for 2024		550	Prepaid Expenses: Misc exp	90
			Subscription Receivable	1,200
			Interest accrued on investments*	200
		60,040		60,040

Working Notes:

1. **Calculation of capital fund**

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

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

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

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

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

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

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

PYQ | **2025-Jan [5] (a)** | **10 Marks**

From the following income and expenditure account of a Club for the year ending 31st March, 2024, you are required to prepare receipt and payment account for the year ending 31st March, 2024 and Balance Sheet as on 1st April, 2023.

INCOME AND EXPENDITURE ACCOUNT
For the year ending 31st March, 2024

Expenditure	Amount (₹)	Income	Amount (₹)
To Lawn Maintenance	42,000	By Subscription	1,05,000
To General Expenses	13,000	By Admission fees	12,000
To Stationery (depreciation)	1,500	By Sports Material (Sale of second-hand material)	2,400
To depreciation on Sports material	22,000	By Entertainment	14,000
To Honorarium	10,400		
To Excess of Income over Expenditure	44,500		
	1,33,400		**1,33,400**

Additional Information:

(Amount in ₹)

Particulars	1st April, 2023	31st March, 2024
Cash at Bank	60,000	–
Stock of Sports Material	30,000	–
Tournament Fund (after deducting tournament expenses of ₹ 14,000)		6,000

Donations for club building		1,40,000
Subscription due	10,000	15,000
Stationery stock	4,000	–
Stationery was depreciated by 25% and Sports material by 50%.		

Answer:

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

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	60,000	By Lawn maintenance	42,000
To Subscriptions as per 1,05,000 Income & Expenditure Account		By General Expenses	13,000
Add: Outstanding 10,000 for 2022-23		By Honorarium	10,400
Less: Outstanding (15,000) for 2023-24	1,00,000	By Tournament Expenses	14,000
To Admission Fees	12,000	By Sports material (W.N.2)	14,000
To Entertainment	14,000	By Stationary (W.N.1)	2,000
To Donation for Building	1,40,000	By balance c/d (bal. fig)	2,53,000
To Tournament Income (6,000 +14,000)	20,000		
To Sale of sports material (Refer Note)	2,400		
	3,48,400		3,48,400

Balance Sheet of Club as at 1st April, 2023

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund (balancing figure)	1,04,000	Sports Material	30,000
		Stationary stock	4,000
		Subscriptions Outstanding	10,000
		Cash at bank	60,000
	1,04,000		1,04,000

Working Notes:

1. Calculation of Stationary

Stationary Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,000	By Depreciation	1,500
To Cash	2,000*	By Balance c/d (bal. fig.)	4,500
	6,000		6,000

* Total Stationary during the year = ₹ 1,500 / 25% = ₹ 6,000. Since stationary worth ₹ 4,000 is the opening stock, stationary of ₹ 2,000 (6,000-4,000) would be considered as purchased during the year.

2. Calculation of Sports material

Sports Material Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	30,000	By Bank (Sales of Second hand sports material)	2,400
To Income and Expenditure A/c (Gain on sale of Second- hand material)	2,400	By Depreciation	22,000
To Cash	14,000**	By Balance c/d (bal. fig)	22,000
	46,400		46,400

**Total Sports Material during the year = ₹ 22,000 / 50% = ₹ 44,000. Since Sports Material worth ₹ 30,000 is the opening stock, Sports Material of ₹ 14,000 (44,000-30,000) would be considered as purchased during the year.

Note: The Income and Expenditure account shows the gain of second-hand sports material for ₹ 2,400. In the absence of any further information, it is assumed that written down value of second-hand sports material is Nil, and it is not appearing in the opening balance of the Stock of the Sports Material as on 1st April, 2023.

PYQ	2025-May [3] (a)	12 Marks

The Receipts and Payments Account of ABC Club for the year ended March 31, 2025 was as follows:

(Figures are in '000)

Receipts	Amount	Payments	Amount
Cash in hand	150	Ground man's Fee	1,125
Balance at Bank as per Pass Book:		Moving Machine	2,250
- Deposit Account	3,345	Ground Rent	375
- Current Account	900	Cost of Teas	375
Bank Interest	45	Fares	600
Donations and Subscriptions	3,900	Printing & Office Expenses	420
Receipts from teas	450	Repairs to Equipment	750
Contribution to fares	150	Honorarium to Secretary and Treasurer of 2024	600
Sale of Equipment	120	Balance at Bank as per Pass Book:	
Net proceeds of Variety Entertainment	1,170	- Deposit Account	4,635
Donation for forthcoming Tournament	1,500	- Current Account	225
		Cash in hand	375
Total	**11,730**	**Total**	**11,730**

You are given the following additional information:

(Figures are in '000)

Particulars	April 1, 2024	March 31, 2025
Subscription due	225	150
Amount due for printing, etc.	150	120
Cheques unpresented being payment for repairs	450	390
Estimated value of machinery and equipment	1,200	2,625
Interest not yet entered in the Pass book		30
Bonus to Ground man outstanding		450

For the year ended March 31, 2025, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹ 3,00,000.
Prepare the Income and Expenditure Account and Balance Sheet for the period ending March 31, 2025.

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "Financial statements for not-for-profits reflect service, not profit—learn to measure impact beyond money."
- "Mastering these statements helps ensure accountability and transparency for social good."
- "Every entry in these accounts builds trust with donors and stakeholders."
- "Understanding not-for-profit financials is key to tracking the effectiveness of their noble missions."
- "These statements teach us to value purpose over profit while maintaining financial discipline."

Checklist for Studying

- Understand the components of financial statements for not-for-profits: Receipts and Payments Account, Income and Expenditure Account, and Balance Sheet.
- Memorize the differences between revenue and capital items.
- Learn common adjustments such as outstanding expenses, prepaid expenses, and depreciation.
- Study the classification of funds: general fund and specific funds.
- Practice solving problems involving subscription income, donations, and legacies.

Fun Facts

- Not-for-profit organizations like NGOs, clubs, and schools use financial statements to ensure transparency.
- The Income and Expenditure Account is similar to a Profit & Loss Account but focuses on surplus or deficit.
- Receipts and Payments Account includes all cash and bank transactions, irrespective of the accounting period.
- Donations for specific purposes are often treated as liabilities until utilized.
- Not-for-profit financials prioritize accountability to stakeholders, not profit maximization.

FAQs About Non-Profit Financial Statements

- Why do non-profits prepare Receipts and Payments Accounts?
- What is the difference between surplus and profit?
- How do donations for specific purposes appear in financial statements?
- Why is accrual accounting used for Income and Expenditure Account?
- How does accurate financial reporting build trust with donors and stakeholders?

Fun Flow

- Visualize the Receipts and Payments Account as a financial diary, capturing cash inflows and outflows.
- Relate the Income and Expenditure Account to a scorecard, showing the organization's performance in fulfilling its objectives.
- Practice categorizing transactions into revenue and capital items for clarity.
- Use flowcharts to connect donations, subscriptions, and expenses to the respective accounts.
- Prepare statements for a hypothetical non-profit like a charity or sports club.

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- Prepare statements for a hypothetical non-profit like a charity or sports club.

Adjustments in Non-Profit Financial Statements

- Depreciation: Charge it as an expense and reduce asset value.
- Subscription Income: Adjust for arrears and advance payments.
- Prepaid Expenses: Deduct from expenses and show as a current asset.
- Outstanding Expenses: Add to expenses and show as a liability.
- Capital Receipts: Record donations for specific purposes as liabilities until used.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	
9	**Accounts from Incomplete Records**

PRACTICAL QUESTIONS

PYQ	2015-May [4]	16 Marks

The following is the Balance Sheet of M/s. Care Traders as on 1-4-2014:

	₹
Sources of Funds	
Share Capital	10,00,000
Profit and Loss	1,47,800
Unsecured loan @ 10%	1,75,000
Trade Payables	45,800
	13,68,600
Application of Funds	
Machinery	8,25,500
Furniture	1,28,700
Inventory	1,72,000
Trade Receivables	2,29,600
Bank Balance	12,800
	13,68,600

A fire broke out in the premises on 31-3-2015 and destroyed the books of account. The accountant could however provide the following information:

(1) Sales for the year ended 31-3-2014 was ₹ 18,60,000. Sales for the current year was 20% higher than the last year.
(2) 25% sales were made in cash and the balance was on credit.
(3) Gross profit on sales is 30%.
(4) Terms of Credit

Debtors : 2 months
Creditors : 1 month

All creditors are paid by cheque and all credit sales are collected in cheque.

(5) The Bank Pass Book has the following details (other than payment to creditors and collection from debtors)

	₹
Machinery purchased	1,14,000
Rent paid	1,32,000
Advertisement expenses	80,000
Travelling expenses	78,400
Repairs	36,500
Sales of furniture	9,500
Cash withdrawn for petty expenses	28,300
Interest paid on unsecured loan	8,750

(6) Machinery was purchased on 1-10-2014.
(7) Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.
(8) Travelling expenses of ₹ 7,800 for which cheques were issued but not presented in bank.
(9) Furniture was sold on 1-4-2014 at a loss of ₹ 2,900 on book value.
(10) Physical verification as on 31-3-2015 ascertained the stock position at ₹ 1,81,000 and petty cash balance at nil.
(11) There was no change in unsecured loan during the year.
(12) Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare Bank Account, Trading and Profit and Loss Account for the year ended 31-3-2015 in the books of M/s. Care Traders and a Balance Sheet as on that date. Make necessary assumptions wherever necessary.

(CA Inter P-1 2015-May)

Answer:

In the books of M/s Care Traders
Bank Account as on 31.3.2015

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Balance	12,800	By Creditors (Payment made) (WN 6)	14,86,250
To Cash sales (WN 1)	5,58,000		
To Debtors (collection made) (WN 4)	16,24,600	By Machinery Purchased	1,14,000
		By Advertisement expenses	80,000
To Furniture (sold)	9,500	By Rent	1,32,000
		By Travelling expenses (78,400 + 7,800)	86,200
		By Repairs	36,500
		By Petty Cash	28,300
		By Interest on unsecured loan	8,750
		By Balance c/d (bal. fig.)	2,32,900
	22,04,900		22,04,900

Trading and Profit and Loss Account
for the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,72,000	By Sales (WN 1)	22,32,000
To Purchases (W.N. 2)	15,71,400	By Closing Stock	1,81,000
To Gross Profit b/d (W.N. 1)	6,69,600		
	24,13,000		24,13,000
To Rent (1,32,000 × 12/11)	1,44,000	By Gross Profit c/d	6,69,600
To Advertisement expenses	60,000		
To Travelling expenses	86,200		
To Repairs	36,500		
To Petty Cash expenses	28,300		
To Interest on unsecured loan	17,500		

To Loss on sale of Furniture	2,900		
To Depreciation			
Machinery (W.N. 8)	88,250		
Furniture	23,260		
To Net Profit	1,82,690		
	6,69,600		6,69,600

Balance Sheet of M/s. Care Traders as on 01.04.2015

Liabilities		(₹)
Share Capital		10,00,000
Profit and Loss		
Opening Balance	1,47,800	
Add: Profit for the year	1,82,690	3,30,490
Unsecured loan @10%		1,75,000
Interest on unsecured loan		8,750
Trade Payable (W.N. 5)		1,30,950
Outstanding expenses Rent		12,000
		16,57,190
Assets		
Machinery		
Gross block value (W.N. 7)	9,39,500	
Less: depreciation	(88,250)	8,51,250
Furniture		
Gross block value (W.N. 9)	1,16,300	
Less: depreciation	(23,260)	93,040
Inventory		1,81,000
Trade Receivables (W.N. 3)		2,79,000
Prepaid expenses (Advertisement)		20,000
Bank balance		2,32,900
		16,57,190

Working Notes:

1. **Sale for the year ended 31.03.2015**

	₹
Last year Sales	18,60,000
Add growth @20%	3,72,000
Sale for 2014-15 (A)	22,32,000
Cash Sales (25% of ₹ 22,32,000)	5,58,000
Credit sales (22,32,000 – 5,58,000)	16,74,000
Gross profit 30% on sales (B)	6,69,600

2. **Purchases for the year ended 31.03.2015**

	₹
Cost of Sales (A-B) (22,32,000 -6,69,600)	15,62,400
Add Closing stock	1,81,000
	17,43,400
Less: Opening stock	(1,72,000)
Purchases during the year	**15,71,400**

3. **Debtors as on 31.03.2015**

	₹
Total credit sales	16,74,000
Debtors 2 months credit	
(16,74,000 x 2/12)	**2,79,000**

4. **Collections from Debtors account**

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	2,29,600	By Bank (collection) Bal. fig.	16,24,600
To Credit sales	16,74,000	By Closing balance	2,79,000
	19,03,600		19,03,600

5. **Creditors as on 31.03.2015**

	₹
Total Credit purchases (all creditors paid by cheque hence there are no cash purchases)	15,71,400
Creditors 1 month credit	
(15,71,400 x 1/12)	**1,30,950**

6. **Payment to Creditors account**

	Dr. Amount (₹)		Cr. Amount (₹)
To Bank (Payment) Bal. fig.	14,86,250	By Opening Balance	45,800
To Closing Balance	1,30,950	By Credit Purchases	15,71,400
	16,17,200		16,17,200

7. **Machinery Account**

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	8,25,500	By Closing Balance	9,39,500
To Machinery Purchased	1,14,000	(Bal. fig.)	
	9,39,500		9,39,500

8. **Depreciation on Machinery**

	₹
Existing Machinery for 1 Year (₹ 8,25,500 x 10%)	82,550
New Machinery (Purchased on 1.10.2014)	
For 6 months (₹ 1,14,000 x ½ x 10%)	5,700
	88,250

9. **Furniture Account**

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	1,28,700	By Bank (Sale)	9,500
		By Loss on Sale	2,900
		By Closing balance	1,16,300
	1,28,700		1,28,700

PYQ | **2015-Nov [1] (c) {C}** | **5 Marks**

Balance Sheet of Anurag Trading Co. on 31st March, 2014 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	PPE	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Creditors	18,000	Deferred Expenditure	15,000
		Bank	3,000
	1,33,000		**1,33,000**

Additional Information:

(i) Remaining life of fixed assets (PPE) is 5 years with even use. The net realizable value of fixed assets (PPE) as on 31st March, 2015 was ₹ 64,000.

(ii) Firm's sales and purchases for the year 2014-15 amounted to ₹ 5 lacs and ₹ 4.50 lacs respectively.

(iii) The cost and net realizable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.

(iv) General Expenses for the year 2014-15 were ₹ 16,500.

(v) Deferred Expenditure is normally amortized equally over 4 years starting from F.Y. 2013-14 i.e. ₹ 5,000 per year.

(vi) Out of debtors worth ₹ 10,000, collection of ₹ 4,000 depends on successful re-design of certain product already supplied to the customer.

(vii) Closing trade payable is ₹ 10,000, which is likely to be settled at 95%.

(viii) There is pre-payment penalty of ₹ 2,000 for Bank loan outstanding.

Prepare Profit & Loss Account for the year ended 31st March, 2015 by assuming it is not a Going Concern. *(CA Inter P5 2015-Nov)*

Answer:

Profit and Loss Account of Anurag Trading Co.
for the year ended 31st March, 2015
(Assuming business is not a going concern)

Particulars	₹	Particulars	₹
To Opening Stock	36,000	By Sales	5,00,000
To Purchases	4,50,000	By Trade payables	500
To Expenses	16,500	By Closing Stock	38,000
To Depreciation (69,000-64,000)	5,000		
To Provision for doubtful debts	4,000		
To Deferred cost	15,000		
To Loan penalty	2,000		
To Net Profit	10,000		
	5,38,500		5,38,500

PYQ | **2015-Nov [7] (d)** | **4 Marks**

Attempt the following:

A company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on

31.03.2015 is ₹ 1,25,000. Assume that the sale is uniform through out the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2015. *(CA Inter P-1 2015-Nov)*

Answer:

Calculation of Credit sales:

Debtor × $\frac{12}{1.5}$ = 1,25,000 x $\frac{12}{1.5}$ = 10,00,000

Calculation of Total sales:

Credit sale x $\frac{100\%}{80\%}$ = 10,00,000 x $\frac{100\%}{80\%}$

= 12,50,000.

PYQ | **2016-May [3] (a)** | **8 Marks**

The following is the Balance Sheet of Manish and Suresh as on 1st April, 2015:

Liabilities	₹	Assets	₹
Capital:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		**2,80,000**

They give you the following additional information:

(i) Creditors' Velocity 1.5 month & Debtors' Velocity 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

Prepare Trading, Profit and Loss Account, Trade Debtors A/c and Trade Creditors A/c for the year ending 31.03.2016. *(CA Inter P-1 2016-May)*

Answer:

Trading A/c

Particulars	Amount	Particulars	Amount
Opening Stock	40,000	Sales	4,31,250
Purchase	3,45,000	Closing stock	40,000
Gross profit	86,250		
	4,71,250		**4,71,250**

Profit and Loss Account

Particulars	Amount	Particulars	Amount
Business expense	50,000	Gross profit	86,250
Depreciation	11,500		
Net profit	24,750		
	86,250		**86,250**

Trade Debtors A/c

Particulars	Amount	Particulars	Amount
Opening balance	50,000	Cash receipt	4,09,375
Sales	4,31,250	Closing	71,875
	4,81,250		**4,81,250**

Trade Creditors A/c

Particulars	Amount	Particulars	Amount
Cash paid	3,31,875	Opening balance	30,000
Closing	43,125	Purchase	3,45,000
	3,75,000		**3,75,000**

Balance Sheet

Particulars	Amount	Particulars	Amount
Capital:		Fixed asset (PPE):	
Manish	1,50,000	Building	95,000
Suresh	75,000	Machinery	58,500
Profit & Loss A/c	24,750	Current asset:	
Creditor for goods	43,125	Stock	40,000
		Debtors	71,875
		Bank	27,500
	2,92,875		**2,92,875**

Working Note: 1

Old purchase

$$\text{Creditor velocity} = \frac{\text{Creditor}}{\text{Purchase}} \times 12$$

$$1.5 = \frac{30,000}{\text{Purchase}} \times 12$$

Old purchase = 2,40,000

Working Note: 2

Old sales

$$\text{Debtor velocity} = \frac{\text{Debtor}}{\text{Sales}} \times 12$$

$$2 = \frac{50,000}{\text{Old sales}} \times 12$$

Sales = 3,00,000

= Sales - Purchase

= 3,00,000 - 2,40,000

= **60,000**

$$\text{Gross profit ratio} = \frac{60,000}{3,00,000} \times 100 = 20\%$$

Purchase New

= Old purchase × 115% × 125%

= 2,40,000 × 115% × 125%

= **3,45,000**

New Sales & Gross Profit

Gross Profit = 4,31,250 × 20% = 86,250

Gross Profit = Sales - Purchase

0.205 = 5 - 3,45,000

0.805 = 3,45,000

Sales = 4,31,250

Cash Balance

Opening cash	25,000
Add: Cash receipt (from debtor)	4,09,375
Less: Cash paid (to creditors)	3,31,875
Less: Business expenditure	50,000
Less: Cash paid (to creditor for expense)	25,000
Closing Balance	27,500

PYQ | **2017-May [4]** | **16 Marks**

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/C for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on in ₹

	1.4.2016	31.3.2017
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	–
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October, 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.
(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.
(d) Goods costing ₹ 9,000 were used as advertising material.
(e) Goods are invariably sold to show a gross profit of 20% on sales.
(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
(g) Provide at 2% for doubtful debts on closing debtors.

(CA Inter P-1 2017-May)

Answer:

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

	₹			₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing Inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed-			(20,000×6/100 ×½)	
Debtors	15,000			
Bills Receivable	1,250	16,250	By Discount received	8,000
To Depreciation on furniture		6,500	By Miscellaneous income	5,000
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		1,35,350

Balance Sheet as on 31st March, 2017

Liabilities	Amount	Assets			Amount
	₹	₹		₹	₹
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.) Additions during the year	60,000	
Less: Drawings	(91,000)			10,000	
	97,000				
Add: Net Profit	10,145	1,07,145	*Less:* Depreciation	(6,500)	63,500
Sundry creditors		1,50,00	Investment		19,000
Outstanding expenses		18,000	Interest accrued		600
			Closing Inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

1. Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	₹	Assets	₹
Capital (Bal. fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

2. Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

3. Sales made during the year

		₹
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

4. Debtors on 31st March, 2017

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c (bill dishonoured)	4,000	By Bills receivable A/c	1,00,000
		By Balance c/d (Bal. fig.)	72,750
	7,72,750		7,72,750

5. Additional drawings by Proprietors of ABC Enterprises

Cash and Bank Account

	₹		₹
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous Income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c [(₹ 70,000 + ₹ 21,000) Additional drawings)]	91,000
		By Balance c/d	26,250
	6,63,250		6,63,250

6. Amount of Expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid Expenses A/c (on 1.4.2016)	6,000	By Outstanding Expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding Expenses A/c (on 31.32017)	18,000	By Prepaid Expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

7. Bills Receivable on 31st March, 2017

Bills Receivable Account

	₹		₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

PYQ | **2018-Nov [3] (a)** | **15 Marks**

Aman, a readymade garment trader, keeps his books of account under single entry system. On the closing on 31st March, 2017 his statement of affairs stood as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Aman's capital	4,80,000	Building	3,25,000
Loan	1,50,000	Furniture	50,000
Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Debtors	1,70,000

		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		9,40,000

Riots occurred and a fire broke out on the evening of 31st March, 2018, destroying the books of accounts. On that day, the cashier had absconded with the available cash. You are furnished with the following information:

1. Sales for the year ended 31st March, 2018 were 20% higher than the previous year's sales, out of which, 20% sales were for cash. He always sells his goods at cost plus 25%. There were no cash purchases.
2. Collection from debtors amounted to ₹ 14,00,000, out of which ₹ 3,50,000 was received in cash.
3. Business expenses amounted to ₹ 2,00,000, of which ₹ 50,000 were outstanding on 31st March, 2018 and ₹ 60,000 paid by cheques.
4. Gross profit as per last year's audited accounts was ₹ 3,00,000.
5. Provide depreciation on building and furniture at 5% each and motor car at 20%.
6. His private records and the Bank Pass Book disclosed the following transactions for the year 2017-18:

	₹
Payment to creditors (paid by cheques)	13,75,000
Personal drawings (paid by cheques)	75,000
Repairs (paid by cash)	10,000
Travelling expenses (paid by cash)	15,000
Cash deposited in bank	7,15,000
Cash withdrawn from bank	1,20,000

7. Stock level was maintained at ₹ 3,00,000 all throughout the year.
8. The amount defalcated by the cashier is to be written off to the Profit and Loss Account.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2018 and Balance Sheet as on that date of Aman. All the workings should form part of the answer. *(CA Inter P-1 2018-Nov)*

Answer:

Trading and Profit and Loss Account of Aman for the year ended on 31st March, 2018.

Particulars	₹	Particulars	₹
To Opening Stock	2,00,000	By Sales	18,00,000
To Purchases	15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d	3,60,000		
	21,00,000		21,00,000
To Business Expenses	2,00,000	By Gross Profit b/d	3,60,000
To Repairs	10,000		
To Depreciation			
Building 16,250			
Furniture 2,500			
Motor Car 18,000	36,750		
To Traveling Expenses	15,000		
To Loss by theft	20,000		
To Net Profit	78,250		
	3,60,000		3,60,000

Balance Sheet of Aman as at 31st March, 2018

Liabilities	₹	₹	Assets	₹	₹
Capital	4,80,000		Building	3,25,000	
Add: Net Profit	78,250		*Less*: Depre.	(16,250)	3,08,750
	5,58,250		Furniture	50,000	
Less: Drawings	(75,000)	4,83,250	*Less*: Depre.	(2,500)	47,500
Loan		1,50,000	Motor Car	90,000	
Creditors		4,75,000	*Less*: Depre.	(18,000)	72,000
Outstanding			Stock		3,00,000
Expenses		50,000	Debtors		2,10,000
			Cash at Bank		2,20,000
		11,58,250			11,58,250

* **Working Notes :**

1. Sales for the year ended on 31st March, 2018

Particulars	₹
Gross Profit as per last year's accounts	3,00,000
GP Ratio is cost plus 25%	
So, Sales for last year $\left(3,00,000 \times \frac{125}{25}\right)$	15,00,000
Increase of 20% as stated in question	3,00,000
Total Sales during 2017-18	18,00,000
Cash Sales - 20%	3,60,000
Credit Sales - 80%	14,40,000

2. Calculation for Creditors for Purchases

Particulars	₹
Creditors as on 31st March, 2017	3,10,000
Purchases during 2017-18 (All credit)	15,40,000
(-) Payment to creditors (by cheques)	(13,75,000)
Creditors as on 31st March, 2018	4,75,000

3. Calculation for Debtors for Sales

Particulars	₹
Debtors as on 31st March, 2017	1,70,000
Credit Sales during 2017-18	14,40,000
(-) Collection from debtors	(14,00,000)
Debtors as on 31st March, 2018	2,10,000

4. Cash and Bank Account

Particulars	Cash	Bank	Particulars	Cash	Bank
To Bal. b/d.	20,000	85,000	By Payment to Creditors	–	13,75,000
To Collection From Debtors	3,50,000	10,50,000	By Business Expenses	90,000	60,000
			By Repairs	10,000	–
To Sales	3,60,000		By Traveling Expenses	15,000	–
To Cash	–	7,15,000	By Personal Drawings	–	75,000
To Bank	1,20,000		By Bank	7,15,000	–
			By Cash	–	1,20,000
			By Balance C/d.	–	2,20,000
			By Balance. C/d (lost by theft)	20,000	–
	8,50,000	18,50,000			18,50,000

PYQ | **2019-May [3] (a)** | **12 Marks**

The following balances appeared in the books of M/s Sunshine Traders:

	As on 31-03-2018 (₹)	As on 31-03-2019 (₹)
Land and Building	2,50,000	2,50,000
Plant and Machinery	1,10,000	1,65,000
Office Equipment	52,500	42,500
Sundry Debtors	77,750	1,10,250
Creditors for Purchases	47,500	?
Provision for office expenses	10,000	7,500
Stock	?	32,500
Long Term loan from ABC Bank @ 10% per annum	62,500	50,000
Bank	12,500	?
Capital	4,65,250	?

Other information was as follows:

	in (₹)
— Collection from Sundry Debtors	4,62,500
— Payments to Creditors for Purchases	2,62,500
— Payment of office Expenses	21,000
— Salary paid	16,000
— Selling Expenses paid	7,500
— Total sales	6,25,000
Credit sales (80% of Total sales)	
— Credit Purchases	2,70,000
Cash Purchases (40% of Total Purchases)	
— Gross Profit Margin was 25% on cost	
— Discount Allowed	2,750
— Discount Received	2,250
— Bad debts	2,250

— Depreciation to be provided as follows:
  Land and Machinery 5% per annum
  Plant and Machinery 10% per annum
  Office Equipment 15% per annum
— On 01.10.2018 the firm sold machine having Book Value ₹ 20,000 (as on 31.03.2018) at a loss of ₹ 7,500. New machine was purchased on 01.01.2019.
— Office equipment was sold at its book value on 01.04.2018.
— Loan was partly repaid on 31.03.2019 together with interest for the year.

You are required to prepare:
(i) Trading and Profit & Loss account for the year ended 31st March, 2019.
(ii) Balance Sheet as on 31st March, 2019. *(CA Inter P-1 2019-May)*

Answer:

Trading and Profit and Loss A/c
for the year ended on 31st March, 2019

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock (Balancing figure)		82,500	By Sales (W.N.1) Cash	1,25,000	
To Purchases-Cash	1,80,000		Credit	5,00,000	6,25,000
Credit (W.N.1)	2,70,000	4,50,000	By Closing Stock		32,500
To Gross Profit c/d		1,25,000			
		6,57,500			6,57,500
To Loss on Sale of Machine		7,500	By Gross Profit b/d		1,25,000
To Depreciation			By Discount received		2,250
Land & Building	12,500				
Plant & Machinery	11,875				
Office Equipment	6,375	30,750			
To Expenses paid					
Salary	16,000				
Selling Expenses	7,500				
Office Expenses	18,500	42,000			
To Bed debt		2,250			
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net Profit		35,750			
		1,27,250			1,27,250

(ii) Balance Sheet
as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net Profit	35,750	5,01,000	*Less:* Depreciation	(12,500)	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	*Less:* Depreciation	(10,875)	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	
			Less: Depreciation	(6,375)	36,125
			Debtors		1,10,250
			Stock		32,500
			Bank balance (W.N.4)		40,750
		6,11,250			6,11,250

Working Notes:

1. Calculation of Sales and Purchases:

Total Sales = ₹ 6,25,000
Cash Sales = 20% of total sales = (6,25,000) = ₹ 1,25,000
Credit Sales = 80% of total sales = (6,25,000) = ₹ 5,00,000

Gross Profit 25% on cost = $6,25,000 \times \frac{25}{125}$ = ₹ 1,25,000

Credit Purchases = ₹ 2,70,000
Credit Purchases = 60% of total purchases
Credit Purchases = 40% of total purchases

Total Purchases = $\frac{2,70,000}{60} \times 100$ = ₹ 4,50,000

Cash Purchases = ₹ 4,50,000 – 2,70,000 = ₹ 1,80,000

2. Plant & Machinery

	₹		₹
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-Purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		1,85,000

Depreciation on Plant & Machinery

@ 10% p.a. on ₹ 20,000 for 6 months	=	₹ 1,000
@ 10% p.a. on ₹ 90,000 (i.e. ₹ 1,10,000 – ₹ 20,000)	=	₹ 9,000
@ 10% p.a. on ₹ 75,000 for 3 months (i.e. during the year)	=	₹ 1,875
	=	₹ 11,875

Sale of Machinery Account

To Plant and Machinery	20,000	By	Depreciation (20,000 × 10% × ½	1,000
		By	Profit and Loss A/c	7,500
		By	Bank (Balancing figure)	11,500
	20,000			20,000

3. Creditors Account

	₹		₹
To Cash	2,62,500	By Balance b/d	47,500
To Discount received	2,250	By Credit purchases (W.N.2)	2,70,000
To Balance c/d (Bal. Fig)	52,750		
	3,17,500		3,17,500

Debtors Account

	₹		₹
To Balance b/d (Given)	77,750	By Cash	4,62,500
To Sales (Credit)	5,00,000	By Discount allowed	2,750
		By Bad debts	2,250
		By Balance c/d	1,10,250
	5,77,750		5,77,750

Provision for Office Expenses Account

	₹		₹
To Bank	21,000	By Balance b/d	10,000
To balance c/d	7,500	By Expenses (Bal. fig.)	18,500
	28,500		28,500

4. Bank Account

	₹		₹
To Balance b/d	12,500	By Creditors	2,62,500
To Debtors	4,62,500	By Purchases	1,80,000
To Office Equipment (sales)	10,000	By Expenses ₹(16,000 +7,500 + 21,000)	44,500
To Cash sales (W.N.1)	1,25,000	By Bank loan paid	18,750
To Machine sold	11,500	By Machine purchased (W.N.4)	75,000
		By Balance c/d (Bal. Fig.)	40,750
	6,21,500		6,21,500

5. Office Equipment Account

To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		52,500

PYQ | 2019-Nov [4] (b) | 10 Marks

Archana Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2018 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding exp.	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		**15,00,000**

The following was the summary of cash and bank book for the year ended 31st March, 2019:

Receipts	Amount (₹)	Payment	Amount (₹)
Cash in hand & at Bank on 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2019	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively, (for the year ended 31st March, 2019)(ii)Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.

(iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.

(iv) The following are the balances as on 31st March, 2019:

Stock	₹ 9,75,000
Trade debtors	₹ 3,43,000
Outstanding expenses	₹ 55,200

(v) Gross profit ratio of 10% on sales in maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2019, and Balance Sheet as on that date.

(CA Inter P-1 2019-Nov)

Answer:

Trading and Profit and Loss Account for the year ended 31st March, 2019

Particulars	₹	Particulars	₹	₹
To Opening Stock	9,15,000	By Sales		
To Purchases (W.N.2)	1,25,97,000	Cash	1,10,70,000	
		Credit (W.N.1)	28,60,000	1,39,30,000
To Gross Profit c/d	13,93,000	By Closing Stock		9,75,000
(10% of ₹ 1,39,30,000)				
	1,49,05,000			1,49,05,000
To Sundry Expenses (W.N.4)	9,18,750	By Gross Profit b/d		13,93,000
To Discount Allowed	54,000	By Discount received		42,500
To Depreciation (₹ 1,50,000 × 15%)	22,500			
To Net Profit (b/f)	4,40,250			
	14,35,500			14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2019

Liabilities		₹	Assets		₹
Capital			Furniture	1,50,000	
Opening Bal.	6,75,000		*Less:* Depre.	22,500	1,27,500
Less: Drawings	3,60,000				
	3,15,000		Stock		9,75,000
Add: Net Profit for the year	4,40,250	7,55,250	Trade Debtors		3,43,000
			Prepaid insurance		3,000
Trade Creditors		8,29,000	Cash in hand & at bank		1,90,950
Outstanding Expenses		55,200			
		16,39,450			16,39,450

Working Notes:

1. **Trade Debtors A/c**

	₹		₹
To Bal. b/d	3,12,000	By Cash/Bank	27,75,000
To Credit Sales (Bal. Fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. **Memorandum Trading Account**

	₹		₹
To Opening stock	9,15,000	By Sales	1,39,30,000
To Purchases (Bal. fig.)	1,25,97,000	By Closing Stock	9,75,000

To Gross Profit (10% on sales)	13,93,000		
	1,49,05,000		**1,49,05,000**

3. Trade Creditors A/c

	₹		₹
To Cash/Bank	1,24,83,000	By Balance b/d	7,57,500
To Discount Received	42,500	By Purchases	1,25,97,000
To Bal. c/d (Bal. fig.)	8,29,000	(as calculated in W.N.2)	
	1,33,54,500		**1,33,54,500**

4. Computation of Sundry expenses to be charged to P&L A/c

	₹
Sundry Expenses paid (as per cash book)	9,31,050
Add: Prepaid expenses as on 31/03/2018	3,000
	9,34,050
Less: Outstanding Exp. as on 31/03/2018	(67,500)
	8,66,550
Add: Outstanding Exp. as on 31/03/2019	55,200
	9,21,750
Less: Prepaid Insu. On 31/03/2019 (₹ 9000 × 4/12)	(3,000)
	9,18,750

PYQ | **2020-Nov [2] (b)** | **10 Marks**

M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The books of accounts are closed on 31st March every year. The Balance Sheet as on 31st March, 2019 is as follows:

Liabilities	₹	Assets	₹
Capital	12,50,000	PPE	6,50,000
Trade Creditors	1,90,000	Closing Stock	3,75,000
Profit & Loss A/c	1,45,000	Trade Debtors	3,65,000
		Cash & Bank	1,95,000
	15,85,000		**15,85,000**

The management estimates the purchase & sales for the year ended 31st March, 2020 as under:

Particulars	Upto 31.01.2020 (₹)	February 2020 (₹)	March 2020 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets (PPE), which are depreciated @ 10% on book value. A Fixed Asset (PPE) of book value as on 01.04.2019, ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2020.

The time lag for payment to Trade Creditors for purchases is one month and receipt from Trade debtors for sales is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & Profit & Loss Account for the year ending 31st March, 2020 and draft a Balance Sheet as at 31st March, 2020 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current assets and liabilities apart from stock and cash and bank balances.

Also, prepare Cash & Bank account and Fixed Assets (PPE) account for the year ending 31st March, 2020. *(CA Inter P-1 2020-Nov)*

Answer:

Trading & P/L A/c of M/s Rohan & Sons for the year ended 31.3.2020

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Op stock	3,75,000	By Sales (Total)	24,60,000
To Purchase	18,85,000	By Closing stock	4,15,000
To Gross Profit [24,60,000 × 25%]	6,15,000		
	28,75,000		**28,75,000**
To Dep. on FA	80,000	By Gross Profit b/d	6,15,000

To	Other Expenses [24,60,000 × 15%]	3,69,000	By Profit on Sale of FA	2,000
To	Net Profit	1,68,000		
		6,17,000		6,17,000

Balance Sheet of M/s Rohan & Sons as at 31.3.2020

Liabilities		(₹)	Assets	(₹)
Capital		12,50,000	PPE	6,66,000
Profit & loss	1,45,000		Debtors	3,85,000
(+) c.y profit	1,68,000	3,13,000	Stock	4,15,000
Trade Creditors		1,25,000	Bank Balance	2,22,000
		16,88,000		16,88,000

Dr. Debtor's A/c Cr.

To Bal. bld	3,65,000	By Bank	24,40,000
To Sales (Credit)	24,60,000	By Bal. c/d	3,85,000
	28,25,000		28,25,000

Dr. Creditor's A/c Cr.

To Bank	19,50,000	By Bal. b/d	1,90,000
To Bal. c/d	1,25,000	By Purchase	18,85,000
	20,75,000		20,75,000

Dr. Bank A/c Cr.

To Bal. b/d	1,95,000	By Creditors	19,50,000
To Debtors	24,40,000	By FA	1,50,000
To Sale of FA	56,000	By Expenses	3,69,000
		By Bal. c/d	2,22,000
	26,91,000		26,91,000

Dr. Fixed Asset (PPE) A/c Cr.

To Bal. b/d	6,50,000	By Depn. [Asset sold]	6,000
To Bank [Purchase]	1,50,000	By Bank	56,000

To Profit on sale	2,000	By Depreciation [7,40,000 × 10%]	74,000
		By Bal. c/d	6,66,000
	8,02,000		8,02,000

PYQ 2021-Jan [2] (b) — 10 Marks

Mr. Prakash furnishes following information for his ready-made garments business:

(i) Receipts and Payments during 2019-20:

Receipts	Amount (₹)	Payments	Amount (₹)
Bank Balance as on 1-4-2019	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
Interest on Investment received	9,750	Drawings	96,000
		Cash Purchases	1,22,750
		Balance at Bank on 31-03-2020	36,600
		Cash in hand on 31-03-2020	20,150
	7,27,800		7,27,800

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

	1st April, 2019 (₹)	31st March, 2020 (₹)
Machinery	85,000	85,000
Furniture	24,500	24,500
Trade Debtors	1,55,000	?
Trade Creditors	60,200	?
Stock	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 reserve 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, 2020, and Balance Sheet as on that date.
(CA Inter P-1 2021-Jan)

Answer:

Trading and Profit & Loss Account for the year ended 31-03-2020

Particulars	₹	₹	Particulars	₹
To Opening Inventory		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing Inventory	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		11,800	By Interest on investment	10,200
To General expenses		22,500	(9,750 + 450)	
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, 2020

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital on 1st April, 2019	3,32,150		Machinery	85,000	
Add: Fresh Capital	50,000		*Less:* Depreciation	(8,500)	76,500
Add: Profit for the year	1,31,100		Furniture	24,500	
	5,13,250		*Less:* Depreciation	(2,450)	22,050
Less: Drawings	(96,000)	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,57,200	
Sundry creditors		2,08,200	*Less:* Provision for		
Outstanding expenses		14,000	Doubtful debts	(14,200)	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 1-4-2019

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

2. Total Debtors A/c

		₹			₹
1.4.19	To Balance b/d	1,55,000	31.3.20	By Cash	4,81,000
31.3.20	To Credit sales (1,70,800/20×80)	6,83,200	31.3.20	By Bad debts	7,200
				By Balance c/d (Bal. Fig.)	3,50,000
		8,38,200			8,38,200

3. Total Creditors Account

		₹			₹
31.3.20	To Cash	3,43,000	1.4.19	By Balance c/d	60,200
31.3.20	To Balance c/d (Bal. Fig.)	2,08,200	31.3.20	By Credit Purchases(1,22,750 / 20 × 80)	4,91,000
		5,51,200			5,51,200

PYQ | **2021-Jul [3] (b)** | **10 Marks**

Mr. Arun runs a business of ready-made garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital A/c.	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		**6,07,500**

You are furnished with following information:

(1) His sales, for the year ended 31st March, 2021 were 20% higher than the sales of previous year, out of which 20% sales was cash sales. Total Sales during the year 2019-20 were ₹ 6,25,000

(2) Payments for all the purchases were made by cheques only.

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

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

(5) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expanses ₹ 1,500 and personal expanses 625.

Analysis of bank pass book for the year ending 31st March, 2021 disclosed the following:

	₹
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2021	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2021:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2021, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c. for the year ended 31st March, 2021 and Balance Sheet as on that date. All the working should form part of the answer. *(CA Inter P-1 2021-Jul)*

Answer:

In the books of Mr. Arun
Trading and Profit and Loss Account
for the year ending on 31st March, 2021

Particulars	₹	Particulars		₹
To Opening Stock	3,50,000	By Sales (W.N.3)		
To Purchases (W.N.1)	4,55,000	Credit	6,00,000	
To Gross Profit (b/f)	1,45,000	Cash	1,50,000	7,50,000
		By Closing Stock		2,00,000
	9,50,000			9,50,000
To Salary (2,500 × 12)	30,000	By Gross Profit		1,45,000
To Rent	20,000			

To Office expenses (1,500 x 12)	18,000		
To Loss of Cash (W.N.6)	29,500		
To Depreciation on furniture	5,000		
To Net profit (b/f)	42,500		
	1,45,000		1,45,000

Balance Sheet as on 31st March, 2021

Liability		₹	Assets		₹
Arun's Capital	5,05,000		Furniture	50,000	
Add: Net Profit	42,500		*Less:* Depreciation	(5,000)	45,000
Less: Drawings	(7,500)		Stock		2,00,000
(625 x 12)		5,40,000	Debtors		1,50,000
Creditors		1,82,500	Cash at Bank		3,27,500
		7,22,500			7,22,500

Working Notes:

1. **Calculation of Purchases:**

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,75,000	By Balance b/d	1,02,500
To Balance c/d	1,82,500	By Purchases (Bal. Fig.)	4,55,000
	5,57,500		5,57,500

2. **Calculation of total sales:**

	₹
Sales for the year 2019-20	6,25,000
Add: 20% increase	1,25,000
Total sales for the year 2020-21	7,50,000

3. **Calculation of Credit Sales:**

	₹
Total Sales	7,50,000
Less: Cash Sales (20% of total sales)	(1,50,000)
Credit Sales	6,00,000

4. **Calculation of cash collected from debtors:**

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,25,000	By Bank A/c (Bal. Fig.)	5,75,000
To Sales A/c	6,00,000	By Balance c/d	1,50,000
	7,25,000		7,25,000

5. **Calculation of closing balance of cash at bank:**

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	47,500	By Creditors A/c	3,75,000
To Debtors A/c	5,75,000	By Rent A/c	20,000
To Cash A/c	1,00,000	By Balance c/d (b.f.)	3,27,500
	7,22,500		7,22,500

6. **Calculation of the amount of cash defalcated by the cashier:**

	₹	₹
Cash balance as on 1st April, 2020		35,000
Add: Cash Sales during the year		1,50,000
		1,85,000
Less: Salary (₹ 2,500 x 12)	30,000	
Office Expenses (₹ 1,500 x 12)	18,000	
Drawings of Arun (₹ 625 x 12)	7,500	
Cash deposited into bank during the year	1,00,000	(1,55,500)
Cash balance as on 31st March, 2021 (defalcated by the Cashier)		29,500

PYQ	2021-Dec [6] (e)	5 Marks

Answer the following:

A Company sold 20% of the Goods on Cash Basis and the balance on Credit basis. Debtors are allowed 1.5 month's credit and their balance as

on 31st March, 2021 is ₹ 1,50,000. Assume that sale is evenly spread throughout the year.
Purchases during the year ₹ 9,50,000.
Closing stock is ₹ 10,000 less than the Opening Stock. Average stock maintained during the year ₹ 60,000.
Direct Expenses amounted to ₹ 35,000.
Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2021.

Answer:

Calculation of Credit Sales, Total Sales and Gross Profit

Credit Sales for the year ended 31st March, 2021 = Debtors × $\frac{12\text{ months}}{1.5\text{ months}}$

= ₹1,50,000 × $\frac{12\text{ months}}{1.5\text{ months}}$ = ₹ 12,00,000

Total sales for the year ended 2020-21 = Credit Sales × $\frac{100\%}{80\%}$

= ₹12,00,000 × $\frac{100\%}{80\%}$ = ₹ 15,00,000

Trading A/c

For the year ended 31st March, 2021

	₹		₹
To Opening stock	65,000	By Sales	15,00,000
To Direct expenses	35,000	By Closing Stock	55,000
To Purchases	9,50,000		
To Gross profit	5,05,000		
	15,55,000		15,55,000

Working Note:

Calculation of opening stock and closing stock
If closing stock is x then opening stock is x + 10,000
Average stock ₹ 60,000
Average stock = Opening stock + Closing stock/2
Thus Opening stock is ₹ 55,000.

PYQ | **2022-May [3] (a)** | **12 Marks**

Stevie and Alicia are in partnership sharing profits and losses equally. They maintain their books on Single Entry System.
The following balances are available from their books as on 31.3.2021 and 31.3.2022:

Particulars	31.3.2021 ₹	31.3.2022 ₹
Building	3,00,000	3,00,000
Equipment	4,80,000	5,44,000
Furniture	50,000	50,000
Debtors	?	2,00,000
Creditors	1,30,000	?
Stock	?	1,40,000
Bank loan	90,000	70,000
Cash	1,20,000	?

