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CHAPTER 1 THEORETICAL FRAMEWORK

Unit-1

Meaning and Scope of Accounting

Topic 1 Introduction to Accounting

True and False

Question 1

There is no difference between book keeping and accounting, both are same.

(Study Material)

Ans: False: Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from bookkeeping and an ability to analyse and interpret the information provided by bookkeeping records.

Book-keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system.

Topic 2 Objectives & Functions of Accounting

True and False

Question 2

Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

(Study Material)

Ans: False: Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

Topic 3 Qualitative Characteristics of Financial Information

True and False

Question 3

Financial accounting is concerned with internal reporting to the managers of a business unit.

(Study Material)

Ans: False: Management accounting is concerned with internal reporting to the managers of a business unit.

Multiple Choice Questions

Question 4

Users of accounting information include

- (a) Creditors/Suppliers
- (b) Lenders/ Customers
- (c) Both (a) and (b)

(Study Material)

Ans: (c) Both (a) and (b)

Reason:

Accounting information is used by a wide range of stakeholders to make informed decisions. Creditors and Suppliers use accounting information to assess the short-term liquidity of the business and to evaluate whether the enterprise can meet its payment obligations on time. Lenders use the information to determine the creditworthiness and ability of the enterprise to repay loans, including interest and principal. Customers may use the financial data to assess the long-term viability of the business, especially if they depend on it for goods or services.

Thus, both (a) and (b) are valid users of accounting information.

Theoretical Questions

Question 5

What services can a Chartered Accountant provide to the society?

(Study Material)

Answer 5

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

Role of Accountant in the Society

There are only a few types of profession in the world which are held in high esteem in public eyes and there is no denying the fact that the accounting profession is one of them. Goethe had called the accountant's profession as 'the fairest invention of the human mind'. At the core of all types of learned profession, there is the desire of public good and of finding the best way to serve society. By the use of the science of accountancy and under the spell of its art, a dynamic pattern which assists business in planning its future is woven by accountants

out of the inert mass of non-speaking silent figures. This is what makes their profession an instrument of socio-economic change and welfare of the society.

An accountant with his education, training, analytical mind and experience is best qualified to provide multiple need-based services to the ever growing society. The accountants of today can do full justice not only to matters relating to taxation, costing, management accounting, financial lay-out, company legislation and procedures but they can delve deep into the fields relating to financial policies, budgetary policies and even economic principles. The area of activities which can be undertaken by the accountants is not limited but it can also cover many additional facets.

Areas of Service

The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems. Some of the services rendered by accountants to the society are briefly mentioned hereunder:

(i) Maintenance of Books of Accounts: An accountant is able to maintain a systematic record of financial transactions in order to establish the net result of the transactions entered into during a period and to state the financial position of the concern as at a particular date.

For the fulfillment of the twin objective of ascertaining the profit earned or loss suffered and the financial position, it is necessary that all transactions be recorded in a systematic manner, which can be done only by an accountant. Proper maintenance of books of accounts assists management in planning, decision-making, controlling functions.

(ii) Statutory Audit: Every limited company is required to appoint a chartered accountant or a firm of chartered accountants as their auditor who are statutorily required to report each year whether in their opinion the balance sheet shows a true and fair view of the state of affairs on the balance sheet date, and the profit and loss account shows a true and fair view of the profit or loss for the year.

Auditing is not confined to the accounts of companies; other organisations may also have their accounts audited, either because the law so requires (for example, the Co-operative Societies Act, the Income-tax Act, etc.) or because the proprietors wisely decided so (for example, a partnership firm or an individual trader).

(iii) Internal Audit: It is a management tool whereby an internal auditor thoroughly examines the accounting transactions and also the system, according to which these have been recorded with a view to ensure the management that the accounts are being properly maintained and the system contains adequate safeguards to check any leakage of revenue or misappropriation of property or assets and the operations have been carried out in conformity with the plans of management.

Now-a-days internal auditing has developed as a service to management. The internal auditor constructively contributes in improving the operational efficiency of the business through an independent review and appraisal of all business operations.

(iv) Taxation: An accountant can handle taxation matters of a business or a person and he can represent that business or person before the tax authorities and settle the tax liability under the statute prevailing. He can also assist in avoiding or reducing tax burden by proper planning of tax affairs.

Accountants also have a social obligation to express their views on broad tax policy, on the effect of tax rate on business and the economy in general and on all other aspects of taxation in which they have knowledge superior to that of the general public.

(v) Management Accounting and Consultancy Services: Management accountant performs an advisory function. He is largely responsible for internal reporting to the management for planning and controlling current operations, decision-making on special matters and for formulating long-range plans. His job is to collect, analyse, interpret and present all accounting information which is useful to the management. Accountant provides management consultancy services in the areas of management information system, expenditure control and evaluation of appraisal techniques for new investments and divestments, working capital management, corporate planning etc.

(vi) Financial Advice: Many people need help and guidance in planning their personal financial affairs. An accountant who knows about finances, taxation and family problems is well placed to give such advice. Some of the areas in which an accountant can render financial advice are:

(a) Investments: An accountant can explain the significance of the formidable documents which shareholders receive from companies and help in making decisions relating to their investments.

(b) Insurance: An accountant can provide information to his clients on various insurance policies and helps in choosing appropriate policy.

(c) Business Expansion: As businesses grow in size and complexity and mergers are being considered, accountants are in the forefront in interpreting accounts, making suggestions as to the form of schemes and the fairness of proposals considering cost and financial consequences and generally advising their clients. They also advise on how to set about the problem of borrowing money or whether this is an appropriate method of finance. Accountants can render extremely useful service in connection of negotiations with foreign collaborators.

(d) Investigations: Financial investigations are required for a variety of purposes. Examples are:

(i) To ascertain the financial position of a business, for the information of interested parties in connection with an issue of capital, the purchase or sale of the business or a reconstruction or amalgamation.

(ii) To help the management to decide whether it is cheaper to manufacture an article or to buy out.

(iii) To ascertain why profits have fallen.

(iv) To achieve greater efficiency in management.

(v) To ascertain whether fraud has occurred and if so, its nature and extent and to make suggestions which will help to prevent a recurrence.

(vi) To value businesses and shares in private companies for purposes such as purchase, sale, estate duty or wealth tax etc.

For such problems requiring financial investigation, you need an accountant. His task as an independent professional is to establish the facts fairly and clearly for the benefit of those who have to make decisions and to give advice in many areas in which he has competence and experience.

(e) Pension schemes: Specialist advice from actuaries, insurance agents or insurance company is needed before launching or amending a provident fund or pension scheme in a business. But before making a final decision, an accountant has to be consulted. Later on, his help may be needed for managing the scheme or obtaining tax relief.

(vii) Other Services

(a) Secretarial Work: Companies, clubs, and associations indeed, virtually all organisations involve secretarial work. Accountants frequently do this work.

(b) Share Registration Work: Accountants are often used by many companies to undertake the work involved in registering share transfers and new issues.

(c) Company Formation: In conjunction with legal advisers, accountants help in the formation of a company or advise against doing so.

(d) Receiverships, Liquidations, etc.: An accountant has to sometimes take on the onerous duties of liquidator when a company is being wound up or receiver when a debenture holder exercises a right to recover a loan on which the borrower has defaulted. Accountant is just the man for the job. He is also just the man to help you to keep insolvency away if you consult him in time.

(e) Arbitrations: At times, accountants are invited by parties to act as arbitrators in a dispute or settle disputes of various kinds.

(f) As regards the Cost Accounts: A cost accountant's job is to continuously report cost data and related information at frequent intervals to the management.

(g) Accountant and Information Services: An accountant will be effective in his role if he supplies the information promptly and in an unambiguous language. He should develop a system by which there is a regular flow of information both horizontally and vertically.

The information system should be such that comparability of financial statement is possible both business-wise and year-wise so that it benefits both the management and the investors. Dependence on data from the computerised information system will put new responsibilities on an accountant but his product will command greater attention and respect.

Topic 4 Users of Accounting Information

Multiple Choice Questions

Question 6

Purposes of an accounting system include all the following except

- (a) Interpret and record the effects of business transaction.
- (b) Classify the effects of transactions to facilitate the preparation of reports.
- (c) Dictate the specific types of business enterprise transactions that the enterprises may engage in.

(Study Material)

Ans: (c) Dictate the specific types of business enterprise transactions that the enterprises may engage in.

Reason:

An accounting system is designed to record, classify, and interpret financial transactions to provide useful information for decision-making. It helps businesses track their financial

position and performance. However, an accounting system does not dictate the types of business transactions a company can engage in. The types of transactions are determined by the nature of the business and regulatory requirements, not by the accounting system itself.

Thus, while the accounting system plays a crucial role in documenting and analyzing transactions, it does not govern or dictate the actual transactions a business can undertake.

Theoretical Questions

Question 7

Who are the users of accounting information?

(Study Material)

Answer 7

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

Topic 5 Branches of Accounting

Multiple Choice Questions

Question 8

Book-keeping is mainly concerned with

- (a) Recording of financial data.
- (b) Designing the systems in recording, classifying and summarising the recorded data.
- (c) Interpreting the data for internal and external users.

Ans: (a) Recording of financial data.

Reason:

Book-keeping is the foundation of the accounting process and is primarily concerned with the systematic recording of day-to-day financial transactions in the books of accounts.

It involves activities like recording purchases, sales, receipts, payments, and other financial events in a chronological and organized manner.

It does not include designing accounting systems (which is part of accounting) or interpreting financial information for users (which is part of financial analysis or decision-making).

Thus, the main focus of book-keeping is on option (a): recording of financial data, making it the correct answer.

Theoretical Questions

Question 9

Discuss briefly the relationship of accounting with

(a) Economics (b) Statistics (c) Law

Answer 9

RELATIONSHIP OF ACCOUNTING WITH OTHER DISCIPLINES

Accounting is closely related with several other disciplines and thus to acquire a good knowledge in accounting one should be conversant with the relevant portions of such disciplines. In many cases they overlap accounting. The accountant should have a working

knowledge of the related disciplines so that he can understand such overlapping areas and apply the knowledge of other disciplines in his own work wherever possible, or he can take the expert advice.

(a) Accounting and Economics: Economics is viewed as a science of rational decision-making about the use of scarce resources. It is concerned with the analysis of efficient use of scarce resources for satisfying human wants. This may be viewed either from the perspective of a single firm or of the country as a whole.

Accounting is viewed as a system, which provides data to the users to permit informed judgment and decisions. Some non-accounting data are also relevant for decision-making.

Accounting overlaps economics in many respects. It contributed a lot in improving the management decision-making process. But, economic theories influenced the development of the decision-making tools used in accounting.

However, there exists a wide gulf between economists' and accountants' concepts of income and capital. Accountants got the ideas of value, income and capital maintenance from economists, but brushed suitably to make them usable in practical circumstances. Accountants developed the valuation, measurement and decision-making techniques which may owe to the economic theorems for origin but these are moulded in the work environment and suitably tempered with reference to relevance, verifiability, freedom from bias, timeliness, comparability, reliability and understandability.

An example may be given to explain the nexus between accounting and economics. Economists think that value of an asset is the present value of all future earnings which can be derived from such assets. Now think about a plant whose working life is more than one hundred years. How can you estimate future stream of earnings? So accountants developed the workable valuation base – the acquisition cost i.e., the price paid to acquire the assets.

At the macro-level, accounting provides the database over which the economic decision models have been developed; micro-level data arranged by the accounting system is summed up to get macro-level database.

Non-overlapping zones of accounting are not negligible. Development of the systems of recording, classifying and summarising transactions and events, harmonising the systems by uniform rules and communicating the data is essentially a non-overlapping area of accounting.

(b) Accounting and Statistics: The use of statistics in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise; it is exact to the last paisa. But, for decision-making purposes such precision is not necessary and hence, the statistical approximations are sought.

In accounts, all values are important individually because they relate to business transactions. As against this, statistics is concerned with the typical value, behaviour or trend over a period of time or the degree of variation over a series of observations. Therefore, wherever a need arises for only broad generalisations or the average of relationships, statistical methods have to be applied in accounting data.

Further, in accountancy, the classification of assets and liabilities as well as the heads of income and expenditure has been done as per the needs of financial recording to ascertain financial results of various operations. Other types of classification like the geographical and historical ones and ad hoc classification are done depending on the purpose to make such classification meaningful.

Accounting records generally take a short-term view of events and are confined to a year while statistical analysis is more useful if a longer view is taken for the purpose. For example, to fit the trend line a longer period will be required. However, statistical methods do use past accounting records maintained on a consistent basis.

The functional relations showing mathematical relations of one variable with one or more other variables are based on statistical work. These relations are used widely in making cost or price estimates for some estimated future values assigned to the given independent variables. For example, given the functional relation of total cost to the price of an input, the effect of changes in future prices on the cost of production can be calculated.

In accountancy, a number of financial and other ratios are based on statistical methods, which help in averaging them over a period of time. Several accounting and financial calculations are based on statistical formulae.

Statistical methods are helpful in developing accounting data and in their interpretation. For example, time series and cross-sectional comparison of accounting data is based on statistical techniques. Now- a-days multiple discriminate analysis is popularly used to identify symptoms of sickness of a business firm. Therefore, the study and application of statistical methods would add extra edge to the accounting data.

(c) Accounting and Law: An economic entity operates within a legal environment. All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable Instruments Act, etc. The entity itself is created and controlled by laws. For example, a company is created by the Companies Act and also controlled by Companies Act.

Similarly, every country has a set of economic, fiscal and labour laws. Transactions and events are always guided by laws of the land. Very often the accounting system to be followed has been prescribed by the law. For example, the Companies Act has prescribed the format of financial statements for companies.

Banking, insurance and electric supply undertakings may also have to produce financial statements as prescribed by the respective legislations controlling such entities.

However, legal prescription about the accounting system is the product of developments in accounting knowledge. That is to say, legislation about accounting system cannot be enacted unless there is a corresponding development in the accounting discipline. In that way accounting influences law and is also influenced by law.

Topic 6 Types of Accounts

Multiple Choice Questions

Question 10

Financial statements do not consider

- (a) Assets expressed in monetary terms.
- (b) Liabilities expressed in monetary terms.
- (c) Assets and liabilities expressed in non-monetary terms

(Study Material)

Ans: (c) Assets and liabilities expressed in non-monetary terms

Reason:

Financial statements are based on the monetary measurement concept, which means:

Only those items that can be measured in monetary terms (i.e., in money value) are recorded and reported.

This includes assets like cash, inventory, buildings, and liabilities like loans, creditors, etc., only when their values can be expressed in money.

However, financial statements do not consider:

Non-monetary items, such as employee skills, brand reputation, customer loyalty, or market leadership — even though they may have real value, they cannot be reliably measured in monetary terms, and thus are excluded from financial statements.

Therefore, the correct answer is (c) because financial statements do not consider assets and liabilities expressed in non-monetary terms.

Topic 7 Basic Accounting Equation

True and False

Question 11

Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.

(Study Material)

Ans: True: Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.

Multiple Choice Questions

Question 12

Which qualitative characteristics of accounting information is reflected when accounting information is clearly presented?

- (a) Understandability
- (b) Relevance
- (c) Comparability

(Study Material)

Ans: (a) Understandability

Reason:

Understandability is a fundamental qualitative characteristic of accounting information. It means that the information should be presented clearly and concisely, so that users — such as investors, creditors, and other stakeholders — who have a reasonable knowledge of business and accounting can comprehend and interpret it easily.

If the information is clearly presented, it enhances understandability.

While relevance and comparability are also important characteristics, they relate to the usefulness and consistency across periods or entities, not the clarity of presentation.

Hence, the correct answer is (a) Understandability, because clear presentation directly contributes to making the information easy to understand.

Topic 8 Dual Aspect Concept

Multiple Choice Questions

Question 13

Which of the following is not a subfield of accounting?

- (a) Management accounting.
- (b) Cost accounting.
- (c) Book-keeping

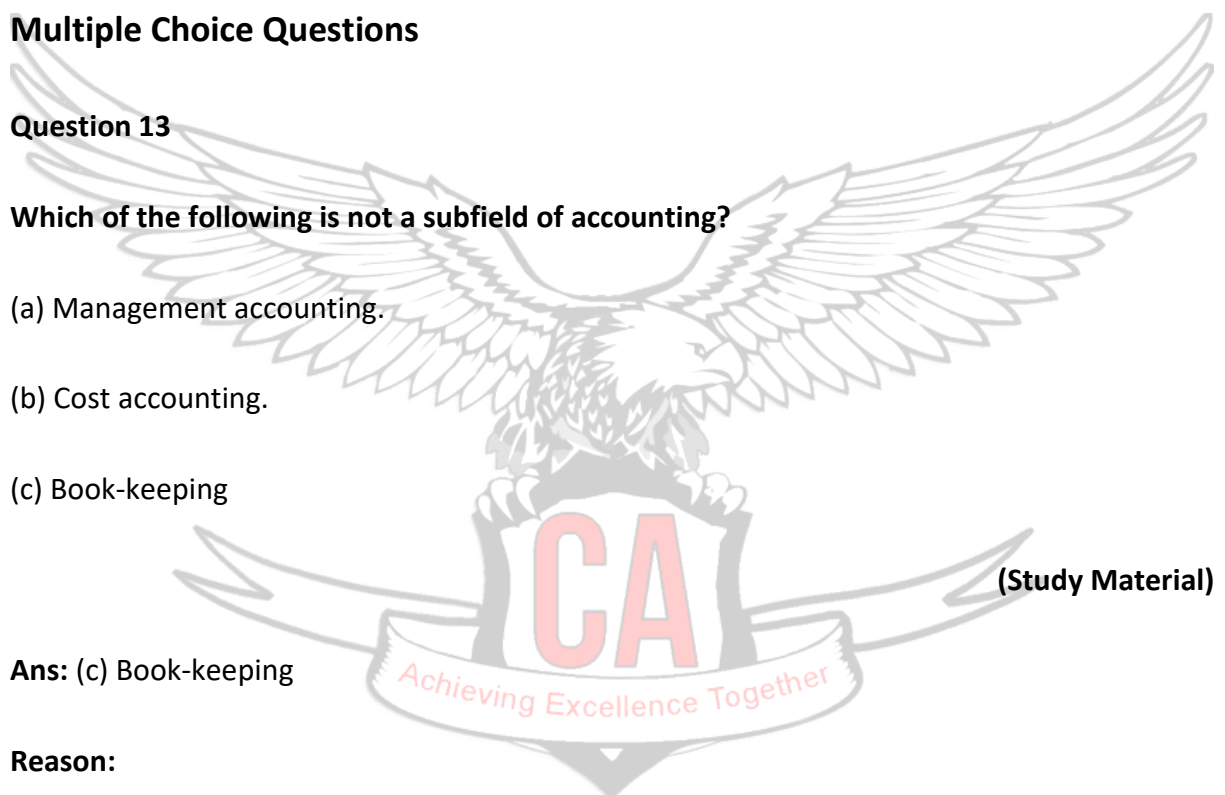
Ans: (c) Book-keeping

Reason:

Accounting has several recognized subfields or branches, including:

Management Accounting – provides financial and non-financial information to internal users (management) for planning, decision-making, and control.

Cost Accounting – deals with the recording, analysis, and control of costs to help in budgeting, cost control, and pricing decisions.



However, Book-keeping is not a subfield of accounting — it is the basic process of recording financial transactions systematically. It is considered a foundation or preliminary stage of the accounting process, but not a distinct subfield.

Thus, the correct answer is (c) Book-keeping, as it is a part of the accounting process, but not a formal branch or subfield of accounting.

Theoretical Questions

Question 14

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

(Study Material)

Answer 14

Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof. Various subfields of accounting are listed as: Financial Accounting; Management Accounting; Cost Accounting; Social Responsibility Accounting and Human Resource Accounting.

Topic 9 Money Measurement Concept

True and False

Question 15

Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business

(Study Material)

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

Multiple Choice Questions

Question 16

On January 1, Sohan paid rent of Rs 5,000. This can be classified as

- (a) An event.
- (b) A transaction.
- (c) A transaction as well as an event.

(Study Material)

Ans: (b) A transaction.

Reason:

A transaction refers to a business activity involving the exchange of money or money's worth between two or more parties, and it has a financial impact that can be recorded in the books of accounts.

In this case, Sohan paid rent of Rs 5,000, which means cash decreased and rent expense increased — both of which are financially measurable and recordable.

An event, in accounting terms, may or may not involve a financial transaction. For example, a manager resigning is an event, but it doesn't directly affect financial records unless it has monetary implications.

Therefore, the correct classification is (b) A transaction, as the rent payment involves an exchange of value and has a financial impact, making it recordable in the accounting books.

Topic 10 Going Concern Concept

True and False

Question 17

Summarising is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.

(Study Material)

Ans: False: Recording is the basic function of accounting. Summarising is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements

Multiple Choice Questions

Question 18

On March 31, 2022 after sale of goods worth Rs 2,000, he is left with the closing inventory of Rs 10,000. This is

- (a) An event.
- (b) A transaction.
- (c) A transaction as well as an event.

(Study Material)

Ans: (a) An event.

Reason:

A transaction involves an exchange of value (e.g., sale, purchase, payment, receipt) and is recorded in the books of accounts because it affects financial position and involves an external party.

An event refers to an occurrence or happening that affects the financial position of the business but may not involve an exchange.

In the given case:

The sale of goods worth Rs 2,000 is a transaction, since it involves an exchange.

However, the information given in the question focuses on the existence of closing inventory of Rs 10,000 as on March 31 — this is not an exchange, but rather a condition or state at a specific date.

Hence, the fact that the business is left with closing inventory of Rs 10,000 is an event, not a transaction, because:

It affects the financial position (assets of the business),

But it does not involve any external exchange at that point.

Therefore, the correct answer is (a) An event.

Topic 11 Accrual Basis of Accounting

True and False

Question 19

Balance sheet shows the position of the business on the day of its preparation and not on the future date.

(Study Material)

Ans: True: Balance Sheet is a statement of the financial position of an enterprise at a given date.

Multiple Choice Questions

Question 20

Which of the following is not a business transaction?

- (a) Bought a machine of Rs10,000 for business
- (b) Paid towards salaries of employees Rs 5,000
- (c) Paid son's fees from her personal bank account Rs 8,000

(Study Material)

Ans: (c) Paid son's fees from her personal bank account Rs 8,000

Reason:

A business transaction is an economic activity that:

Involves exchange of money or money's worth, and

Affects the financial position of the business,

And is recorded in the books of accounts.

Let's evaluate the options:

- (a) Buying a machine for business use affects the business's assets and is recorded — a business transaction.
- (b) Paying salaries affects business expenses and cash — a business transaction.
- (c) Paying son's fees from her personal bank account **is a** personal expense and does not affect the business or its books — not a business transaction.

Therefore, the correct answer is (c), because the payment was made from a personal account for personal purposes, and it does not involve the business in any way.

Topic 12 Accounting Standards & IFRS

Multiple Choice Questions

Question 21

All of the following are functions of Accounting except

- (a) Decision making.
- (b) Ledger posting.
- (c) Forecasting.

(Study Material)

Ans: (b) Ledger posting.

Reason:

The functions of accounting involve a broad process that includes:

Identifying, recording, classifying, summarizing, and interpreting financial information.

Helping stakeholders in decision making, planning, and forecasting based on financial data.

Now let's analyze the options:

- (a) Decision making – Function of accounting, as financial reports help managers and stakeholders make informed business decisions.
- (c) Forecasting – Function of accounting, since analyzing trends and financial data helps predict future business outcomes.

(b) Ledger posting – This is a mechanical and procedural task within book-keeping, not a core function of accounting. It is a part of the recording process, but not considered a broader function of accounting.

Therefore, the correct answer is (b) Ledger posting, as it is a book-keeping activity, not a main function of accounting.

Theoretical Questions

Question 22

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

(Study Material)

Answer 22

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

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

◆ Different accounting policies for the treatment of same item adds to the probability of manipulations.

Topic 13 Accounting Policies

Multiple Choice Questions

Question 23

Financial statements are part of

- (a) Accounting.
- (b) Book-keeping.
- (c) Management Accounting.

(Study Material)

Ans: (a) Accounting.

Reason:

Accounting is a comprehensive process that includes:

Recording financial transactions (book-keeping),

Classifying and summarizing the data,

And preparing financial statements like the Profit & Loss Account, Balance Sheet, and Cash Flow Statement.

These financial statements are the end products of the accounting process and are used by internal and external users for decision-making.

Let's analyze the options:

(a) Accounting – Correct. Financial statements are a key component of accounting, used to report the financial results and position of the business.

(b) Book-keeping – Incorrect. Book-keeping involves only recording day-to-day transactions. It does not include preparation of financial statements.

(c) Management Accounting – Incorrect. Management accounting involves internal reports (like budgets and variance analysis) for managerial decisions, not general-purpose financial statements.

Therefore, the correct answer is **(a) Accounting**, as financial statements are prepared as part of the accounting process to communicate financial information.

Topic 14 Role of Accountant in Business

Multiple Choice Questions

Question 24

Financial position of the business is ascertained on the basis of

(a) Records prepared under book-keeping process.

(b) Trial balance.

(c) Balance Sheet.

(Study Material)

Ans: (c) Balance Sheet.

Reason:

The Balance Sheet is a key financial statement that shows the financial position of a business on a specific date by reporting:

Assets (what the business owns)

Liabilities (what the business owes)

Equity (owner's capital or net worth)

Let's review the options:

(a) Book-keeping records – These are raw records of transactions and do not present the financial position in a summarized form.

(b) Trial balance – This is just a tool to check arithmetic accuracy of ledger balances. It is not a financial statement and does not provide a clear picture of financial position.

(c) Balance Sheet – Correct. It is the final output of the accounting process that reflects the business's financial standing on a particular date.

Therefore, the correct answer is (c) Balance Sheet, as it alone provides a complete and structured view of the financial position of the business.

Theoretical Questions

Question 25

What services can a Chartered Accountant provide to the society?

(MTP MAY 2025)

Answer 25

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

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

- (i) Maintenance of books of accounts;
- (ii) Statutory audit;
- (iii) Internal Audit;
- (iv) Taxation;
- (v) Management accounting and consultancy services;
- (vi) Financial advice and financial investigations etc.

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

Topic 15 Case Study / Practical Problems

Theoretical Questions

Question 26

Double entry system.

(RTP MAY 2025)

Answer 26

Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has

proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

- (a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.
- (b) The profit earned or loss suffered during a period can be ascertained together with details.
- (c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.
- (d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.
- (e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

Question 27

Features of Single Entry System.

(RTP MAY 2025)

Answer 27

Single entry system is an inaccurate and unsystematic method of recording business transactions. Features of Single entry system are as follows:

- (i) It is an inaccurate, unscientific and unsystematic method of recording business transactions.

(ii) There is generally no record of real and nominal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.

(iii) Cash book mixes up business and personal transactions of the owners.

(iv) There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.

(v) Profit under this system is only an estimate based on available information and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.



CHAPTER 1 THEORETICAL FRAMEWORK

UNIT- 2

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

Topic 1 Introduction to Partnership

True and False

Question 1

The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept.

(Study Material)

Ans: False: Under matching concept all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Topic 2 Features of Partnership

True and False

Question 2

Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.

(Study Material)

Ans: True: Since the owner invested capital, he has claim on the profits of the enterprise.

Topic 3 Partnership Deed

True and False

Question 3

Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred.

(Study Material)

Ans: False: Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e., when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Multiple Choice Questions

Question 4

The concept of conservatism when applied to the balance sheet results in

- (a) Understatement of assets.
- (b) Overstatement of assets.

(c) Overstatement of capital.

(Study Material)

Ans: (a) Understatement of assets.

Reason:

The Conservatism (or Prudence) Concept in accounting means:

“Anticipate all possible losses, but do not anticipate any gains.”

When this concept is applied while preparing the Balance Sheet, it leads to:

Recording expected losses (e.g., provision for doubtful debts or obsolete stock),

But not recording unrealized gains, even if they are likely.

As a result:

Assets are recorded at a lower value, to avoid overstatement.

This leads to a cautious or understated presentation of the financial position.

Let's evaluate the options:

(a) Understatement of assets – Correct, as conservatism avoids overvaluing assets by making provisions or using lower of cost or market value.

(b) Overstatement of assets – Opposite of what conservatism promotes.

(c) Overstatement of capital – Not directly impacted; capital is the residual after liabilities and assets.

Therefore, the correct answer is (a) Understatement of assets, as the conservatism concept leads to cautious asset valuation by recognizing potential losses early.

Theoretical Questions

CATESTSERIES.ORG

Question 5

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

(RTP JAN 2025)

Answer 5

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

Topic 4 Rules in Absence of Partnership Deed

True and False

Question 6

The Conservatism Concept states that no change should be counted unless it has materialized.

(Study Material)

Ans: False: The Realisation Concept states that no change should be counted unless it has materialised.

Multiple Choice Questions

Question 7

Decrease in the amount of trade payables results in

- (a) Increase in cash.
- (b) Decrease in bank overdraft account.
- (c) Decrease in assets.

(Study Material)

Ans: (c) Decrease in assets.

Reason:

Trade payables represent the amount owed by a business to its suppliers for goods or services received on credit.

When the amount of trade payables decreases, it means the business is repaying its suppliers — usually by paying cash or through bank.

As a result :

The liability (trade payables) goes down

And simultaneously, the business uses its assets (like cash or bank balance) to make the payment

So, paying off trade payables leads to:

Decrease in liabilities

Decrease in assets (since cash/bank is used)

Let's review the options:

- (a) Increase in cash – Incorrect. Cash is going out, not coming in.
- (b) Decrease in bank overdraft account – Not necessarily. Paying trade payables does not directly affect the overdraft unless the payment is made from it (not stated here).

(c) Decrease in assets – Correct. Payment reduces cash or bank balance, which are assets.

Therefore, the correct answer is (c) Decrease in assets, as repayment of trade payables reduces the asset side (cash/bank) of the business.

Theoretical Questions

Question 8

Going Concern concept.

(RTP JAN 2025)

Answer 8

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

Topic 5 Profit & Loss Sharing Ratio

True and False

Question 9

The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting.

(Study Material)

Ans: False: The concept of consistency does not imply non-flexibility as not to allow the introduction of improved method of accounting.

Multiple Choice Questions

Question 10

A purchased a car for Rs 5,00,000, making a down payment of Rs 1,00,000 and signing a Rs 4,00,000 bill payable due in 60 days. As a result of this transaction

- (a) Total assets increased by Rs 5,00,000.
- (b) Total liabilities increased by Rs 4,00,000.
- (c) Total assets increased by Rs 4,00,000 with corresponding increase in liabilities by Rs 4,00,000.

(Study Material)

Ans: (c) Total assets increased by Rs 4,00,000 with corresponding increase in liabilities by Rs 4,00,000.

Reason:

Let's analyze the transaction step-by-step:

Car Purchased for Rs 5,00,000 → Asset increases (Car is added).

Down Payment of Rs 1,00,000 → Paid in cash, so one asset (cash) decreases.

Remaining Rs 4,00,000 is payable later, so a liability (Bills Payable) is created.

Now evaluate the net effect on the accounting equation:

Component	Change

Assets (Car)	+ Rs 5,00,000
Assets (Cash)	– Rs 1,00,000
Net Asset Increase	+ Rs 4,00,000
Liabilities	+ Rs 4,00,000 (Bills Payable)

So:

Total assets increase by Rs 4,00,000 (net of car added and cash paid).

Total liabilities increase by Rs 4,00,000 (bill payable).

Therefore, the correct answer is (c):

"Total assets increased by Rs 4,00,000 with corresponding increase in liabilities by Rs 4,00,000."

Question 11

A concept that a business enterprise will not be liquidated in the near future is known as:

- (a) Going concern
- (b) Economic entity
- (c) Monetary unit

(Study Material)

Ans: (a) Going concern

Reason:

The Going Concern Concept assumes that a business will continue to operate for the foreseeable future, and there is no intention or need to liquidate or significantly reduce the scale of operations.

Because of this assumption:

Assets are recorded at historical cost, not at liquidation value.

Long-term liabilities and depreciation are accounted for in normal course over time.

It provides a stable basis for preparing financial statements.

Now let's evaluate the options:

(a) Going concern – Correct. It directly relates to the assumption that the business **will not shut down** soon.

(b) Economic entity – This concept states that the business is separate from its owner and other entities.

(c) Monetary unit – This concept assumes all business transactions are recorded in a stable currency, not about continuity.

Therefore, the correct answer is (a) Going concern, as it reflects the assumption that the business will continue its operations in the near future.

Theoretical Questions

Question 12

Distinguish between:

(i) Money measurement concept and matching concept

(ii) Going concern and cost concept

(Study Material)

Answer 12

(i) Distinction between Money measurement concepts and matching concept

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

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

(ii) Distinction between Going concern and cost concept

Going Concern Concept

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

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. When a machine is acquired by paying Rs 5,00,000, following cost concept the value of the machine is taken as Rs 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

However, the cost concept creates a lot of distortion too as outlined below:

(a) In an inflationary situation when prices of all commodities go up on an average, acquisition cost loses its relevance. For example, a piece of land purchased on 1.1.1995 for Rs 2,000 may cost Rs 1,00,000 as on 1.1.2022. So if the accountant makes valuation of asset at historical cost, the accounts will not reflect the true position.

(b) Historical cost-based accounts may lose comparability. Mr. X invested Rs 1,00,000 in a machine on 1.1.1995 which produces Rs 50,000 cash inflow during the year 2022, while Mr. Y invested Rs 5,00,000 in a machine on 1.1.2005 which produced Rs 50,000 cash inflows during the year. Mr. X earned at the rate 50% while Mr. Y earned at the rate 10%. Who is more efficient? Since the assets are recorded at the historical cost, the results are not comparable. Obviously, it is a corollary to (a).

(c) Many assets do not have acquisition costs. Human assets of an enterprise are an example. The cost concept fails to recognise such asset although it is a very important asset of any organization.

Many other controversial issues have arisen in financial accounting that revolves around the cost concept which will be discussed at the advanced stage. However, later on we shall see that in many circumstances, the cost convention is not followed. See conservatism concept for an example, which will be discussed later on in this unit.

Topic 6 Interest on Capital

True and False

Question 13

The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc.

(Study Material)

Ans: False: As per materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.

Multiple Choice Questions

Question 14

All the following items are classified as fundamental accounting assumptions except

- (a) Consistency.
- (b) Business entity.
- (c) Going concern.

(Study Material)

Ans: (b) Business entity.

Reason:

As per Accounting Standard (AS) 1 – Disclosure of Accounting Policies, there are three fundamental accounting assumptions:

Going Concern – The business will continue to operate in the foreseeable future.

Consistency – Accounting policies and practices are applied consistently over periods.

Accrual – Revenues and expenses are recorded when they are earned or incurred, not when cash is received or paid.

Now, let's analyze the options:

(a) Consistency – Fundamental accounting assumption under AS 1.

(c) Going concern – Also a fundamental accounting assumption.

(b) Business entity – Not a fundamental accounting assumption under AS 1. It is a basic accounting concept, which means that the business is treated as separate from the owner, but not listed as a fundamental assumption in AS 1.

Therefore, the correct answer is (b) Business entity, as it is an accounting concept, not a fundamental accounting assumption.

Question 15

A businessman purchased goods for Rs 25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2022. The market value of the remaining goods was Rs 4,00,000. He valued the closing Inventory at cost. He violated the concept of

(a) Money measurement.

(b) Conservatism.

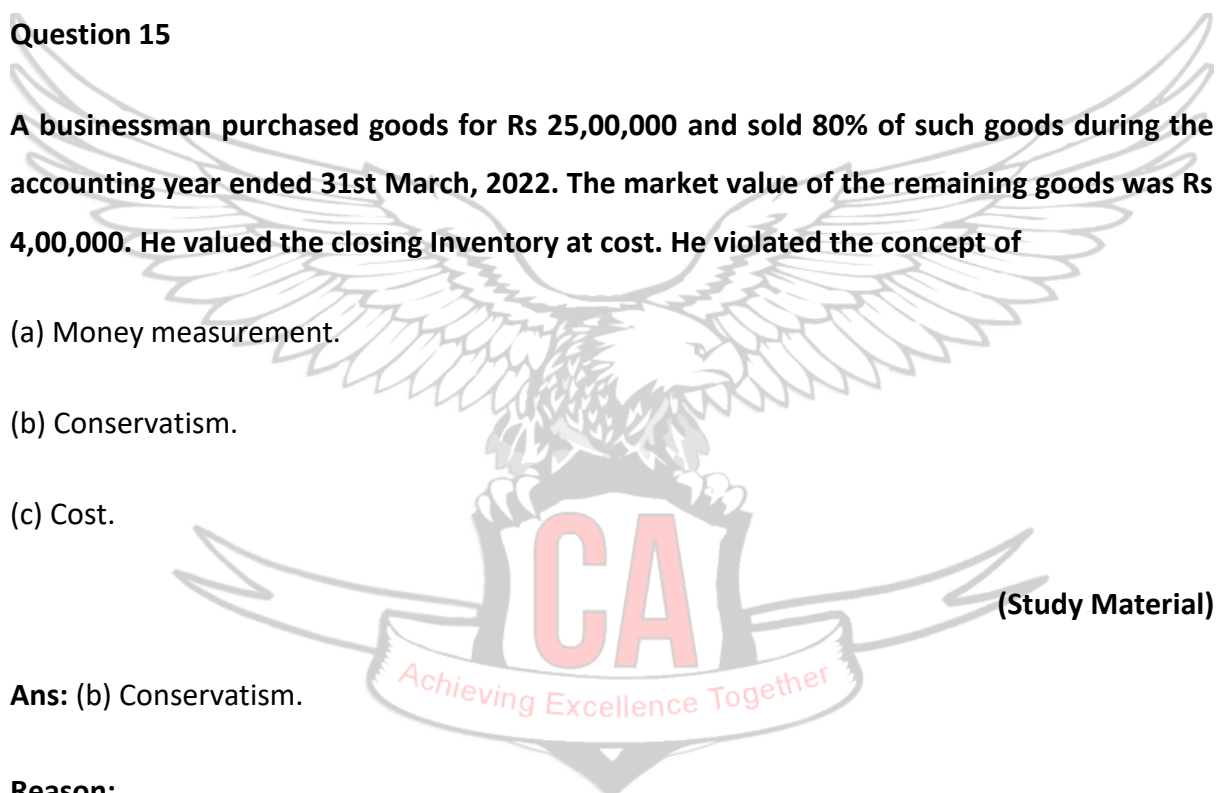
(c) Cost.

Ans: (b) Conservatism.

Reason:

The concept of conservatism in accounting dictates that losses should be recognized as soon as they are anticipated, but gains should only be recognized when they are realized. In this case, the businessman valued the closing inventory at cost ($\text{Rs } 25,00,000 \times 20\% = \text{Rs } 5,00,000$), while the market value of the remaining goods was Rs 4,00,000. According to the conservatism principle, if the market value is lower than the cost, the goods should be valued at market value (Rs 4,00,000) to reflect potential losses.

By valuing the inventory at cost, the businessman violated the conservatism principle, as it failed to account for the potential loss in value of the remaining goods.



Question 16

Purchase of machinery for cash

- (a) Decreases total assets.
- (b) Increases total assets.
- (c) Retains total assets unchanged.

(Study Material)

Ans: (c) Retains total assets unchanged.

Reason:

When machinery is purchased for cash, the following happens:

Machinery (a fixed asset) increases

Cash (a current asset) decreases

Total assets as a whole remain the same, because one asset increases while another decreases by the same amount.

Let's say:

Machinery purchased = Rs.1,00,000

Cash paid = Rs.1,00,000

Net effect on total assets:

Asset Type	Change
Machinery	+ Rs.1,00,000

Cash	– Rs.1,00,000
Total Assets	No change

This is known as a conversion of one asset into another, which does not affect the overall total of assets.

Therefore, the correct answer is (c) Retains total assets unchanged, as the transaction is just a reallocation between two asset categories.

Topic 7 Interest on Drawings

True and False

Question 17

Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.

(Study Material)

Ans: False: Cash Basis of Accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.

Multiple Choice Questions

Question 18

Two primary qualitative characteristics of financial statements are

(a) Understandability and materiality.

(b) Relevance and reliability.

(c) Neutrality and understandability.

(Study Material)

Ans: (b) Relevance and reliability.

Reason:

As per the Study Material and Framework for Financial Statements, the two primary qualitative characteristics are:

1. Relevance – Information is relevant when it influences users' economic decisions by helping them evaluate past, present, or future events.
2. Reliability – Information is reliable when it is free from material error and bias, and represents faithfully what it purports to represent.

Other characteristics like understandability, comparability, materiality, and neutrality are important, but they are considered supporting or enhancing characteristics — not primary ones.

Therefore, the correct answer is (b) Relevance and reliability.

Question 19

Capital brought in by the proprietor is

- (a) Increase in asset and increase in liability
- (b) Increase in liability and decrease in asset
- (c) Increase in asset and decrease in liability

Ans: (a) Increase in asset and increase in liability

Reason:

When the proprietor brings capital into the business:

The business receives cash or bank balance → Increase in asset

From the business's point of view, capital is a liability, as it represents the amount owed to the proprietor by the business (business and owner are treated as separate entities).

This results in:

Component Change

Asset (Cash/Bank) Increases

Liability (Capital) Increases

Hence, it's increase in asset and increase in liability.

Therefore, the correct answer is (a) Increase in asset and increase in liability.

Question 20

Consider the following data pertaining to Alpha Ltd.:

Particulars	Rs.
Cost of machinery purchased on 1st April, 2021	10,00,000
Installation charges	1,00,000
Market value as on 31st March, 2022	12,00,000

While finalizing the annual accounts, if the company values the machinery at Rs 12,00,000.

Which of the following concepts is violated by the Alpha Ltd.?

- (a) Cost.
- (b) Matching.
- (c) Accrual.

(Study Material)

Ans: (a) Cost.

Reason:

The Cost Concept (also known as the Historical Cost Concept) in accounting states that:

Assets should be recorded in the books at their original cost of acquisition, including all expenses incurred to bring the asset to usable condition (like installation charges), and not at current market value.

In this case:

The total cost of machinery = Rs. 10,00,000 + Rs. 1,00,000 = Rs. 11,00,000

But the company is valuing it at Rs. 12,00,000 (market value), which violates the cost concept, since:

1. Financial statements should not reflect unrealized gains unless permitted by specific standards (e.g., fair value under certain accounting frameworks like Ind AS).

Therefore, the correct answer is (a) Cost, because the asset should be recorded at its actual purchase cost, not its market value.

Topic 8 Salary/Commission to Partners

True and False

Question 21

Company A is incurring huge losses, the Board of Directors are of the opinion that in case of losses, there is no need to pay interest on debenture holders.

(MTP MAY 2025)

Ans: False: Even if the company incurs losses, it has to pay interest on debentures. Debentures being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

Multiple Choice Questions

Question 22

Kanika Enterprises follows the written down value method of depreciating machinery year after year due to

- (a) Comparability.
- (b) Convenience.
- (c) Consistency.

(Study Material)

Ans: (c) Consistency.

Reason:

The Consistency Concept requires that a business should use the same accounting principles and methods from one period to another. This ensures:

Financial statements are comparable across years

Trends and performance can be analysed meaningfully

In this case, using the written down value (WDV) method of depreciation year after year reflects adherence to the consistency concept.

Question 23

During the life-time of an entity, accounting provides financial statements in accordance with which basic accounting concept:

- (a) Conservatism
- (b) Matching
- (c) Accounting period

(Study Material)

Ans: (c) Accounting period

Reason:

The Accounting Period Concept states that the life of a business is divided into regular time intervals (usually a year) for the purpose of:

Preparing financial statements,

Assessing performance and position periodically,

Despite the fact that the business is a going concern.

This allows users to evaluate profitability and financial status of the business for each specific period.

Therefore, the correct answer is (c) Accounting period, as it enables the periodic reporting of financial results during the entity's lifetime.

Theoretical Questions

Question 24

Write short notes on:

(i) Fundamental accounting assumptions.

(ii) Periodicity concept.

(iii) Accounting conventions.

(Study Material)

Answer 24

(i) **Fundamental accounting assumptions:** There are three fundamental accounting assumptions: Going Concern; Consistency and Accrual. If nothing has been written about the fundamental accounting assumption in the financial statements then it is assumed that they have already been followed in their preparation of financial statements.

(ii) **Periodicity concept:** According to this concept accounts should be prepared after every period & not at the end of the life of the entity. For details,

Periodicity concept: This is also called the concept of definite accounting period. As per going concern' concept an indefinite life of the entity is assumed. For a business entity it causes inconvenience to measure performance achieved by the entity in the ordinary course of business.

If a textile mill lasts for 100 years, it is not desirable to measure its performance as well as financial position only at the end of its life.

So, a small but workable fraction of time is chosen out of infinite life cycle of the business entity for measuring performance and looking at the financial position. Generally, one year period is taken up for performance measurement and appraisal of financial position. However, it may also be 6 months or 9 months or 15 months.

According to this concept accounts should be prepared after every period & not at the end of the life of the entity. Usually, this period is one calendar year. We generally follow from 1st April of a year to 31st March of the immediately following year.

Thus, for performance appraisal it is not necessary to look into the revenue and expenses of an unduly long time-frame. This concept makes the accounting system workable and the term 'accrual' meaningful. If one thinks of indefinite time-frame, nothing will accrue. There cannot be unpaid expenses and non- receipt of revenue. Accrued expenses or accrued revenue is only with reference to a finite time-frame which is called accounting period.

Thus, the periodicity concept facilitates in:

- (i) Comparing of financial statements of different periods
- (ii) Uniform and consistent accounting treatment for ascertaining the profit and assets of the business
- (iii) Matching periodic revenues with expenses for getting correct results of the business operations.

(iii) Accounting conventions: Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. For details,

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

In the study material, the terms 'accounting concepts', 'accounting principles' and 'accounting conventions' have been used interchangeably to mean those basic points of agreement on which financial accounting theory and practice are founded.

Topic 9 Preparation of Profit & Loss Appropriation Account

True and False

Question 25

On death of a partner, the firm gets surrender value of the joint life policy.

(MTP MAY 2025)

Ans: False: On the death of a partner, the firm receives full value of the sum assured of the joint life policy.

Multiple Choice Questions

Question 26

Mohan purchased goods for Rs15,00,000 and sold 4/5th of the goods amounting Rs18,00,000 and met expenses amounting Rs 2,50,000 during the year, 2022. He counted net profit as Rs 3,50,000. Which of the accounting concept was followed by him?

- (a) Entity
- (b) Periodicity
- (c) Matching

(Study Material)

Ans: (c) Matching.

Reason:

The Matching Concept states that:

Expenses incurred to earn revenues in a particular accounting period should be recognized in the same period in which the revenues are recognized.

In this case:

1. Mohan sold 4/5th of the goods and earned Rs 18,00,000 in revenue.
2. He calculated the cost of goods sold (4/5th of Rs 15,00,000 = Rs 12,00,000) and added expenses of Rs 2,50,000, and arrived at:

* Net Profit = Revenue – Cost – Expenses

* Rs.18,00,000 – Rs.12,00,000 – Rs.2,50,000 = Rs.3,50,000

This approach matches revenue with corresponding costs and expenses of the same period.

Question 27

The determination of expenses for an accounting period is based on the principle of

- (a) Objectivity
- (b) Materiality
- (c) Matching

(Study Material)

Ans: (c) Matching

Reason:

The Matching Principle is the basis for determining expenses in a given accounting period.

It requires that:

All expenses related to the revenue earned in that period must be recorded in the same period, whether or not they are paid yet.

This ensures that:

Income is not overstated or understated, and

Financial statements accurately reflect profitability of the specific accounting period.

Therefore, the correct answer is (c) Matching, as this principle ensures that expenses are matched with related revenues within the same accounting period.

Theoretical Questions

Question 28

Briefly explain the qualitative characteristics of the financial statements.

(Study Material)

Answer 28

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

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

2. Relevance: To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the enterprise would be structured or the outcome of planned operations.

Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, share price movements and the ability of the enterprise to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the statement of profit and loss is enhanced if unusual, abnormal and infrequent items of income and expense are separately disclosed.

3. Reliability: To be useful, information must also be reliable, Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action against the enterprise are highly uncertain, it may be inappropriate for the enterprise to recognise the amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

4. Comparability: Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position, performance and cash flows. Users must also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events must

be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises.

An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same enterprise from period to period and by different enterprises. Compliance with Accounting Standards, including the disclosure of the accounting policies used by the enterprise, helps to achieve comparability.

The need for comparability should not be confused with mere uniformity and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an enterprise to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of relevance and reliability. It is also inappropriate for an enterprise to leave its accounting policies unchanged when more relevant and reliable alternatives exist.

Users wish to compare the financial position, performance and cash flows of an enterprise over time. Hence, it is important that the financial statements show corresponding information for the preceding period(s).

The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

5. Materiality: The relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item or error, judged in the particular circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which the information must have if it is to be useful.

6. Faithful Representation: To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be

expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the enterprise at the reporting date which meet the recognition criteria.

Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond with those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that enterprises generally would not recognise them in the financial statements; for example, although most enterprises generate goodwill internally over time, it is usually difficult to identify or measure that goodwill reliably. In other cases, however, it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.

7. Substance over Form: If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, where rights and beneficial interest in an immovable property are transferred but the documentations and legal formalities are pending, the recording of acquisition/disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.

8. Neutrality: To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

9. Prudence: The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of receivables, the probable useful life of plant and machinery, and the warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent

and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would then not be neutral and, therefore, not have the quality of reliability.

10. Full, fair and adequate disclosure: The financial statement must disclose all the reliable and relevant information about the business enterprise to the management and also to their external users for which they are meant, which in turn will help them to take a reasonable and rational decision. For it, it is necessary that financial statements are prepared in conformity with generally accepted accounting principles i.e the information is accounted for and presented in accordance with its substance and economic reality and not merely with its legal form. The disclosure should be full and final so that users can correctly assess the financial position of the enterprise.

The principle of full disclosure implies that nothing should be omitted while principle of fair disclosure implies that all the transactions recorded should be accounted in a manner that financial statement purports true and fair view of the results of the business of the enterprise and adequate disclosure implies that the information influencing the decision of the users should be disclosed in detail and should make sense.

This principle is widely used in corporate organizations because of separation in management and ownership. The Companies Act in pursuant of this principle came out with the format of balance sheet and profit and loss account. The disclosures of all the major accounting policies and other information are to be provided in the form of footnotes, annexures etc. The practice of appending notes to the financial statements is the outcome of this principle.

11. Completeness: To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Thus, if accounting information is to present faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality, not by their legal form. For example, if a business enterprise sells its assets to others but still uses the assets as usual for the purpose of the business by making some arrangement with the seller, it simply becomes a legal transaction. The economic reality is that the business is using the assets as usual for deriving the benefit. Financial statement information should contain the substance of this transaction and should not only record going by legality. In order to be reliable, the financial statements information should be neutral i.e., free from bias. The preparers of financial statements however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that many occur. Such uncertainties are recognised by the disclosure of their nature and extent and by exercise of prudence in the preparation of financial statements. Prudence is the inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under condition of uncertainty such that assets and income are not overstated and loss and liability are not understated.

Topic 10 Fixed vs Fluctuating Capital Method

True and False

Question 29

The concept of conservatism when applied to the Balance Sheet results in understatement of assets.

(MTP MAY 2025)

Ans: True: Conservatism states that the accountant / entity should not anticipate any future income. However, they should provide for all possible / probable losses. Imprudent use of concept of conservatism may lead to understatement of Income and Assets.

Multiple Choice Questions

Question 30

Assets are held in the business for the

- (a) Resale.
- (b) Conversion into cash
- (c) Earning revenue.

(Study Material)

Ans: (c) Earning revenue.

Reason:

Assets in a business are classified into two categories:

Fixed/Non-current assets – like machinery, buildings, furniture — these are not held for resale, but are used in operations to earn revenue over time.

Current assets – like inventory or accounts receivable, which are expected to be converted into cash as part of the revenue cycle.

However, the primary purpose of holding assets, whether current or fixed, is to facilitate business operations and generate revenue.

Let's analyze the options:

- (a) Resale – Only applies to inventory (stock-in-trade), not to all assets.
- (b) Conversion into cash – Applies to current assets, but conversion is a means, not the purpose.
- (c) Earning revenue – This is the core purpose for which assets are held in a business.
- Therefore, the correct answer is (c) Earning revenue, as assets are acquired and used by a business primarily to generate income.

Theoretical Questions

Question 31

Distinguish between Money Measurement concept and Matching concept.

(MTP JAN 2025)

Answer 31

Distinction between Money Measurement concept and Matching concept

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

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

Topic 11 Capital Accounts of Partners

True and False

Question 32

Re-issue of forfeited shares is allotment of shares but not a sale.

(MTP JAN 2025)

Ans: False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

Multiple Choice Questions

Question 33

Revenue from sale of products, is generally, realised in the period in which

- (a) Cash is collected.
- (b) Sale is made
- (c) Products are manufactured.

(Study Material)

Ans: (b) Sale is made

Reason:

According to the Revenue Recognition Principle (based on the Accrual Concept):

Revenue is recognised when it is earned, i.e., when the ownership and risks are transferred to the buyer, not when cash is received.

In the case of sale of goods, revenue is usually considered earned and realised:

When the sale is made (i.e., goods are delivered and invoice is raised),

Regardless of when cash is collected.

Let's evaluate the options:

(a) Cash is collected – Follows cash basis, not accrual accounting.

(b) Sale is made – Correct. Revenue is recognised at the point of sale, assuming delivery and risk transfer have occurred.

(c) Products are manufactured – Manufacturing alone doesn't generate revenue; no sale has occurred yet.

Therefore, the correct answer is **(b)** Sale is made, as revenue is recognised when the sale transaction is completed, not when cash is received or goods are produced.

Theoretical Questions

Question 34

Distinguish between fundamental accounting assumption and accounting policies.

(RTP JAN 2025)

Answer 34

Fundamental Accounting Assumption	Accounting Policies
There are three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.

No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
If fundamental accounting assumption is not followed, it is to be disclosed in the financial statements together with the reasons.	If the policy is changed in subsequent year, the effect of such change should be disclosed in the financial statements.
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

Topic 12 Past Adjustments

Multiple Choice Questions

Question 35

Economic life of an enterprise is split into the periodic interval to measure its performance is as per

- (a) Entity.
- (b) Matching.
- (c) Periodicity.

(Study Material)

Ans: (c) Periodicity.

Reason:

The Periodicity Concept (also known as the Accounting Period Concept) states that:

The continuous life of a business is divided into specific time intervals, usually one year, to prepare financial statements and assess performance regularly.

This allows businesses to:

Report financial results at regular intervals,

Comply with legal requirements, and

Provide timely information to stakeholders.

Therefore, the correct answer is (c) Periodicity, as it allows performance to be measured over defined time periods.

Question 36

If an individual asset is increased, there will be a corresponding

- (a) Increase of another asset or increase of capital.
- (b) Decrease of another asset or increase of liability.
- (c) Decrease of specific liability or decrease of capital.

(Study Material)

Ans: (b) Decrease of another asset or increase of liability.

Reason:

According to the Dual Aspect Concept, every transaction has two equal effects on the accounting equation:

$\text{Assets} = \text{Liabilities} + \text{Capital}$

So, if one asset increases, the corresponding effect must be:

1. Either another asset decreases (e.g., buying machinery for cash — machinery ↑, cash ↓),
or

2. A liability increases (e.g., purchasing an asset on credit — asset ↑, liability ↑).

Let's analyze the options:

(a) is not always true — capital doesn't generally increase when an asset increases.

(b) Correct — either an asset is exchanged or a liability is created to fund the asset.

(c) Decrease in liability or capital does not typically accompany an asset increase without more context.

Therefore, the correct answer is (b) Decrease of another asset or increase of liability, as per the dual effect principle of accounting.

Topic 13 Case Study / Practical Problems

Theoretical Questions

Question 37

Explain Cash and Mercantile system of accounting.

(RTP MAY 2025)

Answer 37

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

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

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

Question 38

Fundamental Accounting Assumptions.

(RTP SEP 2025)

Answer 38

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

(i) Going Concern: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) Consistency: It is assumed that accounting policies are consistent from one period to another.

(iii) Accrual: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.



CHAPTER 1 THEORETICAL FRAMEWORK

UNIT – 3

CAPITAL AND REVENUE EXPENDITURES AND RECEIPTS

Topic 1 New Profit Sharing Ratio

True and False

Question 1

The nature of business is not an important criteria in separating an expenditure between capital and revenue.

(Study Material)

Ans: False: The nature of business is a very important criteria in separating an expenditure between capital and revenue. For example- For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

Question 2

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

(Study Material)

Ans: False: Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither

any enduring benefit can be obtained in future in addition to that which is presently available nor will the capacity of the asset be increased. Maintenance expenditure in relation to an asset is revenue expenditure.

Multiple Choice Questions

Question 3

Insurance claim received on account of

- (a) Capital receipt
- (b) Revenue receipt
- (c) Capital expenditures

(Study Material)

Ans: (a) Capital receipt

Reason:

The classification of insurance claim depends on the nature of the loss and purpose of receipt. Generally:

Capital receipt refers to non-recurring, non-operational inflows, such as compensation for loss or destruction of capital assets (e.g., building, plant & machinery).

Revenue receipt refers to regular, operational inflows, such as sales income, rent received, or compensation for loss of stock.

In the context of the question:

"Insurance claim received on account of..." — this typically refers to compensation for loss of a capital asset (like machinery or building due to fire or accident), unless otherwise specified.

Therefore:

(a) Capital receipt – Correct. It's non-recurring and linked to a capital asset.

(b) Revenue receipt – Incorrect unless claim is for stock, which is not mentioned here.

(c) Capital expenditure – Incorrect, because it refers to spending, not receiving money.

Therefore, the correct answer is (a) Capital receipt, because insurance claims for loss of capital assets are non-recurring inflows, not part of regular business income.

Topic 2 Sacrificing Ratio & Gaining Ratio

True and False

Question 4

Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.

(Study Material)

Ans: False: Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

Question 5

Amount spent for replacement of worn-out part of machine is Capital Expenditure.

(Study Material)

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

Multiple Choice Questions

Question 6

Subsidy of Rs 40,000 received from the government for working capital by a manufacturing concern is

- (a) Capital receipt
- (b) Revenue receipt
- (c) Capital expenditures

(Study Material)

Ans: (b) Revenue receipt

Reason:

To classify a subsidy as capital or revenue, we must look at the purpose for which it is received:

If the subsidy is for acquiring or setting up fixed assets (e.g. plant, machinery, building), it is treated as a capital receipt.

If the subsidy is for day-to-day operations or to support working capital, it is treated as a revenue receipt.

In this case:

The subsidy of ₹40,000 is received for working capital, which supports **routine** operational needs like purchase of raw materials, payment of wages, etc.

Such inflows are recurring in nature and help in running the business, not for acquiring capital assets.

Let's evaluate:

(a) Capital receipt – Incorrect. The subsidy is not meant for capital assets.

(b) Revenue receipt – Correct. Since it supports working capital (a part of daily operations).

(c) Capital expenditure – Incorrect. This is an expense, while the question is about a receipt.

Therefore, the correct answer is (b) Revenue receipt, because the subsidy is meant for supporting operational activities, not capital investment.

Topic 3 Goodwill – Meaning & Factors Affecting Goodwill

True and False

Question 7

Legal fees to acquire property is Capital Expenditure.

(Study Material)

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

Topic 4 Methods of Valuation of Goodwill

True and False

Question 8

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

(Study Material)

Ans: True: Since temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

Question 9

Wages paid for erection of machinery are debited to Profit and Loss Account.

(MTP MAY 2025)

Ans: False: Such wages being related to capital Asset should be debited to the machinery account.

Multiple Choice Questions

Question 10

Interest on investments received from

- (a) Capital receipt
- (b) Revenue receipt
- (c) Capital expenditures

(Study Material)

Ans: (b) Revenue receipt

Reason:

To classify receipts correctly in accounting:

A Revenue Receipt is a recurring income earned in the normal course of business, which affects profit or loss (e.g., sales revenue, interest income, rent received).

A Capital Receipt is a non-recurring inflow that either creates a liability (like loans) or reduces assets (like sale of fixed assets).

Capital Expenditure is money spent on acquiring fixed assets or improving them — it is not a receipt.

In this case:

Interest on investments is a regular income earned from investing surplus funds (like in bonds, FDs, debentures, etc.).

It is a part of regular financial income and is therefore classified as a revenue receipt.

Let's evaluate:

(a) Capital receipt – Incorrect. Interest is not a one-time or asset-sale-related inflow.

(b) Revenue receipt – Correct. It's regular income earned on investments.

(c) Capital expenditure – Incorrect. This refers to money spent, not received.

Therefore, the correct answer is (b) Revenue receipt, because interest income is a recurring and operational inflow, shown in the Profit and Loss Account.

Theoretical Questions

Question 11

Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures?

(MTP MAY 2025)

Answer 11

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

(i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

(ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

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

Topic 5 Treatment of Goodwill

True and False

Question 12

Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

(MTP MAY 2025)

Ans: True: Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

Multiple Choice Questions

Question 13

Entrance fee of Rs 2,000 received by Ram and Shyam Social Club is

- (a) Capital receipt
- (b) Revenue receipt
- (c) Capital expenditures

(Study Material)

Ans: (a) Capital receipt

Reason:

In the case of non-profit organizations (like clubs, societies, etc.), the entrance fee received from new members is generally:

Non-recurring in nature (as it is received only once when a person becomes a member), and

Considered as a contribution towards the capital fund or general fund of the club.

Hence, it is treated as a capital receipt, not affecting the current year's income.

Let's evaluate:

(a) Capital receipt – Correct. It is a one-time receipt, meant to build the club's general fund or capital base.

(b) Revenue receipt – Incorrect. It is not a recurring or operational income like subscriptions or donations for activities.

(c) Capital expenditure – Incorrect. This refers to money spent, not money received.

Therefore, the correct answer is (a) Capital receipt, as entrance fees are non-recurring and generally added to the capital fund of a non-profit organization.

Question 14

Amount received from IDBI as a medium term loan for augmenting working capital is

- (a) Capital expenditures
- (b) Revenue expenditures
- (c) Capital receipt

(Study Material)

Ans: (c) Capital receipt

Reason:

To classify correctly:

A **Capital Receipt** is an inflow that either creates a **liability** (like loans) or reduces a fixed asset.

A **Revenue Receipt** is recurring income from operations (like sales, interest).

Capital Expenditure refers to **spending** on fixed assets — not a receipt.

In this case:

The loan from IDBI (a financial institution) is a borrowing, which creates a liability for the business.

Even though the loan is used for working capital, the source (i.e., loan received) determines its classification.

Hence, it is a capital receipt, not an expenditure or revenue income.

Let's evaluate:

(a) Capital expenditures – Incorrect. This refers to outflow/spending on fixed assets.

(b) Revenue expenditures – Incorrect. This refers to day-to-day expenses like rent, salaries.

(c) Capital receipt – Correct. Loan is a liability-creating inflow and hence a capital receipt.

Therefore, the correct answer is (c) Capital receipt, because loans received are non-recurring inflows that create liabilities, regardless of how they are utilized.

Theoretical Questions

Question 15

Classify the following expenditures as capital or revenue expenditure/receipt:

- (i) An extension of railway tracks in the factory area.
- (ii) Amount spent on painting the factory.
- (iii) Payment of wages for building a new office extension
- (iv) Premium received on issue of shares
- (v) Rings and Pistons of an engine were changed to get full efficiency.
- (vi) Legal fees paid to acquire a property

(RTP JAN 2025)

Answer 15

- (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.
- (ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.
- (iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.
- (iv) Premium received on issue of shares is an example of capital receipt.

(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

(vi) Legal fees paid to acquire a property is a part of the cost of that property. Hence, it is taken as capital expenditure.

Topic 6 Adjustment for Revaluation of Assets & Liabilities

True and False

Question 16

When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.

(MTP MAY 2025)

Ans: False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

Multiple Choice Questions

Question 17

Revenue from sale of products, ordinarily, is reported as part of the earning in the period in which

(a) The sale is made.

(b) The cash is collected.

(c) The products are manufactured.

(Study Material)

Ans: (a) The sale is made.

Reason:

According to the Accrual Concept and the Revenue Recognition Principle, revenue is recognized when:

Ownership and risk are transferred to the buyer, i.e., when the sale is made, regardless of when cash is actually received.

This ensures that:

1. Financial statements reflect income earned, not just cash received.
2. Revenues are matched with related expenses in the same accounting period, as per the Matching Concept.

Let's evaluate:

(a) The sale is made – Correct. Revenue is earned at the time of sale (when goods are delivered and invoice is raised).

(b) The cash is collected – Incorrect. This follows the cash basis, not accrual basis of accounting.

(c) The products are manufactured – Incorrect. Manufacturing does not itself result in revenue until the products are sold.

Therefore, the correct answer is (a) The sale is made, because revenue is recognized at the point of sale, under the accrual system of accounting.

Topic 7 Preparation of Revaluation Account

True and False

Question 18

Sale of office furniture should be credited to Profit and Loss Account.

(RTP JAN 2025)

Ans: False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

Topic 8 Accumulated Profits

True and False

Question 19

Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

(RTP JAN 2025) (RTP MAY 2025)

Ans: False: It shall be disclosed as a current liability in the opening balance sheet.

Multiple Choice Questions

Question 20

If repair cost is Rs 25,000, whitewash expenses are Rs 5,000, (both these expenses relate to presently used building) cost of extension of building is Rs 2,50,000 and cost of improvement in electrical wiring system is Rs 19,000; the amount to be expensed is

(a) Rs 2,99,000.

(b) Rs 44,000.

(c) Rs 30,000.

(Study Material)

Ans: (c) Rs 30,000.

Reason:

In accounting, we classify expenditures as either:

1. Revenue Expenditure (to be expensed in Profit & Loss A/c):

These are recurring and routine expenses necessary for maintaining the asset in working condition without enhancing its life or capacity.

Repair cost (Rs 25,000) – for maintaining the existing asset → Revenue expenditure

Whitewash expenses (Rs 5,000) – routine maintenance → Revenue expenditure

Total revenue expenditure to be expensed = Rs 25,000 + Rs 5,000 = Rs 30,000

2. Capital Expenditure (added to the asset's cost):

These are non-recurring expenses incurred to acquire or improve a fixed asset, increase its life, or enhance its value.

Extension of building (Rs 2,50,000) → Capital expenditure

Improvement in electrical wiring system (Rs 19,000) → Enhances asset value/functionality
→ Capital expenditure

Therefore, only repair + whitewash = Rs 30,000 is to be expensed in the current year.

Correct Answer: (c) Rs 30,000

Topic 9 Capital Adjustment – New Partner's Capital Given

True and False

Question 21

Goodwill is intangible asset therefore it cannot be valued

(RTP JAN 2025)

Ans: False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

Theoretical Questions

Question 22

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

(Study Material)

Answer 22

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

- (a) Nature of business.
- (b) Recurring nature of expenditure.

- (c) Purpose of expenses.
- (d) Effect on revenue generating capacity of business.
- (e) Materiality of the amount involved.

Topic 10 Capital Adjustment – Old Partners' Capital Adjusted

Multiple Choice Questions

Question 23

Money spent Rs 10,000 as traveling expenses of the directors on trips abroad for purchase of capital assets is

- (a) Capital expenditures
- (b) Revenue expenditures
- (c) Prepaid revenue expenditures

Ans: (a) Capital expenditures

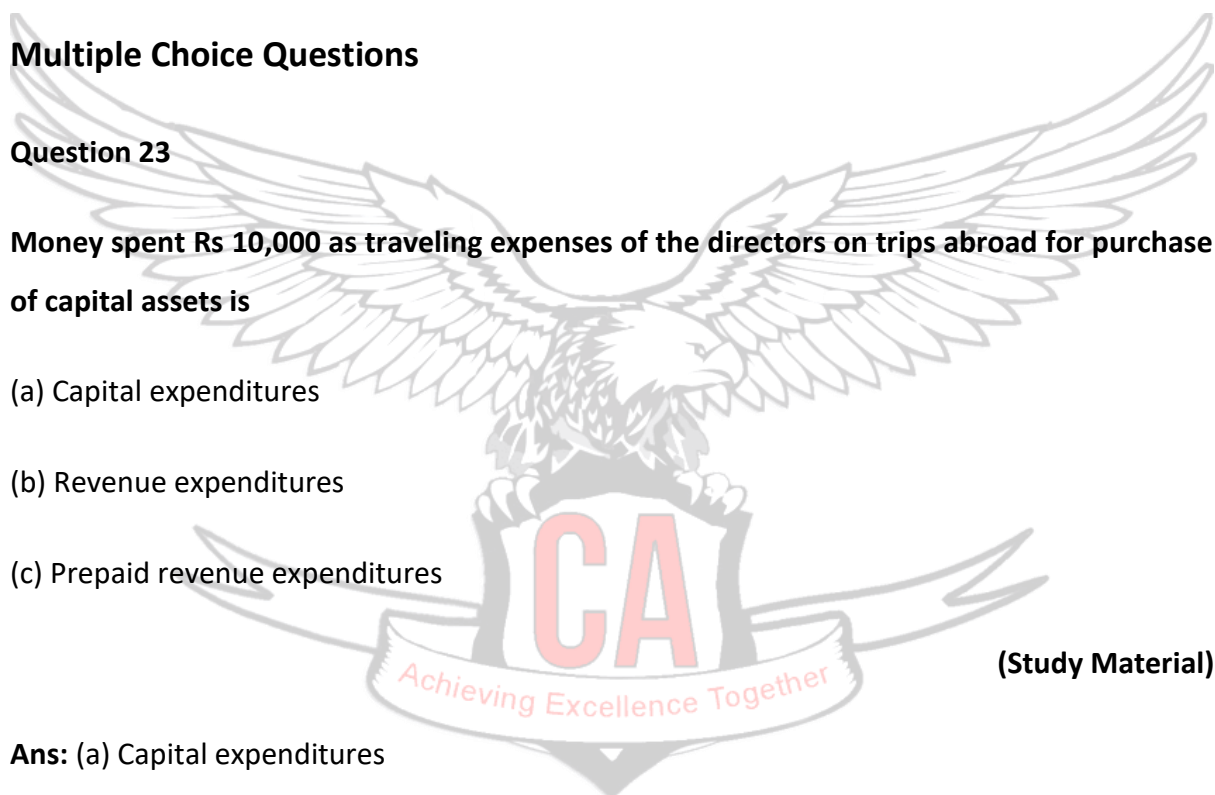
Reason:

Capital Expenditures are those which:

Are incurred to acquire or install a fixed asset, or

Directly relate to bringing the asset into working condition for its intended use.

In this case:



(Study Material)

The directors' travel expenses were incurred for the specific purpose of acquiring capital assets (such as machinery or equipment) abroad.

As the travel is directly connected to the capital acquisition, it becomes part of the cost of the capital asset, as per accounting principles and AS-10 (Accounting Standard on Property, Plant & Equipment).

Evaluation of options:

(a) Capital expenditures – Correct, because the travel cost is directly related to the acquisition of capital assets.

(b) Revenue expenditures – Incorrect, because this expense is not for regular operations or maintenance.

(c) Prepaid revenue expenditures – Incorrect, this is not a prepaid expense, and it's not even a revenue expenditure.

Therefore, the correct answer is (a) Capital expenditures, since the expense is directly attributable to the acquisition of a fixed asset.

Topic 11 Preparation of Balance Sheet After Admission

Multiple Choice Questions

Question 24

Amount of Rs 5,000 spent as lawyers' fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is

(a) Capital expenditures

(b) Revenue expenditures

(c) Prepaid revenue expenditures

(Study Material)

Ans: (b) Revenue expenditures

Reason:

To classify the nature of legal expenses, we must evaluate **why** the expense was incurred:

If legal fees are incurred to acquire, improve, or establish ownership of a new fixed asset, then it is treated as capital expenditure.

But if the legal fee is spent to defend an existing title to an asset (i.e., to protect current ownership, not to acquire or enhance it), then it is treated as a revenue expenditure.

In this case:

The firm already owns the factory site.

The lawyer's fee of ₹5,000 is paid to defend a legal claim on existing land (not to acquire or enhance it).

Hence, it is an ordinary expense to protect existing business assets, and does not result in a new or improved asset.

Therefore, the correct answer is (b) Revenue expenditures, because the legal fee is incurred to protect ownership of an existing asset, not to acquire or improve it.

Theoretical Questions

Question 25

Define revenue receipts and give examples. How are these receipts treated?

(Study Material)

Answer 25

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

Topic 12 Case Study / Practical Problems

Theoretical Questions

Question 26

Classify the following transactions either as capital or revenue expenditures or as capital or revenue receipts;

- (i) Dividend received from XYZ limited during the year.
- (ii) Amount spent for replacement of a petrol driven engine by CNG kits.
- (iii) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.
- (iv) Overhauling expenses of second-hand machine purchased.
- (v) Insurance claim received on account of inventory damaged by fire.
- (vi) Entrance fees of Rs.35,000 received by society club.

(RTP MAY 2025)

Answer 26

1. Revenue Receipts

- 2. Capital Expenditure
- 3. Capital Expenditure
- 4. Capital Expenditure
- 5. Revenue Receipts
- 6. Capital Receipts.

Question 27

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

- (1) Inauguration expenses of a new manufacturing unit in an existing Business**
- (2) Installation of a new central heating system.**
- (3) Providing drainage for a new piece of water-extraction equipment.**
- (4) An extension of railways track in the factory.**
- (5) Carriage costs on a replacement part for a piece of machinery.**

(RTP SEP 2025)

Answer 27

- (1) Inauguration expenses of new unit of existing business: Revenue Expenditure.
- (2) Installation of new heating system: Capital Expenditure
- (3) Drainage for new equipment: Capital Expenditure.
- (4) An extension of Railway track in factory area: Capital Expenditure
- (5) Carriage costs on replacement part: Revenue Expenditure.

CHAPTER 1 THEORETICAL FRAMEWORK

UNIT – 4

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Topic 1 New Profit Sharing Ratio & Gaining Ratio

True and False

Question 1

A contingent liability need not be disclosed in the financial statements.

(Study Material)

Ans: False: A Contingent liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.

Question 2

The business of partnership must be carried on by all the partners.

(MTP MAY 2025)

Ans: False: The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

Topic 2 Adjustment for Goodwill

True and False

Question 3

A Provision fails to meet the recognition criteria.

(Study Material)

Ans: False: A contingent liability fails to meet the recognition criteria.

Question 4

The debit notes issued are used to prepare Sales Return Book.

(MTP MAY 2025)

Ans: False: The debit notes issued are used to prepare purchases return book.

Multiple Choice Questions

Question 5

In the financial statements, contingent liability is

- (a) Recognised.
- (b) Not recognised.
- (c) Adjusted.

(Study Material)

Ans: (b) Not recognised.

Reason:

As per Accounting Standard 29 (AS 29) – *Provisions, Contingent Liabilities and Contingent Assets*:

A contingent liability is a possible obligation that arises from past events, 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.

Because of this uncertainty:

It does not meet the recognition criteria (i.e., probable outflow and reliable estimate),

So it is not recorded (i.e., not recognized) in the books,

Instead, it is disclosed by way of a note to the financial statements if the possibility of outflow is not remote.

Evaluation:

(a) Recognised – Incorrect. It is not recognised in the balance sheet as it is not a present obligation.

(b) Not recognised – Correct. It is only disclosed in notes if necessary.

(c) Adjusted – Incorrect. No adjustment is made in the accounts unless it becomes a provision (i.e., likely and measurable).

Therefore, the correct answer is (b) Not recognised, because contingent liabilities are only disclosed, not recorded in financial statements unless they become actual obligations.

Topic 3 Adjustment for Revaluation of Assets & Liabilities

True and False

Question 6

A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.

(Study Material) (MTP JAN 2025)

Ans: False: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset

Theoretical Questions

Question 7

Provision and Contingent Liability.

(Study Material)

Answer 7

Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation. On the other hand, a Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.

Topic 4 Accumulated Profits / Reserves

True and False

Question 8

When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability.

(Study Material)

Ans: False: When it is probable that the firm will need to pay off the obligation, this gives rise to provision.

Multiple Choice Questions

Question 9

Contingent asset usually arises from unplanned or unexpected events that give rise to

- (a) The possibility of an inflow of economic benefits to the business entity.
- (b) The possibility of an outflow of economic benefits to the business entity.
- (c) Either (a) or (b).

(Study Material)

Ans: (a) The possibility of an inflow of economic benefits to the business entity.

Reason:

As per Accounting Standard 29 (AS 29) and the Framework for the Preparation and Presentation of Financial Statements, a:

Contingent asset is a possible asset that arises from past events and whose existence 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.**

These typically represent:

A potential inflow of economic benefits — for example, a company suing another party and expecting compensation (but outcome is uncertain).

Unlike contingent liabilities (which deal with potential outflows), contingent assets deal with possible inflows.

Evaluation of options:

(a) The possibility of an inflow – Correct. This is the definition of a contingent asset.

(b) The possibility of an outflow – Incorrect. This describes a contingent liability, not an asset.

(c) Either (a) or (b) – Incorrect. That would mix up the definitions of contingent asset and liability.

Therefore, the correct answer is (a) The possibility of an inflow of economic benefits to the business entity, which is the essence of a contingent asset.

Theoretical Questions

Question 10

Liability and Contingent liability.

(Study Material)

Answer 10

A liability is defined as the present financial obligation of an enterprise, which arises from past events. On the other hand, in the case of contingent liability, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

Topic 5 Capital Adjustment & Balance Sheet Preparation

True and False

Question 11

Present financial obligation of an enterprise, which arises from past event is termed as contingent liability.

(Study Material)

Ans: False: Present Financial obligation of an enterprise, which arises from past events is termed as liability,

Multiple Choice Questions

Question 12

If an inflow of economic benefits is probable then a contingent asset is disclosed

- (a) In the financial statements.
- (b) In the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).
- (c) In the cash flow statement.

(Study Material)

Ans: (b) In the report of the approving authority (Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise).

Reason:

According to Accounting Standard 29 (AS 29) – Provisions, Contingent Liabilities and Contingent Assets:

A contingent asset is not recognized in the financial statements, even when the inflow of economic benefits becomes probable, because doing so could lead to recognition of income that might never be realized, which violates the prudence (conservatism) concept.

However:

If the inflow of benefits is probable (but not virtually certain), the contingent asset is disclosed,

Not in the financial statements, but in the report of the approving authority (e.g., Board of Directors).

Only when the inflow becomes virtually certain, it is no longer a contingent asset — it can then be recognized as a real asset or income.

Evaluation of options:

(a) In the financial statements – Incorrect. Contingent assets are not disclosed here unless virtually certain.

(b) In the report of the approving authority – Correct. This is where it should be disclosed when inflow is probable.

(c) In the cash flow statement – Incorrect. Contingent assets do not appear in the cash flow statement unless the cash is actually received

Therefore, the correct answer is (b) In the report of the approving authority, as per AS 29 and the prudence principle.

Topic 6 Death of a Partner – Calculation of Share

Multiple Choice Questions

Question 13

In the case of, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

(a) Liability

(b) Provision

(c) Contingent liabilities

(Study Material)

Ans: (c) Contingent liabilities

Reason:

As per Accounting Standard 29 (AS 29) – Provisions, Contingent Liabilities and Contingent Assets:

A Contingent Liability arises when:

There is a possible obligation from past events whose existence will be confirmed only by uncertain future events not wholly within the control of the enterprise,

OR

There is a present obligation, but:

It is not probable that an outflow of resources will be required, or

The amount cannot be measured with sufficient reliability.

Since the obligation cannot be recognised reliably, it is not treated as a provision or liability, but is instead disclosed as a contingent liability in the notes to accounts (unless the possibility of outflow is remote).

Evaluation of options:

(a) Liability – Incorrect. A liability is recognised when there is certainty in amount and obligation.

(b) Provision – Incorrect. A provision is recognised only when the amount can be reliably estimated and outflow is probable.

(c) Contingent liabilities – Correct. This is the classification when either probability of outflow is low, or measurement is not reliable.

Therefore, the correct answer is (c) Contingent liabilities, as per the conditions laid down under AS 29.

Topic 7 Payment to Deceased Partner's Executor

Multiple Choice Questions

Question 14

Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as.

(a) Provision.

(b) Liability.

(c) Contingent liability.

(Study Material)

Ans: (a) Provision.

Reason:

According to Accounting Standard 29 (AS 29) – Provisions, Contingent Liabilities and Contingent Assets:

A Provision is:

A present obligation arising from past events, the settlement of which is expected to result in an outflow of resources, and the amount of the obligation can be estimated reliably, even if the amount is uncertain or requires estimation.

Examples include:

Provision for warranties

Provision for taxes

Provision for doubtful debts

It differs from a contingent liability, which is either a possible obligation or a present obligation that cannot be measured reliably or is not probable.

Evaluation of options:

(a) Provision – Correct. It is a recognised liability, though exact amount is estimated.

(b) Liability – Too broad. All provisions are liabilities, but not all liabilities are provisions.

(c) Contingent liability – Incorrect. This applies when obligation is possible or amount cannot be measured reliably.

Therefore, the correct answer is (a) Provision, as it refers to a known liability with uncertain amount, reliably estimated using judgment or historical data.

Topic 8 Case Study / Practical Problems

Theoretical Questions

Question 15

Differentiate between Provisions and Contingent Liabilities

(RTP SEP 2025)

Answer 15

The distinction between Provision and Contingent Liability is as follows:

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

CHAPTER 1 THEORETICAL FRAMEWORK

UNIT – 5

ACCOUNTING POLICIES

Topic 1 Introduction to Company Accounts

True and False

Question 1

There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.

(Study Material)

Ans: False: There cannot be single list of accounting policies, which are applicable to all enterprises in all circumstances. There would always be different policies chosen by different industries under different circumstances.

Topic 2 Share Capital – Meaning & Types

True and False

Question 2

Selection of accounting policy doesn't impact financial performance and financial position of the business

(Study Material)

Ans: False: Accounting policy has big impact on value of items goes under financial statements, hence it impacts financial performance and financial position of the business.

Topic 3 Issue of Shares – At Par, Premium, Discount

True and False

Question 3

A change in accounting policies should be made as and when business like to show result as per their choice.

(Study Material)

Ans: False: A change in accounting policies should be made in the following conditions:

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

Question 4

Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time.

(Study Material)

Ans: False: It could understate/overstate the performance and financial position of a business entity.

Multiple Choice Questions

Question 5

Accounting policies refer to specific accounting

- (a) Principles.
- (b) Methods of applying those principles.
- (c) Both (a) and (b).

(Study Material)

Ans: (c) Both (a) and (b).

Reason:

As per Accounting Standard 1 (AS-1): Disclosure of Accounting Policies,

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

This means accounting policies cover:

1. Accounting principles – like the going concern concept, accrual concept, consistency, prudence, etc.
2. Methods of application – such as:
 - (i) FIFO vs. Weighted Average for inventory valuation,
 - (ii) Straight-line method vs. Written-down value method for depreciation,
 - (iii) Capitalization policies for borrowing costs, etc.

These policies ensure consistency and comparability of financial statements over time.

Evaluation of options:

(a) Principles – Partially correct, but incomplete.

(b) Methods of applying those principles – Also partially correct.

(c) Both (a) and (b) – Fully correct. Accounting policies include both what principles are applied and how they are implemented.

Therefore, the correct answer is (c) Both (a) and (b), as accounting policies comprise both the principles and the methods of application used in preparing financial statements.

Topic 4 Accounting Treatment for Issue of Shares

True and False

Question 6

Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy.

(Study Material)

Ans: True: An enterprise may adopt FIFO or weighted average method for inventory valuation and the method selected for valuation is called an accounting policy.

Multiple Choice Questions

Question 7

Accounting policy for inventories of Xeta Enterprises states that inventories are valued at the lower of cost determined on weighted average basis or net realizable value. Which accounting principle is followed in adopting the above policy?

- (a) Materiality.
- (b) Prudence.
- (c) Substance over form.

(Study Material)

Ans: (b) Prudence.

Reason:

The principle of Prudence (also known as the Conservatism Principle) requires:

“Not to anticipate profits, but to provide for all possible losses.”

In the context of inventory valuation:

1. Cost is the amount incurred to acquire or produce the inventory.
2. Net Realizable Value (NRV) is the estimated selling price less estimated costs to complete and sell.
3. When inventories are valued at the lower of cost or NRV, it ensures that unrealized profits are not overstated, and potential losses are recognized early.

This conservative approach ensures that assets (like inventory) are not overstated in the financial statements.

Evaluation of options:

- (a) Materiality – Refers to the significance of an item to affect decision-making, not related to inventory valuation.
- (b) Prudence – Correct. It justifies valuing inventory at the lower of cost or NRV.
- (c) Substance over form – Refers to recognizing the economic substance of transactions over their legal form.

Therefore, the correct answer is (b) Prudence, as the policy of valuing inventory at the lower of cost or NRV aligns with the principle of recognizing expected losses but not anticipated gains.

Theoretical Questions

Question 8

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

(Study Material)

Answer 8

Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts, principles and conventions that have already been explained in Unit 2 of Chapter 1. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management. ICAI has been trying to reduce the number of acceptable accounting policies through Guidance Notes and Accounting Standards in its combined efforts with the government, other regulatory agencies and progressive managements. Already it has achieved some progress in this respect.

The areas wherein different accounting policies are frequently encountered can be given as follows:

- (1) Valuation of Inventories;
- (2) Valuation of Investments.

This list should not be taken as exhaustive but is only illustrative. As the course will progress, students will see the intricacies of the various accounting policies.

Suppose an enterprise holds some investments in the form of shares of a company at the end of an accounting period. For valuation of shares, the enterprise may adopt FIFO, average method etc. The method selected by that enterprise for valuation is called an accounting policy.

Topic 5 Forfeiture of Shares

Question 9

The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(MTP MAY 2025)

Ans: True: The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Multiple Choice Questions

Question 10

The areas wherein different accounting policies can be adopted are

- (a) Providing depreciation.
- (b) Valuation of inventories.
- (c) Both the option.

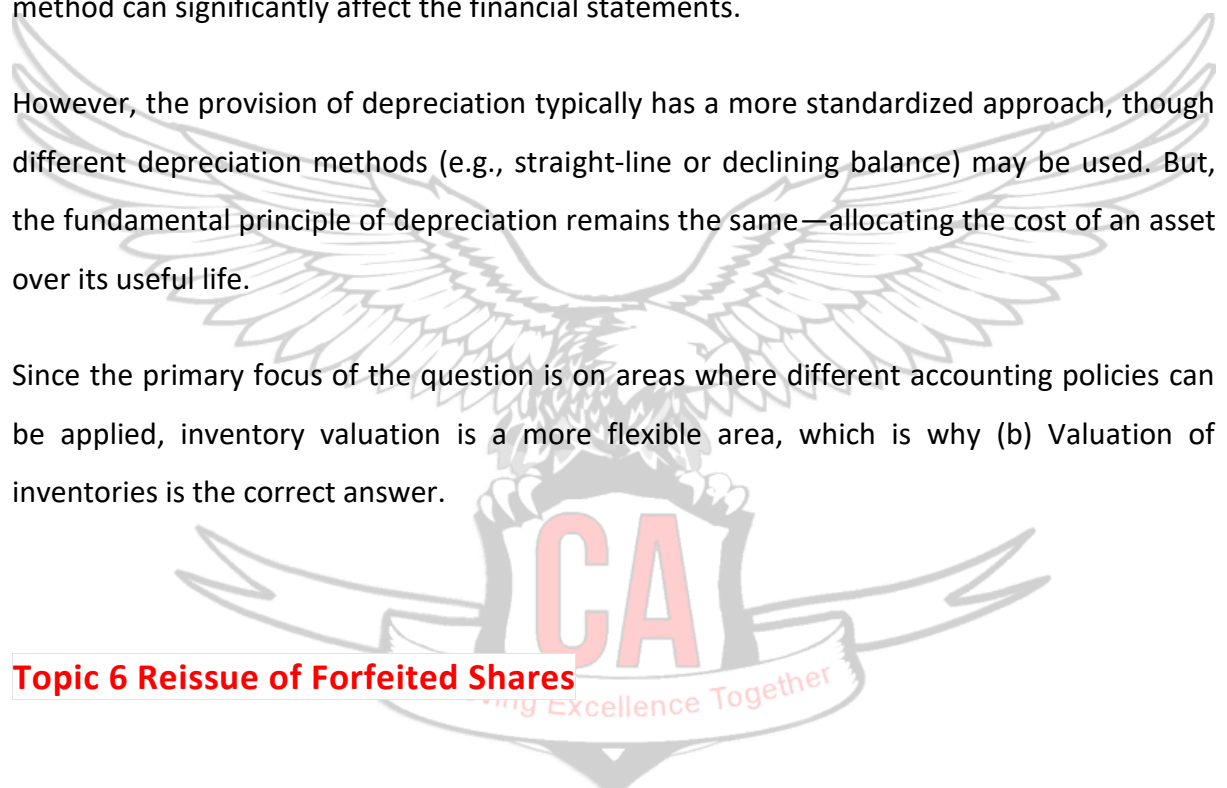
Ans: (b) Valuation of inventories.

Reason:

While different accounting policies can be adopted in various areas of accounting, the valuation of inventories is one of the key areas where companies can apply different methods based on their policies. For inventory valuation, companies can use methods such as FIFO (First In, First Out), LIFO (Last In, First Out), or weighted average cost. The choice of method can significantly affect the financial statements.

However, the provision of depreciation typically has a more standardized approach, though different depreciation methods (e.g., straight-line or declining balance) may be used. But, the fundamental principle of depreciation remains the same—allocating the cost of an asset over its useful life.

Since the primary focus of the question is on areas where different accounting policies can be applied, inventory valuation is a more flexible area, which is why (b) Valuation of inventories is the correct answer.



Topic 6 Reissue of Forfeited Shares

Multiple Choice Questions

Question 11

A change in accounting policy is justified

- (a) To comply with accounting standard and law.
- (b) To ensure more appropriate presentation of the financial statement of the enterprise.

(c) Both (a) and (b).

(Study Material)

Ans: (c) Both (a) and (b)

Reason:

As per Accounting Standard 1 (AS-1), a change in accounting policy is permitted only if:

It is required by statute or an Accounting Standard,

Or it results in the more appropriate presentation of financial statements.

So, if a change leads to better compliance or more relevant and reliable information, it is justified.

Therefore, the correct answer is (c) Both (a) and (b).

Question 12

Selection of an inappropriate accounting policy decision may

- (a) Overstate the performance and financial position of a business entity.
- (b) Understate/overstate the performance and financial position of a business entity.
- (c) Overstate the performance of a business entity.

(Study Material)

Ans: (b) Understate/overstate the performance and financial position of a business entity

Reason:

Inappropriate accounting policies can distort financial results in both directions:

1. For example, using an aggressive depreciation method can understate profits,

2. Conversely, ignoring provisions can overstate assets and income.

Therefore, a wrong policy may either overstate or understate the true picture of performance and financial position.

Hence, the correct answer is (b) Understate/overstate the performance and financial position of a business entity.

Topic 7 Preparation of Balance Sheet (Shareholding Part)

Theoretical Questions

Question 13

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

(Study Material)

Answer 13

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

Topic 8 Case Study / Practical Problems

Theoretical Questions

Question 14

Under what circumstances can an enterprise change its accounting policy?

(RTP MAY 2025)

Answer 14

A change in accounting policy is made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

CHAPTER 1 THEORETICAL FRAMEWORK

UNIT – 6

ACCOUNTING AS A MEASUREMENT DISCIPLINE – VALUATION PRINCIPLES, ACCOUNTING ESTIMATES

Topic 1 Introduction to Debentures

True and False

Question 1

There are four generally accepted measurement bases.

- (i) Historical Cost;
- (ii) Current Cost;
- (iii) Realizable Value;
- (iv) Future Value.

(Study Material)

Ans: False: There are four generally accepted measurement bases.

- (i) Historical Cost;
- (ii) Current Cost;
- (iv) Realizable Value;
- (iv) Present Value.

Topic 2 Types of Debentures

True and False

Question 2

Historical Cost means price paid at time acquisition.

(Study Material)

Ans: True: Historical cost means the acquisition price.

Topic 3 Redemption of Debentures – Meaning & Methods

True and False

Question 3

As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.

(Study Material)

Ans: False: At Realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.

Multiple Choice Questions

Question 4

Mohan purchased a machinery amounting Rs 10,00,000 on 1st April, 2001. On 31st March, 2022, similar machinery could be purchased for Rs 20,00,000 but the realizable value of the machinery (purchased on 1.4.2001) was estimated at Rs 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as Rs 12,00,000.

(i) The current cost of the machinery is

(a) Rs 10,00,000.

(b) Rs 20,00,000.

(c) Rs 15,00,000.

(Study Material)

Ans: (b) Rs 20,00,000.

Reason:

The current cost refers to the amount that would have to be paid currently to acquire the same or equivalent asset.

As per the Current Cost Accounting (CCA) concept:

“Current cost of an asset is the cost at which the same asset or its equivalent can be purchased today.”

In this question:

The original cost of Rs.10,00,000 is historical cost — not relevant for current cost.

The realizable value (Rs.15,00,000) is the price at which the asset can be sold — used for NRV or recoverable amount analysis.

The present value of cash inflows (Rs.12,00,000) is used for impairment testing.

But the current cost is the replacement cost, which is clearly stated as Rs.20,00,000.

Therefore, the correct answer is (b) Rs.20,00,000, because it represents the replacement cost, which is the current cost of the machinery.

Topic 4 Redemption out of Profits

True and False

Question 5

At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

(Study Material)

Ans: False: Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

Question 6

Goodwill is intangible asset therefore it cannot be valued.

(RTP MAY 2025)

Ans: False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

Topic 5 Creation of Debenture Redemption Reserve (DRR)

True and False

Question 7

ABC purchased a machinery amounting Rs 10,00,000 on 1st April, 2001. On 31st March, 2022, similar machinery could be purchased for Rs 20,00,000. Historical cost of machine is 20,00,000

(Study Material)

Ans: False: Historical cost is Rs10,00,000.

Multiple Choice Questions

Question 8

Measurement discipline deals with

- (a) Identification of objects and events.
- (b) Selection of scale.
- (c) Both (a) and (b)

(Study Material)

Ans: (c) Both (a) and (b)

Reason:

In accounting, measurement is a fundamental process that involves assigning numerical values to the economic events and objects relevant to an entity.

The discipline of measurement includes:

- (a) Identification of objects and events:

This step involves recognizing which items in a business should be measured — e.g., cash, inventory, fixed assets, liabilities, sales transactions, etc.

Only those events and items that can be objectively identified and measured are considered.

(b) Selection of scale:

After identification, measurement involves choosing the correct scale or unit of measurement — typically monetary terms in accounting.

For example, measuring assets in ₹ or \$; or choosing between historical cost, fair value, net realizable value, or present value.

Therefore, measurement involves both:

What to measure (identification)

How to measure it (scale/valuation basis)

Final Answer: (c) Both (a) and (b) — because measurement discipline in accounting includes identifying relevant items and selecting the appropriate measurement basis.

Theoretical Questions

Question 9

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

(Study Material)

Answer 9

Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Three elements of measurement are:

- (1) Identification of objects and events to be measured;
- (2) Selection of standard or scale to be used;
- (3) Evaluation of dimension of measurement standard or scale.

Topic 6 Redemption out of Capital

True and False

Question 10

ABC purchased a machinery amounting Rs 10,00,000 on 1st April, 2001. On 31st March, 2022, similar machinery could be purchased for Rs 20,00,000. Current cost of machine is Rs 20,00,000

(Study Material)

Ans: True: Since similar machine is purchased at 20,00,000, the current cost of machine is Rs 20,00,000.

Multiple Choice Questions

Question 11

All of the following are valuation principles except

- (a) Historical cost.
- (b) Present value.
- (c) Future value.

Ans: (c) Future value.

Reason:

In accounting, valuation principles are the bases used to measure and report the value of assets and liabilities in financial statements. Common valuation principles include:

(a) Historical Cost –

The original cost paid to acquire an asset.

Most commonly used principle in traditional accounting.

(b) Present Value –

The current worth of future cash flows discounted at an appropriate rate.

Used for valuation of long-term liabilities, impairment, or lease obligations.

(c) Future Value – ✗

This is not used in accounting valuation.

Future value refers to the value of money at a future date considering compound interest — a financial or investment concept, not an accounting measurement basis.

Accounting is focused on current or historical values, not projected or inflated future values, because that would violate prudence and reliability principles.

Therefore, the correct answer is (c) Future value, as it is not a recognized valuation principle in accounting.

Topic 7 Accounting Treatment – Redemption at Par / Premium

True and False

Question 12

Change in accounting estimate has to be given retrospective effect.

(Study Material)

Ans: False: Change in accounting estimate has not to be given retrospective effect.

Multiple Choice Questions

Question 13

Book value of machinery on 31st March, 2022 Rs 10,00,000

Market value as on 31st March, 2022 if sold Rs 11,00,000

As on 31st March, 2022, if the company values the machinery at Rs 11,00,000, which of the following valuation principle is being followed?

- (a) Historical Cost.
- (b) Present Value.
- (c) Realisable Value.

(Study Material)

Ans: (c) Realisable Value.

Reason:

In accounting:

1. Historical Cost means valuing the asset at its original purchase cost — here ₹10,00,000. So (a) is incorrect.

2. Present Value refers to the discounted value of future cash inflows expected from the asset. No such discounting is mentioned, so (b) is also incorrect.

3. Realisable Value (or Net Realisable Value / NRV) is the amount that can be obtained by selling the asset in the market, less any selling costs.

In this case:

The machinery is being valued at ₹11,00,000, which is its market value if sold, i.e., the realisable value.

This shows the company is departing from historical cost and instead using realisable value as the valuation base.

Final Answer: (c) Realisable Value, because the asset is valued at the amount it could be sold for in the market, which aligns with the realisable value principle.

Topic 8 Case Study / Practical Problems

Theoretical Questions

Question 14

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

(Study Material)

Answer 14

There are four generally accepted measurement bases or valuation principles. These are:

(i) Historical Cost;

(ii) Current Cost;

(iii) Realizable Value;

(iv) Present Value.

Let us discuss these principles in detail.

(i) Historical Cost: It means acquisition price. For example, the businessman paid Rs 7,00,000 to purchase the machine and spend Rs1,00,000 on its installation, its acquisition price including installation charges is Rs 8,00,000. The historical cost of machine would be Rs 8,00,000.

According to this base, assets are recorded at an amount of cash or cash equivalent paid at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation. In some circumstances a liability is recorded at the amount of cash or cash equivalent expected to be paid to satisfy it in the normal course of business.

When a businessman, takes Rs 5,00,000 loan from a bank @ 10% interest p.a., it is to be recorded at the amount of proceeds received in exchange for the obligation. Here the obligation is the repayment of loan as well as payment of interest at an agreed rate i.e. 10%. Proceeds received are Rs 5,00,000 - it is historical cost of the transactions.

Take another case regarding payment of income tax liability. You know every individual has to pay income tax on his income if it exceeds certain minimum limit. But the income tax liability is not settled immediately when one earns his income. The income tax authority settles it some time later, which is technically called assessment year. Then how does he record this liability? As per historical cost base it is to be recorded at an amount expected to be paid to discharge the liability.

Companies usually apply historical cost method in case of long-term assets like machinery, furniture, licenses etc.

(ii) Current Cost: Take that Mr. X purchased a machine on 1st January, 2011 at Rs 7,00,000. As per historical cost base he has to record it at Rs 7,00,000 i.e. the acquisition price. As on 1.1.2022, Mr. X found that it would cost Rs 25,00,000 to purchase that machine. Take also

that Mr. X took loan from a bank as on 1.1.2011 Rs 5,00,000 @ 18% p.a. repayable at the end of 15th year together with interest. As on 1.1.2022 the bank announces 1% prepayment penalty on the loan amount if it is paid within 15 days starting from that day. As per historical cost the liability is recorded at Rs 5,00,000 at the amount or proceeds received in exchange for obligation and asset is recorded at Rs 7,00,000.

Current cost gives an alternative measurement base. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

So as per current cost base, the machine value is Rs 25,00,000 while the value of bank loan is Rs 5,05,000.

(iii) Realisable Value: Suppose Mr. X found that he can get Rs 20,00,000 if he would sell the machine purchased on 1.1.2011 paying Rs 7,00,000 and which would cost Rs 25,00,000 in case he would buy it currently. Take also that Mr. X found that he had no money to pay off the bank loan of Rs 5,00,000 currently.

As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Haphazard disposal may yield something less. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

So, the machine should be recorded at Rs 20,00,000 the realisable value in an orderly sale while the bank loan should be recorded at Rs 5,00,000 the settlement value in the normal course of business.

Realisable value concept is commonly applied in case of inventories. Inventories are measured at the lower of cost and net realisable value.

(iv) Present Value: Suppose we are talking as on 1.1.2022 - take it as time for reference. Now think the machine purchased by Mr. X can work for another 10 years and is supposed

to generate cash @ Rs 1,00,000 p.a. Also take that bank loan of Rs 5,00,000 taken by Mr. X is to be repaid as on 31.12.2028. Annual interest is Rs 90,000.

As per present value, an asset is carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

The concept of Present Value is common in case of accounting for investments and loans.

The term 'discount', 'cash inflow' and 'cash outflow' need a little elaboration. Rs 100 in hand as on 1.1.2022 is not equivalent to Rs 100 in hand as on 31.12.2022. There is a time gap of one year. If Mr. X had Rs 100 as on 1.1.2022 he could use it at that time. If he received it only on 31.12.2022, he had to sacrifice his use for a year. The value of this sacrifice is called 'time value of money'. Mr. X would sacrifice i.e. he would agree to take money on 31.12.2022 if he had been compensated for the sacrifice. So a rational man will never exchange Rs 100 as on 1.1.2022 with Rs 100 to be received on 31.12.2022. Then Rs 100 of 1.1.2022 is not equivalent to Rs 100 of 31.12.2022. To make the money receivable at a future date equal with the money of the present date it is to be devalued. Such devaluation is called discounting of future money.

Perhaps you know the compound interest rule: $A = P (1 + i)^n$

A = Amount

P = Principal

i = interest / 100

n = Time

This equation gives the relationship between present money, principal and the future money amount. If A, i and n are given, to find out P, the equation is to be changed slightly.

$$P = \frac{A}{(1+i)^n}$$

Using the equation one can find out the present value if he knows the values of A, I and n.

Suppose $i = 20\%$, now what is the present value of Rs 1,00,000 to be received as on 31.12.2022 (Take 1.1.2022 as the time of reference).

$$P = \frac{1,00,000}{(1+20)^1} = \text{Rs. } 83,333$$

Similarly,

Time of Receipt	Money Value in Rs	Present Value in Rs
31.12.2023	1,00,000	69,444
31.12.2024	1,00,000	57,870
31.12.2025	1,00,000	48,225
31.12.2026	1,00,000	40,188
31.12.2027	1,00,000	33,490
31.12.2028	1,00,000	27,908
31.12.2029	1,00,000	23,257
31.12.2030	1,00,000	19,381
31.12.2031	1,00,000	16,150

Total of all these present values is Rs 4,19,246. Since the machine purchased by Mr. X will produce cash equivalent to Rs 4,19,246 in terms of present value, it is to be valued at such amount as per present value measurement basis.

Here, Mr. X will receive Rs 1,00,000 at different points of time-these are cash inflows. In the other example, he has to pay interest and principal of bank loan-these are cash outflows. Perhaps you also know the annuity rule:

Present value of an Annuity or Re. A for n periods is

A = Annuity

i = interest

t = time 1, 2, 3, ...n.

$$= \frac{A}{i} \left[1 - \frac{1}{(1+i)^n} \right]$$

Applying this rule one can derive the present value of Rs 1,00,000 for 10 years @ 20% p.a.

$$= \frac{1,00,000}{0.20} \left[1 - \frac{1}{(1+0.20)^{10}} \right] = \text{Rs } 4,19,246$$

Similarly, the present value of bank loan is

$$= \frac{90,000}{0.20} \left[1 - \frac{1}{(1+0.20)^5} \right] + \frac{5,00,000}{(1+0.20)^5}$$

$$= \text{Rs } 2,69,155 + \text{Rs } 2,00,939 = \text{Rs } 4,70,094$$

Thus, we get the four measurements as on 1.1.2022:

	Historical cost In Rs	Current cost In Rs	Realisable value in Rs	Present value in Rs
Asset: Machine	7,00,000	25,00,000	20,00,000	4,19,246
Liability: Bank Loan	5,00,000	5,05,000	5,00,000	4,70,094

The accounting system which we shall discuss in the remaining chapters is also called historical cost accounting. However, this need not mean that one shall follow only historical cost basis of accounting. In the later stages of the CA course, we shall see that the

accounting system uses all types of measurement bases although under the traditional system most of the transactions and events are measured in terms of historical cost.



CHAPTER 1 THEORETICAL FRAMEWORK

UNIT – 7

ACCOUNTING STANDARDS

Topic 1 Introduction to Financial Statement Analysis

True and False

Question 1

Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.

(Study Material)

Ans: True: Accounting standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.

Topic 2 Objectives & Importance of Financial Analysis

True and False

Question 2

Accounting standards can override the statute.

(Study Material)

Ans: False: Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.

Topic 3 Tools of Financial Analysis – Ratio Analysis

True and False

Question 3

Difficulties in making choice between different treatments is one of the benefits of accounting standards.

(Study Material)

Ans: False: Difficulties in making choice between different treatments is one of the limitation of accounting standard.

Topic 4 Tools of Financial Analysis – Comparative Statements

True and False

Question 4

Requirements for additional disclosures is limitation of accounting standards.

(Study Material)

Ans: False: Benefits of accounting standards are:

- Standardisation of alternative accounting treatments
- Comparability of financial statements
- Requirements for additional disclosures.

Topic 5 Tools of Financial Analysis – Common Size Statements

True and False

Question 5

ASB stands for Accounting standardisation benchmarking.

(Study Material)

Ans: False: ASB stands for Accounting Standard Board.

Topic 6 Tools of Financial Analysis – Trend Analysis

True and False

Question 6

There are no limitation to accounting standards.

(Study Material)

Ans: False: limitations of accounting standards

- Difficulties in making choice between different treatments
- Restricted scope

Topic 7 Classification of Ratios – Liquidity, Solvency, Activity, Profitability

True and False

Question 7

Accounting Standards for non-corporate entities in India are issued by the Central Government.

(RTP MAY 2025)

Ans: False: Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

Topic 8 Calculation & Interpretation of Ratios

Multiple Choice Questions

Question 8

Accounting Standards for Non-Corporate entities in India are issued by

- (a) Central Govt.
- (b) State Govt.
- (c) Institute of Chartered Accountants of India.

Ans: (c) Institute of Chartered Accountants of India.

Reason:

In India, the authority for issuing Accounting Standards is divided as follows:

1. For Companies:

Accounting Standards are notified by the Central Government under the Companies Act, 2013, in consultation with the National Financial Reporting Authority (NFRA).

2. For Non-Corporate Entities (e.g., sole proprietorships, partnerships, trusts, etc.):

(i) Accounting Standards are issued by the Institute of Chartered Accountants of India (ICAI).

(ii) ICAI classifies non-corporate entities into Level I, II, and III to prescribe applicable disclosure and compliance requirements.

ICAI has developed a framework to ensure that even non-corporate entities maintain uniformity and transparency in financial reporting.

Evaluation of Options:

(a) Central Govt. – Incorrect. It issues standards for companies, not non-corporate entities.

(b) State Govt. – Incorrect. No role in issuing accounting standards.

(c) ICAI – Correct. The Institute of Chartered Accountants of India is the issuing authority for non-corporate entities.

Final Answer: (c) Institute of Chartered Accountants of India, because it is the statutory body responsible for prescribing accounting standards for non-corporate entities in India.

Theoretical Questions

Question 9

Objective of Accounting Standards.

(RTP JAN 2025)

Answer 9

Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. 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.

Topic 9 Case Study / Practical Problem

Theoretical Questions

Question 10

Advantages and Disadvantages of Right Issue.

(RTP MAY 2025)

Answer 10

Advantages of Right Issue

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.

2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.

3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.

4. Right issue has an image enhancement effect, as public and shareholders view it positively.

5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of Right Issue

1. The right issue invariably leads to dilution in the market value of the share of the company.

2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

CHAPTER 2 ACCOUNTING PROCESS

UNIT -1

BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES

Topic 1 Introduction to Accounting and Bookkeeping

True and False

Question 1

In accounting equation approach, $\text{equity} + \text{Long-term liabilities} = \text{fixed asset} + \text{current assets} - \text{current liabilities}$.

(Study Material)

Ans: True: As per the modern accounting equation approach- it is the basic formula in the accounting process

Topic 2 Journal – Book of Original Entry

True and False

Question 2

In the traditional approach, for an entity a debtor will be receiver after sale of goods.

(Study Material)

Ans: False: In the traditional approach, a debtor will be giver since he will be paying money for the sale of goods by the entity.

Practical Questions

Question 3

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

(i) Purchased goods from Sonu for Rs 3,00,000 at a trade discount of 10% plus CGST and SGST@ 6% each.

(ii) Sold goods to Mohit for Rs 1,00,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately.

(iii) Goods costing Rs 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 Rs 2,00,000 plus CGST and SGST @ 9% each. Paid Rs 1,00,000 immediately by cheque and balance to be paid after two months.

(Study Material)

Answer 3

Journal entries in the books of Mr. Manish

S No.	Particulars	L.F.	Amount Dr. (Rs)	Amount Cr. (Rs)
(i)	Purchases A/c Dr.		2,70,000	
	Input CGST A/c Dr.		16,200	

	Input SGST A/c	Dr.	16,200	
	To Sonu's A/c			3,02,400
	(Being goods purchased from Sonu, CGST and SGST payable @ 6% each)			
(ii)	Bank A/c	Dr.	44,000	
	Mohit's A/c	Dr.	66,000	
	To Sales A/c			1,00,000
	To Output CGST A/c			5,000
	To Output SGST A/c			5,000
	(Being goods sold to Mohit, charged CGST and SGST @ 5% each and received 40% in cash)			
(iii)	Drawings A/c	Dr.	28,000	
	To Purchase A/c			25,000
	To Input CGST A/c			1,500
	To Input SGST A/c			1,500
	(Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed)			
(iv)	Machinery A/c	Dr.	2,00,000	
	Input CGST A/c	Dr.	18,000	
	Input SGST A/c	Dr.	18,000	

	To Bank A/c			1,00,000
	To Bright Industries			1,36,000
	(Being machinery purchased and paid Rs 1,00,000 immediately, CGST and SGST @ 9% each)			

Question 4

Strawberry farms Ltd. issued 20,000 11% debentures of Rs. 100 each at a discount of 5%, payable Rs. 50 on application and Rs. 45 on allotment redeemable after 3 years.

(i) at a premium of 2%

(ii) at a discount of 2%

Pass necessary journal entries for issue of debentures.

(RTP MAY 2025)

Answer 4

(i) Books of Strawberry Farms Ltd.

Journal

Particulars	L.F.	Debit	Credit
		Amount	Amount
Bank A/c Dr.		10,00,000	
To Debenture Application A/c			10,00,000

(Debentures application money received)			
Debenture Application A/c Dr.		10,00,000	
To 11% Debentures A/c			10,00,000
(Application money transferred to 11% debentures account)			
Debenture Allotment A/c Dr.		9,00,000	
Discount on issue of debentures Dr		1,00,000	
Loss on issue of debenture A/c Dr.		40,000	
To 11% Debentures A/c			10,00,000
To Debenture redemption premium A/c			40,000
(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
Bank A/c Dr.		8,80,000	
To Debenture Allotment A/c			8,80,000
(Allotment amount received)			

Working Notes:

Amount of discount on issue = $20,000 \times \text{Rs.}100 \times 5\% = \text{Rs. } 1,00,000$

Loss on issue of debentures = $20,000 \times \text{Rs.}100 \times 2\% = \text{Rs. } 40,000$

Alternatively, the discount on issue of debentures, can be combined with loss on issue of debentures A/c as both discount and redemption premium represent loss to the company. In that case the journal entries will be

Debenture Allotment A/c Dr.	9,00,000	
Loss on issue of debenture A/c Dr.	1,40,000	
To 11% Debentures A/c		10,00,000
To Debenture redemption premium A/c		40,000
(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)		

(ii) Books of Strawberry Farms Ltd.

Journal

Particulars	L.F.	Debit	Credit
Amount		Amount	
Bank A/c Dr.		10,00,000	
To Debenture Application A/c			10,00,000
(Debentures application money received)			

Debenture Application A/c Dr.		10,00,000	
To 11% Debentures A/c			10,00,000
(Application money transferred to 11% debentures account)			
Debenture Allotment A/c Dr.		9,00,000	
Discount on issue of debentures Dr.		1,00,000	
To 11% Debentures A/c			10,00,000
(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
Bank A/c Dr.		9,00,000	
To Debenture Allotment A/c			9,00,000
(Allotment amount received)			

Topic 3 Ledger and Posting from Journal

True and False

Question 5

The rule of nominal account states that all expenses & losses are recorded on credit side.

(Study Material)

Ans: False: The rule of nominal account states that all expenses & losses are recorded on debit side.

Multiple Choice Question

Question 6

The rent paid to landlord is credited to

- (a) Landlord's account.
- (b) Rent account.
- (c) Cash account.

(Study Material)

Ans: (c) Cash account.

Reason:

In accounting, every transaction follows the double-entry system, where:

1. One account is debited
2. Another is credited

Let's analyze the transaction:

"Rent paid to landlord" means cash is going out, and rent expense is incurred.

Journal Entry:

Rent A/c Dr.

 To Cash A/c

Rent Account (Expense) is debited — as per the rule “Debit all expenses and losses.”

Cash Account (Asset) is credited — as per the rule “Credit what goes out.”

Evaluation of Options:

(a) Landlord’s account – Not used unless rent is unpaid or on credit.

(b) Rent account – This is debited, not credited.

(c) Cash account – Correct. Cash is going out, so it is credited.

Final Answer: (c) Cash account, because rent payment results in outflow of cash, and cash account is credited as per accounting rules.

Theory Questions

Question 7

Distinguish between Real account and nominal account.

Answer 7

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

Practical Questions

Question 8

Amit Limited issued 50,000 Equity shares of Rs.100 each at a premium of 20%, payable Rs. 20 on application; Rs. 50 on allotment (including premium); Rs. 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 5000 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 500 shares and one another shareholder having 250 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.

(MTP MAY 2025)

Answer 8

Entry No.	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
1	Bank A/c Dr.		10,00,000	
	To Equity Share Application A/c			10,00,000
	(Money received on applications for 50,000 shares @ Rs. 20 per share)			
2	Equity Share Application A/c Dr.		10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Transfer of application money on 50,000			

	shares to share capital)			
3	Equity Share Allotment A/c Dr.		25,00,000	
	To Equity Share Capital A/c			15,00,000
	To Securities Premium A/c			10,00,000
	(Amount due on the allotment of 50,000 shares @ Rs. 30 per share and Securities Premium @ Rs. 20 per share)			
4	Bank A/c Dr.		25,00,000	
	To Equity Share Allotment A/c			25,00,000
	(Allotment money received)			
5	Equity Share First Call A/c Dr.		10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being first call made due on 50,000 shares at Rs. 20 per share)			
6	Bank A/c Dr.		11,50,000	

	To Equity Share First Call A/c			10,00,000
	To Calls in Advance A/c			1,50,000
	(Being first call money received along with calls in advance on 5,000 shares at Rs. 30 per share)			
7	Equity Share Final Call A/c Dr.		15,00,000	
	To Equity Share Capital A/c			15,00,000
	(Being final call made due on 50,000 shares at Rs. 30 each)			
8	Bank A/c Dr.		13,27,500	
	Calls in Advance A/c Dr.		1,50,000	
	Calls in Arrears A/c Dr.		22,500	
	To Equity Share Final Call A/c			15,00,000
	(Being final call received for 44,250 shares, calls in advance for 5,000 shares and calls in arrears on 750 shares adjusted)			
9	Interest on Calls in Advance A/c Dr.		6,000	

	To Shareholders A/c			6,000
	(Being interest made due on calls in advance of Rs. 1,50,000 at the rate of 12% p.a.)			
10	Shareholders A/c Dr.		6,000	
	To Bank A/c			6,000
	(Being payment of interest made to shareholder after 3 months)			
11	Shareholders A/c Dr.		375	
	To Interest on Calls in Arrears A/c			375
	(Being interest on calls in arrears made due at the rate of 10%)			
12	Bank A/c Dr.		15,375	
	To Calls in Arrears A/c			15,000
	To Shareholders A/c			375
	(Being money received from shareholder having 500 shares for calls in arrears and interest thereupon)			
13	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%)			
14	Bank A/c Dr.		7,750	
	To Calls in Arrears A/c			7,500
	To Shareholders A/c			250
	(Being money received from shareholder having 250 share for calls in arrears and interest thereupon)			

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

Interest on Calls in Advance = Rs. 1,50,000 x 12% x 4 / 12 = Rs. 6,000

Interest on Calls in Arrears Rs. 15,000 x 10% x 3 / 12 = Rs. 375

Interest on Calls in Arrears Rs. 7,500 x 10% x 4 / 12 = Rs. 250

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

Question 9

The extract of Balance Sheet of Hari Om Ltd. as on 31st March 2024 is as follows

Sr. No.	Particulars	Notes	Rs.

I]	EQUITY AND LIABILITIES		
(1)	Shareholders' funds		
a)	Share Capital	1	350,000
b)	Reserve & Surplus	2	64,000
II]	ASSETS		
(1)	Non-current assets		
a)	PPE & Intangible Assets		
	i) PPE		2,25,000
b)	Non-Current Investments		60,000

Notes to accounts:

Sr. No.	Particulars	Rs.
1.	Share capital	
	Authorized Share Capital	
	40,000 Equity shares of Rs. 10 each fully paid up	4,00,000
	1,000 8% Preference shares of Rs. 100 each fully paid up	1,00,000
		5,00,000

	Issued, Subscribed Called Up and Paid up Share Capital	
	1000, 8% Preference shares of Rs. 100 each fully paid up	1,00,000
	25,000 Equity shares of Rs. 10 each fully paid up	2,50,000
	Total	3,50,000
2.	Reserve and Surplus	
	Securities Premium Reserves	9,000
	Profit and Loss Account	55,000
	Total	64,000

In order to redeem its preference shares, the company issued 5,000 equity shares of Rs.10 each at a premium of 10% and sold its investment of Rs. 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

(RTP MAY 2025)

Answer 9

In the books of Hari Om Ltd.

Journal Entries

Particulars	Dr. (Rs.)	Cr. (Rs.)
Bank A/c Dr.	55,000	

To Equity Share Application and Allotment A/c		55,000
(Being Application money received)		
Equity Share Application A/c Dr.	55,000	
To Equity Share Capital A/c		50,000
To Securities Premium A/c		5,000
(Being capitalization of equity share application money received)		
Bank A/c Dr.	70,800	
To Investments A/c		60,000
To Profit on sale of investments A/c		10,800
(Being Investments Sold)		
8% Redeemable Preference Share Capital A/c Dr.	1,00,000	
Premium on Redemption of Preference Shares A/c	10,000	
To 8% Preference Shareholders A/c		1,10,000
(Being amount payable to preference share holders on redemption of 10% premium)		
Preference Shareholders A/c Dr.	1,10,000	

To Bank A/c		1,10,000
(Being amount paid to Preference Shareholders)		
Profit & Loss A/c Dr.	10,000	
To Premium on Redemption of Preference Share A/c		10,000
(Being Premium on Redemption of preference shares written off out of profit)		
Profit and Loss A/c Dr.	50,000	
To Capital Redemption Reserve A/c (W.N.)		50,000
(Being amount transferred to Capital Redemption Reserve)		

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed Rs. 1,00,000

Less: Proceeds from new issue Rs. (50,000)

Total Balance Rs. 50,000

Topic 4 Classification of Accounts

True and False

Question 10

Outstanding Expenditure is a nominal Account.

(RTP SEP 2025)

Ans: False: Outstanding Expenditure is a personal account of representative nature because it represents a liability due to some person.

Practical Questions

Question 11

The partnership deed of a firm consisting of 3 partners - Alfa, Beta and Gamma (profit sharing ratio being 2:1:1) and whose fixed capitals are Rs.90,000, Rs.36,000 and Rs.24,000 respectively provides as follows:

- (i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.
- (ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.
- (iii) That an insurance policy of Rs.75,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.
- (iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.
- (v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
- (vi) That the partnership books to be closed annually on 31st December.

Alfa died on 30th September, 2024. The amount standing to the credit of his current account as on 31st December, 2023 was Rs.15,000 and from that date to the date of death he had withdrawn Rs. 45,000 from the business.

An unrecorded liability of Rs.18,000 was discovered on 30th September, 2024 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:

2021 Profit Rs.88,020

2022 Profit Rs.79,410

2023 Loss Rs.24,960

2024 Profit Rs.40,410

You are required to prepare an account showing the amount due to Alfa's legal heir as of 31 December 2024.

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

(RTP MAY 2025)

Answer 11



2024		Rs.	2024		Rs.
Sep. 30	To Current A/c (90,000 - 15000)	75,000	Jan. 1	By Balance b/d	90,000
Dec. 31	To Profit and Loss Adj. (Unrecorded Liability)	9000	Dec. 31	By Profit and Loss A/c :	

Dec. 31	To Balance Transferred to ALFA's Executor's A/c	1,15,395		Interest on Capital	7,200
			Dec. 31	Share of Profit	14,205
				BETA & Gamma (Goodwill)	35,490
			Dec. 31	Insurance Policies A/c	52,500
		1,99,395			1,99,395

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest	Interest	Profit after interest
2021	88020	12000	76020
2022	79410	12000	67410
2023	-24960	12000	-36960
	142470	36000	106470

	Rs.

Average Profit	35490
Goodwill at two years purchase of average net profits	70980
Share of ALFA in the goodwill	35490

(ii) Profit on Separate Life Policy

Alfa's policy	75,000	
Beta and Gamma's policy @ 20% of Rs. 50,000	30,000	1,05,000
Share of Alfa (1/2)		52,500

(iii) Share in profit for 2024:

Profit for the year	40410
Less: Interest on capitals	-12000
	28,410
Alfa's share in profit (1/2)	14205

Note: An unrecorded liability of 18,000 has been charged to Capital Accounts through Profit and Loss Adjustment A/c, no further adjustment in current year's profit is required.

Topic 5 Double Entry System of Accounting

True and False

Question 12

Purchase account is a nominal account.

(Study Material)

Ans: True: As it is considered as an expense.

Multiple Choice Question

Question 13

Which account is the odd one out?

- (a) Office furniture & Equipment.
- (b) Freehold land and Buildings.
- (c) Inventory of materials.

Ans: (c) Inventory of materials.

Reason:

Let's understand the nature of each item:

(a) Office furniture & Equipment

- (i) These are fixed assets (tangible) used in the business over a long period.
- (ii) Classified under Property, Plant and Equipment (PPE) in financial statements.

(b) Freehold land and Buildings

(i) Also fixed assets, held for long-term use in business operations.

(ii) Part of Property, Plant and Equipment.

(c) Inventory of materials

This is a current asset, held for sale or consumption in the short term during the normal operating cycle.

Appears under current assets in the balance sheet and is not part of PPE.

Conclusion:

Options (a) and (b) are non-current/fixed assets,

Option (c) is a current asset.

Hence, Inventory of materials is functionally and categorically different, making it the odd one out.

Final Answer: (c) Inventory of materials, because it is a current asset, unlike the other two which are fixed assets.

Topic 6 Preparation of Trial Balance

True and False

Question 14

Journal proper is also called a subsidiary book.

(Study Material)

Ans: True: It is one of the book where in the transactions not entered in the other books are entered in this book.

Multiple Choice Question

Question 15

A Ltd. has a Rs 35,000 account receivable from Mohan. On January, 22, Mohan makes a partial payment of Rs 21,000 to A Ltd. The journal entry made on January, 22 by A Ltd. To record this transaction includes:

- (a) A credit to the cash received account of Rs 21,000.
- (b) A credit to the Accounts receivable account of Rs 21,000.
- (c) A debit to the cash account of Rs 14,000.

(Study Material)

Ans: (b) A credit to the Accounts receivable account of Rs 21,000

Reason:

In this transaction, A Ltd. receives Rs.21,000 in cash from Mohan, a debtor. This means:

1. Cash increases → Debit cash account
2. Accounts receivable (Mohan's balance) decreases → Credit Mohan's A/c (i.e., Accounts Receivable)

Journal Entry on January 22 (Books of A Ltd.):

Cash A/c	Dr. Rs.21,000	
	To Accounts Receivable (Mohan) A/c	Rs.21,000

(Being part payment received from Mohan)

Evaluation of options:

- (a) Credit to cash received account of Rs.21,000 – Incorrect. Cash is an asset and is increasing, so it should be debited, not credited.

(b) Credit to accounts receivable of Rs.21,000 – Correct. Since A Ltd. received Rs.21,000, the amount due from Mohan decreases, and the receivable account is credited accordingly.

(c) Debit to cash account of Rs.14,000 – Incorrect amount. Rs.21,000 was received, so Rs.14,000 is wrong.

Final Answer: (b) A credit to the Accounts Receivable account of Rs.21,000, because A Ltd. is reducing the outstanding balance from Mohan upon receiving the part payment.

Practical Questions

Question 16

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

a	Rent outstanding
b	Closing Inventory
c	Sales
d	Bank Fixed Deposit
e	Cash
f	Bad Debts
g	Capital
h	Sales Tax Payable

i	Trade receivables
j	Depreciation
k	Drawings

(Study Material)

Answer 16

Nature of Account

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

Question 17

Pass a journal entry in each of the following cases:

(i) A running business was purchased by Mohan with following assets and liabilities:

Cash Rs. 20,000, Land Rs. 40,000, Furniture Rs. 10,000, Stock Rs. 20,000, Creditors Rs. 10,000, Bank Overdraft Rs. 20,000.

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

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

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

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

(RTP JAN 2025)

Answer 17

(i) Cash A/c Dr.	20,000	
Land A/c Dr.	40,000	
Furniture A/c Dr.	10,000	
Stock A/c Dr.	20,000	
To Creditors		10,000
To Bank overdraft		20,000

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

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

Question 18

Ambiance Limited invited applications for issuing 2,25,000 equity shares of Rs. 10 each at a premium of Rs. 5 per share. The total amount was payable as follows:

- Rs. 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 9,00,000 equity shares were received. Applications for 6,00,000 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 4,500 shares applied by Mr. Kabir. His shares were forfeited. The forfeited shares were re-issued at a discount of Rs. 4/- per share.

Pass necessary journal entries for the above transactions in the books of Ambiance Limited.

(RTP MAY 2025)

Answer 18

Journal Entries in the books of Ambiance Ltd.

		Dr. Rs.	Cr. Rs.
1	Bank Account Dr.	81,00,000	

	To Share Application & Allotment A/c		81,00,000
	(Being Application money on 9,00,000 shares at Rs. 9 per share received.)		
2	Share Application & Allotment A/c Dr.	81,00,000	
	To Share Capital A/c (225,000 x Rs. 4)		9,00,000
	To Securities premium A/c (225,000 x Rs. 5)		11,25,000
	To Bank A/c (6,00,000 x Rs. 9)		54,00,000
	To Share First & Final Call A/c		6,75,000
	(Being application money transferred)		
3	Share First & Final Call A/c (225,000 x6) Dr.	13,50,000	
	To Share Capital Account		13,50,000
	(Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....)		
4	Bank Account A/c Dr.	6,64,875	
	Calls in arrear A/c Dr.	10,125	
	To Share First & Final Call Account		6,75,000

	(Being Receipt of the amounts due on first call)		
5	Equity share capital A/c Dr.	33,750	
	To Share forfeiture A/c		23,625
	To Calls in arrear A/c		10,125
	(Being 3,375 shares forfeited for non payment of final call.)		
6	Bank Account A/c (3,375 x Rs. 6) Dr.	20,250	
	Share forfeiture A/c (3,375 x Rs. 4)	13,500	
	To Share Capital Account (3,375 x Rs. 10)		33,750
	(Being forfeited shares reissued at Rs. 4 discount)		
7	Share forfeiture A/c	10,125	
	To Capital reserve A/c		10,125
	(Being share forfeiture transferred to capital reserve*)		

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ Rs. 9/-	Money Transferred to Share Capital @ Rs. 4/-	Money Transferred to Security Premium @Rs. 5/-	Excess Application Money	Share First and Final Call @ Rs. 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
6,00,000	-	54,00,000	-	-	-	-	-	54,00,000
3,00,000	225,000	27,00,000	9,00,000	11,25,000	6,75,000	13,50,000	12,75,000	-
9,00,000	2,25,000	81,00,000	9,00,000	11,25,000	6,75,000	13,50,000	13,39,875*	54,00,000

* Rs. 13,50,000 less Rs. 10,125.

2. Number of shares allotted to Mr. Kabir = $4,500 \times 225,000 / 3,00,000 = 3,375$ shares

3. Calculation of calls in arrear

Application money received from Kabir	(4,500 x 9)	40,500
Less: actual application money	3,375 x 9	30,375
Excess Application & Allotment Money Adjusted with first and final call		70,875

Final call due from Kabir		20,250
Less: Adjusted with final call		(10,125)
Calls in arrear		10,125

Topic 7 Rectification of Errors

True and False

Question 19

Capital account has a debit balance.

(Study Material)

Ans: False: Capital account has a credit balance.

Multiple Choice Question

Question 20

Which financial statement represents the accounting equation -

Assets = Liabilities + Owner's equity:

- (a) Income Statement
- (b) Statement of Cash flows
- (c) Balance Sheet.

Ans: (c) Balance Sheet.

Reason:

The Balance Sheet is the financial statement that shows the financial position of an enterprise at a specific point in time. It is structured according to the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

This equation reflects the duality principle of accounting—what the business owns (assets) is financed by either what it owes to outsiders (liabilities) or what belongs to the owners (owner's equity).

Explanation of Other Options:

(a) Income Statement – Shows revenue and expenses to calculate profit or loss over a period. It does not represent the accounting equation.

(c) Balance Sheet – It presents a snapshot of assets, liabilities, and equity, directly applying the accounting equation.

Final Answer: (c) Balance Sheet, because it is the only financial statement that illustrates the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}.$$

Practical Questions

Question 21

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

(i) Employees had taken inventory worth Rs. 1,00,000 (Cost price Rs. 75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery Rs. 18,000.

(iii) Income tax liability of proprietor Rs. 17000 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of Rs. 2,00,000. He allowed 10% trade discount, Rs. 5,000 cash discount was also allowed for quick payment.

(Study Material)

Answer 21

Journal Entries in the books of Gamma Bros.

	Particulars		Amount Dr.	Amount Cr.
(i)	Salaries A/c	Dr.	75,000	
	To Purchase A/c			75,000
	Being entry made for inventory taken by employees)			
(ii)	Machinery A/c	Dr.	18,000	
	To Bank A/c			18,000
	(Being wages paid for erection of machinery)			
(iii)	Drawings A/c	Dr.	17,000	
	To Petty Cash A/c			17,000
	(Being the income tax of proprietor paid out of business money)			
(iv)	Purchase A/c	Dr.	1,80,000	
	To Naveen A/c			1,80,000

	(Being goods purchased from Naveen)			
(v)	Naveen A/c	Dr.	1,80,000	
	To Bank			1,75,000
	To Discount Received A/c			5,000
	(Being amount paid for the goods purchased from Naveen for Rs. 2,00,000. 10% trade discount and cash discount of Rs. 5,000 allowed by him)			

Note:

- i. Here wages paid on erection of machinery have been capitalised therefore machinery account has been debited directly instead of wages being recorded as an expenditure.
- ii. The students may also note that trade discount is allowed on the list price of goods. It is deducted to compute the invoice amount of the goods to be recorded in the books. Cash discount is a discount allowed in case of early payments to the seller. The entry is made in the books of accounts for cash discount.

Question 22

Kunal Fortune Ltd invited applications for issuing 30,000 Equity Shares of Rs. 10 each. The amount was payable as follows:

- (i) On Application Rs. 1 per share**
- (ii) On Allotment Rs. 2 per share**
- (iii) On First call Rs. 3 per share**
- (iv) On Second and final Call Rs. 4 per share**

The issue was fully subscribed. Arun to whom 300 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Ajeet to whom 450 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 150 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at Rs. 9 per share fully paid-up.

Pass necessary Journal entries in the books of Kunal Fortune Ltd.

(RTP JAN 2025)

Answer 22

In the books of Kunal Fortune Ltd.

Journal Entries

Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
Bank A/c Dr.		30,000	
To Equity Share Application A/c			30,000
(Money received on applications for 30,000 shares @ Rs. 1 per share)			
Equity Share Application A/c Dr.		30,000	
To Equity Share Capital A/c			30,000
(Transfer of application money of 30,000 shares to share capital)			

Equity Share Allotment A/c Dr.		60,000	
To Equity Share Capital A/c			60,000
(Amount due on the allotment of 30,000 shares @ Rs. 2 per share)			
Bank A/c Dr.		59,400	
To Equity Share Allotment A/c			59,400
(Allotment money received on 29,700 shares) Dr.			
OR			
Bank A/c Dr.		59,400	
Calls in arrears A/c		600	
To Equity Share Allotment A/c			60,000
(Allotment money received except 300 shares)			
Equity Share Capital A/c Dr.		900	
To Share Forfeiture A/c			300
To Equity Shares Allotment A/c			600

(300 Shares of Arun forfeited)			
OR			
Equity Share Capital A/c Dr.		900	
To Shares Forfeiture A/c			300
To Calls in arrears A/c			600
(300 shares forfeited due to non-payment of allotment money)			
Equity Share First Call A/c Dr.		89,100	
To Equity Share Capital A/c			89,100
(First call made due on 29,700 shares at Rs. 3 per share)			
Bank A/c Dr.		87,750	
To Equity Share First Call A/c			87,750
(First call money received on 29,250 shares at Rs. 3 per share) Dr.			
OR			
Bank A/c Dr.		87,750	

Calls in arrears A/c		1,350	
To Equity Share First Call A/c			89,100
(First Call money received except 450 shares)			
Equity Share Capital A/c Dr.		2,700	
To Share Forfeiture A/c			1350
To Equity Share First Call A/c			1350
(450 Shares of Ajeet forfeited)			
OR			
Equity Share Capital A/c Dr.		2,700	
To Share Forfeiture A/c			1,350
To Calls in arrears A/c			1,350
(450 shares forfeited due to non - payment of First call money)			
Equity Share Second and Final Call A/c Dr.		1,17,000	
To Equity Share Capital A/c			1,17,000
(Second and Final call made due on 29,250			

shares at Rs. 4 per share)			
Bank A/c Dr.		1,16,400	
To Equity Share Second and Final Call A/c			1,16,400
(Second and Final call money received on 29,100 shares at Rs. 4 per share)			
OR			
Bank A/c Dr.		1,16,400	
Calls in arrears A/c Dr.		600	
To Equity Shares Second and Final call A/c			1,17,000
(Second and Final call money received except 150 shares)			
Equity Share Capital A/c Dr.		1,500	
To Share Forfeiture A/c			900
To Equity Share Second and Final Call A/c			600
(150 Shares of Mohan forfeited)			
OR			
Equity Share Capital A/c Dr.		1,500	

To Shares Forfeiture A/c			900
To Calls in arrears A/c			600
(50 shares forfeited due to non-payment of Second and final call money)			
Bank A/c Dr.		8,100	
Share Forfeiture A/c Dr.		900	
To Equity Share Capital A/c			9,000
(900 shares reissued at Rs. 9 per share)			
Share Forfeiture A/c Dr.		1,650	
To Capital Reserve A/c (W.N.1)			1,650
(Profit on re-issue transferred to Capital Reserve)			

Working Note-1:

Calculation of amount to be transferred to Capital Reserve:

Surplus out of 300 shares of Arun forfeited	Rs. 300
Surplus out of 450 shares of Ajeet forfeited	Rs. 1,350
Surplus out of 150 shares of Mohan forfeited	Rs. 900
	Rs. 2,550

Less: Loss on re-issue of shares

Rs. 900

Transferred to Capital Reserve

Rs.1,650

Question 23

You are required to pass necessary journal entries of the following

(i) Employees had taken stock worth Rs. 50,000 (Cost price Rs. 45,000) on the eve of New year and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery Rs. 16,000.

(iii) Withdrawn for personal use: Goods (Sales Price 8,000, Cost 6,000) Cash 1,000

(iv) Purchase of goods from Sandeep of the list price of Rs. 60,000. He allowed 10% trade discount, Rs. 1,500 cash discount was also allowed for quick payment.

(v) Purchased second hand machinery from Jawahar industries for Rs. 3,00,000 plus CGST and SGST @ 6% each. Paid Rs. 1,00,000 immediately by cheque and balance to be paid after two months.

(RTP SEP 2025)

Answer 23

	Particulars	Dr.	Cr.
		Amount (Rs.)	Amount (Rs.)
(i)	Salaries A/c Dr.	45,000	
	To Purchase A/c		45,000

	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c Dr.	16,000	
	To Bank A/c		16,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	7,000	
	To Purchases A/c		6,000
	To Cash A/c		1,000
	(Being goods and cash withdrawn for personal use)		
(iv)	Purchase A/c	54,000	
	To Bank A/c		52,500
	To Discount Received A/c		1,500
	(Being the goods purchased from Sandeep for Rs. 60,000 @ 10% trade discount and cash discount of Rs. 1,500)		
(v)	Machinery A/c Dr.	3,00,000	
	Input CGST A/c Dr.	18,000	

	Input SGST A/c Dr.	18,000	
	To Bank A/c		1,00,000
	To Jawahar Industries A/c		2,36,000
	(Being machinery purchased from Jawahar and paid 1,00,000 immediately CGST and SGST @ 6% each)		

Topic 8 Adjustments in Final Accounts

True and False

Question 24

All the personal & real account are recorded in P&L A/c.

(Study Material)

Ans: False: All the personal & real account are recorded in balance sheet.

Multiple Choice Question

Question 25

The debts written off as bad, if recovered subsequently are

(a) Credited to Bad Debts Recovered Account

(b) Credited to Trade Receivables Account.

(c) Debited to Profit and Loss Account.

(Study Material)

Ans: (a) Credited to Bad Debts Recovered Account

Reason:

When a debtor's balance is written off as a bad debt, it is removed from the books and considered a loss. If, in a later period, the same amount is recovered, it should not be adjusted against the debtor's account, because:

The debtor account was already closed (written off earlier).

The amount recovered now is a gain, not a reversal of an earlier receivable.

Hence, it is recorded as income, specifically credited to a new account called "Bad Debts Recovered Account."

Journal Entry (on recovery of previously written-off bad debt):

Cash / Bank A/c Dr.