The transactions during the year ended 31.3.2022 were the following:

	₹
Collection from Debtors	7,60,000
Payment to Creditors	5,00,000
Expenses Paid	80,000
Drawings by Stevie	60,000
Discount allowed	11,000
Discount received	9,600

Other information:

(i) On 1.4.2021, an equipment of book value ₹ 40,000 was sold for ₹ 30,000. On 1.10.2021, some more equipment were purchased.
(ii) Cash sales amounted to 10% of total sales.
(iii) Credit sales amounted to ₹ 9,00,000.
(iv) Credit purchases were 80% of total purchases.
(v) Cash Purchases amounted to ₹ 1,30,000.
(vi) The firm sells goods at cost plus 25%.
(vii) Outstanding expenses were ₹ 6,000 as on 31.3.2022.
(viii) Capital of Stevie as on 31.3.2021 was ₹ 30,000 more than the capital of Alicia, equipment and furniture to be depreciated at 10% p.a. and building @ 2% p.a. (apply depreciation of new equipment for 1/2 year)

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2022 and;

(ii) The Balance Sheet as on that date. *(CA Inter P-1 2022-May)*

Answer:

(i) **Trading and Profit and loss account for the year ended 31st March, 22:**

Particulars		₹	Particulars	₹
To Opening stock (b/f)		2,90,000	By Sales (₹ 9,00,000+₹1,00,000)	10,00,000
To Purchase (₹ 5,20,000+ ₹1,30,000)		6,50,000	By Closing Stock	1,40,000
To Gross Profit c/d (₹ 10,00,000 x 20%)		2,00,000		
		11,40,000		11,40,000
To Expense	80,000		By Gross Profit b/d	2,00,000
Add: Purchase	6,000	86,000	By Discount Received	9,600
To Discount Allowed		11,000		
To Depreciation on:				
- Building		6,000		
- Equipment		49,200		
- Furniture		5,000		
To Loss on Equipment		10,000		
To Net Profit (b/f)		42,400		
		2,09,600		2,09,600

(ii) **Balance Sheet as at 31st March, 22**

Liabilities	₹	Assets		₹
Capital:		Building	3,00,000	
Stevie	5,21,700	*Less:* Depreciation	6,000	2,94,000
Alicia	5,51,700	Equipment	5,44,000	
Creditors	1,40,400	*Less:* Depreciation	49,200	4,94,800
Bank Loan	70,000	Furniture	50,000	
Outstanding Expenses	6,000	*Less:* Depreciation	5,000	45,000
		Debtors		2,00,000
		Stock		1,40,000
		Cash		1,16,000
	12,89,800			12,89,800

Working Notes:

1. **Balance Sheet as at 31st March 2021**

Liabilities	₹	Assets	₹
Capital (b/f)	10,91,000	Building	3,00,000
Creditors	1,30,000	Equipment	4,80,000
Bank Loan	90,000	Furniture	50,000
		Debtors	71,000
		Stock	2,90,000
		Cash	1,20,000
	13,11,000		13,11,000

2. **Debtors A/c**

Particulars	₹	Particulars	₹
To Balance bld.(b/f)	71,000	By Cash	7,60,000
To Sales	9,00,000	By Discount Allowed	11,000
		By Balance bld.	2,00,000
	9,71,000		9,71,000

3. **Creditor's A/c**

Particulars	₹	Particulars	₹
To Cash a/c	5,00,000	By Balance bld.	1,30,000
To Discount Received	9,600	By Purchase	5,20,000
To Balance c/d (b/f)	1,40,400	(₹1,30,000 x 80/20)	
	6,50,000		6,50,000

4. **Cash A/c**

Particulars	₹	Particulars	₹
To Balance b/d	1,20,000	By Creditors A/c	5,00,000
To Debtors A/c	7,60,000	By Expenses	80,000
To Sales	1,00,000	By Drawing by Steives	60,000
(9,00,000x10/90)		By Purchase	1,30,000
To sale of Equipment	30,000	By Payment of Loan	20,000
		By Purchase of Equipment	1,04,000
		By Balance c/d (b/f)	1,16,000
	10,10,000		10,10,000

5. **Equipment A/c**

Particulars	₹	Particulars	₹
To Balance b/d	4,80,000	By Cash A/c	30,000
To Cash A/c (purchase)	1,04,000	By Loss on sale	10,000
		By Balance c/d	5,44,000
	5,84,000		5,84,000

6. Depreciation on Equipment:
- ₹ 4,80,000 - ₹ 40,000 = ₹ 4,40,000 ×10% = ₹ 44,000
- on purchase (₹ 104000 × 10% × 6/22) = ₹ 5,200
Total Depreciation = ₹ 49,200

7. **Partner's Capital A/c**

Particulars	stevie (₹)	Alicia (₹)	Particulars	Stevie	Alicia (₹)
To Drawing	60,000	-	By Balance b/d	5,60,500	5,30,500
To Balance c/d (B/F)	5,21,700	5,51,700	By Net profit (1:1)	21,200	21,200
	5,81,700	5,51,700		5,81,700	5,51,700

Capital of Stevie = (₹ 10,91,000 - ₹ 30,000)/2
= ₹ 5,30,500 + ₹ 30,000
= ₹ 5,60,500

Capital of Alicia = (₹ 10,91,000 - ₹ 5,60,500)
= ₹ 5,30,500

PYQ | **2022-Nov [3] (b)** | **10 Marks**

Ramesh had ₹ 3,30,000 in the bank account on 1st January, 2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:

	31.3.2021 ₹	31.3.2022 ₹
Stock	20,900	31,900
Debtors	1,100	3,200
Cash	2,200	3,300
Creditors	5,500	4,300

On and from 1st February, 2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

	Deposits ₹	Withdrawals ₹
1.1.2021 to 31.3.2021	—	2,45,300
1.4.2021 to 31.3.2022	2,53,000	2,97,000

— The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31st March, 2021 and from 1st April, 2021 to 31st March, 2022 respectively for the purchase of Machines for the business.
— The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.
— One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April, 2021 to 31st March, 2022 given above.

You are required to draw up Ramesh's Statement of Affairs as at 31st March, 2021 and 31st March, 2022 respectively and work out his Profit or Loss for the year ended 31st March, 2021 and 31st March, 2022.

(CA Inter P-1 2022-Nov)

Answer:

Statement of Affairs as at 31st March, 2021:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (bal. fig.)	3,23,400	Stock	20,900
Creditors	5,500	Debtors	1,100
		Machinery	2,20,000
		Cash	2,200
		Bank (W.N.1)	84,700
	3,28,900		3,28,900

Statement of Affairs as at 31st March, 2022:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (Bal. fig)	3,60,800	Stock	31,900
Creditors	4,300	Debtors (3,200 - 2,700)	500
		Machinery (2,20,000 + 66,000)	2,86,000
		Cash	3,300
		Bank (W.N.1)	43,400
	3,65,100		3,65,100

Statement showing profit for the year ended 31.3.21:

Capital as 31.3.21	3,23,400
Add: Drawing (770 x 2)	1,540
Less: Capital on 1.1.21 (Bank Bal.)	3,24,940
Loss for the period ended 31.3.21	3,30,000
	5,060

Statement showing profit for the year ended 31.3.22:

Capital as at 31.3.22	3,60,800
Add: Drawing (770 x 12)	9,240
	3,70,040
Less: Capital on 31.3.21	3,23,400
Profit for the period ended 31.3.22	46,640

Bank's A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.21	To Bal. b/d	3,30,000	2020-21	By Machinery	2,20,000
			2020-21	By Cash (Withdrawal)	25,300
			31.3.21	By Bal. c/d	84,700
		3,30,000			3,30,000
1.4.21	To Bal. b/d	84,700	2021-22	By Machinery	66,000
2021-22	To Cash (Deposits)	2,53,000	31.3.22	By Cash (Withdrawal)	2,31,000
	To Debtors (Suresh)	2,700		By Bal. c/d	43,400
		3,40,400			3,40,400

PYQ | **2024-Jun [4] (b)** | **8 Marks**

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

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

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

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

Additional Information:

(i) Gross Profit ratio of 12.5% on Sales is maintained throughout the year.

(ii) During the year, discount allowed to Trade debtors was for ₹ 62,500 and discount received from Trade Creditors amounted to ₹ 35,000.

(iii) As on 31st March, 2024, the closing balances of Trade Debtors and Trade Creditors were ₹ 2,20,500 and ₹ 1,05,600 respectively.

(iv) On 31st March, 2024 an amount of ₹ 14,800 was outstanding towards Salary.
(v) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

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

Answer:

Trading A/c of Harshit Traders for period ending 31.3.24

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening stock		1,70,800	By Sales		
To Purchases			Cash	10,22,400	
Cash	9,48,400		Credit	86,89,600	97,12,000
Credit	76,10,400	85,58,800			
To GP (12.5% of 97,12,000)		12,14,000	By Closing stock (bf)		2,31,600
		99,43,600			99,43,600

Profit & Loss account of Harshit Traders for year ending 31.3.24

Particulars		Amount (₹)	Particulars	Amount (₹)
To Dis. allowed		62,500	By GP	12,14,000
To Salaries	4,12,800		By Dis. rec.	35,000
- Opening O/s	9,000		By int. on investments	3,600
+ Closing O/s	14,800	4,18,600		
To Depreciation				
Motor Vehicle (1,10,000 × 10%)		11,000		
Furniture (73,500 × 10%)		7,350		
To Rent & taxes		2,51,600		
To Sundry expenses		1,38,400		
To N.P.		3,63,150		
		12,52,600		12,52,600

Balance Sheet of Harshit Traders as on 31st March, 2024

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	6,05,000		Debtors		2,20,500
+ Profit	3,63,150		Motor vehicle	1,10,000	
- Drawings	2,40,000	7,28,150	Dep.	11,000	99,000
Trade Creditors		1,05,600	Furniture	73,500	
Salary Payable		14,800	- Dep.	7,350	66,150
			6% Investment		60,000
			Cash in Hand and Bank		1,71,300
			Stock		2,31,600
		8,48,550			8,48,550

Working Note:

Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bal. b/d	1,45,400	By Dis. allowed	62,500
To Sale (b/f)	86,89,600	By Cash	85,52,000
		By Bal. c/d	2,20,500
	88,35,000		88,35,000

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Dis. A/c	35,000	By Bal. b/d	75,200
To Cash	75,45,000	By Purchase	76,10,400
To Bal c/d	1,05,600		
	76,85,600		76,85,600

PYQ | **2024-Sep [5] (Or) (b) (ii)** | **5 Marks**

Following information relates to Mr. Prem who maintains his books under single entry system. He is not able to ascertain the amount of bad debts incurred by him and seeks your help.
Debtors as on 01.04.2023 ₹ 6,50,000
Debtors as on 31.03.2024 ₹ 8,50,000
Sale for F.Y. 2023-2024 is ₹ 16,00,000 out of which 80% is on credit.
Payment received during the year is ₹ 7,50,000 out of which cheques of ₹18,000 were dishonored. Bills of exchange accepted by customers ₹ 2,90,000
Discount allowed is 1% of the credit sale.

Answer:

In the books of M/r. Prem

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	6,50,000	By Discount	12,800
To Sales W.N. 1	12,80,000	By Bank	7,32,000
		By Bills receivable	2,90,000
		By Bad debt (b/f)	45,200
		By Bal c/d	8,50,000
Total	19,30,000		19,30,000

Working note: 1

Credit sales = 80% of total sales
= 80% × 16,00,000
= ₹ 12,80,000

PYQ | **2025-Jan [4] (b)** | **5 Marks**

Following are the details of Assets and Liabilities of Mr. Sarthak for the year ended 31st March, 2023 and 31st March, 2024:

	31st March, 2023 (₹)	31st March, 2024 (₹)
Assets:		
Building	2,00,000	?
Furniture	75,000	?
Inventory	1,05,000	1,95,000
Sundry Debtors	68,000	94,000
Cash at Bank	72,500	86,800
Cash in hand	2,400	3,800
Liabilities:		
Loans	1,50,000	1,25,000
Sundry Creditors	58,400	79,500

It was decided to depreciate Building by 5% p.a. and Furniture by 10% p.a. On 1st June, 2023 an additional capital of ₹ 40,000 was brought in the business. Proprietor has withdrawn @ ₹ 2,500 p.m. for meeting the family expenses.

Prepare Statement of Affairs as on 31st March, 2023 and 31st March, 2024. Find the profit or loss earned by Mr. Sarthak for the year ended 31st March, 2024.

Answer:

Mr. Sarthak

Statement of Affairs as on 31-03-2023 & 31-03-2024

Liabilities	Amount 31-03-2023 (₹)	Amount 31-03-2024 (₹)	Assets	Amount 31-03-2023 (₹)	Amount 31-03-2024 (₹)
Capital (Bal. Fig.)	3,14,500	4,32,600	Building	2,00,000	1,90,000
Loans	1,50,000	1,25,000	Furniture	75,000	67,500
Sundry credi-tors	58,400	79,500	Inventory	1,05,000	1,95,000
			Sundry debtors	68,000	94,000
			Cash at bank	72,500	86,800
			Cash in hand	2,400	3,800
	5,22,900	6,37,100		5,22,900	6,37,100

Determination of profit by applying the method of the capital comparison

	Amount (₹)
Capital Balance as on 31-03-2024	4,32,600
Less: Fresh capital introduced	(40,000)
	3,92,600
Add: Drawings (₹ 2,500 × 12)	30,000
	4,22,600
Less: Capital Balance as on 31-03-2023	(3,14,500)
Profit for the year ended 31st March,2024	1,08,100

Alternatively capital account can also be prepared as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings	30,000	By Balance b/d	3,14,500
To Balance c/d	4,32,600	By Additional capital	40,000
		By Net Profit (Bal Fig)	1,08,100
	4,62,600		4,62,600

Chapter Trend Analysis

The Graph

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PARTNERSHIP AND LLP ACCOUNTS
10.1	**Introduction to Partnership Accounts**

THEORY QUESTIONS

PYQ	2000-May [5] (v)	TF	2 Marks

State with reasons whether the following statement is True or False:
A partner who devotes more time to a business than other partners is entitled to get a salary.

Answer:
False: Unless and until the partnership deed specifically provides for the entitlement of salary, no partner can receive it.

PYQ	2001-May [5] (4)	TF	2 Marks

State with reasons whether the following statement is True or False:
Partners can share profits or losses in their Capital ratio, when there is no agreement.

Answer:
False: According to the Partnership Act, 1932, when these is no agreement, the partners are to share the profit and loss equally among themselves.

PYQ	2004-Nov [6] (ii)	SN	5 Marks

PYQ 1997-May | **PYQ** 2000-Nov |

Write short note on the following:
Fixed and Fluctuating Capital.

Answer:

Fixed Capital System:

- Partners' capital accounts can be maintained either on 'fixed capital system' or on 'fluctuating capital system'.
- In case of fixed capital system, two accounts for each partner i.e. Partner's capital account and Partner's current account are maintained.
- The partner's capital account is credited with the original amount of capital introduced by the partner into business.
- It is to be credited subsequently with extra capital introduced by the partner or debited with the amount of capital permanently withdrawn by the partner.
- No other adjustments are made in this account.
- The partner's current account is maintained for making all entries relating to interest, share of profit, drawings, etc.
- The balance in this account will go on fluctuating but the balance of the capital account will remain fixed; that is why the system is termed as 'fixed capital system'.

Fluctuating Capital System:

- In case of fluctuating capital system, only one account is maintained for each partner. This account is termed as his 'capital account'.
- All entries relating to introduction of fresh capital, drawings, interest, profit etc. are made in this account.
- The balance in this capital account, therefore, goes on fluctuating.
- The system is, therefore, called as 'fluctuating capital system'.

PYQ	2005-May [5] (viii)	TF	2 Marks
Sate with reasons whether the following statement is True or False: When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital 'ratio.			

Answer:

False: When there is no agreement among the partners, the profit and loss is shared equally among the partners.

PYQ	2005-Nov [5] (xi)	TF	2 Marks
State with reasons whether the following statement is True or False: The business of partnership firm must be carried on by all the partners.			

Answer:

False: Accounting to Sec. 4 of the Indian Partnership Act. 1932, partnership can be carried on by all or any one of them acting for all.

PYQ	2018- May [1] (a) (v) {C}	TF	2 Marks
State with reasons, whether the following statement is True or False: When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.			

Answer:

True: Rule in absence of partnership deed says that interest at the rate of 6% p.a. is to be allowed an a partners loan to the firm.

PYQ	2019-Jun [1] (a) (v)	TF	2 Marks
State with reason, whether the following statement is True or False: Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.			

Answer:

False: Limited liability partnership is governed by Limited Liability Partnership (LLPs) Act, 2008.

PYQ	2019-Nov [1] (a) (v) {C}	TF	2 Marks
State with reason, whether the following statement is True or False. A Partnership firm cannot own any Assets.			

Answer:

True: A partnership firm cannot own any assets. The partners own the assets of the firm.

PYQ	2021-Jan [6] (b)	DESC	5 Marks
Discuss the rules if there is no Partnership Agreement.			

Answer:

Registration of the firm is not compulsory, but non-registration restricts the partners or the firm from taking any legal action. Often there is no written Partnership Deed or, if there is one, it may be silent on a particular point. In that case the relevant Section 13 of the Partnership Act will apply. If on any point the Partnership Deed contains a clause, it will hold good; otherwise the provisions of the Act relating to the subject will apply.

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

PYQ	2025-May [1] (a) {C}	TF	2×2=4 Marks
State with reasons, whether the following statements are True or False: (iv) Partners in a partnership firm will share the profits of business according to their capital contribution in the absence of any agreement. (v) LLP should have two designated partners who are resident in India.			

PRACTICAL QUESTIONS

PYQ	2005-May [4] (b)	8 Marks
A, B and C entered into partnership on 1.1.2004 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capital of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. Profits for the year ending 31.12.2004 before providing for interest on partners capital was ₹ 1,59,000. Show the Profit and Loss Appropriation Account.			

Answer:

Profit and Loss Appropriation Account for the year ended 31st December, 2004

Particulars	₹	₹	Particulars	₹
To Interest on capital			By Net profit b/d	
A (5% of ₹ 3,20,000)	16,000		(Profit before	
B (5% of ₹ 2,00,000)	10,000		interest)	1,59,000
C (5% of ₹ 1,60,000)	8,000	34,000		
To Partner's capital accounts				
A $\left(\frac{5}{10}\text{ of } ₹\,1,25,000\right)$	62,500			
Less: Transferred to C	5,000	57,500		
B $\left(\frac{3}{10}\text{ of } ₹\,1,25,000\right)$		37,500		
C $\left(\frac{2}{10}\text{ of } ₹\,1,25,000\right)$	25,000			
Add: Transferred from A	5,000	30,000		
		1,59,000		1,59,000

PYQ	2023-Jun [4] (b)	5 Marks
X and Y were partners in a firm, sharing profit and losses in the ratio of 3:2 . They admit Z for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2022, were 1,80,00,000. Calculate share of profit for each partner when: (i) Guarantee is given by firm (ii) Guarantee is given by A and B equally.		

Answer:

(i) **Guarantee is given by firm:**

Liabilities	Amount (₹)	Assets	Amount (₹)
To X's Capital A/c (1,30,00,000 × 3/5)	78,00,000	By Profit & Loss A/c	1,80,00,000
To Y's Capital A/c (1,30,00,000 × 2/5)	52,00,000		
To Z's Capital A/c (1,80,00,000 × 1/6) or ₹ 50,00,000 whichever is more	50,00,000		
	1,80,00,000		**1,80,00,000**

(ii) **Guarantee is given by X & Y equally:**

Profit & Loss Appropriation A/c for the year ended 31-03-2022

Particulars		Amount (₹)	Particulars	Amount (₹)
To X's Capital A/c:			By Profit & Loss A/c (N.P.)	1,80,00,000
3/6th of 1,80,00,000	90,00,000			
(-) Deficiency borne for Z 1/2 of 20,00,000)	10,00,000	80,00,000		
To Y's Capital A/c:				
2/6th of 1,80,00,000	60,00,000			
(-) Deficiency borne for Z (1/2 of 20,00,000)	10,00,000	50,00,000		
To Z's capital A/c				
(1,80,00,000 ×1/6)	30,00,000			
+ Deficiency recovered from X	10,00,000			
+ Deficiency recovered from Y	10,00,000	50,00,000		
		1,80,00,000		1,80,00,000

PYQ	2023-Dec [4] (b)	5 Marks

P, Q and R are the 3 partners in partnership firm. Partnership deed includes the following:

(i) R is entitled to get salary of ₹ 10,000 p.a.

(ii) P, Q and R are to get interest @ 6% on their respective capital of ₹ 2,50,000, ₹ 1,50,000 and ₹ 1,00,000.

(iii) R is to get extra benefit of 10% of profit in excess of ₹ 50,000 after providing for (i) and (ii) mentioned above.

(iv) Q is entitled to 10% of profits after providing all the amounts in para (i), (ii) and (iii) mentioned above.

(v) The balance of profits will be shared by P, Q and R is ratio of 5 :3 :2 The profits for the year before providing above items are ₹ 3,50,000. You are required to prepare Profit and Loss Appropriation Account.

Answer:

Profit/Loss Appropriation A/c

Particulars		Amount (₹)	Particulars	Amount (₹)
To Salary to R		10,000	By Net Profit	3,50,000
To Interest on Capitals:				
P (2,50,000 × 6%)	15,000			
Q (1,50,000 × 6%)	9,000			
R (1,00,000 × 6%)	6,000	30,000		
To Divisible Profit:				
P		1,27,800		
Q (76,680 + 28,400)		1,05,080		
R (51,120 + 26,000)		77,120		
		3,50,000		**3,50,000**

Working Notes:

Destruction of Profit

1.	Divisible profit (3,50,000 - 10,000 - 30,000)	3,10,000
	Less: Amount fixed for calculating R's Extra share of profit	(50,000)
	Profit in excess of ₹ 50,000	2,60,000

	R's share = 2,60,000 × 10% = 26,000/-	
2.	Divisable Profit	3,10,000
	(-) R's extra share profit	(26,000)
	Profit after deducting	2,84,000
	On shares 2,84,000 × 10% = 28,400/-	
3.	Divisible profit to be shared b/w P,Q, R in ratio	
	5 : 3 : 2 = 3,10,000 - (26,000 + 28,400)	2,55,600
	P's Share = 2,55,600 × 5/10	1,27,800
	Q's Share = 2,55,600 × 3/10	76,680
	R's Share = 2,55,600 × 2/10	51,120

PYQ	2025-Jan [3] (b)	5 Marks

X and Y are partners sharing profits and losses in the ratio of their effective capital. As on 1st April, 2023, they had ₹ 2,80,000 and ₹1,60,000 respectively in their Capital Accounts.

X introduced a further capital of ₹ 20,000 on 1st June, 2023 and another ₹ 15,000 on 1st October 2023. On 31st January 2024, X withdrew ₹ 25,000.

On 1st August, 2023 Y introduced further capital of ₹ 30,000.

During the Financial year 2023-24, the partners drew the following amounts in anticipation of profit:

X drew ₹ 5,000 at the beginning of each quarter and Y drew ₹ 1,500 per month at the end of each month beginning from April, 2023.

As per partnership agreement, the profits were to be shared in capital ratio. The interest on Capital @ 12% p.a. is allowable and interest on drawings @ 10% p.a. is chargeable.

You are required to calculate - (i) Profit-sharing ratio; (ii) Interest on capital; and (iii) Interest on drawings.

Answer:

(1) Profit-Sharing Ratio

Capital of X

- Opening Capital - 2,80,000
- Additional Capital - 20,000 for 10 months (1 June, 2023)
- Additional Capital - 15,000 for 6 months (1 Oct, 2023)
- Withdrawal - 25,000 for 2 months

Capital Employed by X

Capital	Months for which Capital has been used	Product
2,80,000	2	5,60,000
3,00,000	4	12,00,000
3,15,000	4	12,60,000
2,90,000	2	5,80,000
		36,00,000

Capital of Y

- Opening Balance (1 April, 2023): ₹ 1,60,000
- Additional Capital (1 Aug, 2023): ₹ 30,000

Capital Employed by Y

Capital	Months for which Capital has been used	Product
1,60,000	4	6,40,000
1,90,000	8	15,20,000
		21,60,000

Capital Ratio between X and Y = $\frac{36,00,000}{21,60,000} = 5 : 3$

(2) Interest on Capital of X

$= 36,00,000 \times \frac{12}{100} \times \frac{1}{12} = 36,000$

Interest on Capital of Y

$= = 21,60,000 \times \frac{12}{100} \times \frac{1}{12} = 21,600$

(3) Interest on Drawings

X Draw ₹ 5,000 at beginning of each quarter

Total Drawings by X = 20,000

Duration of drawing $= \frac{12+3}{2} = 7.5$

Interest on Drawings $= 20,000 \times \frac{7.5}{12} \times \frac{10}{100}$

$= 1,250$

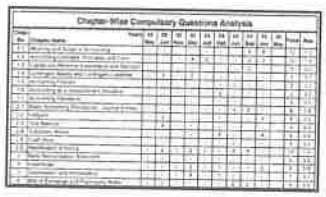
Y Drew ₹ 1,500 at end of each month
Total Drawings = 18,000

Duration of Drawings = $\frac{11+0}{2} = 5.5$

Interest on Drawings = $18{,}000 \times \frac{5.5}{12} \times \frac{10}{100} = 825$

Scanner Preparation Key

Scan & go to "My Books"

Smart Study with Scanner	Chapter wise Compulsory Marks Analysis
	• At page no. **{ xii }** • Shows marks for compulsory questions by chapter • Tracks patterns in compulsory questions over multiple attempts • Facilitates efficient time management during exam preparation

Motivational Thoughts

- "Partnership accounts reflect teamwork in numbers—learn them to understand shared success."
- "A well-maintained partnership account is the key to transparency and harmony among partners."
- "Mastering LLP accounts equips you to handle modern business structures with efficiency."
- "Think of partnership accounts as the financial glue that binds shared efforts and goals."
- "Understanding partnership and LLP accounts helps you appreciate the balance between collaboration and accountability."

Checklist for Studying

- Understand the basic features of a partnership firm and LLP (Limited Liability Partnership).
- Memorize key terms like capital accounts, profit-sharing ratio, goodwill, and revaluation.
- Learn the format of the Profit & Loss Appropriation Account.
- Study adjustments related to interest on capital, interest on drawings, and salary to partners.

Fun Facts

- Partnerships date back centuries, evolving as a way for individuals to pool resources and share risks.
- LLPs combine the benefits of a partnership with the limited liability of a company.
- Goodwill valuation often leads to debates during the admission or retirement of a partner.
- Interest on drawings is an incentive for partners to minimize unnecessary withdrawals.
- Dissolution of a partnership involves the realization of assets and settlement of liabilities—a critical accounting process.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PARTNERSHIP AND LLP ACCOUNTS
10.2	**Treatment of Goodwill in Partnership Accounts**

THEORY QUESTIONS

PYQ	2001-May [5]	TF	2 Marks
State with reason whether the following statements are True or False. Goodwill is a fictitious asset.			

Answer:

False: Goodwill is an intangible asset.

PYQ	2006-May [5]	TF	2 Marks
State with reason whether the following statements are True or False. (x) Depreciation can be charged on Goodwill by Fixed Installment method.			

Answer:

False: Goodwill is an intangible asset. It is written off over a reasonable period of time and not depreciated as per fixed installment method.

PRACTICAL QUESTIONS

PYQ	2022-Jun [3] (Or) (c)	5 Marks
Attempt the following: (ii) Mr. X gives the following particulars in respect of business carried on by him:		

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

The business earned profits of ₹ 2,40,000 , ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.

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

Answer:

Average Maintainable profit

		₹
Trading Profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	36,000
Total		7,20,000
Average Profits (7,20,000/4)		1,80,000
Less: Remuneration of proprietor		(36,000)
Average Maintainable Profit		1,44,000
Less: Normal profit (9,00,000 × 11%)		(99,000)
Super Profits		45,000
Goodwill at 6 year's Purchase of super profits		2,70,000

PYQ	2022-Dec [5] (b)	5 Marks

R and S are partners in a firm with a capital of ₹ 14,00,000 and ₹ 12,00,000 respectively. During the year ended on 31st March, 2022 firm earned a profit of ₹ 6,50,000. Assuming that the normal rate of return is 20%. Calculate the amount of Goodwill of the firm by using.

(i) Capitalization method

(ii) Super Profit method, if the goodwill is valued at 6 years purchase of super profits.

Answer:

Calculation of Super Profit:

Profit of the firm (On 31st March, 2022)	= 6,50,000
Less: Normal profit (26,00,000 × 20%)	= 5,20,000
Super profit	1,30,000

* **Calculation of Goodwill:**

(i) By Capitalisation method:

1,30,000/20% = ₹ 6,50,000

(ii) By Super profit method:

Goodwill = 1,30,000 × 6

= ₹ 7,80,000

Note: The closing capital has been considered for calculating the goodwill of the firm.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PARTNERSHIP AND LLP ACCOUNTS
10.3	**Admission of a New Partner**

THEORY QUESTIONS

PYQ	2000-May [5] (x)	TF	2 Marks

State with reasons whether the following statement is True or False:
Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their new profit sharing ratio.

Answer:

False: The goodwill in cash, brought in by the new partner is taken away by the old partners in the sacrificing ratio and not in the new profit sharing ratio.

PYQ	2001-May [5] (5)	TF	2 Marks

State with reasons whether the following statement is True or False:
Goodwill is a fictitious asset.

Answer:

False: Goodwill is an intangible asset.

PYQ	2020-Nov [1] (a) (i) {C}	TF	2 Marks

State with reasons, whether the following statement is True or False.
In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

Answer:

False: In case of admission of a new partner in a partnership firm, the profit/ loss on revaluation account is transferred to old partners in old profit sharing ratio.

PYQ	2024-Jun [1] (a) {C}	TF	2 Marks

State with reason, whether the following statement is True or False:

(vi) Revaluation Account is also known as Profit and Loss Adjustment account.

Answer:

True: Revaluation account which is also known as profit & loss adjustment account is opened for revaluation of assets and liabilities of partnership firm.

PRACTICAL QUESTIONS

PYQ	1997-Nov [2]	15 Marks

A, B C were in partnership, sharing profits and losses as to A one-half, B one-third and C one- sixth. As from 1st January 1996 they admitted D into Partnership on the following terms:

D to have a one-sixth share which he purchased entirely from A paying A ₹ 8,000 for that share of Goodwill. Of this amount, A had withdrawn ₹ 6,000 and put the balance in the firm as additional capital. As a condition to admission of D as a partner, D also brought ₹ 5,000 capital into the firm. It was further agreed that the investment should be valued at its market value of ₹ 3,600 and plant be valued at ₹ 5,800.

The Balance Sheet of the old firm on 31.12.1995 was as following:

Cash at Bank ₹ 8,000; Debtors ₹ 12,000; Stock ₹ 10,000; Investments at Cost ₹ 6,000; Furniture ₹ 2,000 Plant ₹ 7,000 Creditors ₹ 21,000; Capital: A ₹ 12,000; B ₹ 8,000 and C ₹ 4,000.

The profits for the year 1996 were ₹ 12,000 and the drawings were: A ₹ 6,000, B ₹ 6,000, C ₹ 3,000 and D ₹ 3,000.

You are required to journalise the opening adjustments, prepare the opening Balance Sheet of the new firm as on 1st January, 1996 and give the capital account of each partner as on 31st December, 1996.

Answer:

Journal Entries

	Particulars		Dr. ₹	Cr. ₹
(i)	Bank A/c	Dr.	8,000	
	To A's Capital A/c			8,000
	(Being amount paid by D for share of goodwill purchased form A)			
(ii)	A's Capital Ac	Dr.	6,000	
	To Bank A/c			6,000
	(Being amount withdrawn by A)			
(iii)	Bank A/c	Dr.	5,000	
	To D's Capital A/c			5,000
	(Being capital brought in by D)			
(iv)	Revaluation A/c	Dr.	3,600	
	To Investments A/c			2,400
	To Plant A/c			1,200
	(Being revaluation of Investments and plant recorded)			
(v)	A's Capital A/c	Dr.	1,800	
	B's Capital A/c	Dr.	1,200	
	C's Capital A/c	Dr.	600	
	To Revaluation A/c			3,600
	(Being loss on revaluation transferred to old partners in 3: 2: 1: ratio)			

Balance Sheet of New Firm
As on 1st January, 1996

Liabilities	₹	Assets	₹
Capital Accounts:		Plant	5,800
A	12,200	Furniture	2,000
B	6,800	Stock	10,000
C	3,400	Investments	3,600
D	5,000	Debtors	12,000

Creditors	21,000	Cash at Bank	15,000
	48,400		48,400

Dr.A's Capital Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1996			1996		
Dec. 31	To Drawing A/c	6,000	Jan. 1	By Balance b/d	12,200
Dec. 31	To Balance C/d	10,200	Dec. 31	By Profit	4,000
		16,200			16,200

Dr.B's Capital Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1996			1996		
Dec. 31	To Drawing A/c	6,000	Jan. 1	By Balance b/d	6,800
Dec. 31	To Balance c/d	4,800	Dec.31	By Profit	4,000
		10,800			10,800

Dr.C's Capital Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1996			1996		
Dec.31	To Drawing A/c	3,000	Jan. 1	By Balance b/d	3,400
Dec.31	To Balance c/d	2,400	Dec.31	By Profit	2,000
		5,400			5,400

Dr.D's Capital Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1996			1996		
Dec.31	To Drawing A/c	3,000	Jan. 1	By Bank	5,000
Dec.31	To Balance c/d	4,000	Dec.31	By Profit	2,000
		7,000			7,000

Working Notes:

(1)

Balance Sheet of old firm
As on 31st December, 1995

Liabilities	₹	Assets	₹
Capital Accounts:		Plant	7,000
A	12,000	Furniture	2,000
B	8,000	Investments	6,000
C	4,000	Stock	10,000
Creditors	21,000	Debtors	12,000
		Cash at Bank	8,000
	45,000		45,000

(2) New Profit Sharing Ratio:

	Old Ratio	New Ratio
A	$\frac{3}{6}$	$\frac{3}{6} - \frac{1}{6} = \frac{2}{6}$
B	$\frac{2}{6}$	$\frac{2}{6}$
C	$\frac{1}{6}$	$\frac{1}{6}$
D	$\frac{1}{6}$	$\frac{1}{6}$

PYQ | **1998-Nov [2]** | **15 Marks**

A and B are Partners of X & Co. sharing profits and loses in 3: 2 ratio between themselves. On 31st March, 1998, the Balance Sheet of the firm was as follows:

Balance Sheet of X & Co. as at 31. 3. 1998

Liabilities		₹	Assets	₹
Capital Accounts:			Plant And Machinery	20,000
A	37,000		Furniture and Fitting	5,000
B	28,000	65,000	Stock	15,000
Sundry Creditors		5,000	Sundry Debtors	20,000
			Cash on Hand	10,000
		70,000		70,000

X agrees to join the business on the following conditions as and firm 1.4. 1998.

(a) He will introduce ₹ 25,000 as his capital and pay ₹ 15,000 at the partners as premium for Goodwill for 1/3rd share of the future profits of the firm.

(b) A revaluation of assets of the firm will be made by reducing the value of Plant and Machinery to ₹ 15,000, Stock by 10% Furniture and Fittings by ₹ 1,000 and by making a provision of bad and doubtful debts at ₹ 750 on Sundry debtors.

You are asked to prepare Profit and Loss Adjustment Account, Capital accounts of partners including the incoming partner X, Balance Sheet of the firm after admission of X and also find out the new profit sharing ratio assuming that the relative ratios of the old partners will be in equal proportion after admission.

Answer:

Profit and Loss Adjustment A/c

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
1998 April 1	To Plant and Machinery A/c	5,000	1998 April 1	By Partner's Capital A/c	
	To Furniture and fitting A/c	1,000		Loss on revaluation	
	To Stock A/c	1,500		A	4,950
	To Provision for Bad and Doubtful A/c	750		B	3,300
		8,250			8,250

Partners' Capital Accounts

Dr. Cr.

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Profit & Loss Adjustment A/c	4,950	3,300	—	By Balance b/d	37,000	28,000	
				By Cash A/c			40,000
To A's B's Capital A/cs	—	—	15,000	By A's Capital A/c (W.N. 2)	12,000	3,000	
To Balance c/d	44,050	27,700	25,000				
	49,000	31,000	40,000		49,000	31,000	40,000

Balance Sheet of A, B and X as on 1st April, 1998

Liabilities		₹	Assets		₹
Capital Accounts:			Plant And Machinery		15,000
A	44,050		Furniture and Fitting		4,000
B	27,700		Stock		13,500
X	25,000	96,750	Sundry Debtors	20,000	
Sundry Creditors		5,000	*Less:* Provision for Bad and Doubtful Debts		
			Cash on Hand	750	19,250
					50,000
		1,01,750			1,01,750

Working Notes:

(1) **New profit sharing ratio:**

On admission of X who will be entitled to 1/3rd share of the future profits of the firm. A and B would share the remaining 2/3rd share in equal proportion i.e., 1 : 1

A: $\frac{2}{3} \times \frac{1}{2} = \frac{1}{3}$

B: $\frac{2}{3} \times \frac{1}{2} = \frac{1}{3}$

X: $\frac{1}{3}$

A, B and X would share profits and losses in equal ratio.

(2) **Adjustment of Goodwill:**

X pays ₹ 15,000 as premium for goodwill for 1/3rd share of the future profits. Thus, total value of goodwill is ₹ 15,000 × 3 i.e. ₹ 45,000

Sacrificing ratio:

A: $\frac{3}{5} - \frac{1}{3} = \frac{4}{15}$

B: $\frac{2}{5} - \frac{1}{3} = \frac{1}{15}$

Hence, Sacrificing ratio is 4 : 1

Adjustment of X's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio*:

		₹
A :	₹ 15,000 × $\frac{4}{5}$ =	12,000
B :	₹ 15,000 × $\frac{1}{5}$ =	3,000
		15,000

Notes: (1)* Alternatively, full value of goodwill may be raised and credited to existing partners, capital accounts in old profit sharing ratio, and then written off by debiting all partners' capital accounts in new profit sharing ratio.

PYQ	2000-Nov [2]	15 Marks

Hari and Ram were in partnership, sharing profits and losses equally. On 1st January, 1999, Suraj was admitted into partnership on the following terms:

Suraj is to have one- sixth share in the profits/losses, which he has got from Hari, paying him ₹ 40,000 for that share as goodwill. Out of this amount. Hari is to withdraw ₹ 30,000 and the balance amount is to remain in the firm. It was further agreed that the value of investments should be reduced to ₹ 18,000 and plant to be valued at ₹ 29,000. Creditors were to be reduced by ₹ 3,000 as one of the creditors has closed his business and gone.

Suraj is to bring in proportionate capital on his admission.

The Balance sheet is at 31st December, 1998 was as follows:

Liabilities		₹	Assets	₹
Creditors:		1,05,000	Cash at Bank	40,000
Capitals:			Book Debts	60,000
Hari	60,000		Stock	50,000
Ram	60,000	1,20,000	Investments	30,000
			Furniture	10,000
			Plant	35,000
		2,25,000		2,25,000

The profits for the year ended 31st December 1999 were ₹ 60,000 and the drawings were: Hari ₹ 15,000; Ram ₹ 22,500 and Suraj ₹ 7,500

Journalise the entries on Suraj's admission and give the Capital Accounts and the Balance Sheet as at 31st December, 1999.

Answer:

Journal Entries

Date	Particulars		₹	₹
	Bank A/c	Dr.	40,000	
	To Hari's Capital A/c			40,000
	(Being amount paid by Suraj credited to Hari)			
	Hari's Capital A/c	Dr.	30,000	
	To Bank A/c			30,000
	(Being amount withdrawn by Hari)			
	Sundry Creditors A/c	Dr.	3,000	
	Revaluation A/c	Dr.	15,000	
	To Investments A/c			12,000
	To Plant A/c			6,000
	(Being revaluation of investments, plant and sundry creditors recorded)			
	Hari's Capital A/c	Dr.	7,500	
	Ram's Capital A/c	Dr.	7,500	
	To Revaluation A/c			15,000
	(Being loss on revaluation transferred to old partners in equal ratio)			
	Bank A/c	Dr.	23,000	
	To Suraj's Capital A/c			23,000
	(Being proportionate capital brought in by Suraj)			

Partners' Capital Accounts

Dr. Date	Particulars	Hari ₹	Ram ₹	Suraj ₹	Date	Particulars	Hari ₹	Ram ₹	Suraj ₹	Cr.
1999 Jan.1	To Revaluation A/c	7,500	7,500	—	1999 Jan. 1	By Balance b/d	60,000	60,000	—	
	To Bank A/c	30,000	—	—	Jan 1	By Bank A/c	40,000	—	—	
Jan.1	To Bank A/c	15,000	22,500	7,500	Jan. 1	By Bank A/c	—	—	23,000	
Dec.31	To Balance c/d	67,500	60,000	25,500	Dec.31	By Profit & Loss A/c	20,000	30,000	10,000	
Dec.31		1,20,000	90,000	33,000			1,20,000	90,000	33,000	

Balance Sheet as at 31st December, 1999

Liabilities		₹	Assets	₹
Capital Accounts:			Plant	29,000
Hari	67,500		Furniture	10,000
Ram	60,000		Investments	18,000
Suraj	25,500	1,53,000	Stock	50,000
Creditors		1,02,000	Debts	60,000
			Bank	88,000
		2,55,000		2,55,000

Working Notes:

(1) New profit sharing ratio:

	Old ratio	New ratio
Hari	$\frac{1}{2}$	$\frac{3}{6}$
Ram	$\frac{1}{2}$	$\frac{1}{2} - \frac{1}{6} = \frac{2}{6}$
Suraj		$\frac{1}{6}$

(2) Amount of capital brought in By Suraj:

	₹
Capital on 1.1.99	
Hari (1,00,000 - 30,000-7,500)	62,500
Ram (60,000 - 7,500)	52,500
	1,15,000

Let the total capital after admission of Suraj is ₹ x.

₹ 1,15,000 + $\frac{1x}{6}$ = x

$\frac{5}{6}$x = ₹ 1,15,000

x = 1,15,000 × $\frac{6}{5}$ = ₹ 1,38,000

Suraj's proportionate capital = ₹ 1,38,000 × $\frac{1}{6}$

= ₹ 23,000

(3) Cash at Bank on 31st December, 1999

		₹
Cash at bank on 31st December, 1998		40,000
Add: Amount paid by Suraj for goodwill		40,000
Amount paid by Suraj for capital		23,000
Profits earned during the year*		60,000
		1,63,000
Less: Drawings — Hari (30,000 + 15,000)	45,000	
Ram	22,500	
Suraj	7,500	75,000
		88,000

*The amount of profits earned during the year has been taken as increase in Bank Balance.

PYQ | **2001-Nov [2]** | **15 Marks**

The Balance Sheet of A & B, a partnership firm, as at 31st March, 2001 is as follows:

Liabilities		₹	Assets	₹
Capital Account:			Goodwill	14,000
A	26,400		Land and Building	14,400
B	33,600	60,000	Furniture	2,200
Contingency Reserve		6,000	Stock	26,000
Sundry Creditors		9,000	Sundry Debtors	6,400
			Cash at Bank	12,000
		75,000		75,000

A & B share profits and losses as 1 : 2. They agree to admit C (who is also in business on his own) as a third partner from 1.4.2001:

The Assets are revalued as under:

Goodwill — ₹ 18,000; Land and Building ₹ 30,000; Furniture ₹ 6,000. C bring the followings assets into the partnership — Goodwill ₹ 6,000; Furniture ₹ 2,800, Stock ₹ 13,600.

Profits in the new firm are to be shared equally by the three partners and the Capital Account are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amount fo cash, if any, which each partner may have to provide.

Answer:

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Partner's Capital A/c			By Goodwill	4,000
A	7,800		By Land & Building	15,600
B	15,600	23,400	By Furniture	3,800
		23,400		23,400

Partners' Capital Accounts

Dr. Cr.

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Balance c/d	53,200	53,200	53,200	By Balance b/d	26,400	33,600	—
				By Contingency Reserve	2,000	4,000	—
				By profit & Loss Adjustment A/c	7,800	15,600	—
				By Sundry Assets	—	—	22,400
				By Bank A/c	17,000	—	30,800
	53,200	53,200	53,200		53,200	53,200	53,200

Bank Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	12,000	By Balance c/d	59,800
To A's Capital A/c	17,000		
To C's Capital A/c	30,800		
	59,800		59,800

Balance Sheet of new firm as on 1st April, 2001

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Goodwill (18,000 + 6,000)	24,000
A	53,200		Land & Building	30,000
B	53,200		Furniture (6,000 + 2,800)	8,800
C	53,200	1,59,600	Stock (26,000 + 13,600)	39,600
Sundry Creditors		9,000	Sundry Debtors	6,400
			Cash at Bank	59,800
		1,68,600		1,68,600

Note: Capital accounts of partners are to be so adjusted as to be equal and therefore, additional cash is to be brought in by the partner or partners concerned. For this purpose, highest capital of the partners is to be taken as base. In this case B's Capital becomes highest, accordingly A is required to bring in ₹ 17,000 (53,200 - 36,200) and C has to bring in ₹ 30,800 (53,200 - 22,400).