 To Bad Debts Recovered A/c

This income is then transferred to the Profit and Loss Account at period-end.

Incorrect Options:

(b) Credited to Trade Receivables Account – Wrong, because the debtor account was already closed when the debt was written off.

(c) Debited to Profit and Loss Account – Wrong direction. Recovery is an income, so it should be credited, not debited.

Final Answer: (a) Credited to Bad Debts Recovered Account, because it correctly treats the recovered amount as other income, not as reversal of a receivable.

Practical Questions

Question 26

Calculate the missing amount for the following.

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

(Study Material)

Answer 26

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

These have been solved using the Accounting Equation:

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

Question 27

The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3. 2023:

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets 3,00,000	
Authorised		Less: Dep 1,00,000	2,00,000
10,000 10% Redeemable Preference		Investments	1,00,000
Shares of Rs. 10 each	1,00,000		
90,000 Equity Shares of Rs.10 each	9,00,000		
	10,00,000		
Issued, Subscribed and Paid-up Capital		Current Assets and Loans and Advances	
10,000 10% Redeemable Preference		Inventory	45,000
Shares of Rs. 10 each	1,00,000	Trade receivables	25,000
10,000 Equity Shares of Rs. 10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000		
Reserves and Surplus			

General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3. 2024, the company made a net profit of Rs. 35,000 after providing Rs. 20,000 depreciation.

The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3. 2024 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3. 2024, was the same as on 31.3.2023.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of two share for every equity share held as on 31.3.2024.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.2024.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

(RTP JAN 2025)

Answer 27**Journal Entries in the Books of Trinity Ltd.**

Particulars	Dr.	Cr.
	Rs.	Rs.
Dividend A/c Dr.	10,000	
To Bank A/c		10,000
(Dividend on preference paid)		
Profit & Loss A/c Dr.	10,000	
To Dividend A/c		10,000
(Dividend on preference shares written off to profit and loss account)		
10% Redeemable Preference Capital Dr.	1,00,000	
Premium on redemption of Preference Shares Dr.	10,000	
To Preference Shareholders	1,10,000	
(Amount payable to preference shareholders on redemption)		
Profit & Loss A/c Dr.		10,000

To Premium on Redemption of Preference shares	10,000	
(Amount of premium payable on redemption of preference shares)		
Bank A/c Dr.	90,000	
Profit and Loss A/c Dr.	10,000	
To Investments A/c		1,00,000
(Amount realised on sale of Investments and loss thereon adjusted)		
Preference shareholders A/c Dr.	1,10,000	
To Bank		1,10,000
(Payment made to preference shareholders)		
General Reserve A/c Dr.	1,00,000	
To Capital Redemption Reserve A/c		1,00,000
(Transfer to the Capital redemption reserve account on redemption of shares)		
Capital Redemption Reserve A/c Dr.	1,00,000	
Securities Premium A/c Dr.	70,000	

General Reserve A/c Dr	20,000	
Profit & Loss A/c Dr.	10,000	
To Bonus to Equity Shareholders A/c		2,00,000
(Amount adjusted by issuing bonus shares in the ratio of 2:1)		
Bonus to Equity Shareholders A/c Dr.	2,00,000	
To Equity Share Capital		2,00,000
(Balance on former account transferred to latter)		

Question 28

A Limited is a company with an authorised share capital of Rs. 2,50,00,000 in equity shares of Rs. 10 each, of which 15,00,000 shares had been issued and fully paid up on 31st March, 2025. The company proposes to make a further issue of 337,500 of these Rs. 10 shares at a price of Rs. 14 each, the arrangement of payment being:

- (i) Rs. 2 per share payable on application, to be received by 31st May, 2025;
- (ii) Allotment to be made on 10th June, 2025 and a further Rs. 5 per share (including the premium to be payable);
- (iii) The final call for the balance to be made, and the money received by 31st December, 2025.

Applications were received for 14,00,000 shares and dealt with as follows:

- (1) Applicants for 25,000 shares received allotment in full;

(2) Applicants for 125,000 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 12,50,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

(RTP SEP 2025)

Answer 28

Journal of A Limited

Date		Dr.	Cr.
2025	Particulars	Rs.	Rs.
May 31	Bank A/c (Note 1 – Column 3) Dr.	28,00,000	
	To Equity Share Application A/c		28,00,000
	(Being application money received on 14,00,000 shares @ Rs. 2 per share)		
June 10	Equity Share Application A/c Dr.	28,00,000	
	To Equity Share Capital A/c		675,000

	To Equity Share Allotment A/c (Note 1 - Column 5)		13,75,000
	To Bank A/c (Note 1–Column 6)		7,50,000
	(Being application money on 3,37,500 shares transferred to Equity Share Capital Account; on 687,500 shares adjusted with allotment and on 375,000 shares refunded as per Board’s Resolution No.....dated...)		
	Equity Share Allotment A/c Dr.	16,87,500	
	To Equity Share Capital A/c		3,37,500
	To Securities Premium a/c		13,50,000
	(Being allotment money due on 3,37,500 shares @ Rs. 5 each including premium at Rs. 4 each as per Board’s Resolution No....dated...)		
	Bank A/c (Note 1 – Column 8) Dr.	3,12,500	
	To Equity Share Allotment A/c		3,12,500
	(Being balance allotment money received)		
Dec. 31	Equity Share Final Call A/c Dr.	23,62,500	
	To Equity Share Capital A/c		23,62,500

	(Being final call money due on 3,37,500 shares @Rs. 7 per share as per Board's Resolution No.....dated....)		
	Bank A/c Dr.	23,62,500	
	To Equity Share Final Call A/c		23,62,500
	(Being final call money on 3,37,500 shares @Rs. 7 each received)		

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	25,000	25,000	50,000	50,000	Nil	Nil	1,25,000	1,25,000
(ii)	1,25,000	62,500	2,50,000	1,25,000	1,25,000	Nil	3,12,500	1,87,500
(iii)	12,50,000	2,50,000	25,00,000	5,00,000	12,50,000	7,50,000	12,50,000	Nil
TOTAL	14,00,000	3,37,500	28,00,000	6,75,000	13,75,000	7,50,000	16,87,500	3,12,500

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X Rs. 2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X Rs. 2

Topic 9 Outstanding and Prepaid Expenses

True and False

Question 29

Asset side of balance sheet contains all the personal & nominal accounts.

(Study Material)

Ans: False: Asset side of balance sheet contains all the personal & real accounts.

Multiple Choice Question

Question 30

In Double Entry System of Book-keeping every business transaction affects:

- (a) Two accounts
- (b) Two sides of the same account.
- (c) The same account on two different dates.

(Study Material)

Ans: (a) Two accounts

Reason:

The Double Entry System is the foundation of modern accounting. It is based on the principle:

"Every debit has a corresponding credit of an equal amount."

This means that every transaction affects at least two accounts — one is debited, and the other is credited.

Example:

If a business purchases goods for cash:

Purchases A/c Dr.

 To Cash A/c

1. Purchases Account is debited (increase in expense)
2. Cash Account is credited (decrease in asset)

This shows two accounts are involved in every transaction.

Evaluation of Incorrect Options:

(b) Two sides of the same account – Incorrect. Double entry is between two different accounts, not two sides of a single one.

(c) The same account on two different dates – Incorrect. Dates have no bearing on the concept of double entry.

Final Answer: (a) Two accounts, because the double-entry system requires every business transaction to have equal and opposite effects in at least two separate accounts.

Practical Questions**Question 31**

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

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

Also give reasons for your answers.

(Study Material)

Answer 31

S. No.	Increase(+)/Decrease (-) / No Change (0) in Assets	Reasons
(a)	+	Furniture has been purchased making it an increase in assets and also it being purchased on credit it increases liability and there is no outflow of assets like cash or bank.

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

Question 32

On 1st April 2023, Globex Ltd. took over assets of Rs.9,00,000 and liabilities of 1,20,000 of Himalayan Ltd. for the purchase consideration of Rs. 8,80,000. It paid the purchase consideration by issuing 8% debenture of Rs. 100 each at 10% premium on same date. XY Ltd. issued another 6000, 8% debenture of Rs. 100 at discount of 10% redeemable at premium of 5% after 5 years. According to the terms of the issue Rs. 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2023-24

(RTP JAN 2025)

Answer 32

In the books of XY Ltd. Journal Entries

Date	Particular	L.F	Dr.	Cr.
2023	Sundry Assets A/c Dr.		9,00,000	
April	Goodwill A/c (Bal. fig) Dr.		1,00,000	
	To Himalayan Ltd. A/c			8,80,000
	To Sundry Liabilities A/c			1,20,000
	(Assets and liabilities taken over for a net consideration of Rs. 8,80,000)			
	Himalyan Ltd. A/c Dr.		8,80,000	
	To 8% Debentures A/c			8,00,000
	To Securities Premium A/c			80,000
	(8000; 8% Debenture of Rs. 100 each issued at a premium of 10%)			
	Bank A/c Dr.		1,80,000	

	To Debenture Application A/c			1,80,000
	(Application money received for 6000, 8% Debenture)			
	Debenture Application A/c Dr.		1,80,000	
	To 8% Debenture A/c			1,80,000
	(6000; 8% Debenture allotted)			
	Debentures allotment A/c Dr.		3,60,000	
	Loss on issue of debenture A/c Dr.		90,000	
	To 8% Debentures A/c			4.20,000
	To Premium on redemption of debentures A/c			30,000
	(Allotment money due on 6000; 8% Debentures at 10% discount and redeemable at 5% premium)			
	Bank A/c Dr.		3,60,000	
	To Debentures Allotment A/c			3,60,000
	(Allotment money received)			
2024				

Mar,31	Profit and Loss A/c Dr.		90,000	
	To Loss on issue of Debenture A/c			90,000
	(Loss on issue of debenture written off)			

Topic 10 Accrued and Advance Incomes

True and False

Question 33

Capital account is a personal account.

(Study Material)

Ans: True: As it is in the name of the proprietor who is bringing in the capital to the business.

Multiple Choice Question

Question 34

A sale of goods to Ram for cash should be debited to:

- (a) Ram
- (b) Cash
- (c) Sales

Ans: (b) Cash

Reason:

The question clearly states that the sale is made for cash, not on credit. This means:

1. The business receives cash from Ram → Cash (an asset) increases
2. Goods are sold → Sales (income) increases

*Journal Entry for a cash sale to Ram:

Cash A/c Dr.

 To Sales A/c

Cash A/c is debited – because cash is coming in (increase in asset)

Sales A/c is credited – because sales is revenue, and revenue increases are credited.

Evaluation of Options:

(a) Ram – Incorrect. Ram is not a debtor in this case as the sale was for cash, not on credit. His personal account is not affected.

(b) Cash – Correct. Cash is received, so Cash A/c is debited.

(c) Sales – Incorrect in this context, because Sales A/c is credited, not debited.

Final Answer: (b) Cash, because cash is received in the transaction, and cash account is debited as per the rules of double-entry bookkeeping.

Practical Questions

Question 35

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

Particulars	Rs	Particulars	Rs
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during the year	1,00,000

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

(Study Material)

Answer 35

Trade Receivable Balance (B) = Sales- Amount received during the year

= Rs (15,55,000 – 15,00,000) = Rs 55,000.

Since, we know Assets = Capital + Liabilities

Therefore, balance of assets is also Rs 14,15,000

So, total assets:

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

Computation of Closing Capital (D):

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

So, Loan amount (C) = Total Liabilities and capital - Closing Capital - Trade Payables

= Rs (14,15,000 - 10,65,000 - 1,00,000) = Rs 2,50,000

Question 36

Prepare Journal Entries for the following transactions in the books of Harpreet

(i) Customer's cheque for Rs. 4,000 returned dishonoured for insufficient funds in his accounts. The customer had availed a cash discount of Rs. 400.

(ii) Income tax liability of proprietor Rs. 8,500 was paid out of petty cash.

(iii) Defective goods worth Rs. 5,000 are sold for 3,000.

(iv) Purchase of goods from Sunny of the list price of Rs. 20,000. He allowed 5% trade discount, Rs. 200 cash discount was also allowed for quick payment.

(v) Purchased goods from Sarah industries for Rs. 50,000 plus CGST and SGST@6% each.

(vi) Goods given as charity costing Rs. 1,600, sale price Rs. 2,000. CGST and SGST @ 6% each was paid at the time of purchase of such goods

(RTP MAY 2025)

Answer 36

Journal Entries in the books of Harpreet

	Particulars	Dr.	Cr.
		Amount (Rs.)	Amount (Rs.)
(i)	Customers (Debtors) A/c Dr.	4,400	
	To Bank A/c		4,000
	To Discount Allowed A/c		400
	(Being customer cheque returned unpaid by bank, cash discount allowed earlier)		
(ii)	Drawings A/c Dr.	8,500	
	To Petty Cash A/c		8,500

	(Being the income tax of proprietor paid out of business money)		
(iii)	Cash A/c Dr.	3,000	
	Profit and Loss A/c	2,000	
	To Sales A/c		5,000
	(Being defective goods costing Rs. 5,000 were sold for a loss of Rs. 2,000)		
(iv)	Purchase A/c Dr.	19,000	
	To Bank A/c		18,800
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for Rs. 19,000 @ 5% trade discount and cash discount of Rs. 200)		
(v)	Purchases A/c Dr.	50,000	
	Input CGST A/c Dr.	9,000	
	Input SGST A/c Dr.	9,000	
	To Sarah Industries		68,000
	(Being goods purchased and CGST and SGST		

	payable at 6% each)		
(vi)	Charity A/c Dr.	1,792	
	To Purchases A/c		1,600
	To Input CGST A/c		96
	To Input SGST A/c		96
	(Being goods given as charity, input CGST and input SGST debited at the time of purchases reversed)		

CHAPTER 2 ACCOUNTING PROCESS

UNIT – 2

LEDGERS

Topic 1 Golden Rules of Accounting

True and False

Question 1

Cash account has a debit balance.

(Study Material)

Ans: True: Being an asset under the modern equation approach, cash account has a debit balance.

Multiple Choice Questions

Question 2

The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as

- (a) Posting
- (b) Purchase
- (c) Balancing of an account

(Study Material)

Ans: (c) Balancing of an account

Reason:

The technique of finding the net balance of an account after considering both the debits and credits is known as balancing of an account. This is an essential step in the accounting process, where the totals of debits and credits in the account are compared to determine whether the account has a debit balance or credit balance.

1. Posting (option a) refers to the process of transferring the journal entries to the respective ledger accounts.

2. Purchase (option b) refers to the acquisition of goods or services, and is unrelated to balancing an account.

Therefore, the correct term for finding the net balance of an account is balancing of an account.

Topic 2 Classification of Accounts

True and False

Question 3

A ledger is also known as the principal book of accounts.

(Study Material)

Ans: 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.

Multiple Choice Questions

Question 4

Journal and ledger records transactions in

- (a) A chronological order and analytical order respectively.
- (b) An analytical order and chronological order respectively.
- (c) A chronological order only

(Study Material)

Ans: (a) A chronological order and analytical order respectively

Reason:

To understand this, let's look at how journal and ledger function in accounting:

Journal – The Book of Original Entry

Transactions are recorded in the order in which they occur, i.e., chronological order.

It helps maintain a day-to-day record of all financial transactions.

Each transaction includes date, debit & credit accounts, and narration.

So, Journal = Chronological Order

Ledger – The Book of Final Entry

Transactions from the journal are posted to respective accounts in the ledger.

The ledger groups and classifies all entries account-wise (Cash A/c, Sales A/c, Rent A/c, etc.).

This allows for analytical tracking of each account's balance.

So, Ledger = Analytical Order

Final Answer: (a) A chronological order and analytical order respectively, because the journal records transactions in time order, while the ledger organizes them account-wise for analysis.

Topic 3 Journal Entry

True and False

Question 5

Posting is the process of transferring the accounts from ledger to journal.

(Study Material)

Ans: False: Posting is the process of transferring the balances from journal to ledger.

Multiple Choice Questions

Question 6

Ledger book is popularly known as

- (a) Secondary book of accounts
- (b) Principal book of accounts
- (c) Subsidiary book of accounts

(Study Material)

Ans: (b) Principal book of accounts

Reason:

In the accounting process, ledger plays a central role in summarizing and classifying all financial transactions.

Here's why:

Ledger = Principal Book of Accounts

All transactions initially recorded in the journal or subsidiary books are eventually posted to the ledger.

The ledger provides account-wise classification and forms the basis for preparing the Trial Balance, Profit & Loss Account, and Balance Sheet.

Hence, it is referred to as the "Principal Book" or "Main Book" of accounting.

Explanation of Incorrect Options:

(a) Secondary book of accounts – Incorrect. This term isn't standard or commonly used in accounting.

(c) Subsidiary book of accounts – Incorrect. These include books like Purchase Book, Sales Book, Cash Book, etc., which are used before posting to the ledger.

Final Answer: (b) Principal book of accounts, because the ledger is the main book that contains classified records of all financial transactions and is essential for preparing final accounts.

Topic 4 Ledger Posting

True and False

Question 7

At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

(Study Material)

Ans: False: At the end of the accounting year, all the nominal accounts of the ledger book are totaled and transferred to P&L A/c.

Multiple Choice Questions

Question 8

At the end of the accounting year all the nominal accounts of the ledger book are

- (a) Balanced but not transferred to profit and loss account
- (b) Not balanced and also the balance is not transferred to the profit and loss account
- (c) Not balanced and their balance is transferred to the profit and loss account.

(Study Material)

Ans: (c) Not balanced and their balance is transferred to the profit and loss account.

Reason:

Nominal accounts include all income, expenses, gains, and losses accounts such as:

1. Rent, Salary, Wages (Expenses)
2. Commission Received, Sales (Incomes)

These accounts:

1. Are temporary in nature
2. Relate only to the current accounting period

3. Must be closed at year-end by transferring their balances to the Profit & Loss Account

4. Are not balanced like real or personal accounts

Why Not Balanced?

Unlike real and personal accounts (which carry forward balances), nominal accounts are not balanced but closed by transferring their debit/credit balances to the P&L account.

Example:

Rent A/c Dr. ₹10,000

To Profit & Loss A/c ₹10,000

This ensures that the net result (profit/loss) for the year is accurately calculated.

Incorrect Options:

(a) Balanced but not transferred – ~~✗~~Wrong. Nominal accounts are not balanced; they are closed.

(b) Not balanced and not transferred – ~~✗~~Wrong. They must be transferred to the Profit & Loss account.

Final Answer: (c) Not balanced and their balance is transferred to the profit and loss account, because nominal accounts are closed at year-end by transferring their balances to determine the net profit or loss for the period.

Topic 5 Trial Balance – Purpose and Use

True and False

Question 9

Ledger records the transactions in a chronological order.

(Study Material)

Ans: False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.

Theory Questions

Question 10

What do you mean by principal books of accounts?

(Study Material)

Answer 10

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).

Topic 6 Rectification of Errors

True and False

Question 11

If the total debit side is greater than the total of credit side, we get a credit balance as opening balance.

(Study Material)

Ans: False: If the total of debit side is greater than the total of credit side, we get a debit balance as the opening balance.

Theory Questions

Question 12

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

(Study Material) (MTP MAY 2025)

Answer 12

Rules regarding posting of entries in the ledger:

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

Topic 7 Adjustments in Final Accounts

True and False

Question 13

Ledger accounts of assets will always be debited when they are increased.

(Study Material)

Ans: True: The increase to an asset shall be debited since the original balance is also debit.

Topic 8 Accrual and Outstanding Concepts

True and False

Question 14

Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

(RTP SEP 2025)

Ans: False: Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

Multiple Choice Questions

Question 15

The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as

- (a) Posting
- (b) Purchase
- (c) Balancing of an account

Ans: (a) Posting

Reason:

In the accounting cycle, after transactions are recorded in the journal (book of original entry), the next step is to transfer (post) those entries to the ledger, where all transactions are grouped account-wise.

This step is called Posting.

Definition of Posting:

Posting is the process of transferring journal entries to the respective ledger accounts, where each account (e.g., Cash, Sales, Rent) shows all related transactions in one place.

Example:

Journal Entry:

Cash A/c Dr. ₹10,000

 To Sales A/c ₹10,000

Posting in Ledger:

* In Cash Account → Debit side ₹10,000 (with narration: To Sales)

* In Sales Account → Credit side ₹10,000 (with narration: By Cash)

Incorrect Options:

(b) Purchase – This refers to buying goods, not an accounting process.

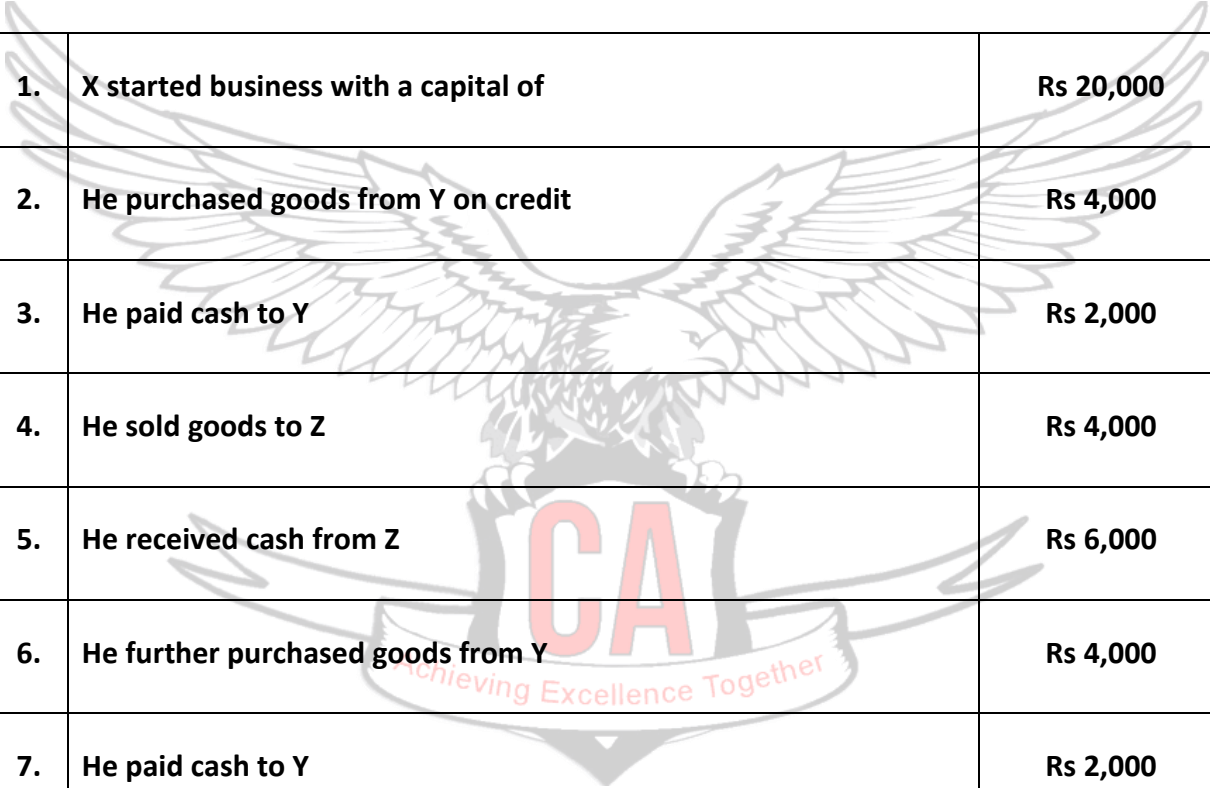
(c) Balancing of an account – This is done after all entries are posted, to determine the net balance of an account. It's a separate step, not the same as posting.

Final Answer: (a) Posting, because it refers to the act of transferring entries from the journal to the ledger to maintain account-wise records.

Practical Questions

Question 16

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



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

(Study Material)

Answer 16

Journal entries

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

	(Being amount received from Z)			
6.	Purchase A/c Dr.		4,000	
	To Y			4,000
	(Being purchase of goods on credit from Y)			
7.	Y Dr.		2,000	
	To Cash A/c			2,000
	(Being amount paid to Y)			
8.	Z Dr.		4,000	
	To Sales A/c			4,000
	(Being goods sold to Z)			
9.	Cash A/c Dr.		2,000	
	To Z			2,000
	(Being cash received from Z)			
	TOTAL		48,000	48,000

Cash Account

Date	Particulars	Debit (Rs)	Date	Particulars	Credit (Rs)

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

Capital Account

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

Purchase Account

Date	Particulars	Debit (Rs)	Date	Particulars	Credit (Rs)
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			
		8000			8,000
Feb.1	To Balance b/d	8,000			

Y's Account

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

Z's Account

Date	Particulars	Debit (Rs)	Date	Particulars	Credit (Rs)
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			8,000

Sales Account

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

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



CHAPTER 2 ACCOUNTING PROCESS

UNIT 3

TRIAL BALANCE

Topic 1 Concept of Trial Balance

True and False

Question 1

Preparing trial balance is the third phase of accounting process.

(Study Material)

Ans: True: Preparing trial balance is the third phase of accounting process which forms the base for the preparation of the final accounts.

Theory Questions

Question 2

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

(Study Material)

Answer 2

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

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

Topic 2 Objectives of Trial Balance

True and False

Question 3

Trial balance forms a base for the preparation of financial statement.

(Study Material)

Ans: True: Based on trial balance only, we can prepare financial statement.

Theory Questions

Question 4

Explain objectives of preparation of trial balance.

(Study Material)

Answer 4

The preparation of trial balance has the following objectives:

(i) 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 of accounts.

(ii) Financial statements are normally prepared on the basis of agreed trial balance.

(iii) The trial balance serves as a summary of what is contained in the ledgers.

Question 5

Explain in brief objectives of preparing Trial Balance.

(MTP MAY 2025)

Answer 5

The preparation of trial balance has the following objectives:

1 Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Topic 3 Errors Not Detected by Trial Balance

True and False

Question 6

A trial balance can find the missing entry from the journal.

(Study Material)

Ans: False: A trial balance cannot find the missing entry from the journal.

Theory Questions

Question 7

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

(Study Material)

Answer 7

In spite of the agreement of the trial balance some errors may remain. These may be of the following types:

- (i) Transaction has not been entered at all in the journal.
- (ii) A wrong amount has been written in both columns of the journal.
- (iii) A wrong account has been mentioned in the journal.
- (iv) An entry has not at all been posted in the ledger.
- (v) Entry is posted twice in the ledger.

Practical Question

Question 8

One of your clients Mr. Hari Om asked you to finalize his account for the year ended 31st March, 2025. As a basis for the audit, Mr. Hari om furnished you with the following statement:

	Dr.	Cr.
Hari Om's Capital		23,340
Hari Om's Drawings	8,460	
Leasehold Premises	11,250	
Sales		41,250
Due from customers		7,950
Purchases	18,885	
Purchase Return	3,960	
Loan from Bank		3,840
Trade Expense	10,500	
Trade Payable	7,920	
Bills Payable	1,500	

Salaries and Wages	9,000	
Cash at Bank	3,390	
Opening Inventory		3,960
Rent and Rates	6,945	
Sales Return		1,470
	81,810	81,810

The closing inventory was Rs.8,612. Mr. Hari Om 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.

(RTP SEP 2025)

Answer 8

Corrected Trial Balance of Mr. Hari Om as on 31st March, 2025

	Dr.	Cr.
Hari Om's Capital		23,340
Hari Om's Drawings	8,460	
Leasehold Premises	11,250	
Sales		41,250

Due from customers	7,950	
Purchases	18,885	
Purchase Return		3,960
Loan from Bank		3,840
Trade Expense	10,500	
Trade Payable		7,920
Bills Payable		1,500
Salaries and Wages	9,000	
Cash at Bank	3,390	
Opening Inventory	3,960	
Rent and Rates	6,945	
Sales Return	1,470	
	81,810	81,810

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.

4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

Topic 4Arithmetical Accuracy vs. Conceptual Errors

True and False

Question 9

Agreement of trial balance is a conclusive proof of accuracy.

(Study Material)

Ans: False: Agreement of trial balance gives only arithmetical accuracy, there can still be errors in preparing the trail balance.

Multiple Choice Questions

Question 10

A trial balance will not balance if _____

- (a) Correct journal entry is posted twice.
- (b) The purchase on credit basis is debited to purchases and credited to cash.
- (c) Rs 500 cash payment to creditor is debited to Trade payables for Rs 50 and credited to cash as Rs 500.

(Study Material)

Ans: (c) Rs 500 cash payment to creditor is debited to Trade payables for Rs 50 and credited to cash as Rs 500.

Reason:

A trial balance is a statement that lists all ledger account balances to test the arithmetic accuracy of the books.

It will only tally if every debit has a corresponding and equal credit.

Option (c) – Correct Answer

The payment made is Rs.500.

1. Cash account is credited by Rs.500 (correct).
2. Trade Payables account is debited only Rs.50 (incorrect).
3. The debit side is short by Rs.450.

(i) This causes an imbalance in the trial balance.

(ii) Hence, the trial balance will not agree.

Option (a):

Correct journal entry posted twice

1. This is an error of duplication, but debit and credit entries are both posted twice — so balance remains equal.

Trial balance will still tally.

Option (b):

Purchase on credit debited to Purchases and credited to Cash

1. This is an error of principle (should be credited to Creditor's A/c), but amount debited and credited are equal.

Trial balance will still agree, even though it's conceptually wrong.

Final Answer: (c) Because unequal amounts are posted on the debit and credit sides, causing the trial balance not to balance.

Question 11

Rs 1, 500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance _____

- (a) The debit total will be greater by Rs 3,000 than the credit total.
- (b) The debit total will be greater by Rs 1,500 than the credit total.
- (c) Subject to other entries being correct the total will agree.

(Study Material)

Ans: (a) The debit total will be greater by Rs 3,000 than the credit total.

Reason:

Let's break down the transaction and the error:

Correct treatment should be:

Cash A/c → Debit Rs.1,500 (Cash received)

Rent Received A/c (an income) → Credit Rs.1,500

Error made:

Cash A/c → Correctly debited Rs.1,500

Instead of crediting, Rent A/c (income) is wrongly debited by Rs.1,500

Impact on Trial Balance:

Total Debit = Rs.1,500 (Cash) + Rs.1,500 (Wrong debit to Rent A/c) = Rs.3,000

Total Credit = Rs.0 (since no credit entry was made)

Thus, the Debit side exceeds the Credit side by Rs.3,000

Final Answer: (a) Because the transaction caused double debit (Rs.1,500 + Rs.1,500) instead of debit and credit, the trial balance will not tally and will show Rs.3,000 excess debit

Topic 5 Compensating Errors

True and False

Question 12

A trial balance will tally in case of compensating errors.

(Study Material)

Ans: True: Since compensating errors cancel out due to their compensating nature of the amounts, hence the Trial balance tallies.

Topic 6 Suspense Account

True and False

Question 13

Suspense account opened in a trial balance is a permanent account.

(Study Material)

Ans: False: Suspense account opened in a trial balance is a temporary account

Multiple Choice Questions

Question 14

After preparing the trial balance the accountant finds that the total of debit side is short by Rs 1,500. This difference will be _____

- (a) Credited to suspense account
- (b) Debited to suspense account
- (c) Adjusted to any of the debit balance account

(Study Material)

Ans: (b) Debited to suspense account

Reason:

When the trial balance is prepared and there is a difference (in this case, the debit side is short by Rs 1,500), the difference is posted to a suspense account. The suspense account is used to temporarily hold the discrepancy until the error is found and corrected.

In this case, since the debit side is short by Rs 1,500, the accountant will debit the suspense account to balance the trial balance.

Why debit the suspense account? Because the trial balance is showing a shortfall in the debits. To balance the trial balance, the accountant needs to adjust the discrepancy by debiting the suspense account with the missing amount.

Once the error is identified (for example, a missed entry or incorrect posting), the suspense account will be cleared, and the correct accounts will be adjusted. Therefore, the difference is debited to the suspense account.

Practical Question

Question 15

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

	Debit (Rs)	Credit (Rs)
Provision for Doubtful Debts	200	–
Bank Overdraft	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	252	–
Discount Allowed	–	733
Drawings	1,200	–
Office Furniture	2,155	–
General Expenses	–	829
Purchases	10,923	–

Returns Inward	–	330
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	24,983	25,002

Required:

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

(Study Material)

Answer 15

Heads of Accounts	Debit Rs	Credit Rs
Provision for Doubtful Debts	–	200
Bank overdraft	–	1,654
Capital	–	4,591
Trade payables	–	1,637

Trade receivables	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
General Expenses	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364
Suspense Account (Balancing figure)	1,175	–
Total	25,580	25,580

Topic 7 Treatment of Specific Items in Trial Balance

True and False

Question 16

The balance of purchase returns account has a credit balance.

(Study Material)

Ans: True: As purchases is debited, any returns shall be credited (treated in opposite way).

Question 17

Stock at the end, if appears in the trial balance, is taken only to the Balance Sheet.

(MTP JAN 2025)

Ans: True: If closing stock appears in trial balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.

Question 18

At the end of the accounting year, all the nominal accounts of the ledger book are balanced.

(RTP SEP 2025)

Ans: False: At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

Practical Question

Question 19

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

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Capital	9,80,000	Purchases	2,52,000
Discount Allowed	8,400	Carriage Inward	60,900
Carriage Outwards	16,100	Sales	4,20,000
Return Inward	2,100	Return Outwards	4,900
Rent and Taxes	8,400	Plant and Machinery	5,64,900
Stock on 1st April 2023	1,08,500	Sundry Debtors	1,41,400
Sundry Creditors	84,000	Investments	25,200
Commission Received	12,600	Cash in Hand	700
Cash at bank	70,700	Motor Cycle	2,42,200
Stock on 31st March, 2024	1,43,500		

(MTP MAY 2025)

Answer 19

Trial Balance of Shri. Mohan Das as on 31st March, 2024

Particulars	Dr. Amount Rs.	Cr. Amount Rs.
Capital		9,80,000
Purchases	2,52,000	
Discount Allowed	8,400	
Carriage Inward	60,900	
Carriage Outwards	16,100	
Sales		4,20,000
Return Inward	2,100	
Return Outwards		4,900
Rent and taxes	8,400	
Plant and Machinery	5,64,900	
Stock on 1st April,2023	1,08,500	
Sundry Debtors	1,41,400	
Sundry Creditors		84,000
Investments	25,200	

Commission Received		12,600
Cash in Hand	700	
Cash at Bank	70,700	
Motor Cycle	2,42,200	
	15,01,500	15,01,500

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

Topic 8 Preparation of Trial Balance

Multiple Choice Questions

Question 20

After the preparation of ledgers, the next step is the preparation of _____

- (a) Trading accounts
- (b) Trial balance
- (c) Profit and loss account

(Study Material)

Ans: (b) Trial balance

Reason:

After preparing the ledgers, the next step is to prepare the trial balance.

A trial balance is a statement that lists all the balances from the ledger accounts. It is used to check the accuracy of the books of accounts. The purpose is to ensure that the total of debit balances equals the total of credit balances, indicating that the books are mathematically correct.

The steps involved are:

1. Post all journal entries to the ledger accounts.
2. Summarize the balances of each ledger account.
3. Prepare the trial balance by listing all the balances from the ledgers.

Once the trial balance is prepared and it balances, you can proceed to prepare the trading account, profit and loss account, and the balance sheet.

Thus, the correct next step after preparing ledgers is the trial balance, not the trading account or profit and loss account.

Theory Questions

Question 21

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

(Study Material)

Answer 21

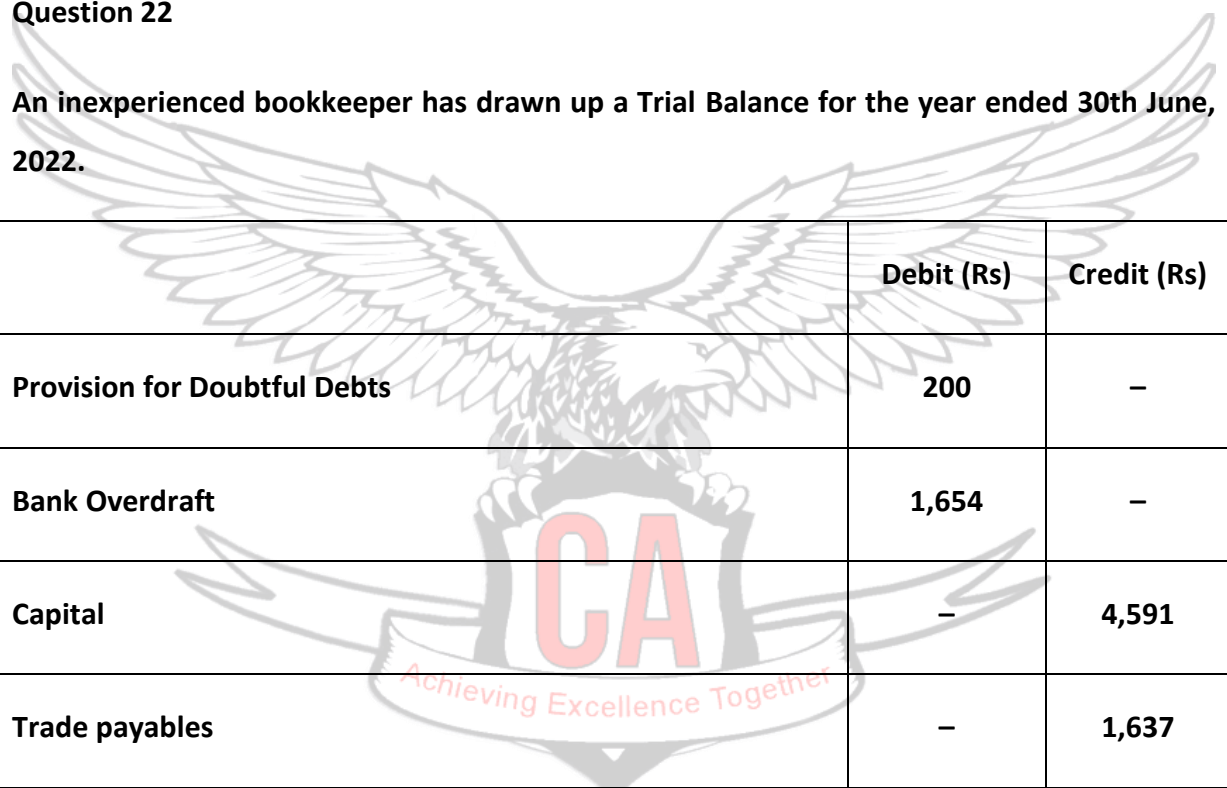
Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance.

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

Practical Question

Question 22

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



	Debit (Rs)	Credit (Rs)
Provision for Doubtful Debts	200	–
Bank Overdraft	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	252	–
Discount Allowed	–	733
Drawings	1,200	–

Office Furniture	2,155	–
General Expenses	–	829
Purchases	10,923	–
Returns Inward	–	330
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	24,983	25,002

Required:

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

(Study Material)

Answer 22

Heads of Accounts	Debit Rs	Credit Rs
Provision for Doubtful Debts	–	200

Bank overdraft	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
General Expenses	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364

Suspense Account (Balancing figure)	1,175	–
Total	25,580	25,580

Question 23

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

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Capital	9,80,000	Purchases	2,52,000
Discount Allowed	8,400	Carriage Inward	60,900
Carriage Outwards	16,100	Sales	4,20,000
Return Inward	2,100	Return Outwards	4,900
Rent and Taxes	8,400	Plant and Machinery	5,64,900
Stock on 1st April 2023	1,08,500	Sundry Debtors	1,41,400
Sundry Creditors	84,000	Investments	25,200
Commission Received	12,600	Cash in Hand	700
Cash at bank	70,700	Motor Cycle	2,42,200
Stock on 31st March,	1,43,500		

2024			

(MTP MAY 2025)

Answer 23

Trial Balance of Shri. Mohan Das as on 31st March, 2024

Particulars	Dr. Amount Rs.	Cr. Amount Rs.
Capital		9,80,000
Purchases	2,52,000	
Discount Allowed	8,400	
Carriage Inward	60,900	
Carriage Outwards	16,100	
Sales		4,20,000
Return Inward	2,100	
Return Outwards		4,900
Rent and taxes	8,400	
Plant and Machinery	5,64,900	
Stock on 1st April,2023	1,08,500	

Sundry Debtors	1,41,400	
Sundry Creditors		84,000
Investments	25,200	
Commission Received		12,600
Cash in Hand	700	
Cash at Bank	70,700	
Motor Cycle	2,42,200	
	15,01,500	15,01,500

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

Question 24

One of your clients Mr. Hari Om asked you to finalize his account for the year ended 31st March, 2025. As a basis for the audit, Mr. Hariom furnished you with the following statement:

	Dr.	Cr.
Hari Om's Capital		23,340
Hari Om's Drawings	8,460	

Leasehold Premises	11,250	
Sales		41,250
Due from customers		7,950
Purchases	18,885	
Purchase Return	3,960	
Loan from Bank		3,840
Trade Expense	10,500	
Trade Payable	7,920	
Bills Payable	1,500	
Salaries and Wages	9,000	
Cash at Bank	3,390	
Opening Inventory		3,960
Rent and Rates	6,945	
Sales Return		1,470
	81,810	81,810

The closing inventory was Rs.8,612. Mr. Hari Om 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.

(RTP SEP 2025)

Answer 24

Corrected Trial Balance of Mr. Hari Om as on 31st March, 2025

	Dr.	Cr.
Hari Om's Capital		23,340
Hari Om's Drawings	8,460	
Leasehold Premises	11,250	
Sales		41,250
Due from customers	7,950	
Purchases	18,885	
Purchase Return		3,960
Loan from Bank		3,840
Trade Expense	10,500	
Trade Payable		7,920
Bills Payable		1,500

Salaries and Wages	9,000	
Cash at Bank	3,390	
Opening Inventory	3,960	
Rent and Rates	6,945	
Sales Return	1,470	
	81,810	81,810

Reasons:

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

CHAPTER 2 ACCOUNTING PROCESS

UNIT 4

SUBSIDIARY BOOKS

Topic 1 Concept of Subsidiary Books

True and False

Question 1

Subsidiary books are also known as the books of original entry.

(Study Material)

Ans: True: Subsidiary books are maintained as an alternate to the journal.

Question 2

If the sales are on a frequent basis, the transactions are recorded in the sales book.

(Study Material)

Ans: True: When there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.

Topic 2 Types of Subsidiary Books

True and False

Question 3

Transactions recorded in the purchase book include only purchases of goods on credit transactions.

(Study Material)

Ans: True: Since cash purchases are taken to the cash book, it is only credit transactions that are recorded in the purchases book.

Question 4

Transactions regarding the purchase of fixed asset are recorded in the purchase book.

(Study Material)

Ans: False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it.

Question 5

Cash sales are recorded in the sales book.

(Study Material)

Ans: False: Credit sales are recorded in the sales book.

Question 6

Bills receivable book is a subsidiary book.

(Study Material)

Ans: True: Bills receivable is one of the subsidiary book.

Question 7

Return inward book is also known as purchase return book.

(Study Material)

Ans: False: Return inward book is also known as sales return book.

Question 8

Purchase of a second hand machinery will be recorded in purchase book.

(Study Material)

Ans: False: Purchase of a second hand machinery will not be recorded in purchase book.

Multiple Choice Questions

Question 9

In Purchases Book, the record is in respect of _____

- (a) Cash purchase of goods.
- (b) Credit purchase of goods dealt in.
- (c) All purchases of goods.

(Study Material)

Ans: (b) Credit purchase of goods dealt in.

Reason:

The Purchases Book (also known as the Purchases Journal) is used to record only the credit purchases of goods that are part of the business's normal trading activities.

Credit purchase of goods: The Purchases Book is specifically used to record purchases made on credit, i.e., when goods are bought but payment is deferred to a future date. These goods are typically those that are part of the inventory or stock being dealt in by the business.

Not for cash purchases: Cash purchases are not recorded in the Purchases Book. Instead, they are directly recorded in the Cash Book.

Not for all purchases: The Purchases Book only records goods bought on credit, not all purchases, as it is specifically meant for credit transactions related to inventory.

Thus, the Purchases Book only records credit purchases of goods dealt in by the business.

Question 10

The Sales Returns Book records _____

- (a) The return of goods purchased.
- (b) Return of anything purchased.
- (c) Return of goods sold.

Ans: (c) Return of goods sold.

Reason:

The Sales Returns Book is used to record the return of goods that were previously sold. When customers return goods they bought on credit, this return is recorded in the Sales Returns Book.

1. The return of goods purchased is recorded in the Purchases Returns Book.



2. The return of anything purchased is not a specific term for bookkeeping purposes and does not apply to this question.

Thus, the correct entry for goods returned by customers is (c) Return of goods sold.

Question 11

The total of the Sales Book is posted to _____

- (a) Credit of the Sales Account.
- (b) Credit of the Purchases Account.
- (c) Credit of the Capital Account.

(Study Material)

Ans: (a) Credit of the Sales Account.

Reason:

The Sales Book records all credit sales made by the business. The total of the Sales Book, which represents the total value of goods sold on credit, is posted to the credit side of the Sales Account in the general ledger.

1. The Sales Account is a revenue account, so it is credited with the sales amount to reflect income from sales.

2. Purchases Account and Capital Account are not relevant in this context, as they deal with purchases and owner's equity, respectively.

Therefore, the total of the Sales Book is posted to the (a) Credit of the Sales Account.

Theory Questions

Question 12

Which subsidiary books are normally used in a business?

(Study Material)

Answer 12

In a business, most of the transactions generally relate to receipts and payments of cash, sale of goods and their purchase. It is convenient to keep a separate register for each such class of transactions one for receipts and payments of cash, one for purchase of goods and one for sale of goods. A register of this type is called a book of original entry or of prime entry. The transactions recorded in such books will not require journal entries. The system by which transactions of a class are first recorded in the specified book, specially meant for it and on the basis of which ledger accounts are then prepared is known as the Practical System of Book keeping or even the English System. It should be noted that in this system, there is no departure from the rules of the double entry system.

These books of original or prime entry are also called subsidiary books since ledger accounts are prepared on their basis without further processing of ledger posting. Normally, the following subsidiary books are used in a business:

- (i) Cash Book to record receipts and payments of cash, including receipts into and payments out of the bank.
- (ii) Purchases Book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
- (iii) Purchase Returns Book to record the returns of goods and materials previously purchased.
- (iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns of goods made by the customers sold to them earlier.

(vi) Bills Receivable Book to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

It may be noted that in all the above cases the word “Journal” may be used for the word “book”.

Practical Questions

Question 13

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

Jan 2	Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ Rs6,000/- each less Trade discount @ 10%.
Jan 8	Sold to M/s. Electronics Plaza, 10 pieces of Tablets @ Rs 8,000/- each less trade discount 5%.
Jan 15	Sold to M/s. Haryana Traders, 5 pieces of Juicers @ Rs3,500/- each less trade discount @ 10%.

(Study Material)

Answer 13

Sales Book

Date	Particulars	Gross Amount (Rs)	Trade Discount (Rs)	Net Price (Rs)
2022				
Jan. 2	M/s. Ajanta Electricals			
	5 pieces of Ovens @ Rs 6,000 each			
	Less: 10% discount	30,000	3,000	27,000
Jan. 8	M/s. Electronics Plaza			
	10 pieces of Tablets @ Rs 8,000 each,			
	less 5% trade discount	80,000	4,000	76,000
Jan. 15	M/s. Haryana Traders			
	5 pieces of Juicers @ Rs 3,500 each,			
	less 10% trade discount	17,500	1,750	15,750
		1,27,500	8,750	1,18,750

Question 14

Prepare Sales Book of M/s. Alpha of Kanpur for March, 2024

Mar. 5 Sold to M/s. ABC 10 pieces of Chairs @ Rs.5,000/- each less Trade Discount 5%.

Mar.12 Sold to M/s. PQR 25 pieces of Tables @Rs.2,000/- each less Trade Discount 10%.

Mar.18 Sold to M/s. MTB 5 pieces of Recliner Chairs @ Rs.11000/- each less Trade Discount 10%. Payment received through cash.

Mar.28 Sold to M/s. LMS 50 pieces of cupboards @ Rs.10,000/- each less Trade Discount 20%.

(RTP JAN 2025)

Answer 14

Sales book of M/s. Alpha for March '24

Date	Particulars	Gross Amount (Rs.)	Trade Discount (Rs.)	Net Amount (Rs.)
2024 March				
5	M/s. ABC 10 pieces of Chairs @ Rs. 5,000/- each less Trade Discount 5%	50,000	2,500	47,500
12	M/s. PQR 25 pieces of Tables @ Rs. 2,000/- each less Trade Discount 10%	50,000	5,000	45,000
28	M/s. LMS 50 pieces of cupboards @Rs. 10,000/-	5,00,000	1,00,000	4,00,000

	each less Trade Discount 20%.			
	Total	6,00,000	1,07,500	4,92,500

Note: Transaction dated : 18 March will not be recorded in sales book being cash transaction

Topic 3 Purpose and Advantages of Subsidiary Books

True and False

Question 15

Total of sales return book may be posted to the debit side of sales account.

(Study Material)

Ans: True: Since sales return is reduction from the total sales value, it is debited in the sales account.

Theory Questions

Question 16

What are the advantages of subsidiary books?

(Study Material)

Answer 16

Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages:

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

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

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

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

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

Topic 4 Recording Transactions in Subsidiary Books

True and False

Question 17

The debit notes issued are used to prepare sales return book.

(RTP JAN 2025)

Ans: False: The debit notes issued are used to prepare purchases return book.

Multiple Choice Questions

Question 18

In which book of original entry, will you record an allowance of Rs50 which was offered for an early payment of cash of Rs 1,050 _____.

- (a) Sales Book
- (b) Cash Book
- (c) Journal Proper (General Journal)

(Study Material)

Ans: (b) Cash Book

Reason:

1. The Cash Book is used to record all cash transactions, including cash receipts and payments.
2. In this scenario, the allowance (or discount) of Rs 50 is related to an early payment made in cash (Rs 1,050). Since it involves a cash transaction, the Cash Book is the appropriate book to record the transaction.

Thus, the correct answer is (b) Cash Book.

Question 19

A second hand motor car was purchased on credit from B Brothers for Rs 10,000 will be recorded in _____.

- (a) Journal Proper (General Journal)
- (b) Sales Book
- (c) Cash Book

(d) Purchase Book

(Study Material)

Ans: (a) Journal Proper (General Journal)

Reason:

1. A second-hand motor car is an asset purchase, and since it was purchased on credit, the transaction involves both an asset and a liability.

2. Journal Proper (General Journal) is used to record non-routine transactions such as purchases on credit for assets or liabilities that are not part of regular inventory purchases.

3. The Purchase Book records regular purchases of goods (inventory), not assets like motor cars.

Thus, the correct answer is (a) Journal Proper (General Journal).

Question 20

In which book of original entry, will you record a bills receivable of Rs 1,000, which was received from a debtor in full settlement for a claim of Rs 1,100, is dishonoured

(a) Purchases Return Book

(b) Bills Receivable Book

(c) Journal Proper (General Journal)

(Study Material)

Ans: (c) Journal Proper (General Journal)

Reason:

A bills receivable of Rs 1,000 was originally received from a debtor as part of the settlement, and later, it was dishonoured.

Since dishonouring of bills is a non-routine event and does not belong to a specific book like the Purchases Return Book or Bills Receivable Book, it should be recorded in the Journal Proper (General Journal).

The Journal Proper is used to record transactions like dishonoured bills, adjustments, and other non-regular entries.

Thus, the correct answer is (c) Journal Proper (General Journal).

Practical Questions

Question 21

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

Jan 2	Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ Rs6,000/- each less Trade discount @ 10%.
Jan 8	Sold to M/s. Electronics Plaza, 10 pieces of Tablets @ Rs 8,000/- each less trade discount 5%.
Jan 15	Sold to M/s. Haryana Traders, 5 pieces of Juicers @ Rs3,500/- each less trade discount @ 10%.

(Study Material)

Answer 21

Sales Book

Date	Particulars	Gross Amount (Rs)	Trade Discount (Rs)	Net Price (Rs)
2022				
Jan. 2	M/s. Ajanta Electricals			
	5 pieces of Ovens @ Rs 6,000 each			
	Less: 10% discount	30,000	3,000	27,000
Jan. 8	M/s. Electronics Plaza			
	10 pieces of Tablets @ Rs 8,000 each,			
	less 5% trade discount	80,000	4,000	76,000
Jan. 15	M/s. Haryana Traders			
	5 pieces of Juicers @ Rs 3,500 each,			
	less 10% trade discount	17,500	1,750	15,750
		1,27,500	8,750	1,18,750

Question 22

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

(i) Purchased from Red & Company on credit:

30 pairs of black shoes.@ Rs. 800 per pair.

15 pairs of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

(ii) Purchased Computer from M/s. Rahul. Enterprises on credit for Rs. 1,20,000.

(iii) Purchased from Blue & Company on credit:

15 pairs of black shoes @ Rs. 700 per pair

45 pairs of brown shoes@ Rs. 100 per pair

Less: Trade Discount @ 15%.

(MTP MAY 2025)

Answer 22

Purchases book

Date	Particulars		L.F.	Amount Rs.
(i)	Red & Co.			
	30 pairs of black shoes @ Rs. 800	24,000		
	15 pairs of Brown shoes @ Rs. 900	13,500		
		37,500		
	Less: 10% trade discount	(3,750)		33,750
(ii)	Blue & Co.			

	15 pairs of black shoes @ Rs. 700	10,500		
	45 pairs of Brown shoes @ Rs. 100	4,500		
		15,000		
	Less: 15% trade discount	(2,250)		12,750
	Total			46,500

Topic 5 Posting from Subsidiary Books to Ledger

Multiple Choice Questions

Question 24

The weekly or monthly total of the Purchase Book is _____

- (a) Posted to the debit of the Purchases Account.
- (b) Posted to the debit of the Sales Account.
- (c) Posted to the credit of the Purchases Account.

(Study Material)

Ans: (a) Posted to the debit of the Purchases Account.

Reason:

1. The Purchase Book records all credit purchases made by the business. The total amount of credit purchases recorded in the Purchase Book is posted to the debit side of the Purchases Account in the general ledger.

2. Purchases Account is an expense account (or an account for goods bought for resale), so when goods are purchased on credit, the account is debited to reflect the increase in purchases.

Thus, the correct answer is (a) Posted to the debit of the Purchases Account.

Question 25

The total of the Sales Book is posted to _____

- (a) Credit of the Sales Account.
- (b) Credit of the Purchases Account.
- (c) Credit of the Capital Account.

(Study Material)

Ans: (a) Credit of the Sales Account.

Reason:

1. The Sales Book records all credit sales made by the business. The total sales recorded in the Sales Book are posted to the credit side of the Sales Account in the general ledger.
2. Sales Account is a revenue account, so credit sales will increase the revenue. Hence, the Sales Account is credited with the total amount of the sales.

Thus, the correct answer is (a) Credit of the Sales Account.

Practical Questions

Question 26

Post into the ledger, the entries of Sales Book prepared in Question1.

Answer 26

Ledger

M/s. Ajanta Electricals

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

M/s. Electronics Plaza

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

M/s. Haryana Traders

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

Sales Account

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount

2022			(Rs)	2022			(Rs)
				Jan. 31	By Sundries (As per Sales Book)		1,18,750

Topic 6 Distinction Between Subsidiary Books and Journal/Ledger

Multiple Choice Questions

Question 27

The Sales Book _____

- (a) Is a part of journal
- (b) Is a part of the ledger
- (c) Is a part of the balance sheet

Ans: (a) Is a part of journal

Reason:

1. The Sales Book (also called the Sales Journal) is a book of original entry where all credit sales transactions are recorded. It is not a part of the ledger or the balance sheet.
2. As a book of original entry, the Sales Book is similar to the journal because it records transactions before they are posted to the ledger accounts. After recording in the Sales Book, the totals are posted to the Sales Account in the general ledger.

3. The ledger contains the final accounts (e.g., Sales Account, Purchases Account), while the balance sheet reflects the financial position at a particular point in time, listing assets, liabilities, and equity.

Thus, the Sales Book is a part of the journal because it serves as a first step in recording sales transactions before posting them to the ledger.



CHAPTER 2 ACCOUNTING PROCESS

UNIT 5

CASH BOOK

Topic 1 Concept of Cash Book (Subsidiary + Principal Book)

True and False

Question 1

Cash book is a subsidiary book as well as a principal book.

(Study Material)

Ans: True: Since the balance is directly taken to the Trial balance from cash book. Hence, it is a subsidiary book as well as principal book.

Question 2

Cash book is a subsidiary book as well as a principal book.

(MTP MAY 2025) (RTP MAY 2025)

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

Multiple Choice Questions

Question 3

Cash book is a type of _____ but treated as a _____ of accounts.

- (a) Subsidiary book, principal book
- (b) Principal book, subsidiary book
- (c) Subsidiary book, subsidiary book

(Study Material)

Ans: (a) Subsidiary book, principal book

Reason:

1. Cash Book is primarily a subsidiary book, meaning it is used to record specific types of transactions, specifically cash receipts and payments.
2. However, the Cash Book is treated as a principal book because it not only records cash transactions but also serves the function of both a journal and a ledger for cash-related transactions. This is because the Cash Book records both debits and credits (like a journal) and directly affects the cash account (like a ledger).

In summary:

1. The Cash Book is a subsidiary book since it deals with specific transactions (cash transactions).
2. But, it is treated as a principal book because it records all cash-related transactions, including receipts and payments, and is a primary document for cash management.

Thus, the correct answer is (a) Subsidiary book, principal book.

Theory Questions

Question 4

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

(Study Material)

Answer 4

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

Topic 2 Types of Cash Books

True and False

Question 5

Two column cash book consists of two columns cash column & bank column.

(Study Material)

Ans: False: Two column cash book consists of two columns either cash column & discount column or cash column & bank column.

Multiple Choice Questions

Question 6

Which of the following is not a column of a three-column cash book?

- (a) Cash column
- (b) Bank column
- (c) Petty cash column

(Study Material)

Ans: (c) Petty cash column

Reason:

A three-column cash book typically includes the following columns:

1. Cash Column: For recording all cash receipts and payments.
2. Bank Column: For recording all transactions involving the bank (like deposits and withdrawals).
3. Discount Column: For recording any cash or bank discounts allowed or received.

A Petty Cash Column is not a part of the three-column cash book. Instead, petty cash transactions are recorded separately in a Petty Cash Book, which is used to record small, routine expenses (like office supplies, postage, etc.) handled by a petty cashier.

Thus, the Petty Cash Column does not belong to the three-column cash book, which is why (c) Petty cash column is the correct answer.

Theory Questions

Question 7

What are the various kinds of cash book?

(Study Material)

Answer 7

The main Cash Book may be of the three types:

- (i) Simple Cash Book;
- (ii) Two-column Cash Book;
- (iii) Three-column Cash Book.

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

Topic 3 Columns in Cash Book (Cash, Bank, Discount)

True and False

Question 8

Discount column of cash book is never balanced.

(Study Material)

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

Question 9

Discount column of cash book records the trade discount.

(Study Material)

Ans: False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

Multiple Choice Questions

Question 10

The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the _____

- (a) Credit of the discount allowed account.
- (b) Debit of the discount allowed account
- (c) Credit of the discount received account.

(Study Material)

Ans: (b) Debit of the discount allowed account

Reason:

In the Cash Book, the discount column records the cash discount allowed to customers when they pay their accounts early (i.e., a reduction in the amount they owe). This discount is treated as an expense for the business.

1. Discount Allowed is the term used for the reduction in the amount receivable from customers as a result of early payment.
2. The Discount Allowed Account is a contra-revenue account, which reduces the overall sales revenue.

Since discounts allowed are considered an expense, the total of the discounts column on the debit side of the Cash Book is posted to the debit side of the Discount Allowed Account. This ensures that the reduction in income is properly recorded as an expense.

Thus, the correct answer is (b) Debit of the discount allowed account.

Theory Questions

Question 11

What are the advantages of a three column cash book?

(Study Material)

Answer 11

The advantages of three column Cash Book are that -

(a) the Cash Account and the Bank Account are prepared simultaneously, therefore the double entry is completed in the Cash Book itself. Thus the contra entries can be easily cross-checked in Cash column in one side and the Bank column in the other side of the Cash Book. The chances of error are also reduced.

(b) the information regarding Cash in Hand and the Bank Balance can be obtained very easily and quickly as there is no need to prepare Ledger of the Cash and Bank Account.

Topic 4 Contra Entries in Cash Book

True and False

Question 12

Contra entry is passed in a two column cash book.

(Study Material)

Ans: True: Contra entry can be passed in a two column cash book which includes bank and cash columns.

Multiple Choice Questions

Question 13

Contra entries are passed only when _____

- (a) Double-column cash book is prepared
- (b) Three-column cash book is prepared
- (c) Simple cash book is prepared

(Study Material)

Ans: (b) Three-column cash book is prepared

Reason:

Contra entries are used when there are transactions involving both cash and bank accounts, and these transactions are recorded in the three-column cash book.

In the three-column cash book, there are three columns:

1. Cash column – for cash transactions.
2. Bank column – for bank-related transactions.
3. Discount column – for cash discounts allowed or received.

Contra entries occur when there is a transaction that involves a transfer of money between the cash and bank accounts, such as:

1. Cash deposited into the bank: When cash is deposited into the bank, it is recorded as a contra entry because it affects both the cash and bank accounts.
2. Cash withdrawn from the bank: When cash is withdrawn from the bank, it is similarly recorded as a contra entry.

In a two-column cash book (only cash and discount columns), such transactions are not applicable, and hence contra entries are not used.

Thus, contra entries are passed only when a three-column cash book is prepared, making (b) Three-column cash book is prepared the correct answer.

Topic 5 Recording Transactions in Cash Book

True and False

Question 14

A cash book records cash transactions as well as credit transactions.

(Study Material)

Ans: False: A cash book records only cash transactions.

Multiple Choice Questions

Question 15

The Cash Book records _____

- (a) All cash receipts
- (b) All cash payments
- (c) All cash receipts and payments

(Study Material)

Ans: (c) All cash receipts and payments

Reason:

The Cash Book is a subsidiary book used to record all cash transactions, both receipts and payments, in one place. It acts as a primary record for tracking the flow of cash in and out of the business.

Cash receipts refer to all the money the business receives (e.g., from sales, loans, or other sources).

Cash payments refer to all the money the business pays out (e.g., for expenses, purchases, or loan repayments).

By recording both receipts and payments, the Cash Book serves as a comprehensive record of all cash-related activities, which is why the correct answer is (c) All cash receipts and payments.

Question 16

If Ram has sold goods for cash, the entry will be recorded _____

- (a) In the Cash Book
- (b) In the Sales Book
- (c) In the Journal

(Study Material)

Ans: (a) In the Cash Book

Reason:

1. The Cash Book is a specialized book of original entry used to record all cash transactions - both receipts (inflows) and payments (outflows). This includes cash received from customers, payments made for expenses, cash purchases, and cash sales.
2. Cash Book is similar to both a Journal and a Ledger for cash-related transactions, and it helps keep track of cash movements for the business.

Thus, the correct answer is (c) All cash receipts and payments.

Topic 6 Treatment of Balances in Cash Book

True and False

Question 17

If the bank column is showing the opening balance on credit side, it is an overdraft.

(Study Material)

Ans: True: The debit side of opening balance shows a favourable balance, whereas the credit balance is an unfavourable balance and treated as overdraft.

Question 18

Debit balance as Cash Book is same as overdraft as per passbook.

(RTP MAY 2025)

Ans: False: Debit balance as per cash book should be represented by credit or favourable balance in passbook.

Topic 7 Petty Cash Book & Imprest System

Multiple Choice Questions

Question 19

The balance in the petty cash book is _____

(a) An expense

(b) A profit

(c) An asset

(Study Material)

Ans: (c) An asset

Reason:

The petty cash book records small cash transactions, such as office supplies, postage, and minor expenses, which are handled through a petty cash fund.

1. The balance in the petty cash book represents the amount of cash available in the petty cash fund to meet these minor expenses.

2. Since petty cash is an amount held by the business to cover day-to-day small expenditures, it is considered an asset on the balance sheet, as it is a resource the business can use.

Therefore, the balance in the petty cash book is treated as an asset, not an expense or profit, because it represents cash on hand that is available for business use.

Thus, the correct answer is (c) An asset.

Theory Questions

Question 20

Petty cash book and its advantages.

(RTP SEP 2025)

Answer 20

In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.

- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

Advantages of Petty cash book are:

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

Practical Questions

Question 21

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

7-9-2022	Balance in hand	134.90
	Received Cash reimbursement to make up the imprest	365.10
	Stationery	49.80

8-9-2022	Miscellaneous Expenses	20.90
9-9-2022	Repairs	156.70
10-9-2022	Travelling	68.50
11-9-2022	Stationery	71.40
12-9-2022	Miscellaneous Expenses	6.30
13-9-2022	Repairs	48.30

(Study Material)

Answer 21

Petty Cash Book

Date 2022	Receipts	Amount	Date 2022	Payments	Total Amount	Stationery	Travelling	Misc Exps.	Repairs
Sept. 7	To Balance b/d	134.90	7	By Stationery	49.80	49.80			
	To Reimbursement	365.10	8	By Misc. Expenses	20.90		68.50	20.90	
			9	By Repairs	156.70				156.70
			10	By Travelling	68.50				
			11	By	71.40	71.40			

				Stationery					
			12	By Misc. Expenses	6.30			6.30	
			13	By Repairs	48.30				48.30
					421.90	121.20	68.50	27.20	205.00
				By Balance c/d	78.10				
		500.00			500.00				
	To Balance b/d	78.10							

Topic 8 Practical Applications / Income & Expenditure A/c

Practical Questions

Question 22

Following is the Receipts and Payments Account of M/s Rainbow Club for the year ended 31st March, 2025:

Receipts	Rs.	Payments	Rs.
To Cash in hand on 1.04.2024	13,500	By Payments for cosmetics	22,500

To Subscription	67,500	By Honorarium to Beautician	12,000
To Donation	6,750	By Salaries	27,000
To Int. on Investments at 6% for the year	4,500	By Sundry expenses	1,500
To Fashion show proceeds	75,750	By Rent for building	18,000
		By Fashion show expenses	51,000
		By Cash in hand on 31.03.2025	36,000
	1,68,000		1,68,000

Additional information:

Sr. No.	Particulars	On 1st April, 2024 (Rs.)	On 31st Mar, 2025 (Rs.)
(i)	Subscription due	750	3,000
(ii)	Subscription received in advance	2,250	1,500
(iii)	Stock of cosmetics	15,000	10,500
(iv)	Amount due to cosmetics suppliers	12,000	16,500

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2025.

(MTP MAY 2025)

Answer 22

M/s Rainbow Club

Income and Expenditure A/c for the year ended 31st March 2025

Expenditure	Rs.	Income	Rs.
To Cosmetics Consumed (WN2)	31,500	By Subscription A/c (WN 1)	70,500
To Honorarium	12,000	By Donation A/c	6,750
To Salaries	27,000	By Interest on Investments	4,500
To Sundry Expenses	1,500	By Fashion Show Proceeds	75,750
To Rent for Building	18,000	(-) Expenses (51,000)	24,750
To Surplus	16,500		
	1,06,500		1,06,500

WN 1: Calculation of Subscription

Subscription received in Cash	67,500
Add: Subscription received in advance as on 1st April,2024	2,250
Subscription due as on 31st March,2025	3,000
Less: Subscription received in advance as on 31st March,2025	(1,500)

Subscription due as on 1st April, 2024

(750)

70,500

WN 2: Cosmetics Consumed A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening stock	15,000	By Income & Expenditure	31,500
To Purchases (WN 3)	27,000	By Closing stock	10,500
	42,000		42,000

WN 3: Creditors of Cosmetics A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
		By Bal b/d	12,000
To Bank A/c	22,500	By Purchases (bal. fig)	27,000
To bal. c/d	16,500		
	39,000		39,000

CHAPTER 2 ACCOUNTING PROCESS

UNIT 6

RECTIFICATION OF ERRORS

Topic 1 Concept and Stages of Rectification

True and False

Question 1

The method of rectification of errors depends on the stage at which the errors are detected.

(Study Material)

Ans: True: There are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification of errors.

Multiple Choice Questions

Question 2

The preparation of a trial balance is for:

- (a) Locating errors of commission.
- (b) Locating errors of principle.
- (c) Locating clerical errors.

(Study Material)

Ans: (c) Locating clerical errors.

Reason:

The trial balance is prepared to ensure that the total of debit balances equals the total of credit balances. If the totals do not match, it signals that there might be an error in the recording of transactions. However, a trial balance is primarily used to identify clerical errors, such as:

1. Errors in addition or subtraction when posting amounts to the ledger.
2. Errors in transferring balances from journals to ledgers.
3. Errors in double-entry accounting, where one side of the entry is missed or recorded incorrectly.

It helps in identifying simple mathematical and clerical errors, but it cannot detect errors of principle (e.g., misclassifying an expense as an asset) or errors of commission (e.g., incorrect amounts recorded in the wrong accounts).

Thus, the trial balance is mainly prepared for locating clerical errors.

Therefore, the correct answer is (c) Locating clerical errors.

Topic 2 (i) Types of Errors(omission)

True and False

Question 3

In case of error of complete omission, the trial balance does not tally.

(Study Material)

Ans: False: In case of error of complete omission, the trial balance tallies.

Topic 2 (ii) Types of Errors(Compensating)

True and False

Question 4

Trial balance agrees in case of compensating errors.

(Study Material)

Ans: True: Compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes.

Question 5

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

(MTP JAN 2025)

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

Topic 2 (iii) Types of Errors(Commission)

True and False

Question 6

When amount is written on wrong side, it is known as an error of principle.

(Study Material)

Ans: False: When amount is written on wrong side, it is known as an error of commission.

Multiple Choice Questions

Question 7

If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called

- (a) Error of omission.
- (b) Error of commission.
- (c) Error of principle.

(Study Material)

Ans: (b) Error of commission.

Reason:

An error of commission occurs when an entry is made in the wrong account or on the wrong side (debit or credit) of the correct account. This could happen due to a clerical mistake, such as recording a transaction in the wrong account or posting it incorrectly.

Examples include:

1. Posting an amount to the wrong customer's account.
2. Recording the amount on the wrong side of the account (debit instead of credit, or vice versa).

This is different from:

1. Error of omission: Where a transaction is completely omitted and not recorded at all.
2. Error of principle: Where a transaction is recorded in the wrong account based on incorrect accounting principles (e.g., treating a capital expenditure as a revenue expenditure).

Thus, when the amount is posted in the wrong account or on the wrong side of the account, it is an error of commission.

Therefore, the correct answer is (b) Error of commission.

Theory Questions

Question 8

How does errors of omission differ from errors of commission?

(Study Material)

Answer 8

(i) Errors of Omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.

(ii) Errors of Commission: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of “errors of commission.”

Topic 2 (iv) Types of Errors (Principle)

True and False

Question 9

When purchase of an asset is treated as an expense, it is known as error of principle.

(Study Material)

Ans: True: Where the accounts being debited is principally incorrect it is termed as error of principle.

Question 10

On purchase of old furniture, the amount spent on repairs should be debited to repairs account.

(Study Material)

Ans: False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.

Question 11

Rent paid to landlord of the proprietors house, must be debited to 'Rent account'.

(Study Material)

Ans: False: Rent paid to land lord of the proprietors house, must be debited to 'Drawings account'.

Question 12

Provision for Bad Debts is debited to Sundry Debtors A/c

(RTP MAY 2025)

Ans: False: Provision for Bad debts is debited to P&LA/c. In Balance Sheet it is shown as deduction from “Debtors”.

Multiple Choice Questions

Question 13

Rs 200 paid as wages for erecting a machine should be debited to

- (a) Repair account.
- (b) Machine account.
- (c) Capital account

(Study Material)

Ans: (b) Machine account

Reason:

When wages are paid for the erection or installation of a machine, they form part of the cost of the machine, as they are necessary to get the machine ready for use. These costs are capitalized and added to the Machine account. The cost of installation is considered part of the asset's cost rather than an expense like repairs.

Thus, the correct answer is (b) Machine account.

Question 14

On purchase of old furniture, the amount of Rs1,000 spent on its repair should be debited to

- (a) Repair account.
- (b) Furniture account.

(c) Cash account.

(Study Material)

Ans: (b) Furniture account.

Reason:

The Rs 1,000 spent on repairs is related to the furniture and helps restore or improve its condition. Since the expenditure is related to the purchase and restoration of the furniture, it is considered part of the cost of the furniture itself, rather than a separate repair expense. Therefore, this amount is debited to the Furniture account.

Thus, the correct answer is (b) Furniture account.

Question 15

Goods worth Rs100 taken by proprietor for domestic use should be credited to

- (a) Sales account.
- (b) Proprietor's personal expenses.
- (c) Purchases account.

(Study Material)

Ans: (c) Purchases account.

Reason:

When the proprietor takes goods from the business for personal use, it is typically treated as a withdrawal from the business. While the goods are not sold, they are still originally recorded as purchases when bought by the business.

In the context of accounting, the goods taken for personal use are not sales (option a), nor are they an expense of the proprietor's personal use (option b). Instead, the goods are taken

out of the business inventory and, as per accounting conventions, they are considered part of the business's purchases.

Therefore, the correct accounting treatment is to credit the Purchases account to show the reduction in inventory as the goods are no longer available for business purposes. This is why the correct answer is (c) Purchases account.

Question 16

Sales of office furniture should be credited to

- (a) Sales Account.
- (b) Furniture Account.
- (c) Purchase Account.

(Study Material)

Ans: (b) Furniture Account.

Reason:

When office furniture is sold, it should be removed from the Furniture account, which reflects the value of the asset owned by the business. The Sales account is not used in this case because the sale of furniture is not part of regular trading activities (like the sale of goods). Therefore, the Furniture account is credited to record the sale.

Thus, the correct answer is (b) Furniture account.

Theory Questions

Question 17

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

Answer 17

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

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

Topic 3 Rectification Before Trial Balance

Question 18

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

- (i) Credit sale of Rs 400 to Trivedi & Co. was posted to the credit of their account.
- (ii) Purchase of Rs 420 from Mantri & Co. passed through Sales Day Book as Rs 240

How would you rectify the errors assuming that:

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

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

(c) they were detected after preparing Final Accounts

(Study Material)

Answer 18

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

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

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

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

Rectification Entry

Before Trial Balance	After Trial Balance	After Final Accounts

Sales A/c Dr.	240	Sales A/c Dr.	240	Profit & Loss Adj. A/c Dr.	660
Purchase A/c Dr.	420	Purchase A/c Dr.	420	To Mantri & Co.	660
To Mantri & Co.	660	To Mantri & Co.	660		

Topic 4 Rectification After Trial Balance

True and False

Question 19

When errors are detected after preparation of trial balance, suspense account is opened.

(Study Material)

Ans: True: In order to balance the difference of balances in the trial balance suspense account is opened.

Question 20

If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

(Study Material)

Ans: False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.

Practical Questions

Question 21

Mr. Mathur's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

- (i) The total of the Purchases Book of one page, Rs. 7,165 was carried forward to the next page as Rs. 7,615.
- (ii) A sale of Rs. 281 was entered in the Sales Book as Rs. 821 and posted to the credit of the customer.
- (iii) A return to creditor, Rs. 1,595 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) A cheque of Rs. 500 issued to a suppliers A/c (shown under trade payables) towards his dues has been wrongly debited to purchases.
- (v) Goods worth Rs. 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth Rs. 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on sale.
- (viii) Sale of goods to Mr. R for Rs. 3,000 was omitted to be recorded.

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

(RTP MAY 2025)

Answer 21**Journal Entries in the books of Mr. Mathur**

	Particulars	L.F.	Dr.	Cr.
(i)	Suspense A/c Dr.		450	
	To Profit and Loss Adjustment A/c			450
	(Correction of error by which Purchase Account was over debited last year- Rs. 7,615 carried forward instead of Rs. 7,165)			
(ii)	Profit & Loss Adjustment A/c Dr.		540	
	Customer's A/c Dr.		1,102	
	To Suspense A/c			1,642
	(Correction of the entry by which (a) Sales A/c was over credited by Rs. 540 (b) customer was credited by Rs.821 instead of being debited by Rs.281)			
(iii)	Suspense A/c Dr.		3,190	
	To Profit & Loss Adjustment A/c			3,190
	(Correction of error by which Returns Inward Account was debited by Rs.1,595 instead of Returns Outwards Account being credited by			

	Rs.1,595)			
(iv)	Trade payables A/c Dr.		500	
	To Purchases A/c			500
	(Being payments made to a supplier wrongly credited to purchases now rectified)			
(v)	Customer's (debtors) A/c Dr.		1,400	
	To Profit & Loss Adjustment A/c			1,400
	(Rectification of the error arising from non-preparation of invoice for goods delivered)			
(vi)	Profit & Loss Adjustment A/c Dr.		1,600	
	To Customer's A/c			1,600
	(The Customer's A/c credited with goods not yet purchased by him)			
(vii)	Inventory A/c Dr.		1,280	
	To Profit & Loss Adjustment A/c			1280
	(Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)			
(viii)	R's A/c/Trade receivable A/c Dr.		3,000	

	To Profit & Loss Adjustment A/c			3,000
	(Sales to R omitted, now rectified)			
(ix)	Profit & Loss Adjustment A/c Dr.		7,180	
	To Mathur's Capital A/c			7,180
	(Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)			

Topic 5 Rectification After Final Accounts

True and False

Question 22

'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.

(Study Material)

Ans: False: 'Profit & Loss adjustment account' is opened to rectify the errors detected in the next accounting period

Multiple Choice Questions

Question 23

Purchase of office furniture Rs 1,200 has been debited to General Expense Account. It is:

- (a) A clerical error.
- (b) An error of principle.
- (c) An error of omission.

(Study Material)

Ans: (b) An error of principle.

Reason:

An error of principle occurs when a transaction is recorded in the wrong type of account due to incorrect application of accounting principles.

In this case, the purchase of office furniture worth Rs 1,200 has been incorrectly debited to the General Expense Account. Office furniture is a capital asset and should be debited to the Furniture Account (or Asset account), not the General Expense Account (which is typically used for operational expenses).

This mistake is related to the application of accounting principles, as furniture is a capital expenditure, not an operational expense. Therefore, it is considered an error of principle.

Thus, the correct answer is (b) An error of principle.

Practical Questions

Question 24

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

- (i) A sale of Rs 2,300 to Mr. Lala was posted to the credit of Mrs. Mala.**
- (ii) The total of the Returns Inward Book for July, 2021 Rs 1,240 was not posted in the ledger.**

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

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

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

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

(Study Material)

Answer 24

Journal of Mr. A

Date	Particulars	Dr. (Rs)	Cr. (Rs)
2022 (i)	Mrs. Mala	2,300	
	Mr. Lala	2,300	
	To Suspense A/c		4,600
	(Correction of error by which a sale of Rs 2,300 to Mr. Lala was posted to the credit of Mrs. Mala)		
(ii)	Profit and Loss Adjustment A/c	1,240	
	To Suspense A/c		1,240
	(Rectification of omission to post the total of Returns Inward Book for July, 2021)		

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

Comments

The Suspense Account will now appear as shown below:

Suspense Account

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

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

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

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

		17,390			17,390

Question 25

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

- (i) The total of the Purchases Book of one page, Rs 4,539 was carried forward to the next page as Rs 4,593.
- (ii) A sale of Rs 573 was entered in the Sales Book as Rs 753 and posted to the credit of the customer.
- (iii) A return to a creditor, Rs 510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) Cash received from C. Dass, Rs 620 was posted to the debit of G. Dass.
- (v) Goods worth Rs 840 were despatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth Rs 1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale price was 25% above cost.

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

(Study Material)

Answer 25

Journal Entries

	Particulars	Dr.	Cr.
(i)	Suspense Account Dr.	54	
	To Profit and Loss Adjustment A/c		54
	(Correction of error by which Purchase Account was over debited last year- Rs 4,593 carried forward instead of Rs 4,539)		
(ii)	Profit & Loss Adjustment A/c Dr.	180	
	Customer's Account Dr.	1,326	
	To Suspense Account		1,506
	(Correction of the entry by which (a) Sales A/c was over credited by Rs 180 (b) customer was credited by Rs 753 instead of being debited by Rs 573)		
(iii)	Suspense Account Dr.	1,020	
	To Profit & Loss Adjustment A/c		1,020
	(Correction of error by which Returns Inward Account was debited by Rs 510 instead of Returns Outwards Account being credited by Rs 510)		
(iv)	Suspense Account Dr.	1,240	
	To C. Dass		620
	To G. Dass		620
	(Removal or wrong debit to G. Dass and giving credit to C. Dass from whom cash was received).		

(v)	Customer's Account	Dr.	840	
	To Profit & Loss Adjustment A/c			840
	(Rectification of the error arising from non- preparation of invoice for goods delivered)			
(vi)	Profit & Loss Adjustment A/c	Dr.	200	
	Inventory Account	Dr.	800	
	To Customer's Account			1,000
	(The Customer's A/c credited with Rs 1,000 for goods not yet purchased by him; cost of the goods debited to inventory and "Profit" debited to Profit & Loss Adjustment Account)			
(vii)	Profit & Loss Adjustment A/c	Dr.		
	To Capital Account			
	(Transfer of Profit & Loss Adjustment A/c balance to the Capital Account)			

Question 26

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

- (i) Purchase of a scooter was debited to conveyance account Rs. 30,000. Mr. Ratan charges 10% depreciation on scooter.
- (ii) The total of return inward book for July, 2024 Rs. 12,400 was not posted to the ledger.

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

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

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

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

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

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

Pass the necessary rectification entries.

(RTP JAN 2025)

Answer 26

Date	Particulars	Dr. Rs.	Cr. Rs.
(1)	Scooter A/c Dr.	27,000	
	To Profit and Loss Adjustment A/c		27,000
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of Rs. 27,000, i.e., Rs.30,000 less 10% depreciation)		
(2)	Profit & Loss adjustment A/c Dr.	12,400	
	To suspense A/c		12,400
	(Total of return inward book for July,		

	2024 omitted to be recorded now rectified).		
(3)	Profit & Loss Adjustment A/c Dr.	40,000	
	To X's A/c		40,000
	(Credit purchase from X Rs.20,000, entered as sales last year, now rectified)		
(4)	Ravish's A/c Dr.	10,000	
	To Preetish's A/c		10,000
	(Amount received from Mr. Preetish wrongly posted to the account of Mr. Ravish; now rectified)		
(5)	Suspense A/c Dr.	10,000	
	To Chandu's A/c		10,000
	(Rs. 5,000 received from Chandu wrongly debited to his account; now rectified)		
(6)	Suspense A/c Dr.		10,000
	To Profit & Loss Adjustment A/c	10,000	
	(Carry forward of total of purchase a/c		

	to next page 65,950 instead of 55,950 now rectified)		
(7)	Rohan's A/c Dr.		20,000
	To Profit & Loss Adjustment A/c	20,000	
	(Sales to Rohan omitted last year; now adjusted)		
(8)	Machinery A/c Dr.	5,600	
	Suspense A/c Dr.	900	
	To Profit & Loss Adjustment A/c		6,500
	(Freight paid for machine 5,600 was posted to freight A/c at 6,500 now rectified)		
(9)	Profit & Loss Adjustment A/c Dr.	11,100	
	To Satvik's Capital A/c		11,100
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)		
(10)	Satvik's Capital A/c Dr.	8,500	
	To Suspense A/c		8,500
	(Balance of Suspense Account		

	transferred to Capital Account)		

Topic 6 Use of Suspense Account

Practical Questions

Question 27

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

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

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts and also prepare suspense account.

(Study Material)

Answer 28

	Particulars	Dr.	Cr.
(i)	Suspense Account	6,160	
	To Return Outward A/c		6,160
(ii)	Suspense Account	2,640	
	To Discount Allowed Account		1,320
	To Discount Received Account		1,320
(iii)	Suspense Account	10,000	
	To Sales Account		10,000
(iv)	Suspense Account	270	
	To Trade Receivable Account		270
(v)	Suspense Account	1,500	
	To Vehicle Account		1,200
	To Profit on Sale of Vehicle Account		300

(vi)	Telephone Charges Account	560	
	To Outstanding Expenses Account		560
(vii)	Bad Debts Account (refer W.N 1)	1,560	
	To Trade Receivables Account		1,560
	Provision for Doubtful Debts Account (refer W.N. 2)	1,396	
	To Profit and Loss Account		1,396
(viii)	Loose Tools Account	1,200	
	To Purchases Account		1,200
(ix)	Drawings Account	1,960	
	To Purchases Account		1,960

Suspense Account

Achieving Excellence Together

Particulars	Rs	Particulars	Rs
To Return outward Account	6,160	By balance b/d	20,570
To Discount allowed Account	1,320		
To Discount Received Account	1,320		

To Sales Account	10,000		
To Customers Account	270		
To Vehicles Account	1,200		

Working Notes:

(i)	Balance of Trail Balance for Computation of Provision for Doubtful Debts Trade receivables as per books		23,390
	Deduction vide item (iv)	270	
	Bad Debts	1560	1,830
			21,560
(ii)	Amount Charge to Profit & Loss on Account of Provision for Doubtful Debts Opening of Provision for Doubtful Debts		2,320
	Less: Bad debts		1,560
			760
	Closing Balance of Provision for Doubtful Debts		2,156
	Charge to Profit and Loss A/c		1,396

Question 28

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

- (1) The totals of debit side of "Expenses Account" have been casted in excess by Rs 50.
- (2) The "Sales Account" has been totalled in short by Rs 100.
- (3) Supplier account has been overcast by 225.
- (4) The sale return of Rs 100 from a party has not been posted to that account though the Party's account has been credited.
- (5) A cheque of Rs 500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.
- (6) A credit sale of Rs 50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

- (i) Pass necessary journal entries for correcting the above;
- (ii) Show how they affect the Profits; and
- (iii) Prepare the "Suspense Account" as it would appear in the ledger.

(Study Material)

Answer 28

Journal Entries

	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
(i)	Suspense Account Dr.		50	

	To Expenses Account			50
	(Being the mistake in totalling of Expenses Account, rectified)			
(ii)	Suspense Account Dr.		100	
	To Sales Account			100
	(Being the mistake in totalling of Sales Accounts rectified)			
(iii)	Supplier Dr.		225	
	To Suspense Account			225
	(Being the mistake in posting from Day Book to Ledger rectified)			
(iv)	Sales Returns Account Dr.		100	
	To Suspense Account			100
	(Being the sales return from a party not posted to "Sales Returns" now rectified)			
(v)	Trade payables Account Dr.		500	
	To Purchases Account			500
	(Being the payments made to supplier wrongly posted to purchases now rectified)			

(vi)	Trade receivables Account	Dr.	100	
	To Suspense Account			100
	(Being the sales wrongly credited to Customer's Account now rectified)			

Suspense Account

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

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

	Increased by Rs	Decreased by Rs
Mistake in totalling in "Expenses"	50	
Mistake in totalling in "Sales"	100	

Mistake in posting from day book to Ledger under "Purchases"	500	
Omission in posting under "Sales Returns"		100
	650	100
Net Increase	550	

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

Question 29

M/s. Veeba Garments wires were unable to agree the Trial Balance as on 31st March, 2025 and have raised a suspense account for the difference. Next year the following errors were discovered:

- (i) Additions to machinery made during the year were wrongly debited to repairs A/c - Rs. 1,12,500.
- (ii) The addition of the 'Freight' column in the purchase journal was excess by Rs. 13,500.
- (iii) Goods to the value of Rs. 9450 returned to Ray & Co., had been posted to the credit of Ray & Co. and also to purchase returns.
- (iv) Sundry items of furniture sold for Rs. 2,70,000 had been entered in the sales book, the total of which had been posted to sales account.
- (v) A bill of exchange (received from Mayur & Co.) for Rs. 180,000 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 29

Rectification entries in the books of M/s Veeba Garment

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Machinery A/c Dr.		1,12,500	
	To Profit and Loss Adjustment A/c			1,12,500
	(Additions to machinery amounting Rs. 1,12,500 wrongly debited to repairs account, now rectified)			
2.	Suspense A/c Dr.		13,500	
	To Profit and Loss Adjustment A/c			13,500
	(Addition of freight column in purchase journal was over casted, now rectified)			
3.	Profit and Loss Adjustment A/c Dr.		18,900	
	To Suspense A/c			18,900
	(Goods returned to Ray & Co. had been wrongly posted to purchase return, now rectified)			
4.	Profit and Loss Adjustment Account Dr.		2,70,000	

	To Furniture A/c			2,70,000
	(Being sale of furniture wrongly entered in sales book, now rectified)			
5.	Mayur & Co. Dr.		1,80,000	
	To Bills receivable A/c			1,80,000
	(Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)			

Question 30

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

- (i) Furniture purchased for office use amounting to Rs.20,000 has been entered in the purchase day book.
- (ii) An amount of Rs.3,000 due from Satyam, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Satyam.
- (iii) Minor Repairs made to the building amounting to Rs.18,500 were debited to the Building Account
- (iv) Goods purchased from Ram Singh amounting to Rs.18,000 have remained unrecorded so far.
- (v) College fees of proprietor's son, Rs.15,000 debited to the Audit fees Account.

(vi) Receipt of Rs.4,500 from Kanika credited to the Anita.

(vii) Goods amounting to Rs.8,900 had been returned by a customer and were taken into inventory, but no entry was made in the books.

(viii) Rs.7,500 paid for wages to workmen for making office furniture had been charged to wages account.

(ix) Salary paid to a clerk Rs.18,000 has been debited to his personal account.

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

(MTP JAN 2025)

Answer 30

In the books of Saraswat & Sons Journal

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
(i)	Furniture A/c Dr.		20,000	
	To Purchases A/c			20,000
	(Correction of wrong debit to Purchases A/c for furniture purchased)			
(ii)	Satyam A/c Dr.		3,000	
	To Bad Debts Recovered A/c			3,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off)			

	bad debts)			
(iii)	Repairs A/c Dr.		18,500	
	To Building A/c			18,500
	(Correction of wrong debit to building A/c for repairs made)			
(iv)	Purchases A/c Dr.		18,000	
	To Ram Singh A/c			18,000
	(Purchases of goods from Ram Singh remained unrecorded)			
(v)	Drawings A/c Dr.		15,000	
	To Audit Fees A/c			15,000
	(Correction of wrong debit to Audit Fees A/c for college fees of proprietor's son)			
(vi)	Anita Dr.		4,500	
	To Kanika			4,500
	(Correction of wrong credit to Anita instead of Kanika)			
(vii)	Returns Inwards / Sales Return A/c Dr.		8,900	

	To Customer/Debtors A/c			8,900
	(Entry of goods returned by customer and taken in inventory omitted from records)			
(viii)	Furniture A/c Dr.		7,500	
	To Wages A/c			7,500
	(Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)			
(ix)	Salaries A/c Dr.		18,000	
	To Clerk's (Personal) A/c			18,000
	(Correction of wrong debit to Clerk's personal A/c for salaries paid)			
(x)	Purchases A/c Dr.		20,000	
	Sales A/c Dr.		20,000	
	To Raghav A/c			40,000
	(Correction of wrong entry in the sales Book for purchases of goods from Raghav)			

Question 31

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

(1) Goods of the value of Rs.15,000 returned by Mr. Aman were entered in the Sales Day Book and posted therefrom to the credit of his account;

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

(3) The total of "Discount Allowed" column in the Cash Book for the month of June,2025 amounting to Rs.27,500 was not posted, though correctly recorded in Debtors Account.

(4) Bad Debts aggregating Rs.8,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger.

(5) A sale of Rs.30,000 made to Ms. Aavya was correctly entered in the Sales Day Book but wrongly posted to the debit of Ms. Aadya as Rs. 3,000;

(6) Supplier account has been overcast by Rs. 225.

(RTP SEP 2025)

Answer 31

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Sales A/c Dr.		15,000	
	Sales Returns A/c		15,000	
	To Suspense A/c			30,000
	(Goods returned by Mr. Aman wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)			

(2)	Suspense A/c Dr.		15,000	
	To Mr. Ashish			15,000
	(Wrong debit to Mr. Ashish for goods returned by him, now rectified)			
(3)	Discount A/c Dr.		27,500	
	To Suspense A/c			27,500
	(The total of Discount allowed during June, 2025 not posted from the Cash Book; error now rectified)			
(4)	Bad Debts A/c Dr.		8,000	
	To Suspense A/c			8,000
	(Bad Debts written off not adjusted in General Ledger, now rectified)			
(5)	Ms. Aavya Dr.		30,000	
	To Ms. Aadya			3,000
	To Suspense A/c			27,000
	(Omission of debit to Ms. Aavya and wrong credit to Ms. Aadya for sale of Rs. 30,000, now rectified)			

(6)	Supplier A/c Dr.		225	
	To Suspense A/c			225
	(Supplier account overcast by Rs.225 now rectified)			

Topic 8 Practical Rectification Entries

Multiple Choice Questions

Question 32

Goods purchased from A for Rs 10,000 passed through the sales book. The error will result in

- (a) Increase in gross profit.
- (b) Decrease in gross profit.
- (c) No effect on gross profit.

(Study Material)

Ans: (a) Increase in gross profit.

Reason:

1. The Sales Book is meant for recording sales transactions, not purchases. When purchases are mistakenly recorded in the Sales Book, it means that the purchase of Rs 10,000 has been counted as a sale.

2. Since sales increase the revenue side, this will inflate the sales figure, thereby increasing the gross profit (as gross profit is calculated by subtracting cost of goods sold from sales).

3. This results in incorrectly higher gross profit than what it should have been.

Thus, the correct answer is (a) Increase in gross profit.

Question 33

If a purchase return of Rs1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the

- (a) Trial balance would show the debit side to be Rs1,000 more than the credit.
- (b) Trial balance would show the credit side to be Rs 1,000 more than the debit.
- (c) The debit side of the trial balance will be Rs 2,000 more than the credit side.

(Study Material)

Ans: (c) The debit side of the trial balance will be Rs 2,000 more than the credit side.

Reason:

1. The Purchase Return of Rs 1,000 was incorrectly posted to the debit side of the Sales Returns Account. The Sales Returns Account should normally reflect the return of goods sold. Since this transaction should have been posted to the Purchase Returns Account, this mistake creates an imbalance in the trial balance.

2. Effect on Trial Balance:

Sales Returns Account (Debit) is incorrectly increased by Rs 1,000.

1. Purchase Returns Account (Credit) is correctly recorded in the suppliers' account, which is on the credit side.

2. This causes the debit side of the trial balance to be Rs 2,000 more than the credit side: Rs 1,000 from the incorrect posting in the Sales Returns Account (debit side) and Rs 1,000 from the correct entry in the suppliers' account (credit side).

Thus, the correct answer is (c) The debit side of the trial balance will be Rs 2,000 more than the credit side.

Question34

Rs 200 received from Smith whose account, was written off as a bad debt should be credited to:

- (a) Bad Debts Recovered account.
- (b) Smith's account.
- (c) Cash account.

(Study Material)

Ans: (a) Bad Debts Recovered account.

Reason:

1. When a bad debt is recovered, it means that the amount that was previously written off as uncollectible has now been received. This is not a regular receipt from customers, but a recovery of an amount written off in the past.
2. The correct accounting treatment is to credit the Bad Debts Recovered Account, as it represents income received from the recovery of previously written-off bad debts.
3. Smith's Account has already been written off, so it does not need to be credited again.
4. Cash Account should be debited because money is being received, but the credit goes to Bad Debts Recovered to reflect the nature of the transaction.

Thus, the correct answer is (a) Bad Debts Recovered account.



CHAPTER 3

BANK RECONCILIATION STATEMENT

Topic 1 Basic Concepts

Theory Questions

Question 1

Write short note on Bank reconciliation statement.

(Study Material)

Answer 1

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

Question 2

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

(Study Material)

Answer 2

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

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

Question 3

Importance of bank reconciliation to an industrial unit.

(RTP JAN 2025)

Answer 3

Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its

liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

True or False

Question 4

Bank Reconciliation Statement can be prepared in two formats – “Balance” presentation and “Plus & Minus” presentation.

(Study Material)

Ans: True: Reconciliation statement can be prepared in either of the two formats.

Question 5

A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.

(Study Material)

Ans: True: In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.

Question 6

Bank reconciliation statement is prepared to arrive at the bank balance.

(RTP SEP 2025)

Ans: False: Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

Multiple Choice Questions

Question 7

A bank reconciliation statement is mainly prepared to:

- (a) Reconcile the cash balance of the cash book
- (b) Reconcile the difference between the bank balance shown by the cash book and bank passbook
- (c) Both a & b

Ans: (b) Reconcile the difference between the bank balance shown by the cash book and bank passbook

Reason:

A bank reconciliation statement is prepared to identify and reconcile the differences between the bank balance as shown in the cash book (company's records) and the bank passbook (bank's records). These differences arise due to reasons such as:

1. Timing differences: For example, cheques issued by the company may not have been cleared by the bank yet, or bank charges/interest may not have been recorded in the company's cash book.

2. Errors: Mistakes in recording transactions on either the company's side or the bank's side.

3. Unrecorded transactions: Like direct deposits made by customers or direct payments made by the bank on behalf of the company.

The bank reconciliation statement ensures that both the cash book and bank passbook reflect the same cash balance once all differences are adjusted.

Therefore, the primary purpose of the bank reconciliation statement is to reconcile the difference between the bank balance shown by the cash book and the bank passbook, making (b) Reconcile the difference between the bank balance shown by the cash book and bank passbook the correct answer.

Topic 2 Causes of Differences

True or False

Question 8

Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.

(Study Material)

Ans: False: Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.

Question 9

There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.

(Study Material)

Ans: True: These are the three broad categories.

Question 10

Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.

(Study Material)

Ans: False: Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.

Question 11

Overcasting of the debit side of the cash book is an example of a difference that is due to error.

(Study Material)

Ans: True: Overcasting is an example of an error.

Question 12

While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.

(Study Material)

Ans: False: Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.

Question 13

The difference between cash book & pass book that relates to errors are those mostly made by Bank.

(Study Material)

Ans: False: Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.

Question 14

Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.

(Study Material)

Ans: False: Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.

Topic 3 Adjustments Before BRS

True or False

Question 15

Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.

(Study Material)

Ans: False: Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.

Practical Questions

Question 16

According to the cash-book of Gopi, there was a balance of Rs 44,50,000 in his bank on 30th June, 2022. On investigation you find that:

- (i) Cheques amounting to Rs 6,00,000 issued to creditors have not been presented for payment till the date.
- (ii) Cheques paid into bank amounting to Rs 11,05,000 out of which cheques amounting to Rs 5,50,000 only collected by the bank up to 30th June 2022.
- (iii) A dividend of Rs 40,000 and rent amounting to Rs 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.
- (iv) Insurance premium (up to 31st December, 2022) paid by the bank Rs 27,000 not entered in the cash book.
- (v) The payment side of the cash book had been under casted by Rs 5,000.
- (vi) Bank charges Rs 1,500 shown in the pass book had not been entered in the cash book.
- (vii) A bill payable of Rs 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for Rs 60,000 had been discounted with the bank at a cost of Rs 1,000 which had also not been recorded in cash book.

Required:

- (a) to make the appropriate adjustments in the cash book, and
- (b) to prepare a statement reconciling it with the bank pass book.

(Study Material)

Answer 16

Cash Book (Bank Column)

Receipts	Rs	Payments	Rs
To Balance b/d	44,50,000	By Insurance premium A/c	27,000
To Dividend A/c	40,000	By Correction of errors	5,000
To Rent A/c	6,00,000	By Bank charges	1,500
To Bill receivable A/c	59,000	By Bill payable	2,00,000
		By Balance c/d	49,15,500
	51,49,000		51,49,000

Bank Reconciliation Statement as on 30th June, 2022

	Rs
Adjusted balance as per cash book (Dr.)	49,15,500
Add: Cheques issued but not presented for payment till 30th June, 2022	6,00,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2022	(5,55,000)
Balance as per pass book	49,60,500

Question 17

From the following information (as on 31.3.2024), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	16,25,000
Cheques deposited, but not yet credited	22,37,500
Cheques issued but not yet presented for payment	17,81,000
Bank charges debited by bank but not recorded in the cash-book	6,250
Dividend directly collected by the bank	62,500
Insurance premium paid by bank as per standing instruction not intimated	7,950
Cash sales wrongly recorded in the Bank column of the cash-book	1,27,500
Customer's cheque dishonoured by bank not recorded in the cash-book	65,000
Wrong credit given by the bank	75,000

Also show the bank balance that will appear in the trial balance as on 31.3.2024.

(RTP MAY 2025)

Answer 17

Cash Book as on 31.3.2024

(After making necessary adjustments)

Particulars	Amount Rs.	Particulars	Amount Rs.

To Balance b/d	16,25,000	By Bank charges	6,250
To Dividend	62,500	By Insurance premium	7,950
		By Trade receivables (cheque dishonoured)	65,000
		By Cash A/c (wrongly recorded cash sales)	1,27,500
		By Balance c/d	14,80,800
	16,87,500		16,87,500

Bank Reconciliation Statement as on 31.3.2024

Particulars	Details	Amount Rs.
Bank balance as per the cash book		14,80,800
Add: Cheques issued but not yet presented for payment	17,81,000	
Wrong credit given by bank	75,000	18,56,000
		33,36,800
Less: Cheques deposited but not yet credited by bank		(22,37,500)
Balance as per the pass book		10,99,300

The bank balance of Rs. 14,80,800 will appear in the trial balance as on 31st March, 2024.

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

Cash A/c	Dr	1,27,500
To Sales A/c		1,27,500

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

Cash A/c	Dr.	1,27,500
To Bank A/c		1,27,500

Topic 4 Debit/Credit Balances & Overdrafts

True or False

Question 18

Debit balance in cash book is same as overdraft as per pass book.

(Study Material)

Ans: False: Debit balance as per cash book should be represented by credit or favourable balance in pass book.

Question 19

When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.

(Study Material)

Ans: True: Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.

Question 20

The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.

(Study Material)

Ans: False: Bank charges should be added when we start with credit or favourable balance in pass book as bank would have debited the charges.

Question 21

Cash book shows a debit balance of Rs 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for Rs 60,000 but not yet presented for payment. The balance as per pass book should be Rs 1,10,000.

(Study Material)

Ans: True: Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. $\text{Rs } 50,000 + \text{Rs } 60,000 = \text{Rs } 1,10,000$.

Question 22

Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.

(Study Material)

Ans: False: Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.

Question 23

A cheque for Rs 80,000 that was discounted from bank was dishonoured and the bank charged Rs 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct Rs 78,400 to reconcile with pass book.

(Study Material)

Ans: False: We need to deduct Rs 81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.

Question 24

Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.

(Study Material)

Ans: False: Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.

Multiple Choice Questions

Question 25

A debit balance in the depositor's Cash Book will be shown as:

(a) A debit balance in the Bank Statement.

(b) A credit balance in the Bank Statement.

(c) An overdrawn balance in the Bank Statement.

(Study Material)

Ans: (b) A credit balance in the Bank Statement.

Reason:

1. A debit balance in the Cash Book indicates that the business has more payments recorded than cash on hand, meaning it owes the bank money (i.e., the business is overdrawn). This represents an overdraft situation.

2. In the Bank Statement, this overdraft will be reflected as a credit balance, since it represents an amount that the business owes to the bank.

Thus, a debit balance in the Cash Book will be shown as a credit balance in the Bank Statement.

Therefore, the correct answer is (b) A credit balance in the Bank Statement.

Question 26

When balance as per Pass Book is the starting point, interest allowed by Bank is

(a) Added

(b) Subtracted

(c) Not required to be adjusted

(Study Material)

Ans: (b) Subtracted

Reason:

When preparing a Bank Reconciliation Statement using the balance as per the Pass Book as the starting point, any interest allowed by the bank (such as interest on the bank balance) should be subtracted in the reconciliation process.

Here's why:

1. The Pass Book reflects the bank's records, including interest earned on the account. However, the business may not have recorded this interest in its Cash Book yet.

2. Since the interest allowed by the bank increases the bank balance, but the business has not yet accounted for it in the Cash Book, it needs to be subtracted when reconciling from the Pass Book balance to the Cash Book balance.

Thus, the interest allowed by the bank should be subtracted from the Pass Book balance in order to reconcile the two records.

Therefore, the correct answer is (b) Subtracted.

Question 27

The cash book showed an overdraft of Rs 1,50,000, but the pass book made up to the same date showed that cheques of Rs 10,000, Rs 5,000 and Rs 12,500 respectively had not been presented for payments; and the cheque of Rs 4,000 paid into account had not been cleared. The balance as per the pass book will be:

(a) Rs 1,10,000

(b) Rs 2,17,500

(c) Rs 1,26,500

(Study Material)

Ans: (c) Rs 1,26,500

Reason:

1. Cash Book Overdraft: Rs 1,50,000 (the overdraft shown in the Cash Book).

2. Unpresented Cheques: These cheques have not been cleared, so they need to be added back to the bank balance.

$$\text{Rs } 10,000 + \text{Rs } 5,000 + \text{Rs } 12,500 = \text{Rs } 27,500.$$

3. Uncleared Cheque Deposit: The Rs 4,000 cheque deposited has not been cleared, so it needs to be subtracted from the bank balance.

The calculation will be:

Balance as per Pass Book = Cash Book Overdraft + Unpresented Cheques - Uncleared Cheque Deposit

$$= \text{Rs } 1,50,000 + \text{Rs } 27,500 - \text{Rs } 4,000$$

$$= \text{Rs } 1,26,500.$$

Thus, the correct answer is (c) Rs 1,26,500.

Question 28

When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:

- (a) Added;
- (b) Deducted;
- (c) Not required to be adjusted.

(Study Material)

Ans: (a) Added;

Reason:

When drawing up a Bank Reconciliation Statement, if you start with a debit balance (which means the business has an overdraft or negative balance in the bank), you need to adjust the bank's balance to reflect the actual available balance.

1. Unpresented cheques are those that the business has issued but have not yet been cleared by the bank. Since the business has already accounted for these cheques in the Cash Book, they reduce the available balance in the business's books but have not yet been reflected in the bank's records.

2. Unpresented cheques should be added to the bank balance in the reconciliation statement because these cheques have already been deducted in the Cash Book, but they haven't yet been processed by the bank. Therefore, the bank's balance needs to be adjusted by adding back the unpresented cheques to show the true balance.

3. Thus, when reconciling from a debit balance (overdraft) on the bank statement, unpresented cheques are added to the balance to reflect the actual cash available.

Therefore, the correct answer is indeed (a) Added.

Question 29

When drawing up a BRS if you start with a Dr. Balance as per Bank Statement, the following are added:

1. Cheque issued but not presented to bank
2. B/R collected directly by bank
3. Overcasting of the Dr. Side of bank A/c in the cash book.

(a) only 1

(b) only 1& 2

(c) all of the above

Ans: (b) only 1& 2

Reason:

When preparing a Bank Reconciliation Statement (BRS) starting with a Dr. (Debit) Balance as per the Bank Statement, you need to adjust for certain items that affect the reconciliation between the Bank Statement balance and the Cash Book balance.

Here's the breakdown of the items mentioned:

Cheque issued but not presented to the bank:

These cheques have been recorded in the Cash Book but have not yet been processed by the bank. As they reduce the available cash balance in the Cash Book, they have not been deducted from the Bank Statement. Therefore, they should be added to the Bank Statement balance to reflect the actual balance available.

B/R (Bills Receivable) collected directly by the bank:

The bank may have collected a Bills Receivable directly on behalf of the business, but the business has not yet recorded it in its Cash Book. Since the bank has already added this amount to the bank balance, it should be added to the balance as per the Bank Statement.

Overcasting of the Dr. Side of bank A/c in the cash book:

If the Dr. side of the Cash Book has been overcast (i.e., the amount recorded on the debit side is too high), this would need to be deducted when reconciling, as the Cash Book balance would be inflated compared to the Bank Statement. This item does not get added; it should be subtracted instead.

Conclusion:

Cheque issued but not presented to the bank and Bills Receivable collected by the bank should both be added, while overcasting of the Cash Book needs to be subtracted.

Therefore, the correct answer is (b) only 1 & 2.

Practical Questions

Question 30

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022:

Particulars	Rs
Debit balance as per bank column of the cash book	37,20,000
Cheque issued to creditors but not yet presented to the bank for payment	7,20,000
Dividend received by the bank but not yet entered in the cash book	5,00,000
Interest allowed by the bank	12,500
Cheques deposited into bank for collection but not collected by bank up to this date.	15,40,000
Bank charges	2,000
A cheque deposited into bank was dishonoured, but no intimation received	3,20,000
Bank paid house tax on our behalf, but no information received from bank in this connection.	3,50,000

(Study Material)

Answer 30**Bank Reconciliation Statement as on 31st March, 2022**

	Rs	Rs
Debit balance as per cash book		37,20,000
Add: Cheque issued but not yet presented to bank for payment	7,20,000	
Dividend received by bank not entered in cash book	5,00,000	
Interest allowed by bank	12,500	12,32,500
		49,52,500
Less: Cheques deposited into bank but not yet collected	15,40,000	
Bank charges	2,000	
A cheque deposited into bank was dishonoured	3,20,000	
House tax paid by bank	3,50,000	(22,12,000)
Credit balance as per pass book		27,40,500

Question 31

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022 and show the balance as per cash book:

i) Overdraft as per passbook on March 31, 2022, is Rs 3,00,000.

ii) Interest on bank overdraft not entered in the cash book Rs. 36,500

iii) Insurance premium of Rs. 17,950 was due and paid by the bank but same has not been accounted in the books.

iv) Cheques drawn in the last week of March, 2022, but not cleared till date for Rs 13,000 and Rs. 23,500.

v) Cheques deposited into bank on February, 2022, but yet to be credited on dated March 31, 2022 Rs. 56,000.

vi) Amount of Rs. 20,500 is wrongly debited by the bank.

vii) Interest on Investment Rs. 83,800 collected and credited by bank but the same has not been entered in the Cash Book.

(Study Material)

Answer 31

Bank Reconciliation Statement as on 31st March, 2022

	Rs	Rs
Balance as per bank statement (Overdraft)		3,00,000
Add: Cheques drawn but not cleared	36,500	
Interest collected on investments directly credited by bank	83,800	1,20,300
		4,20,300
Less: Interest on bank overdraft not entered in the cash book	36,500	
Cheques deposited but not yet cleared	56,000	

Insurance premium paid by bank	17,950	
Amount wrongly debited by bank	20,500	1,30,950
Overdraft as per cash book		2,89,350

Question 32

From the following information, ascertain the Cash Book balance of Mr. Patil as on 31st March ,2025:

- (i) Debit balance as per Bank Pass Book Rs. 5,250.
- (ii) A cheque amounting to Rs. 3,750 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 2025, two bills amounting to Rs. 3,750 and Rs. 750 were collected by the Bank but no entry was made in the Cash Book.
- (iv) A bill for Rs. 7,500 due from Mr. Sahil previously discounted for Rs. 7,200 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.
- (v) A Cheque for Rs. 2,250 was debited twice in the cash book.

(MTP MAY 2025)

Answer 32

Bank Reconciliation Statement as on 31st March,2025

Particulars	Amount Rs.
Balance as per Pass Book	5,250

Add: Bill discounted by bank (3,750+750)	4,500
Less: Cheques deposited but returned on 24th March, 2025	(3,750)
Discounted bill from Mr. Sahil dishonoured	(7,500)
Wrong debit in passbook	(2,250)
Balance as per Cash book (Dr. / Favourable)	(3,750)

Question 33

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

- (1) Bank overdraft as per Pass Book as on 31st March, 2024 was Rs. 8,800
- (2) Cheques deposited in Bank for Rs. 5,800 but only Rs. 2,000 were cleared till 31st March.
- (3) Cheques issued were Rs. 2,500, Rs. 3,800 and Rs. 2,000 during the month. The cheque of Rs. 5,800 is still with supplier.
- (4) Dividend collected by Bank Rs. 1,250 was wrongly entered as Rs. 1,520 in Cash Book.
- (5) Corporation tax Rs. 1,200 paid by Bank as per standing instruction appears in Pass Book only.
- (6) Interest on overdraft Rs. 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2024.
- (7) Direct deposit by M/s Rajesh Trader Rs. 400 not entered in Cash Book.
- (8) Amount transferred from fixed deposit A/c into the current A/c Rs. 2,000 appeared only in Pass Book.

Answer 33**Bank Reconciliation Statement as on 31st March, 2024**

Particulars	Amount Rs.
Overdraft as per Pass Book	8,800
Add:	
(i) Cheques issued but not presented till 31st March 5,800	
(ii) Transfer from fixed deposit 2,000	
(iii) Direct deposit by M/s Rajesh Trader 400	8,200
	17,000
Less:	
(i) Cheques deposited but not cleared (5,800 - 2,000) 3,800	
(ii) Dividend collected excess recorded in Cash Book (1,520-1,250) 70	
(iii) Interest on overdraft debited in Pass Book only 930	
(iv) Corporation tax paid appeared in Pass Book only 1,200	6,200
Overdraft as per Cash Book	10,800

True or False

Question 34

A cheque for Rs 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of Rs 50,000 from the balance in pass book.

(Study Material)

Ans: True: Rs 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.

Question 35

A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.

(Study Material)

Ans: True: It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.

Practical Questions

Question 36

Prepare a bank reconciliation statement as on 30th September, 2022 from the following particulars:

Particulars	Rs
Bank balance as per pass-book	10,00,000
Cheque deposited in the bank, but no entry was passed in the Cash-Book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

(Study Material)

Answer 36

Bank Reconciliation Statement as on 30th September, 2022

	Rs	Rs
Bank balance as per pass book		10,00,000
Add: Cheque received but not sent to the bank	11,20,000	

Credit side of the bank column cast short	2,000	
Insurance premium paid directly not recorded in the cash book	60,000	
Cheque received entered twice in the cash book	10,000	
Bills dishonoured not recorded in the cash book	5,00,000	16,92,000
		26,92,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	5,00,000	
Bank charges recorded twice in the cash book	2,000	
Cheque issued but not presented to the bank	5,00,000	(10,02,000)
Bank balance as per cash book		16,90,000

Question 37

The Cash-book of M/s ABC shows Rs 27,570 as the balance at Bank as on 31st March, 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

- (i) Subsidy Rs 10,250 received from the government directly by the bank, but not advised to the company.
- (ii) On 15th March, 2022 the payments side of the Cash-book was under cast by Rs 350.
- (iii) On 20th March, 2022 the debit balance of Rs 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of Rs 2,000, paid to M/s ABC a cheque on 24th March, 2022. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2022 a bill for Rs 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to Rs 5,500 only.

(vi) A cheque issued amounting to Rs 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium Rs 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for Rs 1,530 discounted for Rs 1,500 with the bank had been dishonoured on 30th March, 2022, but advice was received on 1st April, 2022.

(ix) Bank recorded a Cash deposit of Rs 1,550 as Rs 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2022

(Study Material)

Answer 37

Bank Reconciliation Statement on 31st March, 2022

Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of Rs2,156 brought forward as credit balance on 20th March, 2022 in the Cash Book	4,312	
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287

				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2022	350	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	200	
	(vii)	Insurance Premium paid directly by bank understanding instructions	756	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	1,530	
	(ix)	Bank recorded short cash deposit	45	2,981
Balance as per Bank Statement				40,876

Question 38

The Cash-book of M/s Mazars shows Rs. 27,570 as the balance at Bank as on 31st March, 2025. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy Rs. 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2025 the payments side of the Cash-book was under cast by Rs. 350.

(iii) On 20th March, 2025 the debit balance of Rs. 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s Mazars, who received a cash discount of 5% on his account of Rs. 2,000, paid to M/s Mazars a cheque on 24th March, 2025. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2025 a bill for Rs. 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to Rs. 5,500 only.

(vi) A cheque issued amounting to Ravi for Rs. 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium Rs. 900 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for Rs. 1,530 discounted for Rs. 1,500 with the bank had been dishonoured on 30th March, 2025, but advice was received on 1st April, 2025.

(ix) Bank recorded a Cash deposit of Rs. 1,650 as Rs. 1,560.

Prepare Bank Reconciliation Statement on 31st March, 2025.

(RTP SEP 2025)

Answer 38

(i) Bank Reconciliation Statement on 31st March, 2025

Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of Rs.2,156 brought forward	4,312	

		as credit balance on 20th March, 2025 in the Cash Book		
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2025	(350)	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	(100)	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	(200)	
	(vii)	Insurance Premium paid directly by bank under standing instructions	(900)	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	(1,530)	
	(ix)	Bank recorded short cash deposit	(90)	(3,170)
		Balance as per Bank Statement		40,687

Topic 6 Practical BRS Preparation

Practical Questions

Question 39

From the following particulars prepare a bank reconciliation statement as on 31st December 2022:

(i) On 31st December, 2022 the cash-book of a firm showed a bank balance of Rs 60,000 (debit balance).

(ii) Cheques had been issued for Rs 15,00,000, out of which cheques worth Rs 4,00,000 only were presented for payment.

(iii) Cheques worth Rs 11,40,000 were deposited in the bank on 28th December, 2022 but had not been credited by the bank. In addition to this, one cheque for Rs 5,00,000 was entered in the cash book on 30th December, 2022 but was banked on 3rd January, 2023.

(iv) A cheque from Susan for Rs 4,00,000 was deposited in the bank on 26th December 2022 but was dishonoured and the advice was received on 2nd January, 2023.

(v) Pass-book showed bank charges of Rs 2000 debited by the bank.

(vi) One of the debtors deposited a sum of Rs 5,00,000 in the bank account of the firm on 20th December, 2022 but the intimation in this respect was received from the bank on 2nd January, 2023.

(vii) Bank pass-book showed a debit balance of Rs 3,82,000 on 31st December, 2022.

(Study Material)

Answer 39

Bank Reconciliation Statement as on 31st December, 2022

	Rs	Rs

Bank balance (Dr.) as per cash book		60,000
Add: Cheques issued but not yet presented for payment	11,00,000	
Cheques directly deposited by a customer not yet recorded in cash book	5,00,000	16,00,000
		16,60,000
Less: Cheques deposited but not yet credited by bank	11,40,000	
Cheque received and recorded in cash book but not yet banked	5,00,000	
Cheque dishonoured by the bank; the dishonour entry not yet passed in cash book	4,00,000	
Bank charges not recorded in cash book	2,000	(20,42,000)
Bank balance (Dr.) as per pass book		(3,82,000)

Question 40

On 30th September, 2024, the bank account of Sameer, according to the bank column of the Cash- Book, was overdrawn to the extent of Rs. 32,496. On the same date the bank statement showed a credit balance of Rs. 5,39,024 in favour of Sameer.

An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 1,05,120 deposited on 29th September, 2024 was credited by the bank only on 3rd October, 2024
2. A payment by cheque for Rs. 1,280 has been entered twice in the Cash Book.

3. On 29th September, 2024, the bank credited an amount of Rs. 93,920 received from a customer of Sameer, but the advice was not received by Sameer until 1st October, 2024.

4. Bank charges amounting to Rs. 4,640 had not been entered in the Cash Book.

5. On 6th September, 2024, the bank credited Rs. 1,60,0000 to Sameer in error.

6. A bill of exchange for Rs. 11,20,000 was discounted by Sameer with his bank. This bill was dishonoured on 28th September, 2024 but no entry had been made in the books of Sameer.

7. Cheques issued upto 30th September, 2024 but not presented for payment upto that date totalled Rs. 1,06,080.

You are required to prepare a bank reconciliation statement as on that date.

(MTP MAY 2025)

Answer 40

(i) Bank Reconciliation Statement as on 30th September, 2025

Particulars	Amount Rs.
Overdraft as per Cash Book	32,496
Add: Cheque deposited but not collected upto 30th Sept., 2025	1,05,120
Bank charges not entered in cash book	4,640
Bill discounted dishonoured but no entry made in books	11,20,000
	12,62,256
Less: Payment by cheque entered twice in cash book	(1,280)

Amount received by bank but not entered in cash book	(93,920)
Credit by Bank erroneously on 6th Sept.	(16,00,000)
Cheques issued but not presented for payment upto 30th Sept., 2025	(1,06,080)
Credit balance as per bank statement	5,39,024

Question 41

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

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

(MTP JAN 2025)

Answer41

Bank Reconciliation Statement as on 31st March,2024

Bank balance as per Pass book		75,00,000
Add: Bills dishonoured not recorded in the cash book	37,50,000	
Cheque received entered twice in the cash book	75,000	
Insurance premium paid directly not recorded in the cash book	4,50,000	
Cheque received but not sent to the bank	84,00,000	
Credit side of the bank column cast short	15,000	1,26,90,000
		2,01,90,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	37,50,000	
Bank charges recorded twice in the cash book	15,000	
Cheque issued but not presented to the bank	37,50,000	(75,15,000)
Bank balance as per Cash book		1,26,75,000

CHAPTER 4

INVENTORIES

Topic 1 Introduction to Inventory

True and False

Question 1

Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation.

(Study Material)

Ans: True: Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.

Question 2

A building is considered inventory in a construction business.

(Study Material)

Ans: True: For a construction business, a building under construction will be inventory. The building is being built in the normal course of business and will eventually be sold as inventory.

Theory Questions

Question 3

Define inventory. Explain the importance of proper valuation of inventory in the preparation of statements of the business entity.

(Study Material)

Answer 3

Inventory can be defined as assets held

1. for sale in the ordinary course of business, or
2. in the process of production for such sale, or
3. for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

The significance of inventory valuation arises due to the following reasons:

- (i) Determination of Income
- (ii) Ascertainment of Financial Position
- (iii) Liquidity Analysis
- (iv) Statutory Compliance

Topic 2 Inventory Systems

True and False

Question 4

Inventory is valued as carrying cost less percentage decreases.

(Study Material)

Ans: False: Inventory is valued at lower of cost or net realizable value.

Question 5

Management has daily information about the quantity and valuation of closing stock under physical Inventory System.

(Study Material)

Ans: False: Under Perpetual Inventory System management have daily information of closing stock.

Question 6

Periodic Inventory System is more suitable for small enterprises.

(Study Material)

Ans: True: A periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.

Question 7

Perpetual system requires closure of business for counting of inventory.

(Study Material)

Ans: False: Periodic system requires closure of business for counting of inventory.

Question 8

Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

(Study Material)

Ans: True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

Topic 3 Valuation of Inventory

True and False

Question 9

When closing inventory is overstated, net income for the accounting period will be understated.

(Study Material)

Ans: False: When closing inventory is overstated, net income for the accounting period will be overstated.

Question 10

Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.

(Study Material)

Ans: False: Closing stock = Cost of goods sold - (Opening inventory + Purchases + Direct expenses).

Question 11

Cost of inventories should comprise all cost of purchase.

(Study Material)

Ans: False: Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Question 12

Inventory by-products, should be valued at net realisable value where cost of by products can be separately determined.

(Study Material)

Ans: False: Inventory by-products, should be valued at net realisable value where cost of byproducts cannot be separately determined.

Question 13

Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.

(Study Material)

Ans: False: Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.

Question 14

The value of stock is shown on the assets side of the balance-sheet as fixed assets.

(Study Material)

Ans: False: The value of stock is shown on the assets side of the balance-sheet as current assets. As it is realisable within 12 months.

Question 15

Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.

(Study Material)

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

Question 16

Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.

(Study Material)

Ans: False: Under FIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.

Question 17

Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism.

(Study Material)

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

Question 18

Finished goods are normally valued at cost or market price whichever is higher.

(Study Material)

Ans: False: Finished goods are normally valued at cost or market price whichever is lower.

Question 19

The provision for discount on debtors is calculated before deducting the provision for doubtful debts from debtors.

(RTP SEP 2025)

Ans: False: The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.

Multiple Choice Questions

Question 20

Inventory is disclosed in financial statements under:

- (a) Fixed Assets
- (b) Current Assets
- (c) Current Liabilities

(Study Material)

Ans: (b) Current Assets

Reason:

- **Inventory** refers to the goods and materials a company holds for the purpose of resale or manufacturing products. It includes raw materials, work-in-progress, and finished goods that are expected to be sold or used within the normal operating cycle of the business, typically within one year.

- **Current Assets** are assets that are expected to be converted into cash, sold, or consumed either in the normal course of business or within one year. Since inventory is expected to be sold or used in the short term, it is classified as a current asset in the balance sheet.
- **Fixed Assets** include long-term assets like property, plant, and equipment, which are not intended for sale within the short term, so inventory does not fall under fixed assets.
- **Current Liabilities** refer to obligations the company needs to settle within the next year, such as accounts payable or short-term loans, which is not related to inventory.

Therefore, inventory is disclosed under Current Assets in the financial statements.

Thus, the correct answer is (b) Current Assets.

Question 21

Valuing inventory at cost or net releasable value is based on which principle

- (a) Consistency
- (b) Conservatism
- (c) Going concern

(Study Material)

Ans: (b) Conservatism

Reason:

The Conservatism Principle in accounting suggests that expenses and losses should be recognized as soon as possible, but revenues and gains should only be recognized when they are certain. This principle aims to avoid overstating the financial health of a business and ensures that potential losses are accounted for earlier rather than later.

- When valuing inventory, the lower of cost or net realizable value approach is followed, which reflects the conservatism principle. This means that if the net realizable value

(NRV) of the inventory falls below its cost, the inventory should be valued at the lower amount to avoid overstating assets.

- By using this method, the conservatism principle ensures that potential losses in value are recognized early, but any potential gains are only recognized once they are realized.

Thus, the Conservatism Principle ensures that inventory is valued at the lower of cost or net realizable value to reflect potential losses in value.

Therefore, the correct answer is (b) Conservatism.

Practical Questions

Question 22

The Profit and loss account of Hanuman showed a net profit of Rs. 6,00,000, after considering the closing stock of Rs. 3,75,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included Rs. 15,000 paid for new electric fittings for the shop.
- (ii) Hanuman gave away goods valued at Rs. 40,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to Rs. 2,50,000 have been entered on 27th March, 2022, but the goods were not included in stock.
- (iv) In March, 2022 goods of Rs. 2,00,000 sold and delivered, were taken in the sales for April, 2022.
- (v) Goods costing Rs. 75,000 were sent on sale or return in March, 2022 at a margin of profit of $33\frac{1}{3}\%$ on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended on that date.

Answer 22

Profit and Loss Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Advertisement (samples)	40,000	By Net profit	6,00,000
To Sales (goods approved in April to be taken as April sales: (75,000 + 25,000))	1,00,000	By Electric fittings	15,000
To Adjusted net profit	10,40,000	By Samples	40,000
		By Stock (purchases of March not included in stock)	2,50,000
		By Sales (goods sold in March wrongly taken as April sales)	2,00,000
		By Stock (goods sent on approval basis not included in stock)	75,000
	11,80,000		11,80,000

Calculation of value of inventory on 31st March, 2022

	Rs.
Stock on 31st March, 2022 (given)	3,75,000
Add: Purchases of March, 2022 not included in the stock	2,50,000
Goods lying with customers on approval basis	75,000
	7,00,000

Question 23

Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2024 was completed by 10th April, 2024, the valuation of which showed a stock figure of Rs. 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for Rs. 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to Rs. 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of Rs. 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing Rs. 3,375 which should be taken at Rs. 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing Rs. 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs. 3,750 on 31st March, 2024.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2024.

(RTP MAY 2025)

Answer 23

Statement showing the valuation of stock as on 31st March, 2024

Particulars	Rs.
Value of Stock as on 10th April, 2024	5,02,500
Add: Cost of sales after 31st March, till stock taking (Rs. 20,625 – Rs. 5,156)	15,469
Less: Purchases for the next period (net)	(24,300)
Less: Cost of Sales Returns (900-225)	(675)
Less: Loss on revaluation of slow moving inventories (3,375-1,575)	(1,800)
Less: Reduction in value on account of default (4,650-3,750)	(900)
Value of Stock on 31st March, 2024	4,90,294

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

Topic 4 Cost Components of Inventory

True and False

Question 24

Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

(RTP MAY 2025)

Ans: False: Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

Topic 5 Methods of Inventory Valuation

True and False

Question 25

The value of closing inventory under simple average price method is realistic as compare to LIFO.

(Study Material)

Ans: True: Value of Closing stock as per average method is more realistic then LIFO.

Multiple Choice Questions

Question 26

The amount of purchase if

Cost of goods sold is	Rs 80,700
Opening Inventory	Rs 5,800
Closing Inventory	Rs 6,000

(a) Rs 80,500

(b) Rs 74,900

(c) Rs 80,900.

(Study Material)

Ans: (c) Rs 80,900

Reason:

To calculate the purchases, we use the formula for **Cost of Goods Sold**:

Cost of Goods Sold = Opening Inventory + Purchases – Closing Inventory

Substituting the given values:

$$80,700 = 5,800 + \text{purchases} - 6,000$$

$$\text{Purchases} = 80,700 - 5,800 + 6,000 = 80,900$$

Thus, the correct answer is (c) Rs 80,900.

Question 27

Average Inventory = Rs 12,000. Closing Inventory is Rs 3,000 more than opening Inventory.

The value of closing Inventory = _____.

(a) Rs 12,000

(b) Rs 24,000

(c) Rs 13,500.

(Study Material)

Ans: (c) Rs 13,500.

Reason:

Let the Opening Inventory be X

Closing Inventory is Rs 3,000 more than the Opening Inventory, so Closing Inventory = $X + 3,000$.

Average Inventory is calculated as:

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

Substituting the given values:

$$12,000 = \frac{x + (x + 3,000)}{2}$$

$$12,000 = \frac{2x + 3,000}{2} \rightarrow 24,000 = 2x + 3,000$$

$$2x = 21,000 \rightarrow x = 10,500$$

So, Closing Inventory = $X + 3,000 = 10,500 + 3,000 = 13,500$.

Thus, the correct answer is (c) Rs 13,500.

Question 28

While finalizing the current year's profit, the company realized that there was an error in the valuation of closing Inventory of the previous year. In the previous year, closing Inventory was valued more by Rs 50,000. As a result

- (a) Previous year's profit is overstated and current year's profit is also overstated
- (b) Previous year's profit is overstated and current year's profit is understated
- (c) Previous year's profit is understated and current year's profit is also understated

(Study Material)

Ans: (b) Previous year's profit is overstated and current year's profit is understated

Reason:

- If closing inventory is overstated in the previous year, it leads to overstating the profit of the previous year because higher inventory means lower cost of goods sold.
- In the current year, since the opening inventory for the current year is the closing inventory of the previous year, the in the previous year will lead to an overstated cost of goods sold in understatement of closing inventory the current year, which understates the current year's profit.

Thus, the correct answer is (b) Previous year's profit is overstated and current year's profit is understated.

Question 29

Consider the following for Q Co. for the year 2021-22:

Cost of goods available for sale	Rs 1,00,000
Total sales	Rs 80,000
Opening inventory of goods	Rs 20,000
Gross profit margin on sales	25%

Closing inventory of goods for the year 2021-22 as

- (a) Rs 80,000
- (b) Rs 60,000
- (c) Rs 40,000

(Study Material)

Ans: (c) Rs 40,000

Reason:

Gross profit margin is 25% of sales. This means the gross profit is:

$$\text{Gross Profit} = 25\% \times 80,000 = 20,000$$

Cost of Goods Sold (COGS) is calculated as:

$$\text{COGS} = \text{Sales} - \text{Gross Profit} = 80,000 - 20,000 = 60,000$$

The cost of goods available for sale is Rs 1,00,000. Now we use the formula for COGS:

$$\text{COGS} = \text{Opening Inventory} + \text{Purchases} - \text{Closing Inventory}$$

Substitute the known values:

$$60,000 = 20,000 + \text{Purchases} - \text{Closing Inventory}$$

We also know that Cost of Goods Available for Sale = Opening Inventory + Purchases, so:

$$1,00,000 = 20,000 + \text{Purchases} \Rightarrow \text{Purchases} = 80,000$$

Now, substituting into the COGS equation:

$$60,000 = 20,000 + 80,000 - \text{Closing Inventory}$$

$$\text{Closing Inventory} = 40,000$$

Thus, the correct answer is (c) Rs 40,000.

Question 30

If the profit is 25% of the cost price then it is

(a) 25% of the sales price

(b) 33% of the sales price

(c) 20% of the sales price

(Study Material)

Ans: (c) 20% of the sales price

Reason:

The profit margin is given as 25% of the cost price, but we need to express it as a percentage of the sales price.

Let the Cost Price be Rs 100. Since the profit is 25% of the Cost Price, the profit is:

$$\text{Profit} = 25\% \times 100 = 25$$

Thus, the Sales Price is:

$$\text{Sales Price} = \text{Cost Price} + \text{Profit} = 100 + 25 = 125$$

Now, the profit as a percentage of the Sales Price is:

$$\frac{\text{Profit}}{\text{Sales price}} \times 100 = \frac{25}{125} \times 100 = 20\%$$

Thus the correct answer is (c) 20% of the sales price.

Question 31

Goods purchased Rs 1,00,000. Sales Rs 90,000. Margin 20% on cost. Closing Inventory =?

(a) Rs 20,000

(b) Rs 10,000

(c) Rs 25,000

(Study Material)

Ans: (c) Rs 25,000

Reason:

- Margin on cost is 20%. This means the gross profit margin is 20% of the cost price.
- Let Cost Price = Rs 1,00,000.

The gross profit is:

$$\text{Gross Profit} = 20\% \times 1,00,000 = 20,000$$

The Sales Price is Rs 90,000, and the Cost Price is Rs 70,000 (since Sales Price = Cost + Gross Profit).

Now, we can use the Inventory formula:

$$\text{Inventory} = \text{Cost of Goods Available for Sale} - \text{Cost of Goods Sold}$$

$$\text{Inventory} = 1,00,000 - 75,000 = 25,000$$

Thus, the correct answer is (c) Rs 25,000.

Question 32

A company is following weighted average cost method for valuing its inventory. The details of its purchase and issue of raw-materials during the week are as follows:

1.12.2022 opening Inventory 50 units value Rs. 2,200.

2.12.2022 purchased 100 units @ Rs.47.

4.12.2022 issued 50 units.

5.12.2022 purchased 200 units @ Rs. 48.

The value of inventory at the end of the week and the unit weighted average costs is

(a) Rs. 14,200 – Rs. 47.33

(b) Rs. 14,300 – Rs. 47.67

(c) Rs. 14,000 – Rs. 46.66

(Study Material)

Ans: (a) Rs. 14,200 – Rs. 47.33

Reason:

The weighted average cost is calculated as:

Weighted Average Cost $\frac{\text{Total cost of inventory}}{\text{Total units Available}}$

After calculations (as detailed in the study material), the weighted average cost is Rs 47.33, and the value of inventory is Rs 14,200.

Thus, the correct answer is (a) Rs. 14,200 – Rs. 47.33.

Question 33

The cost of sales is equal to

- (a) Opening stock plus purchases
- (b) Purchases minus Closing stock
- (c) Opening stock plus purchases minus closing stock

(Study Material)

Ans: (c) Opening stock plus purchases minus closing stock

Reason:

The formula for calculating Cost of Sales is:

Cost of Sales =

Opening Stock + Purchases - Closing Stock

Cost of Sales = Opening Stock + Purchases – Closing Stock

Thus, the correct answer is (c) Opening stock plus purchases minus closing stock.

Question 34

Accounting Standards do not permit following method of inventory valuation

- (a) FIFO
- (b) Average cost
- (c) LIFO

(Study Material)

Ans: (c) LIFO

Reason:

1. LIFO (Last In, First Out) is not permitted under International Accounting Standards (IAS 2) and most accounting frameworks, as it can lead to inventory valuation issues and does not reflect the actual flow of goods.
2. FIFO and Weighted Average methods are acceptable.

Thus, the correct answer is (c) LIFO.

Question 35

Which inventory costing formula calculates value of closing inventory considering that inventory most recently purchased has not been sold?

- (a) FIFO

(b) LIFO

(c) Weighted average cost

(Study Material)

Ans: (a) FIFO

Reason:

FIFO (First In, First Out) assumes that the first items purchased (earlier inventory) are the first ones sold, meaning that the most recent purchases remain in inventory.

Thus, the correct answer is (a) FIFO.

Question 36

Under inflationary trend, which of the methods will show highest value of inventory?

(a) FIFO

(b) Weighted average

(c) LIFO

(Study Material)

Ans: (a) FIFO

Reason:

In inflationary conditions, FIFO (First In, First Out) will show the highest value for closing inventory because it assumes that the oldest (cheaper) inventory has been sold, and the remaining inventory is valued at higher current prices.

Thus, the correct answer is (a) FIFO.

Question 37

Which of the following methods does not consider historical cost of inventory?

- (a) Weighted average
- (b) FIFO
- (c) Retail price method

(Study Material)

Ans: (c) Retail price method

Reason:

The Retail Price Method uses the selling price to estimate the cost of inventory, and does not rely on historical cost for inventory valuation.

Thus, the correct answer is (c) Retail price method.

Theory Questions

Question 38

Write short notes on:

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

(Study Material)

Answer 38

(i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by

calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Question 39

The following are the details of the spare parts of a Paper Factory:

1-1-2025	Opening Inventory	Nil
1-1-2025	Purchases	10 units @ Rs. 300 per unit
15-1-2025	Issued for consumption	5 units
1-2-2025	Purchases	20 units @ Rs. 400 per unit
	Freight incurred	500
15-2-2025	Issued for consumption	10 units
20-2-2025	Issued for consumption	10 units

Find out the value of Inventory as on 31.3.2025, if the company follows Weighted Average Method.

(MTP MAY 2025)

Answer 39**Calculation of the value of Inventory of a Paper Factory as on 31-3-2025**

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		Rs.	Rs.		Rs.	Rs.			Rs.
1-1-2025	Balance							Nil	
1-1-2025	10	300	3,000				10	300	3,000
15-1-2025				5	300	1,500	5	300	1,500
20-2-2025	20	425	8,500*				25	400	10,000
15-2-2025				10	400	4,000	15	400	6,000
20-2-2025				10	400	4,000	5	400	2,000

Therefore, the value of Inventory as on 31-3-2025 = 5 units @ Rs.400 = Rs.2,000

* Total cost of inventory purchased on 1-2-2025= (20* 400) +500 = Rs.8,500

Practical Questions**Question 40**

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

Purchase during the year	Rs. 7,50,000
Sales during the year	Rs. 11,25,000
Opening Inventory	Nil
Closing Inventory at selling price	Rs. 1,50,000

(MTP MAY 2025)

Answer 40

Sales	11,25,000
Add: Closing inventory (at selling price)	1,50,000
Selling price of goods available for sale:	12,75,000
Less: Cost of goods available for sale	(7,50,000)
Gross margin	5,25,000

$$\text{Rate of gross margin} = \frac{5,25,000}{12,75,000} \times 100 = 41.18\%$$

Cost of closing inventory = 1,50,000 less 41.18% of Rs.1,50,000 = Rs. 88,230

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at Rs. 88,236

OR as 41.17% in that case, the closing inventory will be valued at Rs. 88,245

Question 41

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

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

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

Answer41

Chemical Mill

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

Date	Receipts			Issues			Balance		
	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		Rs.	Rs.		Rs.	Rs.		Rs.	Rs.
1-1-2024	Balance							Nil	
1-1-2024	100	300	30,000				100	300	30,000

15-1-2024				50	300	15,000	50	300	15,000
1-2-2024	200	400	80,000				250	380	95,000
15-2-2024				100	380	38,000	150	380	57,000
20-2-2024				100	380	38,000	50	380	19,000

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

Question 42

The following are the details of material inventory bought and used by manufacturing company:

Date	Particulars	Unit and Rate
1.10.24	Balance opening inventory	NIL
1.10.24	Material bought	200 unit, Rs.60 per unit
2.10.24	Issued for use	100 unit
3.10.24	Material bought	400 unit, Rs.80 per unit
4.10.24	Issued for use	200 unit

7.10.24	Issued for use	200 unit

You are required to calculate the value of inventory material as on 7.10.24 by applying weighted average method.