PYQ | **2004-May [4]** | **15 Marks**

The Balance Sheet of X & Y, a partnership firm, as at 31st March, 2004 is as follows:

Liabilities		₹	Assets	₹
Capital Account:			Goodwill	14,000
X	26,400		Land & Building	14,400
Y	33,600	60,000	Furniture	2,200
General Reserve		6,000	Stock	26,000
Sundry Creditors		9,000	Sundry Debtors	6,400
			Cash at Bank	12,000
		75,000		75,000

X & Y share profits and losses as 1 : 2. They agree to admit Z (who is also in business on his own) as a third partner from 1.4.2004.

The Assets are revalued as under:

Goodwill — ₹ 18,000, Land and Building ₹ 30,000, Furniture ₹ 6,000.

Z brings the following assets into the partnership — Goodwill ₹ 6,000, Furniture ₹ 2,800, Stock ₹ 13,600.

Profit in the new firm are to be shared equally by three partners and the Capital Accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.

Answer:

Profit and Loss Adjustment A/c

Particulars		Amount ₹	Particulars	Amount ₹
To Profit transferred to:			By Goodwill	4,000
			By Land & Building A/c	15,600
To X's Capital A/c	7,800		By Furniture A/c	3,800
To Y's Capital A/c	15,600	23,400		
		23,400		23,400

Partner's Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Balance c/d	53,200	53,200	53,200	By Balance b/d	26,400	33,600	—
				By Profit & Loss Adj	7,800	15,600	—
				By General Reserve A/c	2,000	4,000	—
				By Sundry Assets	—	—	22,400
				By Bank A/c	17,000	—	30,800
	53,200	53,200	53,200		53,200	53,200	53,200

Bank A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Profit transferred to :	12,000	By Balance c/d	59,800
To X's Capital A/c	17,000		
To Y's Capital A/c	30,800		
	59,800		59,800

Balance Sheet of New Firm as on 1st April,2004

Liabilities		Amount ₹	Assets	Amount ₹
Capital Account			Goodwill (18,000+6, 000)	24,000
X	53,200		Land & Building	30,000
Y	53,200		Furniture (6,000 + 2,800)	8,800
Z	53,200	1,59,600	Stock (26,000 +13,600)	39,600
Sundry Creditors		9,000	Sundry Debtors	6,400
			Cash at Bank	59,800
		1,68,600		1,68,600

Working notes:

The capital account of the partners are to be equally adjusted and so the additional cash is to be brought by the incoming partner. For this purpose, the highest capital i. e. of Y is taken as the base and

∴ Y's Total capital = (Y's Capital = profit on Revaluation + general Reserve
= (33,600 + 15,600 + 4,000)
= ₹ 53,200

∴ X has to bring ₹ 17,000 (53,200 - (26, 400 + 2,000 + 7,800)
and Z has to bring ₹ 30,800 (53,200 - 22,400)

PYQ | 2006-May [4] | 15 Marks

The following is the Balance Sheet of A, B and C sharing Profits and Losses in the proportion of 6/14, 5/14 and 3/14 respectively :

	₹		₹
Creditors	37,800	Cash	3,780
Bills Payable	12,600	Debtors	52,920
General Reserve	21,000	Stock	58,800
Capital Accounts:		Furniture	14,700
A	70,800	Land and Building	90,300
B	59,700	Goodwill	10,500
C	29,100		
	2,31,000		2,31,000

They agreed to take D into partnership and give him 1/8th share on the following terms:

(i) That furniture be depreciated by ₹ 1,840.
(ii) That stock be depreciated by 10%.
(iii) That a provision of ₹ 2,640 be made for outstanding repair bills.
(iv) That the value of land and building, having appreciated, be brought upto ₹ 1,19,700.
(v) That the value of goodwill be brought up to ₹ 28,140.
(vi) That D should bring in ₹ 29,400 as his capital.
(vii) That after making the above adjustments the Capital accounts of old partners be adjusted on the basis of the proportion of D's capital to his share in the business and actual cash to be paid off or brought in by the old partners, as the case may be.

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

Answer:

Revaluation Account

Particulars	₹		₹
To Furniture Account	1,840	By Land & Building Account	29,400
To Stock Account	5,880		
To Provision for Repairs Account	2,640		
To Profit transferred to			
A's Capital Account	8,160		
B's Capital Account	6,800		
C's Capital Account	4,080		
	29,400		29,400

A's Capital Account

Particulars	₹		₹
To Cash Account	7,320	By Balance b/d	70,800
To Balance c/d	88,200	By General Reserve	9,000
		By Goodwill	7,560
		By Revaluation Account	8,160
	95,520		95,520

B's Capital Account

	₹		₹
To Cash Account	6,800	By Balance b/d	59,700
To Balance c/d	73,500	By General Reserve	7,500
		By Goodwill	6,300
		By Revaluation Account	6,800
	80,300		80,300

C's Capital Account

	₹		₹
To Balance c/d	44,100	By Balance b/d	29,100
		By General Reserve	4,500
		By Goodwill	3,780
		By Revaluation Account	4,080
		By Cash Account	2,640
	44,100		44,100

D's Capital Account

	₹		₹
To Balance c/d	29,400	By Cash Account	29,400

Balance Sheet as on 31st March, 2006

Liabilities	₹	Assets	₹
Creditors	37,800	Cash	21,700
Bills Payable	12,600	Debtors	52,920
Provision for Repairs	2,640	Stock ₹ (58,800 - 5,880)	52,920
Capital Accounts		Furniture ₹ (14,700 - 1,840)	12,860
A	88,200	Land & Building	1,19,700
B	73,500	Goodwill	28,140
C	44,100		
D	29,400		
	2,88,240		2,88,240

Working Note:

1. Cash Account

	₹		₹
To Balance b/d	3,780	By A's Capital Account	7,320
To D's Capital Account	29,400	By B's Capital Account	6,800
	2,640	By Balance c/d	21,700
	35,820		35,820

2. Calculation of new profit sharing ratio

D is to get 1/8th share in profit

The remaining profit of the firm = 1 - 1/8 = 7/8

Remaining profit will be shared by A, B and C in their old profit sharing ratio. Thus, the new profit sharing ratio of A, B and C will be calculated as follows:

A 7/8 × 6/14 = 3/8

B 7/8 × 5/14 = 5/16

C 7/8 × 3/14 = 3/16

Therefore, the new profit sharing ratio is 3/8 : 5/16 : 3/16 : 1/8 or 6 : 5 : 3 : 2

3. Capital of the old partners

On the basis of D's Capital of ₹ 29,400, the Capital of old Partners will be calculated as under:

D's Capital for 1/8th share =	₹ 29,400
Hence, the total Capital of the firm = ₹ 29,400 × 8/1 =	₹ 2,35,200
A's Capital in the new firm = ₹ 2,35,200 × 6/16 =	₹ 88,200
B's Capital in the new firm = ₹ 2,35,200 × 5/16 =	₹ 73,500
C's Capital in the new firm = ₹ 2,35,200 × 3/16 =	₹ 44,100
D's Capital in the new firm =	₹ 29,400
Total Capital =	₹ 2,35,200

Note: As per para 35 of AS-26 on Intangible Assets, "internally generated goodwill should not be recognized as an asset. Goodwill should be recorded only when some consideration in money or money's worth has been paid for

it." Thus, goodwill account should not appear in the balance sheet. However, the goodwill has been shown in the balance sheet as per the requirements of the question. The question requires the raising of goodwill by ₹ 17,640 (₹ 28,140 - ₹ 10,500) which has been credited to old partners in their old profit sharing ratio in the answer. However, it is to be noted that in case AS-26 is followed, the treatment will differ. According to AS 26, the adjustment should be made through partners' capital accounts by debiting new partner's capital account by his share of goodwill (1/8 × ₹ 17,640) and crediting old partners' capital accounts in the profit sacrificing ratio of 6 : 5 : 3.

The journal entry for adjusting increase in goodwill through partners' capital accounts will be as follows:

		₹	₹
D's capital A/c	Dr.	2,205	
To A's capital A/c			945
To B's capital A/c			787
To C's capital A/c			473

PYQ | **2006-Nov [4]** | **15 Marks**

On 31st March, 2006, the Balance Sheet of P, Q and R sharing profit and losses in proportion to their Capital stood as below:

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

On 1st April, 2006, P desired to retire from the firm and remaining partners to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.
(ii) Plant and Machinery by depreciated by 30%.
(iii) Stock of goods to be valued at ₹ 10,000.
(iv) Old credit balances of Sundry creditors, ₹ 2,000 to be written back.
(v) Provisions for bad debts should be provided at 5%.
(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
(vii) Goodwill of the entire firm is valued at ₹ 14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
(ix) Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation Account, (b) The Capital accounts of the partners, (c) Cash account nd (d) Balance Sheet of the new firm M/s Q and R as on 01.04.2006.

Answer:

(a) Revaluation Account

Date	Particulars	₹	₹	Date	Particulars	₹
2006				2006		
April	To Plant & Machinery		6,000	April	By Land & Building	6,000
	To Stock of goods		2,000		By Sundry creditors	2,000
	To Provision for bad and doubtful debts		550		By Cash & Bank- Joint life Policy surrendered	7,550
	To Capital accounts (profit on revaluation transferred)					
	Mr. P (2/7)	2,000				
	Mr. Q (3/7)	3,000				
	Mr. R (2/7)	2,000	7,000			
			15,550			15,550

(b) **Partners' Capital Accounts**

Dr. **Cr.**

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

(c) **Cash and Bank Accounts**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	7,000	By P's Capital A/c - 50% dues paid	13,000
To Revaluation A/c - surrender value of joint life policy	7,550	By Balance b/d	20,550
To Q's Capital A/c	3,000		
To R's Capital A/c	16,000		
	33,550		33,550

(d) **Balance Sheet of M/s Q & R as on 01.04.2006**

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

Working Notes:

Adjustment for Goodwill:

Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000

Gaining ratio of Q & R:

Q = ½ - 3/7 = 1/14

R = ½ - 2/7 = 3/14

Q : R = 1 : 3

Therefore, Q will bear - 1/4 × 4000 or ₹ 1,000

R will bear - 3/4 × 4000 or ₹ 3,000

PYQ **2018-Nov [3] (a)** **15 Marks**

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

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

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

(i) Suresh shall bring ₹ 8,000 towards his capital.
(ii) The value of stock to be increased to ₹14,000 and Furniture & Fixtures to be depreciated by 10%.
(iii) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.
(iv) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.
(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.
Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Answer:

Revaluation Account

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

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particuars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By General Reserve	3,900	2,600	1,300	
					By Cash	–	–		8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	–
					By Revaluation A/c	2,872.50	1,915	957.50	–
	26,972.50	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

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

Entry for goodwill adjustment

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

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1.4.2018

Liabilities	₹	₹	Assets	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200 - 700)		1,500	Furniture		6,480
Capital Accounts of Partners:			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		*Less:* Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200 + 8,000)		10,200
		86,245			86,245

PYQ	2021-Dec [4] (b)	10 Marks

A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th. As at 31st March, 2021, following is the Balance Sheet of A and B:

Balance Sheet as at 31st March, 2021

Liabilities		(₹)	Assets	(₹)
Capital accounts:			Cash in hand	1,15,000
A	2,85,000		Cash at bank	1,10,000
B	1,55,000	4,40,000	Sundry debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.

(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture be reduced by 10%.

(iv) A provision @ 5% for doubtful debts be created on debtors.

(v) Land and building be appreciated by 20%.

(vi) Capital Accounts of the partners be readjusted on the basis of their profit-sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

Answer:

Revaluation A/c
(1-4-2021)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock A/c	20,000	By Land & Building	
To Furniture	1,000	(2,50,000 x 20%)	50,000
To Provision for doubtful debts on debtors (1,60,000 x 5%)	8,000		
To A's capital A/c	15,750		
To B's capital A/c	5,250		
	50,000		**50,000**

Working Note - 1

Calculate of new ratio and sacrificing ratio

Total profit of the firm = 1

$1-\frac{1}{5}=\frac{4}{5}$

Remaining profit share will be distributed among the A and B in old ratio:-

$A=\frac{4}{5}\times\frac{3}{4}=\frac{12}{20}$

$B=\frac{4}{5}\times\frac{1}{4}=\frac{4}{20}$

$C=\frac{1}{5}=\frac{4}{20}$ = 12:4:4 ⇒ 6:2:2

SR = 3:1

Working Note -2

Treatment of Goodwill

Firm's Goodwill = 2,00,000

C's share in goodwill = $2,00,000\times\frac{1}{5}$ = 40,000

C's current A/c	Dr.	40,000	
To A's Capital A/c			30,000
To B's Capital A/c			10,000
(40,000 ⇒ 3:1)			

Partners Capital A/c (1. 4. 2021)

Particulars	A	B	C	Particulars	A	B	C
To B's current A/c	-	45,250	-	By Bal b/d	2,85,000	1,55,000	-
				By Bank	-	-	1,40,000
To Bal c/d	4,20,000	1,40,000	1,40,000	By C's current A/c	30,000	10,000	-
				By Revaluation	15,750	5,250	-
				By Gen. Res	45,000	15,000	-
				By A's Current A/c	44,250	-	-
	420,000	**1,85,250**	**1,40,000**		**420,000**	**185,250**	**1,40,000**

Working Note-3

Adjustment of Partners Capital

Total Capital = 140,000 × 5 = ₹ 7,00,000

A = 7,00,000 × $\frac{6}{10}$ = 4,20,000

Less: 3,75,750

₹ 44,250

B = 7,00,000 × $\frac{2}{10}$ = 1,40,000

Less: 1,85,250

(45,250)

C = 7,00,000 × $\frac{2}{10}$ = 1,40,000

A's Current A/c	Dr.	44,250	
To A's capital A/c			44,250
B's Capital A/c	Dr.	45,250	
To B's current A/c			45,250

PYQ	**2022-Dec [4] (a)**	**10 Marks**

X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivable	12,500
Bills payable	15,400	Stock	42,600
Salary payable	2,000	Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at ₹ 1, 20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows:

(i) Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.

(ii) Out of total Debtors, ₹ 2,400 is bad and 5% provision is to be provided for bad and doubtful debts.

(iii) Building is to be appreciated by 75%.

(iv) Actual liability towards salary payable is ₹ 1,200 only.

You are required to show the following accounts in the books of the firm:

(1) Revaluation Account

(2) Partner's Capital Accounts

(3) Balance sheet of the Firm after Admission of Z.

Answer:

Revaluation A/c

Particulars		Amount (₹)	Particulars	Amount (₹)
To Plant		5,000	By Building	45,000
To Stock		600	By Salary payable	800
To Furniture		3,500		
To Bills receivable		500		
To Bad debts		2,400		
To Provision for doubtful debts		1,800		
To Profit:				
X's capital	12,800			
Y's capital	19,200	32,000		
		45,800		45,800

Partners Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
To X & Y Capital	–	–	24,000	By Bal. b/d	60,000	1,40,000	–
To Bal. c/d	98,400	1,97,600	76,000	By G. Reserve	16,000	24,000	–
				By Bank	–	–	1,00,000
				By Z's Capital	9,600	14,400	
				(goodwill)			
				By Rev. profit	12,800	19,200	–
	98,400	1,97,600	1,00,000		98,400	1,97,600	1,00,000

Balance Sheet
(As on 31st March, 2020)

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital:		Building		1,05,000
X	98,400	Plant		40,000
Y	1,97,600	Furniture		20,000
Z	76,000	Debtors	36,000	
Creditors	42,600		(1,800)	34,200
Bills payable	15,400	Bills receivable		12,000
Salary outstanding	1,200	Stock		42,000
		Bank		1,78,000
	4,31,200			4,31,200

Note: It is assumed that Z did not bring his share of goodwill in cash.

PYQ | **2024-Jun [4] (a)** | **12 Marks**

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

Balance Sheet as on 31st March, 2024

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

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

(i) Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5 : 3 : 2.

(ii) Ranu will bring ₹ 1,00,000 as his capital.

(iii) Goodwill of firm is to be valued at 2 year's purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

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

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

(v) It was also decided to value the assets:
Building is to be appreciated by ₹ 50,000 and Machinery is to be depreciated by 10%. Furniture is revalued at ₹ 80,000, Investments at ₹ 16,000 and Inventories at ₹ 47,500.
Provision for doubtful debts is to be created on debtors @ 5%.

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

Answer:

Revaluation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery	14,300	By Buildings A/c	50,000
To Furniture	5,000	By Investment	800
To Inventories	900		
To PBD (1,64,000 × 5%)	8,200		
To Anu's Capital	14,000		
To Manu's Capital	8,400		
	50,800		50,800

Partners' Capital A/c

Particulars	A	R	M	Particulars	A	R	M
To Anu's Capital			26,250	By bal b/d	2,80,000	2,50,000	1,00,000
To Manu's Capital			15,750	By cash			
To bal. c/d	3,20,250	2,74,150	58,000	By Ranu cap.	26,250	15,750	
				By Realisation	14,000	8,400	
	3,20,250	2,74,150	1,00,000		3,20,250	2,74,150	1,00,000

Balance Sheet as on 31.3.24 (after Ranu's Admission)

Liabilities	Amount (₹)	Assets		Amount (₹)
Cap. A/c		Building (3,80,000 + 50,000)		4,30,000
Anu's Capital	3,20,250	Machinery (1,43,000-14,300)		1,28,700
Manu's Capital	2,74,150	Furniture (85,000 - 5,000)		80,000
Ranu's Capital	1,00,000	Trade receivable	1,64,000	
Long term Loan	2,00,000	– PBD	8,200	1,55,800
Trade payable	1,19,500	Inventories	48,400 - 900	47,500
O/s liabilities	16,200	Investments	15,200 + 800	16,000
		Cash & Bank (30,100 + 1,00,000)		1,72,100
	10,30,100			10,30,100

PYQ | **2024-Sep [3] (b)** | **10 Marks**

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

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Accounts:			Land & Buildings		28,000
Krish	25,000		Plant & Machinery		15,000
Bala	15,000	40,000	Stock		10,000
General Reserve		30,000	Debtors	25,000	
Workmen's Compensation Reserve		10,000	*Less:* Provision for doubtful debts	4,000	21,000
Creditors		10,000	Bank		20,000

Employee's Provident Fund	8,000	Advertisement Expendi-ture	4,000
	98,000		**98,000**

On admission of Sobha for 1/6th share in the profits, it was decided that:
(1) Value of land and buildings to be increased by ₹ 5,000.
(2) Value of stock to be increased by ₹ 3,500.
(3) Provision of doubtful debts to be increased by ₹ 1,500.
(4) Liabilities of workmen's compensation reserve was determined to be ₹ 8,000.
(5) Sobha was to bring in further cash of ₹ 25,000 as her capital.
(6) Sobha brought in her share of goodwill ₹ 12,000 in cash.
Prepare the Revaluation Account, the Capital Account and the Balance Sheet of the new firm.

Answer:

Revaluation A/c

Dr. Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Provision for doubtful debts		1,500	By Land & Building A/c	5,000
To Profit c/d:			By Stock A/c	3,500
Krish	4,200			
Bala	2,800	7,000		
		8,500		8,500

Partner's Capital A/c

Particulars	Krish	Bala	Sobha	Particulars	Krish	Bala	Sobha
To Krish and Bala's capital A/c–	-	-	12,000	By Balance b/d	25,000	15,000	-
To Advertisement expenses	2,400	1,600	-	By Bank-(Capital+GW)	-	-	37,000
To Balance c/d	53,200	33,800	25,000	By Sobha's Capital A/c	7,200	4,800	-
				By General Reserve	18,000	12,000	
				By Workman comp. Reserve	1,200	800	
				By Revaluation A/c	4,200	2,800	
	55,600	35,400	37,000		55,600	35,400	37,000

Balance Sheet of the Firm (after admission of Sohba)

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital A/c			Land & Building		33,000
Krish	53,200		Plant & Machinery		15,000
Bala	33,800		Stock		13,500
Sobha	25,000	1,12,000	Debtors	25,000	
Employees provident fund		8,000	*Less:* Provision for		
workmen Compensation Reserve		8,000	Doubtful Debts	(5,500)	19,500
Creditors		10,000	Bank (W.N.2)		57,000
		1,38,000			1,38,000

Working Note:

(1) Calculation of Sacrificing ratio

Partner	Old Share		New Share		Difference
Krish	3/5	–	3/6	=	3/30
Bala	2/5	–	2/6	=	2/30
Sobha		–	1/6		

(2) Bank A/c

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Balance c/d	57,000
To Sobha's capital A/c	37,000		
	57,000		57,000

It may be noted that Advertisement expenses are not permitted to be deferred. It must be written off when incurred, as they do not result in acquisition or creation of an intangible or recognizable asset. That is why it is routed through partner's capital account.

PYQ	2025-May [3] (b)	8 Marks

A, B and C are partners sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as on 31st March, 2024 is as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade Creditors	19,275	Land and Building	37,500
Outstanding Liabilities	2,250	Furniture	9,750
General Reserve	9,750	Closing Stock	17,625
Capital :		Sundry Debtors	8,250
A 18,000		Cash and Bank balance	1,650
B 18,000			
C 7,500	43,500		
Total	**74,775**	**Total**	**74,775**

The partners have agreed to take D as a partner w.e.f. 1st April, 2024 on the following terms:

(i) D shall bring ₹ 7,500 towards his capital and required sum of goodwill.
(ii) The value of stock should be increased by ₹ 3,750.
(iii) Provision for bad and doubtful should be provided at 10% of the debtors.
(iv) Furniture should be depreciated by 10%.
(v) The value of Land and Buildings should be enhanced by 20%.
(vi) The value of the goodwill is fixed at ₹ 22,500.
(vii) General Reserve will be transferred to the Partners' Capital Accounts.
(viii) The new profit-sharing ratio of A, B, C and D shall be 5 : 5 : 3 : 2.
(ix) The outstanding liabilities include ₹ 1,500 due to R has been paid by A. Necessary entry was not made in the books.

You are required to prepare:
(1) Revaluation A/c
(2) Capital Accounts of the Partners.
(3) Balance sheet as at that 1st of April, 2024.

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "Admission of a partner marks a new chapter of growth and collaboration—learn to account for it effectively."
- "Partnerships evolve with new faces; mastering the accounts ensures a smooth transition."
- "Every new partner brings fresh opportunities—good accounting helps balance equity."
- "Think of admission as a team expansion—prepare the accounts to align efforts and goals."

Checklist for Studying

- Understand the need for admitting a new partner and its implications on profit-sharing.
- Learn the adjustments required for goodwill, revaluation of assets and liabilities, and undistributed profits or losses.
- Memorize the formulas for calculating sacrificing ratio and new profit-sharing ratio.

Fun Facts

- Admission of a partner often revitalizes partnerships by bringing in new capital and skills.
- Goodwill adjustments during admission ensure fairness to existing partners.
- The sacrificing ratio reflects the portion of profit the old partners give up for the new partner.
- Revaluation accounts balance asset and liability adjustments to reflect current market conditions.
- Capital introduced by a new partner strengthens the financial base of the firm.

Fun Flow

- Visualize admission as onboarding a new team member—adjustments align everyone's stakes.
- Relate the sacrificing ratio to sharing a pie—it shows how much each partner gives up for the newcomer.
- Use flowcharts to map the steps in admitting a new partner, from goodwill adjustments to capital introduction.
- Create flashcards for key terms like sacrificing ratio, revaluation account, and goodwill treatment.
- Practice solving hypothetical problems to prepare for real-world scenarios.

Steps in Partner Admission

- Valuation of goodwill and calculation of sacrificing ratio.
- Adjustment of revaluation accounts for assets and liabilities.
- Distribution of undistributed profits or reserves among old partners.
- Recording capital introduced by the new partner.
- Updating the Balance Sheet to reflect the new partnership structure.

Last-Minute Analysis

- Revise the formulas for calculating sacrificing ratio and new profit-sharing ratio.
- Memorize journal entries for goodwill adjustments and revaluation accounts.
- Highlight the treatment of undistributed reserves and losses during admission.
- Solve one or two problems involving capital contribution by a new partner.
- Summarize the purpose of adjustments: "To align financial equity and update asset values for the new partnership structure."

Smart Study Tips

- Create a table comparing old and new profit-sharing ratios to understand the sacrificing ratio.
- Practice problems involving adjustments for goodwill and revaluation of assets and liabilities.
- Highlight the importance of clear agreement terms in the partnership deed during admission.
- Record voice notes summarizing the accounting process for admission for auditory learning.
- Use real-life examples to understand the practical implications of partner admission on financial statements.

Quick Study Tips

- Spend 5 minutes revising the format of revaluation accounts.
- Memorize the steps for goodwill adjustment and its journal entries.
- Write down examples of sacrificing ratios repeatedly for better retention.
- Solve a quick problem involving changes in profit-sharing ratios.
- Highlight key terms like revaluation, goodwill, and capital contribution in your notes.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PARTNERSHIP AND LLP ACCOUNTS
10.4	**Retirement of a Partner**

THEORY QUESTIONS

PYQ	2001-May [5] (6)	TF	2 Marks

State with reasons whether the following statement is True or False:
If a partner retires, then other partners have a gain in their profit sharing ratio.

Answer:

True: If a partner retires, the share of his profit or loss will be shared by other partners in their profit sharing ratio.

PRACTICAL QUESTIONS

PYQ	1997-May [2]	15 Marks

On 31st March, 1997 the Balance Sheet of M/s Ram, Hari & Mohan sharing profits and losses in the ratio of 2:3:2, stood as follows:

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Land and Buildings	10,00,000
Ram	10,00,000		Machinery	17,00,000
Hari	15,00,000		Closing Stock	5,00,000
Mohan	10,00,000	35,00,000	Sundry Debtors	6,00,000
Sundry Creditors		5,00,000	Cash and Bank Balances	2,00,000
		40,00,000		40,00,000

On 31st March, 1997 Hari desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the Assets and Liabilities on that date on the following basis:

1. Land & Buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing Stock to be valued at ₹ 4,50,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of Sundry Creditors ₹ 50,000 be written back.
6. Joint Life Policy of the partners surrendered and cash obtained ₹ 3,50,000.
7. Goodwill of the entire firm be valued at ₹ 6,30,000 and Hari's share of the Goodwill be adjusted in the accounts of Ram and Mohan who share the future profits & losses in the ratio of 3:2. No Goodwill Account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Hari is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare Revaluation Account, Capital Accounts of Partners, Cash Account and Balance Sheet as on 1-4-1997 of M/s Ram & Mohan.

Answer:

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Machinery A/c	3,40,000	By Land and buildings A/c	3,00,000
To Closing Stock A/c	50,000	By Sundry Creditors A/c	50,000
To Provision for Bad Debts A/c	30,000	By Partner's Capitals A/cs:	
		Ram	20,000
		Hari	30,000
		Mohan	20,000
	4,20,000		4,20,000

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	Ram ₹	Hari ₹	Mohan ₹	Particulars	Ram ₹	Hari ₹	Mohan ₹
To Hari's Capital A/c	1,98,000	–	72,000	By Balance b/d	10,00,000	15,00,000	10,00,000
To Revaluation A/c	20,000	30,000	20,000	By Joint Life Policy A/c	1,00,000	1,50,000	1,00,000
To Cash & Bank A/c	–	9,45,000	–	By Ram's Capital	–	1,98,000	–
To Hari's Loan A/c	–	9,45,000	–	By Mohan's Capital A/c	–	72,000	–
To Balance c/d	21,00,000	–	14,00,000	By Cash & Bank A/c (Bal. figure)	12,18,000	–	3,92,000
	23,18,000	19,20,000	14,92,000		23,18,000	19,20,000	14,92,000

Dr. **Cash And Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Hari's Capital A/c	9,45,000
To Joint Life policy A/c	3,50,000	By Balance c/d	12,15,000
To Ram's Capital A/c	12,18,000		
To Mohan's Capital A/c	3,92,000		
	21,60,000		21,60,000

M/s Ram & Mohan

Balance Sheet as on 1st April, 1997

Liabilities	₹	Assets	₹
Capital Accounts:		Land and buildings	13,00,000
Ram 21,00,000		Machinery	13,60,000
Mohan 14,00,000	35,00,000	Closing Stock	4,50,000
Sundry Creditors	4,50,000	Sundry Debtors 6,00,000	
Hari's Loan A/c	9,45,000	*Less:* Provision for Bad Debts 30,000	5,70,000
		Cash and Bank Balances	12,15,000
	48,95,000		48,95,000

Working Notes:

1. Gaining ratio of existing partners:
   Ram 3/5 - 2/7 = 11/35
   Mohan 2/5 - 2/7 = 4/35

2. Adjustment of goodwill

Total goodwill of the firm	=	6,30,000
Hari's share (3/7 x 6,30,000)	=	2,70,000

Hari's share of goodwill is to be borne by Ram and Mohan is their gaining ratio i.e. 11:4

Ram = 11/15 x 2,70,000	=	1,98,000
Mohan = 4/15 x 2,70,000	=	72,000

PYQ | **1998-May [2]** | **15 Marks**

A, B and C were in partnership sharing profits in the proportions of 5 : 4 : 3. The Balance Sheet of the firm as on 31st March, 1998 was as under:

Liabilities		₹	Assets	₹
Capital:	A	1,35,930	Goodwill	40,000
	B	95,120	Fixtures	8,200
	C	61,170	Stock	1,57,300
Sundry Creditors		41,690	Sundry Debtors	93,500
			Cash	34,910
		3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 1998, the terms of which were as follows:

(i) The Profit and Loss Account for the year ended 31st March, 1998 which showed a net profit of ₹ 48,000 was to be re-opened. B was to be credited with ₹ 4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit-sharing ratio was to be revised as from 1st April, 1998 to 3 : 4 : 4.

(ii) Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The Fixtures were to be valued by an independent valuer. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

The valuations arising out of the above agreement were Goodwill ₹ 56,800 and Fixtures ₹ 10,980.

B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3 : 2 and decided to eliminate Goodwill from the Balance Sheet, to retain the Fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%.

You are required to submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

Answer:

Journal Entries

	Particulars		₹	₹
(i)	A's Capital A/c	Dr.	20,000	
	B's Capital A/c	Dr.	16,000	
	C's Capital A/c	Dr.	12,000	
	To Profit and Loss Adjustment A/c			48,000
	(Being Profit written back for adjustments)			
(ii)	Profit and Loss Adjustment A/c	Dr.	4,000	
	To B's Capital A/c			4,000
	(Being Bonus credited to B's Capital Account)			
(iii)	Profit and Loss Adjustment A/c	Dr.	44,000	
	To A's Capital A/c			12,000
	To B's Capital A/c			16,000
	To C's Capital A/c			16,000
	(Being Distribution of profits in the new ratio)			
(iv)	Goodwill A/c	Dr.	16,800	
	Fixtures A/c	Dr.	2,780	
	To Provision for Bad Debts A/c			1,870
	To A's Capital A/c			4,830
	To B's Capital A/c			6,440
	To C's Capital A/c			6,440
	(*Being Revaluation of asset on A's retirement)			
(v)	A's Capital A/c	Dr.	1,32,760	
	To A's Loan A/c			1,32,760
	(Being Transfer of A's Capital Account to his Loan A/c)			
(vi)	B's Capital A/c	Dr.	36,324	
	C's Capital A/c	Dr.	24,216	
	To Goodwill A/c			56,800
	To Provision for Bad Debts A/c			3,740
	(Being goodwill written off and provision for bad debts raised)			

Partner's Capital Accounts

Dr. Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Profit & Loss Adjustment A/c	20,000	16,000	12,000	By Balance b/d	1,35,930	95,120	61,170
To A's Loan A/c	1,32,760	–	–	By Profit & Loss Adjustment A/c	–	4,000	–
To Goodwill A/c & and Provision for bad Debts A/c	–	36,324	24,216	By Profit & Loss Adjustment A/c	12,000	16,000	16,000
To Balance c/d	–	69,236	47,394	By Goodwill A/c and Fixture A/c	4,830	6,440	6,440
	1,52,760	1,21,560	83,610		1,52,760	1,21,560	83,610

PYQ | **1999-Nov [2]** | **15 Marks**

K, L and M are partners sharing Profits and Losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.99 and admit his son N in his place.

Balance Sheet of K, L and M as on 31.3.99

Liabilities	₹	Assets	₹
Capital:		Goodwill	30,000
K 40,000		Furniture	20,000
L 60,000		Sundry Debtors	50,000
M 30,000	1,30,000	Stock in Trade	50,000
Reserve	50,000	Cash and Bank Balances	50,000
Sundry Creditors	20,000		
	2,00,000		2,00,000

On retirement of 'L' assets were revalued:
Goodwill ₹ 50,000, Furniture ₹ 10,000, Stock in Trade ₹ 30,000.

50% of the amount due to 'L' was paid off in cash and the balance was retained in the firm as capital of N.

On admission of the new partner, goodwill has been written off.

M is paid off his extra balance to make capital proportionate.

Pass necessary Journal Entries and prepare Balance Sheet of M/s K, M, N as on 01.04.99. Show necessary workings.

Answer:

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
(i)	Goodwill A/c Dr.	20,000	
	To Profit and Loss Adjustment A/c		20,000
	(Being revaluation of goodwill on L's retirement)		
(ii)	Profit and Loss Adjustment A/c Dr.	30,000	
	To Furniture A/c		10,000
	To Stock in Trade A/c		20,000
	(Being revaluation of furniture and stock-in-trade recorded)		

(iii)	K's Capital A/c	Dr.	5,000	
	L's Capital A/c	Dr.	3,000	
	M's Capital A/c	Dr.	2,000	
	To Profit and Loss Adjustment A/c			10,000
	(Being net revaluation loss debited to partners capital account on the ratio of 5:3:2)			
(iv)	Reserve A/c	Dr.	50,000	
	To K's Capital A/c			25,000
	To L's Capital A/c			15,000
	To M's Capital A/c			10,000
	(Being reserve transferred to Partners capital accounts)			
(v)	L's Capital A/c	Dr.	72,000	
	To Cash A/c			36,000
	To N's Capital A/c			36,000
	(Being 50% of the amount due to L paid off in cash and the balance retained in the firm as capital of N)			
(vi)	K's Capital A/c	Dr.	25,000	
	M's Capital A/c	Dr.	10,000	
	N's Capital A/c	Dr.	15,000	
	To Goodwill A/c			50,000
	(Being goodwill written off, as agreed after retire-ment of L and admission of N in the new profit sharing ratio)			
(vii)	M's Capital A/c	Dr.	14,000	
	To Bank/Cash A/c			14,000
	(Being amount paid to M to make his capital proportionate)			

Balance Sheet M/s K, M N
As on 1st April, 1999

Liabilities		₹	Assets	₹
Capital Account:			Furniture	10,000
K	35,000		Sundry Debtors	50,000
M	14,000		Stock in Trade	30,000
N	21,000	70,000		
Sundry Creditors		20,000		
		90,000		90,000

Working Notes:

Partner's Capital Accounts

Particulars	K ₹	L ₹	M ₹	N ₹	Particulars	K ₹	L ₹	M ₹	N ₹
To Profit & Loss Adjustment A/c	5,000	3,000	2,000	—	By Balance b/d	40,000	60,000	30,000	—
To Cash A/c	—	36,000	—	—	By Reserve	25,000	15,000	10,000	—
To N's Capital A/c	—	36,000	—	—	By L's Capital A/c	—	—	—	36,000
To Goodwill A/c	25,000	—	10,000	15,000					
To Bank (Bal. figure)	—	—	14,000	—					
To Balance c/d	35,000	—	14,000	21,000					
	65,000	75,000	40,000	36,000		65,000	75,000	40,000	36,000

PYQ	2002-May [2]	15 Marks

M/s X and Co. is a partnership firm with the partners A, B and C sharing Profits and Losses in the ratio of 3 : 2 : 5. The Balance Sheet of the firm as on 30th June 2001 was as under:

Balance Sheet of X and Co. as on 30-6-2001

Liabilities	₹	Assets	₹
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Building	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long term Loan	4,00,000	Investments	22,000
Bank overdraft A/c	44,000	Stock	1,16,000
Trade Creditors	1,93,000	Sundry Debtors	1,39,000
	9,57,000		9,57,000

It was mutually agreed that B will retire from Partnership and in his place D will be admitted as a partner with effect from 1st July, 2001. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹ 2 lakh due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and Plant and Machinery are to be valued at 90% and 85% of the respective Balance Sheet values. Investments are to be taken over by the retiring partner at ₹ 25,000. Sundry Debtors are considered good only 90% of Balance Sheet figure. Balance to be considered bad.

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

(d) The surplus funds, if any, will be used for repaying bank overdraft.

(e) The amount due to retiring partner shall be transferred to his Loan Account. You are required to prepare (1) Revaluation Account (2) Partner's Capital Account (3) Bank Account and (4) Balance Sheet of the reconstituted firm as on 1st July, 2001.

Answer:

(1) Revaluation Account

Dr. **Cr.**

2001		₹	2001		₹
July 1	To Building	20,000	July 1	By Investments (25,000 - 22,000)	3,000
	To Plant and machinery	57,000		By Partners' capital accounts:	
	To Bad debts	13,900		Loss on revaluation	
				A (3/10)	26,370
				B (2/10)	17,580
				C (5/10)	43,950
		90,900			90,900

(2) Partners' Capital Accounts

Dr. **Cr.**

	A ₹	B ₹	C ₹	D ₹		A ₹	B ₹	C ₹	D ₹
To Revaluation A/c	26,370	17,580	43,950	–	By Balance b/d	1,04,000	76,000	1,40,000	–
To B's and C's Capital A/cs				60,000	By D's Capital A/c (W.N. 1)	–	40,000	20,000	–
To Investments A/c		25,000			By Bank A/c	12,370		3,950	1,50,000
To B's Loan A/c		73,420							
To Balance c/d (W.N. 2)	90,000		1,20,000	90,000					
	1,16,370	1,16,000	1,63,950	1,50,000		1,16,370	1,16,000	1,63,950	1,50,000

(3)

Bank Account

Dr.			Cr.
To A's Capital A/c	12,370	By Balance b/d (overdraft)	44,000
To C's Capital A/c	3,950	By Balance c/d	1,22,320
To D's Capital A/c	1,50,000		
	1,66,320		1,66,320

(4)

Balance Sheet of M/s X and Co.
as at 1st July, 2001

Liabilities		₹	Assets		₹
Capital A/c:			Land		1,00,000
A	90,000		Building	2,00,000	
B	1,20,000		*Less:* Depreciation	20,000	1,80,000
C	90,000	3,00,000	Plant and Machinery	3,80,000	
Long term loan		4,00,000	*Less:* Depreciation	57,000	3,23,000
B's Loan account		73,420	Stock		1,16,000
Trade Creditors		1,93,000	Debtors	1,39,000	
			Less: Bad Debts	13,900	1,25,100
			Cash at Bank		1,22,320
		9,66,420			9,66,420

Working Notes:

1. Adjustment of Goodwill

   Goodwill of the firm is valued at ₹ 2 lakhs

   Sacrificing ratio:

   A 3/10 - 3/10 = 0

   B 2/10 - 0 = 2/10

   C 5/10 - 4/10 = 1/10

   Hence, sacrificing ratio of B and C is 2 : 1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

   Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

	₹
B : ₹ 60,000 × 2/3	= 40,000
C : ₹ 60,000 × 1/3	= 20,000
	60,000

2. Capital of partners in the reconstituted firm

	₹
Total capital of the reconstituted firm (given)	3,00,000
A (3/10)	90,000
B (4/10)	1,20,000
C (3/10)	90,000

PYQ | **2002-Nov [1]** | **20 Marks**

A, B, C were in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31- 3 - 2002 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Goodwill	40,000
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	Sundry Debtors	90,000
Sundry Creditors		40,000	Cash	10,000
		3,40,000		3,40,000

A on account of ill health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered into as on 31.3.2002, the terms of which were as follows:

(a) The Profit and Loss account for the year ended 31.3.2002, which showed a net profit of ₹ 42,000 was to be re-opened. B was to be credited with ₹ 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio to be 2:3:1 as and from 1st April, 2001.

(b) Goodwill was to be valued at two years' purchase of the average profits of five years. Profits for these five years ending on 31st March were as under:

	₹
31.03.1998	15,000
31.03.1999	23,000
31.03.2000	25,000
31.03.2001	35,000
31.03.2002	42,000

(c) Fixtures are to be valued at ₹ 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to eliminate goodwill from Balance Sheet, to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6%. Total capital of the firm will be ₹ 3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare Capital Account of Partners, Cash Account and Balance Sheet of B and C after giving effect to the above arrangements on the retirement of A.

Answer:

Journal Entries

Particulars		Dr.	Cr.
		₹	₹
(i) A's capital account	Dr.	21,000	
B's capital account	Dr.	14,000	
C's capital account	Dr.	7,000	
To Profit and loss adjustment account			42,000
(Profit written back for making adjustment)			
(ii) Profit and loss adjustment account	Dr.	6,000	
To B's capital account			6,000
(Bonus credited to B's capital account)			
(iii) Profit and loss adjustment A/c	Dr.	36,000	
To A's capital account			12,000
To B's capital account			18,000
To C's capital account			6,000
(Distribution of profits in the new ratio)			
(iv) Goodwill account (56,000 – 40,000)	Dr.	16,000	
Fixtures account	Dr.	9,800	
To Provision for bad debts account			1,800
To A's capital account			8,000
To B's capital account			12,000
To C's capital account			4,000
(Revaluation of assets on A's retirement)			
(v) B's capital account	Dr.	44,700	
C's capital account	Dr.	14,900	
To Goodwill account			56,000
To Provision for bad debts account			3,600
(Written off goodwill and raising provision for bad debts)			
(vi) A's capital account	Dr.	1,49,000	
To B's capital account			1,49,000
(Amount payable to A paid by B)			

Partner's Capital Accounts

Dr.							Cr.		
	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To P&L Adjustment A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To Goodwill and provision for bad debts	—	44,700	14,900	By P& L Adjustment A/c	—	6,000	—
To B's Capital A/c	1,49,000	—	—	By P&L Adjustment A/c	12,000	18,000	6,000
To Cash A/c	—	1,300	—	By Goodwill and Fixtures	8,000	12,000	4,000
To Balance c/d	—	2,25,000	75,000	By A's Capital A/c	—	1,49,000	—
				By Cash A/c	—	—	36,900
	1,70,000	2,85,000	96,900		1,70,000	2,85,000	96,900

Cash Account

	₹		₹
To Balance b/d	10,000	By B's Capital A/c	1,300
To C's Capital A/c	36,900	By Balance c/d	45,600
	46,900		46,900

Balance Sheet of B and C
as on 31st March, 2002 (after retirement of A)

Liabilities		Amount ₹	Assets		Amount ₹
Capital Accounts:			Fixtures		39,800
B	2,25,000		Stock		1,70,000
C	75,000	3,00,000	Sundry debtors	90,000	
Sundry Creditors		40,000	Less: Provision for bad debts	5,400	84,600
			Cash		45,600
		3,40,000			3,40,000

Working note:

Calculation of goodwill

1. Average of last five year's profits

Year ended on	Profit ₹
31.3.1998	15,000
31.3.1999	23,000
31.3.2000	25,000
31.3.2001	35,000
31.3.2002	42,000
	1,40,000

Average profit $= \frac{1,40,000}{5} =$ ₹ 28,000

2. Goodwill at two year's purchase
   ₹ 28,000 × 2 = ₹ 56,000.

PYQ	2005-Nov [4] (b)	5 Marks

A, B and C are partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. B decides to retire from the firm. Calculate the new profit sharing ratio of A and C in the following circumstances:

(i) If B gives his share to A and C in the original ratios of A and C.
(ii) If B gives his share to A and C in equal proportion,
(iii) If B gives his share to A and C in the ratio of 3:1.
(iv) If B gives his share to A only.

Answer:

The original ratio is 4:3:2 for A, B and C. B retires, hence his share i.e. 1/3 (3/9) has to be given to A and C.

(i) If B gives his share to A and C in the original ratios of A and C, i.e. 4:2, then

Out of 1/3:A will get $\frac{1}{3} \times \frac{2}{3} = \frac{2}{9}$, and

C will get $\frac{1}{3} \times \frac{1}{3} = \frac{1}{9}$

Thus, New share of A = $\frac{4}{9} + \frac{2}{9} = \frac{6}{9}$, and

New share of C = $\frac{2}{9} + \frac{1}{9} = \frac{3}{9}$

Hence, new profit sharing ratio is 6 : 3 or 2 : 1.

(ii) If B gives his share to A and C in equal proportion, then

Out of 1/3, 1/6th each will be given to A and C.

Thus, New share of A will be $\frac{4}{9} + \frac{1}{6} = \frac{11}{18}$, and

New share of C will be $\frac{2}{9} + \frac{1}{6} = \frac{7}{18}$

Hence, new profit sharing ratio will be 11 : 7.

(iii) If B gives his share to A and C in the ratio of 3 : 1, then

A will get $\frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$, and

C will get $\frac{1}{3} \times \frac{1}{4} = \frac{1}{12}$

Thus, New share of A will be $\frac{4}{9} + \frac{3}{12} = \frac{25}{36}$, and

New share of B will be $\frac{2}{9} + \frac{1}{12} = \frac{11}{36}$

Hence, new profit sharing ratio will be 25 : 11.

(iv) If B gives his share to A only, then

New share of A will be $\frac{4}{9} + \frac{1}{3} = \frac{7}{9}$, and

New share of C will be same i.e. $\frac{2}{9}$

Hence, new profit sharing ratio will be 7 : 2.

PYQ	2018-May [4] (b)	10 Marks

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

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

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.
(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000.
(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000.

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

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

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

Answer:

Revaluation A/c

	₹		₹
To Furniture A/c	40,000	By Office Equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint Life Policy	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		
	5,62,000		5,62,000

Partner's Capital Accounts

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

Balance Sheet as on 1.4.2018
(after B's retirement)

Liabilities	₹	Assets		₹
Capital Accounts:		Building		15,00,000
A 11,21,000		Furniture		2,00,000
B 5,07,000	16,28,000	Office Equipment		3,27,000
B's Loan Account	8,14,000	Stock		2,00,000
Sundry Creditor	3,70,000	Sundry Debtor	3,00,000	
		Less: Provision for doubtful debts	(15,000)	2,85,000
		Joint Life Policy		1,50,000
		Cash at bank		1,50,000
	28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. Average of last 4 year's profit

$$= \frac{(90,000 + 1,40,000 + 1,20,000 + 1,30,000)}{4}$$

= ₹ 1,20,000

2. Goodwill at three years' purchase

₹ 1,20,000 × 3 = ₹ 3,60,000

Goodwill adjustment

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

PYQ	2020-Nov [4] (a)	10 Marks

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

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

Liabilities	Amount (₹)	Assets	Amount (₹)
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000
	10,77,000		**10,77,000**

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020.

For this purpose, following adjustments are to be made:

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

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

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

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

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

Answer:

Revaluation A/c

To Building	11,000	By Investment		4,000
To Plant & Machine	80,000	By A's Capital	33,255	
To Trade Receivable	23,850	By B's Capital	22,170	
		By C's Capital	55,425	1,10,850
	1,14,850			1,14,850

Loss on Revaluation

A. $1,10,850 \times \frac{3}{10} = 33,255$

B. $1,10,850 \times \frac{2}{10} = 22,170$

C. $1,10,850 \times \frac{5}{10} = 55,425$

Calculation of Goodwill

		A	B	C	D
Goodwill 3 : 2 : 5	Dr.	90,000	60,000	1,50,000	×
Goodwill 3 : 4 : 3	Dr.	90,000	–	1,20,000	90,000
		×	60,000 Goodwill	30,000 Goodwill	90,000 Dr.

Capital A/c

	A	B	C	D		A	B	C	D
To B's Capital				60,000	By Balance b/d	1,24,000	96,000	1,60,000	–
To C's Capital				30,000	By D's Capital	–	60,000	30,000	
To Revaluation	33,255	22,170	55,425		By Bank	29,255	x	25,425	2,10,000
To Investment		46,000							
To B's Loan		87,830							
To Balance c/d	1,20,000	–	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Note:

Bank A/c

To A's Cap.	29,255	By Bal. b/d	64,000
To C's Cap.	25,425	By Bal. c/d	2,00,680
To D's Cap.	2,10,000		
	2,64,680		2,64,680

Balance Sheet
as on 1st July, 2020

Liabilities		Amount	Assets	Amount
Capital			Bank Balance	2,00,680
A	1,20,000		Building	2,09,000
C	1,60,000		Plant and Machinery	3,20,000
D	1,20,000	4,00,000	Inventories	1,36,000
Loan Term Loan		4,20,000	Trade Receivable	1,35,150
Trade Payable		2,13,000	Land	1,20,000
B's Loan		87,830		
		11,20,830		11,20,830

PYQ	2021-Jul [5] (b) (i)	5 Marks

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

2017 - ₹ Nil
2018 - ₹ 900
2019 - ₹ 2,000
2020 - ₹ 3,600

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

Answer:

Joint Life Policy is Maintained on Surrender Value Basis

Books of Rama Krishna & Raghu

Joint Life Policy Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
10.6.17	To Bank A/c	3,000	31.12.17	By P/L A/c	3,000
		3,000			3,000
10.6.18	To Bank A/c	3,000	31.3.18	By P/L A/c	2,100
				By Bal c/d	900
		3,000			3,000
1.1.19	To Bal b/d	900	31.12.19	By P/L A/c	1,900
10.6.19	To Bank A/c	3,000		By Bal c/d	2,000
		3,900			3,900
1.1.20	To Bal b/d	2,000	31.12.20	By P/L A/c	1,400
10.6.20	To Bank A/c	3,000		By Bal c/d	3,600
		5,000			5,000
1.1.2021	To Balance b/d	3,600	15.4.2021	By Bank	3,600
		3,600			3,600

PYQ **2022-Jun [4] (b)** **10 Marks**

X , Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March , 2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April, 2021 on the following terms:

(i) Building to be appreciated by 25%.
(ii) X and Y to bring in additional capital of ₹ 5,00,000 each.
(iii) Machinery to be depreciated by 10%.
(iv) Stock is revalued at ₹ 3,72,250.
(v) Provision for Doubtful Debts to be created at 4%.
(vi) Goodwill was to be valued at 3 Years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.
(vii) Goodwill was not to be raised in the Books of Accounts.
(viii) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account , Bank Account And Partners' Capital Accounts after giving effect to Z's retirement. Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

Answer:

In The Books of X Y and Z

Revaluation Account

Dr. Particulars		Particulars	Cr.
To Machinery (3,37,500×10%)	33,750	By Building (2,50,000×25%)	62,500
To Stock (4,00,000 - 3,72,250)	27,750	By Loss on revaluation -	
To Provision for bad - debts (3,25,000 × 4%)	13,000	X 2000	
		Y 4000	
		Z 6000	12,000
	74,500		74,500

Partner's Capital Accounts

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation A/c	2,000	4000	6,000	By balance b/d	1,75,000	2,50,000	4,00,000
To Z's Cap. A/c (goodwill)	1,20,000	2,40,000	–	By Gen Res.	50,000	1,00,000	1,50,000
				By Bank A/c	5,00,000	5,00,000	–
To Bank A/c	–	–	9,04,000	By X & Y's Cap (goodwill)			3,60,000
To Balance c/d	6,03,000	6,06,000					
	7,25,000	8,50,000	9,10,000		7,25,000	8,50,000	9,10,000

W. Note

Calculation of goodwill and its treatment

Average Profit for past 3 years

= (2,75,000 + 2,50,000 + 195,000)/3 = ₹ 2,40,000

Goodwill = 2,40,000 × 3 = ₹ 7,20,000

Z's share of goodwill = $7,20,000 \times \frac{3}{6} = 3,60,000$

Adjustment entry -

(1 : 2)	X's Capital A/c	Dr.	1,20,000	
	Y's Capital A/c	Dr.	2,40,000	
	To Z's Capital A/c			3,60,000

PYQ | **2023-Dec [5] (a)** | **10 Marks**

X, Y and Z were partners sharing profit and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as on 31st March, 2023 is as follows.

Balance Sheet as on 31st March, 2023

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts		Building	2,00,000
X	4,25,000	Machinery	3,50,000
Y	2,55,000	Debtors	1,95,000
Z	1,40,000	Stock	1,05,000
General Reserve	25,000	Bank	25,000
Trade Creditors	30,000		
	8,75,000		8,75,000

Y retired from the business on 1st April, 2023 on the following terms:

(i) To appreciate building by 20% and to depreciate machinery by 5%.

(ii) Provision for doubtful debts is to create at 10%.

(iii) Goodwill of the firm is valued at 1,60,000 and Goodwill is not to be raised in the books of accounts. New profit sharing ratio will be 5:3.

(iv) Entire sum payable to Y should be brought by X and Z in such a way to make their capital ratios according to new profit ratio. Balance of Y to be paid immediately.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet after retirement.

Answer:

Revaluation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c (3,50,000 × 5%)	17,500	By Buildings (2,00,000 × 20%)	40,000
To Provision from BD (1,95,000 × 10%)	19,500		
To Transfer of Profit			
To Capital A/c:			
X - 1,500			
Y - 900			
Z - 600	3,000		
	40,000		**40,000**

Dr. Capital A/c Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To J's Capital A/c	20,000	—	28,000	By Balance b/d	4,25,000	2,55,000	1,40,000
To Bank A/c	—	3,11,400	—	By Reserve	12,500	7,500	5,000
To Balance c/d	5,30,000	—	3,18,000	By Revaluation	1,500	900	600
				By X & Z Capital A/c	—	48,000	—
				By Bank A/c (b/f)	1,11,000	—	2,00,400
	5,50,000	**3,11,400**	**3,46,000**		**5,50,000**	**3,11,400**	**3,46,000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	25,000	By Y's Capital A/c	3,11,400
To X's Capital A/c	1,11,000	By Balance c/d	25,000
To Z's Capital A/c	2,00,400		
	3,36,400		**3,36,400**

Balance Sheet of X & Z as on

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital's !		Buildings	2,00,000	
x : 5,30,000		*Add:* Appreciation	40,000	2,40,000
y : 3,18,000	8,48,000	Machinery	3,50,000	
Trade Creditors	30,000	*Less:* Depreciation	(17,500)	3,32,500
		Sundry Debtors	1,95,000	
		Less: Prov for BD	(19,500)	1,75,500
		Closing stock		1,05,000
		Bank		25,000
	8,78,000			8,78,000

Working Notes:

(1) **Treatment of Goodwill:**

Firms Goodwill = 1,60,000

Retiring partner Y's share = $1,60,000 \times \frac{3}{10} = 48,000$

Gaining ratio of X & Z = New share - old share

$X = \frac{5}{8} - \frac{5}{10} = \frac{5}{40}$

$Z = \frac{3}{8} - \frac{2}{10} = \frac{7}{40}$

$\therefore$ X : Z = 5 : 7

X should be debited with $48,000 \times \frac{5}{12} = 20,000$

Z should be debited with $48,000 \times \frac{7}{12} = 28,000$

(2) **Capital Adjustment:**

Assets of the firm (2,40,000 + 3,32,500 +1,75,500 +1,05,000 + 25,000)	8,78,000
(-) Liabilities	(30,000)
Capital of new firm	8,48,000
New ratio X : Z = 5 : 3	

X's required Capital ($8,48,000 \times \frac{5}{8}$)	5,30,000
Z's required Capital ($8,48,000 \times \frac{3}{8}$)	3,18,000

PYQ | **2024-Sep [4] (a)** | **10 Marks**

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

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

Z retired on the above date on the following terms:

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

You are required the following:
(i) Show entries for the treatment of goodwill,
(ii) Prepare Revaluation Account,
(iii) Partner Capital Account, &
(iv) Balance Sheet.

Answer:

(i) Entries for the treatment of goodwill

Total goodwill of firm is ₹ 60,000

Z's share (1/6 × ₹ 60,000) = ₹ 10,000

(a) X's Capital A/c Dr. 6,000
Y's Capital A/c Dr. 4,000
Z's Capital A/c Dr. 2,000
To Goodwill A/c 12,000
(Being existing goodwill written off)

(b) X's Capital A/c Dr. 6,000
Y's Capital A/c Dr. 4,000
To Z's Capital A/c 10,000
(Being Z's share of goodwill credited to him and debited to gaining partners in gaining ratio)

(ii)

Particulars	₹	Particulars	₹
To Patents A/c	6,000	By Employee Provident Fund A/c	6,000
To Machinery A/c	6,000	By Investments A/c	2,600
To Provision for Bad Debts A/c	1,000	By Revaluation Loss	10,400
To Workmen's compensation*	6,000	Partners' Capital A/cs –	
		X 5,200	
		Y 3,467	
		Z 1,733	
	19,000		19,000

(iii) **Partner's Capital Account**

	X (₹)	Y (₹)	Z (₹)		X (₹)	Y (₹)	Z (₹)
To Goodwill	6,000	4,000	2,000	By Balance b/d	78,000	42,000	31,000
To Revaluation A/c	5,200	3,467	1,733	By Investment Fluctuation Fund	3,000	2,000	1,000
To Investments			27,600	By X's Capital A/c			6,000
To Z's Capital A/c	6,000	4,000		By Y's Capital A/c			4,000
To Bank A/c			5,334				
To Z's Loan A/c			2,667				
To Bills Payable A/c			2,666				
To Balance c/d	63,800	32,533					
	81,000	44,000	42,000		81,000	44,000	42,000

(iv) **Balance Sheet as on 1st April, 2024**

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Patent		24,000
X	63,800		Machinery		54,000
Y	32,533	96,333	Closing stock		30,650
Z's loan account		2,666	Sundry debtors	50,000	
Trade creditors		31,000	*Less:* Provision for	(5,000)	45,000
Bills payable		2,667	bad debts		
Workman			Cash and bank		3,016
compensation		18,000	balances		
Employee		6,000			
Provident Fund					
		1,56,666			1,56,666

Working Notes:

1. Gaining ratio of existing partners:

X 3/5 - 3/6 = 3/30
Y 2/5 - 2/6 = 2/30

*It is assumed that Workmen's Compensation is treated as liability.

PYQ	2025-May [4] (a)	10 Marks

Amal, Bimal & Kamal were in partnership sharing profits in the proportions of 3 : 2 : 1. The balance sheet of the firm as on 31st March, 2024 was as under :

Liabilities	₹	Assets	₹
Capital accounts :		Building	3,00,000
Amal	4,00,000	Fixtures	1,25,000
Bimal	3,30,000	Office Equipment	1,00,000
Kamal	1,80,000	Inventories	2,25,000

Trade Payables	1,20,000	Trade Receivables	1,90,000
		Cash & Bank	90,000
	10,30,000		10,30,000

Amal had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 2024, the terms of which were as follows:

(i) The profit and loss account for the year ended 31st March, 2024 which showed a net profit of ₹ 1,50,000 was to be re-opened. Bimal was to be credited with ₹ 30,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit-sharing ratio was to be revised to enable partners to share profits/losses equally w.e.f. 1st April, 2023.

(ii) Goodwill was to be valued at three years' purchase of the average profits of the preceding four years. The following were the amountsof profit for the past four years:

Year	Profit
2020-21	1,15,000
2021-22	1,25,000
2022-23	1,40,000
2023-24	1,50,000

(iii) Fixtures were revalued at ₹ 1,00,000. Building was to be appreciated by 10%. Inventories were to be written down by ₹ 25,000. A provision of 2.5% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

Bimal and Kamal agreed, as between themselves, to continue the business, sharing profits in the ratio of 3 : 2. The amount due to Amal is to be transferred to his loan account to be settled later.

You are required to prepare:

(1) Revaluation Account

(2) Partners' Capital Accounts.

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Motivational Thoughts

- "Retirement is not an end but a transition—learn the accounting adjustments to ensure fairness."
- "A partner's departure marks a new phase—proper accounting keeps the business steady."
- "Understanding retirement adjustments reflects respect for contributions and ensures smooth continuity."
- "Retirement in partnerships is a test of transparency—master the accounts to handle it seamlessly."
- "Fair treatment during retirement strengthens relationships and builds trust for future growth."

Checklist for Studying

- Understand the adjustments required during the retirement of a partner: goodwill, revaluation of assets and liabilities, and undistributed profits/losses.
- Learn the calculation of gaining ratio and its role in profit-sharing adjustments.
- Study the settlement of the retiring partner's dues, including payment options.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PARTNERSHIP AND LLP ACCOUNTS
10.5	**Death of a Partner**

THEORY QUESTIONS

PYQ	2005-May [5] (xii)	TF	2 Marks
State with reasons whether the following statement is True or False: The accounting procedure in case of retirement of partner and dissolution of the partnership firm are same.			

Answer:

False: In case of dissolution of the partnership firm, realization account is opened to transfer all assets and liabilities, while in case of retirement of partner, profit and loss adjustment account (revaluation account) is used for revaluation of assets and liabilities. The partners' capital accounts are closed and final payments are made to partners under dissolution of the firm but in case of retirement of a partner, adjustments are made only in partners' capital accounts for transfer of reserve, goodwill and profit or loss on revaluation.

PYQ	2021-Jul [1] (a) (v) {C}	TF	2 Marks
State **with reason**, whether the following statement is True or False: Business of partnership comes to an end on death of a partner.			

Answer:

False: Surviving partners can carry on the business if they are so willing.

PYQ	2024-Sep [1] (a) (vi) {C}	TF	2 Marks

State with reason, whether the following statement is True or False:
Legal heirs of a deceased partner are entitled to his capital account balance only.

Answer:

False: Legal heirs of a deceased partner are entitled to all dues of deceased partner.

Example: Share in revaluation profit or loss, goodwill, insurance policy, etc.

PRACTICAL QUESTIONS

PYQ	2000-May [2]	15 Marks

The following was the Balance Sheet of Om & Co. in which X, Y and Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31-3-1999. Mr. Z died on 31st December, 1999. His account has to be settled under the following terms:

Balance Sheet of Om & Co. as on 31-3-1999

Liabilities		₹	Assets	₹
Sundry Creditors		20,000	Goodwill	30,000
Bank Loan		50,000	Building	1,20,000
General Reserve		30,000	Computers	80,000
Capital Accounts:			Stock	20,000
X	40,000		Sundry Debtors	20,000
Y	80,000		Cash at Bank	20,000
Z	80,000	2,00,000	Investments	10,000
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years' purchase on the basis of average of last three years' profits and losses. The profits and losses for the three years were as detailed below:

Year ending on	Profit/Loss ₹
31-3-1999	30,000
31-3-1998	20,000
31-3-1997	(10,000) Loss

Profit for the period from 1-4-1999 to 31-12-1999 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31-3-1999 a car costing ₹ 40,000 was purchased on 1-4-1998 and debited to travelling expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows:

Stock at ₹ 16,000; Building at ₹ 1,40,000; Computers at ₹ 50,000; Investments at ₹ 6,000. Sundry Debtors were considered good. You are asked to prepare partners' Capital Accounts and Balance Sheet of the firm Om & Co. as on 31-12-1999 assuming that other items of assets and liabilities remained the same.

Answer:

Partners Capital Accounts

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation A/c	3,600	7,200	7,200	By Balance b/d	40,000	80,000	80,000
To Z's Executor's A/c	—	—	1,12,000	By General Reserve	6,000	12,000	12,000
To Balance c/d	52,400	1,04,800	—	By Goodwill A/c	3,600	7,200	7,200
				By Car Account	6,400	12,800	12,800
				By P & L Suspense A/c	—	—	7,200
	56,000	1,12,000	1,19,200		56,000	1,12,000	1,19,200

Balance Sheet of M/s OM & Co.
(As at 31.12.1999)

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Goodwill	48,000
Bank Loan	50,000	Building	1,40,000
Capital Accounts:		Car	32,000
X	52,400	Stock	16,000
Y	1,04,800	Computers	50,000
Z's Executor's Account	1,12,000	Investments	6,000
		Sundry Debtors	20,000
		Cash at Bank	20,000
		P & L Suspense Account	7,200
	3,39,200		3,39,200

Working Notes:

(1) Calculation of goodwill and Z's share of profits:

		₹
(a) Adjusted profit (For the year ended 31.3.99)		
Profit		30,000
Add back: Cost of car wrongly written off	40,000	
Less: Depreciation for the year 1998-99 (20% on ₹ 40,000)	8,000	32,000
		62,000

(b) Average of last three year's profit/losses:

Year ended on:	Profit/(Loss)
31.3.1997	(10,000)
31.3.1998	20,000
31.3.1999	62,000
	72,000

Average profit $\left(\frac{72,000}{3}\right)$ ₹ 24,000

(c) Goodwill at 2 year's purchase
₹ 24,000 × 2 = ₹ 48,000

(d) Z's share of profits (for 9 months)

₹ 24,000 × $\frac{9}{12}$ × $\frac{2}{5}$ = ₹ 7,200

Dr. Revaluation Account Cr.

Particulars	₹	Particulars	₹
To Stock A/c	4,000	By Building A/c	20,000
To Computers A/c	30,000	By Loss transferred to:	
To Investment A/c	4,000	X Capital A/c	3,600
		Y Capital A/c	7,200
		Z Capital A/c	7,200
	38,000		38,000

PYQ 2019-Jun [4] (a) — 10 Marks

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June, 2018. The Balance Sheet of Firm as at 31st March, 2018 stood as.

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts :		Stock in trade		15,000
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	*Less:* Provision for		
Zoya	75,000	doubtful debt	2,000	33,000
		Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			2,82,000

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

(i) Land and Building be valued at ₹ 1,75,000
(ii) Debtors were all good, no provision is required
(iii) Stock is valued at ₹ 13,500
(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.
(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.
(vi) The profit of the preceding five years ended 31st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:
(1) Revaluation account
(2) Capital accounts of the partners and
(3) Balance sheet of the Firm as 1st July, 2018.

Answer:

Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land and Building	25,000
To Partners: (Revaluation Profit)		By Provision for Doubtful Debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		**27,000**

Partners' Capital Account

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	–	By Bal b/d	1,00,000	75,000	75,000
To Zoya's Executor	–	–	94,125	By General reserve	4,000	4,000	4,000
To Bal c/d	1,08,125	83,125	–	By Monika & Yedhant	–	–	8,750
				By Profit and Loss Adjustment* (Suspense) A/c	–	–	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	**87,500**	**98,125**		**1,12,500**	**87,500**	**98,125**

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

Balance Sheet of Firm as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land and Building	1,75,000
Yedhant	83,125	Investments	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		**3,09,375**

Calculation of goodwill and Zoya's share

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

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 × 1 = ₹ 26,250
Zoya's Share of Goodwill = ₹ 26,250 × 1/3
= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio
Monika = ₹ 8,750 × ½ = ₹ 4,375
Yedhant = ₹ 8,750 × ½ = ₹ 4,375

PYQ	2019-Nov [4] (a)	10 Marks

Arup and Swarup were partners. The partnership deed provides inter alia:
(i) That the annual accounts be balanced on 31st December each year;
(ii) That the profits be allocated as follows:
Arup: One-half; Swarup: One-third and Carried to reserve account: One Sixth;
(iii) That in the event of death of a partner, his executor will be entitled to the following:
(1) The capital to his credit at the date of death;
(2) His proportionate share of profit to date of death based on the average profits of the last three completed years; and
(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	**2,15,000**	**2,15,000**

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

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

Answer:

Calculation of Swarup's Share of Profits

Particulars	₹
2016	51,000
2017	39,000
2018	45,000
Total Profit	1,35,000
Average Profit	45,000
4 Month's Profit	15,000
Swarup's Share in Profit (2/5 × ₹ 15,000)	6,000

Note:

Profit sharing ratio between Arup and Swarup = ½ : 1/3 = 3:2, Therefore, Swarup's share of Profit = 2/5.

Calculation of Swarup's Share of Goodwill

Particulars	₹
2016	51,000
2017	39,000
2018	45,000

Total Profit for 3 Years	1,35,000
Average Profit	45,000
Goodwill – 3 Years Purchase of Average Profit	1,35,000
Swarup's Share of Goodwill (2/5 × ₹ 1,35,000)	54,000

Swarup's Executor's A/c

Date	Particulars	₹	Date	Particulars	₹
2019 May 1	To Swarup's Loan A/c	1,38,000	2019 Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5 × ₹ 45,000)	18,000
			May 1	By Arup's Capital A/c (Share of Goodwill)	54,000
			May 1	By P/L Suspense A/c (Share of Profit)	6,000
		1,38,000			1,38,000

PYQ | **2021-Jan [4] (a)** | **10 Marks**

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

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individuals names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.
(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business.
An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.
The trading results of the firm (before charging interest on capital) had been as follows:
2017 : Profit ₹ 29,340
2018 : Profit ₹ 26,470
2019 : Loss ₹ 8,320
2020 : Profit ₹ 13,470
You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.
Note: Impact for unrecorded liability not to be given in earlier years.

Answer:

P's Capital A/c

2020		₹	2020		₹
Sep. 30	To Current A/c (30,000 - 5,000)	25,000	Jan. 1	By Balance b/d	30,000
			Dec. 31	By Profit and Loss A/c:	
Dec. 31	To Profit & Loss Adjt. (Unrecorded Liability)	3,000	Dec. 31	Interest on Capital	2,400
				Share of Profit	4,735
				Q&R (Goodwill)	11,830
Dec. 31	To Balance transferred to P's Executor's A/c	38,465	Dec. 31	By Insurance Policies A/c	17,500
		66,465			**66,465**

Working Notes:

(i) **Valuation of Goodwill**

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

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

(ii) **Profit on Separate Life Policy:**

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	10,000
	35,000
Share of P (½)	17,500

(ii) **Share in profit for 2020:**

Profit for the year	13,470
Less: Interest on capitals	(4,000)
	9,470
P's share in profit (½)	4,735

PYQ	2021-Jul [5] (c)	10 Marks

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:
(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.
(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.
Ram died on 30th September, 2020 and Partner's Capital account balances on that date were : Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.
Firm profits were for the year ended
- 31st March, 2017 - ₹ 70,400
- 31st March, 2018 - ₹ 56,320
- 31st March, 2019 - ₹ 48,160
- 31st March, 2020 - ₹ 17,408

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

Answer:

Goodwill Calculation:

$$\text{Simple Average Profit} = \frac{70,400 + 56,320 + 48,160 + 17,408}{4}$$

$$= \frac{1,92,288}{4}$$

$$= 48,072$$

Goodwill = 48,072 × 3
= 1,44,216

$$\text{Ram's share} = 1,44,216 \times \frac{9}{16} = 81,122/-$$

Ram's Current A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,920	By Laxman & Bharat Capitals (G/W)	81,122
To Ram's Capital A/c	79,202		

Ram's Capital A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Ram's Execution A/c (Transferred)	1,00,802	By Balance b/d	21,600
		By Ram's Current A/c	79,202
	1,00,802		1,00,802

Ram's Executor's A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.21	To Bank A/c (25,200 + 2,520)	27,720	30.9.20	By Ram's Capital A/c	1,00,802
31.3.21	To Bal c/d	75,602	31.3.21	By Interest A/c (1,00,802 × 5% × 6/12	2,520
		1,03,322			1,03,322
30.9.21	To Bank A/c (25,200 + 1,890)	27,090	1.4.21	By Balance b/d	75,602
31.3.22	To Bank A/c (25,200 + 1,260)	26,460	30.9.21	By Interest (75,602 × 5% × 6/12)	1,890
31.3.22	To Balance c/d	25,202	31.3.22	By Interest (75,602+1,890 -27,090) × 5% × 6/12)	1,260
		78,752			78,752
30.9.22	To Bank A/c	25,832	1.4.22	By Bal b/d	25,202
			30.9.22	By Interest A/c (25,202 × 5% × 6/12)	630
		25,832			25,832

PYQ	2023-Jun [5]	20 Marks

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
Capital Accounts		
A		2,25,000
B		1,12,500
C		1,35,000
Current Account		
A	36,000	
B	54,000	
C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	
Debtors	45,000	
Bank Account	90,000	
Profit for the year before charging interest		2,34,000
Creditors		67,500
Total	**7,74,000**	**7,74,000**

Regarding Goodwill may be made separately, instead of through Revaluation Account C died on 30th June, 2022. The Partnership deed provided that:

(a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.

(b) On the death of partner

(i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10% p.a. and a fair remuneration for each of the partners.

(ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and

(c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:

(i) Profit for three years, before charging partners' interest were:

2019 2,52,000
2020 2,83,500
2021 2,70,000

(ii) The independent valuation on the date of death revealed:
Land and Building ₹ 2,25,000
Furniture and Fixtures ₹ 22,500

(iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56,250 per annum and that the capital employed in the business to be taken as ₹ 5,85,000 throughout.

It was agreed between the partners that:

(1) Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.

(2) The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.

(3) A and B would share profits equally from the date of death of C.

(4) Depreciation on revised value of assets would be ignored.

You are required to prepare:

(A) Partners' Capital Account and Current Account; and

(B) Balance Sheet of the firm as on 31st December, 2022.

Working should be done correct to the nearest rupee.

Answer:

In the Books of firm

Dr. Partner's Capital Account Cr.

Particulars	A	B	C	Particulars	A	B	C
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To C's Capital A/c (Goodwill) (W.N.2)	11,475	22,950	–	By Balance b/d	2,25,000	1,12,500	1,35,000
To C's current A/c (Transfer)	–	–	19,305	By Revaluation A/c (W.N.1)	13,500	10,125	10,125
To C's Heir A/c	–	–	1,60,245	By A's Capital A/c (Goodwill) (W.N.2)			11,475

To Balance c/d	2,27,025	99,675	–	By B's Capital A/c (Goodwill) (W.N.2)			22,950
	2,38,500	1,22,625	1,79,550		2,38,500	1,22,625	1,79,550

Dr. Partner's Current Account Dr.

Particulars	A	B	C	Particulars	A	B	C
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Balance b/d	36,000	54,000	54,000	By P/L Appropriation (Int. on Capital)	27,000	13,500	8,100
To Balance c/d	70,028	29,662	–	By P/L Appropriation (W.N.3)	79,028	70,162	26,595
				By C's Capital A/c (Transfer)	–	–	19,305
	1,06,028	83,662	54,000		1,06,208	83,662	54,000

Balance sheet as on 31st March, 2022

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account - A	2,27,025	Land & Buildings	2,25,000
Capital Account - B	99,675	Furniture & Fixtures	22,500
Current Account - A	70,028	Stock	2,81,250
Current Account - B	29,662	Debtors	45,000
C's Heir Account (W.N.4)	1,69,860	Bank	90,000
Creditor	67,500		
	6,63,750		6,63,750

1. **Dr. Revaluation Account Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Furniture & Fixtures A/c		11,250	By Land & Building A/c	45,000
To Capital A/c's				
A	13,500			
B	10,125			
C	10,125	33,750		
		45,000		45,000

2. **Adjustment in Regard to Goodwill:**

Aggregate profits for three years upto date of death (30.6.22) are as follows:

Profits for the year ended 30.6.20: (½ of ₹ 2,52,000 + ½ of ₹ 2,83,500)		= 2,67,750
Profits for the year ended 30.6.21: (½ of ₹ 2,83,500 + ½ of ₹ 2,70,000)		= 2,76,750
Profits for the year ended 30.6.22: (½ of ₹ 2,70,000 + ½ of ₹ 2,34,000		= 2,52,000
Total profit of 3 years		7,96,500
Average Profit (7,96,500/3)		2,65,500
Less: Interest on Capital Employed (10% on ₹ 5,85,000)	58,500	
Fair remuneration to partner	1,68,750	2,27,250
Adjusted average profit for goodwill		38,250
Goodwill is the purchase of 3 years profit (38,250 × 3)		1,14,750

Goodwill Adjustment:

	A	B	C
Goodwill before death (4 : 3 : 3)	45,900	34,425	34,425
Goodwill after death (1 : 1)	57,375	57,375	–
	(+) 11,475	(+) 22,950	(–) 34,425

3. **Dr. Profit & Loss Appropriation Account Cr.**

Particulars	1.1.22 to 30.6.22	1.1.22 to 31.12.22	Particulars	1.1.22 to 30.6.22	1.7.22 to 31.12.22
To Partner' Current A/c:			By Profit & Loss A/c	1,17,000	1,17,000
To Interest on capital - A	13,500	13,500			
To Interest on Capital - B	6,750	6,750			
To Interest on capital - C	8,100				
To Interest on hire C's A/c (12%)		9,615			
To Partner's current A/c					
A	35,460	43,568			
B	26,595	43,567			
C	26,595	–			
	1,17,000	1,17,000		1,17,000	1,17,000

4. **Dr. C's Heir's A/c Cr.**

Particulars	(₹)	Particular	(₹)
To Balance c/d	1,69,860	By C's Capital A/c	1,60,245
		By P/L Appropriation A/c	9,615
	1,69,860		1,69,860

PYQ | **2025-Jan [4] (a)** | **15 Marks**

A, B and C are partners sharing profits & losses in the ratio of 3:2:1. The following is the Balance Sheet of their firm M/s ABC Trading Corporation as on 31st March, 2024:

Balance Sheet as on 31st March, 2024

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts:		Land & Building		2,40,000
A	2,80,000	Machinery		1,50,000
B	1,90,000	Furniture & Fixtures		1,05,000
C	1,50,000	Trade Receivables	1,55,200	
General Reserve	1,35,000	*Less:* Provision for Doubtful Debts	5,700	1,49,500
Trade Payables	97,400	Stock		85,600
		Joint Life Policy		90,000
		Cash & Bank		32,300
	8,52,400			**8,52,400**

C died on 30th June, 2024. As per Partnership deed the following arrangement was to be put into effect:

(i) Goodwill of firm was to be valued at 2 years' purchase of average profit of four years to 31st March preceding the death of partner. The profits were as under:

31st March, 2021 ₹ 1,14,000
31st March, 2022 ₹ 1,22,000
31st March, 2023 ₹ 1,19,000
31st March, 2024 ₹ 1,25,000

Goodwill Account will not be opened in the books of accounts and C was to be credited with his share. The new profit-sharing ratio of A and B will be 5:3.

(ii) Profit till the date of death to be ascertained on the basis of average profit of previous four years and share of C was to be credited to his capital account.

(iii) Assets were to be revalued: Land & Building was appreciated by 15%,
Machinery to be depreciated by 5%, Furniture & Fixtures to be revalued at ₹ 1,00,000 and the value of Stock to be taken at ₹ 90,000.

(iv) Provision for doubtful debts to be increased by ₹ 1,800.

(v) A sum of ₹ 2,40,000 was received from insurance company against Joint Life Policy.

(vi) Amount due to C was paid to the executors.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet as on 30th June, 2024, along with necessary workings.

Answer:

Revaluation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	7,500	By Land and Building A/c	36,000
To Furniture and Fixtures	5,000	By Stock	4,400
To Provision for doubtful debt	1,800		
To Capital A/c (Revaluation Profit)	26,100		
A = 26,100 x 3/6 = 13,050 B = 26,100 x 2/6 = 8,700 C = 26,100x 1/6 = 4,350			
	40,400		40,400

Partners' Capital Accounts

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Bank A/c-C's Executor's			2,46,850	By Balance b/d	2,80,000	1,90,000	1,50,000
To C's Capital A/c	30,000	10,000	-	By General reserve	67,500	45,000	22,500
To Balance c/d	4,05,550	2,83,700		By A and B's Capital A/c	-	-	40,000
				By Revaluation A/c	13,050	8,700	4,350
				By Joint Life Policy WN.(3)	75,000	50,000	25,000
				By Profit and Loss suspense A/c (WN. 1)			5,000
	4,35,550	2,93,700	2,46,850		4,35,550	2,93,700	2,46,850

Balance Sheet of M/s ABC as at 30th June,2024

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital accounts:		Land and Building		2,76,000
A	4,05,550	Machinery		1,42,500
B	2,83,700	Stock		90,000
		Furniture and fixtures		1,00,000
Trade payables	97,400	Trade Receivables	1,55,200	
		Less: Prov. for Doubtful Debt	7,500	1,47,700
		Cash and bank (WN 2)		25,450
		Profit and Loss Suspense A/c		5,000
	7,86,650			7,86,650

Working Note:

1. Calculation of goodwill and C's share of profit

	Average of last three year's profits and losses	Profit/(loss) (₹)
	Year ended on	
	31.3.2021	1,14,000
	31.3.2022	1,22,000
	31.3.2023	1,19,000
	31.3.2024	1,25,000
		4,80,000
	Average profit (4,80,000/4)	1,20,000
(b)	Goodwill at 2 years' purchase	
	₹ 1,20,000 x 2 = ₹ 2,40,000	
	Goodwill calculated at the time of death of partner C ₹ 2,40,000	
	C's Share in Goodwill (₹ 2,40,000/6 = ₹ 40,000)	
(c)	C's share of profits from the period 1.4.2024 to 30.06.2024	
	₹ 1,20,000 x 3/12 x 1/6 = ₹ 5,000	

Calculation of Gaining Ratio

Partner	Old Share	New Share	Gain
A	$\frac{3}{6}$	$\frac{5}{8}$	$\frac{6}{48}$
B	$\frac{2}{6}$	$\frac{3}{8}$	$\frac{2}{48}$
C	$\frac{1}{6}$	-	-

Adjusting entry:

A's Capital Account	Dr.	30,000	
B's Capital Account	Dr.	10,000	
To Cs Capital Account			40,000

(Adjustment for goodwill on the death of C on the basis of gaining ratio)

2. Bank A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance B/d	32,300	By C's executors A/c	2,46,850
To Bank	2,40,000	By Balance c/d (bal fig)	25,450
	2,72,300		2,72,300

Alternatively, the balance of Bank A/c can also be ascertained in statement form.

3. The Joint life policy is calculated on the basis of surrender value method- where in the amount shown in the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner. Hence the calculations will be ₹ 2,40,000- 90,000 (Balance Sheet value) = ₹ 1,50,000 (divided in profit sharing ratio between the partners.)

Scanner Preparation Key

Scan & go to "My Books"

Motivational Thoughts

- "The death of a partner is a moment of transition—proper accounting ensures financial respect and continuity."
- "Fair treatment of the deceased partner's share reflects the integrity of the partnership."
- "Even in challenging times, accurate accounting sustains trust among partners and families."
- "Understanding the financial implications of a partner's death ensures stability in uncertain moments."
- "Accounting during such transitions is a balance of empathy and professionalism."

Steps in Settlement After Death

- Valuation of goodwill and calculation of gaining ratio.
- Adjustment of revaluation accounts for assets and liabilities.
- Distribution of reserves and undistributed profits among partners.
- Settlement of the deceased partner's capital account to legal heirs.
- Updating the Balance Sheet to reflect the new partnership structure.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	PARTNERSHIP AND LLP ACCOUNTS
10.6	**Dissolution of Partnership Firms and LLPs**

THEORY QUESTIONS

PYQ	2015-May [7] (e)	DESC	4 Marks

Answer the following:
Under what circumstances, an LLP can be wound up by the Tribunal.
[CA Foundation P-5 2015-May]

Answer:

Circumstances when an LLP can be wound up by the tribunal:

- The partnership shall be dissolved if there is unlawful object of the firm.
- The partnership firm shall be dissolved when all the partners become insolvent.
- The partnership firm is dissolved by order of court.
- If there is any criminal law or case on the firm, the firm shall be dissolved.
- If partnership is under loss on continuous basis then firm shall be dissolved by the tribunal.
- If partnership violates any rule of partnership Act then court may give order for dissolution.

PYQ	2016-May [7] (a)	DB	4 Marks

Answer the following:
What are the distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP)? *[CA Inter P-4 2016-May]*

Answer:

Distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP):

S No.	Basis of Difference	Partnership	LLP
1.	**Applicable Law**	Indian Partnership Act, 1932.	Limited Liability Partnerships Act, 2008.
2.	**Formation**	Formed by an Agreement.	Formed by Law.
3.	**Registration**	Optional.	Compulsory with ROC.
4.	**Body Corporate**	Not a body corporate.	A Body Corporate after registration with ROC, it becomes a body corporate.
5.	**Separate Legal Identity**	It has no separate legal identity.	All body corporate are said to have a separate legal identity.
6.	**Perpetual Succession**	No perpetual succession.	It has perpetual succession.
7.	**Number of Partners**	Minimum 2 and Maximum 100.	Minimum 2 but no Maximum limit.
8.	**Liability of Partners/ Members**	Liability of the partners is unlimited. Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Liability of the partners is limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

9.	**Principal Agent Relationship**	Partners are the agents of the firm and of each other i.e. Mutual agency.	Partners are agents of the firm only and not of other partners. No Mutual agency.

PYQ	2016-Nov [7] (d)	SN	4 Marks

Write short notes on Designated Partner in a Limited Liability Partnership and what are their liabilities. *[CA Foundation P-5 2016-Nov]*

Answer:

Designated Partners:

As per Sec. 7 of the LLP Act, every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

Provided that in case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

Explanation:

Subject to the purpose of this Section the term "resident in India means a person who has stayed in India for a period of not less 182 days during the immediately preceding one year. Subject to the provisions of sub-section (1).

1. If the incorporation document:
   (a) Specifies who are to be designated partners, such person shall be designated partners on incorporation; or
   (b) States that each of the partners from time to time of limited liability partnership is to be designated partner, every such partner shall be a designated partner.
2. Any partner may become a designated partner by and in accordance with the limited liability partnership agreement and a partner may cease to be a designated partner in accordance with limited liability partnership agreement.

3. An individual shall not become a designated partner in any limited liability partnership unless he has given his prior consent to act as such to the limited liability partnership in such form and manner as may be prescribed.
4. Every limited liability partnership shall file with the registrar the particulars of every individual who has given his consent to act as designated partner in such form and manner as may be prescribed within thirty days of his appointment.
5. An individual eligible to be a designated partner shall satisfy such conditions and requirements as may be prescribed.

Liabilities of Designated Partners:

As per Sec. 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be:

(a) responsible for the doing of all acts, matters and things as are required to be done by the LLP in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provision of this act and as may be specified in the limited liability partnership agreement; and

(b) liable to all parties imposed on the limited liability partnership for any contravention of those provisions.

PYQ	2017-May [7] (c)	DESC	4 Marks
Answer the following: Under what circumstances, an LLP can be wound up by the Tribunal. *[CA Inter P-5 2017-May]*			

Answer:

Please refer 2015 - May [7] (e) on page no. ***498***

PYQ	2017-Nov [7] (c)	DESC	4 Marks
Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? *[CA Inter P-5 2017-Nov]*			

Answer:

1. Nature of LLP:

Point	LLP
Governing law	The Limited Liability Partnership Act, 2008
Registration	Registration with registrar of LLP mandatory.
Name	Name should contain limited liability partnership as suffix.
Creation	Created by law
Separate entity	Separate legal entity under LLP Act, 2008.
Perpetual succession	LLP has perpetual succession, and partners may come and go.
Legal proceedings	A LLP is a legal entity can sue and be sued.
Annual filing of forms	Annual statement of Accounts and Solvency & Annual return to be filed with registrar every year.
Digital signature for partners	As e-forms are filled electronically at least one designated partner should have digital signature.
Agency Relationship	Partners act as agents of LLP and not of the other partners.
Liability of Partners	Limited, to the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by partner.

2. Designated partners:

Sec. 7 of LLP Act deals with designed partners, and Sec. 8 deals with liabilities of Designated partners, given below:

(a) Every LLP shall at least 2 designated partners (DPs).

(b) DPs shall be individuals only.

(Note: If all partners of LLP are bodies corporate, or one or more partners are individuals or bodies corporate, at least 2 individuals who are partners of such LLP or Nominees of such bodies corporate, shall act as designated partners).

(c) At least I DP should be resident in India.
(Note: Resident means a person who has stayed in India ≥ 182 days during. The immediately preceding 1 year).
(d) An individual can become a DP in any LLP, only if he has given his consent to act as such, to the LLP.

PYQ	2018-May [4] (b)	SN	5 Marks
Write short notes on extent of liability of LLP and its Partners. *(CA Inter P-1 2018-May)*			

Answer:

- Under **Sec. 27(3) of the LLP Act, 2008** an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP.

The limitations of liability of an LLP and its partners are as follows:

- The liabilities of an LLP shall be met out of the properties of an LLP:
- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular acts, and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP.
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

PYQ	2019-May [6] (d)	DESC	4 Marks
Answer the following: Explain Garner v/s Murray rule applicable in the case of partnership firms. State, when is this rule not applicable. *[CA Inter P-1 2019-May]*			

Answer:

Garner Vs. Murray Rule:

A Partner may owe some money to partnership firm. This money should be paid by him to the firm. However, in case he becomes insolvent he may not be in a position to pay the amount owed by him to the firm in full. The amount not so paid is a loss to the firm. This loss has to be borne by the solvent partners on the basis of the following rule based on the decision given in the case of Garner Vs. Murray.

1. The solvent partners should bring in cash as per their share of loss on realisation.
2. The loss on account of insolvency of a partner should then be borne by the solvent partners in the ratio of their capitals after bringing in cash, such loss on realisation.

In order to calculate the above ratio of capital for this purpose, it has to be seen whether capitals of partners are fixed or fluctuating. In case of fixed capital no adjustment will be made and the ratio of fixed capital will be taken. If capital is fluctuating, ratio should be calculated on the basis of correct capital immediately before dissolution.

Non-applicability of Rule:

As per this rule, solvent partners will bear the loss of capital deficiency of insolvent partner in the ratio of their capitals. If incidentally a solvent partner has a debit balance in his capital account he will escape the liability to bear the loss. It does not apply when the firm having only two members.
It also does not apply when there is an agreement between the partners to share the deficiency in capital account of insolvent partner. When all the partners of the firm are insolvent this rule is not applicable.

PYQ	2020-Nov [6] (a)	DESC	5 Marks
Answer the following: Under what circumstances an LLP can be wound up by the tribunal? *[CA Inter P-5 2020-Nov]*			

Answer:

An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

PYQ	2021-Dec [4] (b)	DESC	Marks
State the circumstances when Garner V/s Murray rule is not applicable. *[CA Inter P-5 2021-Dec]*			

Answer:

Following are the circumstances when **Garner v/s Murray** rules is not applicable:

- When the solvent partner has a debit balance in the capital account then only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent, partner has a debit balance in his capital account, be will escape the liability to bear the loss due to insolvency of another partners.
- When the firm has only two partners.
- When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.
- When all the partners of the firm are insolvent.