(RTP JAN 2025)

Answer 42

Calculation of value of inventory as on 7.1.2024 of manufacturing company.

Date	Receipts	Rate	Amount	Issue	Rate	Amount (Rs.)	Balance Units	Rate	Amount (Rs.)
1.10.24	Balance						Nil		
1.10.24	200	60	12,000				200	60	12,000
2.10.24				100	60	6000	100	60	6,000
3.10.24	400	80	32,000				500	76	38,000
4.10.24			200	76	15200		300	76	22,800
7.10.24			200	76	15200		100	76	7,600

The value of 100 units of inventory as on 7.10.24 Rs. 7,600

Question 43

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

Purchase during the year - Rs. 10,00,000

Sales during the year - Rs. 15,00,000

Opening Inventory Nil

Closing Inventory at selling price Rs. 2,00,000

(RTP JAN 2025)

Answer 43



Sales	15,00,000
Add: Closing inventory (at selling price)	2,00,000
Selling price of goods available for sale:	17,00,000
Less: Cost of goods available for sale	10,00,000
Gross margin	7,00,000

$$\text{Rate of gross margin} = \frac{7,00,000}{17,00,000} \times 100 = 41.18\%$$

Cost of closing inventory = 2,00,000 less 41.18% of Rs. 2,00,000

= Rs. 1,17,640

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at Rs. 1,17,640

OR as 41.17% in that case, the closing inventory will be valued at Rs. 1,17,640

Topic 6 Practical Calculations & Adjustments

Practical Questions

Question 44

X who was closing his books on 31.3.2022 failed to take the actual stock which he did only on 9th April, 2022, when it was ascertained by him to be worth Rs. 2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2022 and 9.4.2022 as per the sales day book are Rs. 17,200. Purchases between 31.3.2022 and 9.4.2022 as per purchases day book are Rs. 1,200, out of these goods amounting to Rs. 500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2022 but goods received only on 4th April, 2022 amounted to Rs. 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2022.

(Study Material)

Answer 44

Statement of Valuation of Physical Stock as on 31st March, 2022

		Rs.
Value of stock as on 9th April, 2022		2,50,000
Add: Cost of sales during the intervening period		

Sales made between 31.3.2022 and 9.4.2022	17,200	
Less: Gross profit @25% on sales	(4,300)	12,900
		2,62,900
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	1,200	
Less: Goods not received upto 9.4.2022	(500)	700
		2,62,200
Less: Purchases during March, 2022 received on 4.4.2022		1,000
Value of physical stock as on 31.3.2022		2,61,200

Question 45

From the following information, ascertain the value of stock as on 31.3.2022:

	Rs.
Value of stock on 1.4.2021	7,00,000
Purchases during the period from 1.4.2021 to 31.3.2022	34,60,000

Manufacturing expenses during the above period	7,00,000
Sales during the same period	52,20,000

At the time of valuing stock on 31.3.2021 a sum of Rs. 60,000 was written off a particular item which was originally purchased for Rs. 2,00,000 and was sold for Rs. 1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

(Study Material)

Answer 45

Statement of Valuation of Stock as on 31st March, 2022

		Rs.
Value of stock on 1.4.2021		7,00,000
Add: Purchases during the period from 1.4.2021 to 31.3.2022		34,60,000
Add: Manufacturing expenses during the above period		7,00,000
		48,60,000
Less: Cost of sales during the period:		
Sales	52,20,000	
Less: Gross profit	10,32,000	41,88,000
Value of stock as on 31.3.2022		6,72,000

Working Note:

	Rs.
Calculation of gross profit:	
Gross profit on normal sales $20/100 \times (52,20,000 - 1,60,000)$	10,12,000
Gross profit on the particular (abnormal) item $1,60,000 - (2,00,000 - 60,000)$	20,000
	10,32,000

Note: The value of closing stock on 31st March, 2022 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2022.

Question 46

Physical verification of stock in a business was done on 23rd June, 2022. The value of the stock was Rs. 48,00,000. The following transactions took place between 23rd June to 30th June, 2022:

- (i) Out of the goods sent on consignment, goods at cost worth Rs. 2,40,000 were unsold.
- (ii) Purchases of Rs. 4,00,000 were made out of which goods worth Rs. 1,60,000 were delivered on 5th July, 2022.
- (iii) Sales were Rs. 13,60,000, which include goods worth Rs. 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2022.
- (iv) Goods are sold at cost plus 25%. However, goods costing Rs. 2,40,000 had been sold for Rs. 1,20,000.

Determine the value of stock on 30th June, 2022.

(Study Material)

Answer 46

Statement of Valuation of Stock on 30th June, 2022

		Rs.
Value of stock as on 23rd June, 2022		48,00,000
<i>Add:</i> Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2022 to 30th June, 2022	2,40,000	
Goods in transit on 30th June, 2022	1,60,000	
Cost of goods sent on approval basis (80% of Rs. 1,60,000)	1,28,000	7,68,000
		55,68,000
<i>Less:</i> Cost of sales during the period from 23rd June, 2022 to 30th June, 2022		
Sales (Rs. 13,60,000 - Rs. 1,60,000)	12,00,000	
<i>Less:</i> Gross profit	96,000	11,04,000
Value of stock as on 30th June, 2022		44,64,000

Working Notes:

1. Calculation of normal sales:		
Actual sales		13,60,000
Less: Abnormal sales	1,20,000	
Return of goods sent on approval	1,60,000	2,80,000
		10,80,000
2. Calculation of gross profit:		
Gross profit or normal sales $20/100 \times \text{Rs. } 10,80,000$		2,16,000
Less : Loss on sale of particular (abnormal) goods (Rs. 2,40,000-Rs. 1,20,000)		1,20,000
Gross profit		96,000

Question 47

From the following particulars ascertain the value of inventories as on 31st March, 2025 :

Inventory as on 1st April, 2024 Rs. 10,50,000

Purchase made during the year Rs. 36,00,000

Sales Rs. 55,50,000

Manufacturing Expenses **Rs. 3,00,000**

Selling and Distribution Expenses **Rs. 1,50,000**

Administration Expenses **Rs. 2,40,000**

At the time of valuing inventory as on 31st March, 2024, a sum of Rs. 60,000 was written off on a particular item which was originally purchased for Rs. 1,65,000 and was sold during the year for Rs. 1,50,000.

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

(RTP SEP 2025)

Answer 47

Statement of Inventory in trade as on 31st March, 2025

	Rs.	Rs.
Inventory as on 31st March, 2024	10,50,000	
Less: Book value of abnormal inventory (Rs. 1,65,000 - Rs. 60,000)	(1,05,000)	9,45,000
Add: Purchases		36,00,000
Manufacturing Expenses		3,00,000
		48,45,000
Less: Cost of goods sold:		
Sales as per books	55,50,000	

Less: Sales of abnormal item	(1,50,000)	
	54,00,000	
Less: Gross Profit @ 20%	(10,80,000)	(43,20,000)
Inventory in trade as on 31st March, 2025		5,25,000

Topic 8 Theory & Conceptual Understanding

Theory Questions

Question 48

Distinguish between:

- (i) LIFO and FIFO basis of costing of stock.
- (ii) FIFO and weighted average price method of stock costing.

(Study Material)

Answer 48

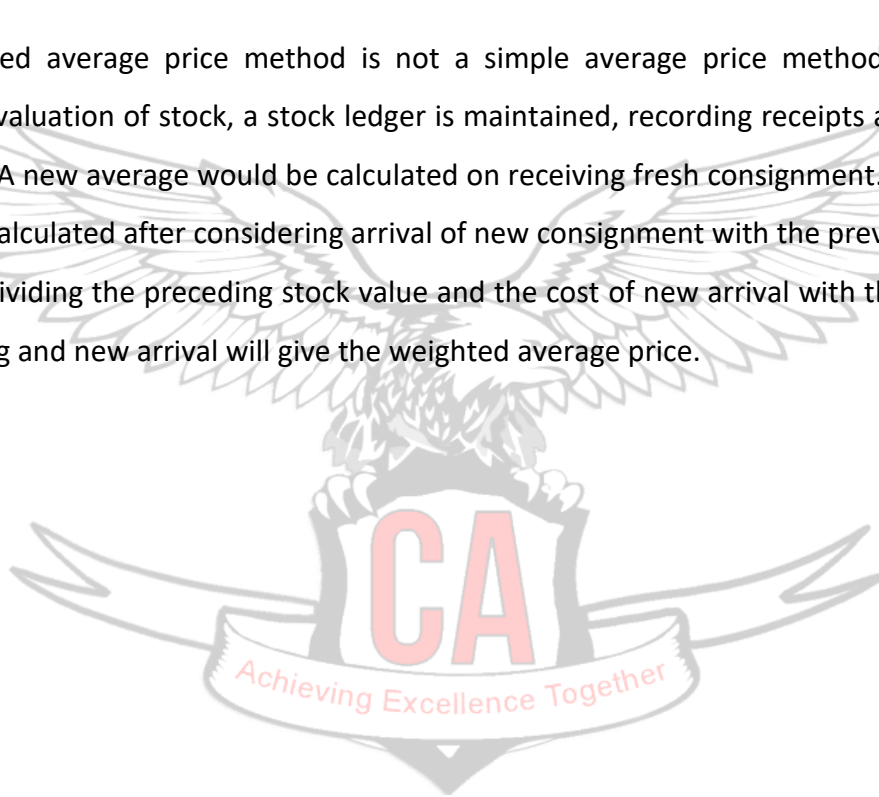
(i) Under FIFO method of inventory valuation, inventories purchased first are issued first. The closing inventories are valued at latest purchase prices and inventory issues are valued at corresponding old purchase prices. In other words, under FIFO method, costs are assigned to the units issued in the same order as the costs entered in the inventory. During periods of rising prices, cost of goods sold are valued at older and lower prices if FIFO is followed and consequently reported profits rise due to lower cost of goods sold.

On the other hand, under LIFO method of inventory valuation, units of inventories issued should be valued at the prices paid for the latest purchases and closing inventories should be valued at the prices paid for earlier purchases.

In other words, closing inventories are valued at old purchase prices and issues are valued at corresponding latest purchase prices.

(ii) Under the First-In-First-Out (FIFO) method of valuation of stock, the actual issue of goods is usually the earliest lot on hand. Hence, the stock in hand will therefore consist of the latest consignments. The closing stock is valued at the price paid for such consignments.

The weighted average price method is not a simple average price method. Under this method of valuation of stock, a stock ledger is maintained, recording receipts and issues on daily basis. A new average would be calculated on receiving fresh consignment. The average price thus calculated after considering arrival of new consignment with the previous value of stock and dividing the preceding stock value and the cost of new arrival with the total units of preceding and new arrival will give the weighted average price.



CHAPTER 5

DEPRECIATION AND AMORTISATION

Topic 1 Basic Concept of Depreciation

True and False

Question 1

Increase in market value of a fixed asset is one of the reasons for depreciation being charged.

(Study Material)

Ans: False: It is the decrease in market value as one of the reasons for depreciation. Increase in market value may result in Revaluation.

Question 2

Depreciation is a cash expenditure like other normal expenses.

(Study Material)

Ans: False: Depreciation is not a cash expenditure like other normal expenses as it does not result in any cash outflow.

Multiple Choice Questions

Question 3

The main objective of providing depreciation is to

- (a) Create secret reserve
- (b) Reduce the book value of assets
- (c) Allocate cost of the assets

(Study Material)

Ans: (c) Allocate cost of the assets

Reason:

The main objective of depreciation is to allocate the cost of a tangible fixed asset over its useful life. Depreciation is an accounting method that matches the cost of the asset to the periods in which it is used to generate revenue. It is not intended to create secret reserves or just reduce the book value; its primary purpose is to reflect the reduction in the asset's value as it is used over time.

Therefore, the correct answer is (c) Allocate cost of the assets.

Question 4

Original cost of a machine was Rs. 25,20,000 salvage value was Rs. 1,20,000, useful life was 6 years. Annual depreciation under Straight Line Method

- (a) Rs. 4,20,000
- (b) Rs. 4,00,000
- (c) Rs. 3,00,000

(Study Material)

Ans: (b) Rs. 4,00,000

Reason:

Under the Straight Line Method of depreciation, the annual depreciation is calculated using the formula:

$$\text{Annual Depreciation} = \frac{\text{Cost of Asset} - \text{Salvage Value}}{\text{Useful life}}$$

Substitute the given values:

$$\text{Annual Depreciation} = \frac{25,200 - 1,20,000}{6}$$

$$\text{Annual Depreciation} = \frac{24,00,000}{6} = 4,00,000$$

Thus, the annual depreciation under the Straight Line Method is Rs. 4,00,000.

Therefore, the correct answer is (b) Rs. 4,00,000.

Theory Questions

Question 5

Distinguish between Straight line method of depreciation and Written down value method of depreciation.

(Study Material)

Answer 5

Under straight line method an equal amount is written off each year throughout the working life of the depreciable tangible asset so as to reduce the cost of the asset to nil or to its scarp value at the end. Under reducing balance method, a fixed percentage is charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scarp value at the end of useful life. The basic distinction between these two methods are as follows:

Under straight line method, annual depreciation charge is equal throughout the life of the asset; but under reducing balance method, depreciation charge is reduced over the years as the asset grows old.

Under straight-line method, the asset can be fully depreciated but under reducing balance method asset can never be fully depreciated.

Under straight line method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the asset will not be uniform. To the contrary, under reducing balance method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under reducing balance method depreciation and repairs are more or less evenly distributed throughout the life of the asset.

Question 6

Write short note on Depletion method of depreciation.

Answer 6

Natural resources include physical assets like mineral deposits, oil and gas resources and timber. These natural resources exhaust by exploitation.

Depletion per unit is calculated as

$$\text{Acquisition cost} - \text{Residual Value} / \text{Estimate life in terms of production units}$$

Practical Questions

Question 7

A Machinery costing Rs. 20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

(Study Material)

Answer 7

Depreciation per year for first 4 years = Rs. 20,00,000 / 10 = Rs. 2,00,000

Thus, WDV of the Machinery at end of the 4th year = Rs. 20,00,000 – (Rs. 2,00,000 x 4) =

Rs. 12,00,000

Revalued Amount i.e. New Depreciable Amount shall be = Rs. 12,00,000 + Rs. 80,000 =

Rs. 12,80,000

Original remaining useful life is (10-4) = 6 Years whereas it is reassessed as 8 Years. Hence, depreciation for 5th Year = Rs. 12,80,000 / 8 = Rs. 1,60,000

Question 8

On April 1, 2019 a firm purchased a machinery for Rs. 2,00,000. On 1st October in the same accounting year, additional machinery costing Rs. 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for Rs. 90,000. On October 1, 2021, new machinery was purchased for Rs. 2,50,000 while the machinery purchased on 1st October 2019 was sold for Rs. 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March 31, 2022.

(Study Material)

Answer 8**Machinery Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.2019	To Bank A/c To	2,00,000	31.03.2020	By Balance c/d	3,00,000
01.10.2019	Bank A/c	1,00,000			
		3,00,000			3,00,000
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Bank A/c	90,000
				By Provision for Depreciation A/c	30,000
				By Profit and Loss A/c	80,000
			31.3.2021	By Balance c/d	1,00,000
		3,00,000			3,00,000
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Bank A/c	85,000
01.10.2021	To Bank A/c	2,50,000		By Provision for	20,000
	To Profit and Loss A/c	5,000	31.3.2022	By Balance c/d	2,50,000
		3,55,000			3,55,000

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To provision for Depreciation A/c	25,000	31.03.2020	By Profit and Loss A/c	25,000
		25,000			25,000
01.10.2020	To Provision for Depreciation A/c	10,000	31.03.2021	By Profit and Loss A/c	20,000
31.03.2021	To Provision for Depreciation A/c	10,000			
		20,000			20,000
01.10.2021	To Provision for Depreciation A/c	5,000	31.03.2022	By Profit and Loss A/c	17,500
31.03.2022	To Provision for Depreciation A/c	12,500			
		17,500			17,500

Provision for Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (Rs. 20,000 +	25,000

				Rs. 5,000)	
		25,000			25,000
01.12.2020	To Machinery A/c (Rs. 20,000 + Rs. 10,000)	30,000	01.04.2020	By Balance b/d	25,000
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000
			31.03.2021	By Depreciation A/c	10,000
		45,000			45,000
01.10.2021	To Machinery A/c (5,000 + 10,000 + 5,000)	20,000	01.04.2021	By Balance b/d	15,000
31.03.2022	To Balance c/d	12,500	01.10.202	By Depreciation A/c	5,000
			31.03.2022	By Depreciation A/c	12,500
		32,500			32,500

Topic 2 Factors Affecting Depreciation

True and False

Question 9

Cost of property, plant and equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.

(Study Material)

Ans: False: Non refundable taxes & duties form part of the cost.

Question 10

Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.

(Study Material)

Ans: False: Inauguration costs shouldn't be part of cost.

Multiple Choice Questions

Question 11

Obsolescence of a depreciable asset may be caused by:

- I. Technological changes.
- II. Improvement in production method.
- III. Change in market demand for the product or service output.
- IV. Legal or other restrictions.

(a) Only (I) above

(b) Both (I) and (II) above

(c) All (I), (II), (III) and (IV) above

(Study Material)

Ans: (c) All (I), (II), (III) and (IV) above

Reason:

Obsolescence refers to the condition in which an asset becomes outdated or no longer useful due to various factors. All of the listed causes can contribute to obsolescence:

1. Technological changes can make older assets less efficient or redundant.
2. Improvements in production methods may make older machinery or equipment obsolete.
3. Changes in market demand may reduce the need for certain assets or their outputs.
4. Legal or other restrictions can make certain assets obsolete if they no longer comply with regulations or are prohibited.

Therefore, all of the above factors contribute to the obsolescence of a depreciable asset.

Thus, the correct answer is (c) All (I), (II), (III) and (IV) above.

Question 12

The number of production of similar units expected to be obtained from the use of an asset by an enterprise is called as

(a) Unit life

(b) Useful life

(c) Production life

(Study Material)

Ans: (b) Useful life

Reason:

The useful life of an asset refers to the period during which the asset is expected to be used in production or operations by the company. It is typically measured in terms of years, units produced, or hours of operation. The term "unit life" does not typically refer to the total expected output, and "production life" is not a standard accounting term for this concept.

Thus, the correct answer is (b) Useful life.

Question 13

The cost of a machine is Rs. 20,00,000. Two years later the book value is Rs. 10,00,000. The Straight-line percentage depreciation is

- (a) 50%
- (b) 33-1/3%
- (c) 25%

Ans: (c) 25%

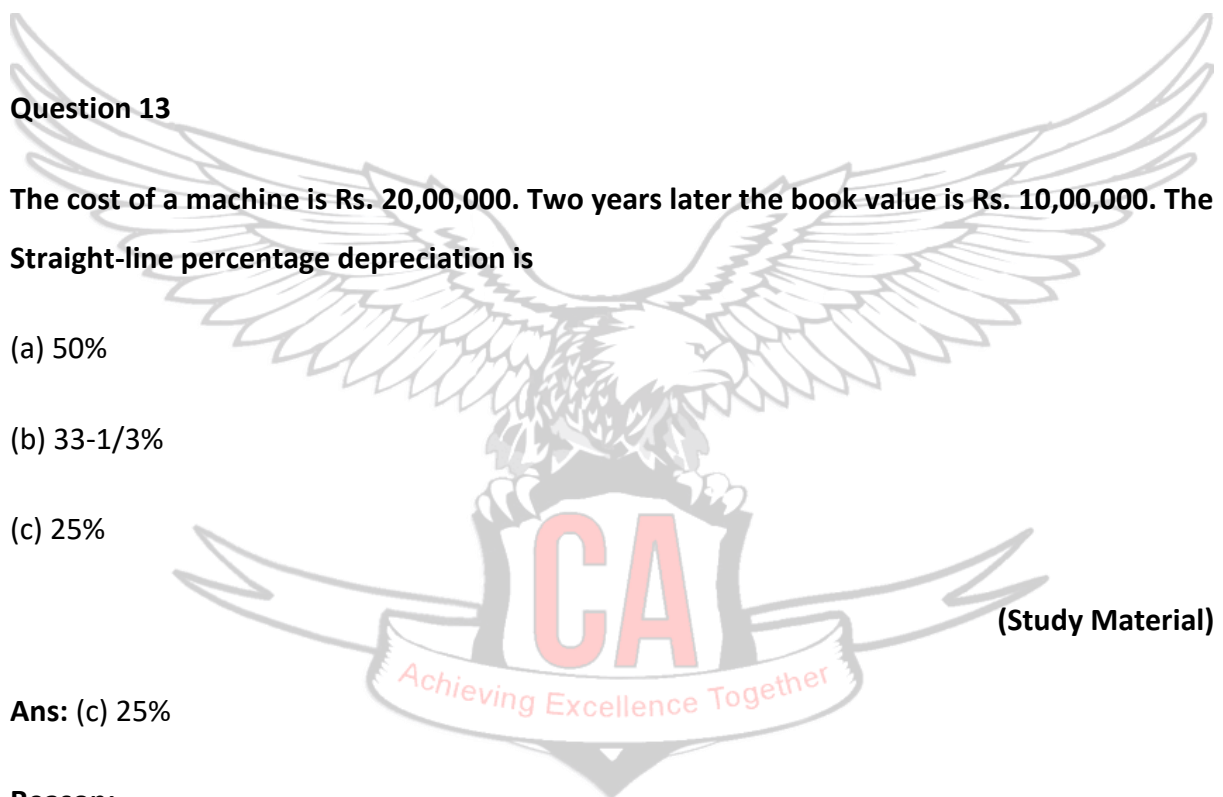
Reason:

To calculate the Straight-Line depreciation percentage, we use the formula for straight-line depreciation:

$$\text{Depreciation Rate} = \frac{\text{Cost} - \text{Residual Value}}{\text{Useful life}} \times 100$$

In this case:

Original cost = Rs. 20,00,000



Book value after 2 years = Rs. 10,00,000

Depreciation over 2 years = Rs. 20,00,000 - Rs. 10,00,000 = Rs. 10,00,000

The depreciation for 2 years is Rs. 10,00,000, so the annual depreciation is:

$$\frac{10,00,000}{2} = 5,00,000 \text{ per year}$$

The depreciation rate is then:

$$\frac{5,00,000}{20,00,000} \times 100 = 25\%$$

Thus, the correct answer is (c) 25%.

Question 14

A machinery with original cost of Rs. 10,00,000 and Nil Salvage value acquired on 1st April 2019 with 4 years useful life was depreciated using Straight Line Method. It was decided to sell the machinery on 1st October 2022 for Rs. 1,20,000. What shall be the gain or (loss) on the sale of Machinery?

- (a) Loss of Rs. 1,30,000
- (b) Gain of Rs. 1,20,000
- (c) Loss of Rs. 5,000

(Study Material)

Ans: (c) Loss of Rs. 5,000

Reason:

Cost of machinery = Rs. 10,00,000

Salvage value = Nil

Useful life = 4 years

Annual depreciation under the Straight Line Method:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}} = \frac{10,00,000 - 0}{4} = 2,50,000$$

The machinery is sold on 1st October 2022, so it has been used for 3.5 years. The depreciation for 3.5 years is:

Total Depreciation =

$$2,50,000 \times 3.5 = 8,75,000$$

$$\text{Total Depreciation} = 2,50,000 \times 3.5 = 8,75,000$$

$$\text{Book Value} = 10,00,000 - 8,75,000 = 1,25,000$$

The machinery is sold for Rs. 1,20,000, so there is a loss of:

$$\text{Loss} = 1,25,000 - 1,20,000 = 5,000$$

$$\text{Loss} = 1,25,000 - 1,20,000 = 5,000$$

Thus, the correct answer is (c) Loss of Rs. 5,000.

Question 15

A company purchased a machinery on April 01, 2017, for Rs. 15,00,000. It is estimated that the machinery will have a useful life of 5 years after which it will have no salvage value. The depreciation charged during the year 2021-22 was

(a) Rs. 5,00,000

(b) Rs. 4,00,000

(c) Rs. 3,00,000

(Study Material)

Ans: (c) Rs. 3,00,000

Reason:

- **Cost of machinery** = Rs. 15,00,000
- **Useful life** = 5 years
- **Salvage value** = 0
- The depreciation under the **Straight Line Method** is calculated as:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}} = \frac{15,00,000 - 0}{5} = 3,00,000 \text{ per year}$$

Thus, the depreciation charged during the year 2021-22 is Rs. 3,00,000.

Therefore, the correct answer is (c) Rs. 3,00,000.

Theory Questions

Question 16

What factors are considered for calculation of depreciation of a plant?

(Study Material)

Answer 16

The factors considered for calculation of depreciation are as: (i) Cost of asset including expenses for installation, commissioning, trial run etc. (ii) Estimated useful life of the asset and (iii) Estimated scrap value (if any) at the end of useful life of the asset.

Practical Questions

Question 17

The LG Transport company purchased 10 trucks at Rs. 45,00,000 each on 1st April 2019. On October 1st, 2021, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

Give the motor truck account for two year ending 31 Dec, 2022.

(Study Material)

Answer 17

Date	Particulars	Amount	Date	Particulars	Amount
2021			2021		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c		Oct-01	By Depreciation on lost assets	6,75,000
	(Profit on settlement of truck)	4,50,000	Dec-31	By Depreciation A/c	83,50,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			3,47,00,000

		00			0
2022			2022		
Jan-01	To balance b/d	2,29,75,00	Dec-31	By Depreciation A/	91,00,000
			Dec-31	By balance c/d	1,38,75,00
		2,29,75,00			2,29,75,00
		0			0

Working Note:

Profit on settlement of truck

	Rs.
Original cost as on 1.4.2019	45,00,000
Less: Depreciation for 2019	(6,75,000)
	38,25,000
Less: Depreciation for 2020	(9,00,000)
	29,25,000
Less: Depreciation for 2021 (9 months)	(6,75,000)
	22,50,000

Less: Amount received from Insurance company	(27,00,000)
	4,50,000

Topic 3 Methods of Depreciation

True and False

Question 18

Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.

(Study Material)

Ans: True: SLM method results in same amount and diminishing method involves same rate of depreciation.

Multiple Choice Questions

Question 19

Original cost = Rs. 12,60,000; Salvage value = Nil; Useful life = 6 years. Depreciation for the first year under sum of years digits method will be

- (a) Rs. 3,60,000
- (b) Rs. 1,20,000
- (c) Rs. 1,80,000

Ans: (a) Rs. 3,60,000

Reason:

The Sum of the Years' Digits (SYD) method of depreciation is a form of accelerated depreciation where the depreciation expense is higher in the earlier years of an asset's useful life.

The SYD formula is:

$$\text{Depreciation} = \frac{\text{Remaining Life}}{\text{Sum of the Years Digits}} \times (\text{Cost} - \text{Salvage value})$$

For this example:

- Original cost = Rs. 12,60,000
- Salvage value = Nil
- Useful life = 6 years
- Sum of the years digits = $1 + 2 + 3 + 4 + 5 + 6 = 21$

Now, for the first year:

1. Remaining life for the first year = 6 years (because it's the first year)

2. Depreciation for the first year = $\frac{6}{21} \times 12,60,000 = \frac{6}{21} \times 12,60,000 = 3,60,000$

Thus, the depreciation for the first year is Rs. 3,60,000.

Therefore, the correct answer is (a) Rs. 3,60,000.

Question 20

A company developed a technology to enhance the battery life of mobile phones. The cost of development have been capitalized as an intangible asset at Rs. 5,00,000. The company

estimates the life of the technology developed to be 3 years. The company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in third year?

(a) Rs. 2,50,000

(b) Rs. 75,000

(c) Rs. 1,75,000

(Study Material)

Ans: (b) Rs. 75,000

Amortization of an intangible asset is typically done using the Straight-Line Method unless another method better reflects the usage or consumption of the asset. In this case, the company estimates the life of the technology to be 3 years, and the total cost of development has been capitalized at Rs. 5,00,000.

However, the amortization in the third year should be based on the proportion of sales expected to occur in that year. The forecasted sales for each year are:

Year 1: 50%

Year 2: 35%

Year 3: 15%

Since the total amortization for 3 years would typically be divided equally if no specific method (like revenue-based amortization) is mentioned, the total amortization over 3 years would be:

$$\text{Annual amortization} = \frac{5,00,000}{3} = 166,667 \text{ per year}$$

However, in the third year, only 15% of the sales are expected, so the amortization should reflect this proportion of the total.

$$\text{Amortization in Year 3} = \frac{15\% \text{ of the total amount}}{100} = \frac{15}{100} \times 5,00,000 = 75,000$$

Therefore, the amortization charge in the third year should be Rs. 75,000. This reflects the proportion of the sales forecast for that year, which is in line with the company's policy of linking amortization to expected sales.

True and False

Question 21

Akash purchased a machine for Rs. 12, 00,000. Estimated useful life is 10 years and scrap value is Rs. 1,00,000. Depreciation for the first year using sum of the years digit method shall be Rs. 2,00,000.

(Study Material)

Ans: True: Sum of years digit method depreciation is calculated as $10/55 \times (12,00,000 - 1,00,000) = 2,00,000$

Question 22

Sum of the years digit method is an example of accelerated method of charging depreciation.

(Study Material)

Ans: True: Higher depreciation is charged in earlier years under sum of the years digit method.

Reason:

Amortization for intangible assets can be based on the revenue generated from the asset during its useful life. In this case, the company has capitalized the development cost of Rs. 5,00,000 and expects sales distribution over the 3 years as:

- 50% of sales in Year 1
- 35% of sales in Year 2
- 15% of sales in Year 3

Since the amortization is based on the sales forecast, we calculate the amortization charge for the third year as 15% of the total development cost:

$$\text{Amortization for Year 3} = 15\% \times 5,00,000 = 0.15 \times 5,00,000 = 75,000$$

Therefore, the amortization charge in the third year is Rs. 75,000.

Thus, the correct answer is (b) Rs. 75,000.

Topic 4 Revaluation of Assets

True and False

Question 23

In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.

(Study Material)

Ans: True: Revaluation should be done for the whole class of the asset.

Question 24

In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.

(Study Material)

Ans: False: Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account.

Question 25

If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.

(Study Material)

Ans: False: Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.

Multiple Choice Questions

Question 26

A plant with original cost of Rs. 50,00,000 was revalued after 2 years resulting in credit to Revaluation Surplus account of Rs. 4,00,000. Towards the year end of 2019-20, due to COVID-19 the plant value had gone down by Rs. 5,00,000 and accordingly management decided to revalue the same. What shall be the impact of this downwards revaluation on the Profit & Loss Account?

- (a) Debit of Rs. 5,00,000
- (b) Debit of Rs. 1,00,000
- (c) Credit of Rs. 5,00,000

(Study Material)

Ans: (b) Debit of Rs. 1,00,000

Reason:

Revaluation of fixed assets follows specific accounting treatment as per accounting standards (e.g., AS 10 - Property, Plant, and Equipment).

1. Upwards Revaluation: If the asset value increases, the increase is credited to the **Revaluation Surplus** in the equity section of the balance sheet.

2. Downwards Revaluation:

(i) If there is an existing revaluation surplus: The decrease in value (up to the amount of any existing revaluation surplus in respect of that asset) is first adjusted against the revaluation surplus, reducing the surplus. This does not affect the Profit & Loss account.

(ii) If the decrease exceeds the revaluation surplus: The excess amount is then charged to the **Profit & Loss account** as an expense.

Here, the asset was initially revalued upwards by Rs. 4,00,000, credited to the Revaluation Surplus. Now, the value of the plant has declined by Rs. 5,00,000.

- The first Rs. 4,00,000 of the decrease will be adjusted against the Revaluation Surplus.
- The remaining Rs. 1,00,000 (Rs. 5,00,000 - Rs. 4,00,000) will be charged to the Profit & Loss account as an expense.

Thus, the impact on the Profit & Loss account is a debit of Rs. 1,00,000.

Therefore, the correct answer is (b) Debit of Rs. 1,00,000.

Practical Questions

Question 27

Amazing group had Property, Plant & Equipment (PP&E) with a book value of Rs. 35,00,000 on 31st December, 2022. The balance in Revaluation Surplus on that date was Rs. 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December, 2022. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December, 2022 was (a) Rs. 37,00,000 (b) Rs. 33,00,000 and (c) Rs. 31,00,000. Also, give the journal entries.

(Study Material)

Answer 27

(a) Fair Value: Rs. 37,00,000

Since this is an upward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in an additional credit of Rs. 2,00,000 to Revaluation Surplus and hence the total

Revaluation Surplus balance (part of other comprehensive income in Equity) shall increase to Rs. 5,00,000. The Accounting journal entry shall be:

Property, Plant & Equipment A/c	Dr	2,00,000	
To Revaluation Surplus A/c			2,00,000

(b) Fair Value : Rs. 33,00,000

Since this is a downward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of Rs. 2,00,000 (35,00,000 – 33,00,000) and hence the entire amount shall be debited to Revaluation Surplus. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall decrease to Rs. 1,00,000. The Accounting journal entry shall be:

Revaluation Surplus A/c	Dr	2,00,000	
To Property, Plant & Equipment A/c			2,00,000

(c) Fair Value : Rs. 31,00,000

Since this is also a downward revaluation and the group had a balance in revaluation surplus (i.e. there was an upward movement earlier), hence this will result in a reduction or a debit to Revaluation Surplus to the extent of balance therein and any excess shall be debited to Profit & Loss A/c. In this case, there is a reduction in fair value of Rs. 4,00,000 (35,00,000 – 31,00,000) and hence the Revaluation Surplus A/c shall be debited by Rs. 3,00,000 and the balance Rs. 1,00,000 shall be debited to Profit & Loss A/c. Hence, the total Revaluation Surplus balance (part of other comprehensive income in Equity) shall become Nil. The Accounting journal entry shall be:

Revaluation Surplus A/c	Dr	3,00,000
Profit & Loss A/c	Dr	1,00,000
To Property, Plant & Equipment A/c		4,00,000

Topic 5 Accounting Treatment

Multiple Choice Questions

Question 28

In the case of downward revaluation of a plant which is for the first time revalued, the account to be debited is

- (a) Plant account
- (b) Revaluation Reserve
- (c) Profit & Loss account

(Study Material)

Ans: (c) Profit & Loss account

Reason:

When an asset is revalued downwards for the first time, there is no existing revaluation surplus to absorb the reduction in value. Therefore, the decrease in value must be charged to the Profit & Loss account.

1. If the asset has been revalued previously and a revaluation surplus exists, any decrease would first reduce the surplus before affecting the Profit & Loss account.
2. Since this is the first time the asset is revalued downward, there is no revaluation surplus available to absorb the loss, so the full amount of the decrease is debited to the Profit & Loss account.

Thus, the correct answer is (c) Profit & Loss account.

Question 29

The portion of the acquisition cost of the tangible asset, yet to be allocated is known as

- (a) Written down value
- (b) Accumulated value
- (c) Realisable value

(Study Material)

Ans: (a) Written down value

Reason:

The Written down value (WDV) refers to the remaining value of an asset after accounting for depreciation. It is the portion of the acquisition cost of the tangible asset that has yet to be allocated over the asset's useful life.

1. Accumulated depreciation refers to the total depreciation charged against the asset since its purchase.

2. Realisable value refers to the amount that could be obtained by selling the asset.

The Written down value is the cost of the asset less accumulated depreciation, and it represents the value of the asset still to be allocated over its remaining useful life.

Thus, the correct answer is (a) Written down value.

Question 30

If the equipment account has a balance of Rs. 22,50,000 and the accumulated depreciation account has a balance of Rs. 14,00,000, the book value of the equipment is

(a) Rs. 36,50,000

(b) Rs. 8,50,000

(c) Rs. 14,00,000

Ans: (b) Rs. 8,50,000

Reason:

The book value of an asset is calculated as:

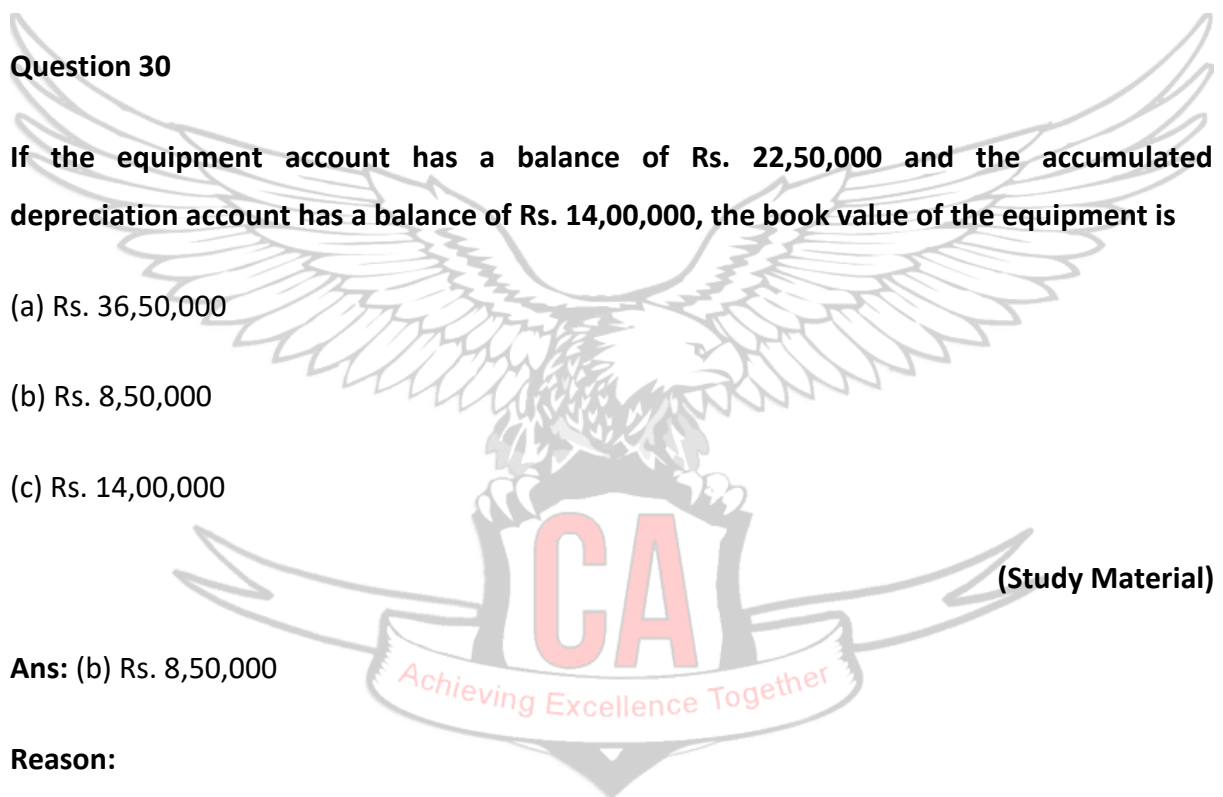
Book Value = Cost of the Asset - Accumulated Depreciation

For this case:

Cost of the equipment = Rs. 22,50,000

Accumulated depreciation = Rs. 14,00,000

The book value is:



Book Value = 22,50,000 - 14,00,000 = 8,50,000

Thus, the book value of the equipment is Rs. 8,50,000.

Therefore, the correct answer is (b) Rs. 8,50,000.

Theory Questions

Question 31

What are intangible assets. Explain with the help of examples.

(Study Material)

Answer 31

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. Examples of intangible assets include:

- (a) Streaming rights of movies / TV shows / web series on platforms like Netflix, Disney Hot Star, Amazon Prime / Sony LIV etc.
- (b) Broadcasting rights of events such as the Cricket World Cup, the Indian Premier League, the Pro Kabaddi League etc.
- (c) Landing rights / time slots at airports which permit aircrafts to land or take-off during a particular time frame
- (d) Patents
- (e) Trademarks
- (f) Copyrights
- (g) Distribution rights for motion pictures in theatres

(h) Long-term customer contracts

(i) Customer data collected by the entities such as customer contact numbers / email IDs and spending data at stores like Pantaloons, Westside etc. could be a major intangible asset for these entities.

(j) Goodwill (purchased)

(k) Computer Software

Intangible assets comprise a major portion of the balance sheet. It may be noted that it can also be the case that intangible assets could make the entities far more valuable than the tangible assets. For instance, a multi-year customer contract guaranteeing more than 75% of the revenue for the company is a major asset, which on occasions could be more valuable than the tangible assets themselves. Similarly, when Air India was up for acquisition, the tangible assets comprised of several old planes which needed overhauling and maintenance. However, one of the major reasons that made Air India a desirable target was the prime landing slots (intangible asset) that it had at airports across the world

Intangible assets can be recognized in the financial statements provided they meet the following conditions:

(i) The intangible asset is **identifiable**. Being identifiable means the entity could rent, sell, exchange or distribute the specific future economic benefits attributable to the asset without disposing of future economic benefits that flow from other assets used in the same revenue earning activity. (ii) The enterprise can **exercise control** over such intangible asset. Control means the power available with the enterprise to obtain economic benefits from the asset and at the same time, can restrict access of others to those benefits.

(iii) It is probable that the future economic benefits attributable to the asset will flow to the enterprise; and

(iv) The cost of the intangible asset can be measured reliably.

An intangible asset acquired separately usually measured at cost, as cost can be measured reliably in such cases. The cost of the intangible asset would comprise of:

1. Purchase price

2. Any import duties and taxes (other than those subsequently recoverable by the enterprise from the tax authorities)

3. Any directly attributable expenditure on making the asset ready for its intended use e.g., professional fees towards legal services. Any trade discounts and rebates are deducted in arriving at the cost.

As can be seen above, the cost of an intangible asset is similar to the manner in which the cost of a tangible asset is determined.

Intangible assets acquired as part of acquisition, government grants, internally generated goodwill / intangible assets, or on exchange of assets are dealt separately at the intermediate level.

An intangible asset should be derecognised (eliminated from the balance sheet) on disposal or when no future economic benefits are expected from its use and subsequent disposal.

Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the statement of profit and loss.

Question 32

Machine Hour Rate method of calculating depreciation.

(RTP SEP 2025)

Answer 32

Machine Hour Rate method of calculating depreciation: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of

calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is Rs.10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\begin{aligned} \text{Hourly Depreciation} &= \frac{\text{Total cost of machine}}{\text{Estimated life of machine}} \\ &= \frac{\text{Rs.10,00,000}}{50,000 \text{ hours}} \\ &= \text{Rs.20 per hour} \end{aligned}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × Rs. 20 = Rs. 40,000.

Practical Questions

Question 33

A firm's plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost	Depreciation Provision
	Rs.	Rs.
2005	2,00,000	2,00,000

2011	3,00,000	3,00,000
2012	10,00,000	9,50,000
2013	7,00,000	5,95,000
2020	5,00,000	75,000
2021	3,00,000	15,000
	30,00,000	21,35,000

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2022 the following transactions took place:

1. Purchase of plant and machinery amounted to Rs. 15,00,000
2. Plant that had been bought in 2011 for Rs. 170,000 was scrapped.
3. Plant that had been bought in 2012 for Rs. 90,000 was sold for Rs. 5,000.
4. Plant that had been bought in 2013 for Rs. 2,40,000 was sold for Rs. 15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2022. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2022.

(i) Plant and machinery at cost;

(ii) Depreciation provision;

(iii) Sales or disposal of plant and machinery.

(Study Material)

Answer 33

Calculation of provision for depreciation of plant and machinery for the year ended 31st December, 2022.

Plant purchased in:		Rs.	Rs.
2005		nil	
2011		nil	
2012			50,000
2013	1/2 year at 10% on Rs. 2,40,000	12,000	
	1 year at 10% on Rs. 4,60,000	46,000	58,000
2020	10% on Rs. 5,00,000		50,000
2021	10% on Rs. 3,00,000		30,000
2022	1/2 year at 10% on Rs. 15,00,000		75,000
			2,63,000

Plant and Machinery Account (for 2022) at Cost

	Rs.		Rs.
To Balance b/d	30,00,000	By Disposals account:	
To Bank A/c	15,00,000	Scrapped	1,70,000
		Sold	3,30,000
		By Balance c/d	40,00,000
	45,00,000		45,00,000

Depreciation Provision Account (for 2022)

		Rs.		Rs.
To Disposal Account :			By Balance b/d	21,35,000
Scrapped - 2011 assets	1,70,000		By Profit and Loss Account	2,63,000
Sold - 2012 assets	90,000			
Sold - 2013 assets	2,16,000	4,76,000		
To Balance c/d		19,22,000		

		23,98,000		23,98,000

Sale or disposal of Plant and Machinery Account (for 2022)

		Rs.		Rs.
To Plant and Machinery			By Provision for Depreciation	4,76,000
Scrapped		1,70,000	By Cash-Sales Proceeds	20,000
Sold		3,30,000	By Loss on sales	4,000
		5,00,000		5,00,000

Question 34

The Machinery Account of a Factory showed a balance of Rs. 19,00,000 on 1st January, 2022. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2022, a new machinery was acquired at a cost of Rs. 2,80,000 and installation charges incurred in erecting the machine works out to Rs. 8,920 on the same date. On 1st June, 2022 a machine which had cost Rs. 4,37,400 on 1st January 2020 was sold for Rs. 75,000. Another machine which had cost Rs. 4,37,000 on 1st January, 2021 was scrapped on the same date and it realised nothing.

Write a machinery account for the year 2022, allowing the same rate of depreciation as in the past, calculating depreciation to the nearest multiple of a Rupee.

Answer 34

Plant and Machinery Account

		Rs.			Rs.
2022			2022		
Jan. 1	To Balance b/d	19,00,000	June 1	By Bank (Sales)	75,000
June 1	To Bank (2,80,000 + 8,920)	2,88,920		By Depreciation (on sold machine)	14,762
				By Loss on sale	2,64,532
				By Loss on scrapping the machine	3,76,912
				By Depreciation (on scrapped machinery)	16,388
				By Depreciation (Note iii)	1,32,094
				By Balance c/d	13,09,232
		21,88,920			21,88,920

Working Note :

(i)	Calculation of loss on sale of machine on 1-6-2022		Rs.
	Cost on 1-1-2020		4,37,400
	Less : Depreciation @ 10% on Rs. 4,37,400		(43,740)
	W.D.V. on 31-12-2020		3,93,660
	Less : Depreciation @ 10% on Rs. 3,93,660		(39,366)
	W.D.V. on 31-12-2021		3,54,294
	Less : Depreciation @ 10% on Rs. 3,54,294 for 5 months		(14,762)
			3,39,532
	Less : Sale proceeds on 1-6-2022		(75,000)
	Loss		2,64,532
(ii)	Calculation of loss on scrapped machine		Rs.
	Cost on 1-1-2021		4,37,000
	Less : Depreciation @ 10% on Rs. 4,37,000		(43,700)
	W.D.V. on 1-1-2022		3,93,300
	Less : Depreciation @ 10% on Rs. 3,93,300 for 5 months		(16,388)
	Loss		3,76,912

(iii)	Depreciation		
	Balance of machinery account on 1-1-2022		19,00,000
	Less : W.D.V of machinery sold	3,54,294	
	W.D.V. of machinery scrapped	3,93,300	(7,47,594)
	W.D.V. of other machinery on 1-1-2022		11,52,406
	Depreciation @ 10% on Rs. 11,52,406 for 12 months		1,15,240
	Depreciation @ 10% on Rs. 2,88,920 for 7 months		16,854
			1,32,094

Topic 6 Intangible Assets

Multiple Choice Questions

Question 35

Which of the following assets does not depreciate?

- (a) Machinery and equipment
- (b) Patents
- (c) Land

(Study Material)

Ans: (c) Land

Reason:

Depreciation is the process of allocating the cost of a tangible asset over its useful life. However, land is considered to have an indefinite useful life because it does not get "used up" or wear out over time in the same way as machinery, equipment, or patents.

1. Machinery and equipment depreciate over time due to wear and tear from usage.
2. Patents (intangible assets) are amortized over their useful life, but not depreciated.

Land, however, is not subject to depreciation because it does not lose its value through usage or age. It may be revalued, but it doesn't follow the same depreciation rules as tangible assets.

Thus, the correct answer is (c) Land.

Question 36

An intangible asset is an asset

- (a) with no physical existence
- (b) generated internally by the business
- (c) cannot be sold

(Study Material)

Ans: (a) with no physical existence

Reason:

An intangible asset is defined as an asset that lacks physical substance but has value due to its intellectual or legal rights. These assets are identifiable and can be used in business operations.

1. Option (a) is correct because intangible assets, such as patents, trademarks, copyrights, and goodwill, do not have a physical form.
2. Option (b) is incorrect because an intangible asset can be generated either internally (e.g., internally developed software) or purchased (e.g., a patent bought from another company).
3. Option (c) is incorrect because intangible assets can be sold (e.g., the sale of patents or trademarks).

Thus, the correct answer is (a) with no physical existence.

Topic 7 Policy & Standards

True and False

Question 37

Depreciation cannot be provided in case of loss, in a financial year.

(Study Material)

Ans: False: Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for, even in case of loss in a financial year.

Question 38

Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.

(Study Material)

Ans: True: Depreciation being non cash expense reduces the distributable profits and hence facilitates replacement of asset when required.

Question 39

Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.

(Study Material)

Ans: True : Any change in useful life of an asset is accounted for as a change in estimate.



CHAPTER 6

BILLS OF EXCHANGE AND PROMISSORY NOTES

Topic 1 Basic Concepts

True and False

Question 1

Bills payable account is a nominal account.

(Study Material)

Ans: False: The bills payable account is a personal account that represents a liability.

Question 2

Promise to pay is included in a bill of exchange.

(Study Material)

Ans: False: bill of exchange contains an order to pay the required amount and not a mere promise to pay.

Question 3

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.

(Study Material)

Ans: True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

Question 4

A has drawn a bill on B. B accepts the same and endorses the bill to C.

(Study Material)

Ans: False: B cannot endorse the bill to C as he is a drawee. Only A, the drawer can do so.

Question 5

A bill given to a creditor is called bills payable.

(Study Material)

Ans: True: A bill given to a creditor is called Bills Payable as the debtor commits to pay by giving a bill to creditor.

Question 6

In case of a public holiday, the due date of the bill falls on the next working day.

(RTP JAN 2025)

Ans: False: In case of a public holiday, the due date of the bill falls on the preceding working day.

Question 7

A Promissory note can be made payable to bearer.

(RTP MAY 2025)

Ans: False: A promissory note cannot be made payable to bearer. It is payable to or to the order of certain person.

Multiple Choice Questions

Question 8

A draws a bill on B. A endorsed the bill to C. The payee of the bill will be

- (a) A
- (b) B
- (c) C

(Study Material)

Ans: (c) C

Reason:

When A draws a bill on B, B is the drawee and will be the person who has to pay the bill. However, since A endorses the bill to C, C becomes the payee of the bill. The endorsement by A transfers the bill's rights to C, making C the holder and the payee of the bill.

Therefore, the correct answer is (c) C.

Question 9

X draws a bill on Y for Rs.300,000 on 1.1.2022 for 3 months after sight, date of acceptance is 6.1.2022. Maturity date of the bill will be:

(a) 8.4.2022

(b) 9.4.2022

(c) 10.4.2022

(Study Material)

Ans: (b) 9.4.2022

Reason:

A bill of exchange for 3 months after sight is payable 3 months after the date of acceptance. The maturity date is calculated from the date of acceptance (which is 6.1.2022 in this case).

1. Starting from 6.1.2022, adding 3 months would take us to 6.4.2022.

2. Since the maturity date is the end of the day of the due date, and 6.4.2022 is the 3-month period from the acceptance date, the bill will mature on 9.4.2022 because we count the end of the third month, and the maturity date will fall on the 9th.

Thus, the correct answer is (b) 9.4.2022.

Theoretical Questions

Question 10

Write short notes on:

(a) Accommodation bill.

(b) Renewal of bill.

(c) Noting charges.

(Study Material)

Answer 10

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

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

(c) The charges paid to Notary public for notify the dishonour are noting charges.

It is necessary that the fact of dishonour and the causes of dishonour should be established. If the acceptor can prove that the bill was not properly presented to him for payment, he may escape liability. Therefore, if there is dishonour, or fear of dishonour, the bill will be given to a public official known as “**Notary Public**”. These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But if the bill is dishonoured they will note the fact of dishonour, with the reasons and give the bill back to their client. For this service they charge a small fee. This fee is known as **noting charges**. The amount of noting charges is recoverable from the party which is responsible for dishonour.

Suppose X received from Y a bill for Rs.1,000. On Maturity the bill is dishonoured and Rs.10 is paid as noting charges. The entry in this case will be

	Rs.	Rs.
Y	Dr. 1,010	
To Bills Receivable Account		1,000
To Bank A/c		10

Question 11

Write short notes on:

Retirement of bills of exchange.

(RTP JAN 2025)

Answer 11

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.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Question 12

Bill of exchange and the various parties to it.

(RTP MAY 2025)

Answer 12

A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
- (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
- (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

Practical Questions

Question 13

On 1st April, 2024, X sells goods to Y for Rs.25,000 plus IGST@ 18% and draws two bills of exchange on him; the first bill for Rs.15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection

on 1st April, 2024. In due course, X receives the information from the bank on the due date of the respective bill that the bill for Rs.15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonour of second bill are Rs.500. Pass the journal entries along with narrations in the books of X.

(RTP JAN 2025)

Answer 13

Date	Particulars	L.F	Dr. Rs.	Cr. Rs.
2024				
Apr.1	Y Dr.		29,500	
	To Sales A/c			25,000

	To Output IGST A/c			4,500
	(Being the inter-state sale of goods to Y, charged to IGST@ 18%)			
Apr 1	Bills Receivable (No. 1) A/c Dr.		15,000	
	Bills Receivable (No. 2) A/c Dr.		14,500	
	To Y			29,500
	(Being the two bills acceptance-one for Rs. 15,000 and the other for Rs. 14,500 received)			
Apr.1	Bills sent for collection A/c Dr.		29,500	
	To Bills Receivable (No. 1) A/c			15,000
	To Bills Receivable (No.2) A/c			14,500
	(Being the Bills sent to bank for collection)			
July.4	Bank A/c Dr.		15,000	
	To Bills sent for collection A/c			15,000
	(Being the amount duly collected by bank on first bill)			

Aug.4	Y Dr.		15,000	
	To Bills sent for collection A/c			14,500
	To Bank A/c			500
	(Being the second bill dishonored and bank paid Rs. 500 as noting charges)			

Topic 2 Maturity Date & Grace Days

True and False

Question 14

Days of rebate are added to the due date to arrive at the maturity date.

(Study Material)

Ans: False: 3 Days of grace are added to the due date to arrive at the maturity date

Multiple Choice Questions

Question 15

On 1.1.2022, A draws a bill on B for Rs.1,20,000 for 3 months' maturity date of the bill will be:

(a) 1.4.2022

(b) 3.4.2022

(c) 4.4.2022

(Study Material)

Ans: (c) 4.4.2022

Reason:

In the case of a bill of exchange with a 3-month maturity, the maturity date is calculated by adding 3 months from the date of drawing (1.1.2022). However, we need to account for the end of the period:

1. Start date: 1.1.2022

2. Adding 3 months brings us to 1.4.2022.

3. Since the maturity date is the end of the third month, we count until 4.4.2022 (the last day of the third month).

Therefore, the correct answer is (c) 4.4.2022.

Question 16

XZ draws a bill on YZ for Rs. 2,00,000 for 3 months on 1.1.2022. The bill is discounted with banker at a charge of Rs.1,000. At maturity the bill return dishonoured. In the books of XZ, for dishonour, the bank account will be credited by:

(a) Rs. 199,000

(b) Rs. 200,000

(c) Rs. 201,000

(Study Material)

Ans: (b) Rs. 200,000

Reason:

When a bill is discounted with a bank, the bank charges a fee for the service, and XZ receives the discounted amount.

1. The face value of the bill is Rs. 2,00,000.
2. The bank's charge is Rs. 1,000, so the amount XZ received after discounting the bill is Rs. 2,00,000 - Rs. 1,000 = Rs. 1,99,000.

However, when the bill is dishonoured at maturity, XZ will have to repay the full face value of the bill to the bank. The bank account will be credited with the full amount of the bill, which is Rs. 2,00,000.

Therefore, the correct answer is (b) Rs. 200,000.

Topic 3 Discounting of Bills**True and False****Question 17**

Foreign bill is drawn in the country and payable outside the country.

(Study Material)

Ans: True: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.

Multiple Choice Questions**Question 18**

A bill of Rs. 120,000 was discounted by Saras with the banker for Rs.1,18,800. At maturity, the bill returned dishonoured, noting charges Rs. 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonour?

- (a) Rs. 1,20,000
- (b) Rs. 1,18,800
- (c) Rs. 1,20,200

(Study Material)

Ans: (c) Rs. 1,20,200

Reason:

When a bill is discounted by Saras with the bank for Rs. 1,18,800, the bank has effectively advanced this amount to Saras, and Saras is still liable for the full Rs. 120,000 when the bill is dishonoured. In addition to the face value of the bill, there are noting charges of Rs. 200 incurred by the bank for processing the dishonour.

Thus, the bank will deduct the full bill amount (Rs. 120,000) plus the noting charges (Rs. 200) from Saras's bank balance, totaling Rs. 120,200.

Therefore, the correct answer is (c) Rs. 1,20,200.

Question 19

On 1.1.2022, XA draws a bill on YB for Rs. 1,00,000. At maturity YB request XA to renew the bill for 2 months at 12% p.a. interest. Amount of interest will be:

- (a) Rs. 2,000
- (b) Rs. 1,500
- (c) Rs. 1,800

Ans: (a) Rs. 2,000

Reason:

The interest for a bill is calculated as simple interest using the formula:

$$\text{Interest} = \frac{\text{Principal} \times \text{Rate} \times \text{Time}}{100}$$

For this case:

1. Principal = Rs. 1,00,000
2. Rate = 12% per annum
3. Time = 2 months (which is $\frac{2}{12}$ years)

Substituting the values:

$$\text{Interest} = \frac{1,00,000 \times 12 \times \frac{2}{12}}{100} = \text{Rs. } 2,000$$

Therefore, the correct answer is (a) Rs. 2,000.

Question 20

A bill of exchange is drawn by a

- (a) Creditor
- (b) Debtor
- (c) Debenture holder

Ans: (a) Creditor

Reason:

A bill of exchange is typically drawn by the creditor (the person to whom money is owed) on the debtor (the person who owes money). The bill serves as an instrument of payment, wherein the creditor orders the debtor to pay a certain amount at a specified time.

Thus, the correct answer is (a) Creditor.

Question 21

At the time of drawing a bill, the drawer credits

- (a) Bills Receivables A/c
- (b) Bills Payable A/c
- (c) Debtor's A/c

(Study Material)

Ans: (c) Debtor's A/c

Reason:

When a bill of exchange is drawn by the drawer (creditor), they credit the Debtor's Account because it represents the amount that the debtor owes to the creditor. The Bills Receivables Account will be debited to recognize the receivable in the books of the drawer.

Thus, the correct answer is (c) Debtor's A/c.

Question 22

A promissory note is made by a

- (a) Seller

(b) Purchaser

(c) Endorsee

(Study Material)

Ans: (b) Purchaser

Reason:

A promissory note is a written promise by the maker (the purchaser in this case) to pay a certain amount to the payee (creditor or seller) at a specific time. Unlike a bill of exchange, which is drawn by the creditor, a promissory note is made by the debtor (in this case, the purchaser).

Thus, the correct answer is (b) Purchaser.

Question 23

A bill of exchange contains

(a) An unconditional order

(b) A promise

(c) A request to deliver the goods

(Study Material)

Ans: (a) An unconditional order

Reason:

A bill of exchange is an unconditional order issued by the drawer to the drawee (debtor) to pay a specified sum of money to the payee on a specific date. The bill does not contain a promise or a request for delivery of goods, but rather an order to make payment.

Thus, the correct answer is (a) An unconditional order.

Question 24

A promissory note contains

- (a) An unconditional order
- (b) A promise
- (c) A request to deliver the goods

(Study Material)

Ans: (b) A promise

Reason:

A promissory note is a written promise made by the maker (the purchaser) to pay a certain amount to the payee. Unlike a bill of exchange, which involves an order to pay, a promissory note involves a promise to pay, making it an agreement to fulfill a financial obligation.

Thus, the correct answer is (b) A promise.

Practical Questions

Question 25

On 1st January, 2022, A sells goods for Rs.10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2022, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

(Study Material)

Answer 25

Journal Entries in the books of B

Date	Particulars		Debit	Credit
2022			Rs.	Rs.
Jan. 1	Purchases account	Dr.	10,000	
	To A's account			10,000
	(Being the goods purchased from A on credit)			
	A's account	Dr.	10,000	
	To Bills payable account			10,000
	(Being the acceptance of bill given to A)			
1-Mar	Bills payable account	Dr.	10,000	
	To Bank account			9,900
	To Rebate on bills account			100
	(Being the bill discharged under rebate @ 12% p.a.)			

Working Note:

Calculation of rebate:

$$\text{Rs. } 10,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 100$$

Question 26

A draws upon B three Bills of Exchange of Rs. 3,000, Rs. 2,000 and Rs. 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest Rs.100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for Rs.1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (nothing charge being Rs.30). The third bill was retained till maturity when it was duly met.

Give the necessary journal entries recording the above transactions in the books of A.

(Study Material)

Answer 26

Journal of A

	L.F	Rs.	Rs.
Bills Receivable A/c	Dr.	6,000	
To B			6,000
(Three bills for Rs.3,000, Rs.2,000 and Rs.1,000 drawn on B and duly accepted by him received)			
B Dr.		3,000	
To Bills Receivable A/c			3,000
(Bill received from B cancelled for renewal)			
Cash Account Dr.		1,500	

Bill Receivable Account Dr.		1,600	
To B			3,000
To Interest Account			100
(Amount received on cancellation of the first bill, 50% along with a new bill for 50% of the amount plus interest Rs.100)			
C Dr.		1,600	
To Bills Receivable A/c			1,600
(A's acceptance endorsed in favour of C)			
Bank A/c Dr.		1,900	
Discount A/c Dr.		100	
To Bills Receivable A/c			2,000
(Second Bill for Rs. 2,000 discounted with the bank @ 5%)			
B Dr.		2,030	
To Bank A/c			2,030
(Second Bill for Rs.2,000 discounted with the Bank dishonoured, noting charges Rs.30 paid by the Bank)			

Bank A/c Dr.		1,000	
To Bills Receivable A/c			1,000
(Amount received on maturity of the third bill)			

Note: It is assumed that the bill for Rs.1,600 has not yet fallen due for payment.

Question 27

Journalize the following in the books of Don:

- (i) Bob informs Don that Ray's acceptance for Rs. 3,000 has been dishonoured and noting charges are Rs. 40. Bob accepts Rs. 1,000 cash and the balance as bill at three months at interest of 10%. Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.
- (ii) James owes Don Rs. 3,200; he sends Don's own acceptance in favour of Ralph for Rs. 3,160; in full settlement.
- (iii) Don meets his acceptance in favour of Singh for Rs. 4,500 by endorsing John's acceptance for Rs. 4,450 in full settlement.
- (iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

(Study Material)

Answer 27

Books of Don

		L.F.	Rs.	Rs.

(i)(a)	Ray Dr.		3,040	
	To Bob			3,040
	(Ray's acceptance endorsed to Bob dishonoured on due date nothing charges paid by Bob Rs.40)			
(b)	Bob Dr.		3,040	
	Interest Dr.		51	
	To Cash			1,000
	To Bills Payable A/c			2,091
	(Amount payable to Bob Rs.3,040 settled by cash payment Rs.1,000 and issue of new bill for Rs.2,091 including interest Rs. 51 for three months on Rs.2,040 @ 10% p.a.)			
(c)	Bills Receivable A/c Dr.		3,100.80	
	To Ray			3,040.00
	To Interest			60.8
	(Bill received from Ray for Rs.3,040 due against earlier acceptance dishonoured plus Rs. 60.80 interest for two months @ 12% p.a.)			

(ii)	Bills Payable A/c Dr.		3,160	
	Discount A/c Dr.		40	
	To James			3,200
	(Cancellation of bills payable to Ralph for Rs.3,160 in settlement of Rs.3,200 due from James)			
(iii)	Bills payable A/c Dr.		4,500	
	To Bills Receivable A/c			4,450
	To Discount A/c			50
	(Settlement of acceptance issued to Mr. Singh by endorsement of John's Acceptance for Rs.4,450)			
(iv)	Bank A/c Dr.		3,085.30	
	Discount A/c Dr.		15.5	
	Total Bills Receivable A/c			3,100.80
	(Amount received from Ray in settlement of Bills Payable, retired one month before due date)			

Question 28

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

(i) Purchase of a scooter was debited to conveyance account Rs. 1,00,000. Mr. Kunal charges 10% depreciation on scooter.

(ii) Purchase account was overcast by Rs. 2,00,000.

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

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

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

(vi) Rs. 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.

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

(viii) Amount of Rs. 53,950 of purchase was wrongly posted as Rs. 55,930 in purchase account.

Suggest the necessary rectification entries.

(MTP MAY 2025)

Answer 28

Date	Particulars	Dr. Rs.	Cr. Rs.
(1)	Scooter A/c Dr.	90,000	
	To Profit and Loss Adjustment A/c		90,000

	(Purchase of scooter wrongly debited to conveyance account now rectified capitalization of Rs.90,000, i.e., Rs.1,00,000 less 10% depreciation)		
(2)	Suspense A/c Dr.	2,00,000	
	To Profit & Loss Adjustment A/c		2,00,000
	(Purchase Account overcast in the previous year error now rectified).		
(3)	Profit & Loss Adjustment A/c Dr.	40,000	
	To Sandeep's A/c		40,000
	(Credit purchase from Sandeep's Rs.20,000, entered as sales last year, now rectified)		
(4)	Prem's A/c Dr.	10,000	
	To Parag's A/c		10,000
	(Amount received from Mr. Parag's wrongly posted to the account of Mr. Prem; now rectified)		
(5)	Suspense A/c Dr.	10,000	
	To C's A/c		10,000
	(Rs. 5,000 received from C wrongly debited to his account; now rectified)		
(6)	Trade receivables (Ramesh) / Ramesh A/c	5,000	

	Dr.		
	To Suspense A/c		5,000
	(Rs.5,000 due by Mr. Ramesh not taken into trial balance now rectified)		
(7)	Ram's A/c Dr.	20,000	
	To Profit & Loss Adjustment A/c		20,000
	(Sales to Ram omitted last year; now adjusted)		
(8)	Suspense A/c Dr.	1,980	
	To Profit & Loss Adjustment A/c		1,980
	(Excess posting to purchase account last year, Rs.55,930, instead of Rs.53,950, now adjusted)		
(9)	Profit & Loss Adjustment A/c Dr.	2,71,980	
	To Kunal's Capital A/c		2,71,980
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)		
(10)	Kunal's Capital A/c Dr.	2,06,980	
	To Suspense A/c		2,06,980
	(Balance of Suspense Account transferred to Capital Account)		

Question 29

Ali draws a bill for Rs.45,000 on Akbar on 15th April, 2024 for 3 months, which is returned by Akbar to Ali after accepting the same. Ali gets it discounted with the bank for Rs. 44,100 on 18th April, 2024 and remits one-third amount to Akbar. On the due date Ali fails to remit the amount due to Akbar, but he accepts bill of Rs. 52,500 for 3 months, which Akbar discounts for Rs.51,300 and remits Rs. 8,475 to Ali.

Pass necessary Journal entries for the above transactions in the books of Ali.

(MTP JAN 2025)

Answer 29

In the books of Ali Journal Entries

Date	Particulars	Debit Amount	Credit Amount
2024		Rs.	Rs.
April 15	Bills receivable A/c Dr.	45,000	
	To Akbar's A/c		45,000
	(Being acceptance received from Akbar for mutual accommodation)		
April 18	Bank A/c Dr.	44,100	
	Discount A/c Dr.	900	
	To Bills receivable A/c		45,000

	(Being bill discounted with bank)		
April 18	Akbar's A/c Dr.	15,000	
	To Bank A/c		14,700
	To Discount A/c		300
	(Being one-third proceeds of the bill sent to Akbar)		
July 18	Akbar's A/c Dr.	52,500	
	To Bills payable A/c		52,500
	(Being Acceptance given)		
July 18	Bank A/c Dr.	8,475	
	Discount A/c Dr.	900	
	$1,200 \times \frac{30,000 + 8,475}{51,300}$		
	To Akbar's A/c		9,375
	(Being proceeds of second bill received from Akbar)		

Question 30

On October, 2024, Samar sells goods to Amar for Rs. 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill for Rs. 15,000 for 2 months and second bill for the balance for 3 months. Amar accepts and returns these bills to Samar. Both the bills are sent to the bank for collection on 1st October, 2024. In due course, Samar receives the information from the bank on the due date of the respective bill that the bill for Rs. 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonor of second bill are Rs. 500. Pass the journal entries in the books of Samar along with narration.