PYQ	2022-May [4] (b)	DESC	5 Marks
Explain the nature of a Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership and what are their liabilities? *[CA Inter P-5 2022-May]*			

Answer:

Nature of Limited Liability Partnership:

- A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated Partners:

- Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be resident in India. In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

Liabilities of designated partners:

- As per section 8 of the LLP Act, unless expressly provided otherwise in this Act, a designated partner should be:
  (a) Responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of the provisions of this Act including filing of any document, return, statement.
  (b) Liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

PYQ	2022-Nov [4] (b)	DESC	5 Marks
Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) firm in respect of the following: (i) Applicable Law (ii) Perpetual Succession (iii) Ownership of Assets (iv) Liability of Partners / Members (v) Principal — Agent Relationship *[CA Inter P-5 2022-Nov]*			

Answer:

Distinction between an ordinary partnership firm and on LLP

Basis	LLP	Partnership from
Applicable Law	The Limited Liability Partnership Act, 2008	The Indian Partnership Act, 1932
Perpetual Succession	The death, insanity, retirement or insolvency of the partner(s) does not affect its existence of LLP. Members may join or leave but its existence continues forever.	The death, insanity, retirement of insolvency of the partner(s) may affect its existence. It has no perpetual succession.
Ownership of Assets	The LLP has the ownership of assets which are independent of the partners. No partner owns the assets of the LLP.	The partners have joint ownership of all the assets belonging to the partnership firm. The firm cannot own the assets.
Liability of partners/ members	The partner's liability of an LLP is limited to the extent of their capital contribution to the LLP.	The Partner's liability of a partnership firm has unlimited liability.
Principal Agent Relationship	The partners are agents of the LLP and not other partners.	The partners act as an agent of the partners and the firm.

PRACTICAL QUESTIONS

PYQ	2016-Nov [2]	16 Marks

X, Y and Z are in partnership sharing profits and losses in the ratio of 5 : 4 : 4. The Balance Sheet of the firm as on 31st March, 2016 is as below:

Liabilities	Amount (₹)	Assets	Amount (₹)
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		**2,34,000**

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000

Dissolution expenses were provided for estimated amount of ₹ 12,000

The creditors were settled finally for ₹ 63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

[CA Inter P-5 2016-Nov]

Answer:

Calculation of Higher Relative Capital Method

Particulars	X's Capital	Y's Capital	Z's Capital
Balance of Capital (A)	60,000	40,000	50,000
PSR	5	4	4
Capital Factor	12,000	10,000	12,500
Capital in Capital Sharing Ratio (B)	50,000	40,000	40,000
Surplus (A – B) = (C)	10,000	–	10,000

PSR	5	–	4
Capital Factor	2,000	–	2,500
Capital in PSR	10,000	–	8,000
Surplus (Excess of Z's capital)	–	–	2,000

Therefore, at first ₹ 2,000 is to be paid to Z, then X and Z to be paid in proportion of 5:4 upto ₹ 18,000 to bring the capital of all partners X, Y and Z in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz X, Y and Z.

(Outsider's Payment)

Statement showing Distribution of cash

Particulars	Cash	Creditor	Y's loan
	Amount (₹)	Amount (₹)	Amount (₹)
Balance due	1,100	66,000	18,000
Add: 1st Instalment	74,600		
Less: Dissolution expenses	(12,000)		
Less: Remuneration of z	(746)		
Balance Available	62,954	66,000	18,000
Less: Payment to creditors	(62,954)	(62,954)	–
Balance due	–	3,046	18,000
2nd Instalment	69,301		
– Remuneration @ 1%	(693)		
– Payment to creditors	(646)	(646)	
	67,962	2,400*	18,000
– Payment to y's loan	(18,000)	—	(18,000)
Available to partners	49,962		–
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 × 10/110)	(4,542)		
Balance to be distributed to partners on the basis of HRCM	45,420		
Less: Paid to Z	(2,000)		
	43,420		
Less: Paid to X and Z in 5:4	(18,000)		
Balance due	25,420		
Less: Paid to X, Y & Z in 5:4:4	25,420		
	Nil		
Amount of 3rd instalment	40,000		
Less: Z's remuneration of 1% on assets realized (40,000 × 1%)	(400)		
	39,600		
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 × 10/110)	(3,600)		
	36,000		
Less: Paid to X, Y, Z in 5:4:4	(36,000)		
	Nil		
Amount of 4th and last instalment	28,000		
Less: Z's remuneration of 1% on assets realized (28,000 × 1%)	(280)		
	27,720		

* Transferred to P/L A/c.

Statement showing Distribution of Cash Amongst Partners

Particulars	X's Capital	Y's Capital	Z's Capital
Balance available after 2nd Instalment	60,000	40,000	50,000
Less: Paid to Z towards higher relative capital			(2,000)
Balance Available	60,000	40,000	48,000
Less: Paid to X towards higher relative capital	(10,000)		
Less: Paid to Z towards higher relative capital			(8,000)
Balance Available	50,000	40,000	40,000
Less: Payment (25,420) to partner in 5 : 4 : 4	(9,778)	(7,821)	(7,821)
Balance Available	40,222	32,179	32,179
Less: Payment of 36,000 to all partners in 5 : 4 : 4	(13,846)	(11,077)	(11,077)
Balance Available	26,376	21,102	21,102

Less: Payment of 25,200 to all partners in 5 : 4 : 4	(9,692)	(7,754)	(7,754)
Balance (Being loss on realisation)	16,684	13,348	13,348

PYQ **2018-Nov [4] (a)** **20 Marks**

E, F and G were partners in a firm, sharing profits and losses in the ratio of 3: 2: 1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2017. The balance sheet on that date was as follows:

Liabilities		₹	Assets	₹
Capital accounts:			Machinery	1,54,000
E	1,13,100		Furniture & fittings	25,800
F	35,400		Investments	5,400
G	31,500	1,80,000	Stock	97,700
Current accounts:			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current account: F	18,000
Reserves		1,08,000		
Loan account: G		15,000		
Creditors		51,600		
		3,87,000		**3,87,000**

The realization of assets is spread over the next few months as follows: February, Debtors, ₹ 51,900; March, Machinery, ₹ 1,39,500; April, Furniture, etc. ₹ 18,000; May, G agreed to take over investment at ₹ 6,300; June, Stock, ₹ 96,000.

Dissolution expenses, originally provided, were ₹ 13,500, but actually amounted to ₹ 9,600 and were paid on 30th April. The partners decided that after creditors were settled for ₹ 50,400, all cash received should be distributed at the end of each month in the most equitable manner.

You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method. *(CA Inter P-1 2018-Nov)*

Answer:

Statement of Distribution of Cash by Maximum Loss Method

		Creditors ₹	G's Loan ₹	E ₹	F ₹	G ₹	Total
Feb: Balance due		51,600	15,000	1,93,500	53,400	55,500	3,02,400*
Cash available	29,700						
Collection from debtors	51,900						
	81,600						
Less: prov for expenses	13,500						
	68,100						
Creditors & Loan paid (50,400 +15,000)	65,400	(50,400)	(15,000)				
		1,200	–				
Discount written off		(1,200)	–				
Available for E, F & G 2,700		–					
Maximum possible loss (3,02,400 - 2,700) = 2,99,700							
In ratio of 3:2:1				(1,49,850)	(99,900)	(49,950)	(2,99,700)
				43,650	(46,500)	5,550	
Adjustment for F's deficiency in ratio of 1,13,100: 31,500				(36,370)	46,500	(10,130)	
				7,280	–	(4,580)	
Adjustment for G's deficiency				(4,580)	–	4,580	
				2,700			
Cash paid to E				2,700			
Balance due				1,90,800	53,400	55,500	(2,99,700)
March							
Cash available ₹ 1,39,500 Maximum possible loss ₹ 2,99,700 – ₹ 1,39,500 = ₹ 1,60,200 in ratio of 3:2:1				(80,100)	(53,400)	(26,700)	(1,60,200)
Cash paid				1,10,700	–	28,800	1,39,500
Balance				80,100	53,400	26,700	1,60,200
April							
18,000 +3,900 (saving in expenses) =	21,900						
Maximum possible loss ₹ 1,60,200 – 21,900 =	1,38,300						
in ratio of 3:2:1				(69,150)	(46,100)	(23,050)	(1,38,300)

Cash paid			10,950	7,300	3,650	21,900
Balance						
May			69,150	46,100	23,050	1,38,300
Investment taken by G					6,300	6,300
Balance			69,150	46,100	16,750	1,32,000
Maximum loss (1,38,300 less 6,300)			(66,000)	(44,000)	(22,000)	(1,32,000)
Balance			3,150	2,100	1,050	6,300
Cash brought by G (6,300 less 1,050)					5,250	5,250
Cash paid to E and F			(3,150)	(2,100)		(5,250)
Balance			66,000	44,000	22,000	1,32,000
June						
Stock	96,000					
Maximum loss (1,32,000-96,000)			(18,000)	(12,000)	(6,000)	36,000
Cash paid			48,000	32,000	16,000	96,000
Unpaid balance			(18,000)	(12,000)	(6,000)	36,000

*Partners' capital balances after adjusting reserves and Current A/c balance.

Working Note:

Statement showing the cash available for distribution:

Feb. ₹ 29,700 + 51,900 - 13,500 = ₹ 68,100

March ₹ 1,39,500

April ₹ 18,000 + 3,900 = 21,900

May - Nil

June ₹ 96,000

PYQ	2018-Nov [6] (e)	5 Marks

Answer of the following:

Amit paid ` 50,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved after three years. Amit claims refund of premium. Explain -

(1) Whether he is entitled to get a refund of the premium? If yes, list the criteria for the calculation of the amount of the refund.

(2) Also explain any two conditions when no claim in this respect will arise. *[CA Inter P-1 2018-Nov]*

Answer:

1. If the firm is dissolved before the term expires, as in this case, Amit being a partner who has paid premium of ` 50,000 on admission will have to be repaid/refunded:

   The Criteria for calculation of refund amount are:

   (i) Terms upon which admission was made.

   (ii) The time period for which it was agreed that the firm will not be dissolved.

   (iii) The time period for which the firm has already been in existence.

2. No claim for refund will arise if:

   (i) The firm is dissolved due to death of a partner.

   (ii) If the dissolution of the firm is basically because of misconduct of Amit.

   (iii) If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

PYQ	2021-Jan [3] (a)	15 Marks

Ananya Enterprises is a partnership firm is which A, B and C are three partners sharing profits and losses in the ratio of 5 : 3 : 2. The Balance Sheet of the firm as on 31st October, 2019 is as below:

Liabilities	₹	Assets	₹
Capital:		Land & Buildings	45,00,000
A	95,00,000	Plant & Machinery	65,00,000
B	75,00,000	Furniture & Fixtures	18,00,000
C	30,00,000	Stock	13,50,000
Sundry Creditors	11,00,000	Sundry Debtors	7,50,000
		Cash	7,00,000
		Loan A	25,00,000
		Loan B	30,00,000
	2,11,00,000		2,11,00,000

On the Balance Sheet date all the three partners have decided to dissolve their partnership and called you to assist them in winding up the affairs of the firm. They also agreed that asset realisation is distributed among them at the end of each month.

A summary of liquidation transactions is as follows:

November, 2019

- ₹ 3,00,000 – collected from debtors, balance is uncollectable
- ₹ 11,00,000 – received from the sale of entire furniture
- ₹ 2,00,000 – liquidation expenses paid
- ₹ 6,00,000 – Cash retained in the business at the end of month

December, 2019

- ₹ 2,20,000 – Liquidation expenses paid
- As part payment of his capital, C accepted a machinery for ₹ 9,00,000 (Book value ₹ 6,00,000)
- ₹ 2,00,000 – Cash retained in the business at the end of month.

January, 2020

- ₹ 28,00,000 – Received on the sale of remaining plant & machinery
- ₹ 9,00,000 – Received from the sale of entire stock
- ₹ 1,50,000 – Liquidation expenses paid
- ₹ 63,00,000 – Received on sale of Land & Buildings
- No cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Highest Relative Capital Method" as on 31st January, 2020.

[CA Inter P-5 2021-Jan]

Answer:

Statement showing Distribution of Cash

Particulars	Creditors		Capitals		
	₹	₹	A (₹)	B (₹)	C (₹)
Balance Due after loan		11,00,000	70,00,000	45,00,000	30,00,000
Nov. 2019					
Balance available	7,00,000				
Realization less expenses and cash retained	6,00,000				
Amount available and paid	13,00,000	11,00,000	—	1,20,000	80,000
Balance due		—	70,00,000	43,80,000	29,20,000
Dec. 2019					
Opening balance	6,00,000				
Expenses paid and balance carried forward	4,20,000				
Available for distribution	1,80,000				
Cash paid to B and				—	
Machinery given to C				1,80,000	9,00,000
Balance due			70,00,000	42,00,000	20,20,000
Jan.2020					
Opening balance	2,00,000				
Amount realized less expenses	98,50,000				
Amount available and paid to partners	1,00,50,000				
First, ₹ 31,20,000 is paid to A and B in the ratio of 5:3			19,50,000	11,70,000	
Balance (100,50,000 – 31,20,000) ₹ 69,30,000 is paid to A,B and C in the ratio of 5:3:2			34,65,000	20,79,000	13,86,000
Total amount paid			54,15,000	32,49,000	13,86,000
Total loss			15,85,000	9,51,000	6,34,000

Working Note:

Calculation of Highest Relative Capital Basis

1. Scheme of payment for November:

Particulars	A	B	C
	₹	₹	₹
Balance of Capital Accounts	95,00,000	75,00,000	30,00,000
Less: Loans	(25,00,000)	(30,00,000)	—
	70,00,000	45,00,000	30,00,000
Profit-sharing ratio	5	3	2
Capital Profit sharing ratio	14,00,000	15,00,000	15,00,000
Capital in profit sharing ratio, taking A's capital as base	70,00,000	42,00,000	28,00,000
Excess of C's Capital and B's Capital (A-B)		3,00,000	2,00,000
Profit-sharing ratio		3	2

It means realization up to ₹ 5,00,000 is distributed among B and C in the ratio of 3:2. So excess amount of ₹ 2,00,000 after paying creditors is distributed among B and C in the ratio of 3:2 i.e. ₹ 1,20,000 and 80,000 respectively.

2. **Scheme of payment for December:**
In the month of December C has received machinery amounting ₹ 9,00,000 against his excess capital of ₹ 1,20,000 (2,00,000 – 80,000). Excess capital of B is ₹ 3,00,000 out of which ₹ 1,20,000 already paid to him, so balance ₹ 1,80,000 available in the month of December will be paid to B.

3. **Scheme of payment for January:**

Particulars	A	B	C
	₹	₹	₹
Balance of Capital Accounts at the end of December	70,00,000	42,00,000	20,20,000
Profit-sharing ratio	5	3	2
Capital Profit sharing ratio	14,00,000	14,00,000	10,10,000
Capital in profit sharing ratio, taking C's capital as base	50,50,000	30,30,000	20,20,000
Excess Capital	19,50,000	11,70,000	

Since ₹ 19,50,000 and 11,70,000 is already in the ratio of 5:3, so amount realized up to ₹ 31,20,000 is distributed among A and B in the ratio of 5:3.

After that any amount realized is distributed among all the three partners in the ratio of 5:3:2.

PYQ | **2022-May [4] (a)** | **15 Marks**

Ajay, Vijay and Sanjay have been in partnership for a number of years, sharing profits and losses in the ratio 7 : 7 : 4 as a wholesale stationers running business under the name "AVS Traders". On 31st March, 2021, it was found that some frauds were committed by Sanjay during the year 2020-2021. So, it was decided to dissolve the partnership business on 31st March, 2021 when their Balance sheet stood as under:

Balance Sheet as at 31st March, 2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts:		Building	1,90,000
Ajay 1,80,000		Inventory	1,30,000
Vijay 1,80,000	3,60,000	Investments	50,000
General Reserve	36,000	Trade Debtors	70,000
Trade Creditors	80,000	Cash & Bank	26,000
Bills payables	30,000	Sanjay's Capital (Overdrawn)	40,000
	5,06,000		**5,06,000**

Additional Information:

(i) Following frauds were committed by Sanjay:
  (1) Investments costing ₹ 8,000 were sold by Sanjay at ₹ 11,000 and the funds were transferred to his personal account. This sale was omitted from firm's books.
  (2) A cheque for ₹ 7,000 received from trade debtors was not recorded in the books and was misappropriated by Sanjay.

(ii) A trade creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the trade creditors were paid off at a discount of 10%.

(iii) Other assets were realised as follows:

Inventory	₹ 1,20,000
Building	110% of book value
Investments	The rest of the investments were sold at a profit of ₹ 7,000
Trade Debtors	The rest of the trade debtors were realised at a discount of 10%.

(iv) The Bills payables were settled at a discount of ₹ 500.

(v) The expenses of dissolution amounted to ₹ 8,060.

(vi) It was found out, that realisation from Sanjay's private assets would be ₹ 7,000.

You are required to prepare:

(1) Realisation Account

(2) Cash & Bank Account
(3) Partner's Capital Account
(All workings should form part of your answer) *[CA Inter P-5 2022-May]*

Answer:

1. Realisation A/c

Particulars		₹	Particulars		₹
To Building		1,90,000	By Trade Creditors		80,000
To Inventory		1,30,000	By Bills Payables		30,000
To Investments		50,000	By Sanjay's Capital		18,000
To Trade debtors		70,000	(Invest & Debtors)		
To Bank:			By Bank (Assets)		
- Creditors:	60,300		- Inventories	1,20,000	
(80,000-13,000) × 90 %			- Building	2,09,000	
- Bills Payables:	29,500		- Investments	40,000	
- Expenses	8,060	97,860	- Debtors	56,700	4,25,700
To Realisation Profit (B/F)		15,840			
		5,53,700			5,53,700

2. Cash & Bank A/c

Particulars	₹	Particulars	₹
To Balance b/d	26,000	By Realisation a/c	97,860
To Realisation (Assets)	4,25,700	By Ajay's Capital	1,80,420
To Sanjay's Capital A/c	7,000	By Vijay's Capital	1,80,420
	4,58,700		4,58,700

3. Partner's Capital A/c

Particulars	Ajay (₹)	Vijay (₹)	Sanjay (₹)	Particulars	Ajay (₹)	Vijay (₹)	Sanjay (₹)
To Balance b/d	-	-	40,000	By Balance b/d	1,80,000	1,80,000	-
To Realisation (Invest & Debtors)	-	-	18,000	By General Reserve	14,000	14,000	8,000
To Sanjay's Capital (Equally)	19,740	19,740	-	By Realisation Profit	6,160	6,160	3,520
To Bank (b/f)	1,80,420	1,80,420	-	By Bank A/c	-	-	7,000
				By Ajay & Vijay's Capital	-	-	39,480
	2,00,160	2,00,160	58,000		2;00,160	2,00,160	58,000

PYQ | 2022-Nov [4] (a) | 15 Marks

M, N and O were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. There was no provision in the agreement for interest on capitals or drawings.

M died on 31st March, 2021 and on that date, the partners' balances were as under:

Capital Account : M — ₹ 75,000 (Cr); N - ₹ 50,000 (Cr); O — ₹ 25,000 (Cr)
Current Account : M — ₹ 50,000 (Cr); N - ₹ 37,500 (Cr); O — 12,500 (Dr)

By the partnership agreement, the sum due to M's estate was required to be paid within a period of 3 years, and minimum instalment of ₹ 37,500 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 6% was to be credited half-yearly.

In ascertaining M's share, Goodwill (not recorded in the books) was to be valued at ₹ 1,12,500 and the assets, excluding the Joint Assurance Policy (mentioned below) were valued at ₹ 75,000 in excess of the book values. No Goodwill account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 50,000 matured on 01.04.2021, realizing ₹ 65,000; payment of ₹ 37,500 each were made to M's Executors on 01.04.2021, 30.09.2021 and 31.03.2022. N and O continued trading on the same terms and conditions as previously and the net profit for the year ending 31.03.2022 (before charging the interest due to M's estate) amounted to ₹ 65,000. During that period, the partners' drawings were N - ₹ 18,750 and O - ₹ 10,000.

On 01.04.2022, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 2,25,000 was accepted on that day. A cheque for that sum was received on 30.06.2022.

The balance due to M's estate, including interest, was paid on 30.06.2022 and on that day, N and O received the sums due to them.

You are required to write-up the Partners' Capital Accounts and Partners' Current Accounts from 01.04.2021 to 30.06.2022. Show also the account of executors of M. *[CA Inter P-5 2022-Nov]*

Answer:

Partner's Current Account

Particulars	M ₹	N ₹	O ₹	Particulars	M ₹	N ₹	O ₹
31.3.2021				31.3.2021			
To Balance b/d	-	-	12,500	By Balance b/d	50,000	37,500	-
To M's Current A/c-goodwill	-	37,500	18,750	By N's Current A/c-goodwill	37,500	-	-
To M's Current A/c Revaluation Profit	-	25,000	12,500	By O's Current A/c - goodwill	18,750	-	-
To M's Capital A/c transfer	1,51,250	-	-	By N's Current A/c Revaluation profit	25,000	-	-
				By O's Current A/c-Revaluation Profit	12,500		
				By Joint assurance policy	7,500	5,000	2,500
				By Balance c/d		20,000	41,250
	1,51,250	62,500	43,750		1,51,250	62,500	43,750
1.4.21				31.3.22			
To Balance b/d		20,000	41,250	By Profit & Loss Appropriation A/c (43,920)	-	29,280	14,640
31.3.22							
To Drawing		18,750	10,000	By Balance c/d	-	9,470	36,610
	-	38,750	51,250		-	38,750	51,250
1.4.22				1.4.22			
To Balance b/d	-	9,470	36,610	By Realization A/c-Profit	-	38,137	19,068
	-		-				
To N's Capital A/c-transfer		28,667	-	By O's Capital A/c - transfer	-	-	17,542
	-	38,137	36,610		-	38,137	36,610

Partner's Capital Accounts

Particulars	M ₹	N ₹	O ₹	Particulars	M ₹	N ₹	O ₹
31.3.21				31.3.21			
To M's Executors A/c	2,62,250	-	-	By Balance b/d	75,000	50,000	25,000
To Balance c/d	-	50,000	25,000	By M's Current A/c	1,51,250	-	-
	2,26,250	50,000	25,000		2,26,250	50,000	25,000
31.3.22				1.4.21			
To Balance c/d		50,000	25,000	By Balance b/d		50,000	25,000
		50,000	25,000			50,000	25,000
1.4.22				1.4.22			
To O's Current A/c - transfer	-		17,542	By Balance b/d	-	50,000	25,000
30.6.22							
To Bank A/c	-	78,667	7,458	By N's Current A/c-transfer	-	28,667	-
	-	78,667	25,000		-	78,667	25,000

M's Executor's A/c

Date	Particulars	₹	Date	Particulars	₹
31-3-21	To Balance c/d	2,26,250	31.3.21	By M's Capital A/c	2,26,250
		2,26,250			2,26,250
1-4-21	To Bank	37,500	1-4-21	By Balance b/d	2,26,250
30-9-21	To Bank	37,500	30-9-21	By Interest A/c	11,325
30-9-21	To Balance c/d	1,62,575		(12% p.a. for 6 months)	
		2,37,575			2,37,575
31-3-22	To Bank	37,500	1-10-21	By Balance b/d	1,62,575
31-3-22	To Balance c/d	1,34,830	31.3.22	By Interest A/c 12% p.a. for 6 months)	9,755
		1,72,330			1,72,330
30-6-22	To Bank	1,38,875	1-4-22	By Balance b/d	1,34,830
			30-6-22	By Interest (12% p.a. for 3 months)	4,045
		1,38,875			1,38,875

Working Notes:

1. Adjustment in Regard to Goodwill

Partners		M	N	O
Share of goodwill before death	(₹)	56,250	37,500	18,750
Share of goodwill after death	(₹)	-	75,000	37,500
Gain (+)/Sacrifice (-)	(₹)	(56,250) Cr.	37,500 Dr.	18,750 Dr.

2. Adjustment in Regard to Revaluation of Assets

Partners		M	N	O
Share of profit on revaluation credited to all the partners (75,000 in 3:2:1)	(₹)	37,500		
	(₹)		25,000	12,500
Debited to the continuing partners	(₹)	-	50,000	25,000
		(37,500) Cr.	25,000 Dr.	12,500 Dr.

3. Ascertainment of Profit for the year ended 31.3.22

	₹	₹
Profit before charging interest on balance due to M's executors		65,000
Less: Interest payable to M's executors:		
From 1.4.21 to 30.9.21	11,325	
From 1.10.21 to 31.3.22	9,755	(21,080)
Balance of profit to be shared by N and O in 2:1		43,920

4. Ascertainment of Sundry Assets as on 31.3.22

Liabilities	₹	Assets	₹
Capital Account – N	50,000	Sundry Assets (balancing figure)	
Capital Account – O	25,000	Partner's Current A/c – N	1,63,750
M's Executors A/c	1,34,830	Partner's Current A/c- O	9,470
			36,610
	2,09,830		2,09,830

5. Realization Account

	₹		₹
To Sundry Assets A/c	1,63,750	By Bank A/c (purchase consideration)	2,25,000
To Interest A/c– M's Executors	4,045		
To Partner's Current A/c – N	38,137		
To Partner's Current A/c – O	19,068		
	2,25,000		2,25,000

6. Bank Account

	₹		₹
To Purchase consideration	2,25,000	By M's Executors A/c	1,38,875
		By Partner's Capital - N	78,667
		By Partner's Capital - O	7,458
	2,25,000		2,25,000

Note:

1. As per the information given in the question, Interest @ 6% was to be credited half - yearly to M's executor's account. Hence the rate of 12% per annum has been considered in the solution while working the interest computations.
2. Interest computations have been rounded off.

PYQ | **2024-Jun [3] (b)** | **8 Marks**

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

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital A/c:			Land & Building	4,85,000
P	3,55,000		Machinery	1,88,000
Q	2,20,000		Furniture	1,05,000
R	1,25,000	7,00,000	Stock	55,800
General Reserve		1,50,000	Trade Debtors	1,56,000
Employees Provident Fund		60,000	Cash & Bank	44,200
Trade Creditors		1,24,000		
		10,34,000		10,34,000

The following information is given to you:

(i) There was an unrecorded investment which was sold for ₹ 30,000.

(ii) One of the creditors agreed to take over some items of furniture of Book value ₹ 25,000 at ₹ 24,000. The rest of the creditors were paid at a discount of 5%.

(iii) Out of the Debtors ₹ 9,000 proved bad, remaining were fully realized.
(iv) The other assets were realised as under:

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

(v) Expenses of dissolution amounted to ₹ 18,700.
(vi) There was an outstanding bill for repairs which had to be paid for ₹ 3,500.

You are required to prepare:
(1) Realisation A/c
(2) Cash & Bank A/c
(3) Partner's Capital A/c in the books of partnership firm.

Answer:

In the books of PQR
Realization A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Land & Building	4,85,000	By Trade Creditors	1,24,000
To Machinery	1,88,000	By EPF	60,000
To Furniture	1,05,000	By Cash/Creditors	
To Stock	55,800	uncollected inv.	30,000
To Trade Debtors	1,56,000	By Cash A/c	
To Cash (Creditors)	95,000	(Realisation of remaining	9,02,000
To Cash (EPF)	60,000	W.N 1)	
To Cash (Realisation exp.)	18,700	By P's Capital	75,000
To Cash (O/s bills)	3,500		
To P's cap. (24,000 x 3/6)	12,000		
To Q's cap. (24,000 x 2/6)	8,000		
To R's cap. (24,000 x 1/6)	4,000		
	11,91,000		11,91,000

Cash and Bank A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bal. b/d	44,200	By Realisation (1)	1,58,500
To Realisation (WN1)	9,32,000	By Realisation (2)	18,700
		By P's capital	3,67,000
		By Q's capital	2,78,000
		By R's capital	1,54,000
	9,76,200		9,76,200

Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
To Realisation	75,000			By Bal. b/d	3,55,000	2,20,000	1,25,000
To Cash A/c	3,67,000	2,78,000	1,54,000	By GR	75,000	50,000	25,000
				By Realisation A/c	12,000	8,000	4,000
	4,42,000	2,78,000	1,54,000		4,42,000	2,78,000	1,54,000

Working Notes:

Calculation of amount collected from Realisation of assets

Particulars	Amount (₹)
Sales of unrecorded investment	30,000
Sale of Land	5,25,000
Sales of Machinery	1,70,000
Sale of Stock	60,000
Collection from Debtors	1,47,000
Total	9,32,000

Calculation of amount settled for liabilities

Particulars	Amount (₹)
EPF	60,000
Trade Creditors	95,000
O/s Bills for Repairs	3,500
	1,58,500

Student Experience & Requests

CA Foundation

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Motivational Thoughts

- "Dissolution marks the end of one journey and the start of new opportunities—handle it with precision and fairness."
- "A well-managed dissolution ensures that all contributions are respected and accounted for."
- "Even endings require integrity—master the dissolution process to maintain financial transparency."
- "Think of dissolution as closing a chapter with grace and clarity."
- "Proper dissolution lays the foundation for future ventures and trust among stakeholders."

Checklist for Studying

- Understand the reasons for dissolution of a partnership firm or LLP.
- Learn the legal and accounting procedures for dissolution.
- Memorize the order of payment during dissolution: external liabilities, internal liabilities, and partners' capital.
- Study the preparation of Realization Account, Partner's Capital Account, and Cash/Bank Account.

Fun Facts

- Dissolution can be voluntary or due to legal compulsion, such as insolvency of partners.
- The Realization Account is used to settle all assets and liabilities during dissolution.
- LLPs have limited liability, meaning personal assets of partners are protected during dissolution.
- Any surplus after settling liabilities is distributed among partners in their capital ratios.
- Dissolution often involves the sale of assets to meet liabilities.

Fun Flow

- Visualize dissolution as settling accounts at the end of a shared journey—ensuring everyone gets their due.
- Relate the Realization Account to a closing balance—it ties up all loose ends in the firm's financials.
- Use flowcharts to map the dissolution process, from realization of assets to distribution of surplus.
- Create flashcards for key terms like Realization Account, surplus, and order of payment.
- Practice solving problems for hypothetical firms undergoing dissolution.

Quick Study Tips

- Spend 5 minutes revising the format of the Realization Account.
- Memorize the order of payment during dissolution.
- Write down journal entries for dissolution repeatedly for retention.
- Solve a quick problem involving settlement of liabilities and distribution of surplus.
- Highlight key terms like Realization Account, surplus, and insolvency in your notes.

CHAPTER	COMPANY ACCOUNTS
11.1	Introduction to Company Accounts

MODEL QUESTIONS

Q. 1. What is a Company form of Organisation?
Answer:

- The company form of business organisation is an association of persons who contribute money for some common purpose.
- The money so contributed is capital of the company and person who contribute the capital are its members.

Q. 2. What do you mean by a Company?
Answer:

- The word company is derived from a Latin word "Com" meaning 'with or together' and "Panies" meaning bread.
- It originally referred to association of people taking food together and discussing maths.
- It is a form of business organisation of people to carry on a business.
- Company Law recognises a company as one which is formed and registered under Companies Act, 2013 or under any previous company law.

"Company is an artificial person created by law with a perpetual succession and common seal" **Lord Justice Hanay**

"A corporation is an artificial being, invisible, intangible and existing only in the contemplation of law" **Justice Marshal**

Q. 3. What are the Salient Features of a Company?
Answer:

(a) Separate Legal Entity
(b) Perpetual Existence

(c) Common Seal
(d) Limited Liability
(e) Separation of Ownership from Management
(f) Not a citizen
(g) Transferability of shares
(h) Maintenance of books as per law
(i) Periodic Audit through Chartered Accountant
(j) Right to access to information by Shareholders.

Q. 4. What are the Types of Companies?
Answer:

1. **Government Company**
   - It means a company in which not less than 51% of paid up share capital in held by:
     (a) Central Government
     (b) any State Government or Governments
     (c) partly by central government and partly by one or more state governments and includes a company which is a subsidiary company of such a government company.
2. **Foreign Company**
   Foreign company means any company or body corporate incorporated outside India which:
   (a) has a place of business in India, whether by itself or through agent, physically or through electronic mode; and.
   (b) conducts any business activity in India in any other manner.
   Thus, the companies doing business through electronic mode are also termed as foreign company and need to comply with the specified provision.
3. **Private Company**
   A company which has the following features is a private company:
   (a) Restricts the right to transfer its shares;
   (b) Except in case of OPC, limits the number to 200.
   (c) Prohibits any invitation to the public to subscribe for any securities of the company.

4. **Public Company**
   Public company means a company which:
   (a) is not a private company;
   (b) A company which is a subsidiary of a company, not being a private company, shall be deemed to be a public company for the purposes of this Act.

Note:

The paid-up share capital requirement of ₹ 1,00,000 in private company and ₹ 5,00,000 in public companies has been done away.

5. **One Person Company**
   - It means a company which has only person as a member. It is considered as a private company. Only a natural person who is an Indian Citizen and resident in India is eligible to incorporate OPC.

6. **Small Company**
   Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company
   (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and
   (ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than hundred crore rupees:
   Provided that nothing in this clause should apply to:
   (A) a holding company or a subsidiary company
   (B) a company registered under section 8
   (C) a company or body corporate governed by any special Act

7. **Listed Company**
   Company whose share are listed on any of the recognised stock exchange.

8. **Unlimited Company**
   Company where there is no limit on the liability of its members.

9. **Company Limited by Shares**
   Company where the liability of the member is limited upto the amount unpaid on shares issued.

10. **Company Limited by Guarantee**
    Company where the liability of the member is limited upto the amount guaranteed by partners to contribute to assets of the company in the even of winding up.

11. &12. **Holding Company and Subsidiary Company**
    When a company:
    (a) Controls the composition of the board of directors; or.
    (b) Exercises or controls more than one half of the total share capital either at its own or together with one or more of its subsidiary companies, then it is called as the holding company and the other company is the subsidiary company.

Q. 5. Write Short Note on Maintenance of Books of Accounts.

Answer:

- As per Companies Act, 2013, books of accounts of the company for each financial year are to be maintained at its Registered Office including that of its branch office.
- Books should be kept on accrual basis and as per double entry system.

Q. 6. What do you mean by Preparation of Financial Statements?

Answer:

Financial statements are the statements prepared to know the true and fair view of the affairs of the company at the end of a particular accounting year. It includes:

(a) Balance Sheet
(b) Profit & Loss A/c
(c) Cash flow statement
(d) Statement of changes in equity
(e) Notes to account annexed.

Q. 7. What are the Requisites of a financial statement? Where are provisions of financial statements applicable?

Answer:

Requisites of a Financial Statement:

- Must give true and fair view

Provision Applicable

- For Companies-Companies Act Schedule III
- For insurance, banking, electricity, specific acts.

Financial statement must comply to the applicable accounting standards.

Q. 8. Draw the Specimen a Balance Sheet.

Answer:

Specimen of Balance Sheet
PART-I
Form of Balance Sheet
Name of Company_____
Balance Sheet as at _____

(₹ in....)

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
	1	2	3	4
1.	**Equity and Liabilities**			
	1. Shareholders' Funds			
	(a) Share Capital			
	(b) Reserves and Surplus			
	(c) Money received against share warrants			
	2. Share application money pending allotment			
	3. Non-Current Liabilities			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long term provisions			
	4. Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c) Other current liabilities			
	(d) Short-term provisions			
	Total			
	Assets			
	1. Non-current assets			
	PPE and Intangible Assets			
	(a) PPE			
	(i) PPE			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments			
	(c) Deferred tax assets (net)			
	(d) Long term loans and advances			
	(e) Other non-current assets			
	2. Current assets			
	(a) Current investments			
	(b) inventories			
	(c) Trade receivables			
	(d) Cash and cash equivalents			
	(e) Short-term loans and advances			
	(f) Other current assets			
	Total			

Q. 9. What are the General Instructions for preparing the Balance Sheet of a company?

Answer:

1. An asset shall be classified as current when it satisfies any of the following criteria:
   (a) it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
   (b) it is held primarily for the purpose of being traded;
   (c) it is expected to be realized within twelve months after the reporting date; or
   (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

   All other assets shall be classified as non-current.

2. An operating cycle is the time between the acquisition of assets for processing and their realization in Cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.
3. A liability shall be classified as current when it satisfies any of the following criteria:
   (a) it is expected to be settled in the company's normal operating cycle;
   (b) it is held primarily for the purpose of being traded;
   (c) it is due to be settled within twelve months after the reporting date; or
   (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counter party, result in its settlement by the issue of equity instruments do not affect its classification.

   All other liabilities shall be classified as non-current.
4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.
6. A company shall disclose all relevant things in the notes to accounts.

Q. 10. Write Short Note on Share capital.

Answer:

For each class of share capital (different classes of preference shares to be treated separately):

(a) The number and amount of shares authorized;
(b) The number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
(c) Par value per share;
(d) A reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) The rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
(f) Shares in the company held by its holding company or its ultimate holding company or by its subsidiaries or associates;
(g) Shares in the company held by any shareholder holding more than 5 percent shares.
(h) Shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;
(i) Separate particulars for a period of five years following the year in which the shares have been allotted/bought back, in respect of:
   - Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.
   - Aggregate number and class of shares allotted as fully paid up by way of bonus shares (Specify the source from which bonus shares are issued).
   - Aggregate number and class of shares bought back.

(j) Terms of any security issued along with the earliest date of conversion in descending order starting from the farthest such date.

Q. 11. What do you mean by Reserves and Surplus?

Answer:

1. Reserves and Surplus shall be classified as:
   (a) Capital Reserves;
   (b) Capital Redemption Reserves;
   (c) Securities Premium Reserves;
   (d) Debenture Redemption Reserve;
   (e) Revaluation Reserve;
   (f) Share Options Outstanding Account;
   (g) Other Reserves-(specify the nature of each reserve and the amount in respect thereof);
   (h) Surplus i.e balance in statement of Profit & Loss disclosing allocations and appropriations such as dividend paid, bonus shares and transfer to/from reserves.

   (Additions and deductions since last balance sheet to be shown under each of the specified heads)

2. A reserve specifically represented by earmarked investments shall be termed as a 'fund'.
3. Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

Q. 12. What do you understand by Long-term Borrowings and short term Borrowings/Liabilities?

Answer:

1. Long-term borrowings shall be classified as:
   (a) Bonds/debentures
   (b) Term loans
      • From Banks
      • From other parties
   (c) Deferred payment liabilities.
   (d) Deposits.
   (e) Loans and advances from related parties.
   (f) Long-term maturities of finance lease obligations
   (g) Other loans and advances (specify nature).
2. Borrowing shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
3. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
4. Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting form farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due.
5. Particulars of any redeemed bonds/debentures which the company has power to reissue.

6. Terms of repayment of term loans and other loans shall be stated.
7. Period and amount of default in repayment of dues, providing breakup of principal and interest shall be specified separately in each case.

Other Long-term Liabilities

Other Long-term Liabilities shall be classified as;
   (a) Trade payables
   (b) Others

Long-term provisions

The amounts shall be classified as;
   (a) Provision for employee benefits
   (b) Others (specify nature)

Short-Term borrowings

1. Short-terms borrowings shall be classified as:
   (a) Loans repayable on demand
      • from banks
      • from other parties
   (b) Loans and advances from subsidiaries/holding company/ associates/ business ventures;
   (c) Deposits.
   (d) Other loans and advances (specify nature).
2. Borrowings shall further be sub-classified as secured and unsecured Nature of security shall be specified separately in each case.
3. Where loans have been guaranteed by directors or others, a mention thereof shall be made and also the aggregate amount of loans under each head.
4. Period and amount of default in repayment of dues, providing breakup of principal and interest shall be specified separately in each case.
5. Current maturities of Long term borrowings shall be disclosed separately.

Trade payables due for payment

The following ageing schedule shall be given for Trade payable due for payment:

Trade Payables ageing schedule

(Amount in ₹)

Particulars	Outstanding for following periods from due date of payment*				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
(i) MSME (ii) Others (iii) Disputed dues - MSME (iv) Disputed dues- Others					

* Similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction. Unbilled dues shall be disclosed separately;

Other Current liabilities

The amounts shall be classified as:

(a) Current maturities of long-term debt; **(Omitted)**
(b) Current maturities of finance lease obligations;
(c) Income received in Advance;
(d) Interest accrued but not due on borrowing;
(e) Interest accrued and due on borrowings;
(f) Unpaid Dividends;
(g) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms & conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorized capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head equity and share application money to the extent refundable i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under 'Other current liabilities'.
(h) Unpaid matured deposits and interest accrued thereon,
(i) Unpaid matured debentures and interest accrued thereon,
(j) Other payables (specify nature).

Q. 13. What do you mean by PPE and intangible assets?

Answer:

1. Classification shall be given as:
   (a) Land
   (b) Buildings
   (c) Plant and Equipment
   (d) Furniture and Fixtures
   (e) Vehicles
   (f) Office Equipment
   (g) Others (specify nature)
2. Assets under lease shall be separately specified under each class of asset.
3. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions and other movements and the related depreciation and impairment losses/ reversals shall be disclosed separately.
4. Where sums have been written off on a reduction of capital or revaluation of assets or where sum have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date therefore for the first five years subsequent to the date of such reduction or increase.

Intangible Assets

1. Classification shall be given as:
   (a) Goodwill
   (b) Brands/trademarks
   (c) Computer software
   (d) Mastheads and publishing titles
   (e) Mining rights
   (f) Copyrights, and patents and other intellectual property rights, services and operating rights
   (g) Recipes, formulae, models, designs and prototypes
   (h) Licences and franchise
   (i) Others (specify nature)
2. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions and other movements and the related amortization and impairment losses/reversals shall be disclosed separately.
3. Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increase as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date therefore for the first five years subsequent to the date of such reduction or increase.

Q. 14. What do you mean by Non-Current investments?

Answer:

1. Non-current investments shall be classified as trade investments and other investments and further classified as:
   (a) Investment Property;
   (b) Investments in Equity Instruments;
   (c) Investments in Preference shares;
   (d) Investments in Government or trust securities;
   (e) Investments in units, debentures or bonds;

   (f) Investments in Mutual Funds;
   (g) Investments in partnership firm;
   (h) Other non-current investments (specify nature)

   Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates. (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and that nature and extent of the investment so made in each such body corporate (showings separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.
2. Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.
3. The following shall also be disclosed:
   (a) Aggregate amount of quoted investments and market value thereof;
   (b) Aggregate amount of unquoted investments:
   (c) Aggregate provision for diminution in value of investments;
   (d) Aggregate amount of partly paid-up investments;
   (e) The names of bodies corporate (indicating separately the names of subsidiaries, associates and other business ventures) in whose securities, investments have been made and the nature and extent of the investments so made in each such body corporate.

Q. 15. What do you mean by Long-term loans advances?

Answer:

1. Long-term loans and advances shall be classified as:
   (a) Capital Advances;
   (b) Security Deposits;
   (c) Loans and Advances to related parties (giving details thereof);
   (d) Other Loans and Advances (specify nature).
2. The above shall also be separately sub-classified as:
   (a) To the extent secured, considered good;
   (b) Others, considered good;
   (c) Doubtful.

3. Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
4. Loans and Advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Q. 16. What are Other non-current assets is Balance Sheet?
Answer:

Other non-current assets shall be classified as:

1. Long-term Trade Receivables (including trade receivables on deferred credit terms).
   (ia) Security Deposits
2. Others (specify nature)
3. Long-term Trade Receivables, shall be sub-classified as:
   (a) • secured, considered good:
   • unsecured, considered good;
   • Doubtful
   (b) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
   (c) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
4. For trade receivables outstanding, the following ageing schedules shall be given:

Trade Receivables Ageing Schedule (Amount in ₹)

Particulars	Outstanding for following periods from due date of payment*					
	Less than 6 year	6 months -1 years	1-2 years	2-3 years	More than 3 years	Total
(i) Undisputed Trade receivables considered goods						
(ii) Undisputed Trade Receivables considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

* Similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction. Unbilled dues shall be disclosed separately;

Q. 17. What are Current Investments is Balance Sheet?
Answer:

1. Current investments shall be classified as
   (a) Investments in Equity Instruments;
   (b) Investments in Preference shares;
   (c) Investments in Government or Trust securities;
   (d) Investments in units, debentures or bonds;
   (e) Investments Mutual Funds;
   (f) Investments partnership firm;
   (g) Other investments (specify nature)
   Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entitles)in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firm, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.
2. The following shall also be disclosed:
   (a) The basis of valuation of individual investments:
   (b) Aggregate amount of quoted investments and market value thereof;
   (c) Aggregate amount of unquoted investments;
   (d) Aggregate amount of partly paid-up investments.
   (e) Aggregate provision for diminution in value of investments.

Q, 18. Elaborate the heads of Inventories.

Answer:

1. Inventories shall be classified as:
   (a) Ram material;
   (b) Work-in-progress;
   (c) Finished goods;
   (d) Stock-in-trade;
   (e) Stores and spares;
   (f) Loose tools;
   (g) Others (specify nature).
2. Goods-in-transit shall be disclosed under the relevant sub-head of inventories.
3. Mode of valuation should be stated.

Q. 19. How do you classify Trade Receivables in Balance Sheet?

Answer:

1. Trade receivables shall also be classified as:
   (a) To the extent secured, considered good;
   (b) Others, considered good;
   (c) Doubtful
2. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
3. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Q. 20. What are Cash and cash equivalents?

Answer:

1. Classification shall be made as:
   (a) Bank balances;
   (b) Cheques, drafts on hand;
   (c) Cash on hand;

   (d) Cash equivalents-short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk o changes in value;
   (e) Others (specify nature)
2. Earmarked bank balances (e.g., unpaid dividend) shall be separately stated.
3. Balance with banks to the extent held as security against the borrowings, guarantees, other commitments shall be disclosed separately.
4. Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.
5. Bank deposits with more than 12 months maturity shall be disclosed separately.

Q. 21. What are Short-term loans and advances?

Answer:

1. Short-term loans and advances shall be classified as:
   (a) Loans and Advances to related parties (giving details thereof);
   (b) Others (specify nature).
2. The above shall also be sub-classified as:
   (a) To the extent secured, considered good;
   (b) Others, considered good;
   (c) Doubtful;
3. Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
4. Loans and Advances due by directors or other officers of the company or any of them either severally or jointly with any other person debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Q. 22. What is the heading Other current assets (specify nature) all about in balance sheet?

Answer:

This is an all-inclusive heading, which incorporates current assets that do not fit into any other assets categories.

Q. 23. How do you classify Contingencies and commitments?
Answer:
To the extent not provided for –
1. Contingent liabilities shall be classified as:
   (a) Claims against the company not acknowledged as debt;
   (b) Guarantees;
   (c) Other money for which the company is contingently liable
2. Commitments shall be classified as:
   (a) Estimated amount of contracts remaining to be executed on capital account and not provided for,
   (b) Uncalled liability on shares and other investments partly paid;
   (c) Other commitments (specify nature).

Q. 24. What is the format of profit and loss account?
Answer:

PART II

Form of statement of profit and loss
Name of Company_____
Profit and Loss Statement for the year ended_____

(₹in....)

	Particulars	Note No.	Figures for the Current reporting period	Figures for the Previous reporting period
1.	Revenue from operations			
2.	Other Income			
3.	Total Income (I+II)			
4.	Expenses: Cost of materials consumed Purchases of Stock-in-trade Changes in inventories of finished goods work-in-progress and Stock-in Trade Employee benefits expense Finance costs Depreciation and amortization expense other expenses			
5.	Total expense			
6.	Profit before exceptional and extraordinary items and tax (III-IV)			
7.	Exceptional items			
8.	Profit before extraordinary items and tax (V-VI)			
9.	Extraordinary items			
10.	Profit before tax (VII-VIII)			
11.	Tax expense: (1) Current tax (2) Deferred tax			
12.	Profit (Loss) for the period form continuing operations (IX-X-XIV)			
13.	Profit/(Loss) from discontinuing operations			
14.	Tax expense of discontinuing operations			
15.	Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			
16.	Profit/(Loss) for the period (XI-XIV)			
	Earning per equity share; (1) Basic (2) Diluted			

Q. 25. What are the General Instructions for Preparation of Statement of Profit and Loss?
Answer:
1. The provision of this Part shall apply to the Income and Expenditure account referred to in sub-section (2) of Section 210 of the Act, in like manner as they apply to a statement of profit and loss.
2. (A) In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from:
   (a) Sale of products;
   (b) Sale of services;
   (ba) Grants or donations received (relevant in case of section 8 companies only)

(c) Other operating revenues;
Less:
(d) Excise duty.

(B) In respect of a finance company, revenue from operations shall include revenue from:
(a) Interest; and
(b) Other financial services

Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

3. Finance Costs
Finance costs shall be disclosed as:
(a) Interest expense;
(b) Other borrowing costs;
(c) Applicable net gain/loss on foreign currency transaction and translation.

4. Other Income
Other income shall be classified as:
(a) Interest Income (incase of company other than a finance company);
(b) Dividend Income;
(c) Net gain/loss on sale of investments
(d) Other non-operating income (net of expenses directly attributable to such income).

5. Additional Information
A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:
(i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP), and employee stock Purchase plan (ESPP), (iv) staff welfare expense].
(b) Depreciation and amortization expense;
(c) Any item of income or expenditure which exceeds one percent of the revenue from operations or ₹ 1,00,000. Whichever is higher;
(d) Interest Income;
(e) Interest Expense;
(f) Dividend Income;
(g) Net gain/loss on sale of investments;
(h) Adjustments to the carrying amount of investments;

6. Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

7. Payments to the auditors as (a) audit, (b) for taxation matters (c) for company matters, (d) for management services, (e) for other services, (f) for reimbursement of expense;

8. Details of items of exceptional and extraordinary nature:
(i) Prior Period Items;
(ii) (a) In the case of manufacturing companies;
- Raw materials under broad heads.
- Goods purchased under broad heads.

(b) In the case of trading companies, purchases in respect of goods traded in by company under board heads.
(c) In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.
(d) In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if purchase, sales and consumption of raw material and the gross income from services rendered is shown under broad heads.
(e) In the case of other companies gross income derived under broad heads.
(iii) In the case of all concerns having work-in progress, work-in-progress under broad heads.
(iv) (a) The aggregate, if material, of any amounts set aside or propose to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exit at the date as to which the Balance Sheet is make up.
(b) The aggregate, if material, of any amounts withdrawn from such reserves.
(v) (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitment.

(b) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

(vi) Expenditure incurred on each of the following items, separately for each item:
- (a) Consumption of stores and spare parts
- (b) Power & fuel
- (c) Rent
- (d) Repairs to building
- (e) Repairs to machinery
- (f) Insurance
- (g) Rate and Taxes, excluding, taxes on income.
- (h) Miscellaneous expense,

(vii) (a) Dividends from subsidiary companies
(b) Provisions for losses of subsidiary companies

(viii) The profit and loss account shall also contain by way of note the following information, namely:
- (a) (value of imports calculated on C.I.F basis by the company during the financial year in respect of-
  - I. Raw materials;
  - II. Companies and spare parts;
  - III. Capital goods;
- (b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters;
- (c) Total value if all imported raw materials, spare parts and the component consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption;
- (d) The amount remitted during the year in foreign currencies on account of dividends with specific mention of the total number of nonresidents shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related.

THEORY QUESTIONS

PYQ	2019-Nov [1] (a) (vi) {C}	TF	2 Marks

State with reason, whether the following statement is True or False.
Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Answer:

True: A company, being independent from its members, continues to be in existence despite the death, insolvency, or change of members.

Scanner Preparation Key



Scan & go to "My Books"

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	COMPANY ACCOUNTS
11.2	**Issue, Forfeiture and Re-Issue of Shares**

THEORY QUESTIONS

PYQ	2018-May [1] (a) (ii) {C}	TF	2 Marks

State with reasons, whether the following statement is True or False:
Re-issue of forfeited shares is allotment of shares but not a sale.

Answer:

False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale.

PYQ	2020-Nov [1] (a) (ii) {C}	TF	2 Marks

State with reasons, whether the following statement is True or False.
In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing. The accountant can use the balance in securities premium account to write off preliminary expenses.

Answer:

True: According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company.

PYQ	2021-Jan [1] (a) (i) {C}	TF	2 Marks

State with reasons, whether the following statement is True or False:
Re-issue of forfeited shares is allotment of shares but not a sale.

Answer:

False: Re-issue of share is merely a sale of Forfeited Shares and not an allotment of shares.

PYQ	2021-Jul [1] (a) {C}	TF	2+2= 4Marks

State **with reasons**, whether the following statements are True or False:

(ii) A Company is not allowed to issue shares at a discount to the public in general.

(iv) A person holding preference shares of a company cannot hold equity shares of the same company.

Answer:

(ii) True: According to Section 53 of the Companies Act 2013, a company cannot issue shares at a discount to the public in general.

(iv) False: A person can be associated with the company in many different capacities. Thus, a person holding preference shares of a company can hold equity shares of the same company.

PYQ	2021-Dec [1] (a) {C}	TF	2 Marks

State with reason, whether the following statement is True or False:

(iv) Non- participating preference shareholders enjoy voting rights.

Answer:

False: Generally, holders of preference shares do not get voting rights. A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding up is called 'Non-participating preference shares' unless otherwise specified, the preference shares are generally non- participating.

PRACTICAL QUESTIONS

PYQ	2018-May [4] (a)	10 Marks

Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

(i) ₹ 2 per share payable on application, to be received by 1st July, 2017;

(ii) Allotment to be made on 10th July, 2017 and a further ₹ 5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 30th April, 2018.

Application were received for 4,20,000 shares and were dealt with as follows:

(1) Applicants for 20,000 shares received allotment in full;

(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment.

(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied, for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

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

Answer:

Journal of Piyush Limited

Date 2017	Particulars	Debit (₹)	Credit (₹)
July 1	Bank A/c (Note-1 - Column 3) Dr.	8,40,000	
	To Equity Share Application A/c		8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)		
July 10	Equity Share Application A/c Dr.	8,40,000	
	To Equity Share Capital A/c		2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)		4,00,000
	To Bank A/c (Note 1- Column 6)		1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)		
	Equity Share Allotment A/c Dr.	6,50,000	
	To Equity Share Capital A/c		3,90,000
	To Securities Premium A/c		2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated...)		
	Bank A/c (Note 1 - Column 8) Dr.	2,50,000	
	To Equity Share Allotment A/c		2,50,000
	(Being balance allotment money received)		
	Equity Share Final Call A/c Dr.	6,50,000	
	To Equity Share Capital A/c		6,50,000
	(Being final call money due on 1,30,000 shares @ ₹5 per share as per Board's Resolution No....dated...)		
April 30	Bank A/c Dr.	6,50,000	
	To Equity Share Final Call A/c		6,50,000
	(Being final call money on 1,30,000 shares @ ₹ 5 each received)		

Working Notes:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1×₹2)	Amount Required on Application (2×₹2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
Total	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

PYQ	2018-Nov [6] (a)	4 Marks

Give necessary journal entry for the forfeiture and re-issue of share:

(i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.

Answer:

Journal Entries in the books of X Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 × ₹ 3)			900
	To Equity Share Final Call A/c (300 × ₹ 4)			1,200
	To Forfeited Shares A/c (300 × ₹ 3)			900
	(Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No....dated...)			
(b)	Bank Account (300 × 8)	Dr.	2,400	
	Forfeited Shares Account (300 × 2)	Dr.	600	
	To Equity Share Capital Account			3,000

	(Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Suresh as per Board's resolution No.....dated.....)			
(c)	Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	300	300

PYQ	2019-Jun [6] (a)	10 Marks

Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹10 each.

The amounts were payable as follows:

On application – ₹ 3 per share

On allotment – ₹ 5 per share

On first and final call – ₹ 2 per share.

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid - up @ ₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

Answer:

In the Books of Bhagwati Ltd.

Journal Entries

	Dr. ₹	Cr. ₹
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 3,00,000 shares at ₹ 3 per share)	9,00,000	9,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (2,00,000 × ₹ 3) To Share Allotment A/c	9,00,000	6,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)		3,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no....dated...)	10,00,000	10,00,000
Bank A/c Dr. To Equity Share Allotment A/c (Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)	7,00,000	7,00,000
Equity Share first and final call A/c Dr. To Equity Share Capital A/c (Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no....dated.....)	4,00,000	4,00,000
Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share first & final call A/c (Being final call received on1,97,000 share)	3,94,000 6,000	4,00,000
Share Capital A/c (3,000 × ₹10) Dr. To Forfeited share A/c (3,000 × ₹ 8) To Calls in arrears A/c (3,000 × ₹ 2) (Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no.....dated...)	30,000	24,000 6,000
Bank A/c (2,500 × ₹ 6) Dr. Forfeited share A/c (2,500 × ₹ 4) Dr. To Equity Share Capital A/c (2,500 × ₹ 10) (Being re-issue of 2,500 shares @ 6)	15,000 10,000	25,000
Forfeited share A/c (2,500 × ₹ 4) Dr. To Capital Reserve A/c (2,500 × ₹ 4) (Being profit on re-issue transferred to capital reserve)	10,000	10,000

Working Note:

Calculation of amount to be transferred to Capital reserve A/c

			₹
Forfeited amount per share	= 24,000/3,000	=	8
Loss on re-issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	4 × 2,500	₹ 10,000	

PYQ	2019-Nov [6] (a)	15 Marks

B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3000 shares were forfeited. Out of forfeited shares, 2500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹2 per share. Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

Answer:

In the books of B Limited
Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.		1,50,000	
	To Equity Share Application A/c				1,50,000
	(Money received on applications for 50,000 shares @ ₹ 3 per share)				
	Equity Share Application A/c	Dr.		1,50,000	
	To Equity Share Capital A/c				1,50,000
	(Transfer of application money to share capital on allotment)				
	Equity Share Allotment A/c	Dr.		2,50,000	
	To Equity Share Capital A/c				1,50,000
	To Securities Premium A/c				1,00,000
	(Amount due on allotment of 50,000 shares @ ₹ 5 per share including premium)				
	Bank A/c {(50,000 - 1,000) × ₹ 5}	Dr.		2,45,000	
	Calls-in-Arrears A/c (1,000 × ₹ 5)	Dr.		5,000	
	To Equity Share Allotment A/c				2,50,000
	(Money received on allotment except on 1,000 shares held by X)				
	Equity Share First and Final Call A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Amount due on first and final call on 50,000 shares @ ₹ 4 per share)				
	Bank A/c {(50,000-1,000-2,000) × ₹ 4}	Dr.		1,88,000	
	Calls-in-Arrears A/c (3,000 × ₹ 4)			12,000	
	To Equity Share First and Final Call A/c				2,00,000
	(Money received on call except on 1,000 shares held by X and 2,000 shares held by Y)				
	Equity Share Capital A/c (3,000 × ₹ 10)	Dr.		30,000	
	Securities Premium A/c (1,000 × ₹ 2)	Dr.		2,000	
	To Share Forfeiture A/c				15,000
	[(1,000 × ₹ 3) + {2,000 × (₹ 3 + ₹ 3)}]				
	To Calls-in-Arrears A/c				17,000
	(Forfeiture of 3,000 Equity Shares of ₹ 10 each, fully called up, for non-payment of final call money of ₹ 4 on 3,000 shares, and non-payment of allotment money of ₹ 5 including securities premium of ₹ 2 on 1,000 shares)				
	Bank A/c {2,500 × (₹10 - ₹ 2)}	Dr.		20,000	
	Share Forfeiture A/c	Dr.		5,000	
	To Equity Share Capital A/c (2,500 × ₹ 10)				25,000
	(Forfeited Shares re-issued at a discount of ₹ 2)				
	Share Forfeiture A/c	Dr.		7,000	
	To Capital Reserve A/c (W.N.1)				7,000
	(Profit on re-issue transferred to Capital Reserve)				

Balance Sheet of B Ltd. As on ...

Particulars	Note No.	₹
EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		**6,03,000**
ASSETS		
Current Assets		
Cash and Cash Equivalents (Bank)		6,03,000
Total		**6,03,000**

Notes to Accounts

		₹	₹
1	**Share Capital**		
	Equity Share Capital		
	Issued Share Capital		
	50,000 Equity Shares @ ₹ 10 each	5,00,000	
	Subscribed, Called Up and Paid Up Share Capital		
	49,500 Equity Shares @ ₹ 10 each	4,95,000	
	Add: Forfeited Shares (500 shares @ ₹ 6)	3,000	4,98,000
2.	**Reserves and Surplus**		
	Securities Premium (W.N.2)	98,000	
	Capital Reserve (W.N.1)	7,000	1,05,000

Working Notes:

W.N.1 - Calculation of Amount to be transferred to Capital Reserve

Particulars	X	Y	Total
No. of Shares forfeited	1,000	2,000	3,000
Amount forfeited per share (₹)	3	6	
No. of Shares re-issued	1,000	1,500	2,500
Discount per Share (₹)	2	2	
Amount transferred to Capital Reserve per share (₹)	1	4	
	(₹ 3 - ₹ 2)	(₹ 6 - ₹ 2)	
Total amount transferred to Capital Reserve	1,000	6,000	7,000
	(₹ 1 x 1,000)	(₹ 4 x 1,500)	

W.N.2 - Calculation of Securities Premium

Particulars	₹
Total Amount Receivable (50,000 x ₹ 2)	1,00,000
Less: Amount reversed on forfeiture (1,000 x ₹ 2)	2,000
Balance Remaining	98,000

PYQ	2020-Nov [6] (a)	10 Marks

ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:
– ₹ 2 per share on application
– ₹ 3 per share on allotment
– ₹ 4 per share on first call
– ₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All those 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John as fully paid up at a discount of ₹ 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

Answer:

Journal Entries
In the books of ABC Limited

Bank A/c	Dr.	40,000	
To Equity Share App.			40,000
(Being app. money received)			
Equity Share app.	Dr.	40,000	
To Equity Share Capital			40,000
(Being app. money transferred to share capital A/c)			
Equity Share allot	Dr.	60,000	
To Equity Share Capital			60,000
(Being allot money due)			
Bank A/c	Dr.	60,000	
To Equity Share Allot			60,000
(Being allot. money recd.)			
Equity Share 1st Call	Dr.	80,000	
To Equity Share Capital			80,000
(Being 1st call money due)			
Bank A/c	Dr.	78,800	
Calls in arrear	Dr.	1,200	
To Equity Share 1st Call A/c			80,000
(Being 1st call money received)			
Equity Share IInd & Final Call	Dr.	20,000	
To Equity Share Capital			20,000

(Being II call money due)			
Bank A/c	Dr.	19,700	
Calls in arrears A/c	Dr.	300	
To Equity Share II[nd] & Final Call			20,000
(Being final call money received)			
Equity Share Capital	Dr.	3,000	
To Calls in arrears			1,500
To Share forfeited			1,500
(Being 300 shares forfeited)			
Bank A/c	Dr.	2,400	
Share forfeited A/c	Dr.	600	
To Equity Share Capital			3,000
(Being 300 shares re-issued)			
Share forfeited A/c	Dr.	900	
To Capital Reserve			900
(Share forfeited bal. transferred to cap. res.)			

PYQ | **2021-Jan [6] (a)** | **15 Marks**

A Limited is a company with an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being:

(i) ₹ 2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transaction (including bank transactions) in the Journal Book of A Limited.

Answer:

In the books of A Limited Journal Entries

Date	Particulars		L. F.	Debit (₹)	Credit (₹)
31-5-2020	Bank A/c	Dr.		11,20,000	
	To Equity Share Application A/c				11,20,000
	(Being application money received on 5,60,000 shares @ ₹2 per share)				
10-06-2020	Equity Share Application A/c	Dr.		11,20,000	
	To Equity Share Capital A/c				2,70,000
	To Equity Share Allotment A/c				5,50,000
	To Bank A/c				3,00,000
	(Being application money on 1,35,000 shares ₹ 2,70,000 transferred to Equity Share Capital Account; ₹ 5,50,000 adjusted against share allotment and ₹ 3,00,000 refunded)				
10-6-2020	Equity Share Allotment A/c (1,35,000 X 5)	Dr.		6,75,000	
	To Equity Share Capital A/c (1,35,000 X 1)				1,35,000
	To Securities Premium A/c (1,35,000 X 4)				5,40,000
	(Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹ 4 each)				
?	Bank A/c	Dr.		1,25,000	
	To Equity Share Allotment A/c				1,25,000
	(Being balance allotment money received)				

?	Equity Share Final Call A/c (1,35,000 X 7) Dr.		9,45,000	
	To Equity Share Capital A/c			9,45,000
	(Being final call money due on 1,35,000 shares @ ₹ 7 per share)			
31-12-2020	Bank A/c Dr.		9,45,000	
	To Equity Share Final Call A/c			9,45,000
	(Being Final Call money Received)			

Statement of Adjustment

Particulars	10,000	50,000	5,00,000	5,60,000
Application Money received @₹ 2 per share	20,000	1,00,000	10,00,000	11,20,000
Less: Adjusted Against Application	(20,000)	(50,000)	(2,00,000)	(2,70,000)
	[10,000 X 2]	[25,000 x 2]	[1,00,000 x 2]	
Excess	Nil	50,000	8,00,000	8,50,000
Less Adjusted Against Allotment	-	(50,000)	(5,00,000)	(5,50,000)
		[25,000X 5]*	[1,00,000X 5]	
Refund	-	-	3,00,000	3,00,000

PYQ	2021-Jul [6] (a)	15 Marks

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium)on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries for the above transactions in the books of X Limited.

Answer:

Journal Entries in the books of X Ltd.

Date	Particulars	L/F	Debit (₹)	Credit (₹)
	Bank A/c Dr.		27,00,000	
	To Equity share Application & Allot. A/c			27,00,000
	(Being money received on application for 3,00,000 shares @ 9/- share)			
	Equity Share Application & Allot. A/c Dr.		27,00,000	
	To Equity Share Capital A/c			3,00,000
	To Securities Premium A/c (75,000 x 5/-)			3,75,000
	To Bank A/c (2,00,000 x 9)			18,00,000
	To Equity share First & Final Call A/c			2,25,000
	(Being Transfer of application & allotment money on 75,000 shares to share capital A/c @4/- per share and to Sec. premium @ 5/- per share & money received on 2,00,000 applications was returned to applicants and the excess paid by shareholder adjusted)			
	Equity Share First & Final Call A/c Dr.		4,50,000	
	To Equity Share Capital A/c			4,50,000
	(Being call money due on 75,000 shares @ 6/- share)			
	Bank A/c (W.N. 2) Dr.		2,21,625	
	Calls-in-arrears A/c Dr.		3,375	
	To Equity Share First & Final Call A/c			2,25,000
	(Being call money received after adjusting excess application & allotment money and subject to an arrear of ₹ 3,375/- as shares hold by Mr. Raj)			
	Equity Share Capital A/c (1125 x 10/-) Dr.		11,250	
	To Calls-in-arrear A/c			3,375
	To Forfeited shares A/c (4,500 + 3,375)			7,875

	(Being shares of Mr. Raj forfeited for non-payment of balance money due on his 1125 shares)			
	Bank A/c (1125 × 6)	Dr.	6,750	
	Forfeited shares A/c (1125 × 4)	Dr.	4,500	
	To Equity share capital A/c (1125 × 10/-)			11,250
	(Being direction re-issued all the forfeited shares at a discount of ₹ 4/- share)			
	Forfeited Shares A/c	Dr.	3,375	
	To Capital Reserve A/c (7,875 - 4,500)			3,375
	(Being Profit on re-issue transferred to Capital Reserve A/c)			

Working Notes:

1. Calculation of Calls-in-arrears on Raj share

Shares applied by him = 1,500

Shares allotted by him = 1,125

$\left(1{,}500 \times \frac{75{,}000}{1{,}00{,}000}\right)$

Excess application money adjusted to call = 1,500 - 1,125

= 375 × 9 = 3,375

Amount of call money due from him = (1,125 × 6) = 6,750

– Excess application money adjusted = 3,375

Calls-in-arrears 3,375

2. Calculation of Call money received

Due = 75,000 × 6	4,50,000
– Excess application & Alt. money	2,25,000
– Calls-in-arrears	3,375
Call money received	2,21,625

PYQ	2021-Dec [6] (a)	15 Marks

Fashion Garments Ltd. invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i) On Application - ₹ 1 per share

(ii) On Allotment - ₹ 2 per share

(iii) On First call - ₹ 3 per share

(iv) On Second and Final Call - ₹ 4 per share

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares, were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹. 9 per share fully paid-up.

Pass necessary Journal entries in the books of Fashion Garments Ltd.

Answer:

Journal Entries

In the books of Fashion Garments Ltd.

(for the year ending 31 March.....)

	Particulars		L.F.	(₹) Amount	(₹) Amount
1.	Bank A/c	Dr.		10,000	
	To Equity share application				10,000
	(Being application money received)				
2.	Equity share application	Dr.		10,000	
	To Equity share Capital				10,000
	(Being application money transferred to shares Capital)				
3.	Equity share allotment A/c	Dr.		20,000	
	To Equity share capital A/c				20,000
	(Being allotment due)				
4.	Bank A/c	Dr.		19,800	
	To Equity share allotment A/c				19,800
	(Being allotment money received)				
5.	Equity share Capital A/c	Dr.		300	
	To Equity share allotment A/c				200
	To Equity share forfeiture A/c (Being shares of Ram forfeited)				100

6.	Equity share 1st Call A/c Dr. To Equity share Capital A/c (Being 1st call due)		29,700	29,700
7.	Bank A/c Dr. To Equity share 1st Call A/c (Being 1st call money received)		29,250	29,250
8.	Equity share Capital Dr. To Equity share 1st Call To Equity share forfeiture (Being shares of Shyam forfeited)		900	450 450
9.	Equity share 2nd & final call To Equity share capital A/c (Being 2nd and final call due)		39,000	39,000
10.	Bank A/c Dr. To Equity share 2nd & final call (Being 2nd & final call money received)		38,800	38,800
11.	Equity share Capital A/c Dr. To Equity share 2nd & final call To Equity share forfeiture A/c (Being shares of Mohan forfeited)		500	200 300
12.	Bank A/c Dr. Equity share forfeiture A/c Dr. To Equity share Capital A/c (Being all forfeited shares re-issued)		2,700 300	3,000
13.	Equity share forfeiture A/c Dr. To Capital reserve A/c (Being balance of share forfeiture account transferred to Capital reserve account)		550	550

PYQ	2022-Jun [6] (a)	15 Marks

A Limited issued 20,000 Equity shares of ₹ 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium) ; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation (Ignore dates).

Answer:

In the books of A Ltd.
Journal Entries.

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr. To Equity Share Application A/c (Being application money received on 20,000 shares @ 2/- share)	40,000	40,000
Equity Share Application A/c Dr. To Equity Share Capital A/c (Being Application money transferred to Capital)	40,000	40,000
Equity share allotment A/c (20,000 × 4) Dr. To Equity share Capital A/c (20,000 × 3) To Securities Premium A/c (20,000 × 1) (Being amount made due on allotment including premium)	80,000	60,000 20,000
Bank A/c Dr. To Equity share allotment A/c (Being allotment money received)	80,000	80,000
Equity share first call A/c Dr. To Equity share Capital A/c (Being first call made due @ 2/- Share)	40,000	40,000
Bank A/c Dr. To Equity share first call A/c To Calls in Advance (2000 share @3/-) (Being first call money received along with calls in advance on 2000 shares @ 3/-each)	46,000	40,000 6,000
Equity share final call A/c Dr. To Equity Share Capital A/c (Being final call made due on 20,000 shares @ 3/- each)	60,000	60,000
Calls - in - advance A/c Dr. Calls - in - arrear A/c Dr. (300 shares @ 3/-)	6,000 900	

Bank A/c Dr.		53,100	60,000
To Equity share final call A/c			
(Being final call received for 17,700 shares and calls in advance adjusted)			
Interest on calls - in - advance A/c Dr.		240	
To Share holder (M) a/c			240
(Being interest made due @ 12% p.a. r.e. 6000 x 12% x 4/12)			
Shareholder (M) A/c Dr.		240	
To Bank A/c			240
(Being payment of interest made to shareholder)			
Shareholder A/c Dr.		25	
To Interest on calls - in - arrear A/c			25
(Being internet on calls in arrear made due @10% ,.i.e. [(600 x 10% x 3/12) + (300 x 10% x 4/12)]			
Bank A/c Dr.		925	
To Shareholder A/c			25
To Calls - in - arrear A/c			900
(Being money received from shareholder for calls - in - arrear and interest there upon)			

PYQ	2022-Dec [6] (a)	15 Marks

PQR Limited issued 2,00,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay the allotment and call money and Mr K, holding 10,000 shares, who failed to pay the call money. All these [illegible] shares were forfeited . Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.

Pass necessary journal entries in the books of PQR Limited. Also prepare balance sheet and notes to accounts of the company.

Answer:

Journal Entries
(In the books of PQR Ltd.)
(for the year ending on 31st March, 2020)

Date	Particulars		Debit (₹)	Credit (₹)
	Bank A/c	Dr.	6,00,000	
	To Share Application A/c			6,00,000
	(Being application money received for 2,00,000 shares @ ₹ 3 each)			
	Share Application A/c	Dr.	6,00,000	
	To Share Capital A/c			6,00,000
	(Being application money transferred)			
	Share allotment A/c	Dr.	10,00,000	
	To Share Capital A/c			6,00,000
	To Share Premium A/c			4,00,000
	(Being allotment due on 2,00,000 shares @ ₹ 5 each)			
	Bank A/c	Dr.	9,75,000	
	To Share allotment A/c			9,75,000
	(Being allotment money received) [10,00,000 – 25,000]			
	Share first & final call A/c	Dr.	8,00,000	
	To Share capital			8,00,000
	(Being call money due on 2,00,000 shares @ ₹ 4 per share)			
	Bank A/c	Dr.	7,40,000	
	To share 1st & final call A/c			7,40,000
	(Being 1st call money received 1,85,000 shares @ ₹ 4 per share)			
	Share Capital A/c	Dr.	1,50,000	
	Securities premium A/c	Dr.	10,000	
	To Share allotment A/c			25,000
	To Share final call A/c			60,000
	To Share forfeiture A/c			75,000
	(Being 15,000 shares forfeited)			

	Bank A/c	Dr.	90,000	
	Share forfeiture A/c	Dr.	10,000	
	To Share capital A/c			1,00,000
	(Being 10,000 shares are reissued @ ₹ 9 per share)			
	Share forfeiture A/c	Dr.	35,000	
	To Capital reserve A/c			35,000
	(Being profit on reissue transferred to capital reserve A/c) [5,000 × 2(J) + 5,000 × 5 (K)]			

Balance Sheet
(as on 31st March, 2020)

Particulars	Notes to A/c	Amount (₹)
I. Equity and Liabilities		
(i) Shareholders' funds		
(a) Share Capital	(1)	19,80,000
(b) Reserve & Surplus	(2)	4,25,000
Total		24,05,000
II. Assets		
(i) Current Assets		
(a) Cash & Cash Equivalents	(3)	24,05,000
Total		24,05,000

Notes to Account:-

Note - 1: Share Capital:

Authorized, Issued, subscribed, called-up capital (2,00,000 share @ ₹ 10 each)	20,00,000
Paid-up capital (1,95,000 shares @ ₹ 10)	19,50,000
Shares forfeited Account (5,000 shares @ ₹ 6 per share) (Shares of K)	30,000
Amount shown in Balance sheet	**19,80,000**

Note - 2: Reserves and Surplus:

Capital Reserve	35,000
Securities Premium A/c (4,00,000 – 10,000)	3,90,000
Total	**4,25,000**

Note - 3: Cash & Cash Equivalents:

Amount received on share application	6,00,000
Amount received on share allotment	9,75,000
Amount received on share call	7,40,000
Amount received on re-issue of shares	90,000
Total	**24,05,000**

PYQ | **2023-Jun [6] (a)** | **15 Marks**

BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On Application - ₹ 3 per share
On Allotment - ₹ 5 per share (including premium)
On first and Final Call - ₹ 4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category No.	No of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares . His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of BP Ltd. Open call in arrears account whenever required.

Answer:

Journal Entries in the books of BP Limited

S. No.	Particulars		L/F	Debit (₹)	Credit (₹)
(1)	Bank A/c	Dr.		10,80,000	
	To Equity Share Application A/c				10,80,000
	(Being application money received for 3,60,000 shares @ ₹ 3 per share)				
(2)	Equity share application A/c	Dr.		10,80,000	
	To Equity Share Capital A/c				3,60,000
	To Equity Share Allotment A/c				4,40,000
	To Bank A/c				2,80,000
	(Being allotment made and excess money refunded)				
(3)	Equity Share Allotment A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				3,60,000
	To Security Premium A/c				2,40,000
	(Being allotment made due on 1,20,000 shares)				
(4)	Bank A/c	Dr.		1,60,000	
	To Equity Share Allotment A/c				1,60,000
	(Being allotment received and adjusted)				
(5)	Equity Share First & Final Call A/c	Dr.		4,80,000	
	To Equity Share Capital A/c				4,80,000
	(Being first and final call made due on 1,20,000 shares)				
(6)	Bank A/c	Dr.		4,78,640	
	Cash-in-Arrear A/c	Dr.		1,360	
	To Equity Share First & Final Call A/c				4,80,000
	(Being first and final call received on 1,19,660 shares)				
(7)	Equity Share Capital A/c	Dr.		3,400	
	To Share Forfeiture A/c				2,040
	To Calls-in-Arrear A/c				1,360
	(Being shares forfeited)				
(8)	Bank A/c	Dr.		4,420	
	To Equity Share Capital A/c				3,400
	To Security Premium A/c				1,020
	(Being forfeited shares re-issued)				
(9)	Share Forfeiture A/c	Dr.		2,040	
	To Capital Reserves A/c				2,040
	(Being Profit on re-issue transferred to capital reserve)				

Note:

1. Total no. of share allotted to a shareholders belonging to category $\left(\frac{680}{1,60,000} \times 80,000\right)$ i.e. 340 shares.

PYQ	2023-Dec [6] (a)	15 Marks

A Ltd. issued 25,000 equity shares of ₹ 100 each at a premium of ₹ 25 per share payable as follows:

On Application	₹ 50
On Allotment	₹ 50 including premium, and
On Final Call	₹ 25

Applications were received for 29,000 shares. Letter of regret were issued to applicants for 4,000 shares and shares were allotted to all other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited.

Show the journal entries and cash book in the books of A Limited.

Answer:

In the Books of A Ltd.

Cash Book (Bank Column only)

Date	Receipts	Amount	Date	Payments	Amount
	To Equity Share Application A/c (29,000 Share × ₹ 50)	14,50,000		By Equity shares Application A/c (4,000 × 50)	2,00,000
	To Equity share	12,42,500		By Balance c/d	31,13,750

	Allotment A/c (24,850 Share × ₹ 50)				
	To Equity Share are first and final call A/c (24,850 × 25)	6,21,250			
		33,13,750			33,13,750

Journal Entries

Date	Particulars		₹	₹
1.	Bank A/c	Dr.	14,50,000	
	To Equity Share Application A/c			14,50,000
	(Being application money received on 29,000 share @ ₹ 50)			
2.	Equity Share Application A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being application money on 4,000 share @ ₹ 50 returned)			
3.	Equity Share Application A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being application money on 25,000 shares @ ₹ 50 each transferred to Equity Share Capital Account as per Board's Resolution No.....dated...)			
4.	Equity Share Allotment A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			6,25,000
	To Securities Premium A/c			6,25,000
	(Being allotment money @ ₹ 50 per share including premium of ₹ 25 per share being made due as per Board's Resolution No.....dated....)			
5.	Bank A/c	Dr.	12,42,500	
	To Equity Share Allotment A/c			12,42,500
	(Being Allotment money received on 24,850 shares)			
6.	Equity Share Final Call A/c	Dr.	6,25,000	
	To Equity Share Capital A/c			6,25,000
	(Being final call money @ 25 per share being made as per board resolution No.... dated.....)			
7.	Bank A/c	Dr.	6,21,250	
	To Equity Share Final Call A/c			6,21,250
	(Being share final call money received on 24,850 share @ 25 per share)			
8.	Equity Share Capital A/c (150 x ₹ 100)	Dr.	15,000	
	Securities Premium A/c (150 x ₹ 25)	Dr.	3,750	
	To Equity Share Allotment A/c			7,500
	To Equity Share Final Call A/c			3,750
	To Forfeited Shares A/c			7,500
	(Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No....dated...)			

Alternatively, calls in arrears A/c could have been used in which case following entries would have been passed in place of the entry No.8 (given above) for forfeiture:

Particulars		₹	₹
Calls in Arrears A/c	Dr.	7,500	
To Equity Share Allotment A/c			7,500
(Being allotment money on 150 shares @ ₹ 50 not received transferred to calls in arrears.)			
Calls in Arrears A/c	Dr.	3,750	
To Equity Share Final Call A/c			3,750
(Being final call on 150 shares @ ₹ 25 not received transferred to calls in arrears)			

Share Capital A/c (150 x ₹ 100)	Dr.	15,000	
Securities Premium A/c (150 x ₹ 25)		3,750	
To Calls in Arrears A/c			11,250
To Share Forfeiture A/c			7,500
(Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No....dated...			

PYQ	2024-Sep [6] (a)	15 Marks

P Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable as ₹ 3 on application, ₹ 5 on allotment (including premium) and the balance in two calls of equal amount.
Applications were received for 8,00,000 shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted towards allotment. Harish to whom 1,600 shares were allotted failed to pay both calls and his shares were subsequently forfeited after second call. You are required to pass journal entries in the books of P Limited and prepare bank account.

Answer:

Journal Entries in the books of P Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		24,00,000	
	To Equity Share Application A/c			24,00,000
	(Being applications received)			
	Equity Share Application A/c Dr.		24,00,000	
	To Equity Share Capital A/c			18,00,000
	To Equity Share Allotment A/c			6,00,000
	(Being applications made due)			
	Equity Share Allotment A/c Dr.		30,00,000	
	To Equity Share Capital A/c			18,00,000
	To Security Premium A/c			12,00,000
	(Being allotment due)			
	Bank A/c Dr.		24,00,000	
	To Equity Share Allotment A/c			24,00,000
	(Being allotment made)			
	Equity Share 1st Call A/c Dr.		12,00,000	
	To Equity Share Capital A/c			12,00,000
	(Being 1st call made due)			
	Bank A/c Dr.		11,96,800	
	Calls in Arrear A/c Dr.		3,200	
	To Equity Share 1st Call A/c			12,00,000
	(Being 1st call received)			
	Equity Share 2nd and Final Call A/c		12,00,000	
	To Equity Share Capital A/c			12,00,000
	(Being final call due)			
	Bank A/c Dr.		11,96,800	
	Calls in Arrear A/c Dr.		3,200	
	To Equity Share 2nd and Final Call A/c			12,00,000
	(Being 2nd call received)			
	Equity Share Capital A/c Dr.		16,000	
	To Calls in Arrear A/c			6,400
	To Forfeited shares A/c			9,600
	(Being shares forfeited)			

Note: It is assumed that the company has a practice to open Call in Arrears A/c in its books of account.

PYQ	2025-Jan [6] (a)	15 Marks

Arpit Ltd., with an authorized capital of ₹ 20,00,000 divided into Equity shares of ₹ 10 each, on 1st June, 2023, invited applications for issuing 3,00,000 Equity shares at a premium of ₹ 5 per share. The amount was payable as follows:

On Application ₹ 2 per share

On Allotment (1st July, 2023) ₹ 7 (including premium) per share
On First call (1st Nov., 2023) ₹ 3 per share
On Final call (1st Jan., 2024) ₹ 3 per share
All the shares were applied for and allotted. Mr. Naresh who held 20,000 shares paid the whole of the amount due on calls along with allotment money. The final call was fully paid except a shareholder having 5,000 shares who paid his due amount on 1st March, 2024 i.e., after 2 months along with interest on calls in arrears @ 10% p.a. Company also paid interest @ 12% p.a. on calls in advance to Mr. Naresh on 1st Jan., 2024. Give journal entries with narrations to record all these transactions in the books of Arpit Ltd.

Answer:

In the Books of Arpit Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1-6-23	Bank A/c Dr.		6,00,000	
	To Equity Share Application A/c			6,00,000
	(Money received on applications for 3,00,000 shares @ ₹ 2 per share)			
1-7-23	Equity Share Application A/c Dr.		6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Transfer of application money on 3,00,000 shares to share capital)			
1.7.23	Equity Share Allotment A/c Dr.		21,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium			15,00,000
	(Amount due on the allotment of 3,00,000 shares @ ₹ 2 per share and securities premium of ₹ 5 per share)			
1-7-23	Bank A/c Dr.		22,20,000	
	To Equity Share Allotment A/c			21,00,000
	To Calls in Advance			1,20,000
	(Allotment money received along with calls in advance on 20,000 shares)			
1-11-23	Equity Share First Call A/c Dr.		9,00,000	
	To Equity Share Capital A/c			9,00,000
	(Being first call due on 3,00,000 shares at ₹ 3 per share)			
1-11-23	Bank A/c Dr.		8,40,000	
	Calls in Advance A/c Dr.		60,000	
	To Equity Share First Call A/c			9,00,000
	(Being first call money received on 2,80,000 shares and calls in advance on 20,000 shares at ₹ 3 per share adjusted)			
1-1-24*	Equity Share Final Call A/c Dr.		9,00,000	
	To Equity Share Capital A/c			9,00,000
	(Being final call made due on 3,00,000 shares at ₹ 3 each)			
1-1-24	Bank A/c Dr.		8,25,000	
	Calls in Advance A/c Dr.		60,000	
	Calls in Arrears A/c Dr.		15,0000	
	To Equity Share Final Call A/c			9,00,000
	(Being final call received for 2,75,000 shares and calls in advance for 20,000 shares adjusted)			
1-1-24	Interest on Calls in Advance A/c Dr.		6,000	
	To Shareholders A/c			6,000
	(Being interest made due on calls in advance at the rate of 12% p.a.)			
1-3-24	Shareholders A/c Dr.		250	
	To Interest on Calls in Arrears A/c			250
	(Being interest on calls in arrears made due at the rate of 10%)			
1-3-24**	Bank A/c Dr.		15,250	
	To Calls in Arrears A/c			15,000
	To Shareholders A/c			250
	(Being money received from shareholder for calls in arrears and interest thereupon)			

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

Interest on Calls in Advance

First Call from 1st July, 2023 to 1st Nov, 2023

= ₹ 60,000 x 12% x 4 / 12= ₹ 2,400

Final Call from 1st July 2023 to 1st, Jan 2024

= ₹ 60,000 x 12% x 6 / 12= ₹ 3,600

Total = ₹ 6,000

Interest on Calls in Arrears from 1st Jan,2024 to 1st March,2024 ₹ 15,000 x 10% x 2 / 12 = ₹ 250

Alternatively, the following entries can also be passed for entries pertaining to money received from shareholders from call in arrears and calls in advance and interest thereupon.

Amount (in ₹)

*	1/1/2024	Bank A/c	Dr.	8,25,000	
		Calls in advance A/c	Dr.		
		To Equity Share Final Call A/c			8,85,000
		(Receipt of final call for 1,75,000 shares and call-in advance for			
**	1/32024	Bank A/c	Dr.	15,250	
		To Equity Share Final Call A/c			15,000
		To shareholders A/c			250
		(Being money received from shareholder for calls-in-arrear and interest thereupon			

PYQ	2025-May [6] (a)	15 Marks

R Ltd. invited applications for issuing 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The amounts were payable as follows :

On application & allotment - ₹ 6 per share (including premium)

Balance on the First & Final Call

Applications were received for 2,50,000 shares. Applications for 1,00,000 equity shares were rejected and pro-rata allotment was made to the remaining applicants. The first & final call was made. The amount was duly received except on 3,000 shares applied by Ms. Jane. Her shares were forfeited.

The forfeited shares were reissued as fully paid-up @ ₹ 8 per share.

Pass necessary Journal entries to record the above transactions in the books of R Ltd.

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Motivational Thoughts

- "Shares represent ownership and opportunity—master their accounting to manage equity effectively."
- "Understanding share transactions empowers you to manage corporate funding with precision."
- "Every entry in share accounting reflects a step toward financial discipline and growth."
- "The process of issue, forfeiture, and re-issue teaches resilience in corporate equity management."
- "Shares are the building blocks of corporate finance—learn to handle them wisely."

Checklist for Studying

- Understand the types of shares: equity and preference shares.
- Learn the steps in issuing shares: application, allotment, and calls.
- Study the accounting treatment for share forfeiture and its impact on capital.
- Memorize journal entries for the issue, forfeiture, and re-issue of shares.
- Practice solving problems involving forfeited and re-issued shares.

Fun Facts

- Forfeited shares are those where shareholders fail to pay the allotment or call money on time.
- Re-issued shares are often sold at a discount, but the discount cannot exceed the amount forfeited.
- Issuing shares allows companies to raise funds without incurring debt.
- The concept of share forfeiture dates back to ensure accountability among shareholders.
- Companies can re-issue forfeited shares to recover losses and maintain equity structure.

Fun Flow

- Visualize the issue of shares as inviting investors to join the corporate journey.
- Relate share forfeiture to repossession—companies take back ownership due to non-payment.
- Use flowcharts to map the process from issue to forfeiture and re-issue of shares.
- Create flashcards for key terms like calls-in-arrears, calls-in-advance, and forfeiture.
- Practice preparing journal entries for hypothetical scenarios involving forfeiture and re-issue.

Last-Minute Analysis

- Revise the steps in issuing shares, including application, allotment, and calls.
- Memorize the journal entries for forfeiture and re-issue of shares.
- Highlight the treatment of share forfeiture and its effect on the company's capital.
- Solve one or two problems involving forfeiture and re-issue of shares.
- Summarize the purpose of these transactions: "To manage equity efficiently and ensure compliance with shareholder agreements."

Smart Study Tips

- Create a comparison table for equity and preference shares, highlighting their features.
- Practice problems involving forfeiture and re-issue entries to understand their financial impact.
- Highlight the legal implications of forfeiting and re-issuing shares in your notes.
- Record voice notes summarizing the steps for issuing, forfeiting, and re-issuing shares for auditory learning.
- Use real-life examples of share transactions to relate theoretical concepts to practice.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	COMPANY ACCOUNTS
11.3	**Issue of Debentures**

THEORY QUESTIONS

PYQ	2022-Jun [1] (a) (v) {C}	TF	2 Marks

State with reason, whether the following statement is True or False: Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

Answer:

False: Debenture Suspense Account will appear on the asset side of the Balance sheet under Non-current assets. This account gets closed when debentures are returned after loan is repaid.

PYQ	2023-Jun [1] (a) (v) {C}	TF	2 Marks

State with reasons, whether the following statements are True or False: Perpetual debentures are payable at the time of liquidation of the company.

Answer:

True: Perpetual debentures also known as irredeemable debentures are not repayable during the life time of the company. They are paid only at the time of liquidation.