(RTP MAY 2025)

Answer 30

Journal Entries in the books of Samar

Date	Particulars	L.F	Dr. Rs.	Cr. Rs.
2024				
Oct.1	Amar A/c Dr.		29,500	
	To Sales A/c			25,000
	To Output IGST A/c			4,500
	(Being the inter-state sale of goods to Y, charged to IGST@ 18%)			
Oct.1	Bills Receivable (No. 1) A/c Dr.		15,000	
	Bills Receivable (No. 2) A/c Dr.		14,500	
	To Y			29,500

	(Being the two bills acceptance-one for Rs. 15,000 and the other for Rs. 14,500 received)			
Apr.1	Bills sent for collection A/c Dr.		29,500	
	To Bills Receivable (No. 1) A/c			15,000
	To Bills Receivable (No.2) A/c			14,500
	(Being the Bills sent to bank for collection)			
Dec.4	Bank A/c Dr.		15,000	
	To Bills sent for collection A/c			15,000
	(Being the amount duly collected by bank on first bill)			
2025	Amar A/c		15,000	
Jan.4	To Bills sent for collection A/c			14,500
	To Bank A/c			500
	(Being the second bill dishonored and bank paid Rs. 500 as noting charges)			

Question 31

Mr. Kabir accepted a bill for Rs. 10,000 drawn on him by Mr. Samarveer on 1st August, 2024 for 3 months. This was for the amount which Kabir owed to Samarveer. On the same date Mr. Samarveer got the bill discounted at his bank for Rs. 9,800.

On the due date, Kabir approached Samarveer for renewal of the bill. Mr. Kabir agreed on condition that Rs. 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2024, Kabir became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. Samarveer.

(RTP SEP 2025)

Answer 31

Journal Entries in the Books of Mr. Samaveer

Date		Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
2024					
August	1	Bills Receivable A/c Dr.		10,000	
		To Kabir			10,000
		(Being the acceptance received from Kabir to settle his account)			
August	1	Bank A/c Dr.		9,800	

		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for Rs. 9,800 from bank)			
November	4	Kabir Dr.		10,000	
		To Bank Account			10,000
		(Being the Kabir's acceptance is to be renewed)			
November	4	Kabir Dr.		240	
		To Interest Account			240
		(Being the interest due from Kabir for 3 months i.e., $8000 \times 3 / 12 \times 12\% = 240$)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To Kabir			10,240

		(Being amount and acceptance of new bill received from Kabir)			
December	31	Kabir A/c Dr.		8,000	
		To Bills Receivable A/c			8,000
		(Being Kabir became insolvent)			
December	31	Bank A/c Dr.		3,200	
		Bad debts A/c Dr.		4,800	
		To Kabir			8,000
		(Being the amount received and written off on Kabir's insolvency)			

Question 32

On 1st April 2025 Weavers Ltd. issued 5,00,000 12% debentures of Rs. 100 each at a discount of 5%, redeemable on 31st March, 2030. Issue was oversubscribed by 1,00,000 debentures, who were refunded their money. Interest is paid annually on 31st March. You are required to prepare:

(i) Journal Entries at the time of issue of debentures.

(ii) Discount on issue of Debenture Account

(iii) Interest account and Debenture holder Account assuming TDS is deducted @10%

(RTP SEP 2025)

Answer 32**(i) Journal in the Books of Weavers Ltd.**

Date	Particulars	LF	(Rs.)	(Rs.)
2025				
Apr 1	Bank A/c		5,70,000	
	To Debenture Application A/c			5,70,000
	(Being debenture application money received for 6,00,000 debentures)			
	Debenture Application A/c Dr.		5,70,000	
	Discount on Issue of Debenture A/c Dr.		25,000	
	To 12% Debenture A/c			5,00,000
	To Bank A/c			95,000
	(Being application money transferred to debenture account and excess refunded)			

(ii) Discount on Issue of Debenture A/c

Date	Particulars	Rs.	Date	Particulars	Rs.

1.4.25	To 12% Debentures A/c	25,000	31.3.26	By Profit & Loss A/c	5,000
			31.3.26	By Balance c/d	20,000
		25,000			25,000
1.4.26	To Balance b/d	20,000	31.3.27	By Profit & Loss A/c	5,000
			31.3.27	By Balance c/d	15,000
		20,000			20,000
1.4.27	To Balance b/d	15,000	31.3.28	By Profit & Loss A/c	5,000
			31.3.28	By Balance c/d	10,000
		15,000			15,000
1.4.28	To Balance b/d	10,000	31.3.29	By Profit & Loss A/c	5,000
			31.3.29	By Balance c/d	5,000
		10,000			10,000
1.4.29	To Balance b/d	5,000	31.3.30	By Profit & Loss A/c	5,000
		5,000			5,000

(iii) Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.26	To Debenture holder A/c	60,000	31.3.26	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.27	To Debenture holder A/c	60,000	31.3.27	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.28	To Debenture holder A/c	60,000	31.3.28	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.29	To Debenture holder A/c	60,000	31.3.29	By Profit & Loss A/c	60,000
		60,000			60,000
31.3.30	To Debenture holder A/c	60,000	31.3.30	By Profit & Loss A/c	60,000
		60,000			60,000

Debenture holder A/c

Date	Particulars	Rs.	Date	Particulars	Rs.

31.3.26	To Bank A/c	54,000	31.3.26	By Interest A/c	60,000
31.3.26	To TDS A/c	6,000			
		60,000			60,000
31.3.27	To Bank A/c	54,000	31.3.27	By Interest A/c	60,000
31.3.27	To TDS A/c	6,000			
		60,000			60,000
31.3.28	To Bank A/c	54,000	31.3.28	By Interest A/c	60,000
31.3.28	To TDS A/c	6,000			
		60,000			60,000
31.3.29	To Bank A/c	54,000	31.3.29	By Interest A/c	60,000
31.3.29	To TDS A/c	6,000			
		60,000			60,000
31.3.30	To Bank A/c	54,000	31.3.30	By Interest A/c	60,000
31.3.30	To TDS A/c	6,000			
		60,000			60,000

Question 33

XYZ Ltd. has issued 2,500, 12% convertible debentures of Rs. 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of Rs. 10 each at a price of Rs. 20 per share and balance in cash. Debenture holders amounting Rs. 50,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of Rs. 50,000 debenture holders.

(RTP SEP 2025)

Answer 33

	Number of debentures
Debenture holders opted for conversion (50,000 /100)	500
Option for conversion	20%
Number of debentures to be converted (20% of 500)	100

Redemption value of 40 debentures at a premium of

5% $[100 \times (100+5)]$

Rs. 10,500

Equity shares of Rs. 10 each issued on conversion

$[Rs. 10,500 / Rs. 20]$

525 shares

Calculation of cash to be paid:

Rs.

Number of debentures

500

Less: number of debentures to be converted into equity shares (100)

400

Redemption value of

400 debentures (400 × Rs. 105) ie. Rs. 42,000

Question 34

Following is the extract of Balance Sheet of Super Ltd. as at 31st March, 2025 :

	Rs.
Authorized capital:	
7,50,000 equity shares of Rs.10 each	75,00,000
62,500,10% preference shares of Rs.10 each	6,25,000
	81,25,000
Issued and subscribed capital:	
6,75,000 equity shares of Rs. 10 each fully paid up	67,50,000
60,000, 10% preference shares of Rs. 10 each fully paid up	6,00,000
	73,50,000
Reserves and surplus:	
General reserve	9,00,000

Capital redemption reserve	3,00,000
Securities premium (collected in cash)	1,87,500
Profit and loss account	15,00,000
	28,87,500

On 1st April, 2025, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

(RTP SEP 2025)

Answer 34

In the books of Super Ltd.

Journal Entries

April 1	Capital Redemption Reserve A/c Dr.	3,00,000	
	Securities Premium A/c Dr.	1,87,500	
	General Reserve A/c Dr.	9,00,000	
	Profit and Loss A/c (b.f.) Dr.	13,12,500	
	To Bonus to Equity Shareholders A/c Dr.		27,00,000
	(Being bonus issue @ two shares for every five shares held by utilizing various		

	reserves as per Board's Resolution dated...)		
	Bonus to Shareholders A/c Dr.	27,00,000	
	To Equity Share Capital A/c		27,00,000
	(Being bonus shares issued)		

Journal Entries

Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)

	Particulars	Notes	Amount (Rs.)
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	1,00,50,000
b	Reserves and Surplus	2	1,87,500

Notes to Accounts

1	Share Capital	(Rs.)
	Authorized share capital*:	
	9,45,000 Equity shares of Rs. 10 each	94,50,000
	62,500 10% Preference shares of Rs. 10 each	6,25,000

	Total	1,00,75,000
	Issued, subscribed and fully paid share capital:	94,50,000
	9,45,000 Equity shares of Rs. 10 each, fully paid (Out of above, 2,70,000 equity shares @ Rs. 10 each were issued by way of bonus)	
	60,000 10% Preference shares of Rs. 10 each	6,00,000
	Total	1,00,50,000
2	Reserves and Surplus	
	Capital Redemption Reserve	3,00,000 Nil
	Less: Utilized	(3,00,000)
	Securities Premium	1,87,500
	Less: Utilised for bonus issue	(1,87,500) Nil
	General reserve	9,00,000
	Less: Utilised for bonus issue	(9,00,000) Nil
	Profit & Loss Account	15,00,000
	Less: Utilised for bonus issue	(13,12,500) 1,87,500
	Total	71,87,500

Note: *Authorized capital has been increased by the minimum required amount i.e. Rs. 19,50,000 (94,50,000 – 75,00,000) in the above solution.

Topic 4 Endorsement & Negotiation

Multiple Choice Questions

Question 35

X sold goods to Y for Rs. 5,00,000. Y paid cash Rs.4,30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be:

- (a) Rs. 98,000
- (b) Rs. 68,000
- (c) Rs. 68,600

Ans: (c) Rs. 68,600

Reason:

The total sale is Rs. 5,00,000. Y paid Rs. 4,30,000, leaving a balance of:

$$\text{Balance} = 5,00,000 - 4,30,000 = 70,000$$

Now, X grants a 2% discount on the remaining balance:

$$\text{Discount} = 2\% \times 70,000 = 1,400$$

So, the amount of the bill will be the balance minus the discount:

$$\text{Bill Amount} = 70,000 - 1,400 = 68,600$$

Thus, the correct answer is (c) Rs. 68,600.

Question 36

On 1.1.2022, X draws a bill on Y for Rs. 5,00,000 for 3 months. X got the bill discounted 4.1.2022 at 12% rate. The amount of discount on bill will be:

(a) Rs. 15,000

(b) Rs. 16,000

(c) Rs. 18,000

(Study Material)

Ans: (a) Rs. 15,000

Reason:

The bill amount is Rs. 5,00,000. The discount period is for 3 months and the rate of discount is 12% per annum.

The formula for calculating the discount is:

$$\text{Discount} = \frac{\text{Amount of bill} \times \text{Rate} \times \text{Time}}{100}$$

Substituting the values :

$$\text{Discount} = \frac{5,00,000 \times 12 \times 3}{100 \times 12} = 15,000$$

Thus, the correct answer is (a) Rs. 15,000.

Question 37

Mr. Jay draws a bill on Mr. John for Rs. 3,00,000 on 1.1.2022 for 3 months. On 4.2.2022, John got the bill discounted at 12% rate. The amount of discount will be:

- (a) Rs. 9,000
- (b) Rs. 6,000
- (c) Rs. 3,000

(Study Material)

Ans: (b) Rs. 6,000

Reason:

To calculate the discount on a bill discounted before its maturity date, we use the formula for discount:

Discount = Amount of Bill × Rate of Discount × Time Period (in months)/12

Given:

Amount of the Bill = Rs. 3,00,000

Rate of Discount = 12% per annum

Time Period = Time from the date of discounting (4.2.2022) to the maturity date (1.4.2022).
This period is 2 months (from 4th February to 1st April).

Calculation:

Discount = $3,00,000 \times \frac{12}{100} \times \frac{2}{12}$

Discount = $3,00,000 \times 0.12 \times \frac{2}{12}$

Discount = $3,00,000 \times 0.02 = 6,000$

Therefore, the discount is Rs.6,000.

Topic 5 Dishonour of Bills

Multiple Choice Questions

Question 38

On 16.6.2022 P draws a bill on Q for Rs.1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be:

- (a) 19th July
- (b) 18th July
- (c) 17th July

(Study Material)

Ans: (b) 18th July

Reason:

The bill is drawn on 16.6.2022 for a 30-day period. To calculate the maturity date, we add 30 days from the drawing date:

Maturity date = 16.6.2022 + 30 Days = 16.7.2022

Since 19th July is a public holiday, the maturity date will be moved to the next working day, which is 18th July.

Thus, the correct answer is (b) 18th July.

Question 39

PQ draws a bill on XY for Rs.130,000 on 1.1.2022. XY accepts the same on 4.1.2022 for period of 3 months after date. What will be the maturity date of the bill:

(a) 4.4.2022

(b) 3.4.2022

(c) 7.4.2022

(Study Material)

Ans: (a) 4.4.2022

Reason:

The bill is drawn on 1.1.2022 and accepted on 4.1.2022 for a 3-month period. To calculate the maturity date, we add 3 months from the acceptance date:

Maturity date = 4.1.2022 + 3 Months = 4.4.2022

Thus, the correct answer is (a) 4.4.2022.

Theoretical Questions

Question 40

What is bill of exchange? How does it differ from Promissory Note?

(Study Material)

Answer 40

A bill of exchange has been defined as “an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of certain person or to the bearer of the instrument”. When such an order is accepted by the drawee, it becomes a valid bill of exchange. A promissory note is an instrument in writing (not being a bank note or a government currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

A promissory note needs no acceptance, as the debtor himself writes the document promising to pay the stated amount. Like bills of exchange, promissory notes are also negotiable instruments, and can be transferred by endorsement. In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person.

Topic 6 Renewal & Retirement

Multiple Choice Questions

Question 41

The rebate on the bill shows that

- (a) It has been endorsed
- (b) It has been paid after the date of maturity
- (c) It has been paid before the date of maturity

Ans: (c) It has been paid before the date of maturity

Reason:

A rebate on a bill generally refers to a discount granted by the drawer (the person who draws the bill) to the drawee (the person who accepts the bill) if the bill is paid before the maturity date. This rebate is an incentive for early payment.

If the bill is paid before the maturity date, the drawee is entitled to receive a rebate or discount. Therefore, the correct interpretation of the rebate is that the bill was paid before the date of maturity.

Thus, the correct answer is (c) It has been paid before the date of maturity.

Topic 7 Noting Charges & Notary Public

True and False

Question 42

Discount at the time of retirement of a bill is a gain for the drawee.

(Study Material)

Ans: True: Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer

Multiple Choice Questions

Question 43

Notary Public may charge his fee from the

- (a) Holder of bill of exchange
- (b) Drawer
- (c) None

(Study Material)

Ans: (a) Holder of bill of exchange

Reason:

A Notary Public is an official authorized to perform certain legal formalities, including witnessing the signing of documents, certifying the authenticity of bills of exchange, and protesting dishonored bills.

In the case of a bill of exchange, the notary's role is to protest the bill if it is dishonored (i.e., if it is not paid at maturity). The fee for this service is typically charged to the holder of the bill of exchange, as they are the party seeking to protect their rights and take legal action in case of dishonor.

Thus, the correct answer is (a) Holder of bill of exchange.



CHAPTER 7

PREPARATION OF FINAL ACCOUNTS OF SOLE

PROPRIETORS

UNIT – 1 FINAL ACCOUNTS OF NON- MANUFACTURING ENTITIES

Topic 1 Basic Concepts of Final Accounts

True and False

Question 1

Gains from the sale or exchange of assets are not considered as the revenue of the business.

(Study Material)

Ans: False: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.

Question 2

All liabilities which become due for payment within the year are classified as long-term liabilities.

(Study Material)

Ans: False: All liabilities which become due for payment within one year are classified as current liabilities.

Question 3

The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.

(Study Material)

Ans: True: Current assets are all the assets which are expected to be realized or sold or consumed within one year.

Question 4

An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.

(Study Material)

Ans: True: When an asset is purchase capital expenditure is incurred and when the asset is put to use expenses are incurred in consumption.

Question 5

If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.

(Study Material)

Ans: True: Debit balance of accounts are treated as expenses whose benefit is already received or expired.

Question 6

Sales less cost of goods sold = gross profit.

(Study Material)

Ans: True: Gross profit is obtained by deducting cost of goods sold from sales.

Question 7

If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.

(Study Material)

Ans: False: If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.

Question 8

The provision for bad debts is debited to Sundry Debtors Account.

(Study Material)

Ans: False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.

Question 9

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

(Study Material)

Ans: True: According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision is not maintained.

Question 10

The debts written off as bad, if recovered subsequently are credited to Debtors Account.

(Study Material)

Ans: False: The debts written off as bad, if recovered subsequently are credited to Bad Debts Recovered Account and becomes an income.

Question 11

The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account.

(Study Material)

Ans: False: Income received in advance is reduces it from the concerned income in profit and loss account. And it is shows it as a liability in the current balance sheet under the head Current Liabilities.

Question 12

Premium paid on the life policy of a proprietor is debited to profit and loss account.

(Study Material)

Ans: False: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.

Question 13

Depreciation account appear in the trial balance is taken only to profit and loss account.

(Study Material)

Ans: True: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.

Question 14

Personal purchases included in the purchases day book are added to the sales account in the Trading account.

(Study Material)

Ans: False: Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.

Question 15

Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.

(Study Material)

Ans: True: Any benefit given to the staff is debited to the salary account.

Question 16

Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

(Study Material)

Ans: False: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.

Question 17

If Closing Stock appears in the Trial Balance, the Closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet.

(Study Material)

Ans: True: The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.

Topic 2 Trading Account

Multiple Choice Questions

Question 18

If sales is Rs. 2,000 and the rate of gross profit on cost of goods sold is 25%, then the cost of goods sold will be

- (a) Rs. 2,000.
- (b) Rs. 1,500.
- (c) Rs. 1,600.

(Study Material)

Ans: (c) Rs. 1,600.

Reason:

The rate of gross profit is given as 25% on the cost of goods sold (COGS). This means the gross profit is 25% of the COGS, and the remaining 75% of sales represents the cost of goods sold.

Let the COGS be represented as "X".

According to the question:

$$\text{Gross Profit} = 25\% \text{ of COGS} = 0.25 * X$$

$$\text{Sales} = \text{COGS} + \text{Gross Profit} = X + 0.25 * X = 1.25 * X$$

Given that Sales = Rs. 2,000:

$$1.25 * X = 2,000$$

Now, solving for X:

$$X = 2,000 / 1.25 = 1,600$$

Thus, the cost of goods sold is Rs. 1,600.

Theory Questions**Question 19**

Write shorts notes on:

Trading account

(Study Material)

Answer 19

At the end of the year, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss with the helps to Trading A/c. Gross Profit is the difference between the selling price and the cost of the goods sold.

Practical Questions

Question 20

From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2022 after making the necessary adjustments:

	Rs.		Rs.
Ganguli's capital account (Cr.) as on 1.4.2021	5,40,500	Interest received	7,250
Stock on 1.4.2021	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2021	25,000
Purchases	12,15,500	Furniture as on 1-4-2021	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000

Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2021 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

(1) Value of stock as on 31st March, 2022 is Rs. 3,93,000. This includes goods returned by customers on 31st March, 2022 to the value of Rs. 15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2022 for Rs.10,000.

(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena bank in the books of Ganguli appears as follows:

		Rs.			Rs.
31.3.2022	To Balance c/d	1,00,000	1.4.2021	By Balance b/d	50,000
			1.4.2021	By Bank	50,000
		1,00,000			1,00,000

(5) Sundry debtors include Rs. 20,000 due from Robert and sundry creditors include Rs. 10,000 due to him.

(6) Interest paid include Rs. 3,000 paid to Dena bank.

(7) Interest received represents Rs. 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

(Study Material)

Answer 20

In the books of Ganguli

Trading and Profit & Loss Account for the year ended 31st March,2022

	Rs.	Rs.		Rs.	Rs.
To Opening stock		2,34,000	By Sales	14,48,000	
To Purchases	12,15,500		Less: Returns	(58,000)	13,90,000
Less: Transfer to furniture A/c	(10,000)		By Closing stock		3,93,000
	12,05,500				
Less: Returns	(29,000)	11,76,500			
To Carriage inwards		93,000			
To Gross profit c/d		2,79,500			

		17,83,000			17,83,000
To Salaries		46,500	By Gross profit b/d		2,79,500
To Rent		28,500	By Interest		17,250
To Advertisement		56,000	By Discount received		14,950
To Printing & stationery		17,000			
To Interest		7,500			
To Discount allowed		37,700			
To General expenses		19,600			
To Travelling expenses		11,650			
To Fire insurance premium		3,000			
To Postage & telegrams		4,350			
To Provision for doubtful debts (W.N.I)		4,750			

To Depreciation		1,150			
To Audit fees		3,500			
To Capital A/c (Net profit transferred)		70,500			
		3,11,700			3,11,700

Balance Sheet as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital account:			Furniture	9,000	
Balance on 1st April, 2021	5,40,500		Additions during the year	10,000	
Add: Net profit	70,500			19,000	
	6,11,000		Less: Depreciation	(1,150)	17,850
Less: Drawings	(50,000)	5,61,000	Investments		25,000
Loan from Dena Bank Ltd.		1,00,000	Deposits		1,50,000
Insurance accrued on bank loan (W.N.2)		3,000	Interest accrued on investment & deposits (W.N.3)		10,000
Sundry creditors		64,000	Stock in trade		3,93,000
			Sundry debtors	95,000	

			Less: Provision	(4,750)	90,250
			Cash with Traders Bank Ltd.		40,000
			Cash in hand		1,900
		7,28,000			7,28,000

Working Notes:

1.	Calculation of provision for doubtful debts:	Rs.
	Sundry debtors as per trial balance	1,20,000
	Less: Sales returns not recorded	(15,000)
		1,05,000
	Less: Cancellation against sundry creditors	(10,000)
	Adjusted balance of sundry debtors	95,000
	Provision for doubtful debts @ 5%	4,750
2.	Accrued interest on bank loan:	
	Annual interest @12%	6,000
	Less: Interest paid to Dena bank	(3,000)
	Accrued interest	3,000
3.	Interest accrued on investments and deposits:	
	Annual interest on investments @ 5%	1,250
	Annual interest on deposits @ 10%	15,000

		16,250
	Less: Interest received on investments and deposits	(6,250)
	Accrued interest	10,000

2.		Rs.
(i)	Salaries to be charged to profit and loss account for the year	
	ended 31st March, 2022:	
	Salaries of 8 employees for full year @ Rs. 33,000 per month each	31,68,000
	Salaries of 2 trainees for 6 months @ Rs. 21,000 p.m.	2,52,000
		34,20,000
(ii)	Salaries actually paid in 2021-22	
	March, 2021 salaries paid in April, 2021 (8 x 30,000)	2,40,000

Question 21

Chetan carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 40,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2024	As on 31.3.2025
Cash in Hand	40,000	40,000

Sundry Creditors	1,60,000	360,000
Cash at Bank	2,00,000 (Cr.)	3,20,000
Sundry Debtors	4,00,000	14,00,000
Stock in Trade	11,20,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 28,00,000

(b) Payment for business expenses Rs. 4,80,000

(c) Receipts from debtors Rs. 30,00,000

(d) Loan from Gaurav Rs. 4,00,000 taken on 1.10.2024 at 10% per annum

(e) Cash deposited in the bank Rs. 4,00,000

He informs you that he paid creditors for goods Rs. 80,000 in cash and salaries Rs. 160,000 in cash. He has drawn Rs. 3,20,000 in cash for personal expenses. During the year Chetan had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All the purchases were made on credit basis.

Prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2025.

(ii) Balance Sheet as at 31st March, 2025.

(MTP MAY 2025)

Answer 21

In the books of Chetan

Trading A/c for the year ended 31st March, 2025

	Rs.		Rs.
To Opening stock	11,20,000	By Sales	
To Purchases	30,80,000	Cash	9,60,000
To Gross Profit @ 25%	12,40,000	Credit 40,00,000	49,60,000
		By Closing Stock (bal. fig.)	4,80,000
	54,40,000		54,40,000

Profit and Loss Account

for the year ended 31st March, 2025

	Rs.		Rs.
To Salaries	1,60,000	By Gross Profit	12,40,000
To Business expenses	4,80,000		
To Interest on loan (10% of 4,00,000*6/ 12)	20,000		
To Net Profit	5,80,000		
	12,40,000		12,40,000

Balance Sheet as at 31st March, 2025

Liabilities	Rs.	Rs.	Assets	Rs.
Chetan's capital:			Cash in hand	40,000
Opening	12,00,000		Cash at Bank	3,20,000

Add: Net Profit	5,80,000		Sundry Debtors	14,00,000
	17,80,000		Stock in trade	4,80,000
Less: Drawings	(3,20,000)	14,60,000		
Loan from Gaurav (including interest due)		4,20,000		
Sundry Creditors		3,60,000		
		22,40,000		22,40,000

Working Notes:

1. Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	4,00,000	By Bank A/c	30,00,000
To Credit sales (Bal. fig)	40,00,000	Balance c/d	14,00,000
	44,00,000		44,00,000

2. Sundry Creditors Account

	Rs.		Rs.
To Bank A/c	28,00,000	By Balance b/d	1,60,000
To Cash A/c	80,000	By Purchases (Bal. fig.)	30,80,000
To Balance c/d	3,60,000		
	32,40,000		32,40,000

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	40,000		By Balance b/d		2,00,000
To Sales (bal. fig)	9,60,000		By Bank A/c (C)	4,00,000	
To Cash (C)		4,00,000	By Salaries	1,60,000	
To Debtors		30,00,000	By Creditors	80,000	28,00,000
To Gaurav's loan		4,00,000	By Drawings	3,20,000	
			By Business expenses		4,80,000
			By Balance c/d	40,000	3,20,000
		10,00,000	38,00,000	10,00,000	38,00,000

4. Calculation of Chetan's Capital on 1st April, 2024

Balance Sheet as at 1st April, 2024

Liabilities	Rs.	Assets	Rs.
Chetan's Capital (bal. fig)	12,00,000	Cash in hand	40,000
Bank Overdraft	2,00,000	Sundry Debtors	4,00,000
Sundry Creditors	1,60,000	Stock in trade	11,20,000
	15,60,000		15,60,000

Question 22

The following are the balances as at 31st March, 2025 extracted from the books of Mr. Govind.

	Rs.		Rs.
Plant and Machinery	1,17,300	Bad debts recovered	2,700
Furniture and Fittings	61,500	Salaries	1,35,300
Bank Overdraft	4,80,000	Salaries payable	14,700
Capital Account	3,90,000	Prepaid rent	1,800
Drawings	48,000	Rent	25,800
Purchases	9,60,000	Carriage inward	6,750
Opening Stock	1,93,500	Carriage outward	8,100
Wages	72,990	Sales	12,41,800
Provision for doubtful debts	19,200	Advertisement Expenses	20,100
Provision for Discount on		Printing and Stationery	7,500
Debtors	8,250	Cash in hand	8,700
Sundry Debtors	7,20,000	Cash at bank	18,750
Sundry Creditors	2,85,000	Office Expenses	60,960
Bad debts	6,600	Interest paid on loan	18,000

Additional Information:

1. Purchases include sales return of Rs. 15,450 and sales include purchases return of Rs. 10,350.

2. Goods withdrawn by Mr. Govind for own consumption Rs. 21,000 included in purchases.
 3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
 4. Free samples distributed for publicity costing Rs. 4,950.
 5. Wages paid in the month of April for installation of plant and machinery amounting to Rs. 2,700 were included in wages account.
 6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2025 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.
 7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
- Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2025 and a Balance Sheet as on that date.

(MTP MAY 2025)

Answer 22

Trading and Profit and Loss Account of Mr. Govind
for the year ended 31st March, 2025

		Amount			Amount
	Rs.	Rs.		Rs.	Rs.
To Opening stock		1,93,500	By Sales	12,81,450	

To Purchases	9,18,600		By Less: Sales return	15,450	12,66,000
Less: Purchases return	10,350	9,08,250	By Closing stock Rs. 480,000 × $\frac{100}{80} \times \frac{100}{80}$		750,000
To Carriage inward		6,750			
To Wages		70,290			
To Gross profit c/d		8,37,210			
		20,16,000			20,16,000
To Salaries		1,35,300	By Gross profit b/d		8,37,210
To Rent		25,800	By Bad debts recovered		2,700
To Advertisement expenses		25,050			
To Printing and stationery		7,500			
Bad debts		6,600			

To Carriage outward		8,100			
To Provision for doubtful debts 5% of Rs. 7,20,000	36,000				
Less: Existing provision	19,200	16,800			
To Provision for discount on debtors	17,100				
Less: Existing provision	8,250	8,850			
To Depreciation:					
To Plant and machinery	18,000				
To Furniture and fittings	6,150	24,150			
To Office expenses		60,960			
To Interest on loan		18,000			
To Net profit (Transferred to capital account)		5,02,800			
		8,39,910			8,39,910

Balance Sheet of Mr. Govind as on 31st March, 2025

Liabilities	Rs.	Amount Rs.	Assets	Rs.	Amount Rs.
Capital account	390,000		Plant and machinery	1,20,000	
Add: Net profit	5,02,800		Less: Depreciation	18,000	1,02,000
	8,92,800		Furniture and fittings	61,500	
Less: Drawings	69,000	8,23,800	Less: Depreciation	6,150	55,350
Bank overdraft		480,000	Closing stock		7,50,000
Sundry creditors		285,000	Sundry debtors	720,000	
Payable salaries		14,700	Less: Provision for doubtful debts	36,000	
			Provision for bad debts	17,100	6,66,900
			Prepaid rent		1,800
			Cash in hand		8,700
			Cash at bank		18,750
		16,03,500			16,03,500

Question 23

CATESTSERIES.ORG

Attempt any ONE of the following two sub-parts i.e. either (i) or (ii):

(i) Sam, Sarthak, Sara shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2021 for Rs. 2,00,000, a premium of Rs. 12,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2021	Nil
2022	Rs. 3,600
2023	Rs. 8,000
2024	Rs. 14,400

Sam retired on 15th April, 2025 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2021 to 2025 (assuming the Policy Account is maintained at surrendered value basis).

(MTP MAY 2025)

Answer 23

(i) Joint Life Policy A/c

10th June, 2021	To Bank A/c	12,000	31st Dec., 2021	By Profit and Loss A/c	12,000
10th June, 2022	To Bank A/c	12,000	31st Dec., 2022	By Profit and Loss A/c	8,400
				By Balance c/d	3,600
		12,000			12,000
1st January, 2023	To Balance b/d	3,600	31st Dec., 2023	By Profit and Loss A/c	7,600

10th June, 2023	To Bank A/c	12,000	31st Dec., 2023	By Balance c/d	8,000
		15,600			15,600
1st January, 2024	To Balance b/d	8,000	31st Dec., 2024	By Profit and Loss A/c	5,600
10th June, 2024	To Bank A/c	12,000	31st Dec., 2023	By Balance c/d	14,400
		20,000			20,000
1st January, 2025	To Balance b/d	14,400	15th April, 2025	By Bank	14,400
		14,400			14,400

Question 24

Charu decided to start business of fashion garments under the name of M/s. Bella Wear on 1st April, 2023. She had a saving of about Rs. 10,00,000. She invested Rs. 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for Rs. 5,00,000 and further spent Rs. 1,00,000 on its renovation to make it ready for business.

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

30th June, 2023 - Rs. 15,000 principal+ Rs. 9,000 interest

30th September, 2023 - Rs. 15,000 principal+ Rs. 8,550 interest

31st December, 2023 - Rs. 15,000 principal+ Rs. 8,100 interest

31st March, 2024 -

Rs. 15,000 principal+ Rs. 7,650 interest.

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

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

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

Other Information:

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

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

(iii) Closing stock in hand as on 31st March, 2024: Rs. 5,50,000

Prepare trading account, profit and loss account for the year ended 31st March, 2024 and Balance Sheet as on that date.

(RTP MAY 2025)

Answer 24

In the books of M/s Bella Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2024)

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

Balance Sheet as on 31st March, 2024

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

Working note:

Bank Account

PARTICULARS	Rs.	PARTICULARS	Rs.
To Capital	3,00,000	By Building	6,00,000
To Further capital	2,00,000	By Furniture	10,000
To Bank loan	3,00,000	By Bank loan repaid	60,000
To Sales	20,00,000	By Interest	33,300
		By Security deposit	7,000
		By Drawings	60,000

		By Purchase	17,00,000
		By Telephone charges	50,000
		By Travelling expenses	45,000
		By Maintenance expenses	25,000
		By Entertainment expenses	5,000
		By Electricity expenses paid	40,000
		By Carriage outward	60,000
		By Misc. expenses	15,000
		By Balance c/d	89,700
	28,00,000		28,00,000

Topic 3 Profit and Loss Account

True and False

Question 25

The income statement shows either net profit or net loss for a particular period.

(Study Material)

Ans: True: Profit and loss account shows either net profit or net loss for a particular period.

Question 26

A loss is an expenditure which does not bring any benefit to the concern.

(Study Material)

Ans: True: A loss is an expenditure of the business which does not bring any gain to the business.

Multiple Choice Questions

Question 27

A debit to an account may

- (a) increase expense
- (b) decrease an asset.
- (c) increase a liability.

(Study Material)

Ans: (a) increase expense

Reason:

1. A debit entry increases expenses in accounting. When an expense account is debited, it represents an increase in the expense amount, which reduces net income (i.e., profits).
2. On the other hand, a debit to an asset account increases the asset, and a debit to a liability account decreases the liability. Therefore, the right option is (a).

Question 28

A Company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark up on cost, which will achieve the required profit margin?

(a) 33%

(b) 25%

(c) 20%

(Study Material)

Ans: (b) 25%

Reason:

To achieve a 20% profit margin on selling price, the company needs to mark up its cost by a certain percentage.

Here's how we calculate it:

Profit Margin is calculated as:

$$\text{Profit Margin} = \frac{\text{Profit}}{\text{Selling price}}$$

Given the profit margin is 20%, we can represent this as:

$$\text{Profit Margin} = \frac{S - C}{S} = 0.20$$

Where:

- SSS = Selling Price
- CCC = Cost Price
- Profit = S - CS - CS - C

Now, solving for the selling price SSS in terms of cost CCC:

$$\frac{S - C}{S} = 0.20 \rightarrow S = \frac{C}{1 - 0.20} = \frac{C}{0.80} = 1.25C$$

This means that the selling price S is 1.25 times the cost price.

To find the markup on cost, we use the formula:

$$\text{Markup on Cost} = \frac{S-C}{S} = \frac{1.25C-C}{C} = 0.25 = 25\%$$

Thus, to achieve a 20% profit margin on selling price, the company needs to mark up the cost by 25%.

Theoretical questions

Question 29

Write short notes on:

Closing entries

(Study Material)

Answer 29

Closing entries: The entries that have to be made in the journal for preparing the Trading and the Profit and Loss Account that is for transferring the various accounts to these two accounts are known as closing entries.

Practical Questions

Question 30

Sengupta & Co. employs a team of eight workers who were paid Rs.30,000 per month each in the year ending 31st March, 2021. At the start of financial year 2021-2022, the company raised salaries by 10% to Rs.33,000 per month each.

On October 1, 2021 the company hired two trainees at salary of Rs.21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

(i) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2022.

(ii) Amount actually paid as salaries during 2021-22

(iii) Outstanding Salaries as on 31st March, 2022.

(Study Material)

Answer 31

(i)	Salaries to be charged to profit and loss account for the year	
	ended 31st March, 2022:	
	Salaries of 8 employees for full year @ Rs. 33,000 per month each	31,68,000
	Salaries of 2 trainees for 6 months @ Rs. 21,000 p.m.	2,52,000
		34,20,000
(ii)	Salaries actually paid in 2021-22	
	March, 2021 salaries paid in April, 2021 (8 x 30,000)	2,40,000
	Salaries of 8 employees for April 2021 to March, 2022 paid in	
	May 2021 to March 2022 @ Rs. 33,000 for 11 months	29,04,000
	Salaries of 2 trainees for October 2021 to February 2022 paid in	
	November 2021 to March 2022 @ Rs. 21,000 for 5 months	2,10,000
		33,54,000

(iii)	Outstanding salaries as at 31st March, 2022	
	8 employees @ Rs. 33,000 each for 1 month	2,64,000
	2 trainees @ Rs. 21,000 each for 1 month	42,000
		3,06,000

Topic 4 Balance Sheet

True and False

Question 31

Subscriptions received for the current year shall be shown in the balance sheet as a current asset.

(MTP MAY 2025)

Ans: False: Current year subscription shall be shown in the credit side of the income and expenditure account and not in the Balance Sheet, as it is not a capital item.

Question 32

Where a Non-Profit organization is a separate trading activity, the profit / loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.

(RTP JAN 2025)

Ans: True: Where in case of the trading activities for Non-Profit organization, the profit/loss from such activity is to be transferred to the Income and Expenditure Account at the time of consolidation.

Theory Questions

Question 33

Write shorts notes on:

Balance sheet.

(Study Material)

Answer 33

The balance sheet may be defined as “a statement which sets out the assets and liabilities of a firm or an institution as at a certain date.” Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word “as at.”

Topic 5 Receipts and Payments Account (for Clubs/NGOs)

True and False

Question 34

Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

(MTP JAN 2025)

Ans: True: All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

Question 35

The results and position disclosed by final accounts are not exact.

(RTP JAN 2025)

Ans: True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

Question 36

The firm will receive surrender value of the joint life policy on the death of the partner.

(RTP JAN 2025)

Ans: False: the firm will receive full value of sum assured of the joint life policy on the death of the partner

Question 37

A partnership firm can acquire fixed assets in the name of the firm.

(RTP SEP 2025)

Ans: False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.

Practical Questions

Question 38

The following is the Receipts and payments account of Masters Club for the year ended on 31st March, 2024

Receipts and payments A/c for the year ended on 31st march 2024

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:**1. Following are the assets and liabilities on 31st March, 2023:**

Assets- Sports equipment- Rs. 32,000; Subscription in arrears- Rs. 7,600; furniture- Rs. 12,480

Liabilities- Outstanding Electricity charges- Rs. 5,400; Subscription in advance- Rs. 6,250

2. Following are the assets and liabilities on 31st March, 2024-

Assets- Sports equipment- Rs. 50,500; Subscription in arrears- Rs. 5,200; furniture- Rs. 11,180

Liabilities- Outstanding Electricity charges- Rs. 3,800; Subscription in advance- Rs. 4,850

3. 50% of the entrance fees to be capitalized.

4. Interest on the investments is being received in full, and the investments have been made on 1.4.2022

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2024 in the books of Masters Club.

(RTP JAN 2025)

Answer 38

In the books of Masters Club

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

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		45,850

Balance sheet as at 31st March, 2024

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Opening capital 1,13,880		Sports Equipment	50,500
Less: Deficit (2,550)	1,11,330	Furniture	11,180
Entrance fees	13,000	7% Investments	65,000
Outstanding electricity charges	3,800	Subscription in arrears	5,200
Subscription in advance	4,850	Cash	1,100
	1,32,980		1,32,980

Working notes

$$1. \text{ Investments made} = \frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$$

2. Balance sheet as at 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	1,25,530		1,25,530

3. Calculation of depreciation of Sports equipment

Particulars	Amount (Rs.)
Sports equipment as on 31st, March 2023	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2024	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2024	9,000

Calculation of depreciation of Furniture

Particulars	Amount (Rs.)
Furniture as on 31st, March 2023	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2024	(11,180)
Depreciation on furniture for the year ended 31st, March 2024	1,300

Total Depreciation = Rs. 10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2024

Dr. **Subscription A/c** (year ended on 31st March, 2024) Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Outstanding at the beginning (2023)	7,600	By Advance at the beginning (2023)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000

To Advance at the end (2025)	4,850	By Outstanding at the end (2024)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2024	15,600
Add: Outstanding charges for year 2024	3,800
Less: Outstanding charges for year 2023	(5,400)
Electricity charges to be debited to Income and Expenditure A/c	14,000

Question 39

From the following Receipts and Payments Account of Finance Professionals Club.

Receipts and Payments Account
for the year ended 31st March, 2024

Receipts	Rs.	Payments	Rs.
To Cash in Hand (Opening)	67,500	By Salaries	7,42,500
To cash at Bank (Opening)	18,90,000	By Stationery	1,34,550
To Subscriptions	22,86,000	By Billard Table	8,70,750
To Donations	10,80,000	By Investments	9,29,700
To Interest on Investments	27,000	By Miscellaneous Expenses	1,12,500

To Entrance Fees	2,70,000	By Furniture	18,45,000
To Interest Received from Bank	94,500	By Insurance Premium	40,500
To Sale of Old Newspapers	13,500	By Cash in Hand (Closing)	49,500
By Cash at Bank (Closing)		10,03,500	
57,28,500		57,28,500	

(i) Subscriptions in arrears for the year ended 31st March, 2024- Rs.2,02,500 and Subscriptions received in advance during the year ended 31st March,2024 - Rs.58,500.

(ii) Insurance Premium prepaid is Rs. 4,500.

(iii) The detail with respect to Stationery of Accountants Club is as follows:

	1st April,2023 (Rs.)	31st March,2024 (Rs.)
Stock of Stationery	7,500	45,000
Creditors for Stationery	39,000	60,000
Advance paid for Stationery purchased during the year	---	10,500

Prepare the Income and Expenditure Account for the year ended 31st March, 2024. As per the club rules, donations are to be capitalized and entrance fees is the income of club.

(RTP MAY 2025)

Answer 39

Finance Professionals Club Income and Expenditure Account

for the year ended 31st March, 2024

Expenditure	Rs.	Income	Rs.
To Salaries	7,42,500	By Subscriptions 22,86,000	
To Stationery (WN. 2)	1,07,550	Add: Arrears 2,02,500	
To Miscellaneous Expenses	1,12,500	24,88,500	
To Insurance Premium 40,500	-	Less: Advance (58,500)	24,30,000
Less: Prepaid (4,500)	36,000	By Entrance Fees	2,70,000
To Surplus - Excess of Income over Expenditures	18,36,450	By Interest on Investments	27,000
-		By Interest Received from Bank	94,500
		By Sale of Old Newspapers	13,500
	28,35,000		28,35,000

Working Note:

Computation of consumption of Stationery during the year

1. Creditors for Stationery Account

Particulars	Rs.	Particulars	Rs.
To bank A/c (Paid)	1,34,550	By Balance b/d	39,000
To Balance c/d	60,000	By Stock of Stationery A/c (Balancing Figure)	1,45,050
		By advance paid for	10,500

		stationary purchased	
	1,94,550		1,94,550

2. Stock of Stationery Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	7,500	By Income and Expenditure A/c (Bal. Fig.) (Stationery Consumed)	1,07,550
To Creditors for Stationery A/c (Transfer)	1,45,050	By Balance c/d	45,000
	1,52,550		1,52,550

Topic 6 Adjustments in Final Accounts

Multiple Choice Questions

Question 40

Prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as:

- (a) a liability and a debit balance.
- (b) an asset and a debit balance.
- (c) an asset and a credit balance.

(Study Material)

Ans: (c) an asset and a credit balance.

Reason:

When a company makes a **prepayment** for an insurance premium, it is recognized as an **asset** on the balance sheet, because the company has paid in advance for insurance coverage that will benefit it in future periods.

However, the accounting treatment for **prepaid insurance** often results in **two entries**:

- **In the Balance Sheet:** The prepaid insurance will be listed under **current assets** because it represents a future economic benefit.
- **In the Insurance Account:** When the insurance premium is paid, it is recorded as a **credit balance** in the **Insurance Account**, as this reflects the amount that the company has paid but has not yet "used" or "expired."

This type of transaction is typical for prepaid expenses, which are initially recorded as an **asset** (in the balance sheet) and then gradually expensed over time as the coverage period progresses.

Question 41

Gross profit is the difference between:

- (a) sales and purchases
- (b) sales and cost of sales.
- (c) sales and total expenses

(Study Material)

Ans: (b) sales and cost of sales.

Reason:

Gross Profit is calculated as the difference between sales and cost of sales (which is also referred to as the cost of goods sold or COGS).

It represents the amount left after deducting the direct costs of producing or acquiring the goods sold by the business.

Question 42

Payment made to a creditor subject to cash discount will :

- (a) reduce a liability, reduce an asset and add to expenses.
- (b) reduce a liability, add to an asset, and add to revenue.
- (c) reduce an asset, reduce a liability, and add to revenue.

(Study Material)

Ans: (c) reduce an asset, reduce a liability, and add to revenue.

Reason:

1. When a payment is made to a creditor with a cash discount, the liability (accounts payable) is reduced by the discounted amount.
2. The asset (cash) is also reduced as the payment is made.
3. The discount received is treated as revenue, as it represents income from the reduction in expense.

Question 43

A customer returns goods already charged to him. We should:

- (a) debit his account.

- (b) credit his account.
- (c) make no entry on his account.

(Study Material)

Ans: (b) credit his account.

Reason:

When a customer returns goods, the amount originally charged to them is reduced. To adjust for the returned goods, the seller would credit the customer's account (decreasing the amount owed by the customer). This reflects the reduction in sales due to the return.

Question 44

Capital is the difference between

- (a) Income and expenses
- (b) Sales and Cost of goods sold
- (c) Assets and liabilities

(Study Material)

Ans: (c) Assets and liabilities

Reason:

Capital in a business represents the owner's equity and is calculated as the difference between assets and liabilities. This is based on the accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity (Capital)}$$

So, capital is the net worth or residual interest in the assets after liabilities are deducted.

Question 45

The capital of a sole trader would change as a result of:

- (a) A creditor being paid his account by cheque.
- (b) Raw materials being purchased on credit.
- (c) Wages being paid in cash.

(Study Material)

Ans: (c) Wages being paid in cash.

Reason:

Wages paid in cash will reduce the cash balance (an asset) and reduce the capital of the sole trader because it represents an expense that reduces the owner's equity. It's an outflow of cash from the business and impacts the capital.

Question 46

A decrease in the provision for doubtful debts would result in:

- (a) An increase in liabilities.
- (b) A decrease in working capital.
- (c) An increase in net profit.

(Study Material)

Ans: (c) An increase in net profit.

Reason:

A decrease in the provision for doubtful debts means that less money is being set aside for bad debts, which implies that the business expects to collect more from its receivables. This

results in a reduction in expense (provision for doubtful debts), thereby increasing the net profit.

Question 47

Sales for the year ended 31st March, 2022 amounted to Rs. 10,00,000. Sales included goods sold to Mr. A for Rs. 50,000 at a profit of 20% on cost. Such goods are still lying in the godown at the buyer's risk. Therefore, such goods should be treated as part of

- (a) Sales.
- (b) Closing Inventory.
- (c) Goods in transit.

(Study Material)

Ans: (a) Sales.

Reason:

Even though the goods are still in the godown at the buyer's risk, the sale to Mr. A has been completed from the seller's perspective as the transaction was agreed upon, and the transfer of ownership has occurred. The buyer bears the risk, and thus the goods are considered sold for accounting purposes. Under the accrual basis of accounting, sales are recognized when they are earned, i.e., when the risks and rewards of ownership have transferred to the buyer, which in this case has happened. Therefore, these goods are included in the sales figure, even though they are still in the seller's possession, because the sale transaction has been completed.

The inclusion of the goods in sales ensures the financial statements reflect the earned revenue in the period the transaction occurred, rather than recognizing it later when the goods are physically transferred to the buyer.

Question 48

If sales revenues are Rs. 4,00,000; cost of goods sold is Rs. 3,10,000 and expenses are Rs. 60,000, the gross profit is

- (a) Rs. 30,000.
- (b) Rs. 90,000.
- (c) Rs. 3,40,000.

(Study Material)

Ans: (b) Rs. 90,000.

Reason:

Gross profit is calculated as Sales Revenue - Cost of Goods Sold (COGS).

In this case:

Sales Revenue = Rs. 4,00,000

Cost of Goods Sold (COGS) = Rs. 3,10,000

So, Gross Profit = Sales Revenue - COGS = Rs. 4,00,000 - Rs. 3,10,000 = Rs. 90,000.

The expenses mentioned (Rs. 60,000) are not considered in the gross profit calculation because gross profit is calculated before deducting operating expenses like rent, salaries, etc. These expenses are deducted later to find the Net Profit.

Thus, the correct gross profit is Rs. 90,000.

Theory Questions

Question 49

Distinguish between Provision and reserve fund.

Answer 49

Provision means “any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy”.

Reserve Fund: It signifies the amount standing to the credit of the reserve that is invested outside the business in securities which are readily realisable e.g., when the amounts set apart for replacement of an asset are invested periodically, in government securities or shares. The account to which these amounts are annually credited is described as the Reserve Fund.

Question 50

When Garner V/s Murray rule not applicable incase of dissolution of partnership firm.

(RTP SEP 2025)

Answer 50

Non-Applicability of Garner vs Murray rule:

(i) When the solvent partner has a debit balance in the capital account.

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, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.

Practical Questions

Question 51

You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2022 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	Rs.	Particulars	Rs.
Debit Balance:			
Trade receivables	3,50,000	Salaries	2,20,000
Inventory 1st April, 2021	5,00,000	Purchases	12,50,00
Cash in Hand	5,60,000	Plant and Machinery	15,70,000
Wages	3,00,000	Credit Balance:	
Bad Debts	50,000	Capital	25,00,000
Furniture and Fixtures	1,50,000	Trade payables	9,00,000
Depreciation	1,50,000	Sales	17,00,000

On 31st March, 2022 the Inventory was valued at Rs.10, 00,000.

(Study Material)

Answer 51

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

Particulars	Rs.	Particulars	Rs.
To Opening Inventory	5,00,000	By Sales	17,00,000
To Purchases	12,50,000	By Closing Inventory	10,00,000

To Wages	3,00,000		
To Gross Profit	6,50,000		
	27,00,000		27,00,000
To Bad Debts	50,000	By Gross Profit	6,50,000
To Depreciation	1,50,000		
To Salaries	2,20,000		
To Net Profit transferred. to Capital A/c	2,30,000		
	6,50,000		6,50,000

Balance Sheet as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		9,00,000	Cash in Hand	5,60,000	
Capital:			Trade receivables	3,50,000	
Previous Balance	25,00,000		Closing Inventory	10,00,000	19,10,000
Add : Net Profit	2,30,000	27,30,000	Furniture & Fixtures	1,50,000	
			Plant & Machinery	15,70,000	17,20,000
		36,30,000			36,30,000

Question 52

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2022 has been given below:

On 1.4.2021 he had a balance of Rs. 2,00,000 advance from customers of which Rs. 1,50,000 is related to year 2021-22 while remaining pertains to year 2022-23. During the year 2021-22 he made cash sales of Rs. 5,00,000. You are required to compute:

(i) Total income for the year 2021-22.

(ii) Total money received during the year if the closing balance in advance from customers account is Rs. 1,70,000.

(Study Material)

Answer 52

(i) Computation of Income for the year 2021-22:

	Rs.
Money received during the year related to 2021-22	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2021-22	6,50,000

(ii) Advance from Customers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales A/c	1,50,000	1.4.2021	By Balance b/d	2,00,000
	(Advance related			By Bank A/c	1,20,000
	to current			(Balancing	

	year				
	transferred to sales)			Figure)	
31.3.22	To Balance c/d	1,70,000			
		3,20,000			3,20,000

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	6,20,000

Question 53

Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2022

Particulars	Rs.	Particulars	Rs.
To Cost of Goods Sold	45,00,000	By Sales	C
To Gross Profit c/d	D		
	F		F
To Rent A/c	26,00,000	By Gross Profit b/d	D

To Office Expenses	13,00,000	By Miscellaneous Income	E
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

(Study Material)

Answer 53

A) Computation of Net Profit:

Commission Manager = Rate of Commission X Net Profit before charging such commission

So, Commission to manager = $10/100 \times \text{Net Profit before charging such commission}$

= Rs. 2,00,000 = $10/100 \times \text{Net Profit before charging such commission}$

= Net Profit before charging such commission = Rs. 20,00,000

Net Profit (A) = Rs. (20,00,000 - 2,00,000) = Rs.18,00,000

B) Computation of Selling Expenses:

Total income appearing in P&L A/c = Rs. 60,00,000

Total expenses other than selling expenses = Rs.(26,00,000 + 13,00,000 + 2,00,000)= Rs. 41,00,000

So, Selling Expenses + Remaining Expenses + Net Profit = Total Income

= Selling Expenses = Rs. 60,00,000 -Rs. 41,00,000 - Rs. 18,00,000

= Selling Expenses = Rs. 1,00,000

C) Computation of Sales:

We have been given selling expenses amount to 1% of Sales

$$\text{So, Sales} = \frac{\text{Selling Expenses}}{1} \times 100 = \frac{1,00,000}{1} \times 100 = \text{Rs. } 100,00,000$$

D) Computation of Gross Profit:

Trading A/c

Particulars	Rs.	Particulars	Rs.
To COGS	45,00,000	By Sales (from C above)	100,00,000
To Gross Profit (Balancing Figure)	55,00,000		
Total (F)	100,00,000	Total (F)	100,00,000

So, Gross Profit (D) = Rs. 55,00,000

E) Miscellaneous Income = Total Income in P&L - Gross Profit

$$= \text{Rs. } (60,00,000 - 55,00,000) = \text{Rs. } 5,00,000$$

F) = Rs. 100,00,000 (As computed in D above)

G) = Rs. 60,00,000 (Total of both sides of P&L is equal after balancing has been done)

Question 54

(b) X, Y and Z were partners sharing profit & losses in the ratio of 3:2:1. They decided to dissolve the business as on 31st March, 2025 when their Balance Sheet was as follows:

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c:			Land & Building	19,40,000
X	14,20,000		Machinery	7,52,000
Y	8,80,000		Furniture	4,20,000
Z	5,00,000	28,00,000	Stock	2,23,200
General Reserve		6,00,000	Trade Debtors	6,24,000
Employees Provident Fund		2,40,000	Cash & Bank	1,76,800
Trade Creditors		4,96,000		
		41,36,000		41,36,000

The following information is given to you:

- (i) There was an unrecorded investment which was sold for Rs. 1,20,000.
- (ii) One of the creditors agreed to take over some items of furniture of Book value Rs. 1,00,000 at Rs. 96,000. The rest of the creditors were paid at a discount of 5%.
- (iii) Out of the trade debtors Rs. 36,000 proved bad, remaining were fully realized.
- (iv) The other assets were realised as under:

Land & Building	Rs. 21,00,000

Machinery	Rs. 6,80,000
Furniture	Remaining taken over by X at Rs. 3,00,000
Stock	Rs. 2,40,000

(v) Expenses of dissolution amounted to Rs. 74,800.

(vi) There was an outstanding bill for repairs which had to be paid for Rs. 14,000.

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.

(MTP MAY 2025)

Answer 54

Realisation Account

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To Sundry Assets:			By Creditors		4,96,000
Debtors	6,24,000		By Employee's Provident Fund		240,000
Stock	2,23,200		By Bank A/c:		
Off Furniture	4,20,000		Land and Building	21,00,000	

Machinery	7,52,000		Debtors	588,000	
Land and Building	19,40,000	39,59,200	Stock	240,000	
To Bank-Creditors: (W.No.1)		380,000	Machinery	680,000	
To Bank A/c o/s bill for repairs		14,000	Unrecorded Investment	1,20,000	37,28,000
To Bank A/c (expenses)		74,800	By X's Capital A/C		3,00,000
To Bank (Employee provident Fund)		2,40,000			
To Profit transferred to:					
X's Capital A/c	48,000				
Y's Capital A/c	32,000				
Z's Capital A/c	16,000	96,000			
	47,64,000				47,64,000

Partner's Capital Accounts

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
To Realisation A/c - Furniture	3,00,000			By Bal. b/d	14,20,000	8,80,000	500,000
To Bank	14,68,000	11,12,000	6,16,000	By Gen. Reserve	300,000	2,00,000	1,00,000
				By Realisation Profit	48,000	32,000	16,000
	17,68,000	11,12,000	6,16,000		17,68,000	11,12,000	6,16,000

Cash and Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,76,800	By Realisation A/c:	
To Realisation A/c (Assets realized)	37,28,000	(Liabilities Paid)	7,08,800
		By X's Capital A/c	14,68,000
		By Y's Capital A/c	11,12,000
		By Z's Capital A/c	616,000
	39,04,800		39,04,800

Working Note 1: Payment to Trade Creditors:

Particulars	Amount (Rs.)
Trade creditors as per Balance sheet	496,000
Less: Furniture (Book Value Rs.100,000 accepted at Rs. 96,000)	96,000
	4,00,000
Less: Discount @ 5%	20,000
Amount Paid to Creditors	380,000

Question 55

Alpha and Beta are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2025, following is the Balance Sheet of Alpha and Beta.

Balance Sheet as at 31st March, 2025

Liabilities		(Rs.)	Assets	(Rs.)
Capital accounts			Land and building	7,50,000
Alpha	8,55,000		Office furniture	30,000
Beta	4,65,000	13,20,000	Sundry Debtors	4,80,000
			Stock	6,00,000
General reserve		1,80,000	Bills receivable	90,000
Creditors		11,25,000	Cash in hand	3,45,000
			Cash at bank	3,30,000

	26,25,000		26,25,000

They agreed to take Gama into Partnership on 1st April, 2025 on the following terms:

(i) Goodwill is to be valued at Rs. 6,00,000. Gama is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to Alpha and Beta for their sacrifice in favour of Gama through Gama's current account.

(ii) Gama pays Rs. 4,20,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture to be reduced by 10%.

(iv) A provision @ 5% for doubtful debts to be created on debtors.

(v) Land and building to 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.

(MTP MAY 2025)

Answer 55

Revaluation Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Furniture	3,000	By Land and Building	1,50,000
To Stock	60,000		
To Provision for doubtful debts	24,000		
To Revaluation Profit	63,000		

Alpha ($63,000 \times \frac{3}{4}$) 47,250			
Beta ($63,000 \times \frac{1}{4}$) 15,750			
	1,50,000		1,50,000

Partners' Capital Accounts

	Alpha Rs.	Beta Rs.	Gama Rs.		Alpha Rs.	Beta Rs.	Gama Rs.
To 'Beta's Current A/c (bal fig)	-	1,35,75 0	-	By Balance b/d	8,55,000	4,65,000	-
To Balance c/d	12,60,0 00	4,20,00 0	4,20,00 0	By General reserve	1,35,000	45,000	-
				By Revaluatio n Profit	47,250	15,750	-
				By Bank A/c	-	-	4,20,0 00
				By Gama's Current A/c (Goodwill)	90,000	30,000	-
				By Alpha's Current A/c (bal fig)	1,32,750	-	-

	12,60,000	5,55,750	4,20,000		12,60,000	5,55,750	4,20,000

Working Notes:

1. Calculation of total Capital

Gama's capital contribution of Rs. 4,20,000 consists of 1/5th of capital.

Therefore, total capital of firm should be Rs. 4,20,000 x 5 = Rs. 21,00,000

Hence, Rs. 16,80,000 (21,00,000 - 4,20,000) will be shared by Alpha and Beta in the ratio of 3:1 i.e., Alpha's capital Rs. 12,60,000 and Beta's capital Rs. 4,20,000

2. Calculation of New Profit Sharing ratio

Alpha = $\frac{3}{4} \times \frac{4}{5} = \frac{12}{20} = \frac{3}{5}$

Beta = $\frac{1}{4} \times \frac{4}{5} = \frac{4}{20} = \frac{1}{5}$

Gama = $\frac{1}{5} = \frac{4}{20} = \frac{1}{5}$ or 3: 1: 1

3. Goodwill

Gama's share in Goodwill = 1,20,000 (6,00,000 x 1/5) is adjusted through Gama's Current Account because capitals of old partners are also adjusted on the basis of Gama's Capital.

Therefore, Journal entry for goodwill will be

Gama's Current A/c	Dr. 1,20,000	
To Alpha's Capital A/c		90,000
To Beta's Capital A/c		30,000

Question56

Thomson & Associates. is a partnership firm with partners Tim, Sam and Ben, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2025 is as under:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land	90,000
Tim	7,20,000		Buildings	18,00,000
Sam	1,80,000		Machinery	11,70,000
Ben	2,70,000	11,70,000	Furniture	3,87,000
Reserves			Investments	1,08,000
(un-appropriated profit)		1,80,000	Inventories	11,70,000
Long Term Debt		27,00,000	Trade receivables	12,51,000
Bank Overdraft		3,96,000		
Trade payables		15,30,000		
		59,76,000		59,76,000

It was mutually agreed that Sam will retire from partnership and in his place Dan will be admitted as a partner with effect from 1st April, 2025. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at Rs.9 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and Machinery are to be depreciated by 5% and 20% respectively.

Investments are to be taken over by the retiring partner at Rs.1,35,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be Rs. 18 lakhs which will be contributed by Tim, Ben and Dan in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

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

You are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts; and

(c) Bank account;

(MTP MAY 2025)

Answer 56

(i) Revaluation Account

	Rs.		Rs.
To Buildings A/c	90,000	By Investments A/c	27,000
To Machinery A/c	2,34,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	2,50,200	Tim	2,73,600
		Sam	1,64,160
		Ben	1,09,440
	5,47,200		5,47,200

Partners' Capital Account

Particulars	Tim	Sam	Ben	Tim	Sam	Tim	Sam	Dan	Dan
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
	2,73,600	1,64,160	1,09,440			7,20,000	1,80,000	2,70,000	
		1,35,000				90,000	54,000	36,000	
		2,04,800				90,000	2,70,000		
			1,80,000	1,80,000		93,600		7,03,440	5,40,000
	7,20,000		7,20,000	3,60,000					
	9,93,600	504000	10,09,440	5,40,000			504000	10,09,440	5,40,000

Bank Account

	Rs.		Rs.
To Tim's capital A/c	93,600	By Bank Overdraft A/c	3,96,000
To Ben's capital A/c	7,03,440	By Balance c/d	9,41,040
To Dan's capital A/c	5,40,000		
	13,37,040		13,37,040

Calculation for adjustment of Amount of Goodwill

Partner	Old share	New share	Gain	Sacrifice
Tim	5/10	4/10		1/10
Sam	3/10			3/10
Ben	2/10	4/10	2/10	
Dan		2/10	2/10	

Ben's capital	Dr.	1,80,000	
Dan's capital	Dr.	1,80,000	
To Tim's capital			90,000
To Sam's capital			2,70,000

Question 57

Summary of Receipts and Payments of ABC Society for the year ended 31st March, 2025 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	12,50,000	Payment for Medicine Supply	7,50,000
Donation Raised for meeting revenue expenditure	3,75,000	Honorarium to Doctors	2,50,000
Interest on Investments @ 9% p.a.	225,000	Salaries	7,00,000
		Sundry Expenses	25,000
Charity Show Collection	3,12,500	Equipment Purchase	3,75,000
		Charity Show Expenses	37,500

Additional Information:

Particulars	01.04.2024	31.03.2025
Subscription due	37,500	55,000
Subscription received in advance	30,000	17,500
Stock of medicine	2,50,000	3,75,000
Amount due for medicine supply	2,25,000	3,25,000
Value of equipment	5,25,000	7,50,000
Value of building	12,50,000	12,00,000
	2,00,000	2,25,000

Cash Balance		
Opening Balance of Capital Fund	45,07,500	

You are required to prepare Income and Expenditure Account and Balance Sheet for the year ended 31st March, 2025.

(MTP MAY 2025)

Answer 57

Income and Expenditure Account for the year ending 31st March, 2025

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Medicine		7,25,000	By Subscription		12,80,000
To Honorarium		2,50,000	By Donation		375,000
To Salaries		7,00,000	By Interest on investment		2,25,000
To Sundry expenses		25,000	By Charity show	3,12,500	
To Depreciation			Less: Charity show expenses	(37,500)	2,75,000
Equipment		1,50,000			
Building		50,000			
To Surplus		2,55,000			
		21,55,000			21,55,000

Balance Sheet of ABC society as on 31st March, 2025

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Equipments	5,25,000	
Opening balance	45,07,500		Add: Purchases.	3,75,000	
Add: Surplus	2,55,000	47,62,500		9,00,000	
Adv subscription		17,500	Less: dep. (bal. fig)	(1,50,000)	7,50,000
Creditors (medicine)		3,25,000	Building	12,50,000	
			Less: dep. (bal. fig)	(50,000)	12,00,000
			Investment (Rs. 2,25,000/9%)		25,00,000
			Closing outstanding subscription		55,000
			Closing stock (medicine)		3,75,000
			Cash		225,000
		51,05,000			51,05,000

Working Note:

(i) Subscription for the year ended 31st March, 2025

Particulars	Amount
Subscription Received during the year	12,50,000

Less: Subscription outstanding as on 1st April, 2024	(37,500)
Add: Subscription outstanding as on 31st March, 2025	55,000
Add: Subscription received in advance as on 1st April, 2024	30,000
Less: Subscription received in advance as on 31st March, 2025	(17,500)
Total	12,80,000

(ii) Medicines purchased during the year ended 31st March, 2025

Particulars	Amount
Opening due for medical supply	2,25,000
Less: Payment made during the year	(7,50,000)
Less: Closing due for medical supply	(3,25,000)
Medicines purchased during the year	8,50,000

(iii) Medicines consumed during the year ended 31st March, 2025

Particulars	Amount
Opening stock	2,50,000
Add: Purchase during the year	8,50,000
Less: Closing Stock	(3,75,000)
Medicines consumed during the year	7,25,000

(iv) Depreciation on Equipment

Particulars	Amount

Opening Balance	5,25,000
Add: Purchase during the year	3,75,000
Less: Closing Balance	(7,50,000)
Depreciation for the year	1,50,000

Question 58

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

Balance Sheet as on 31st March, 2023

Liabilities	Rs.	Assets	Rs.
Capital fund	15,86,000	Electrical fittings	3,00,000
Expenses payable	14,000	Furniture	1,00,000
		Books	8,00,000
		Investment in securities	3,00,000
		Cash at bank	50,000
		Cash in hand	50,000
		16,00,000	16,00,000

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

	Rs.		Rs.
To Balance b/d		By Electric charges	14,400

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

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

Membership subscription included Rs. 20,000 received in advance.

Provide for outstanding rent Rs. 8,000 and salaries Rs. 6,000.

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

60% of the entrance fees is to be capitalized.

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

(MTP JAN 2025)

Answer 58

New State Society

Income and Expenditure Account

for the year ended 31st March, 2024

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Electric charges		14,400	By Entrance fee (40% of Rs. 60,000)		24,000
To Postage and stationary		10,000	By Membership subscription	4,00,000	
To Telephone charges	1,76,000	10,000	Less: Received in advance	20,000	3,80,000
To Rent	8,000		By Sale proceeds of old papers		3,000
Add: Outstanding		1,84,000	By Hire of lecture hall		40,000
To Salaries	1,32,000		By Interest on securities (W.N.2)	16,000	
Add: Outstanding	6,000	1,38,000	Add: Receivable	35,000	51,000
To Depreciation (W.N.1)					

Electrical fittings	30,000				
Furniture	10,000				
Books	92,000	1,32,000			
To Excess of Income over Expenditure		9,600			
		4,98,000			4,98,000

Working Notes:

1. Depreciation Rs.

Electrical fittings 10% of Rs. 3,00,000 30,000

Furniture 10% of Rs. 1,00,000 10,000

Books 10% of Rs. 9,20,000 92,000

2. Interest on Securities

Interest @ 15% p.a. on Rs. 3,00,000 for full year 45,000

Interest @ 15% p.a. on Rs. 80,000 for half year 6,000

51,000

Less: Received (16,000)

Receivable 35,000

Question 59

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

Balance Sheet as at 31st March, 2024

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

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

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

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

(c) Rs. 6,000 is to be paid to the executors of the dead partner on 5th April, 2024.

(d) After death of Sumit, Amit and Lalit shares the profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account, Capital Accounts of the partners and Balance Sheet after the death of Sumit.

Answer 59

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

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

(ii) Revaluation Account

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

Partners' Capital Account

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit

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

Balance Sheet M/s Krishna Bros after death of Sumit

Liabilities	Rs.	Assets	Rs.
Capital Amit	24,900	Machinery	35,100
Lalit	24,900	Furniture	13,800
		Fixture	12,600
		Cash (9,000-6,000)	3,000
Sumit's Executors A/c	30,300	Inventories	4,500
Trade payables	14,100	Trade receivables	
		27,000	

		Less: Provision for Doubtful debts	1,800
			25,200
	94,200		94,200

Working Note:

Statement showing the Required Adjustment for Goodwill

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

Question 60

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

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

Details of his bank transactions were as follows:

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

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

(MTP JAN 2025)

Answer 60

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

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

assets (W.N.1)			
To Net profit	14,000		
	65,000		65,000

Working Note:

1. Fixed Assets A/c

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

Question 61

X Limited issued 2,00,000 Equity shares of, 10 each at a premium of 10%, payable Rs. 2 on application; Rs. 4 on allotment (including premium); Rs. 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. P who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 2,000 shares and one another shareholder having 1,000 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. P. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation.