PRACTICAL QUESTIONS

PYQ	2018-Nov [6] (a)	3+3 = 6Marks

Give necessary journal entries for the forfeiture and re-issue of shares:

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

(iii) X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 per share.

Answer:

(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 × ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 × ₹ 2)			400
	To Forfeited Shares A/c (200 × ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹ 7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No...dated....)			
(b)	Bank Account	Dr.	900	
	Forfeited Shares Account	Dr.	600	
	To Equity Share Capital Account			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No.....dated....)			
(c)	Forfeited Shares Account	Dr.	150	
	To Capital Reserve Account			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 × 5)	₹ 750
Less: Forfeiture of 150 shares	(₹ 600)
Profit on re-issue of shares	₹ 150

(iii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (100 × ₹ 6)	Dr.	600	
	To Equity Share Final Call A/c (100 × ₹ 3)			300
	To Discount on issue of shares (100 × ₹ 1)			100
	To Forfeited Shares A/c (100 × ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No.....dated.....)			
(b)	Bank Account (80 × ₹ 6)	Dr.	480	
	Discount on issue of shares (80 × ₹ 1)	Dr.	80	
	Forfeited Shares A/c (80 × ₹ 1)	Dr.	80	
	To Equity Share Capital Account (80 × ₹ 8)			640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No....dated...)			
(c)	Forfeited Shares Account	Dr.	80	
	To Capital Reserve Account			80
	(Being the profit on re-issue, transferred to capital reserve)			

Working Notes:

Balance in forfeited shares account on forfeiture of 100 shares (100 × 2)	₹ 200
Forfeited shares balance for 80 shares	₹ 160
Less: Forfeiture of 80 shares	(₹ 80)
Profit on re-issue of shares	₹ 80

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.

PYQ	2018-Nov [6] (b)	5 Marks

Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.
Calculate the amount of discount to be written-off in each of the 5 years.

Answer:

Total amount of discount comes to ₹ 60,000 (₹ 0.6 × 1,00,000). The amount of discount to be written-off in each year is calculated as under:

Year end Outstanding	Debentures	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
4th	₹ 10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

PYQ	2019-Jun [6] (b)	5 Marks

On 1st January, 2018, Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.
Pass necessary journal entries for the accounting year 2018.

Answer:

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1-1-2018	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	60,000	
	To Discount/Loss on issue of debenture A/c			60,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 × 1/5)			

PYQ	2020-Nov [6] (b)	5 Marks

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

(i) To a vendor for purchase of fixed assets (PPE) worth ₹ 13,00,000 – ₹ 15,00,000 nominal value.
(ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.
(iii) To the banker as collateral security for a loan of ₹ 14,00,000 – ₹ 15,00,000 nominal value.

You are required to pass necessary Journal Entries.

Answer:

Journal Entries
In the books of 'Y' Ltd.

PPE A/c	Dr.	13,00,000	
To Vendor			13,00,000
(Being PPE Purchased)			
Vendor	Dr.	13,00,000	
Dis. on issue of deb. A/c	Dr.	2,00,000	
To 12% Deb.			15,00,000
(Being deb. of ₹ 600 allowed to vendor of N.V. ₹ 15,00,000)			
Bank A/c	Dr.	27,00,000	
Discount on issue of deb.	Dr.	3,00,000	
To 12% deb. app & allot			30,00,000
(Being deb. of ₹ 30,00,000 issued at 10% discount)			
12% deb. app & allot.	Dr.	30,00,000	
To 12% Deb. A/c			30,00,000
(Being 12% debs. allotted)			
Bank A/c	Dr.	14,00,000	
To Bank Loan A/c			14,00,000
(Being loan taken from bank)			
Deb. Suspense A/c	Dr.	15,00,000	
To 12% deb.			15,00,000
(Being deb. given as collateral security)			
Statement of P/L A/c	Dr.	5,00,000	
To Discount on issue of deb.			5,00,000
(Being discount transfer to P/L A/c)			

Student Experience & Requests

CA Foundation

Scan to Review & Request More

Motivational Thoughts

- "Debentures are the bridge to long-term financing—learn their accounting to manage corporate growth effectively."
- "Understanding debenture issuance equips you to leverage debt responsibly for business expansion."
- "Every debenture issued reflects a company's commitment to growth and its trustworthiness in the financial market."
- "Think of debentures as a company's promise—master their accounting to ensure transparency and compliance."

Checklist for Studying

- Understand the definition and features of debentures, including secured and unsecured types.
- Learn the methods of issuing debentures: at par, premium, and discount.
- Study the journal entries for the issue, interest payment, and redemption of debentures.

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	COMPANY ACCOUNTS
11.4	**Accounting for Bonus Issue and Right Issue**

PRACTICAL QUESTIONS

PYQ	2014-May [7] (e)	4 Marks

Answer the following:
Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014:

Particulars	Amount (₹)
4,500 Equity Shares of ₹ 100 each	4,50,000
Capital Reserve (including ₹ 40,000 being profit on sale of Plant)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

Answer:

In the books of Saral Ltd.
Journal Entry

Particulars		L.F.	Dr. Amt. (₹)	Cr. Amt. (₹)
1. Capital Reserve A/c	Dr.		40,000	
Capital Redemption Reserve A/c	Dr.		30,000	

Securities Prem. A/c	Dr.		40,000	
General Reserve A/c	Dr.		40,000	1,50,000
To Bonus Shareholders A/c				
(Being Bonus issue of 1 share for every 3 share held, by utilising various reserves)				
2. Bonus Shareholders A/c	Dr.		1,50,000	
To Equity Shares Capital A/c				1,50,000
(Being Capitalisation of profit)				

PYQ	2015-Dec [1] (d)	5 Marks

Fitness Ltd. is planning to raise funds by making rights issue of equity shares to part finance its expansion. The existing equity share capital of the company is ₹ 40 lakh and the market value is ₹ 45 per share. The company offered to its shareholders the right to buy 2 shares at ₹ 12 each for every 5 shares held. You are required to calculate –

(i) Theoretical market price per share after the rights issue;
(ii) The value of rights; and
(iii) Percentage increase in share capital.

[CS Executive P-5 2015-Dec]

Answer:

(i) Calculation of Theoretical Market Price per Share after the Right Issue:

$$\text{Theoretical Market Price} = \frac{\text{No. of Shares before Right Issue} \times \text{Market Price} + \text{No. of Shares Issued as Right Issue} \times \text{Right Issue Price}}{\text{No. of Shares outstanding before Right Issue} + \text{No. of Shares Issued as Right Issue}}$$

$$= \frac{4,00,000 \times 45 + 1,60,000 \times 12}{4,00,000 + 1,60,000}$$

$$= \frac{1,80,00,000 + 19,20,000}{5,60,000}$$

$$= \frac{1,99,20,000}{5,60,000} = ₹\ 35.57$$

(ii) The Value of Rights = Market Price - Theoretical Market Price
= 45 – 35.57 = 9.43

(iii) Percentage increase in Share Capital:

$$= \frac{\text{No. of fresh Shares Issued}}{\text{Total no. of Shares before Right Issue}} \times 100$$

$$= \frac{1,60,000}{4,00,000} \times 100 = 40\%$$

Working Notes:

1. No. of Shares Outstanding at Beginning
$$= \frac{40,00,000}{10} = 4,00,000 \text{ Shares}$$
2. No. of Shares Issued as Right Issue
$$= 4,00,000 \times \frac{2}{5} = 1,60,000 \text{ Shares.}$$

PYQ	2016-Jun [1] (e)	5 Marks

Following is the extract of balance sheet of Sunrise Ltd. as on 31st March, 2015:

	₹
Issued and subscribed capital:	
40,000, 10% Preference shares of ₹ 10 each fully paid	4,00,000
1,80,000 Equity shares of ₹ 10 each, ₹ 7.50 paid-up	13,50,000
Reserves and surplus:	
Capital reserve	1,60,000
General reserve	2,00,000
Securities premium	40,000
Surplus	3,20,000

The company made the final call of ₹ 2.50 per share from equity shareholders and duly received it. Thereafter, it was decided to capitalise its reserves by issuing bonus shares at the rate of 1 share for every 3 shares held. Capital reserve includes ₹ 80,000 being profit on exchange of machinery.

Pass journal entries with necessary assumptions.

[CS Executive P-5 2016-Jun]

Answer:

Journal Entries in the Books of Sunrise Ltd.

Sr. No.	Particulars	Amount Dr. ₹	Amount Cr. ₹
1.	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call made on 180000 equity shares of ₹ 2.50 each)	4,50,000	4,50,000
2.	Bank A/c Dr. To Equity Share Final Call A/c (Being final call money received)	4,50,000	4,50,000
3.	Capital Reserve A/c Dr. Securities Premium A/c General Reserve A/c Profit & Loss A/c To Bonus to Equity Shareholders A/c (Being utilizations of reserves and profit & loss balance for issue of bonus share in the ratio of 1 : 3)	80,000 40,000 2,00,000 2,80,000	6,00,000
4.	Bonus to Equity Shareholders A/c Dr. To Equity Shareholder A/c (Being issue of bonus share)	6,00,000	6,00,000

PYQ	2018-May [6] (b)	5 Marks

Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2018.

	₹
Issued and Subscribed Capital:	
10,000; 10% Preference Shares of ₹ 10 each fully paid.	1,00,000
1,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018.

Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries. *[CA Inter P-1 2018- May]*

Answer:

In the books of Arya Ltd.

Journal Entries

2018		Dr. (₹)	Cr. (₹)
April, 1	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being Final call of ₹ 2 per share on 100000 equity shares due as per Board's Resolution dated)	2,00,000	2,00,000
April, 15	Bank A/c Dr. To Equity Share Final call A/c (Being Final call money on 1,00,000 equity shares received)	2,00,000	2,00,000
	Securities Premium A/c Dr. General Reserve A/c Dr. To Bonus to Shareholders A/c (Being Bonus issue @ one shares for every five shares held by utilizing various reserves as per Board's resolution dated –)	25,000 1,75,000	2,00,000
April, 15	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being capitalisation of profit)	2,00,000	2,00,000

PYQ	2019-Nov [6] (b)	5 Marks

Answer the following:
Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2018:

Authorized capital	₹
3,00,000 equity shares of ₹ 10 each	30,00,000
25,000, 10% preference shares of ₹ 10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	27,00,000
24,000, 10% preference shares of ₹ 10 each fully paid up	2,40,000
	29,40,000
Reserves and surplus:	
General reserve	3,60,000
Capital redemption reserve	1,20,000
Securities premium (in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2018, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.
Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

[CA Inter P-1 2019-Nov]

Answer:

Journal Entries in the books of Prem Ltd.

			₹	₹
01/04/2018	Securities Premium A/c	Dr.	75,000	
	Capital Redemption Res. A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	5,25,000	
	To Bonus to Shareholders A/c			10,80,000
	(Making provision for bonus issue of two shares for every five shares held)			
01/04/2018	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Issue of bonus shares)			

Balance Sheet (Extract) as on 1st April, 2018 (after bonus issue)

	Particulars	Notes	Amount (₹)
	Equity and Liabilities		
1.	Shareholders' Funds		
	(a) Share Capital	1	40,20,000
	(b) Reserves and Surplus	2	75,000

Notes to Accounts:

			(₹)
1.	**Share Capital**		
	Authorized share capital		
	3,78,000* Equity shares of ₹ 10 each		37,80,000*
	25,000 10% Preference shares of ₹ 10 each		2,50,000
	Total		40,30,000
	Issued, subscribed and fully paid share capital:		
	3,78,000 Equity shares of ₹ 10 each, fully paid		
	(Out of above, 1,08,000 equity shares @₹ 10 each wear issued by way of bonus)		37,80,000
	24,000 10% Preference shares of ₹ 10 each		2,40,000
	Total		40,20,000
2.	Reserves and Surplus		
	Capital Redemption Reserve	1,20,000	
	Less: Utilised	1,20,000	Nil
	Securities Premium	75,000	
	Less: Utilised for bonus issue	(75,000)	Nil
	General reserve	3,60,000	
	Less: Utilised for bonus issue	(3,60,000)	Nil
	Profit and Loss Account	6,00,000	
	Less: Utilised for bonus issue	(5,25,000)	75,000
	Total		75,000

Note: *Authorized capital has been increased by the minimum required amount i.e. ₹ 7,80,000 (37,80,000 – 30,00,000) in the above solution.

PYQ	2021-Jan [6] (e)	5 Marks

Answer the following:
Following items appear in the Trial Balance of Star Ltd. as on 31st March, 2019:

Particulars	₹
80,000 Equity shares of ₹ 10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹ 45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital Redemption Reserve	75,000
Securities Premium	60,000
General Reserve	2,10,000
Profit & Loss Account (Cr. Balance)	1,00,000

On 1st April, 2019, the Company has made final call on Equity shares @₹ 2 per share. The entire money was received in the month of April, 2019.

On 1st June, 2019, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves.

Pass necessary journal entries in the Books of Star Ltd.

[CA Inter P-1 2021-Jan]

Answer:

Journal Entries in the books of Star Ltd.

2019	Particulars		Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of ₹ 2 per share on 80,000 equity shares made due)			
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c			1,60,000
	(Final call money on 80,000 equity shares received)			
June1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve A/c	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	
	General Reserve A/c (b.f.)	Dr.	1,40,000**	
	To Bonus to Shareholders A/c			3,20,000
	(Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated.....)			
	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Capitalization of profit)			

* Considering it as free reserve as it has been realized.

** Alternatively, different combination of profit and loss balance and general reserve may also be used.

PYQ	2021-Jul [6] (e)	5 Marks

Answer the following:
Following is the extract of the Balance Sheet of K Ltd. (unlisted company) as at 31st March, 2020

Particulars	₹
Authorised capital:	
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Security premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2020. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

[CA Inter P-1 2021-July]

Answer:

Journal Entries in the books of K Ltd.

			₹	₹
1.4.2020	Equity share final call A/c	Dr.	4,00,000	
	To Equity share capital			4,00,000
	(For final calls of ₹ 2 per share on 2,00,000 shares due as per Board's Resolution dated .....?)			
25.4.2020	Bank A/c	Dr.	4,00,000	
	To Equity share final call A/c			4,00,000
	(For final call money on 2,00,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,05,000	
	To Bonus to shareholders			5,00,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	5,00,000	
	To Equity share capital A/c			5,00,000
	(For issue of bonus shares)			

Extract of Balance sheet immediately after bonus issue:

	₹
Authorised Capital	
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital	
2,50,000 Equity shares of ₹ 10 each, fully paid (out of the above, 50,000 equity shares @ ₹ 10 each were issued by way of bonus)	25,00,000
Reserves and Surplus	
General Reserves	55,000
Profit and Loss Account	6,00,000

Working Note:

1. Number of bonus shares issued @ 10 fully paid
   (200000 shares/4) × 1 = 50,000
   = 50000 shares × ₹ 10
   = ₹ 5,00,000

PYQ	2022-May [6] (b)	5 Marks

Following is the extract of the Balance Sheet of Sujata Foods Limited as at 31st March, 2021:

Particulars	₹
Authorised Capital	
1,00,000 12% Preference shares of ₹ 10 each	10,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	60,00,000
Issued and Subscribed capital	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus	
General Reserve	1,20,000
Capital Redemption Reserve	75,000
Securities Premium (Collected in cash)	25,000
Profit and Loss Account	2,00,000
Revaluation Reserve	80,000

On 1st April, 2021, the company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 15th April, 2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.

On 1st June, 2021, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June, 2021.

You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.

[CA Inter P-1 2022-May]

Answer:

Journal Entries
In the books of Sujata Foods Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
2021 April 1	Equity share Final call A/c Dr. To Equity Share Capital A/c (Being Equity shares final call due on 90,000 shares @ ₹ 2 per share)	1,80,000	1,80,000
April 15	Bank A/c Dr. To Equity Share Final Call A/c (Being preference shares final call received)	1,80,000	1,80,000
	Capital Redemption Reserve (CRR) A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. Profit & Loss A/c Dr. To Bonus to Shareholders A/c (Being bonus Announced in 1:3 = 90,000 × 1/4 × ₹10)	75,000 25,000 1,20,000 5,000	2,25,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being 22,500 Bonus shares of ₹ 10 each alloted)	2,25,000	2,25,000
June 20	Bank A/c Dr. To Equity Share Capital Call A/c To Securities Premium A/c (Being Right issue of 2 shares for every 5 shares held as per board resolution dated .....)	5,40,000	4,50,000 90,000

PYQ	2024-Jun [5] (c)	10 Marks

The following is the abstract of Balance Sheet of Happy Ltd. as on 31st March, 2024:

		₹
Issued and paid-up capital		
90,000 Equity shares of ₹ 10 each fully paid -up	9,00,000	
Less: Calls-in-arrear (10,000 Equity shares of ₹ 2 each)	20,000	8,80,000
40,000 Equity shares of ₹ 10 each, ₹ 4 cash paid up		1,60,000
Reserves and Surplus:		
Capital Reserve (realized in cash)		60,000
Capital Redemption Reserve		1,60,000
Securities Premium		1,00,000
General Reserve		1,20,000
Profit and Loss Account		7,00,000

On 1st April, 2024, the company makes final call @ 6 each on 40,000 equity shares. The call money is duly received by 30th April, 2024.
On 1st May, 2024, the Board of Directors of the company decided:
(i) To forfeit the share on which final call of ₹ 2 each is due;
(ii) To re- issue the forfeited share @ ₹ 11 each as fully paid up;
(iii) To issue fully paid bonus shares in the ratio of one fully paid bonus share for every two fully paid shares held; and
(iv) To use minimum balance of Profit and Loss Account.
Pass necessary journal entries in the books of the company on the basis of the above decisions.

Answer:

Journal Entries in Books of Happy Ltd.

Particulars	L/F	Debit (₹)	Credit (₹)
Eq. Share Final Call A/c Dr. To Eq. Share Cap A/c (Being final call money due on 40,000 shares @ ₹ 6 per share)		2,40,000	2,40,000
Bank A/c Dr. To Eq. Share Final Call A/c (Being final call money received)		2,40,000	2,40,000
Eq. Share Cap A/c (10,000 × 10) Dr. To Calls in arrears A/c (10,000 × 2)		1,00,000	20,000

To Forfeited Shares (10,000 × 8)				80,000
(Being 10,000 shares @ ₹ 2 forfeited of final call)				
Bank A/c	Dr.		1,10,000	
To Eq. Share Cap A/c (10,000 × 10)				1,00,000
To Securities Premium				10,000
(Being forfeited shares reissued)				
Shares forfeited A/c	Dr.		80,000	
To Capital Reserve A/c				80,000
SP A/c	Dr.		1,10,000	
CR A/c	Dr.		1,40,000	
CRR A/c	Dr.		1,60,000	
GR A/c	Dr.		1,20,000	
P/L A/c	Dr.		1,20,000	
To Bonus to Shareholders A/c				6,50,000
Bonus to Shareholders A/c	Dr.		6,50,000	
To Eq. Share Cap A/c				6,50,000
(Being 65,000 shares issued @₹ 10)				

PYQ	2025-May [5] (c)	10 Marks

Following notes pertain to the Balance Sheet of PQR Company Limited as at 31st March, 2024:

	₹ in lakhs
Authorized capital :	
5,00,000 shares of ₹ 100 each	500
	500
Issued and Subscribed capital :	
1,50,000 Equity Shares of ₹ 100 each, ₹ 70 paid up	105
10,000 11% Preference Shares of ₹ 100 each fully paid	10
	115
Reserves and Surplus :	
Revaluation Reserve	5.20
General Reserve	25
Capital Redemption Reserve	25
Securities premium (collected in cash)	30
Profit and Loss Account (Cr. Balance)	20

On 30th April, 2024, the Company has made final call @ ₹ 30 each on 1,50,000 equity shares. The call money was received by 31st May, 2024. Thereafter, on 1st July, 2024 the company decided to issue bonus shares at the rate of 3 equity shares for every 5 equity shares held by way of capitalising its reserves, it decided that there should be minimum usage of balance in Profit & Loss A/c.

On 1st October, 2024, the Company issued Rights shares at the rate of one equity share for every five shares held on that date at a premium of 10%. All the rights shares were accepted by the existing shareholders and the money was duly received by 31st October, 2024.

Show necessary journal entries in the books of the company for bonus issue and rights issue. Also prepare notes on Share Capital & Reserve & Surplus relevant to the Balance Sheet of the company after the issue of bonus shares & rights share.

Scanner Preparation Key

Scan & go to "My Books"

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	COMPANY ACCOUNTS
11.5	**Redemption of Preference Shares**

THEORY QUESTIONS

PYQ	2011-Jun [4] (b)	DESC	6 Marks

What are the conditions which must be fulfilled for redemption of preference shares? *[CS Executive P-2 2011-June]*

Answer:

As per Section 55 of the Companies Act, 2013 the conditions which must be fulfilled for redemption of preference shares are as follows:

1. Such shares must be fully paid up.
2. Such shares shall be redeemed only out of profits or out of the proceeds of a fresh issue of shares made for the purpose of redemption.
3. In case the company proposes redemption of shares out of the profits of the company, there shall, out of such profits, be transferred, a sum equal to the nominal amount of the shares to be redeemed, to a reserve, to be called the Capital Redemption Reserve Account, and the provisions of this Act relating to reduction of share capital of a company shall, except as provided in this section, apply as if the Capital Redemption Reserve Account were paid-up share capital of the company.

   The capital redemption reserve account may be applied by the company, in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.
4. Certain class of companies as may be prescribed and whose financial statements comply with the accounting standards prescribed under Section 133, for such class of companies, the premium if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed. For other companies the premium if any, payable on redemption shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.

5. No company limited by shares shall after the commencement of the companies issue any preference shares which is irredeemable or is redeemable after the expiry of a period of twenty years from the date of issue.

PYQ	2018-Nov [6] (d)	DESC	5 Marks

Answer of the following:
Explain the conditions when a company should issue new equity shares for redemption of the preference shares. Also discuss the advantages and disadvantages of redemption of preference shares by issue of equity shares. *[CA Inter P-1 2018-Nov]*

Answer:

A company may prefer issue of new equity shares on the basis of following conditions:

1. When the company realise that the capital is needed permanently and it makes more sense to issue equity shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.
2. When the balance of profit, which would otherwise be available for dividend, is insufficient.
3. When the liquidity position of the company is not good enough.

Advantages of redemption of preference shares by issue of fresh equity shares:

1. No cash outflow of money is required now or later.
2. New equity shares may be valued at a premium
3. Shareholders retain their equity interest.

Disadvantages of redemption of preference shares by issue of fresh equity shares:

1. There will be dilution on future earnings:
2. Share-holding in the company is changed.

PYQ	2025-Jan [1] (a) (iv) {C}	TF	2 Marks

State with reasons, whether the following statements are True or False: For redemption of preference shares, proceeds from fresh issue of equity shares and debentures can be utilized.

Answer:

False: A company can issue new shares and the proceeds from such new shares can be used for redemption of preference shares, but the proceeds from issue of debentures cannot be utilised for the redemption of preference shares.

PRACTICAL QUESTIONS

PYQ	2013-Jun [3] (b)	6 Marks

Shreya Ltd. had an issue of 1,000, 12% redeemable preference shares of ₹ 100 each, repayable at a premium of 10%. These shares are to be redeemed now out of the accumulated reserves, which are more than the necessary sum required for redemption. Show the necessary entries in the books of the company, assuming that the premium on redemption of shares has to be written off against the company's securities premium reserve account. *[CS Executive P-2 2013-June]*

Answer:

In the books of Shreya Ltd.

Journal Entries

Date	Particulars		Debit Amount (₹)	Credit Amount (₹)
	12% Redeemable Preference Shares Capital A/c	Dr.	1,00,000	
	Premium on redemption A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount due to redeemable preference shareholders on redemption)			

	Securities Premium A/c Dr. To Premium on Redemption A/c (Being premium on redemption provided out of securities premium reserve)		10,000	10,000
	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount of redeemed out of profits transferred to capital redemption reserve account)		1,00,000	1,00,000
	Preference Shareholders A/c Dr. To Bank A/c (Being amount paid on redemption to preference shareholders)		1,10,000	1,10,000

PYQ	2016-Jun [3] (a)	5 Marks

Extract of ledger balances of Kalpana Ltd. as on 31st March, 2015 includes the following:

	₹
2,000, 12% Preference shares of ₹ 100 each, fully paid	2,00,000
Surplus	40,000
Securities premium	12,000

Under the terms of issue, the preference shares are redeemable on 31st March, 2015 at a premium of 10%. The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at a premium of 5% for redemption purpose.

You are required to ascertain the amount of fresh issue to be made and pass necessary journal entries in the books of the company.

(CS Executive P-5 2016-Jun)

Answer:

Calculation of no. of shares to be issued on Redemption of Preference Shares:

Face value of preference shares to be redeemed		2,00,000
Add: Premium on Redemption		20,000
		2,20,000
Less: (i)	Balance in Securities Premium A/c	12,000
(ii)	Balance in Profit & Loss A/c	40,000
	Amount of fresh issue	52,000
		1,68,000

No. of shares required to be issued $= \frac{\text{Amount of fresh issue}}{\text{fresh issue price}}$

$= \frac{1,68,000}{10.50} = 16,000$ shares

Equity share capital	= 16,000 × 10	= 1,60,000
Securities ~~premium~~	= 16,000 × 0.50	= 8,000
	Total	1,68,000

Journal Entries

(In the books of Kalpana Ltd.)

Date	Particulars	Amount Dr. ₹	Amount Cr. ₹
2015 March 31	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 16000 equity shares of ₹ 10 each issued at a premium of 5%)	1,68,000	1,60,000 8,000
"	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares provided)	20,000	20,000
"	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred to capital Redemption Reserve A/c not covered by fresh issue)	40,000	40,000
"	12% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Pref. Shares A/c Dr. To Preference Shareholders A/c (Being amount due to Preference Shareholders on redemption of 12% Preference shares)	2,00,000 20,000	2,20,000
"	Pref. Shareholders A/c Dr. To Bank A/c (Being payment made to Preference Shareholders)	2,20,000	2,20,000

PYQ	2016-Dec [2A] (Or) (iii)	5 Marks

Lily Ltd., having sufficient balance to the credit of general reserve and ₹ 1,00,000 balance in securities premium account, decides to:

- Redeem 5,000, 10% redeemable preference shares of ₹ 100 each fully paid-up at a premium of 5%; and
- Capital redemption reserve arising as a result of redemption be utilised in allotting the un-issued shares of the company as fully paid equity shares of ₹ 10 each by way of bonus to its members.

Show journal entries for redemption of preference shares and issue of bonus shares. *[CS Executive P-5 2016-Dec]*

Answer:

Journal entries in the books of Lily Ltd.

	Particulars		Dr. (₹)	Cr. (₹)
(i)	10% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	Premium on redemption A/c	Dr.	25,000	
	To Preference Shareholders			5,25,000
	(Amount due to redeemable preference share holders on redemption at 5% premium)			
(ii)	Security Premium A/c	Dr.	25,000	
	To Premium on redemption A/c			25,000
	(Premium on redemption provided)			
(iii)	General Reserve A/c	Dr.	5,00,000	
	To Capital Redemption Reserve A/c			5,00,000
	(Amount of redemption transferred)			
(iv)	Preference Shareholders A/c	Dr.	5,25,000	
	To Bank			5,25,000
	(Amount paid to preference shareholders)			
(v)	Capital Redemption Reserve A/c	Dr.	5,00,000	
	To Equity Shareholders			5,00,000
	(Issue of 50,000 equity shares as fully paid up bonus shares to existing equity shareholders)			

PYQ	2018-May [5] (b)	10 Marks

Dheeraj Limited had 5,000 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 40,000 Equity Shares of ₹ 10 each at par

(ii) 2,000 12% Debentures of ₹ 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company. *[CA Inter P-1 2018-May]*

Answer:

In the books of Dheeraj Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issue of 40,000 equity shares of ₹ 10 each at par as per Board's Resolution No – dated –)			
	Bank A/c	Dr.	2,00,000	
	To 12% Debenture A/c			2,00,000
	(Being the issue of 2,000 Debentures of ₹ 100 each as per Board's Resolution No – dated –)			
	10% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	50,000	
	To Preference Shareholders A/c			5,50,000
	(Being the amount payable on redemption transferred to preference shareholders account)			
	Preference Shareholders A/c	Dr.	5,50,000	
	To Bank A/c			5,50,000
	(Being the amount paid on redemption of preference shares)			

	Profit & Loss A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profit & Loss Account)	50,000	50,000
	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act.)	1,00,000	1,00,000

Working Note:

1. Amount to be transferred to Capital Redemption Reserve Account

Face Value of shares to be redeemed	₹ 5,00,000
Less: Proceeds from new issue	(₹ 4,00,000)
Total Balance	₹ 1,00,000

PYQ	2019-May [5] (a)	10 Marks

The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars		(₹)
EQUITY AND LIABILITIES:		
1. **Shareholders' funds:**		
(a) Share Capital		5,80,000
(b) Reserves and Surplus		96,000
2. **Current Liabilities:**		
Trade Payables		1,13,000
	Total	7,89,000
ASSETS:		
1. Non-Current Assets		
(a) Property, Plant and Equipment and Intangible Assets PPE		6,90,000
(b) Non-current investments		37,000
2. Current Assets		
Cash and cash equivalents (Bank)		62,000
	Total	7,89,000

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2017)
Reserves and Surplus comprises statement of profit and loss only.
In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:
(a) to sell all the investments for ₹ 30,000.
(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.
(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.
You are required to
1. Pass Journal Entries to record the above transactions.
2. Prepare Balance Sheet as on completion of the above transactions.

[CA Inter P-1 2019-May]

Answer:

1. **Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Share Application A/c (For application money received on 1,250 shares @ ₹ 60 per share)	75,000	75,000
	Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (For disposal of application money received)	75,000	62,500 12,500
	Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (For amount payable on redemption of preference share)	1,30,000 13,000	1,43,000
	Profit and Loss A/c Dr. To Premium on Redemption of Preference shares A/c (For writing off premium of redemption out of profit)	13,000	13,000
	Bank A/c Dr. Profit and Loss A/c Dr.	30,000 7,000	

	To Investment A/c (For sale of investment at a loss of ₹ 7,000)			37,000
	Profit and Loss A/c Dr. To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profit an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e. ₹ 1,30,000 - ₹ 62,500)		67,500	67,500
	Preference Shares A/c Dr. To Bank A/c (For payment of preference shareholders)		1,43,000	1,43,000

Balance Sheet (After Redemption)

	Particulars	Note No.	₹
I.	**Equity and Liabilities:**		
	(1) **Shareholders' funds**		
	(a) Share Capital	1	5,12,500
	(b) Reserves and Surplus	2	88,500
	(2) **Current Liabilities**		
	Trade Payables		1,13,000
	Total		7,14,000
II.	**Assets:**		
	(1) **Non Current Assets**		
	Property Plant and Equipment and Intangible Assets		
	PPE		6,90,000
	(2) **Current Assets**		
	Cash and Cash Eq. (Bank)	3	24,000
	Total		7,14,000

Notes to Accounts

			₹
1.	**Share Capital** Equity Share Capital (4,50,000 + 62,500)		5,12,500
2.	**Reserves and Surplus** Capital Redemption Reserve		67,500
	Profit and Loss Account (96,000 – 13,000 – 7,000 – 67,500)		8,500
	Securities Premium		12,500
			88,500
3.	**Cash and Cash Equivalents** Balances with Bank (62,000 + 75,000 + 30,000 – 1,43,000)		24,000

Working Note:

1. Calculation of Number of Shares:

	₹
Amount Payable on Redemption	1,43,000
Less: Sale Price of Investment	(30,000)
	1,13,000
Less: Available Bank Balance (62,000 – 24,000)	(38,000)
Fund from fresh issue	75,000
No. of Shares = 75,000/60 = 1250 shares	

PYQ	2020-Nov [5] (b)	12 Marks

The Books of Arpit Ltd. shows the following Balances as on 31st December, 2019:

	Amount (₹)
6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000
30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up	24,00,000
Securities Premium	6,00,000
Capital Redemption Reserve	18,00,000
General Reserve	35,00,000

Under the terms of issue, the Preference Shares are redeemable on 31st March, 2020 at a premium of 10%. In order to finance the redemption, the Board of Directors decided to make a fresh issue of 1,50,000 Equity shares of ₹ 10 each at a premium of 20%. ₹ 2 being payable on application, ₹ 7 (including premium) on allotment and the balance on 1st January, 2021. The issue was fully subscribed and allotment made on 1st March, 2020. The money due on allotment was received by 20th March, 2020.

The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.
You are required to pass the necessary Journal Entries and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out on 31st March, 2020.
[CA Inter P-1 2020-Nov]

Answer:

Journal Entries

			₹	₹
1.	10% Preference Share Final Call A/c	Dr.	6,00,000	
	To 10% Preference Share Capital A/c			6,00,000
	(For final call made on preference shares @ ₹ 20 each to make them fully paid up)			
2.	Bank A/c	Dr.	6,00,000	
	To 10% Preference Share Final Call A/c			6,00,000
	(For receipt of final call money on preference shares)			
3.	Bank A/c	Dr.	3,00,000	
	To Equity Share Application A/c			3,00,000
	(For receipt of application money on 1,50,000 equity shares @ ₹ 2 per share)			
4.	Equity Share Application A/c	Dr.	3,00,000	
	To Equity Share Capital A/c			3,00,000
	(For capitalization of application money received)			
5.	Equity Share Allotment A/c	Dr.	10,50,000	
	To Equity Share Capital A/c			7,50,000
	To Securities Premium A/c			3,00,000
	(For allotment money due on 1,50,000 equity shares @ ₹ 7 per share including a premium of ₹ 2 per share)			
6.	Bank A/c	Dr.	10,50,000	
	To Equity Share Allotment A/c			10,50,000
	(For receipt of allotment money on equity shares)			
7.	10% Preference Share Capital A/c	Dr.	30,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	3,00,000	
	To Preference Shareholders A/c			33,00,000
	(For amount payable to preference shareholders on redemption at 10% premium)			
8.	General Reserve A/c	Dr.	3,00,000	
	To Premium on Redemption A/c			3,00,000
	(Writing off premium on redemption of preference shares)			
9.	General Reserve A/c	Dr.	19,50,000	
	To Capital Redemption Reserve A/c			19,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 - 3,00,000 - 7,50,000)			
10.	Preference Shareholders A/c	Dr.	33,00,000	
	To Bank A/c			33,00,000
	(For amount paid to preference shareholders)			

Balance Sheet (Extracts)

	Particulars	Notes No.	As at 31.3.2020	As at 31.12.2019
			₹	₹
	Equity and Liabilities			
1.	Shareholders' funds			
	(a) Share capital	1	70,50,000	84,00,000
	(b) Reserves and Surplus	2	59,00,000	59,00,000

Notes to Accounts:

		As at 31.3.2020	As at 31.12.2019
1.	Share Capital		
	Issued, Subscribed and Paid up:		
	6,00,000 Equity shares of ₹ 10 each fully paid up	60,00,000	60,00,000
	1,50,000 Equity shares of ₹ 10 each ₹ 7 paid up	10,50,000	—
	30,000, 10% Preference shares of ₹ 100 each, ₹ 80 paid up		24,00,000
		70,50,000	84,00,000

2.	Reserves and Surplus		
	Capital Redemption Reserve	37,50,000	18,00,000
	Securities Premium	9,00,000	6,00,000
	General Reserve	12,50,000	35,00,000
		59,00,000	59,00,000

Note:

1. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.
2. Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are ₹ 10,50,000 (₹ 3,00,000 application money plus ₹ 7,50,000 received on allotment towards share capital) and balance ₹ 19,50,000 to taken from general reserve account.

PYQ | **2021-Jan [5] (a)** | **12 Marks**

The Capital structure of a company BK Ltd., consists of 30,000 Equity Shares of ₹ 10 each fully paid up and 2,000 9% Redeemable Preference Shares of ₹ 100 each fully paid up as on 31.03.2020. The other particulars as at 31.03.2020 are as follows:

	Amount (₹)
General Reserve	1,20,000
Profit & Loss Account	60,000
Investment Allowance Reserve (not free for distribution as dividend)	15,000
Cash at bank	1,95,000

Preference Shares are to be redeemed at a premium of 10%. For the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve & surplus, subject to the conditions that a sum of ₹ 40,000 shall be retained in General Reserve and which should not be utilized.

Company also sold investment of 4500 Equity Shares in G Ltd., costing ₹ 45,000 at ₹ 9 per share.

Pass Journal entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet as at 31.03.2020 of BK Ltd., after the redemption carried out.

[CA Inter P-1 2021-Jan]

Answer:

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	84,500	
	To Equity Share Capital A/c			84,500
	(Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No..... dated.....)			
	9% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
	Prem. on redemption of preference Shares A/c	Dr.	20,000	
	To Preference Shareholders A/c			2,20;000
	(Being the amount paid on redemption transferred to preference shareholders Account)			
	Bank A/c	Dr.	40,500	
	Profit and Loss A/c (loss on sale) A/c	Dr.	4,500	
	To Investment A/c			45,000
	(Being investment sold at loss of ₹ 4,500)			
	Preference Shareholders A/c	Dr.	2,20,000	
	To Bank A/c			2,20,000
	(Being amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	20,000	
	To Premium on redemption of Pref. Shares A/c			20,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	80,000	

	Profit & Loss A/c	Dr.	35,500	
	To Cap. Redemption Reserve A/c			1,15,500
	(Being the amount transferred to Capital Redemption Reserve Account)			

Balance Sheet as on .....[Extracts]

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	Shareholders' funds		
	a Share Capital	1	3,84,500
	b Reserves and Surplus	2	1,70,500
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (1,95,000 + 84,500 + 40,500 - 2,20,000)		1,00,000

Notes to accounts

1.	Share Capital	
	38,450 Equity shares (30,000 + 8,450) of ₹ 10 each fully paid up	3,84,500
2.	Reserve and Surplus	
	General Reserve	40,000
	Profit and Loss account	NIL
	Capital Redemption Reserve	1,15,500
	Investment Allowance Reserve	15,000
		1,70,500

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed		₹ 2,00,000
Less: Profit available for distribution as dividend:		
General Reserve: ₹ (1,20,000 - 40,000)	₹ 80,000	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. Shares less 4,500 loss on sale of investments)	₹ 35,500	
		₹ (1,15,500)
		₹ 84,500

Therefore, No. of shares to be issued = 84,500/₹10 = 8,450 shares

PYQ | **2021-Dec [4]** | **20 Marks**

The following is the summarized Balance Sheet of R Limited as at 31st March, 2021:

	₹
Liabilities	
Authorised Capital	
1,50,000 Equity shares of ₹ 10 each	15,00,000
30,000 Redeemable Preference shares of ₹ 100 each	30,00,000
	45,00,000
Issued, subscribed and paid up	
90,000 Equity shares of ₹ 10 each	9,00,000
15,000 Redeemable Preference shares of ₹ 100 each	15,00,000
Reserves & Surplus	
Securities Premium	18,00,000
General Reserve	16,50,000
Profit & Loss A/c	1,20,000
7500, 9% Debentures of ₹ 100 each	7,50,000
Sundry Creditors	2,12,500
	69,32,500
Assets	
Non-Current Assets	
Property Plant & Equipment	31,60,000
Investments (Market Value ₹ 17,40,000)	14,70,000
Debtors	17,60,000
Cash & Bank Balance	5,42,500
	69,32,500

In Annual General Meeting held on 15th May, 2021 the company passed the following resolutions:

(i) To redeem 10% preference shares at a premium of 5%.

(ii) To redeem 9% Debentures by making offer to Debenture holders to convert their holding into equity shares at ₹ 40 per share or accept cash on redemption.

(iii) To issue fully paid bonus shares in the ratio of one equity share for every three shares held on 31st March, 2021.

(iv) Redemption of preference shares and debentures will be paid through company's cash & bank balance subject to leaving a minimum cash & bank balance of ₹ 2,00,000.

(v) To issue sufficient number of equity shares @ ₹ 40 per share as required to finance redemption of Preference Shareholders and debenture holders.

On 5th June, 2021 investments were sold for ₹ 16,80,000 and preference shares were redeemed.

30% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 2021. The bonus issue was concluded by 10th August, 2021.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2021. All working notes should form part of your answer. *[CA Inter P-1 2021-Dec]*

Answer:

Journal Entries in the Books of R Limited

			₹	₹
June 5	Cash & Bank A/c	Dr.	16,80,000	
	To Investment A/c			14,70,000
	To Profit & Loss A/c			2,10,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)			
June 5	10% Redeemable preference share capital A/c	Dr.	15,00,000	
	Premium on redemption of pref. share A/c	Dr.	75,000	
	To Preference shareholders A/c			15,75,000
	(Being amount payable to preference shareholders on redemption)			
June 5	Preference shareholders A/c	Dr.	15,75,000	
	To Cash & bank A/c			15,75,000
	(Being amount paid to preference shareholders)			
June 5	General reserve* A/c	Dr.	15,00,000	
	To Capital redemption reserve A/c			15,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)			

* Alternatively, Profit & Loss A/c may also be used for the amount available.

Aug. 1	9% Debentures A/c	Dr.	7,50,000	
	Interest on debentures A/c (₹ 7,50,000 x 9% x 4/12)	Dr.	22,500	
	To Debenture holders A/c			7,72,500
	(Being amount payable to debenture holders along with interest payable)			
Aug. 1	Debenture holders A/c	Dr.	7,72,500	
	To Cash & bank A/c (2,25,000 + 22,500)			2,47,500
	To Equity share capital A/c (13,125 X₹ 10)			1,31,250
	To Securities premium A/c (13,125 x ₹ 30)			3,93,750
	(Being claims of debenture holders satisfied) (refer W.N.1)			
Aug. 10	Capital Redemption Reserve A/c	Dr.	3,00,000	
	To Bonus to shareholders A/c			3,00,000
	(Being balance in capital redemption reserve capitalized to issue bonus shares)			
Aug. 10	Bonus to shareholders A/c	Dr.	3,00,000	
	To Equity share capital A/c			3,00,000
	(Being 30,000 fully paid equity shares of ₹ 10 each issued as bonus in ratio of 1 share for every 3 shares held)			
Sept.30	General Reserve A/c	Dr.	75,000	
	To Premium on redemption of preference shares A/c			75,000
	(Being premium on preference shares adjusted from general reserve)			
Sept.30	Profit & Loss A/c	Dr.	22,500	
	To Interest on debentures A/c			22,500
	(Being interest on debentures transferred to Profit and Loss Account)			

Balance Sheet as at 30th September, 2021

		Particulars	Notes	₹
1		**Equity and Liabilities**		
		Shareholders' funds		
	a	Share capital	1	13,31,250
	b	Reserves and Surplus	2	37,76,250
2		**Current liabilities**		
	a	Trade Payables		2,12,500
		Total		53,20,000
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment		31,60,000
2		**Current assets**		
	a	Trade receivables		17,60,000
	b	Cash and bank balances (W.N.2)		4,00,000
		Total		53,20,000

Notes to accounts:

		₹	₹
1	**Share Capital**		
	Authorized share capital		
	1,50,000 Equity shares of ₹ 10 each	15,00,000	
	30,000 Redeemable Preference shares of ₹ 100 each	30,00,000	
	Issued, subscribed and paid up		
	1,33,125 Equity shares of ₹ 10 each [90,000+13,125+30,000] (Out of which 1,33,125 shares were issued for the consideration other than cash)		13,31,250
2	**Reserves and Surplus**		
	Securities Premium		
	Balance as per balance sheet	18,00,000	
	Add: Premium on equity shares issued on conversion of debentures (13,125 x 30)	3,93,750	21,93,750
	Balance		
	Capital Redemption Reserve (15,00,000 - 3,00,000)		12,00,000
	General Reserve		
	Opening Balance 16,50,000		
	Less: Transfer to Capital Redemption Reserve (15,00,000)		
	1,50,000		
	Less: Premium on redemption of preference shares (75,000)		75,000
	Profit & Loss A/c	1,20,000	
	Add: Profit on sale of investment	2,10,000	
	Less: Interest on debentures	(22,500)	3,07,500
	Total		37,76,250

Working Notes:

		₹
1.	**Redemption of Debentures**	
	7,500 Debentures of ₹ 100 each	7,50,000
	Less: Cash option exercised by 30% holders	(2,25,000)
	Conversion option exercised by remaining 70%	5,25,000
	Equity shares issued on conversion = 5,25,000/40 =13,125 shares	
2.	**Cash and Bank Balance**	
	Balance as per balance sheet	5,42,500
	Add: Realization on sale of investment	16,80,000
		22,22,500
	Less: Paid to preference share holders	(15,75,000)
	Paid to Debenture holders (2,25,000 + 22,500)	(2,47,500)
	Balance	4,00,000

Note:

1. There is no need to issue fresh equity shares as the company is having sufficient cash balance.
2. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them. Alternative considering otherwise also possible by utilizing securities premium.

PYQ	2022-May [5] (a)	10 Marks
Given below is the extracts of Balance Sheet of Daisy Limited as at 31st March, 2021.		