(MTP JAN 2025)

Answer 61

Entry No.	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
1	Bank A/c Dr.		4,00,000	
	To Equity Share Application A/c			4,00,000
	(Money received on applications for 2,00,000 shares @ Rs. 2 per share)			
2	Equity Share Application A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Transfer of application money on 2,00,000 shares to share capital)			
3	Equity Share Allotment A/c Dr.		8,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium A/c			2,00,000
	(Amount due on the allotment of 2,00,000 shares @ Rs. 3 per share and Securities Premium @ Rs.1 per share)			
4	Bank A/c Dr.		800,000	
	To Equity Share Allotment A/c			800,000
	(Allotment money received)			
5	Equity Share First Call A/c Dr.		4,00,000	

	To Equity Share Capital A/c			4,00,000
	(Being first call made due on 2,00,000 shares at Rs. 2 per share)			
6	Bank A/c Dr.		460,000	
	To Equity Share First Call A/c			4,00,000
	To Calls in Advance A/c			60,000
	(Being first call money received along with calls in advance on 20,000 shares at Rs. 3 per share)			
7	Equity Share Final Call A/c Dr.		6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being final call made due on 2,00,000 shares at Rs. 3 each)			
8	Bank A/c Dr.		53,1000	
	Calls in Advance A/c Dr.		60,000	
	Calls in Arrears A/c Dr.		9,000	
	To Equity Share Final Call A/c			6,00,000
	(Being final call received for 1,77,000 shares, calls in advance for 20,000 shares and calls in arrears on 3,000 shares adjusted)			
9	Interest on Calls in Advance A/c Dr.		2,400	

	To Shareholders A/c			2,400
	(Being interest made due on calls in advance of Rs.60,000 at the rate of 12% p.a.)			
10	Shareholders A/c Dr.		2,400	
	To Bank A/c			2,400
	(Being payment of interest made to shareholder)			
11	Shareholders A/c Dr.		150	
	To Interest on Calls in Arrears A/c			150
	(Being interest on calls in arrears made for 2000 shares due at the rate of 10%)			
12	Bank A/c Dr.		6,150	
	To Calls in Arrears A/c			6,000
	To Shareholders A/c			150
	(Being money received from shareholder having 2,000 shares for calls in arrears and interest thereupon)			
13	Shareholders A/c Dr.		100	
	To Interest on Calls in Arrears A/c			100
	(Being interest on calls in arrears made on 1,000 shares due at the rate of 10%)			

14	Bank A/c Dr.		3,100	
	To Calls in Arrears A/c			3,000
	To Shareholders A/c			100
	(Being money received from shareholder having 1,000 share for calls in arrears and interest thereupon)			

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

Interest on Calls in Advance = Rs. 60,000 x 12% x 4 / 12 = Rs. 2,400

Interest on Calls in Arrears Rs. 6,000 x 10% x 3 / 12 = Rs. 150

Interest on Calls in Arrears Rs. 3,000 x 10% x 4 / 12 = Rs. 100

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

Question 62

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

Trial Balance as on 31st March, 2024

Particulars	Rs.	Rs.
Capital		19,50,000
Purchases and Sales	12,90,000	29,10,000
Opening Inventory	3,30,000	

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

Additional information

(i) Inventory as on 31st march,2024 was Rs. 5,40,000.

(ii) Furniture is depreciated at 15% per annum.

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

(MTP JAN 2025)

Answer 62

In the books of Mr. Dilip

Trading Account for the year ended 31st March, 2024

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

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

Particulars	Rs.	Particulars	Rs.
To Depreciation	1,57,500	By Gross profit	16,86,000
To Salaries	6,30,000	By Discount received	27,000
To Administration expenses	4,50,000		

To Discount allowed	57,000		
To Bad debts	15,000		
To Net profit	4,03,500		
	17,13,000		17,13,000

Balance Sheet as at 31st March, 2024

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

Working Note:

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

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

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

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

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

Question 63

(a) Akbar and Bali are partners in a firm sharing profits and losses equally. On 1st April, 2023 the balance of their Capital Accounts were : Akbar Rs. 50,000 and Bali Rs. 40,000. On that date the balances of their Current Accounts were: Akbar Rs. 10,000 (credit) and Bali Rs. 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2023. Bali is to get annual salary of Rs. 3,000 which had not been withdrawn. Drawings of Akbar and Bali during the year were Rs. 1,000 and Rs. 2,000 respectively. The

profit for the year ended 31st March, 2024 before charging interest on capital but after charging Bali salary was Rs. 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2024 and show Capital and Current Accounts of the Partners for the year.

(RTP JAN 2025)

Answer 63

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

	(Rs.)	(Rs.)		(Rs.)
To Salary - Bali		3,000	By Net profit	73,000
To Interest on Capitals:				
Akbar	2,500			
Bali	2,000	4,500		
To Reserve (10% of 65,500)		6,550		
To Partners' current accounts:				
Akbar	29,475			
Bali	29,475	58,950		
		73,000		73,000

Partners' Capital Account

Date		Akbar	Bali	Date		Akbar	Bali

31.03.24	To Balance c/d	50,000	40,000	01.04.23	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Account

Date		Akbar	Bali	Date		Akbar	Bali
01.04.23	To Balance b/d	-	3,000	01.04.23	By Balance b/d	10,000	
31.03.24	To Drawings A/c	1,000	2,000	31.03.24	By Interest on Capital	2,500	2,000
31.03.24	To Balance c/d	40,975	29,475	31.03.24	By Salary		3,000
31.03.24	By Profit and Loss App A/c	29,475	29,475				
		41,975	34,475			41,975	34,475

Note: Profit before charging interest on Capital and Salary to Bali = 70,000+3,000 =73,000

Question 64

Acme & Co. is a partnership firm with partners Mr. X, Mr. Y and Mr. Z, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2024 is as under:

Liabilities	Rs.		Assets	Rs.
Capitals:			Land	30,000
Mr. X	2,40,000		Buildings	6,00,000
Mr. Y	60,000		Plant and machinery	3,90,000
Mr. Z	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		
Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Mr. Y will retire from partnership and in his place Mr. P will be admitted as a partner with effect from 1st April, 2024. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at Rs.3 lakh 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 depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs. 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be Rs. 6 lakhs which will be contributed by Mr. X, Mr. Z and Mr. P in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

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

You are required to prepare

(a) Revaluation account;

(b) Partners capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2024.

(RTP JAN 2025)

Answer 64

Revaluation Account

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Buildings A/c	30,000	By Investments A/c	9,000
To Plant and Machinery A/c	78,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	83,400	X 91,200	
		Y 54,720	
		Z 36,480	1,82,400
	1,91,400		1,91,400

Partners' Capital A/c

Particulars	X	Y	Z	P	Particulars	X	Y	Z	P
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.

To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To X and Y's Capital A/c		-	60,000	60,000	By Z and P's Capital A/c	30,000	90,000	-	-
To Y's Loan A/c		68,280	-	-	By Bank A/c (balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000					
	3,31,200	1,68,000	3,36,480	1,80,000		3,31,200	1,68,000	3,36,480	1,80,000

Bank Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To X's capital A/c	31,200	By Bank overdraft A/c	1,32,000
To Z's capital A/c	2,34,480	By Balance c/d	3,13,680
To P's capital A/c	1,80,000		
	4,45,680		4,45,680

Balance Sheet of Acme & Co.

as at 1st April, 2024

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Land	30,000
X 2,40,000		Buildings	5,70,000
Z 2,40,000		Plant and Machinery	3,12,000
P 1,20,000	6,00,000	Furniture	1,29,000
Long Term Debts	9,00,000	Inventories	3,90,000
Trade payables	5,10,000	Trade receivables	4,17,000
Y's Loan Account	68,280	Less: Provision for Doubtful Debts (83,400)	3,33,600
Balance at Bank	3,13,680		
	20,78,280		20,78,280

Question 65

Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1 : 1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2024:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account:			Premises		1,20,000
Neptune	1,00,000		Furniture		40,000
Jupiter	60,000	1,60,000	Stock		1,00,000

General Reserve		56,000	Debtors		40,000
Capital Reserve		14,000	Bank		8,000
Sundry Creditors		20,000	Capital Overdrawn:		
Mortgage Loan		80,000	Venus	10,000	
			Pluto	12,000	22,000
		3,30,000			3,30,000

(i) The assets were realised as under:

Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

(ii) Expenses of dissolution amounted to Rs. 4,000.

(iii) Further creditors of Rs. 12,000 had to be met.

(iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realisation Account, Partners' Capital Accounts and the Bank Account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray.

(RTP JAN 2025)

Answer 65

Realisation Account

To Sundry assets A/c (transfer):		By Sundry creditors A/c		20,000
		By Mortgage loan		80,000
Premises	1,20,000	By Bank A/c (assets realised):		
Furniture	40,000			
Stock	1,00,000	Premises		90,000
		Furniture		16,000
Sundry Debtors	40,000	Stock		60,000
To Bank A/c (creditors paid)	32,000	Debtors	24,000	1,90,000
To Bank A/c (Mortgage loan)	80,000	By Loss transferred to Capital Accounts:		
To Bank A/c (expenses)	4,000	Neptune		54,000
Jupiter			36,000	
Venus			18,000	
Pluto			18,000	1,26,000
	4,16,000			4,16,000

Bank Account

To Balance b/d		8,000	By Realisation A/c (creditors)	32,000
To Realisation A/c (assets realised)		1,90,000	By Realisation A/c (expenses)	4,000
To Capital A/c(realisation loss made good):			By Mortgage loan	80,000
Neptune	54,000		By Neptune's Capital A/c	1,18,857
Jupiter	36,000		By Jupiter's Capital A/c	73,143
Pluto	18,000	1,08,000		
To Pluto's Capital A/c		2,000		
		3,08,000		3,08,000

Partners' Capital Account

Particulars	Neptune	Jupiter	Venus	Pluto	Particulars	Neptune	Jupiter	Venus	Pluto
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Balance b/d	–	–	10,000	12,000	By Balance b/d	1,00,000	60,000	–	–
To Realisation	54,000	36,000	18,000	18,000	By General	24,000	16,000	8,000	8,000

A/c (loss)					reserve A/c (3 : 2 : 1 :1)				
To Venus's Capital A/c (loss) (W.N.1)	11,143	6,857	–	–	By Capital reserve A/c (3 : 2 : 1 :1)	6,000	4,000	2,000	2,000
To Bank A/c	1,18,8 57	73,143	–	–	By Bank A/c (loss on realization)	54,000	36,000	–	18,00 0
					By Neptune's Capital A/c			11,143	–
					By Jupiter's Capital A/c			6,857	–
					By Bank A/c	–	–	–	2,000
	1,84,0 00	1,16,0 00	28,000	30,00 0		1,84,0 00	1,16,0 00	28,000	30,00 0

W.N. 1: Statement showing distribution of Loss of Venus

Particulars	Neptune	Jupiter

Opening Capital	1,00,000	60,000
General Reserve	24,000	16,000
Capital reserve	6,000	4,000
Total	1,30,000	80,000
Ratio	13	8
Loss of Venus of Rs. 18,000 is to be distributed in the ratio of (13:8)	11,143	6,857

Question 66

Aman, Yaman and Zaman who were sharing profits in the ratio of 3: 2:1 decided to dissolve the firm on 31st March,2024 when their Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Building	1,50,000
Aman 1,80,000		Machinery	90,000
Yaman 1,35,000		Tools	12,000
Zaman 90,000	4,05,000	Car	18,000
Creditors	51,000	Debtors	93,000
		Stock	55,500
		Bank	37,500
	4,56,000		4,56,000

Following transactions took place at the time of dissolution:

Assets realized are :	Rs.
Tools	7,500
Machinery	1,23,000
Building	1,26,000
Car	37,500
Goodwill	90,000
Debtors	88,500

(a) Creditors accepted stock in settlement of their dues.

(b) There was an unrecorded asset valued at Rs. 4,500 which was taken by Aman for Rs.3,000.

(c) There was an old furniture which had been written off from the books. Yaman agreed to take it at Rs. 12,000.

(d) Firm had to pay Rs. 12,000 for outstanding salary which not provided earlier.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

(RTP MAY 2025)

Answer 66

Realisation Account

Particulars			Particulars		
To Sundry Assets – Transfer:			By Creditors		51,000
Debtors	93,000		By bank A/c –		

Stock	55,500		Assets Realised:		
Tools	12,000		Machinery	1,23,000	
Car	18,000		Car	37,500	
Machinery	90,000		Debtors	88,500	
Building	1,50,000	4,18,500	Tools	7,500	
To bank A/c (outstanding Salary)		12,000	Building	1,26,000	
To gain (Profit) on realization transferred to			Goodwill	90,000	4,72,500
Aman's Capital A/c	54,000		By Yaman's Capital A/c (Old Furniture)		12,000
Yaman's Capital A/c	36,000		By Aman's Capital A/c Unrecorded Asset		3,000
Zaman's Capital A/c	18,000	1,08,000			
		5,38,500			5,38,500

Partners Capital Accounts

Particulars	Aman (Rs.)	Yaman (Rs.)	Zaman (Rs.)	Particulars	Aman (Rs.)	Yaman (Rs.)	Zaman (Rs.)

To Realisation A/c	3,000	12,000		By Balance b/d	1,80,000	1,35,000	90,000
To Bank A/c	2,31,000	1,59,000	1,08,000	By Realisation A/c (Gain)	54,000	36,000	18,000
	2,34,000	1,71,000	1,08,000		2,34,000	1,71,000	1,08,000

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	37,500	By Realisation A/c (Outstanding Salary)	12,000
To Realisation A/c	4,72,500	By Aman's Capital A/c	2,31,000
Assets Realised	-	By Yaman's Capital A/c	1,59,000
	-	By Zaman's Capital A/c	1,08,000
	5,10,000		5,10,000

Note: Since the stock is taken over by creditors, no entry is passed for such payment.

Question 67

Agarwal, Samuel and Khan are partners in a firm. On 1st April 2022 their fixed capital stood at Rs. 2,50,000, Rs. 1,25,000 and Rs. 1,25,000 respectively.

As per the provision of partnership deed:

(1) Khan was entitled for a salary of 25,000 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, 2023 of Rs. 1,65,000 and 31st March, 2024 of Rs. 2,25,000 was divided equally without providing for the above adjustments.

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

(RTP MAY 2025)

Answer 67

Particulars	A	B	C	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2022-23, 2023-24)	1,30,000	1,30,000	1,30,000	3,90,000
Amount which should have been credited:				
Khan's Salary (2022-23, 2023-24)			50,000	50,000
Interest on Capital (2022-23, 2023-24)	25,000	12,500	12,500	50,000
Share of Profit	1,45,000	72,500	72,500	2,90,000
	1,70,000	85,000	1,35,000	
Net effect (I-II)	(40,000)	45,000	(5,000)	-

The necessary journal entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Samuel's Current A/c	45,000	
To Agarwal's Current A/c		40,000
To Khan's Current A/c		5,000
(Salary to Khan's, Interest on capital charged and profit shared among partners in the ratio of capital)		

Question 68

Saraswati Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2024 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital A/c	67,500	Furniture & fixtures	15,000
Trade creditors	75,750	Stock	91,500
Outstanding expenses	6,750	Trade debtors	31,200
		Prepaid insurance	300
		Cash in hand & at bank	12,000
	1,50,000		1,50,000

The following was the summary of cash and bank book for the year ended 31st March, 2025:

Receipts	Rs.	Payments	Rs.

To Cash in hand & at Bank on 1st April, 2024	12,000	By payment to trade creditors	12,48,300
To Cash sales	11,07,000	By Sundry expenses	93,105
To amount paid to debtors	2,77,500	By Drawings	36,000
		By Cash in hand & at Bank on 31st March, 2025	19,095
	13,96,500		13,96,500

Additional Information:

1. Discount allowed to trade debtors and received from trade creditors amounted to Rs.5,400 and Rs.4,250 respectively, (for the year ended 31st March, 2025)

2. Annual fire insurance premium of Rs.900 was paid every year on 1st August for the renewal of the policy. These expenses are included in sundry expenses.

3. Furniture & fixtures were subject to depreciation @ 15% p.a. or diminishing balance method.

4. The following are the balances as on 31st March, 2025:

Stock Rs.97,500

Trade debtors Rs.34,300

Outstanding expenses Rs.5,520

5. Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

(RTP MAY 2025)

Answer 68**Trading and Profit and Loss Account****for the year ended 31st March,2025**

Particulars	Rs.	Particulars	Rs.
To Opening stock	91,500	By Sales	
To Purchases (bal fig)	12,59,700	Cash 11,07,000	
		Credit 2,86,000	13,93,000
To Gross Profit @ 10%	1,39,300	By Closing stock	97,500
	14,90,500		14,90,500
To Expenses (WN .2)	90,975	By Gross Profit	1,39,300
To Insurance (WN .3)	900	By Discount Received	4,250
To Discount Allowed	5,400		
To Depreciation	2,250		
To Net profit (bal fig)	44,025		
	1,43,550		1,43,550

Balance Sheet as on 31st March,2025

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital A/c			Furniture	15,000	
Opening balance	67,500		(-) Depreciation	(2,250)	12,750
(+) Profit	44,025		Debtors		34,300

	1,11,525		Stock		97,500
(-) Drawings	(36,000)	75,525	Bank		19,095
Creditors		82,900	Prepaid Insurance		300
Outstanding exp		5,520			
		1,63,945			1,63,945

W. N. 1 Creditors A/c

Particulars	Rs.	Particulars	Rs.
To Bank a/c	12,48,300	By Bal b/d	75,750
To Discount	4,250	By Purchase	12,59,700
To Bal c/d (bal fig)	82,900		
	13,35,450		13,35,450

W.N. 2 Expenses A/c

Particulars	Rs.	Particulars	Rs.
To Bank (93,105-900)	92,205	By Outstanding expenses as per opening balance sheet	6,750
To Payable	5,520	By P&L (bal fig)	90,975
	97,725		97,725

W.N.3 Insurance A/c

Particulars	Rs.	Particulars	Rs.

To Prepaid as per opening Balance Sheet	300	By Prepaid (900*4/12)	300
To Bank	900	By P&L (bal fig)	900
	1,200		1,200

W.N. 4 Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Bal b/d	31,200	By bank	2,77,500
To Credit Sales (Bal fig)	2,86,000	By Discount	5,400
		By Bal c/d	34,300
	3,17,200		3,17,200

Question 69

The following is the Trial Balance of M/s Thomas & Associates on 31st March,2025:

	Dr. Rs.	Cr. Rs.
Capital	-	45,00,000
Drawings	5,25,000	-
Fixed Assets (Opening)	10,50,000	-
Fixed Assets (Additions 01.10.2024)	15,00,000	-
Opening Stock	4,50,000	-
Purchases	1,20,00,000	-

Purchases Returns	-	5,17,500
Sales	-	1,65,00,000
Sales Returns	7,42,500	-
Debtors	18,75,000	-
Creditors	-	16,50,000
Expenses	4,80,000	-
Fixed Deposit with Bank	15,00,000	-
Interest on Fixed Deposit	-	1,50,000
Bank Overdraft	-	60,000
Suspense A/c	-	15,000
Rent (17 months upto 31.8.2025)	1,27,500	-
Investments 12% (01.8.2024)	18,75,000	-
Bank Balance	12,67,500	-
	2,33,92,500	2,33,92,500

Stock on 31st March,2025 was valued at Rs. 7,50,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

(i) Rs. 1,50,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn Rs. 90,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth Rs. 1,20,000 was not recorded in the books of account upto 31.03.2025, but the goods were included in stock.

(iii) Purchase returns of Rs. 7,500 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include Rs. 45,000 in respect of the period after 31st March, 2025.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2025.

(RTP SEP 2025)

Answer 69

Journal Entries

	Particulars	Dr. (Rs.)	Cr. (Rs.)
(i)	Expenses A/c Dr.	90,000	
	To Drawings		90,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)		
(ii)	Purchase A/c Dr.	3,45,000	
	To Creditors		3,45,000
	(Entry for purchases not recorded)		
(iii)	Suspense A/c Dr.	15,000	
	To Purchase Returns		15,000
	To Sales Returns		7,500
	(Rectification entry for amount wrongly entered in Sales Journal)		

(iv)	Prepaid Expenses A/c Dr.	45,000	
	To Expenses		45,000
	(Prepaid expenses adjusted)		

Trading, Profit and Loss Account of M/s Thomas & Associates

for the year ending 31st March, 2025

	(Rs.)	(Rs.)		(Rs.)	(Rs.)
To Opening Stock		4,50,000	By Sales	1,65,00,000	
To Purchases	1,20,00,000		Less: Sales Return (7,42,500–7,500)	7,35,000	1,57,65,000
Add: Amount not recorded	1,20,000		By Closing Stock		7,50,000
	1,21,20,000				
Less: Purchases Returns					
(5,17,500+7,500)	5,25,000	1,15,95,000			
To Gross Profit c/f		44,70,000			

		1,65,15,000			1,65,15,000
To Expenses (4,80,000 – 45,000 + 90,000)		5,25,000	By Gross Profit		44,70,000
To Rent (1,27,500 – 37,500)		90,000	By Interest on Fixed Deposit		1,50,000
To Depreciation $(15,00,000 \times \frac{100}{100} \times \frac{6}{12})$	1,05,000		By Interest on Investments $(18,75,000 \times \frac{12}{100} \times \frac{8}{12})$		1,50,000
Add: Further Depreciation	75,000	1,80,000			
To Net Profit		39,75,000			
		47,70,000			47,70,000

Balance Sheet as on 31st March, 2025

Liabilities		Rs.	Assets		Rs.
Capital	45,00,000		Fixed Assets	10,50,000	
Add: Net Profit	39,75,000		Additions	15,00,000	
Less: Drawings				25,50,000	
(5,25,000 – 90,000)	(4,35,000)	80,40,000	Less: Depreciation	(1,80,000)	23,70,000

Creditors	16,50,000		Stock		7,50,000
Add: Purchases not recorded	1,20,000	17,70,000	Debtors		18,75,000
Overdraft		60,000	Investments		18,75,000
			Interest accrued		1,50,000
			Bank fixed deposit		15,00,000
			Prepaid Expenses (45,000+37,500)		82,500
			Bank		12,67,500
		98,70,000			98,70,000

Question 70

Dr. Malik started private practice on 1st April, 2024 with Rs. 8,00,000 of his own fund and Rs. 12,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	Rs.	Payments	Rs.
Own Capital	8,00,000	Medicines Purchased	9,80,000
Loan	12,00,000	Surgical Equipment	10,00,000
Prescription Fees	26,40,000	Motor Car	12,80,000

Visiting Fees	10,00,000	Motor Car Expenses	4,80,000
Lecture Fees	96,000	Wages and Salaries	4,20,000
Pension Received	12,00,000	Rent of Clinic	2,40,000
General Charges	1,96,000		
Household Expenses	7,20,000		
Household Furniture	1,00,000		
Expenses on Daughter's Marriage	8,60,000		
Interest on Loan	1,44,000		
Balance at Bank	4,40,000		
Cash in Hand	76,000		
	69,36,000		69,36,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and Rs. 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2025 was valued at Rs. 3,80,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2025. Ignore depreciation on fixed assets

(RTP SEP 2025)

Answer 70

Income and Expenditure Account

for the year ended 31st March, 2025

	Rs.		Rs.
To Medicines consumed		By Prescription fees	26,40,000
Purchases 9,80,000		By Visiting fees	10,00,000
Less: Stock on 31.3.25 (3,80,000)	6,00,000	By Fees from lectures	96,000
To Motor car expense	3,20,000		
To Wages and salaries (4,20,000 – 1,20,000)	3,00,000		
To Rent for clinic	2,40,000		
To General charges	1,96,000		
To Interest on loan	1,44,000		
To Net Income	19,36,000		
	37,36,000		37,36,000

Capital Account
for the year ended 31st March, 2025

	Rs.		Rs.
To Drawings:		By Cash/bank	8,00,000
Motor car expenses	1,60,000	By Cash/ bank (pension)	12,00,000
(one-third of Rs. 4,80,000) Household expenses	7,20,000	By Net income from practice (derived from income and expenditure	19,36,000

		A/c)	
Daughter's marriage exp.	8,60,000		
Wages of domestic servants	1,20,000		
Household furniture	1,00,000		
To Balance c/d	19,76,000		
	39,36,000		39,36,000

Question 71

On 31st March, 2025, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Land and Building	75,000
Mr. P	50,000	Plant and Machinery	50,000
Mr. Q	75,000	Stock of goods	30,000
Mr. R	50,000	Sundry debtors	27,500
Sundry Creditors	25,000	Cash and Bank Balances	17,500
	2,00,000		2,00,000

On 1st April, 2025, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

- (i) Land and Building be appreciated by 20%.
- (ii) Plant and Machinery be depreciated by 30%.
- (iii) Stock of goods to be valued at Rs.25,000.
- (iv) Old credit balances of Sundry creditors, Rs.5,000 to be written back.
- (v) Provisions for bad debts should be provided at 5%.
- (vi) Joint life policy of the partners surrendered and cash obtained Rs. 18,875.
- (vii) Goodwill of the entire firm is valued at Rs.35,000 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 and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2025.

(RTP SEP 2025)

Answer 72

(a) Revaluation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2025			2025		
April	To Plant & Machinery	15,000	April	By Land and building	15,000

	To Stock of goods	5,000		By Sundry creditors	5,000
	To Provision for bad and doubtful debts	1,375		By Cash & Bank - Joint life Policy surrendered	18,875
	To Capital accounts (profit on revaluation transferred)				
	Mr. P (2/7) 5,000				
	Mr. Q (3/7) 7,500				
	Mr. R (2/7) 5,000	17,500			
		38,875			38,875

(b) Partners' Capital Accounts

Dr.				Cr.			
Particulars	P	Q	R	Particulars	P	Q	R
	(Rs.)	(Rs.)	(Rs.)		(Rs.)	(Rs.)	(Rs.)
To P's Capital A/c - goodwill	-	2,500	7,500	By Balance b/d	50,000	75,000	50,000
To Cash & bank A/c - (50% dues paid)	32,500	-	-	By Revaluation A/c	5,000	7,500	5,000
To P's Loan A/c - (50% transfer)	32,500	-	-	By Q & R's Capital A/cs -	10,000	-	-

				goodwill			
To Balance c/d	-	87,500	87,500	By Cash & bank A/c - amount brought in (Balancing figures)	-	7,500	40,000
	65,000	90,000	95,000		65,000	90,000	95,000
	0	0	0				

(c) Cash and Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	17,500	By P's Capital A/c - 50% dues paid	32,500
To Revaluation A/c – surrender value of joint life policy	18,875	By Balance b/d	51,375
To Q's Capital A/c	7,500		
To R's Capital A/c	40,000		
	83,875		83,875

(d) Balance Sheet of M/s Q & R as on 01.04.2025

Liabilities		Rs.	Assets		Rs.
Partners' Capital account			Land and Building	75,000	
Mr. Q	87,500		Add:	15,000	90,000

			Appreciation 20%		
Mr. R	87,500	175,000	Plant & Machinery	50,000	
Mr. P's Loan account		32,500	Less: Depreciation 30%	15,000	35,000
Sundry Creditors		20,000	Stock of goods	30,000	
			Less: revalued	5,000	25,000
			Sundry Debtors	27,500	
			Less: Provision for bad debts 5%	1,375	26,125
			Cash & Bank balances		51,375
		227,500			227,500

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	35,000
Mr. P's Share (2/7)	10,000
Gaining ratio of Q & R;	
$Q = \frac{1}{2} - \frac{3}{7} = \frac{1}{14}$	

$R = \frac{1}{2} - \frac{2}{7} = \frac{3}{14}$	
$Q:R = 1:3$	

Therefore, Q will bear = $\frac{1}{4} \times 10,000 = \text{Rs.}2,500$

R will bear = $\frac{3}{4} \times 10,000 = \text{Rs.}7,500$



CHAPTER 7
PREPARATION OF FINAL ACCOUNTS OF SOLE
PROPRIETORS
UNIT – 2 FINAL ACCOUNTS OF MANUFACTURING
ENTITIES

Topic 1 Basic Concepts of Manufacturing Account

True and False

Question 1

By-products valued at cost or net realisable value whichever is lower.

(Study Material)

Ans: False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.

Question 2

The manufacturing account is prepared to ascertain the profit or loss on the goods produced.

(Study Material)

Ans: False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

Question 3

If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.

(Study Material)

Ans: True: Manufacturing account deals with the raw material and work in progress.

Question 4

Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.

(Study Material)

Ans: True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.

Question 5

Overhead is defined as total cost of direct material, direct wages and direct expenses.

(Study Material)

Ans: False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

Question 6

Manufacturing A/c is prepared by an enterprise engaged in trading activities.

(Study Material)

Ans: False: Manufacturing A/c is prepared by the entities engaged in manufacturing activities.

Multiple Choice Questions

Question 7

Sale value of the by-product is credited to

- (a) Manufacturing account.
- (b) Capital account.
- (c) Overheads account.
- (d) Trading account.

(Study Material)

Ans: (a) Manufacturing account.

Reason:

The sale value of the by-product is credited to the Manufacturing Account. This is because the by-product is produced as part of the manufacturing process, and its sale proceeds are considered as part of the total cost reduction in the production process. By crediting the sale value of the by-product to the manufacturing account, it reduces the overall cost of production of the main product. This reflects the income generated from the by-product within the same account that tracks the costs of manufacturing.

Question 8

Manufacturing account shows

- (a) Total cost of manufacturing the finished products.
- (b) It provides details of factory cost.
- (c) It facilitates reconciliation of financial books with cost records.
- (d) All the three.

(Study Material)

Ans: (d) All the three.

Reason:

The Manufacturing Account serves multiple purposes:

1. Total cost of manufacturing the finished products: It includes the direct materials, direct labor, and overheads incurred to manufacture the products.
2. Factory cost details: The account provides detailed information about the costs incurred in the factory, such as direct materials, direct labor, and factory overheads.
3. Reconciliation of financial books with cost records: It helps in reconciling the accounting records with the cost records by providing a clear breakdown of manufacturing costs.

Thus, all the three functions are served by the manufacturing account, which is why (d) All the three is the correct answer.

Topic 2 Preparation of Manufacturing Account

True and False

Question 9

Company X Ltd. is incurring huge losses; the Board of Directors are of the opinion that in case of losses, there is no need to pay interest to debenture holders.

(RTP JAN 2025)

Ans: False: Even if the company incurs losses, it has to pay interest on debentures. Debenture being debts on the company & debenture holders are not concerned with the profit or loss of the company, the interest is to be paid at the rate fixed on it at the time of issue of debenture.

Question 10

A person holding preference shares of a company cannot hold equity shares of the same company.

(RTP MAY 2025)

Ans: False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

Question 11

A Company is not allowed to issue shares at a discount to the public in general.

(RTP MAY 2025)

Ans: True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

Multiple Choice Questions

Question 12

Under-statement of closing work in progress in the period will

- (a) Understate cost of goods manufactured in that period.
- (b) Overstate current assets.
- (c) Understate net income in that period.
- (d) None of the three.

(Study Material)

Ans: (c) Understate net income in that period.

Reason:

When closing work in progress (WIP) is understated, it means that the value of goods still in production is not fully accounted for. As a result, the cost of goods manufactured will be understated because the unsold portion of goods is not included in the calculation. This leads to a higher cost of goods sold, which in turn understates net income for the period. Essentially, by not including the proper value of the WIP, the expenses appear higher, reducing the net income for that period.

Question 13

Sales is equal to

- (a) Cost of goods sold – Gross profit.
- (b) Cost of goods sold + Gross profit.
- (c) Gross profit – Cost of goods sold.

(d) Net profit + cost of goods sold.

(Study Material)

Ans: (b) Cost of goods sold + Gross profit

Reason:

The relationship between Sales, Cost of Goods Sold (COGS), and Gross Profit is:

$\text{Sales} = \text{Cost of Goods Sold (COGS)} + \text{Gross Profit}$

This is because Gross Profit is calculated by subtracting the Cost of Goods Sold from Sales.
Rearranging the equation gives:

$\text{Sales} = \text{COGS} + \text{Gross Profit}$

Thus, the correct answer is (b).

Question 14

Indirect Manufacturing expenses are also called

(a) Manufacturing overhead.

(b) Production overhead.

(c) Works overhead.

(d) All the three.

(Study Material)

Ans: (d) All the three.

Reason:

Indirect manufacturing expenses are the costs that cannot be directly traced to the

production of specific goods but are necessary for the production process. These are also referred to by various terms:

- **Manufacturing overhead:** This term encompasses all indirect costs associated with the production process.
- **Production overhead:** This term is used synonymously with manufacturing overhead to refer to indirect costs related to production.
- **Works overhead:** This is another term used to describe the overhead costs incurred in the factory or works related to manufacturing.

Since all these terms refer to the same concept, the correct answer is (d) All the three.

Topic 3 Relationship Between Manufacturing A/c, Trading A/c & P&L A/c

True and False

Question 15

The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.

(Study Material)

Ans: False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.

Theoretical Questions

Question 16

Write short note on by-products.

(Study Material)

Answer 16

By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realisable value**, if their costs cannot be separately identified. It is often treated, as “Miscellaneous income” but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

Question 17

Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses.

(Study Material)

Answer 17

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

For detail,

DIRECT MANUFACTURING EXPENSES

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

When royalty or hire charges are based on units produced, these expenses directly vary with production.

INDIRECT MANUFACTURING EXPENSES

Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and machinery, factory shed, etc.

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses of the manufacturing division.

Practical Questions

Question 18

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2022.

			Rs.
W.I.P.	- Opening		3,90,000

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

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2022.

Answer 18

In the Books of Mr. Pankaj

Manufacturing Account for the year ended on March 31,2022

Particulars		Amount	Particulars	Amount
	Rs.	Rs.		Rs.
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By by products	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished	
	15,12,000		goods transferred	
Less: Return	(18,000)			
	14,94,000			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				

Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Depreciation on Factory Shed	40,000			
Depreciation on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

Question 19

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2021-22. There are certain figures missing from these accounts.

Raw Material A/c

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.

	To Opening Stock A/c	1,00,000		By Raw Material Consumed	
	To Creditors A/c			By Closing Stock A/c	

Creditors A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Raw Material Consumed		By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

- 1) Purchase of machinery worth Rs. 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.

2) Wages include the following

Paid to Factory Workers - Rs. 3,00,000

Paid to labour at office - Rs. 50,000

3) Direct Expenses include following:

a) Electricity charges of Rs. 80,000 of which 30% pertained to office.

b) Fuel Charges of Rs. 20,000

c) Freight Inwards of Rs. 35,000

d) Delivery charges to customers - Rs. 20,000.

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

(Study Material)

Answer 19

Particulars	Amount Rs.	Particulars	Amount Rs.
To Raw Material Consumed (Balancing Figure)	10,00,000	By Trading A/c (W.N. 4)	18,00,000
To Wages (W.N. 2)	3,00,000		
To Depreciation (W.N. 1)	3,00,000		
To Direct Expenses (W.N. 3)	2,00,000		
	18,00,000		18,00,000

Raw Material A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Opening Stock A/c	1,00,000		By RawMaterial Consumed (from Trading A/c above)	10,00,000
	To Creditors A/c (W.N. 5)	13,00,000		By Closing Stock A/c (Balancing Figure)	4,00,000
		14,00,000			14,00,000

Working Notes:

1) Since purchase of Machinery worth Rs. 10,00,000 has been omitted

So, depreciation omitted from being charged = Rs. 10,00,000 X 10%

= Rs.1,00,000

Correct total depreciation expense = Rs. (2,00,000 + 1,00,000)

= Rs. 3,00,000

2) Wages worth Rs. 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c.

3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 30%)	24,000
Delivery Charges to Customers	20,000

Total expenses not part of Direct Expenses	44,000
=> Revised Direct Expenses	= Rs. (2,44,000 - 44,000) = Rs. 2,00,000

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

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

Particulars	Amount Rs.
Current Balance transferred	17,94,000
Add: Depreciation charges not recorded earlier	1,00,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(44,000)
Revised balance to be transferred	18,00,000

5) Creditors A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000		By Raw Materials A/c (Bal. figure)	13,00,000

		28,00,000			28,00,000

Question 20

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2022:

Trial Balance as on 31st March 2022

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000
Cash at Bank	5,000		

Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Interest Paid	7,000		

Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		12,54,000

Additional Information

Stock of finished goods at the end of the year Rs.1,00,000.

A provision for doubtful debts is to be created. at 5% on Sundry Debtors. Depreciation on building Rs. 1,000 and Rs. 3,000 on Plant & Machinery to be provided.

Accrued commission of Rs. 12,500 is to be received for the year. Interest has accrued on investment Rs. 15,000.

Salary Outstanding Rs. 2,000 and Prepaid Interest Rs. 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2022.



(Study Material)

Answer 20

In the books of Mr. Pandit

Manufacturing Account for the year ended 31st March, 2022

Particulars		Rs.	Particulars	Rs.
To Opening Stock of Raw Materials		1,50,000	By Cost of Manufactured goods transferred to	8,08,000

To Purchase	5,00,000		Trading A/c	
Less: Purchase Return	5,000	4,95,000		
To Carriage Inwards		15,000		
To Direct Wages		80,000		
To Power		30,000		
To Coal and fuel		15,000		
To Factory Rent and Rates		20,000		
To Depreciation on Machinery		3,000		
		8,08,000		8,08,000

Trading Account for the year ended 31st March, 2022

Particulars	Rs.	Particulars		Rs.
To Opening Stock of finished goods	75,000	By Sales	8,50,000	
To Cost of goods transferred from Manufacturing A/c	8,08,000	Less: Sales Return	10,000	8,40,000
		By Closing Stock		1,00,000
To Gross Profit c/d	57,000			
	9,40,000			9,40,000

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

Particulars		Rs.	Particulars	Rs.
To Carriage Outward		7,000	By Gross Profit b/d	57,000
To Discount Allowed		3,000	By Accrued Commission	12,500
To Commission Paid		9,000	By Accrued Interest	15,000
To General Expenses		4,000		
To Advertisement		5,000		
To Salaries	20,000			
Add: Outstanding	2,000	22,000		
To Interest Paid	7,000			
Less: Prepaid	1,500	5,500		
To Provision for Bad & Doubtful Debts	2,000			
Add: Bad Debts	4,000			
Less: Old Provision for Doubtful Debts	2,000	4,000		
To Depreciation on Building		1,000		
To Net Profit c/d		24,000		

		84,500		84,500

Balance Sheet as at 31st March, 2022

Capital and Liabilities		Rs.	Assets		Rs.
Capital	1,00,000		Plant & Machinery	30,000	
Add: Net Profit	24,000		Less: Depreciation	3,000	27,000
	1,24,000		Land & Building	1,00,000	
Less: Drawings	20,000	1,04,000	Less: Depreciation	1,000	99,000
Bills Payable		24,000	Furniture & Fixtures		15,000
Sundry Creditors		50,000	Investments		25,000
Salary Outstanding		2,000	Closing Stock		1,00,000
Long-Term Loans		2,00,000	Loose Tools		30,000
Bank Overdraft		23,000	Sundry Debtors	40,000	
			Less: Provision for Bad & Doubtful Debts	2,000	38,000
			Bills Receivable		15,000

			Accrued Commission		12,500
			Accrued Interest		15,000
			Prepaid Interest		1,500
			Cash in Hand		20,000
			Cash at Bank		5,000
		4,03,000			4,03,000

Topic 4 Practical Adjustments in Manufacturing Account

Practical Questions

Question 21

On 31st March, 2025 the Trial Balance of Mr. Black was as follows:

Particulars	Debit (Rs.)	Particulars	Credit (Rs.)
Stock on 1st April, 2024		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000

Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
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,2025 were:

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

Salaries and wages unpaid for the year ended 31st March,2025 were Rs. 9,000 and Rs. 20,000 respectively. 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,2025.

(MTP MAY 2025)

Answer 21

In the books of Mr. Black

Manufacturing Account for the year ended 31st March, 2025

Particulars		Rs.	Particulars	Rs.
Raw material consumed:			By Closing Stock of Work in Progress	78,000
To Opening Stock of Raw	2,10,000		By Sale of Scrap	25,000

Materials				
Add: Purchases	8,50,000		By Cost of goods Manufactured (Transferred to Trading Account)	11,20,000
Less: Closing Stock	1,62,000	8,98,000		
To Opening Stock of WIP		95,000		
To Wages	1,30,000			
Add: Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
		12,23,000		12,23,000

Trading Account for the year ended 31st March, 2025

Particulars	Rs.	Particulars	Rs.
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000

To Cost of goods transferred from Manufacturing A/c	11,20,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,78,000		
	18,53,000		18,53,000

Profit and Loss Account for the year ended 31st March, 2025

Particulars		Rs.	Particulars	Rs.
To Salaries	1,00,000		By Gross Profit b/d	5,78,000
Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts		16,500		
To Net Profit		4,09,000		

	5,82,500		5,82,500

Question 22

Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2025

	Rs.
Authorised capital:	
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2025, the Company has made final call @ Rs. 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2025. 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 journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2025 after bonus issue.

(MTP MAY 2025)

Answer 22

Journal Entries in the books of Manoj Ltd.

1-4-2025	Equity share final call A/c Dr.	5,40,000	
	To Equity share capital A/c		5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)		
20-4-2025	Bank A/c Dr.	5,40,000	
	To Equity share final call A/c		5,40,000
	(For final call money on 2,70,000 equity shares received)		
	Securities Premium A/c Dr.	75,000	
	Capital redemption Reserve A/c Dr.	1,20,000	

	General Reserve A/c Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	1,20,000	
	To Bonus to shareholders A/c		6,75,000
	(For making provision for bonus issue of one share for every four shares held)		
	Bonus to shareholders A/c Dr.	6,75,000	
	To Equity share capital A/c		6,75,000
	(For issue of bonus shares)		

Extract of Balance Sheet as at 30th April, 2025 (after bonus issue)

		Rs.
Authorised Capital		
30,000 12% Preference shares of Rs. 10 each		3,00,000
3,37,500 Equity shares of Rs.10 each (refer W.N.)		33,75,000
Issued and subscribed capital		
24,000 12% Preference shares of Rs. 10 each, fully paid		2,40,000
3,37,500 Equity shares of Rs. 10 each, fully paid		33,75,000

(Out of the above, 67,500 equity shares @ Rs. 10 each were issued by way of bonus shares)		
Reserves and surplus		
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	(1,20,000)	
Securities premium	75,000	NIL
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	(1,20,000)	4,80,000

Working Note:

1. Number of bonus shares to be issued- $2,70,000/4 \times 1 = 67,500$ shares
2. The authorised capital should be increased as per details given below:

	Rs.
Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	6,75,000
	33,75,000

Question 23

Lol Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2025:

Particulars	Rs.
Shareholder's Funds	
(a) Share Capital	
Authorized Share Capital:	
90,000 equity shares of Rs. 10 each fully paid	9,00,000
Issued and subscribed share capital:	
60,000 equity shares of Rs. 10 each fully paid	6,00,000
(b) Reserves and Surplus	
Profit & Loss Account	3,24,000
Debenture Redemption Reserve	36,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	3,60,000
Current Liabilities	
(a) Trade payables	3,45,000

Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	3,45,000
(b) Non-current Investment: DRR Investment	54,000
Current assets	
(a) Inventories	4,05,000
(b) Trade receivables	2,25,000
(c) Cash and bank balances:	
Cash at bank	5,46,000
Cash in hand	90,000

At the Annual General Meeting on 1.4.2025, it was resolved:

(a) To give existing shareholders the option to purchase one Rs. 10 share at Rs. 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing Book value.

Give the necessary journal entries for these transactions

(MTP MAY 2025)

Answer 23

Journal Entries in the Books of Lol Ltd.

	Dr. Rs.	Cr. Rs.
Bank A/c Dr.	2,25,000	
To Equity Shareholders A/c		2,25,000
(Application money received on 15000 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)		
Equity Shareholders A/c Dr.	2,25,000	
To Equity Share Capital A/c		1,50,000
To Securities Premium A/c		75,000
(Share application money on 15,000 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated...)		
Securities Premium A/c Dr.	75,000	
Profit & Loss A/c Dr.	75,000	
To Bonus to Shareholders A/c		1,50,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)		

Bonus to Shareholders A/c Dr.	1,50,000	
To Equity Share Capital A/c		1,50,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....)		
12% Debentures A/c Dr.	3,60,000	
Premium Payable on Redemption A/c Dr.	10,800	
To Debenture holders A/c		3,70,800
(Amount payable to debentures holders)		
Profit and loss A/c Dr.	10,800	
To Premium Payable on Redemption A/c		10,800
(Premium payable on redemption of debentures charged to Profit & Loss A/c)		
Debenture Redemption Reserve A/c Dr.	36,000	
To General Reserve		36,000
(For DRR transferred to general reserve)		
Bank A/c Dr.	54,000	

To Debenture Redemption Reserve Investment		54,000
(for DRR Investment realised)		
Debenture holders A/c Dr.	3,70,800	
To Bank A/c		3,70,800
(Amount paid to debenture holders on redemption)		

* In the absence of details of the term of debentures (redemption period), the entire redemption premium was charged to profit & loss A/c of the year

Question 24

Riya Closet Ltd invited applications for issuing 10,000 Equity Shares of Rs. 10 each. The amount was payable as follows:

On Application Rs. 1 per share

On Allotment Rs. 2 per share

On First call Rs. 3 per share

On Second and final Call Rs. 4 per share

The issue was fully subscribed. Meena to whom 100 shares were allotted, failed to pay the allotment money and her shares were forfeited immediately after the allotment. Seema to whom 150 shares were allotted, failed to pay the first call. Her 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. Her shares were also forfeited. All the forfeited shares were re-issued at Rs. 9 per share fully paid-up.

Pass necessary Journal entries in the books of Riya Closet Ltd.

(MTP MAY 2025)

Answer 24

In the books of Riya Closet Ltd.

Journal Entries

Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
Bank A/c Dr.		10,000	
To Equity Share Application A/c			10,000
(Money received on applications for 10,000 shares @ Rs. 1 per share)			
Equity Share Application A/c Dr.		10,000	
To Equity Share Capital A/c			10,000
(Transfer of application money on 10,000 shares to share capital)			
Equity Share Allotment A/c Dr.		20,000	
To Equity Share Capital A/c			20,000
(Amount due on the allotment of 10,000 shares @ Rs. 2 per share)			

Bank A/c Dr.		19,800	
To Equity Share Allotment A/c			19,800
(Allotment money received on 9,900 Dr. shares)			
OR			
Bank A/c Dr.		19,800	
Calls in arrears A/c		200	
To Equity Share Allotment A/c (Allotment Amount received except 100 shares)			20,000
Equity Share Capital A/c Dr.		300	
To Share Forfeiture A/c			100
To Equity Shares Allotment A/c			200
(100 Shares of Meena forfeited)			
OR			
Equity Share Capital A/c Dr.		300	
To Shares Forfeiture A/c			100

To Calls in arrears A/c			200
(100 shares forfeited due to non-payment of allotment money)			
Equity Share First Call A/c Dr.		29,700	
To Equity Share Capital A/c			29,700
(First call made due on 9,900 shares at Rs. 3 per share)			
Bank A/c Dr.		29,250	
To Equity Share First Call A/c			29,250
(First call money received on 9,750 shares at Rs. 3 per share)			
OR			
Bank A/c Dr.		29,250	
Calls in arrears A/c Dr.		450	
To Equity Share First Call A/c			29,700
(First Call money received except 150 shares)			
Equity Share Capital A/c Dr.		900	

To Share Forfeiture A/c			450
To Equity Share First Call A/c			450
(150 Shares of Seema forfeited)			
OR			
Equity Share Capital A/c Dr.		900	
To Share Forfeiture A/c			450
To Calls in arrears A/c			450
Equity Share Second and Final Call A/c Dr.		39,000	
To Equity Share Capital A/c			39,000
(Second and Final call made due on 9,750 shares at Rs. 4 per share)			
Bank A/c Dr.		38,800	
To Equity Share Second and Final Call A/c			38,800
(Second and Final call money received on 9,700 shares at Rs. 4 per share)			
OR			
Bank A/c Dr.		38,800	

Calls in arrears A/c Dr.		200	
To Equity Shares Second and Final Call A/c			39,000
(Second and Final call money received except 50 shares)			
Equity Share Capital A/c Dr.		500	
To Share Forfeiture A/c			300
To Equity Share Second and Final Call A/c			200
(50 Shares of Mohan forfeited)			
OR			
Equity Share Capital A/c		500	
To Shares Forfeiture A/c Dr.			300
To Calls in arrears A/c			200
(50 shares forfeited due to non-payment of Second and final call money)			
Bank A/c Dr		2,700	

Share Forfeiture A/c Dr.		300	
To Equity Share Capital A/c			3,000
(300 shares reissued at Rs. 9 per share)			
Share Forfeiture A/c Dr.		550	
To Capital Reserve A/c (W.N.1)			550
(Profit on re-issue transferred to Capital Reserve)			

Working Note-1: Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Meena forfeited Rs. 100

Surplus out of 150 shares of Seema forfeited Rs. 450

Surplus out of 50 shares of Mohan forfeited Rs. 300

Rs. 850

Less: Loss on re-issue of shares Rs. 300

Transferred to Capital Reserve Rs. 550

Question 25

PQR Limited's Profit and Loss account for the year ended 31st March, 2025 includes the following information:

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

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

(MTP MAY 2025)

Answer 25

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

Question 26

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 instalments 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 2024 and Partner's Capital account balances on that date were: Ram - Rs. 43,200, Laxman - Rs. 25,600 and Bharat - Rs. 14,400. Ram's current account on 30th September, 2024 after crediting his share of profit to that date, however showed a debit balance of Rs. 3,840.

Firm profits were for the year ended

31st March, 2021 Rs. 1,40,800

31st March, 2022 Rs. 1,12,640

31st March, 2023 Rs. 96,320

31st March, 2024 Rs. 34,816

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

(MTP MAY 2025)

Answer 26

Ram's Capital Account

Date 2024	Particulars	Rs.	Date 2024	Particulars	Rs.
Sep. 30	To Ram's current Account	3,840	Sep. 30	By bal b/d	43,200

Sep. 30	To Ram's Executor A/c	2,01,604	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	1,62,244
		2,05,444			2,05,444

Ram's executor Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.2025	To Bank A/c (50,401+5,040)	55,441	1.10.2024	By Capital A/c	2,01,604
31.3.2025	To Balance c/d	1,51,203	31.3.2025	By Interest (2,01,604 x 2.5%)	5,040
		2,06,644			2,06,644
30.9.2025	To bank A/c (50,401+3,780)	54,181	1.4.2025	By Balance b/d	1,51,203
			30.9.2025	By Interest (1,51,203 x 2.5%)	3,780
31.3.2026	To bank A/c (50,401+2,520)	52,921	30.3.2026	By Interest (50,401 x 2) x 2.5%	2,520
31.3.2026	To balance c/d	50,401			

		1,57,503			1,57,503
30.9.2026	To bank A/c (50,401+1,260)	51,661	1.4.2026	By balance b/d	50,401
			30.9.26	By Interest (50,401 x 2.5%)	1,260
		51,661			51,661

Working notes

1.	Ascertainment of Value of Goodwill	
	2021	1,40,800
	2022	1,12,640
	2023	96,320
	2024	34,816
	Total Profit for 4 years	3,84,576
	Average Profit	96,144
	Goodwill	
	Purchase of Average Profit (3 years)	2,88,432
	Ram's Share of goodwill (9/16 of Rs.2,88,432)	1,62,244

*Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

2. Calculation of amount of each instalment (without interest) = Rs. 2,01,604 / 4 = 50,401

Question 27

Following is the extract of the Balance Sheet of Substance Ltd. as at 31st March, 2024

Authorised capital:	Rs.
45,000 12% Preference shares of Rs. 10 each	4,50,000
4,50,000 Equity shares of Rs. 10 each	45,00,000
	49,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of Rs. 10 each fully paid	3,60,000
4,05,000 Equity shares of Rs. 10 each, Rs. 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Reserve (profit realized on sale of plant)	1,80,000
Securities premium	1,12,500

Profit and Loss Account	9,00,000

On 1st April, 2024, the Company has made final call @ Rs. 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2024 after bonus issue.

(MTP JAN 2025)

Answer 27

Journal Entries in the books of Substance Ltd.

1-4-2024	Equity share final call A/c Dr.	8,10,000	
	To Equity share capital A/c		8,10,000
	(For final calls of Rs. 2 per share on 4,05,000 equity shares due as per Board's Resolution dated....)		
20-4-2024	Bank A/c Dr.	8,10,000	
	To Equity share final call A/c		8,10,000
	(For final call money on 4,05,000 equity shares received)		
	Securities Premium A/c Dr.	1,12,500	

	Capital Reserve A/c Dr.	1,80,000	
	General Reserve A/c Dr.	5,40,000	
	Profit and Loss A/c Dr.	1,80,000	
	To Bonus to shareholders A/c	10,12,500	
	(For making provision for bonus issue of one share for every four shares held)		
	Bonus to shareholders A/c Dr.	10,12,500	
	To Equity share capital A/c		10,12,500
	(For issue of bonus shares)		

Extract of Balance Sheet as at 30th April, 2024 (after bonus issue)

	Rs.
Authorised Capital	
45,000 12% Preference shares of Rs.10 each	4,50,000
5,06,250 Equity shares of Rs.10 each (W.N.)	50,62,500
Issued and subscribed capital	
36,000 12% Preference shares of Rs.10 each, fully paid	3,60,000
5,06,250 Equity shares of Rs.10 each, fully paid	50,62,500

(Out of above, 1,01,250 equity shares @ Rs.10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	7,20,000

W.N.: The authorised capital has been increased by sufficient number of shares. $(5,06,250 - 4,50,000) = 56,250$ shares

Topic 5 Theoretical Understanding

True and False

Question 28

Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(MTP JAN 2025)

Ans: True: As per perpetual existence the company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Theoretical Questions

Question 29

Write short note on by-products.

Answer 29

By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realisable value**, if their costs cannot be separately identified. It is often treated, as “Miscellaneous income” but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

Question 30

Differentiate between Direct Manufacturing Expenses and Indirect Manufacturing expenses.

(Study Material)

Answer 30

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Indirect Manufacturing expenses are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

For detail,

DIRECT MANUFACTURING EXPENSES

Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.

Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

When royalty or hire charges are based on units produced, these expenses directly vary with production.

INDIRECT MANUFACTURING EXPENSES

Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and machinery, factory shed, etc.

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses of the manufacturing division.

Practical Questions

Question 31

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2022.

			Rs.
W.I.P.	- Opening		3,90,000

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

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2022.

(Study Material)

Answer 31

In the Books of Mr. Pankaj

Manufacturing Account for the year ended on March 31,2022

Particulars		Amount	Particulars	Amount
	Rs.	Rs.		Rs.
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By by products	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished	
	15,12,000		goods transferred	
Less: Return	(18,000)			
	14,94,000			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		

To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Depreciation on Factory Shed	40,000			
Depreciation on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

1. (a) State with reasons whether the following statements are True or False:

(i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

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.

(ii) M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was Rs. 45,000 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.

(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

Answer: True: In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iv) 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: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person.

(v) Business of partnership comes to an end on death of a partner.

Answer: False: Surviving partners may continue to carry on the business in case of partnership.

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Answer: True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(6 Statements x 2 Marks = 12 Marks)

(b) What services can a Chartered Accountant provide to the society?

(4 Marks)

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

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

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

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

(c) A Machinery costing Rs. 60,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 2,40,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

(4 Marks)

Answer: Depreciation per year for first 4 years = $\text{Rs. } 60,00,000 / 10 = \text{Rs. } 6,00,000$

Thus, WDV of the Machinery at end of the 4th year = $\text{Rs. } 60,00,000 - (\text{Rs. } 6,00,000 \times 4) = \text{Rs. } 36,00,000$

Revalued Amount i.e. New Depreciable Amount shall be = $\text{Rs. } 36,00,000 + \text{Rs. } 2,40,000 = \text{Rs. } 38,40,000$

Original remaining useful life is $(10-4) = 6$ Years whereas it is reassessed as 8 Years.

Hence, depreciation for 5th Year = $\text{Rs. } 38,40,000 / 8 = \text{Rs. } 4,80,000$

(12 + 4 + 4 = 20 Marks)

2. (a) Mr. Kamal's trial balance as on 31st March, 2025 did not agree. The difference was put to a Suspense Account.

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

(i) The total of the Purchases Book of one page, Rs. 15,615 was carried forward to the next page as Rs. 16,551.

(ii) A sale of Rs. 462 was entered in the Sales Book as Rs. 642 and posted to the credit of the customer.

(iii) A return to creditor, Rs. 5,420 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Sita, Rs. 1,420 was posted to debit of Geeta.

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

(vi) Goods worth Rs. 3,200 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.

(vii) Rs. 500 due from Mr. Sam was omitted to be taken to the trial balance.

(viii) Sale of goods to Mr. Manoj for Rs. 16,000 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.

(10 Marks)

Answer:

	Particulars	L.F.	Dr. Rs.	Cr. Rs.

(i)	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year)		936	936
(ii)	Profit & Loss Adjustment A/c Dr. Customer's A/c Dr. To Suspense A/c (Correction of the entry by which (a) Sales A/c was over credited by Rs. 180 (b) customer was credited by Rs. 642 instead of being debited by Rs. 462)		180 1,104	1,284
(iii)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by Rs. 5,420 instead of Returns Outwards Account being credited by Rs. 5,420)		10,840	10,840
(iv)	Suspense A/c Dr. To Sita A/c To Geeta A/c (Removal or wrong debit to Geeta and giving credit to Sita from whom cash was received)		2,840	1,420 1,420

(v)	Customer's A/c Dr. To Profit & Loss Adjustment A/c		1,400	1,400
(vi)	Profit & Loss Adjustment A/c Dr. To Customer's A/c (The Customer's A/c credited with goods not yet purchased by him) (Rectification of the error arising from non-preparation of invoice for goods delivered)		3,200	3,200
(vii)	Inventory A/c Dr. To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)		2,560	2,560
(viii)	Trade receivable/ Sam's Account Dr. To Suspense A/c (Rs. 500 due by Sam not taken into trial balance, now rectified)		500	500
(ix)	Manoj's account/Trade receivable A/c Dr. To Profit & Loss Adjustment A/c (Sales to Manoj's omitted, now rectified)		16,000	16,000

(x)	Profit & Loss Adjustment A/c Dr. To Kamal's Rs./c (Transfer of the Profit & Loss Adjustment A/c balance to the Rs.ccount)		28,356	28,356
	Komal A/c Dr. To Suspense A/c (Transfer of the Suspense A/c balance to the Rs.ccount)		12,832	12,832

(b) On 30th June. 2025, Cash Book of Mr. Gaurav (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:

(a) Out of cheques drawn on 26th June, those for Rs. 14,800 were cashed by the bankers on 2nd July.

(b) A crossed cheque for Rs. 3000 given to Abdul, was returned by him on 1st July, 2025 and a bearer cheque was issued to him on the same date.

(c) Cash and cheques amounting to Rs. 13,600 were deposited in the Bank on 29th June., but cheques worth Rs. 5,200 were cleared by the Bank on 1st July., and one cheque for Rs. 1,000 was returned by them as dishonoured on the latter date. (d) According to Gaurav's standing instructions, the bankers have on 30th June, paid Rs. 1,280 as interest to his creditors, paid quarterly premium on his policy amounting to Rs. 640 and have paid a second call of Rs. 2,400 on shares held by his and lodged with the bankers for safe custody. They have also received Rs. 600 as dividend on his shares and recovered an Insurance Claim of Rs. 3,200, as their charges and commission charged on the above being Rs. 400. On receipt of information of the above transaction, he has passed necessary entries in his Cash Book on 1st July.

(e) Bankers seem to have given a wrong credit for Rs. 2,000 paid in by him in No. 2 account and wrong debit in respect of a cheque for Rs. 1,200 drawn against her No. 2 account.

Prepare Bank Reconciliation Statement.

(10 Marks)

Answer:

Balance as per Cash Book			(1,97,400)
Add:			
Cheques issued but not presented for payment		14,800	
Crossed Cheque issued to Abdul not presented for payment		3,000	
Amounts collected by Bank on our behalf but not entered in the Cash Book			
Dividend			
Insurance claim	600		
	3,200		
(-) Bank Commission	3,800		
	400	3,400	
Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		2,000	23,200
			(1,74,200)
Less:			
Cheques deposited in the bank but no cleared (Rs. 5,200 + Rs. 1,000)		6,200	

Payments made by Bank on our behalf but not entered in the Cash Book			
Interest			
Premium			
Second call	1,280		
Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c	640		
Overdraft as per Pass Book	2,400	4,320	
		1,200	(11,720)
			1,85,920

(10 +10 = 20 Marks)

3. (a) Surajmal Enterprises maintain their books of accounts under single entry system.

The Balance Sheet as on 31st March, 2024 was as follows:

Liabilities	Rs.	Assets	Rs.
Rs./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, 2025:

Receipts	Rs.	Payments	Rs.
Cash in hand & at Bank on 1st April, 2024	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipt from Debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2025	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

1) Discount allowed to trade debtors and received from trade creditors amounted to Rs.54,000 and Rs.42,500 respectively, (for the year ended 31st March. 2025)

2) Annual fire insurance premium of Rs. 9,000 was paid every year on 1st August for the renewal of the policy.

3) Furniture & fixtures were subject to depreciation @ 15% p.a. or diminishing balance method.

4) The following are the balances as on 31st March, 2025:

Stock Rs. 9,75,000

Trade debtors Rs. 3,43,000

Outstanding expenses Rs. 55,200

5) Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

(10 Marks)

Answer: (a) Trading and Profit and Loss Account for the year ended 31.3.25

Particulars	Rs.	Particulars	Rs.
To Opening stock	9,15,000	By Sales	
To Purchases (bal fig)	1,25,97,000	Cash 1,10,70,000	
		Credit 28,60,000	1,39,30,000
To Gross Profit @ 10%	13,93,000	By Closing stock	9,75,000
	1,49,05,000		1,49,05,000
To Expenses(WN 2)	9,18,750	By Gross Profit	13,93,000
To Discount Allowed	54,000		
To Depreciation	22,500	By Gross Profit	13,93,000
To Net profit*	4,40,250	By Discount Received	42,500
	14,35,500		14,35,500

Balance Sheet as on 31.3.2025

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Rs./c			Furniture	1,50,000	
Opening balance	6,75,000		(-) Depreciation	(22,500)	1,27,500
(+) Profit	4,40,250		Debtors (WN 3)		
	11,15,250		Stock		3,43,000
(-) Drawings	(3,60,000)	7,55,250	Cash		9,75,000
Creditors (WN 1)		8,29,000	Prepaid Insurance		1,90,950
					3,000
Outstanding exp.		55,200			
		16,39,450			16,39,450

W.N. 1:

Creditors A/C

Liabilities	Rs.	Assets	Rs.
		By Bal b/d	7,57,500
To Bank	1,24,83,000	By Purchase	1,25,97,000
To Discount	42,500		
To Bal c/d (bal fig)	8,29,000		

	1,33,54,500		1,33,54,500

W.N. 2: Expenses A/c (Incl. insurance)

Particulars	Rs.	Particulars	Rs.
To Prepaid	3,000	By Payable	67,500
To Bank	9,31,050	By P&L (bal fig)	9,18,750*
To Payable	55,200	By Prepaid (9,000*4/12)	3,000
	9,89,250		9,89,250

W.N. 3: Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Bal b/d	3,12,000	By Cash	27,75,000
To Sales (bal fig)	28,60,000	By Discount	54,000
		By Bal c/d (bal fig)	3,43,000
	31,72,000		31,72,000

(b) M/s. Wellore is a partnership firm with the partners X, Y and Z sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2025 was as under:

Balance Sheet of M/s. Wellore as on 30-6-2025

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
X's Rs./c	6,20,000	Land	6,00,000
Y's Rs./c	4,80,000	Building	11,00,000
Z's Rs./c	8,00,000	Plant & Machinery	20,00,000
Long Term Loan	21,00,000	Investments	2,10,000
Bank Overdraft	3,20,000	Inventories	6,80,000
Trade Payables	10,65,000	Trade Receivables	7,95,000
	53,85,000		53,85,000

It was mutually agreed that Y will retire from partnership and in his place P will be admitted as a partner with effect from 1st July, 2025. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at Rs. 15 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 Rs. 2,30,000. 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 20 lakhs, which will be contributed by X, Z and P 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' Rs.ccounts after reconstitution, along with working notes.

(10 Marks)

Answer:

Revaluation Account

2025		Rs.	2025		Rs.
July 1	To Building	55,000	July 1	By Investments (2,30,000 – 2,10,000)	20,000
	To Plant and Machinery	4,00,000			
	To Trade receivable (Bad Debts)	1,19,250		By Partners' capital A/c's (loss on revaluation) X (3/10) 1,66,275 Y (2/10) 1,10,850 Z (5/10) 2,77,125	5,54,250
		16,39,450			16,39,450

Dr.

Partners' capital accounts

Cr.

	X	Y	Z	P		X	Y	Z	P
To Revaluati on A/c	1,66,275	1,10,850	2,77,125		By Balance b/d	6,20,000	4,80,000	8,00,000	

To Y's and Z's Rs./cs				4,50,00 0	By P's Rs./c (W.N.1)		3,00,00 0	1,50,00 0	
To Investments A/c		2,30,00 0			By Bank A/c (bal fig)	1,46,27 5		1,27,12 5	10,50,00 0
To Y's loan A/c		4,39,15 0							
To Balance c/d (W.N. 2)	6,00,00 0		8,00,00 0	6,00,00 0					
	7,66,27 5	7,80,00 0	10,77,1 25	10,50,0 00		7,66,27 5	7,80,00 0	10,77,1 25	10,50,00 0

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at Rs. 15 lakhs

Sacrificing ratio:

$$X \frac{3}{10} - \frac{3}{10} = 0$$

$$Y \frac{2}{10} - 0 = \frac{2}{10}$$

$$Z \frac{5}{10} - \frac{4}{10} = \frac{1}{10}$$

Hence, sacrificing ratio of Y and Z is 2:1. X has not sacrificed any share in profits after retirement of Y and admission of P in his place.

Adjustment of P's share of goodwill through existing partners' Rs.ccounts in the profit sacrificing ratio:

Rs.

$$Y: 4,50,000 \times \frac{2}{3} = 3,00,000$$

$$Z: 4,50,000 \times \frac{1}{3} = 1,50,000$$

4,50,000

2. Capital of partners in the reconstituted firm:

Rs.

Total capital of the reconstituted firm (given) 20,00,000

X (3/10) 6,00,000

Z (4/10) 8,00,000

P (3/10) 6,00,000

(10 + 10 = 20 Marks)

4 (a) Arav, Nirav and Bharat are in partnership. The following is their Balance Sheet as at March 31, 2025 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Creditors	2,40,000	Plant and machinery	1,80,000
Loan A/c – Arav	60,000	Premises	2,40,000
Rs./cs – Arav	3,00,000	Stock	1,80,000
Nirav	90,000	Debtors	3,60,000
Bharat	2,70,000		

	9,60,000		9,60,000

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

April 15, 2025	Rs. 1,80,000
May 1, 2025	Rs. 4,38,000
May 31, 2025	Rs. 2,82,000

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

(10 Marks)

Answer: **Statement of Distribution of Cash by 'Maximum Loss Method'**

	Creditors	Arav's Loan	Arav	Nirav	Bharat
Balance due	2,40,000	60,000	3,00,000	90,000	2,70,000
15th April 2025 realised Rs. 1,80,000	1,80,000				
Paid to creditors					
Balance due	60,000	60,000	3,00,000	90,000	2,70,000
1st May, 2025 realised Rs. 4,38,000	60,000				

Paid to creditors (Rs. 60,000)					
Paid to Arav's loan (Rs. 60,000)		60,000			
Balance due (1)	Nil	Nil	3,00,000	90,000	2,70,000
Balance Rs. 3,18,000					
Maximum Loss $(3,00,000 + 90,000 + 2,70,000 - 3,18,000) = \text{Rs. } 3,42,000$ shared in Profit & Loss ratio 5:3:2			(1,71,000)	(1,02,600)	(68,400)
			1,29,000	(12,600)	2,01,600
Nirav's deficiency shared by Arav & Bharat in capital ratio 100:90			(6,630)	12,600	(5,970)
Cash paid [2]			1,22,370	-	1,95,630
Balance due (3) [1-2]			1,77,630	90,000	74,370
31st May 2025 realised Rs. 2,82,000			(30,000)	(18,000)	(12,000)
Maximum Loss [1,77,630]					

+ 90,000 + 74,370 – 2,82,000] = Rs. 60,000 shared in 5:3:2					
Cash paid (4)			1,47,630	72,000	62,370
Balance/Loss* on realisation (3-4)			30,000	18,000	12,000

(b) 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 2025:

Income & Expenditure Account for the year 2024-25

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

	25,960		25,960

Balance sheet as at 31st March 2025

Liabilities		Rs.	Assets	Rs.
Subscription in advance (2025-26)		110	Furniture	9,900
Prize Fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding) (2024-2025)	770
Less: Prizes given	2,200	26,400		
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			

	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

- 1) Upkeep of ground Rs. 660 and printing Rs. 264 relating to 2023-24 were paid in 2024-25
- 2) One fourth of entrance fee has been capitalized by transfer to General Fund
- 3) Subscription outstanding in 2023-24 was Rs. 880 and for 2024-25 Rs. 770
- 4) Subscription received in advance in 2023-24 was Rs. 220 and in 2024-25 for 2025-26 was Rs. 110
- 5) Furniture was purchased during the year. (10 Marks)
- 3) Subscription outstanding in 2023-24 was Rs. 880 and for 2024-25 Rs. 770
- 4) Subscription received in advance in 2023-24 was Rs. 220 and in 2024-25 for 2025-26 was Rs. 110
- 5) Furniture was purchased during the year.