Particulars	₹
15% 650 Redeemable Preference Shares of ₹ 100 each, ₹ 80 per share paid up	52,000
22,500 Equity Shares of ₹ 10 each, ₹ 9.50 per share paid up	2,13,750
Revaluations Reserve	45,000
Capital Reserve (realized in cash)	500
General Reserve	40,000
Securities Premium	500
Profit & Loss Account	40,500
Current Liabilities	1,07,750
Fixed Assets (PPE)	3,71,500
Non-Current Investments [Face value ₹ 50,000]	1,00,000
Bank Balance	28,500

The following information are provided:

- On 1st April, 2021, the Board of Directors decided to make a final call of ₹ 20 on Redeemable Preference Shares and to redeem the same at a premium of 10% on 1st June, 2021.
- The investments of the face value of ₹ 20,000 are sold at the market price which was 150% of the face value.
- It is decided to issue sufficient number of Equity Shares of ₹ 10 each at a premium of 25% after leaving a balance of ₹ 50,000 in bank account.
- It was also decided to convert the partly paid-up Equity shares into fully paid up without requiring the shareholders to pay for the same.
- On 1st July, 2021 the Board decided to issue fully paid bonus shares to the equity shareholders in the ratio of one for five.

You are required to pass the necessary journal entries for the above.

[CA Inter P-1 2022-May]

Answer:

In the Books of Daisy Ltd. Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
2021 April 1	15% Preference Share Final Call A/c Dr. To 15% Preference Share Capital A/c (Being Preference Share final call due on 650 shares @₹20 per share).	13,000	13,000
April 1	Bank A/c Dr. To 15% Preference Share Final call A/c. (Being Preference Shares final call received)	13,000	13,000
June 1	15% Preference Share capital A/c Dr. 15% Premium on Redemption A/c Dr. To Preference Shareholders A/c (Being preference shares are due for redemption)	65,000 6,500	71,500
June 1	Bank A/c Dr. Profit & Loss A/c Dr. To Investments A/c (1,00,000/50,000 × 20,000) (Being investments of book value of ₹ 40,000 are sold for ₹ 30,000)	30,000 10,000	40,000
June 1	Bank A/c Dr. To Equity Share capital call A/c To Securities Premium A/c (Being fresh equity shares are issued) (71,500 + 50,000 - 28,500 -13,000 - 30,000) = 50,000/ 12.5 = 4,000 shares of ₹10 each @ ₹12.5 per share)	50,000	40,000 10,000
	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	71,500	71,500
	Profit and loss A/c/ General reserve A/c * Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law i.e. face value of shares redeemed 65,000 less fresh equity shares issued ₹ 40,000)	25,000	25,000
	Profit and Loss A/c ** Dr. To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from Securities Premium A/c)	6,500	6,500
	Profit & Loss/ General reserve A/c* Dr. To Bonus to shareholders A/c (Being 50 paisa for 22,500 shares making partly) paid up as fully paid up)	11,250	11,250

	Share final call A/c	Dr.	11,250	
	To Equity share capital A/c			11,250
	(for making the final call due)			
	Bonus to shareholders A/c	Dr.	11,250	
	To Equity share final call A/c			11,250
	(Adjusted at final call)			
July 1	Capital Redemption Reserve A/c	Dr.	25,000	
	Securities Premium A/c	Dr.	4,000	
	Capital Reserve A/c	Dr.	500	
	Profit & Loss A/c / General Reserve*	Dr.	23,500	
	To Bonus to shareholders A/c			53,000
	(Being balance in reserves capitalized to issue bonus shares)			
	Bonus to shareholders A/c	Dr.	53,000	
	To Equity share capital A/c			53,000
	(Being 5,300 fully paid equity shares of ₹ 10 each issued as bonus in ratio of 1 share for every 5 shares held (22,500+4,000) divided by 5)			

Note: *Different combination of utilisation of available balances of general reserve and P& L A/c is possible in the given entries.

** Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and hence the company has to comply with the prescribed Accounting Standards.

*** As per the sequence of the information given in the question it has been considered that the fresh issue of equity shares is made at the time of the redemption of preference shares. Alternatively, it may be assumed that shares are issued after the redemption of preference shares. In that case the amount transferred to Capital Redemption Reserve will get changed.

PYQ | **2022-Nov [6] (c)** | **5 Marks**

Answer the following:
Given below are the extracts of Balance Sheet of Sea Chemicals Limited as on 31st March, 2022:

Particulars	Amount in ₹
9% Redeemable Preference Share Capital	10,00,000
Calls in arrears (Redeemable Preference Shares)	20,000
General Reserve	7,00,000
Securities Premium	80,000

It is provided that:
- Preference Shares are of ₹ 100 each fully-called, due for immediate redemption at a premium of 5%.
- Calls-in-arrears are on account of final call on 1,000 shares held by four members whose whereabouts are not known.
- Balance of General Reserve and Securities Premium to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.
- The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries (narration not required) to give effect to the above redemption. *[CA Inter P-1 2022-Dec]*

Answer:

Journal Entries

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because of non-payment of calls as holders are unknown)			
Bank A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated....)			

General Reserve A/c	Dr.	7,00,000	
To Capital Redemption Reserve A/c			7,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
Premium on Redemption of Preference shares A/c	Dr.	45,000	
To Preference Shareholders A/c			9,45,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	9,45,000	
To Bank A/c			9,45,000
(For amount paid to preference shareholders)			
Securities Premium A/c	Dr.	45,000	
To Premium on Redemption of Preference Shares A/c			45,000
(For writing off premium on redemption of preference shares)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve	7,00,000
	2,00,000
Therefore, number of shares to be issued = ₹ 2,00,000/₹ 10 = 20,000 shares.	

Note: Securities premium has been utilized for the purpose of premium payable on redemption of preference shares as per the information given in the question assuming that the company referred in the question is not governed by Section 133 of the Companies Act, 2013 and the company is not required to comply with the prescribed Accounting Standards.

However, certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purpose of premium on redemption of preference shares. Hence, General Reserve is utilized instead of Securities premium for premium payable on redemption of preference shares. In that case, the solution will be given as follows:

Alternative answer

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because holders are unknown)			
Bank A/c	Dr.	2,45,000	
To Equity Share Capital A/c			2,45,000
(Being the issue of 24,500 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated.....)			
General Reserve A/c	Dr.	6,55,000	
To Capital Redemption Reserve A/c			6,55,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	45,000	
To Preference Shareholders A/c			9,45,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	9,45,000	
To Bank A/c			9,45,000
(For amount paid to preference shareholders)			
General Reserve A/c	Dr.	45,000	
To Premium on Redemption A/c			45,000
(For writing off premium on redemption of preference shares)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve (7,00,000 – 45,000 set aside for adjusting premium payable on redemption of preference shares)	6,55,000
	2,45,000
Therefore, number of shares to be issued = ₹ 2,45,000/₹ 10 = 24,500 shares.	

PYQ	2024-Jun [6] (a)	15 Marks

The following balances appeared in the Books of Mac Ltd. as on 31st December, 2023:

	Amount (₹)
80,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up	60,00,000
2,00,000 Equity share of ₹ 100 each fully paid up	2,00,00,000
Securities Premium	6,50,000
Capital Redemption Reserve	42,00,000
General Reserve	85,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2024 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 60,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2024. The issue was fully subscribed and the allotment made on 1st March, 2024. The amount due on allotment was duly received by 25th March, 2024.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2013.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital, Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2024. Ignore date column in Journal.

Answer:

Journal Entries in the Books of Mac Ltd.

Particulars	L/F	Debit (₹)	Credit (₹)
10% Preference Shares (Final Call) Dr.		20,00,000	
To 10% Preference Share Final Call A/c			20,00,000
(For final call made on Preference shares @ ₹ 75)			
Bank A/c Dr.		20,00,000	
To 10% Preference Share Final Call A/c			20,00,000
(For receipt of final call money on Preference shares)			
Bank A/c Dr.		15,00,000	
To Eq. Share App. A/c (60,000 × 25)			15,00,000
(For application money received on 60,000 equity shares @ ₹ 25)			
Eq. Share App. A/c Dr.		15,00,000	
To Eq. Share Cap A/c			15,00,000
(For capitalization of application money received)			
Eq. share allotment A/c Dr.		27,00,000	
To Eq. share cap A/c (60,000 × 35)			21,00,000
To Securities Premium A/c			6,00,000
(For allotment money due on 60,000 shares @ ₹ 45)			
Bank A/c Dr.		27,00,000	
To eq share allotment A/c			27,00,000
(For allotment money received on 60,000 shares)			
GR A/c Dr.		44,00,000	
To CRR A/c (W.N.1)			44,00,000
(For amount required of redemption provided out of reserves after deducting share proceeds of fresh issue)			
10% Preference Share cap A/c Dr.		80,00,000	
Premium on redemption of preference shares (80,000 × 5) Dr.		4,00,000	
To Preference shareholders A/c			84,00,000
(For amount payable on shareholders on redemption)			
Preference Shareholders A/c Dr.		84,00,000	
To Bank A/c			84,00,000
(For amount paid to preference shareholders)			
GR A/c Dr.		4,00,000	
To Premium on redemption of preference shares A/c			4,00,000
(For premium on redemption was set off against reserves of company)			

Working Note:
Calculation of CRR

Particulars	Amount (₹)
Nominal value of Preference Shares (80,000 × 100)	80,00,000
Less: Proceeds of fresh equity shares (60,000 × 60)	36,00,000
CRR	44,00,000

Note:

1. Securities Premium of 6,00,000 collected from fresh issue of shares shall not be regarded as proceeds.
2. CRR is available with company shall not be utilized to write off premium payable on redemption of preference shares assuming company any compliance under section 132 of Companies Act.
3. Entries were passed upto 31.3.24 only.

Notes to Accounts:

Shareholders Funds	Amount (₹)	Amount (₹)
Share Cap.		
Issued and paid up Cap.		
2,00,000 eq. shares @ ₹ 100 each		2,00,00,000
60,000 eq. shares @ ₹ 100 each 60% paid up		36,00,000
Reserves & Surplus		2,36,00,000
Securities Premium (6,50,000 + 6,00,000)	12,50,000	
CRR (42,00,000 + 44,00,000)	86,00,000	
GR (85,00,000 - 44,00,000 - 4,00,000)	37,00,000	1,35,50,000
		1,35,50,000

Student Experience & Requests

CA Foundation

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Motivational Thoughts

- "Redemption of preference shares showcases a company's financial discipline—learn to account for it effectively."
- "Proper redemption ensures the balance between equity and liabilities—master it for corporate financial stability."
- "Understanding the redemption process reflects a company's commitment to fulfilling its obligations."
- "Think of redemption as honoring promises made to preference shareholders."
- "Mastering redemption accounting prepares you to manage corporate equity with confidence."

FAQs About Preference Share Redemption

- What is the significance of CRR in redemption accounting?
- How is redemption out of profits different from redemption through fresh issue?
- What is the accounting treatment for premium on redemption?
- How does redemption impact the company's reserves?
- Why is redemption restricted to fully paid-up shares?

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	COMPANY ACCOUNTS
11.6	**Redemption of Debentures**

THEORY QUESTIONS

PYQ	2015-May [3] (a)	DESC	4 Marks

Comment on adequacy of Debenture Redemption Reserve (DRR) w.r.t. following:

Debentures issued by-

(i) All India Financial Institutions regulated by Reserve Bank of India and Banking companies.

(ii) For other Financial Institutions within the meaning given in the Companies Act.

(iii) For debentures issued by NBFCs registered with the RBI.

(iv) For debentures issued by other companies including manufacturing and infrastructure companies. *[CS Executive P-5 2015-May]*

Answer:

Adequacy of DRR:

Sl. No.	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
(i)	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required
(ii)	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
(iii)	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. (i) above)	

	(a) All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures.	No DRR is required
	(b) Other listed companies for both public as well as privately placed debentures	No DRR is required
(iv)	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. (i) above	
	(a) All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
	(b) Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

PYQ	2016-May [3] (b)	DESC	4 Marks
Mention the ways by which Redeemable Debentures may be redeemed under Companies Act, 2013. *[CA Inter P-1 2016-May]*			

Answer:

The following are the ways by which Redeemable Debentures may be redeemed:

1. **By Payment in Lumpsum**	In this method, the payment of entire debt is made in one lot at the expiry of a specified period (i.e. at maturity) or even before expiry of the specified period after passing necessary resolution at the meeting of the debenture holders.
2. **By Payment in Instalments**	In this method, the payment of specified portion of debentures debt is made in instalments at specified rates for e.g., a debentures of ₹ 100 may be discharged as 20% or ₹ 20 on 1/1/2011, 20% or ₹ 20 on 1/1/2013, 30% or ₹ 30 on 1/1/2015, 30% or ₹ 30 on 1/1/2017 or etc.
3. **Redemption by Purchase in the open market**	When a company purchases its own debentures in the open market for the purpose of cancellation, such an act of purchasing and cancelling the debentures constitutes redemption by purchase in the open market.

PRACTICAL QUESTIONS

PYQ	2015-May [3] (b)	12 Marks

M/s. Piyush Ltd. had the following among their ledger opening balances on January 1, 2014:

	₹
11% Debenture A/c (2002 issue)	80,00,000
Debenture Redemption Reserve A/c	70,00,000
13.5% Debenture in Sneha Ltd. A/c (Face Value ₹ 30,00,000)	29,00,000
Own Debentures A/c (Face Value ₹ 30,00,000)	27,00,000

As 31st December, 2014 was the date of redemption of the 2002 debentures, the company started buying own debentures and made the following purchases in the open market:

1-2-2014 - 5000 debentures at ₹ 98 cum-interest

1-6-2014 - 5000 debentures at ₹ 99 ex-interest.

Half yearly interest is due on the debentures on 30th June and 31st December in the case of both the companies.

On 31st December, 2014, the debentures in Sneha Ltd. were sold for ₹ 95 each ex-interest. On that date, the outstanding debentures of M/s. Piyush Ltd. were redeemed by payment and by cancellation.

Show the entries in the following ledger accounts of M/s. Piyush Ltd. during 2014:

(i) Debenture Redemption Reserve Account,

(ii) Own Debenture Account.

The face value of a debenture was ₹ 100. *[CA Inter P-5 2015-May]*

Answer:

(i) **Debenture Redemption Reserve Account**

2014		₹	2014		₹
Dec. 31	To 13.5% Deb. in Sneha Ltd. (Loss on sale of investment)	50,000	Jan. 1	By Balance b/d	70,00,000
	To General Reserve (transfer)	77,67,500	Dec. 31	By 13.5% Deb. in Sneha Ltd.	4,05,000
				By Own Deb. A/c (Interest on own Deb.)	4,12,500
		78,17,500			78,17,500

(ii) **Own Debentures Account**

		Nominal	Interest	Amount			Nominal	Interest	Amount
2014		₹	₹	₹	2014		₹	₹	₹
Jan. 1	To Balance b/d	30,00,000		27,00,000	June 30	By Debenture Interest A/c		2,20,000	
Feb. 1	To Bank	5,00,000	4,583	4,85,417					
June 1	To Bank	5,00,000	22,917	4,95,000	Dec. 31	By Debenture Interest A/c		2,20,000	
Dec. 31	To Capital Reserve (profit on cancellation)			3,19,583		By 11% Debentures Account - cancellation	40,00,000		40,00,000
	To Debenture Redemption Reserve		4,12,500						
		40,00,000	4,40,000	40,00,000			40,00,000	4,40,000	40,00,000

Working Note:

1. **13.5% Debentures in Sneha Ltd.**

			Interest	Amount				Interest	Amount
2014			₹	₹	2014			₹	₹
Jan. 1	To Balance b/d (30,00,000)		4,05,000	29,00,000	42184 Dec.31	By Bank		2,02,500	2,02,500
Dec. 31	To Debenture Redemption Reserve			29,00,000		By Bank		2,02,500	
						By Debenture Redemption Reserve (Loss on sale)			28,50,000 50,000
			4,05,000	29,00,000				4,05,000	29,00,000

2. **11% Debentures Account**

2014		₹	2014		₹
Dec. 31	To Own Debentures A/c	40,00,000	Jan. 1	By Balance b/d	80,00,000
	To Bank	40,00,000			
		80,00,000			80,00,000

3. **Cost of debentures purchased on 1.2.2014**

	₹
Purchase price of debentures [5,000 x 98 (cum-interest)]	4,90,000
Less: Interest	(4,583)
	4,85,417

4. **Cost of debentures purchased on 1.6.2014**

Purchase price of debentures [5,000 x 99(ex-interest)] 4,95,000

PYQ	2017-May [7] (b)	4 Marks

XYZ Ltd. had issued 30,000, 15% convertible debenture of ₹ 100 each on 1st April 2008. The debentures are due for redemption on 1st March, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal Value ₹ 10) at a price of ₹ 15 per share. Debentureholders holding 2500 debentures did not

exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.
(CA Inter P-1 2018-May)

Answer:

Computation of number of equity shares allotted to be debentureholders

Particulars	No. of debenture
Total number of debenture	30,000
Less : Debentureholders not opted for conversion	(2,500)
	27,500
Option for conversion	20%
Number of debentures for conversion $\left(27,500 \times \frac{20}{100}\right)$	5,500
Redemption value at a premium of 5% (5,500 × ₹ 105)	₹ 5,77,500
Number of equity shares to be allotted $\frac{₹5,77,500}{₹15}$	38,500 shares

PYQ	2018-May [6] (c)	5 Marks

Answer the following:
Gurudev Limited purchases for immediate cancellation 6,000 of its own 12% debentures of ₹ 100 each on 1st November, 2017. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if:
(i) Debentures are purchased at ₹ 98 ex-interest.
(ii) Debentures are purchased at ₹ 98 cum-interest.
[CA Inter P-1 2018-May]

Answer:

In the books of Gurudev Limited
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
30/09/17	Debenture Interest A/c [6,000 × 100 × 12% × (½)] To Debenture holders A/c (Being deb. interest accrued)	Dr.	36,000	36,000
	Debenture holders A/c To Bank A/c (Being interest amount paid)	Dr.	36,000	36,000
01/11/17	Own Debentures A/c Debenture Interest A/c [6,000 × 100 × 12% × 1/12] To Bank A/c (Purchase of 6000 Debentures @ 98 ex–interest for immediate cancellation)	Dr. Dr.	5,88,000 6,000	5,94,000
01/11/17	12% Debentures A/c To Own Debentures A/c To Capital Reserve A/c (Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)	Dr.	6,00,000	5,88,000 12,000
01/11/17	Own Debenture A/c Debenture Interest A/c [6,000 × 100 × 12% × 1/12] To Bank A/c (Being 6,000 Debentures Purchased @ 98 cum-interest for immediate cancellation)	Dr. Dr.	5,82,000 6,000	5,88,000
01/11/17	12% Debentures A/c To Own Debentures A/c To Capital Reserve A/c (Being profit on cancellation of 6,000 debentures transferred to capital Reserve Account)	Dr.	6,00,000	5,82,000 18,000
31/03/17	Profit and Loss A/c To Debenture Interest (Being interest on debentures for the year transferred to Profit and Loss account at the year end)	Dr.	36,000	36,000

PYQ	2018-Nov [5] (b)	8 Marks

A Company had issued 1,000 12% debentures of ₹ 100 each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at ₹ 102 after giving 6 months notice. On 31st December, 2016, the accounts of the company showed the following balances:

On debenture redemption fund ₹ 53,500 represented by 10% Govt. Loan of a nominal value of ₹ 42,800 purchased at an average price of ₹ 101 and ₹ 10,272 uninvested cash in hand.
On 1st January, 2017, the company purchased ₹ 11,000 of its own debentures at a cost of ₹ 10,272.
On 30th June 2017, the company gave a six months notice to the holders of ₹ 40,000 debentures and on 31st December, 2017 carried out the redemption by sale of ₹ 40,800 worth of Govt. Loan at par and also cancelled the own debentures held by it.
Prepare ledger account of Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account for the year ended 31.12.2017, assuming that, interest on company debentures & Govt. loan was payable on 31st December every year. *[CA Inter P-1 2018-Nov]*

Answer:

Debenture Redemption Fund Account

Date	Particulars	₹	Date	Particulars	₹
31.12.17	To Debenture Redemption Fund Investment A/c	408	1.1.17	By Balance b/d	53,500
	To Premium on redemption of debentures	800	31.12.17	By Interest on DRFI (10% of ₹ 42,800)	4,280
	To Balance c/d	57,892		By Interest on own debentures (i.e. 12% on ₹ 11,000	1,320
		59,100			59,100
			1.1.18	To Balance b/d	57,892

Debenture Redemption Fund Investment Account

Date	Particulars	₹	Date	Particulars	₹
1.1.17	To Balance b/d (428 × ₹ 101)	43,228	31.12.17	By Bank A/c	40,800
				By Debenture redemption Fund (1% of ₹ 40,800)	408
1.1.17	To Bank	10,272		By 12% Debentures	11,000
31.12.17	To Capital Reserve (Profit on cancellation of Debentures)	728		By Balance c/d	2,020
		54,228			54,228
1.1.18	To Balance b/d	2,020			

PYQ	2019-Nov [6] (e)	5 Marks

Answer the following:
A company had issued 40,000, 12% debentures of ₹ 100 each on 1st April, 2015. The debentures are due for redemption on 1st March, 2019. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash, 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.
[CA Inter P-1 2019-Nov]

Answer:

Calculation of number of equity shares to be allotted

	Number of debentures
Total Number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for Conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000
Redemption value of 7000 debentures at a premium of 5% [7,000 × (100 + 5)]	7,35,000
Equity shares of ₹ 10 each issued on conversion [₹ 7,35,000 / ₹ 15]	49,000 shares
Amount of cash to be paid	
Amount to be paid into cash [42,00,000(40,000 × ₹ 105)-7,35,000] on redemption	34,65,000

PYQ	2020-Nov [4] (b)	10 Marks

Sumit Ltd. (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 8,000, 9% debentures of ₹ 100 each outstanding as on 1st April, 2019, redeemable on 31st March, 2020.

On 1st April, 2019, the following balances appeared in the books of accounts:

- Investment in 1,000, 7% secured Govt. bonds of ₹ 100 each, ₹ 1,00,000.
- Debenture Redemption Reserve is ₹ 50,000.

Interest on investments is received yearly at the end of financial year.

1,000 own debentures were purchased on 30th March, 2020 at an average price of ₹ 96.50 and cancelled on the same date.

On 31st March, 2020, the investments were realized at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March, 2020:

(1) 9% Debentures Account.
(2) Debenture Redemption Reserve Account.
(3) DRR Investment Account.
(4) Own Debentures Account. *[CA Inter P-1 2020-Nov]*

Answer:

Dr. 9% Debenture A/c Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
30.03.20	To Own Deb. A/c	96,500	1.4.19	By Bal. b/d	8,00,000
30.03.20	To Profit on Cancellation	3,500			
31.03.20	To Bal. c/d	7,00,000			
		8,00,000			**8,00,000**

Dr. DRR A/c Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
30.03.20	To Gen. Reserve	10,000	1.4.19	By Bal. b/d	50,000
30.03.20	[1000 × 100 × 10%]		1.4.19	By P&L A/c	30,000
31.03.20	To Bal. c/d	70,000		(W N - 3)	
		80,000			**80,000**

Dr. DRR Investment A/c [7% Govt. Bonds] Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
1.04.19	To Bal. b/d	1,00,000	30.3.20	By Bank A/c	1,20,000
1.04.19	To Bank A/c (W N - 1)	20,000		(W N - 2)	
		1,20,000			**1,20,000**

Dr. Own Debentures A/c Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
30.03.20	To Bank A/c [1,000 × 96.5]	96,500	30.3.20	By 12% Deb. A/c	96,500
		96,500			**96,500**

Working Notes:

1. **DRR Investment A/c [7% Govt. Bonds]:**
   The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:
   = Total No. of debentures × Face value per debenture × 15%
   = 8,000 × 100 × 15% = ₹ 1,20,000
   The company has already invested in specified investments i.e. 7% Govt bonds for an amount of ₹ 1,00,000 as per the information given in the question. The balance amount of ₹ 20,000 (i.e. ₹ 1,20,000 less ₹ 1,00,000) would be invested by the company on 1 April 2019.
2. **Redemption of Debenture Redemption Reserve Investments on 31.3.2020:**
   Since the company purchased 1,000 own debentures on 31 March 2020, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:
   = No. of own debentures to be bought × Face value per debenture × 15%
   = 1,000 × 100 × 15% = ₹ 15,000
   The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 2020 and hence the company would

also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:
= (Total no. of debentures – No. of own debentures) × Face value per debenture × 15% = (8,000 – 1,000) × 100 × 15% = ₹ 1,05,000
Thus 15,000 + 1,05,000 = 1,20,000

3. **Debenture Redemption Reserve:**
The company would be required to transfer an amount equivalent to 10% of the value of the debentures in Debentures Redemption Reserve Account. The value of debentures is 8,00,000 thus 10% of it i.e. 80,000 should be there in DRR A/c. The available balance in DRR A/c is only 50,000 therefore 30,000 (80,000 – 50,000) additional amount will be transferred from General Reserve or Profit and Loss A/c to DRR A/c.

PYQ	2021-Jan [4] (a)	8 Marks

During the year 2019-20, A Limited (a listed company) made a public issue in respect of which the following information is available:

(i) No. of partly convertible debentures issued - 1,00,000; face value and issue price ₹ 100 per debenture. (Whole issue was underwritten by X Ltd.)
(ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
(iii) Date of closure of subscription lists- 1st May, 2019, date of allotment- 1st June, 2019, rate of interest on debenture - 15% p.a. payable from the date of allotment, value of equity share for the purpose of conversion - ₹ 60 (face value ₹ 10)
(iv) Underwriting Commission - 2%
(v) No. of debentures applied for by public - 80,000
(vi) Interest is payable on debentures half yearly on 30th September and 31st March each year.

Pass relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2020. (including cash and bank entries)
[CA Inter P-1 2021-Jan]

Answer:

Journal Entries in the Books of A Ltd.

Date	Particulars		Amount Dr.	Amount Cr.
1.5.2019	Bank A/c	Dr.	80,00,000	
	To Debenture Application A/c			80,00,000
	(Being Application money received on 80,000 debentures @ ₹ 100 each)			
1.6.2019	Debenture Application A/c	Dr.	80,00,000	
	Underwriters A/c	Dr.	20,00,000	
	To 15% Debentures A/c			1,00,00,000
	(Being Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)			
	Underwriting Commission	Dr.	2,00,000	
	To Underwriters A/c			2,00,000
	(Being Commission payable to underwriters @ 2% on ₹ 1,00,00,000)			
	Bank A/c	Dr.	18,00,000	
	To Underwriters A/c			18,00,000
	(Amount received from underwriters in settlement of account)			
1.6.2019	Deb. Redemption Investment A/c	Dr.	6,00,000	
	To Bank A/c			6,00,000
	(1,00,000 × 100 × 15% × 40%)			
	(Being investment made for redemption purpose)			
30.9.2019	Debenture Interest A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being Interest paid on debentures for 4 months @15% on ₹1,00,00,000)			

31.10.2019	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Being Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	60,00,000	 10,00,000 50,00,000
31.3.2020	Debenture Interest A/c To Bank A/c (Being Interest paid on debentures for the half year) *(Refer working note below)*	Dr.	3,75,000	 3,75,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2020

On ₹ 40,00,000 for 6 months @ 15% = ₹ 3,00,000
On ₹ 60,00,000 for 1 month @ 15% = ₹ 75,000
₹ 3,75,000

PYQ	2021-Jul [5] (b)	10 Marks

AB Limited (a listed company) recently made a public issue in respect of which the following information is available:

(i) No. of partly convertible 8% debentures issued 3,00,000; face value and issue price ₹ 100 per debenture.
(ii) Convertible portion per debenture- 60%, date of conversion- on expiry of 7 months from the date of closing of issue.
(iii) Date of closure of subscription lists 1-5-2020, date of allotment 1-6-2020, rate of interest on debenture 8% payable from the date of allotment, market value of equity share as on date of conversion ₹ 60 (Face Value ₹10).
(iv) Underwriting Commission 1%
(v) No. of debentures applied for 2,50,000.
(vi) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries)

[CA Inter P-1 2021-July]

Answer:

In the books of AB Limited
Journal Entries

Date	Particulars		Amount Dr. ₹	Amount Cr. ₹
1.5.2020	Bank A/c	Dr.	2,50,00,000	
	To Debenture Application A/c			2,50,00,000
	(Being Application money received on 2,50,000 debentures @ ₹ 100 each)			
1.6.2020	Debenture Application A/c	Dr.	2,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 8% Debenture A/c.			3,00,00,000
	(Being Allotment of 2,50,000 Debentures to applicants and 50,000 debentures to underwriters)			
1.06.2020	Underwriting commission A/c	Dr.	3,00,000	
	To Underwriters A/c			3,00,000
	(Being Commission payable to underwriters @ 1% on ₹ 3,00,00,000)			
1.06.2020	Bank A/c	Dr.	47,00,000	
	To Underwriters A/c			47,00,000
	(Being Amount received from underwriters in settlement of account)			
1.6.2020	Debenture Redemption Investment A/c	Dr.	9,60,000	
	To Bank A/c			9,60,000
	(3,00,000 × 100 × 8% × 40%)			
	(Being Investments made for redemption purpose)			

30.9.2020	Debenture Interest A/c To Bank A/c (Being Interest paid on debentures for 4 months @ 8% on ₹ 3,00,00,000)	Dr.	8,00,000	8,00,000
30.11.2020	8% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Being Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	1,80,00,000	30,00,000 1,50,00,000
31.3.2021	Debenture Interest A/c To Bank A/c (Being Interest paid on Debentures for the half year) (Refer working note below)	Dr.	7,20,000	7,20,000

Working Notes:

Calculation of Debenture Interest for the half year ended 31st March, 2021

On ₹ 1,20,00,000 for 6 months @ 8%	₹ 4,80,000
On ₹ 1,80,00,000 for 21 months @ 8%	₹ 2,40,000
	₹ 7,20,000

PYQ	2021-Dec [6] (d)	5 Marks

Answer the following:

A Company had issued 25,000, 12% Debentures of ₹ 100 each on 1st April, 2018. The Debentures were due for redemption on 1st July, 2020. The terms of issue of Debentures provided that they will be redeemable at a premium of 5% and also conferred option to convert 20% of their holding into equity Shares (Nominal value ₹ 10 each) at a price of ₹ 20 per share.

Debenture holders holding 5,000 Debentures did not exercise the option. Calculate the number of Equity shares to be allotted to the debenture holders exercising the option to the maximum.

[CA Inter P-1 2021-Dec]

Answer:

Calculation of No. of shares issued on conversion:

Particulars	Amount
Debentures holder who exercise the conversion option [20,000 (–) 5,000]	20,000 debentures
Convertible portion (20,000 × 20%)	4,000 debentures
No. of shares issuable (4,000 × 105)/20	21,000 shares

PYQ	2022-Nov [5] (a)	12 Marks

On 1st April, 2021, the following balances appeared in the books of Globe Limited (an unlisted company other than AIFI, Banking Company, NBFC and HFC) :

(i) 50,000 9% Debentures of ₹ 100 each issued at par.
(ii) Balance of Debenture Redemption Reserve (DRR) ₹ 5,00,000.
(iii) Debenture Redemption Reserve (DRR) Investment ₹ 5,00,000 represented by 8.75 % Secured Bonds of the Government of India of ₹ 100 each.

Interest on Debentures was paid half- yearly on 30th of September and 31st March every year.

On 31st May, 2021, the company purchased 8,000 Debentures of its own @ ₹ 98 (ex-interest) per debenture and cancelled them on the same date.

On 1st January, 2022, it further acquired another 10,000 own Debentures @ ₹ 101 (cum -interest) per debenture and cancelled them on the same date.

The funds required for purchasing the aforesaid debentures were partly raised by selling off the DRR Investment.

On 30th March, 2022, the remaining investments were realized at par and the Debentures were redeemed on 31st March, 2022.

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

(1) 9 % Debentures Account.
(2) Debenture Redemption Reserve Account.
(3) Debenture Redemption Reserve Investment Account.
(4) Interest on Debentures Account.

[CA Inter P-1 2022-Nov]

Answer:

9% Debentures A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.5.21	To Own debentures (8,000 × 98)	7,84,000	1.4.21	By Bal. b/d	50,00,000
	To Profit on cancellation	16,000			
1.1.22	To Own Debentures (10,000 × 101) - 22,500	9,87,500			
	To Profit on cancellation	12,500			
31.3.22	To Bank	3,20,000			
		50,00,000			50,00,000

Debentures Redemption Reserve A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.5.21	To General Reserve (8,00,000 × 10%)	80,000	1.4.21	By Bal. b/d	5,00,000
1.1.22	To General Reserve (10,00,000 × 10%)	1,00,000			
31.3.22	To Bank A/c (32,00,000 of 10%)	3,20,000			
		5,00,000			5,00,000

8.75% Debentures Redemption Reserve Investment A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.21	To Bal. b/d	5,00,000	31.5.21	By Bank (Sale) (8,000 × 100 × 15%)	1,20,000
1.4.21	To Bank (Purchase)	2,50,000	1.1.21	By Bank (Sale) (10,000 × 100 × 15%)	1,50,000
			30.3.22	By Bank (32,000 × 100 × 15%)	4,80,000
		7,50,000			7,50,000

Interest on Debentures A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.5.21	To Bank A/c (8,000 × 100 × 9% × 2/12)	12,000	31.3.22	By P & L A/c	3,67,500
30.9.21	To Bank A/c (42,00,000 × 9% × 6/12)	1,89,000			
1.1.22	To Bank A/c (10,00,000 × 9% × 3/12)	22,500			
31.3.22	To Bank A/c (32,00,000 × 9% × 6/12)	1,44,000			
		3,67,500			3,67,500

PYQ	2024-Sep [5] (c)	10 Marks

XYZ Ltd. an unlisted company issued 6,000, 12% debentures of ₹ 100 each at a discount of 5% on 01.04.2021. Interest is payable annually on 31st March every year. The debentures are redeemable at premium of 10% in 3 equal annual installments beginning from 31.03.2022. The company invested in specified securities for the redemption of debentures. Entire loss on issue to be booked in the 1st year. You are required to pass journal entries for all the 3 years.

Answer:

In the books of XYZ Ltd.

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1/4/21	Bank A/c	Dr.		5,70,000	
	Loss on Issue of Debenture A/c* (W.N. 1)	Dr.		90,000	
	To 12% debentures A/c				6,00,000
	To Premium on Redemption of Debenture A/c				60,000
	(For issue of debentures at discount and redeemable at premium)				

1/4/21	Profit & Loss A/c Dr.	60,000	
	To Debenture Redemption Reserve A/c		60,000
	(Being Debenture Redemption Reserve (DRR) created at 10%)		
1/4/21	Debentures Redemption Investment A/c Dr.	30,000	
	To Bank A/c		30,000
	(Being DDR Investment created at 15%)		
31/3/22	Profit & Loss A/c Dr.	90,000	
	To Loss on issue of debentures		90,000
	(Being entrie loss on issue of debentures written off)		
31/3/22	Debenture Interest A/c** Dr.	72,000	
	To Bank A/c		72,000
	(Being interest to debentures holders paid)		
31/3/22	Debenture Redemption Reserve (DDR) Dr.	20,000	
	To General Reserve A/c		20,000
	(For DDR transferred to General reserve)		
31/3/22	Bank A/c Dr.	30,000	
	To Debenture Redemption Reserve Investment		30,000
	(Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)		
31/3/22	12% Debentures A/c** Dr.	2,00,000	
	Premium on Redemption of debenture A/c Dr.	20,000	
	To Bank A/c		2,20,000
	(Being amount of redemption of 2000 debentures paid to debentures holders)		
01/04/22	Debenture Redemption Reserve Investment A/c Dr.	30,000	
	To Bank A/c		30,000
	(Being DRR Investment created at 15%)		

31/3/23	Debenture Interest A/c Dr.	48,000	
	To Bank A/c		48,000
	(Being interest to debentures holder paid))		
31/3/23	Debenture Redemption Reserve (DRR) Dr.	20,000	
	To General Reserve A/c		20,000
	(For DRR transferred to General reserve)		
31/3/23	Bank A/c Dr.	30,000	
	To Debenture Redemption Reserve Investment		30,000
	(Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)		
31/3/23	12% Debenture A/c Dr.	2,00,000	
	Premium on redemption of debentures A/c	20,000	
	To Bank A/c		2,20,000
	(Being amount of redemption of debentures paid to debenture holders)		
01/4/23	Debenture Redemption Reserve Investment Dr.	30,000	
	To Bank A/c		30,000
	(Being DRR Investment created at 15%).		
31/3/24	Debenture Interest A/c Dr.	24,000	
	To Bank A/c		24,000
	(Being interest to debentures holder paid)		

31/3/24	Debenture Redemption Reserve (DRR) Dr. To General Reserve (For DRR transferred to General reserve)		20,000	20,000
31/3/24	Bank A/c Dr. To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve investment for redemption of debentures)		30,000	30,000
31/3/24	12% Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Being final redemption of remaining 2000 debentures paid)		2,00,000 20,000	2,20,000

Working Note:

1. Discount/Loss on issue of debentures
   Discount on Issue of debentures = 6,000×100× 5% = ₹ 30,000
   Premium on redemption of debentures = 6,000 × 100 × 10% = 60,000
   Total loss on issue of debenture = ₹ 30,000 + ₹ 60,000 = ₹ 90,000

* Alternatively, discount on issue and premium on redemption of debentures can also be shown separately. In that case, the entry will be

Bank A/c Dr.			5,70,000	
Discount on Issue of Debentures A/c (W.N. 1) Dr.			30,000	
Loss on Issue of Debentures A/c (W.N. 2) Dr.			60,000	
To Debentures A/c				6,00,000
To Premium on Redemption of Debentures A/c				60,000
(For issue of debentures at discount and redeemable at premium)				

** The entries for interest on Debentures and Redemption of debentures can also be routed through debentures holders a/c.
In addition to above, that following entry every year to transfer debenture interest and Premium on redemption of Debentures A/c to Profit and Loss A/c can also be passed.

Profit and Loss A/c	Dr.
To Debenture Interest A/c	
To Premium on Redemption of Debentures A/c	

PYQ	2025-Jan [5] (c)	5 Marks

A company had issued 20,000, 8% partly convertible debentures of ₹ 100 each on April 1, 2023. The debentures are due for redemption on June 1, 2024. The terms of issue of debentures provided that 30% of the debentures will be converted into equity shares (Nominal Value ₹ 10) at a price of ₹ 20 per share and remaining will be redeemable at a premium of 5%.

(i) Calculate the number of equity shares to be allotted to the debenture holders at the time of conversion.

(ii) Give the necessary journal entries related to the conversion and redemption of debentures assuming that the company has created the Debenture Redemption Reserve and also invested required amount for redemption of debentures at the time of issue. Debenture Redemption Reserve Investment are sold at par value.

Answer:

(i) Total Debentures Issued = 20,000 × 100 = = ₹ 20,00,000
Conversion Portion
= 30% × 20,00,000
= ₹ 6,00,000
Conversion Price Per Share = ₹ 20
Number of Equity Shares Allotted = $\frac{6,00,000}{20}$ = 30,000

(ii) **Journal Entries**

Date	Particulars	Amount (₹) Dr.	Amount (₹) Cr.
1-6-24	8% Debentures Dr.	20,00,000	
	Premium on Redemption of Debentures Dr.	70,000	
	To Debenture holders A/c		20,70,000
	(Being amount payable to debenture holders on redemption)		
	*Debenture holders A/c Dr.	6,00,000	
	To Equity Share Capital		3,00,000
	To Securities Premium		3,00,000
	(Being 30,000 equity shares issued on conversion)		
	*Debenture holders A/c Dr.	14,70,000	
	To Bank A/c		14,70,000
	(Being amount paid to debenture holders)		
	Profit and Loss A/c Dr.	70,000	
	To Premium on redemption of Debentures		70,000
	(Being premium on redemption of debentures transferred to Profit and Loss A/c)		
	Debenture Redemption Reserve A/c To General Reserve Dr.	1,40,000	1,40,000
	(Being DRR transferred to General Reserve)		
	Bank A/c Dr.	2,10,000	
	To DRR Investment A/c		2,10,000
	(Being DRR Investment realised)		

Alternatively, a combined entry can also be passed for the entries marked in " " In that case, the entry will be:

Debenture holders A/c	Dr.	20,70,000	
To Bank A/c			14,70,000
To Equity Share Capital			3,00,000
To Securities Premium			3,00,000
(Being amount paid to debenture holders on redemption and 30,000 equity shares issued on conversion)			

Note:

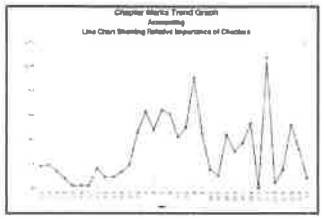
In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue. Amount of DRR created at the time of issue is 10% of ₹ 14,00,000 = ₹ 1,40,000

Amount of DRR investment should be 15% of 14,00,000 = ₹ 2,10,000

Scanner Preparation Key



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Smart Study with Scanner	Chapter Marks Trend Graph
	At page no. **{ ix }** • Graph of the total marks allocated to each chapter across multiple exams • Analyzes trends to identify high-priority chapters • Enables smarter revisions based on data-driven patterns

Motivational Thoughts

- "Redemption of debentures reflects financial responsibility—master it to strengthen corporate trust."
- "Every redemption is a step toward fulfilling promises to debenture holders—ensure accuracy in accounting."
- "Understanding debenture redemption prepares you to manage corporate liabilities effectively."
- "Think of redemption as balancing debt and equity for long-term financial stability."
- "Proper redemption accounting is a mark of corporate integrity and financial discipline."

Checklist for Studying

- Understand the meaning and types of debentures, including redeemable and irredeemable.
- Learn the methods of debenture redemption: lump sum, installment, purchase in the open market, and conversion.
- Memorize journal entries for redemption transactions, including interest payment and capital adjustments.

Fun Facts

- Redeemable debentures are repaid by the company after a fixed period, ensuring timely closure of liabilities.
- Irredeemable debentures (perpetual debentures) are rarely issued and are not repaid during the company's lifetime.
- The creation of DRR ensures that companies maintain a reserve for smooth redemption.
- Conversion of debentures into equity shares allows companies to reduce their debt burden.
- Redemption through open market purchase is beneficial when debenture prices are below face value.

Fun Flow

- Visualize redemption as a company closing a financial chapter responsibly.
- Relate DRR to a safety net—it ensures funds are available for debenture repayment.
- Use flowcharts to map the process of redemption from payment of interest to final settlement.
- Create flashcards for key terms like DRR, lump sum redemption, and debenture conversion.
- Practice solving problems involving journal entries for different redemption methods.

FAQs About Debenture Redemption

- What is the purpose of creating DRR during redemption?
- How is premium on redemption accounted for?
- What are the methods of redeeming debentures?
- How does conversion of debentures into equity affect the company's financials?
- Why do companies prefer open market purchase for redemption?

Chapter Trend Analysis

THE GRAPH

Marks of True & False, Short Notes, Distinguish Between, Descriptive & Practical Questions

CHAPTER	
12	**Accounting Terminology Glossary**

THEORY QUESTIONS

PYQ	1997-Nov [5] (5)	TF	2 Marks
State with reasons whether the following statement is True or False: Profit and Loss Account shows the financial position of the concern.			

Answer:

False: Profit and Loss Account shows the financial results of a concern for a particular period of time. The financial position of a concern is reflected in the balance sheet.

PYQ	1998-May [5] (3)	TF	2 Marks
State with reasons whether the following statement is True or False: Goodwill is a current asset.			

Answer:

False: Goodwill is an intangible asset and is classified as fixed asset.

PYQ	2001-Nov [5] (iv)	TF	2 Marks
State with reasons whether the following statement is True or False: Goodwill is a fictitious asset.			

Answer:

False: Goodwill is an intangible asset and not fictitious.

PYQ	2004-May [5] (x)	TF	2 Marks
State with reasons whether the following statement is True or False: Depreciable amount refers to the difference between historical cost and the market value of an asset.			

Answer:

False: Depreciable amount refers to historical cost less salvage value.

PYQ	2021-Jan [1] (b) {C}	DESC	4 Marks
Define the following terms: (i) Capital Commitment (ii) Expired Cost (iii) Floating Charge (iv) Obsolescence			

Answer:

(i) **Capital Commitment:** Future Liability for capital expenditure in respect of which contracts have been made.

(ii) **Expired Cost:** The portion of an 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 specific assets and are given as security against a debt.

(iv) **Obsolescence:** Diminution in the value of asset by reason of 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.

PYQ	2021-Dec [1] (c) {C}	DESC	4 Marks
Explain the followings : (i) Accrual Basis of Accounting (ii) Amortisation (iii) Contingent Assets (iv) Contingent Liabilities			

Answer:

(i) **Accrual Basis of Accounting:** The method of recording transaction by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue. The 'accrual basis of accounting' includes consideration relating to deferrals, allocations, depreciation and amortisation. This basis is also referred to as mercantile basis of accounting.

(ii) **Amortization:** Amortization is the practice of spreading an intangible assets cost over that assets useful life. The gradual and systematic writing off an asset or an account over an appropriate period.

(iii) **Contingent assets:** 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.

(iv) **Contingent liabilities:** 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.

PYQ	2023-Jun [1] (a) (vi) {C}	TF	2 Marks
State with reasons, whether the following statements are True or False: Overhead is defined as the total cost of direct material, direct wages and direct expenses.			

Answer:

False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

PYQ	2023-Jun [1] (b) {C}	DESC	1 Marks

Briefly explain the following terms:

(iii) Extraordinary item

(iv) Floating Charge.

Answer:

(iii) Extra-ordinary Item: Extra-ordinary 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: 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.

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