(10 Marks)

Answer: Receipts and Payments A/c

for the year ending 31st March, 2025

Receipt	Rs.	Payments	Rs.

To Balance b/d (bal fig)	16,126	By Upkeep of Ground (WN 1)	11,660
To Subscriptions:	19,052	By Printing (WN 2)	1,364
To Sale of Newspapers	286	By Salaries	11,100
To Lectures (Fee)	1,650	By Furniture: 9,900 (+) Depreciation 1100	1,1000
To Entrance Fee (WN 3)	2,860		
To Miscellaneous Income	440	By Rent	1,660
To Interest	1,100	By Prizes distribution	2,200
		By Balance c/d	2,530
	41,514		41,514

Subscription A/c

Particulars	Rs.	Particulars	Rs.

To Outstanding for the year 2023-24	880	By Subscription received in advance for the year 2024-25	220
To Income & Expenditure A/c	19,052	By Bank A/c (Bal fig)	19,052
To Subscription received in Advance for the year 2025-26	110	By Subscription outstanding as on 2024-25	770
	20,042		20,042

Working Note 1:

Upkeep of Ground A/c

Particulars	Rs.	Particulars	Rs.
		By outstanding expense of 2023-24	660
To Bank A/c (bal fig)	11,660	By Income & Expenditure A/c	11,000
	11,660		11,660

Working Note 2 :

Printing A/c

Particulars	Rs.	Particulars	Rs.
To Bank A/c (bal fig)	1,364	By Outstanding expenses	264

		By Income & Expenditure A/c	1,100
	1,364		1,364

Working Note 3 : Entrance fees adjustment

1/4th of the entrance fees capitalized by transferred to general fund = 715

∴ Total entrance fees received = 4×715

= 2,860

Rs. 2,860 will be posted to debit of receipt & Payment A/c

(10 + 10 = 20 Marks)

5. (a) An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2025.

Particulars	Debit (Rs.)	Debit (Rs.)
Provision for Doubtful Debts	1,000	-
Cash Credit Account	6,616	-
Capital	-	18,364
Trade payables	-	6,548
Due from customers	11,932	-
Discount Received	1,008	-
Discount Allowed	-	2,932

Drawings	4,800	-
Office Furniture	8,620	-
Carriage Inward	-	3,316
Carriage Outward	2,320	-
Purchases	43,692	-
Returns Inward	-	2,320
Rent & Rates	1,256	-
Salaries	10,080	-
Sales	-	67,528
Inventory	9,672	-
Provision for Depreciation on Furniture	1,456	-
Total	1,02,452	1,01,008

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

(5 Marks)

Answer:- (a)

Trial Balance as on 31st March, 2025

Particulars	Debit (Rs.)	Debit (Rs.)
Provision for Doubtful Debts		1,000
Cash Credit Account		6,616
Capital	-	18,364

Trade payables	-	6,548
Due from customers	11,932	-
Discount Received		1,008
Discount Allowed	2,932	
Drawings	4,800	-
Office Furniture	8,620	-
Carriage Inward	3,316	
Carriage Outward	2,320	-
Purchases	43,692	-
Returns Inward	2,320	
Rent & Rates	1,256	-
Salaries	10,080	-
Inventory	9,672	-
Provision for Depreciation on Furniture		1,456
Sales	-	67,528
Suspense Account (Balancing figure)	1,310	—
Total	1,02,250	1,02,250

* considered as opening inventory.

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

(i) The following details are available of raw material of a manufacturing unit:

1-5-2025	Opening Inventory	100 units @ Rs. 15 per unit
2-5-2025	Purchases	300 units @ Rs. 18 per unit
5-5-2025	Issued for consumption	250 units
16-5-2025	Purchases	500 units @ Rs. 21 per unit
21-5-2025	Issued for consumption	100 units
25-5-2025	Issued for consumption	450 units

The manufacturer also incurred Freight of Rs. 600 and unloading charges of Rs. 300 at the time of every purchase respectively.

You are required to find out the value of inventory as on May 31, 2025, if the company follows:

(a) Weighted Average method for inventory valuation.

(b) First in First Out method for inventory valuation.

(5 Marks)

Answer: (i)

(a) Weighted Average basis

Calculation of the value of Inventory as on 31-5-2025

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount

			(Rs.)						(Rs.)
1-5-25	Balance						100	15	1,500
2-5-25	300	21	6,300				400	19.5	7,800
5-5-25				250	19.5	4,875	150	19.5	2,925
16-5-25	500	22.8	11,400				650	22.04	14,326
21-5-25				100	22.04	2,204	550	22.04	12,122
25-5-25				450	22.04	9,918	100	22.04	2,204

Therefore, the value of Inventory is as follows:

Value as per Weighted Method as on 31-5-2025: 100 units @ Rs. 22.04 = Rs. 2,204

(b) First-in-First out basis

Calculation of the value of Inventory as on 31-5-2025

	Receipts			Issues			Balance		

Date	Units	Rate	Amount (Rs.)	Units	Rate	Amount	Units	Rate	Amount (Rs.)
1-5-25	Balance						100	15	1,500
2-5-25	300	21	6,300				100	15	1,500
5-5-25				100	15	1,500			
				150	21	3,150	150	21	3,150
16-5-25	500	22.8	11,400				150	21	3,150
21-5-25				100	21	2,100	50	21	1,050
							500	22.8	11,400
25-5-25				50	21	1,050			
				400	22.8	9,120	100	22.8	2,280

Therefore, the value of Inventory as on 31-5-2025 will be as follows:

Value of Inventory as per FIFO Method: 100 units @ Rs. 22.8 = Rs. 2,280

Working Note:

(i) Per unit cost of raw material purchased on May 2, 2025

$$= \frac{300 \times 18 + 600 + 300}{300} = \text{Rs. 21}$$

(ii) Per unit cost of raw material purchased on May 16, 2025

$$= \frac{500 \times 21 + 600 + 300}{500} = \text{Rs. 22.8}$$

Note:

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.

OR

(ii) Mr. Viom runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2025.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ Rs. 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ Rs. 0.80 per unit manufactured and @	

Rs. 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Viom for the year ended 31-03-2025.

(5 Marks)

Answer:

Particulars		Units	Amount	Particulars	Units	Amount
To Opening Work-in-Process		27,000	78,000	By Closing Work-in-Process	42,000	1,44,000
To Raw Materials Consumed:				By Trading A/c - Cost of finished goods transferred	15,00,000	58,00,800
Opening Inventory	7,80,000					
Add: Purchases	24,60,000					
	32,40,000					
Closing	(9,60,000)	22,80,000				

Inventory						
To Direct Wages – W.N. (1)		12,16,800				
To Direct expenses: Hire charges on Machinery – W.N. (2)		10,50,000				
To Indirect expenses: Hire charges of Factory		7,80,000				
Repairs & Maintenance		5,40,000				
		5,40,000				5,40,000

Working Notes:

(1) Direct Wages – 15,00,000 units @ Rs.0.80 = Rs. 12,00,000

42,000 units @ Rs.0.40 = Rs. 16,800

= Rs. 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ Rs. 0.70 = Rs. 10,50,000

(c) The Balance Sheet of XYZ Ltd. as at 31st March, 2023 inter alia includes the following information: Rs.

1,00,000, 8% Preference Shares of Rs. 100 each, Rs. 70 paid up	70,00,000
2,00,000 Equity Shares of Rs. 100 each fully paid up	2,00,00,000
Securities Premium	10,00,000
Capital Redemption Reserve	40,00,000
General Reserve	1,00,00,000
Bank	30,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2024 at 5% premium. In order to finance the redemption, the company makes a rights issue of 10,00,000 equity shares of Rs. 100 each at Rs. 110 per share, Rs. 20 being payable on application, Rs. 35 (including premium) on allotment and the balance on 1st January, 2025. The issue was fully subscribed and allotment made on 1st March, 2024. The money due on allotment were duly received by 31st March, 2024. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries. (Ignore date column).

(10 Marks)

Answer: In the Books of XYZ Ltd

Journal Entries

Particulars	Rs.	Rs.
8% Preference Share Final Call A/c Dr.	30,00,000	

To 8% Preference Share Rs./c (For final call made on preference shares @ Rs. 30 each to make them fully paid up)		30,00,000
Bank A/c Dr. To 8% Preference Share Final Call A/c (For receipt of final call money on preference shares)	30,00,000	30,00,000
Bank A/c Dr. To Equity Share Application A/c (For receipt of application money on 1,00,000 equity shares @ Rs. 20 per share)	20,00,000	20,00,000
Equity Share Application A/c Dr. To Equity Share Rs./c (For capitalisation of application money received)	20,00,000	20,00,000
Equity Share Allotment A/c Dr. To Equity Share Rs./c To Securities Premium A/c (For allotment money due on 1,00,000 equity shares @ Rs. 35 per share including a premium of Rs. 10 per share)	35,00,000	25,00,000 10,00,000
Bank A/c Dr. To Equity Share Allotment A/c	35,00,000	35,00,000

(For receipt of allotment money on equity shares)		
General Reserve A/c Dr. To Capital Redemption Reserve A/c (For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 1,00,00,000 - 20,00,000 - 25,00,000)	55,00,000	55,00,000
8% Preference Share Rs./c Dr. Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 5% premium)	1,00,00,000 5,00,000	1,05,00,000
Preference Shareholders A/c Dr. To Bank A/c (For amount paid to preference shareholders)	1,05,00,000	1,05,00,000
General Reserve A/c Dr. To Premium on Redemption A/c (For writing off premium on redemption of preference shares)	5,00,000	5,00,000

Note: On the redemption of redeemable preference shares out of accumulated divisible profits, it will be necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

(5 + 5 + 10 = 20 Marks)

6. (a) Divis Pharma Limited issued 50,000 equity shares of Rs. 10 each payable as Rs. 3 per share on application, Rs. 5 per share (including Rs. 2 as premium) on allotment and Rs. 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of Rs. 2 per share.

Pass necessary journal entries in the books of Divis Pharma limited. Also prepare Balance Sheet and notes to accounts of the company.

(15 Marks)

Answer: (a)

In the books of Divis Pharma Ltd.

Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
	Bank A/c To Equity Share Application A/c (Application money on 50,000 shares @ Rs. 3 per share received.)	Dr.	1,50,000	1,50,000
	Equity Share Application A/c To Equity Share Rs./c (Transfer of application money to Equity Share Capital on 50,000 shares @ Rs. 3 per share as per Directors resolution no... dated...)	Dr.	1,50,000	1,50,000

Equity Share Allotment A/c	Dr.	2,50,000	
To Equity Share Rs./c			1,50,000
To Securities Premium A/c			1,00,000
(Amount due from members in respect of allotment on 50,000 shares @ Rs. 5 per share including premium Rs. 2 per share as per Directors resolution no... dated...)			
Bank A/c	Dr.	2,45,000	
To Equity Share Allotment A/c			2,45,000
(Amount received against allotment on 49,000 shares @ Rs. 5 per share including premium Rs. 2 per share.)			
Equity Share Call A/c	Dr.	2,00,000	
To Equity Share Rs./c			2,00,000
(Amount due from members in respect of call on 50,000 shares @ Rs. 4 per share as per Directors resolution no... dated...)			
Bank A/c	Dr.	1,88,000	
To Equity Share Call A/c			1,88,000
(Amount received against the call on 47,000 shares @ Rs. 4 per share.)			
Equity Share Rs./c (3,000 x Rs. 10)	Dr.	30,000	
Securities Premium A/c (1,000 x Rs. 2)		2,000	

To Equity Share Allotment A/c (1,000 X Rs. 5)			5,000
To Equity Share Call A/c (3,000 X Rs. 4)			12,000
To Forfeited Shares A/c			15,000
(Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No.....dated)			
Bank A/c	Dr.	20,000	
Forfeited Shares A/c		5,000	
To Equity Share Rs./c			25,000
(Being re-issue of 2,500 shares @ Rs.8 each as per Board's Resolution No.....dated....)			
Forfeited Shares A/c (WN 1)	Dr.	7,000	
To Capital Reserve A/c			7,000
(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of Divis Pharma Limited as at.....

Particulars	Notes No.	Rs.
Equity And Liabilities		
Shareholders' Funds		
Share Capital	1	4,98,000

Reserves And Surplus	2	1,05,000
Total		6,03,000
Assets		
Current Assets		
Cash And Cash Equivalents (Bank)		6,03,000*
Total		6,03,000

*(5,83,000 +2 0,000)

Notes to accounts

		Rs.	Rs.
1.	Share Capital		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of Rs. 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of Rs. 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	

	Capital Reserve	7,000	1,05,000

Working Notes:

- (1) Calculation of Amount to be transferred to Capital Reserve

Amount forfeited per share of X Rs. 3 Amount forfeited per share of Y Rs. 6

Less: Loss on re-issue per share (Rs. 2) Less: Loss on re-issue per share (Rs. 2)

Surplus Rs. 1 Surplus Rs.

4

Transferred to Capital Reserve: X share (1,000 x Rs. 1) Rs. 1,000

Y's Share (1,500 x Rs. 4) Rs. 6,000

Total Rs. 7,000

- (2) Balance of Security Premium:

Total Premium amount receivable on allotment = 1,00,000

Less: Amount reversed on forfeiture = (2,000)

Balance remaining = 98,000

(b) Discuss the expenses directly attributable to the cost of property, plant and equipment. Also, the expenses that do not form a part of cost of cost of asset.

(5 Marks)

Answer: Cost of Property, Plant and Equipment comprises:

(a) Its purchase price, including non-refundable import duties and purchase taxes, after deducting trade discounts and rebates.

(b) 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.

(c) The initial estimate of the costs of dismantling, removing, the item and restoring the site on which an asset is located.

Examples of directly attributable costs are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) Initial delivery and handling costs

(d) Installation and assembly costs

(e) Cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) Professional fees e.g. engineers hired for helping in installation of a machine

Thus, all the expenses which are necessary for the asset to bring it in condition and location of desired use will become part of cost of the asset. However, following expenses should not become part of cost of asset:

(a) Costs of opening new facility or business, such as inauguration costs;

(b) Cost of introducing new product or service (for example cost of advertisement or promotional activities).

(c) Cost of conducting business in a new location or with a new class of customer (including cost of staff training); and

(d) Administration and other general overhead costs.

(15 + 5 = 20 Marks)

1. (a) State with reasons whether the following statements are True or False:

i. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out.

Answer: False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

ii. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

False: Warehouse rent related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

Answer: True: The financial statements must disclose all the relevant and reliable information in accordance with the full Disclosure Principle.

iv. In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

Answer: False: In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

v. The debit notes issued are used to prepare Sales Return Book.

Answer: False: The debit notes issued are used to prepare purchases return book.

vi. A Company is not allowed to issue shares at a discount to the public in general.

Answer: True: According to Section 53 of the Companies Act, 2013, a company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

(6 Statements x 2 Marks = 12 Marks)

(b) Write short notes on the following:

(i) Accounting conventions.

(ii) Contingent Asset and Contingent Liability

(4 Marks)

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

(ii) Contingent Asset

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

(c) M/s. Samar Steels wires were unable to agree the Trial Balance as on 31st March, 2025 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - Rs. 37,500.

(ii) The addition of the 'Freight' column in the purchase journal was short by Rs. 4,500.

(iii) Goods to the value of Rs. 3,150 returned by a customer, alas & Co., had been posted to the debit of alas & Co. and also to sales returns.

(iv) Sundry items of furniture sold for Rs. 90,000 had been entered in the sales book, the total of which had been posted to sales account.

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

(4 Marks)

Answer: Rectification entries in the books of M/s Samar Steels

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Profit and Loss Adjustment A/c Dr. To Building A/c (Repairs amounting Rs. 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment A/c Dr. To Suspense A/c (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500
3.	Suspense Account Dr.		6,300	

	To Alas & Co. (Goods returned by Alas & Co. had been posted wrongly to the debit of her account, now rectified)			6,300
4.	Profit and Loss Adjustment A/c Dr. To Furniture A/c (Being sale of furniture wrongly entered in sales book, now rectified)		90,000	90,000

(12 + 4 + 4 = 20 Marks)

2. (a) M/s McGraw, Profit and loss account showed a net profit of Rs. 32,00,000, after considering the closing stock of Rs. 30,00,000 on 31st March, 2025. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included Rs. 1,20,000 paid for new electric fittings for the shop.
- (ii) M/s Manas gave away goods valued at Rs. 3,20,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to Rs. 20,00,000 have been entered on 25th March, 2025, but the goods were not included in stock.
- (iv) In March, 2025 goods of Rs. 16,00,000 sold and delivered were taken in the sales for April, 2025.
- (v) Goods costing Rs. 6,00,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2025 these were taken as sales for March, 2025.

You are required to determine the adjusted net profit for the year ended on 31.3.2025 and calculate the value of stock on 31st March, 2025.

(10 Marks)

Answer:

Profit and Loss Adjustment A/c

	Rs.		Rs.
To Advertisement (samples)	3,20,000	By Net profit	32,00,000
To Sales (goods approved in April to be taken as April sales)	8,00,000	By Electric fittings	1,20,000
		By Samples	3,20,000
To Adjusted net profit	67,20,000	By Stock (Purchases of March not included in stock)	20,00,000
		By Sales (goods sold in March wrongly taken as April sales)	16,00,000
		By Stock (goods sent on approval basis not included in stock)	6,00,000
	78,40,000		78,40,000

Calculation of value of inventory on 31st March, 2025

	Rs.
Stock on 31st March, 2025 (given)	30,00,000
Add: Purchases of March, 2025 not included in the stock	20,00,000
Goods lying with customers on approval basis	6,00,000

	56,00,000

(b) The Machinery Account of a factory showed a balance of Rs. 95 Lakhs on 1st April, 2024. 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, 2024 a new machine was acquired at a cost of Rs. 14 Lakhs and Rs. 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2024 a machine which had cost Rs. 21,87,000 on 1st April, 2022 was sold for Rs. 3,75,000. Another machine which had cost Rs. 21,85,000 on 1st April, 2023 was scrapped on 1st September, 2024 and it realized nothing.

Prepare Machinery Account for the year ended 31st March, 2025. 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.

(10 Marks)

Answer: Plant and Machinery Account for the year ended 31st March, 2025

		Rs.			Rs.
01-04-24	To Balance b/d	95,00,000	01-09-24	By Bank (Sales)	3,75,000
01-09-24	To Bank (14,00,000 + 44,600)	14,44,600	01-09-24	By Depreciation (on sold machine)	73,811
			01-09-24	By Loss on sale	13,22,659
			01-09-24	By Loss on scrapping the machine	18,84,562

			01-09-24	By Depreciation (on Scrapped machinery)	81,938
			31-03-25	By Depreciation (Note iii)	6,60,471
			31-03-25	By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i)	Calculation of loss on sale of machine on 01-09-2024		Rs.
	Cost on 1-4-2022		21,87,000
	Less: Depreciation @ 10% on Rs. 21,87,000		(2,18,700)
	W.D.V. on 31-03-2023		19,68,300
	Less: Depreciation @ 10% on Rs. 19,68,300		(1,96,830)
	W.D.V. on 31-03-2024		17,71,470
	Less: Depreciation @ 10% on Rs. 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2024		(3,75,000)
	Loss		13,22,659
(ii)	Calculation of loss on scrapped machine		
	Cost on 1-4-2023		21,85,000

	Less: Depreciation @ 10% on Rs. 21,85,000		(2,18,500)
	W.D.V. on 31-3-2024		19,66,500
	Less: Depreciation @ 10% on Rs. 19,66,500 for 5 months		(81,938)
	Loss		18,84,562
(iii)	Depreciation		
	Balance of machinery account on 1-4-2024		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2024		57,62,030
	Depreciation @ 10% on Rs. 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on Rs. 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

(10 +10 = 20 Marks)

3. (a) Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Anil related to financial year 2024-25. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock A/c	3,81,000	By Raw Materials Consumed	-
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c	70,50,000	By Balance b/d	47,10,000
To Balance c/d	19,80,000		-

Manufacturing A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	10,95,000		
To Depreciation	6,45,000		
To Direct Expenses	7,47,000		

Additional Information:

(i) Purchase of machinery worth Rs. 36,00,000 on 1st April; 2024 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

(ii) Wages include the following:

Paid to factory workers Rs. 9,45,000

Paid to labour at office Rs. 1,50,000

(iii) Direct expenses included the following:

Electricity charges Rs. 2,40,000

of which 25% pertained to office

Fuel charges Rs. 75,000

Freight inwards Rs. 96,000

Delivery charges to customers Rs. 66,000

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

(10 Marks)

Answer: (a)

Manufacturing A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Raw Material Consumed (Balancing Figure)	27,45,000	By Trading A/c (W.N. 4)	54,96,000
To Wages (W.N. 2)	9,45,000		

To Depreciation (W.N. 1)	11,85,000		
To Direct Expenses (W.N. 3)	6,21,000		
	54,96,000		54,96,000

Raw Material A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock A/c	3,81,000	By Raw Materials Consumed (from Manufacturing A/c above)	-
To Creditors A/c	43,20,000	By Closing Stock	19,56,000
	47,01,000		47,01,000

Working Notes:

(1) Since purchase of Machinery worth Rs. 36,00,000 has been omitted.

So, depreciation omitted from being charged = $36,00,000 \times 15\%$

= Rs. 5,40,000

Correct total depreciation expense = Rs. (6,45,000+5,40,000)

= 11,85,000

(2) Wages worth Rs. 1,50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting Rs. 9,45,000 will be shown in manufacturing account.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (2,40,000 X 25%) 60,000

Delivery Charges to Customers 66,000

Total expenses not part of Direct Expenses 1,26,000

=> Revised Direct Expenses = Rs. (7,47,000 – 1,26,000)

= Rs. 6,21,000

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

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

Particulars	Rs.
Current Balance transferred	52,32,000
Add: Depreciation charges not recorded earlier	5,40,000
Less: Wages related to Office	-1,50,000
Less: Office Expenses	-1,26,000
Revised balance to be transferred	54,96,000

(5) Creditors A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c	70,50,000	By Balance b/d	47,10,000
To Balance c/d	19,80,000	By Raw Materials A/c	43,20,000

		(Bal. figure)	
	90,30,000		90,30,000

(b) Amar Akbar and Anthony are partners in a firm. On 1st April 2025 their fixed capital stood at Rs. 9,00,000, Rs. 4,50,000 and Rs. 4,50,000 respectively.

As per the provision of partnership deed:

(1) Anthony was entitled for a salary of 90,000 p.a.

(2) All the partners were entitled to interest on Rs.t 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, 2024 of Rs. 5,94,000 and 31st March, 2025 of Rs. 8,10,000 was divided equally without providing for the above adjustments.

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

(5 Marks)

Answer:

Particulars	Amar	Akbar	Anthony	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2023-24, 2024-25)	4,68,000	4,68,000	4,68,000	14,04,000
II. Amount which should have been credited:				
Anthony's Salary (2023-24, 2024-25)			1,80,000	

Interest on Capital (2023-24, 2024-25)	90,000	45,000	45,000	
Share of Profit	5,22,000	2,61,000	2,61,000	10,44,000
	6,12,000	3,06,000	4,86,000	
Net effect (I - II)	(1,44,000)	1,62,000	(18,000)	-

The necessary journal entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Akbar's Current A/c	1,62,000	
To Amar's Current A/c		1,44,000
To Anthony's Current A/c		18,000
(Salary to Anthony, Interest on capital charged and profit shared among partners in the ratio of capital)		

(c) The profits and losses for the previous years are: 2021 Profit Rs. 10,000, 2022 Loss Rs. 17,000, 2023 Profit Rs. 50,000, 2024 Profit Rs. 75,000. The average Capital employed in the business is Rs. 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor Rs. 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

(5 Marks)

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

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

Average Profits for Goodwill = Rs. 36,000 – Proprietor Remuneration

= Rs. 36,000 – Rs. 6,000 = Rs. 30,000

Normal Profit = Interest on Capital employed

= Rs. 20,000 (i.e. Rs. 2,00,000 x 10/100) = Rs. 20,000

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

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

(10 + 5 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Genesis and Associates consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2025 was as follows:

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

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

(a) C should get 1/5th of share of profits.

(b) C brought Rs. 2,40,000 as his Rs. and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

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

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

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

Prepare Revaluation A/c, Rs. accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

(10 Marks)

Answer: (a)

Revaluation A/c

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

	1,52,000		1,52,000

Partners' Capital A/c

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

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = $\frac{1}{5} = \frac{2}{10}$

Remaining Share = $1 - \frac{1}{5} = \frac{4}{5}$

A's Share = $\frac{5}{8} \times \frac{4}{5} = \frac{20}{40} = \frac{5}{10}$

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

New Profit sharing Ratio = 5:3:2

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

Balance sheet of Genesis and Associates as on 31.3.2025

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

Working Note:

Required Balance of Rs.ccounts

$$C's \text{ Rs.fter writing off Goodwill} = 2,72,000 - 32,000 = 2,40,000$$

$$C's \text{ Share of Profit} = 1/5$$

$$\text{Thus Capital of the firm shall be} = 2,40,000 \times 5 = 12,00,000$$

A's Capital = $12,00,000 \times \frac{5}{10} = 6,00,000$ and

B's Capital = $12,00,000 \times \frac{3}{10} = 3,60,000$

(b) Following is the extract of Balance Sheet of Sky Ltd. as at 31st March, 2025 :

	Rs.
Authorized capital:	
3,00,000 equity shares of Rs.10 each	30,00,000
25,000,10% preference shares of Rs.10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of Rs.10 each fully paid up	27,00,000
24,000, 10% preference shares of Rs.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 (collected in cash)	75,000
Profit and loss account	6,00,000
	11,55,000

On 1st April, 2025, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

(10 Marks)

Answer:

In the books of Sky Ltd.

Journal Entries

			Dr.	Cr.
April 1	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			10,80,000
	(Being bonus issue @ two shares for every five shares held by utilizing various reserves as per Board's Resolution dated...)			
	Bonus to Shareholders A/c	Dr.	10,80,000	
	To Equity Share Rs./c			10,80,000
	(Being bonus shares issued)			

Balance Sheet (Extract) as on 1st April, 2025 (after bonus issue)

	Particulars	Notes	Amount (Rs.)

1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	40,20,000
	b	Reserves and Surplus	2	75,000

Notes to Accounts

1	Share Capital	(Rs.)
	Authorized share capital:	
	3,78,000* Equity shares of Rs.10 each	37,80,000*
	25,000 10% Preference shares of Rs.10 each	2,50,000
	Total	40,30,000
	Issued, subscribed and fully paid share capital:	37,80,000
	3,78,000 Equity shares of Rs.10 each, fully paid (Out of above, 1,08,000 equity shares @ Rs.10 each were issued by way of bonus) 24,000 10% Preference shares of Rs.10 each	2,40,000
	Total	40,20,000
2.	Reserves and Surplus	
	Capital Redemption Reserve	1,20,000
	Less: Utilized	(1,20,000)
	Securities Premium	75,000
		Nil

Less: Utilised for bonus issue	(75,000)	Nil
General reserve	3,60,000	
Less: Utilised for bonus issue	(3,60,000)	Nil
Profit & 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. Rs.7,80,000 (37,80,000 – 30,00,000) in the above solution.

(10 + 10 = 20 Marks)

5. (a) On 31st March 2025, the Bank Pass Book of Mansi showed a balance of Rs.7,50,000 to her credit while balance as per cash book was Rs.5,60,250. On scrutiny of the two books, she ascertained the following causes of difference:

(i) She has issued cheques amounting to Rs.4,00,000 out of which only Rs.1,60,000 were presented for payment.

(ii) She received a cheque of Rs.25,000 which she recorded in her cash book but forgot to deposit in the bank.

(iii) A cheque of Rs.1,10,000 deposited by her has not been cleared yet.

(iv) Mr. Bhalla deposited an amount of Rs.78,500 in her bank which has not been recorded by her in Cash Book yet.

(v) Bank has credited an interest of Rs.7,500 while charging Rs.1,250 as bank charges.

Prepare a bank reconciliation statement.

(5 Marks)

Answer: **Bank Reconciliation Statement as on 31st March, 2025**

Particulars	Details (Rs.)	Amount (Rs.)
Balance as per Pass Book (Cr.)		7,50,000
Add: Cheque deposited but not yet cleared	1,10,000	
Cheque recorded in Cash Book but not yet deposited	25,000	
Bank Charges debited by bank	1,250	1,36,250
Less: Cheque issued but not yet presented	2,40,000	
Less: Amount deposited but not recorded in Cash Book	78,500	
Less: Interest allowed by bank	7,500	(3,26,000)
Balance as per Cash Book		5,60,250

(b) From the following information supplied by Raipur Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March, 2025.

	01.04.2024	31.03.2025
	Rs.	Rs.
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000

Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

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

Following Expenses were made during the year:

Sports Expenses: Rs.25,000

Rent: Rs.12,000 out of which Rs.1,000 outstanding

Misc. Expenses: Rs.2,500

(15 Marks)

Answer: Receipts and Payments Account for the year ended 31-03-2025

Receipts	Rs.	Payments	Rs.
To balance b/d		By Salaries	30,000

Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	Rs.(12,500 - 7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	Rs.(10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		Rs.(12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	1,45,000
	2,23,500		2,23,500

Income and Expenditure account for the year ended 31-03-2025

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries			By Subscription		1,50,000
Salaries Paid	30,000		By Interest on		
Add: Outstanding for	9,000		Investment		
2025			Received		
	39,000			7,000	

	(7,500)		Accrued (W.N.5)	1,750	8,750
Less: Outstanding for 2024		31,500			
		25,000			
To Sports expenses		12,000			
To Rent		2,500			
To Miscellaneous exp.		3,000			
To Loss on sale of furniture (W.N.3)					
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	1,125				
To Surplus		2,575			
		82,175			
		1,58,750			1,58,750

Working Notes:

1. Calculation of Subscription received during the year 2024-25

	Rs.
Subscription due for 2024-25	1,50,000
Add: Outstanding of 2024	70,000

Less: Outstanding of 2025	(1,00,000)
Add: Subscription of 2025 received in advance	15,000
Less: Subscription of 2024 received in advance	(12,500)
	1,22,500

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

Face value of investment sold: $\text{Rs.}87,500 \times 50\% = \text{Rs.}43,750$

Sales price: $\text{Rs.}43,750 \times 80\% = \text{Rs.}35,000$

Cost price of investment sold: $\text{Rs.}70,000 \times 50\% = \text{Rs.}35,000$

Profit/loss on sale of investment: $\text{Rs.}35,000 - \text{Rs.}35,000 = \text{NIL}$

3. Loss on sale of furniture

	Rs.
Value of furniture as on 01-04-2024	14,000
Value of furniture as on 31-03-2025	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	4,000
Loss on sale of furniture	3,000

4. Depreciation

Furniture - $\text{Rs.}7,000 \times 10\% =$	700

Machinery - $\text{Rs.}5,000 \times 15\% =$	750
Sports goods - $\text{Rs.}7,500 \times 15\% =$	1,125

5. Interest accrued on investment

	Rs.
Face value of investment on 01-04-2024	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

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

(5+15 = 20 Marks)

6. (a) Raghwan Limited issued 60,000 Equity shares of, 10 each at a premium of 10%, payable Rs.2 on application; Rs.4 on allotment (including premium); Rs.2 on first call and balance on the final call. All the shares were fully subscribed. Mr. X who held 6,000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 600 shares and one another shareholder having 300 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. X. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation.

(15 Marks)

Answer: (a)

Journal Entries in the books of Raghwan Ltd.

Entry No.	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
1.	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 60,000 shares @ Rs. 2 per share)		1,20,000	1,20,000
2.	Equity Share Application A/c Dr. To Equity Share Rs./c (Transfer of application money on 60,000 shares to share capital)		1,20,000	1,20,000
3.	Equity Share Allotment A/c Dr. To Equity Share Rs./c To Securities Premium A/c (Amount due on the allotment of 60,000 shares @ Rs. 3 per share and Securities Premium @ Rs.1 per share)		2,40,000	1,80,000 60,000
4.	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		2,40,000	2,40,000

5.	Equity Share First Call A/c Dr. To Equity Share Rs./c (Being first call made due on 60,000 shares at Rs. 2 per share)		1,20,000	1,20,000
6.	Bank A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 6,000 shares at Rs. 3 per share)		1,38,000	1,20,000 18,000
7.	Equity Share Final Call A/c Dr. To Equity Share Rs./c Dr. (Being final call made due on 60,000 shares at Rs. 3 each)		1,80,000	1,80,000
8.	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call received for 53,100 shares, calls in advance for 6,000 shares and calls in arrears on 900 shares adjusted)		1,59,300 18,000 2,700	1,80,000

9.	Interest on Calls in Advance A/c Dr. To Shareholders A/c (Being interest made due on calls in advance of Rs.18,000 at the rate of 12% p.a.)		720	720
10.	Shareholders A/c To Bank A/c (Being payment of interest made to shareholder)		720	720
11.	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		45	45
12.	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)		1,845	1,800 45
13.	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)		30	30

14.	Bank A/c Dr.		930	
	To Calls in Arrears A/c			900
	To Shareholders A/c			30
	(Being money received from shareholder having 300 share for calls in arrears and interest thereupon)			

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

Interest on Calls in Advance = Rs. 18,000 x 12% x 4 / 12 = Rs. 720

Interest on Calls in Arrears Rs. 1,800 x 10% x 3 / 12 = Rs. 45

Interest on Calls in Arrears Rs. 900 x 10% x 4 / 12 = Rs. 30

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

(b) Write short notes on any two of the following:

(i) Bill of exchange and the various parties to it.

(ii) Retirement of bills of exchange.

(5 Marks)

Answer: (i) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
- (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
- (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(ii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

Or

Explain, in brief, the basic considerations for distinguishing between Revenue and capital expenditures?

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

- (i) Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand,

expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

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

(15 + 5 = 20 Marks)



True and False

(a) M/s Raj Yog & Co. runs a cafe. They renovated. Some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 25 to 28. The total expenditure incurred was Rs. 50,000 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, this renovation expense is capital expenditure in nature.

(b) 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 in any cash outflow.

(c) Where a Non-Profit organization separate trading activity, the profit/loss from the trading account shall be transferred to Income Expenditure Account at the time of consolidation.

Answer: True: Where in case of the Trading activities for Non-Profit organization, the profit / loss from such activity is to be transferred to the income Expenditure Account at the time of consolidation.

(d) A fixed charge generally covers all the assets of the company including future one.

Answer: False: A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

Theoretical Framework

2. (a) 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:

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

(b) Distinguish between Going concern and cost concept.

Answer: Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, it should be disclosed in the financial statements.

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

3. (a) You are required to pass necessary journal entries in the books of Mahesh:

(i) Cheque amounting Rs. 24,000 from Shankar in full settlement of his account for Rs. 25,000.

(ii) Withdrawn for personal use: Goods (Sales Price Rs. 9,000, Cost Rs. 6,000), cash Rs. 3,000

(iii) Goods costing Rs. 3,000 (Sale price Rs.4,000) distributed as free samples.

(iv) Received commission Rs. 15,000, half of which does not relate of current year and is received in advance.

(v) Income tax liability of proprietor Rs. 18,500 was paid out of petty cash.

(vi) Purchase of goods from Sunny of the list price of Rs. 15,000. He allowed 10% trade discount, Rs. 200 cash discount was also allowed for quick payment.

Answer:

Entry No.	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
1.	Bank A/c Dr. Discount allowed A/c To Shankar A/c (Being amount received from Shankar after allowing		24,000 1,000	25,000

	discount of 1,000).			
2.	Drawings A/c Dr. To Purchases A/c To Cash A/c (Being goods and cash withdrawn for personal use).		9,000	6000 3000
3.	Free Samples/Sales promotion A/c Dr. To Purchases A/c (Being the goods distributes as free samples).		3,000	3,000
4.	Bank A/c Dr. To Commission A/c (Allotment money received)		15,000	15,000
5.	Commission A/c Dr. To Commission received in Advance A/c/ Prepaid Commission A/c (Being commission received in advance adjusted).		7,500	7,500
6.	Drawings A/c Dr. To Petty Cash A/c (Being the income tax of proprietor paid out of business money)		18,500	18,500
7.	Purchase A/c Dr.		13,500	

	To Bank A/c			13,300
	To Discount Received A/c			200
	(Being the goods purchased from Sunny for Rs. 15,000 @ 10% trade discount and cash discount of Rs. 200)			

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

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

Answer: - Legal fees on acquisition of land: Capital Expenditure

- Complete repaint: Revenue Expenditure
- Repainting van: Revenue Expenditure
- Drainage for new equipment: Capital Expenditure
- Carriage costs on replacement part: Revenue Expenditure.

Subsidiary Books

4. (a) Prepare Sales Book of M/s. Kabir of Almora for January 2025:

Jan. 5 Sold to M/s ABC 10 pieces of Chairs @ 5,000/- each less Trade Discount 5%.

Jan. 12 Sold to M/s PQR 25 pieces of Tables @ 2,000/- each less Trade Discount 10%.

Jan. 18 Sold to M/s MTB 5 pieces of Recliner Chairs @ 11,000/- each less Trade Discount 10%. Payment received through cheque.

Jan. 28 Sold to M/s LMN 50 pieces of cupboards @ 10,000/ each less Trade Discount 20%.

Answer: Sales Book of M/s Kabir for January, 2025

Date	Particulars	Details Rs.	L.F.	Amount Rs.
2025	M/s. ABC 10 chairs @ Rs.5000 Less: 5% Trade Discount (Sales as per invoice no. dated)	50,000 (2,500)		47,500
	M/s. PQR 25 Chairs @ Rs.2,000 Less: 10% Trade Discount (Sale as per invoice no. dated)	50,000 5,000		45,000
	M/s LMN 50 Cupboards @ Rs.10,000	5,00,000		

	Less: 20% Trade Discount (Sales as per invoice no. dated.....)	(1,00,000)		4,00,000
		Total		4,92,500

Rectification of Errors

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

- (i) Purchase account was undercast by Rs. 16,000.
- (ii) Sale of goods to Ms. Rashmi for Rs. 5,000 was omitted to be recorded.
- (iii) Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav Rs. 1,200.
- (iv) Amount of Rs. 4,167 of sales was wrongly posted as Rs. 4,617.
- (v) Repairs to Machinery was debited to Machinery Account Rs. 6,100.
- (vi) A credit purchase of goods from Mr. David for Rs. 3,000 entered as sale.

Suggest the necessary rectification entries.

Answer: **Journal Entries in the books of Mr. Lalit**

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Profit & Loss Adjustment A/c	Dr.	16,000	
	To Suspense* A/c			16,000
	(Purchase Account under cast in the previous			

	year; error now rectified)			
	Rashmi's Account To Profit & Loss Adjustment A/c (Sales to Rashmi omitted last year; now adjusted)	Dr.	5,000	5,000
	Anubhav's Account To Ashok's Account (Amount received from Ashok wrongly posted to the account of Anubhav now rectified)	Dr.	1,200	1,200
	Profit & Loss Adjustment A/c To Suspense* A/c (Excess posting to sales account last year, Rs. 4,617, instead of Rs. 4,167 now adjusted)	Dr.	450	450
	Profit & Loss Adjustment A/c To Machinery A/c (Repairs to Machinery was wrongly debited to Machinery account, now rectified)	Dr.	6,100	6,100
	Profit & Loss Adjustment A/c To Mr. David A/c (Credit purchase of goods from Mr. David sale	Dr.	6,000	6,000

	last year, now rectified)			
	Lalit's Rs./c To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Lalit's Rs./c – Refer W.N. 1)	Dr.	23,550	23,550
	Suspense A/c To Lalit's Rs./c (Being balance of Suspense A/c transferred to Rs./c– Refer W.N. 2)	Dr.	16,450	16,450

*Considering that the difference was posted to Suspense account.

Working Notes

1. Profit and Loss Adjustment Account

	Rs.		Rs.
To Suspense A/c	16,000	By Rashmi's A/c	5,000
To Suspense A/c	450	By Lalit's Rs./c (Bal. Transfer)	23,550
To Machinery A/c	6,100		
To Mr. David's A/c	6,000		
	28,550		28,550

2. Suspense Account

	Rs.		Rs.
To Lalit's Rs./c	16,450	By P & L Adj. A/c	16,000
(Balance Transfer)		By P & L Adj. A/c	450
	16,450		16,450

Bank Reconciliation Statement

5. According to the cash-book of Arun there was balance of Rs. 8,90,000 in his bank on 30th June, 2025 On investigation you find that :

- (i) Cheques amounting to 1,20,000 issued to creditors have not been presented for payment till the date
- (ii) Cheques paid into bank amounting to 2,21,000 out of which cheques amounting to Rs. 1,10,000 only collected by bank up to 30th June 2025
- (iii) A dividend of Rs. 8,000 and rent amounting to 1,20,000 received by the bank and entered in the pass-book but not recorded in the cash book.
- (iv) Insurance premium (up to 31st December, 2024) paid by the bank Rs. 5,400 not entered in the cash book.
- (v) The payment side of the cash book had been under cast by Rs. 1,000
- (vi) Bank charges Rs. 300 shown in the pass book had not been entered in the cash book.
- (vii) A bill payable of Rs. 40,000 had been paid by the bank but was not entered in the cash book and bill receivable for Rs. 12,000 had been discounted with the bank at a cost of Rs. 200 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book.

Answer: (i)

In the Books of Mr. Arun

Cash Book (Bank Column)

Receipts	Rs.	Payments	Rs.
To Balance b/d	8,90,000	By Insurance premium A/c	5,400
To Dividend A/c	8,000	By Correction of errors	1,000
To Rent A/c	1,20,000	By Bank charges	300
To Bill receivable A/c	11,800	By Bill payable	40,000
		By Balance c/d	9,83,100
	10,29,800		10,29,800

Bank Reconciliation Statement as on 30th June, 2025

	Rs.
Adjusted balance as per cash book	9,83,100
Add: Cheques issued but not presented for payment till 30th June, 2025	1,20,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2025	(1,11,000)
Balance as per pass book	9,92,100

Valuation of Inventories

6. Puneet closed his books of account on 31st March, each year. Inventory taking for the year ended 31st March, 2025 was completed by 10th April, 2025 on which date value of the stock available in godown was of Rs. 4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2025 and 10th April, 2025:

(i) Goods sold to customers Rs.1,10,000.

(ii) Sales return Rs. 10,000.

(iii) Purchases Rs. 85,000 (Including Cash Purchases Rs. 10,000).

(iv) Purchases return amounted to Rs. 2,500.

(v) Goods costing 20,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.

(vi) After the stock was taken, it was found that there was certain very old slow- moving items costing Rs. 16,000, which should be taken at Rs. 9,500 to ensure disposal to an interested customer.

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2025.

Answer: Statement of Valuation of Inventory as on 31st March, 2025

Particulars	Amount (Rs.)	Amount (Rs.)
Value of stock as on 10th April, 2025		4,50,000
Add: Cost of sales during the period from 31st March, 2025 to 10th April, 2025:		

Sales (Rs. 1,10,000 - Rs. 10,000)	1,00,000	
Less: Gross profit (25% on cost i.e. 20% on sales)	(20,000)	80,000
		5,30,000
Less: Purchases during the period from 31st March, 2025 to 10th April, 2025 (85,000- 2,500)	82,500	
Unsold stock out of goods received on consignment basis (40% of Rs. 20,000)	8,000	
Loss on revaluation of slow-moving inventories (16,000-9,500)	6,500	
		(97,000)
		4,33,000

Depreciation and Amortisation

7. M/s. Alankrit Transport Company purchased 10 Buses @ Rs. 50,00,000 each on 1st October, 2021. On 1st January, 2024, one of the Buses is involved in an accident and is completely destroyed and Rs. 35,00,000 is received from the insurance in full settlement. On the same date, another bus is purchased by the company for the sum of Rs. 60,00,000. The company writes off 20% of the original cost per annum.

Give the Bus Account for the years ending 31st March, 2024 and 31st March, 2025.

Answer: Buses A/c

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)

01.04.23	To balance b/d	3,50,00,000	01.01.24	By bank A/c	35,00,000
	To Profit & Loss A/c				
01.01.24	To Profit on settlement of Truck (W. Note 1)	7,50,000	01.01.24	By Depreciation on lost assets	7,50,000
01.01.24	To Bank A/c	60,00,000	31.03.24	By Depreciation A/c (W Note 3)	93,00,000
			31.03.24	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
01.04.24	To balance b/d	2,82,00,000	31.03.25	By Depreciation A/c (W Note 3)	1,02,00,000
			31.03.25	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of Bus

Original cost as on 1.10.2021	50,00,000
Less: Depreciation for 2021 -22 (6 months)	5,00,000
	45,00,000

Less: Depreciation for 2022-23 **10,00,000**

35,00,000

Less: Depreciation for 2023-24 (9 months) **7,50,000**

27,50,000

Less: Amount received from Insurance company **35,00,000**

Profit on settlement of Bus **7,50,000**

2. Calculation of WDV of 10 Buses as on 01.04.2023

	Amount
WDV of 1 truck as on 31.3.2023 (Refer W.N 1)	35,00,000
WDV of 10 Buses as on 01.04.23	3,50,00,000

3. Calculation for Depreciation for 2023-24 and 2024-25

	Amount
Depreciation for 2023-24	90,00,000
On 9 Buses (Rs. 50,00,000 x 9 x 20%)	3,00,000
On new Bus (Rs. 60,00,000 x 1 x 20% x 3/12)	93,00,000
Depreciation for 2024-25	90,00,000
On 9 Bus (Rs. 50,00,000 x 9 x 20%)	12,00,000
On new Bus (Rs. 60,00,000 x 1 x 20%)	1,02,00,000

Bills of Exchange

8. On October, 2025, X sells goods to Y for 25,000 plus IGST @ 18% and draws two bills of exchange on him; the first bill for 15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection on 1st October, 2025. In due course, X receives the information from the bank on the due date of the respective bill that the bill for 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonor of second bill are 500. Pass the journal entries in the books of X. (Ignore date Column)

Answer:

In the books of X

Journal Entries

Particulars	L.F.	Dr. Rs.	Cr. Rs.
Y A/c		29,500	
To Sales A/c			25,000
To Output IGST A/c			4,500
(Being the inter-state sale of goods to Y, charged to IGST @ 18%)			
Bills Receivable (No. 1) Alc		15,000	
Bills Receivable (No. 2) Alc		14,500	
To Y A/c			29,500
(Being the two bills acceptance- one for Rs. 15,000 and the other for Rs. 14,500 received)			
Bills sent for collection Alc Dr.		29,500	
To Bills Receivable (No.1) A/c			15,000
To Bills Receivable (No.2) A/c			14,500

(Being the Bills sent to bank for collection)			
Bank A/c Dr.		15,000	
To Bills sent for collection A/c			15,000
(Being the bill cancelled up due to Y's inability to pay it)			
Y A/c Dr.		15,000	
To Bills sent for collection A/C			14,500
To Bank A/c			500
(Being the second bill dishonored and bank paid Rs.500 as noting charges)			

Final accounts

9. The following are the balances extracted from the books of Shri Mohan Gupta as on 31.03.2025, who carries on business under the name and style of M/s Gupta & Associates at Jaipur:

Particulars	Debit (Rs.)	Credit (Rs.)
Rs./c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	

Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000

Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2024	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 31.03.2025 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was Rs. 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2024

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes Rs. 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2024 to 30.06.2025.

Answer:

M/s Gupta & Associates

Trading Account for the year ended 31st March 2025

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

M/s Gupta & Associates

Profit and Loss Account for the year ended 31st March 2025

Particulars	Details	Amount Rs.	Particulars	Details	Amount Rs.

To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			

To Net Profit transferred to Rs./c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Gupta & Associates

as at 31st March 2025

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

			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium	Rs.
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Prepaid for 3 months	
$\left(\frac{6,000}{15} \times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800
(2) Depreciation	
Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000
(3) Interest on Loan	
Interest on Loan Rs.60,000 X 10% X 9/12	= 4,500
Less: interest as per Trial Balance	= (4,400)

Amount (Outstanding)

100

(4) Provision for bad debts A/c

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

Financial Statements of Not for Profit Organizations

10. The following is the Receipts and Payments Account of a Sports Club for the year ended 31st December, 2025.

Receipts	Rs.	Payments	Rs.
To Balance b/d	7,500	By Salaries	14,000
To Subscriptions (including Rs.2,000 for the year 2024)	40,000	By Match Expenses	28,000
To Donations	15,000	By Sports Materials	15,000
To Life Membership Fees	35,000	By Printing & Stationery	12,000
To Sale of Furniture at book value	5,000	By Honorarium	5,000
To Entrance Fees	10,000	By Furniture	15,000
		By Magazines & Journals	10,000
To Interest on 10% Investments for	20,000	By Books	35,000

the full year			
To Match Fund	40,000	By Municipal Taxes	6,000
To Donation for Building Fund	45,000	By Balance c/d	80,000
To Sale of Newspapers	2,500		
	2,20,000		2,20,000

Additional Information:

(i) The position of the Club on January 1, 2025 was as follows:

Subscriptions due	Rs. 3,000
Furniture	Rs. 10,000
Books	Rs. 20,000
Building	Rs. 1,25,000
Stock of Sports Materials	Rs. 4,500
Creditors for Printing	Rs. 2,500

(ii) The Club has 1,000 members each paying an annual subscription of Rs.50. 20 members paid their subscription in advance in 2024. In the year 2025, subscription was received in advance from 15 members.

(iii) Municipal Taxes paid on 1st April every year.

(iv) One member donated a Billiard Table worth Rs.50,000.

(v) Books were worth Rs.46,000 on 31st December, 2025 and stock of sports materials on that date amounted to Rs.4,000.

Prepare Income and Expenditure Account for the year ended 31st December, 2025 and Balance Sheet as on that date.

Answer:

Income and Expenditure Account

Expenditure	Rs.	Income	Rs.
To Salaries	14,000	By Subscriptions (1,000 × 50)	50,000
To Sports Materials 15,000		By Interest on 10% Investments	20,000
Add: Opening Stock <u>4,500</u>		By Sale of old newspapers	2,500
19,500	15,500		
Less: Closing stock 4,000			
To Printing and Stationery 12,000			
Less: Creditors in the beginning <u>(2,500)</u>	9,500		
To Honorarium	5,000		
To Magazines and Journals	10,000		
To Depreciation on Books	9,000		
(20,000 + 35,000 - 46,000)			
To Municipal Taxes 6,000			
Add: Prepaid in previous year (6,000×3/12)			
<u>1,500</u>			
7,500			
Less: Prepaid for next year <u>1,500</u>	6,000		
To Excess of Income over Expenditure (Surplus)	3,500		
	72,500		72,500

Balance Sheet as at 31st December, 2025

Liabilities	Rs.	Assets	Rs.
Capital Fund (W.N. 1) 3,68,000		Building	1,25,000
Add: Surplus 3,500		Furniture 100000	
3,71,500		Additions during the year	
Add: Life Membership Fees 35,000		15,000	
Add: Entrance Fees 10,000	4,16,500	25,000	
		Less: Sold (5,000)	20,000
Donation for Building Fund	45,000	Books	46,000
Donation for Billiards Table	50,000	Stock of Sports Materials	4,000
Donations	15,000	Billiards Table	50,000
		10% Investment	2,00,000
Match Fund 40,000	12,000	Prepaid Municipal Taxes	1,500
Less: Match Expenses (28,000)		(6,000 x 3/12)	
Subscription in Advance (15x Rs.50)	750	Subscriptions Outstanding	12,750
		(WN 2)	
		Cash in Hand	80,000

	5,39,250		5,39,250

Working Notes:

1. Calculation of Capital Fund as on 1st January,2025

Balance Sheet as at January 1, 2025

Liabilities	Rs.	Assets	Rs.
Capital Fund (balancing figure)	3,68,000	Building	1,25,000
Creditors for Printing and Stationery	2,500	Furniture	10,000
Subscriptions in Advance (20 x Rs.50)	1,000	Books	20,000
		10% Investments	2,00,000
		Stock of Sports Materials	4,500
		Subscriptions Due	3,000
		Prepaid Municipal Taxes	1,500
		Cash in Hand	7,500
	3,71,500		3,71,500

2. Calculation of Subscriptions Outstanding

Subscription Account

Particulars	Rs.	Particulars	Rs.
To Subscriptions Due A/c (in the beginning)	3,000	By Subscriptions received in Advance A/c (20x50) (2024)	1,000

To Income and Expenditure A/c (1,000× Rs.50)	50,000	By Cash A/c	40,000
To Subscriptions in Advance (15× Rs.50) (2025)	750	By Subscriptions Outstanding (2025)	12,750
	53,750		53,750

Accounts from Incomplete Records

11. Deep Enterprises maintain their books of accounts under single entry system. The Balance-Sheet as on 31st March, 2024 was as follows:

Liabilities	Rs.	Assets	Rs.
Rs./c	3,37,500	Furniture & fixtures	75,000
Trade creditors	3,78,750	Stock	4,57,500
Outstanding expenses	33,750	Trade debtors	1,56,000
		Prepaid insurance	1,500
		Cash in hand & at bank	60,000
	7,50,000		7,50,000

The following was the summary of cash and bank book for the year ended 31st March, 2025:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash in hand & at Bank on 1st April, 2024	60,000	Payment to trade creditors	62,41,500
Cash sales	55,35,000	Sundry expenses paid	4,65,525
Receipts from trade debtors	13,87,500	Drawings	1,80,000
		Cash in hand & at Bank on 31st March, 2025	95,475
	69,82,500		69,82,500

Additional Information:

(i) Discount allowed to trade debtors and received from trade creditors amounted to Rs. 27,000 and Rs. 21,250 respectively (for the year ended 31st March, 2025).

(ii) Annual fire insurance premium of Rs. 4,500 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, 2025:

Stock Rs. 4,87,500

Trade debtors Rs. 1,71,500

Outstanding expenses Rs. 27,600

(v) Gross profit is to be maintained at 10% on total sales.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2025, and Balance Sheet as on that date.

Answer: **Trading and Profit and Loss Account of Deep Enterprises**

for the year ended 31st March, 2025.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	4,57,500	By Sales	
To Purchases (W.N. 2)	62,98,500	Cash 55,35,000	
To Gross profit c/d (10% of 69,65,000)	6,96,500	Credit (W.N.1) 14,30,000	69,65,000
		By Closing stock	4,87,500
	74,52,500		74,52,500
To Sundry expenses (W.N. 4)	4,59,375	By Gross profit b/d	6,96,500
To Discount Allowed	27,000	By Discount received	21,250
To Depreciation (15% Rs. 75,000)	11,250		
	2,20,125		
	7,17,750		7,17,750

Balance Sheet of Deep Enterprises as at 31st March, 2025

Liabilities	Amount Rs.	Assets	Amount Rs.

Capital		Furniture & Fittings	75,000	
Opening balance	3,37,500	Less: Depreciation	(11,250)	63,750
Less: Drawing	<u>(1,80,000)</u>	Stock		4,87,500
Add: Net profit for the years		Trade Debtors		1,71,500
	<u>2,20,125</u>	Unexpired insurance		1,500
Trade creditors (W.N. 3)	4,14,500	Cash in hand & at bank		95,475
Outstanding expenses	27,600			
	8,19,725			8,19,725

Working Notes:

1. Trade Debtors Account

	Rs.		Rs.
To Balance b/d	1,56,000	By Cash/Bank	13,87,500
To Credit sales	14,30,000	By Discount allowed	27,000
(Bal. fig.)		By Balance c/d	1,71,500
	15,86,000		15,86,000

2. Memorandum Trading Account

	Rs.		Rs.
To Opening stock	4,57,500	By Sales	69,65,000
To Purchases (Balancing figure)	62,98,500	By Closing stock	4,87,500

To Gross Profit (10% on sales)	6,96,500		
	74,52,500		74,52,500

3. Trade Creditors Account

	Rs.		Rs.
To Cash/Bank	62,41,500	By Balance b/d	3,78,750
To Discount received	21,250	By Purchases (as calculated in W.N. 2)	62,98,500
To Balance c/d (balancing figure)	4,14,500		
	66,77,250		66,77,250

4. Computation of sundry expenses to be charged to Profit & Loss A/c

	Rs.
Sundry expenses paid (as per cash and Bank book)	4,65,525
Add: Prepaid expenses as on 31-3-2024	1,500
	4,67,025
Less: Outstanding expenses as on 31-3-2024	(33,750)
	4,33,275
Add: Outstanding expenses as on 31-3-2025	27,600
	4,60,875
Less: Prepaid expenses as on 31-3-2025 (Insurance paid till July, 2024) $(4,500 \times 4/12)$	(1,500)

	4,59,375

Partnership Accounts

Calculation of Goodwill

12. Sita, Gita and Rita are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.03.2025 was as follows:

Balance Sheet of M/s Sita, Gita and Rita as at 31st March,2025

Liabilities	Rs.	Assets	Rs.
Rs./c's		Sundry fixed assets	15,00,000
Sita	2,55,000	Inventory	3,00,000
Gita	9,45,000	Trade receivables	1,50,000
Rita	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit Rs. 6,00,000 during 2024-25 and the partners withdrew Rs. 4,50,000 during the year. Normal rate of return 30%.

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

Answer: (i)

Valuation of Goodwill:	Rs.

(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2024	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2024	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Sita, Gita & Rita	6,00,000
	Normal profit @ 30% on Rs. 18,00,000	5,40,000
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (Rs. 60,000 × 5)	Rs. 3,00,000

Dissolution of Partnership Firm

13. A, B and C are partners sharing profits and losses in the ratio of 2:2:1 respectively. The Balance Sheet of the firm as at 31st March, 2025 is as follows:

Liabilities	Rs.	Assets	Rs.
Rs.ccounts:		Fixed Assets Current Assets:	2,00,000
A	1,46,000	Stock	1,25,000
B	54,000	Debtors	1,25,000

C	50,000	2,50,000	Cash	5,000
C's Loan Account		25,000	Advance to B	20,000
Mrs. A's Loan A/c		50,000		
Sundry Creditors		1,25,000		
Provision for Bad Debts		25,000		
		4,75,000		4,75,000

The firm was dissolved on 31st March, 2025. After preparing the Balance Sheet as on 31st March, 2025; it was discovered that purchases amounting to Rs. 20,000 in March, 2025 were not recorded in the books, though the goods were received during March, 2025.

Fixed Assets realised Rs. 1,00,000, Stock Rs. 1,05,000 and Debtors Rs. 1,02,500. Creditors were paid after deduction of discount @2%, The realisation expenses amounted Rs. 5,400. A agreed to take over the loan of Mrs. A. B is insolvent and his estate is unable to contribute anything. Prepare Realisation A/c, Partners Rs./c and Cash A/c applying the principles of Garner v. Murray.

Answer: Rectification Entry: Rs. Rs.

A's Rs./c Dr. 8,000

B's Rs./c Dr. 8,000

C's Rs./c Dr. 4,000

To Sundry Creditors A/c 20,000

(Being the omission to record purchases, now rectified)

Dr. Realisation Account Cr.

Particulars	Rs.	Particulars	Rs.

To Fixed Assets	2,00,000	By Sundry Creditors A/c (1,25,000 +20,000)	1,45,000
To Stock	1,25,000		
To Debtors	1,25,000	By Mrs. A's Loan A/c	50,000
To Cash A/c (S. Creditors) [(1,25,000 + 20,000) × 98/100]	1,42,100	By Provision for Bad Debts A/c	25,000
To Cash A/c (R. Expenses)	5,400	By Cash A/c:	
		Fixed Assets 1,00,000	
		Stock 1,05,000	
		Debtors 1,02,500	3,07,500
To A's Rs./c (Mrs. A's Loan)	50,000	By Rs.ccounts: (Loss on Realisation)	
		A 48,000	
		B 48,000	
		C 24,000	
			1,20,000
	6,47,500		6,47,500

Dr.

Cash Account

Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,000	By Realisation A/c	1,42,100
To Realisation A/c	3,07,500	By Realisation A/c	5,400
To A's Rs./c	48,000	By C's Rs./c	25,000

(Cash brought in by A)			
To C's Rs./c (Cash brought in by C)	24,000	By A's Rs./c	1,71,500
		By C's Rs./c	40,500
	3,84,500		3,84,500

Dr.

Partners' capital account

Cr.

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Sundry Creditors	8,000	8,000	4,000	By Balance b/d	1,46,000	54,000	50,000
To Balance c/d	1,38,000	46,000	46,000		1,46,000	54,000	50,000
	1,46,000	54,000	50,000				
To Advance to B A/c	-	20,000	-	By Realisation A/c (Mrs. A's Loan)	50,000	-	-
To Realisation Loss A/c	48,000	48,000	24,000	By Balance b/d	1,38,000	46,000	46,000
To B's Rs./c	16,500	-	5,500	By Cash A/c	48,000	-	24,000
To Cash A/c (Final Payment)	1,71,500	-	40,500	By A's Rs./c (WN)	-	16,500	-
				By C's Rs. /c (WN)	-	5,500	-

	2,36,000	68,000	70,000		2,36,000	68,000	70,000

Working Note (WN): Since B is insolvent, his deficiencies is to be borne by A & C in capital sharing ratio (after rectification) i.e.

$$\text{A's Share } 22,000 \times \frac{1,38,000}{1,84,000} = 16,500$$

$$\text{C's Share } 22,000 \times \frac{46,000}{1,84,000} = 5,500$$

Issue and Redemption of Shares

14. Greenrock Limited is a company with an authorized share capital of Rs. 4,00,00,000 in equity shares of Rs. 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2024. The company proposed to make a further issue of 2,60,000 shares of Rs. 10 each at a price of Rs. 12 each, the arrangements for payment being:

- (i) Rs. 2 per share payable on application, to be received by 1st July, 2024;
- (ii) Allotment to be made on 10th July, 2024 and a further Rs. 5 per share (including the premium) to be payable;
- (iii) The final call for the balance to be made, and the money received by 31st March, 2025.

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

- (1) Applicants for 40,000 shares received allotment in full;
- (2) Applicants for 2,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 6,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

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

Answer: Journal of Greenrock Limited

Date 2024	Particulars		Dr. Rs.	Cr. Rs.
July 1	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 8,40,000 shares @ Rs. 2 per share)	Dr.	16,80,000	16,80,000
July 10	Equity Share Application A/c To Equity Share Rs./c To Equity Share Allotment A/c (Note 1- Column 5) To Bank A/c (Note 1– Column 6) (Being application money on 2,60,000 shares transferred to Equity Share Rs.ccount; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)	Dr.	16,80,000	5,20,000 8,00,000 3,60,000

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

Working Note:

Calculation for Adjustment and Refund

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

15. Give necessary journal entries for the forfeiture and re-issue of shares:

(i) Windy Whale Ltd. forfeited 900 shares of Rs. 10 each fully called up, held by Varun for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were re-issued to Nitesh for Rs. 8 per share.

(ii) A Ltd. forfeited 200 shares of Rs. 10 each (Rs. 7 called up) on which Kamal had paid application and allotment money of Rs. 5 per share. Out of these, 150 shares were re-issued to Tamal as fully paid up for Rs. 6 per share.

Answer: (i) Journal Entries in the books of Windy Whale Ltd.

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (900 x Rs. 3)	Dr.	9,000	2,700

	To Equity Share Final Call A/c (900 x Rs. 4)			3,600
	To Forfeited Shares A/c (900 x Rs. 3)			2,700
	(Being the forfeiture of 900 equity shares of Rs. 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No.....dated.....)			
(b)	Bank A/c (900 x 8)		7,200	
	Forfeited Shares A/c (900x 2)		1800	
	To Equity Share Capital A/c			9000
	(Being the re-issue of 900 forfeited shares @ Rs. 8 each as fully paid up to Nitesh as per Board's resolution No.....dated.....)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(Being the profit on re-issue, transferred to capital reserve)			

(ii) Journal Entries in the Books of A Ltd.

Date	Particulars		Dr. Rs.	Cr. Rs.

(a)	Equity Share Capital A/c (200 x Rs. 7) To Equity Share First Call A/c (200 x Rs. 2) To Forfeited Shares A/c (200 x Rs. 5) (Being the forfeiture of 200 equity shares of Rs. 10/- (Rs.7 called up) for non-payment of first call @ Rs. 2/- per share as per Board Resolution No..... dated.....)		1,400	
				400
				1,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No.....dated.....)		900	
			600	
				1500
(c)	Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve)	Dr.	150	
				150

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5) Rs. 750

Less: Forfeiture of 150 shares (Rs. 600)

Profit on re-issue of shares Rs. 150

Issue and Redemption of Debentures

16. A company had issued 80,000, 12% debentures of Rs. 100 each on 1st April, 2021. The debentures were due for redemption on 1st March, 2025. The terms of issue of debentures provided that they were redeemable at a premium of 5%. The company offered an option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value Rs. 10) at a predetermined price of Rs. 15 per share and the payment in cash for remaining debentures. 100 debentures holders holding totally 10,000 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.

Answer: Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	80,000
Less: Debenture holders not opted for conversion	(10,000)
Debenture holders opted for conversion	70,000
Option for conversion	20%
Number of debentures to be converted (20% of 70,000)	14,000

Redemption value of 14,000 debentures at a

premium of 5% $[14,000 \times (100+5)]$ Rs. 14,70,000

Equity shares of Rs. 10 each issued to debenture holders on

redemption $[Rs. 14,70,000 / Rs. 15]$ 98,000 shares

Amount of cash to be paid

Amount to be paid into cash [84,00,000 (80,000 x Rs. 105) – 14,70,000]

on redemption

Rs. 69,30,000

Redemption of Preference Shares

17. The following balances appeared in the Books of Silver Stone Ltd. as on 31st December, 2024:

	Amount (Rs.)
1,600,000, 10% Preference shares of Rs. 100 each, Rs. 75 paid up	1,20,00,000
4,00,000 Equity share of Rs. 100 each fully paid up	4,00,00,000
Securities Premium	13,00,000
Capital Redemption Reserve	84,00,000
General Reserve	1,70,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2025 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 1,20,000 equity shares of Rs. 100 each at a premium of 10%, Rs. 25 being payable on application, Rs. 45 (including premium) on allotment and the balance on 1st August, 2025. The issue was fully subscribed and the allotment made on 1st March, 2025. The amount due on allotment was duly received by 25th March, 2025.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves

and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2025. Ignore date column in Journal.

Answer: **Journal Entries In the books of Silver Stone Ltd.**

		Amount (Rs.)	Amount (Rs.)
10% Preference Share Final Call A/c	Dr.	40,00,000	
To 10% Preference Share Capital A/c			40,00,000
(Being final call made on preference shares @ Rs. 25 each to make them fully paid up)			
Bank A/c	Dr.	40,00,000	
To 10% Preference Share Final Call A/c			40,00,000
(Being receipt of final call money on preference shares)			
Bank A/c	Dr.	30,00,000	
To Equity Share Application A/c			30,00,000
(Being receipt of application money on 1,20,000 equity shares @ Rs. 25 per share)			
Equity Share Application A/c	Dr.	30,00,000	
To Equity Share Capital A/c			30,00,000

(Being capitalisation of application money received)			
Equity Share Allotment A/c	Dr.	54,00,000	
To Equity Share Capital A/c			42,00,000
To Securities Premium A/c			12,00,000
(Being allotment money due on 1,20,000 equity shares @ Rs. 45 per share including a premium of Rs. 10 per share)			
Bank A/c	Dr.	54,00,000	
To Equity Share Allotment A/c			54,00,000
(Being receipt of allotment money on equity shares)			
General Reserve A/c	Dr.	88,00,000	
To Capital Redemption Reserve A/c			88,00,000
(Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 1,60,00,000 - 30,00,000 – 42,00,000)			
10% Preference Share Capital A/c	Dr.	1,60,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	8,00,000	
To Preference Shareholders A/c			1,68,00,000
(Being amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	1,68,00,000	

To Bank A/c (Being amount paid to preference shareholders)			1,68,00,000
General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares)	Dr.	8,00,000	8,00,000

Notes to Accounts:

		Rs.
1 Share Capital:		
Equity Share Capital		
Issued, Subscribed & Paid Up:	4,00,00,000	
4,00,000 Equity Shares of Rs.100 each fully paid up	72,00,000	
1,20,000 Equity Shares of Rs.100 each, Rs. 60 called up & paid up		4,72,00,000
2 Reserves and Surplus:		
Securities Premium	13,00,000	
Add: Amount received @ - 10 per share on 1,20,000 Equity Shares	12,00,000	25,00,000
Capital Redemption Reserve	84,00,000	

	Add: Transferred on Redemption (WN-1)	88,00,000	1,72,00,000
	General Reserve 1,70,00,000		
	Less: Transferred to Capital Redemption Reserve (88,00,000)		
	Less: Adjustment of Premium payable on Redemption (8,00,000)		74,00,000
			2,71,00,000

Working Note 1

Amount to be transferred to Capital Redemption Reserve on Redemption:

Nominal Value of 1,60,000 Preference Shares Redeemed	1,60,00,000
Less: Proceeds of 1,20,000 Equity Shares issued, - 60 called up & paid up	<u>72,00,000</u>
Transfer to Capital Redemption Reserve	<u>88,00,000</u>

Note: At the time of redemption of preference shares out of accumulated divisible profits, it is necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption.

18. Write short notes on the following:

- (i) Rules of posting of journal entries into Ledger.
- (ii) Importance of bank reconciliation statement to an industrial unit.
- (iii) Periodic Inventory System Vs Perpetual Inventory System

(iv) Trade bill vs. Accommodation bill.

(v) Contingent Asset and Contingent Liability

Answer: (i) Rules regarding posting of entries into ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

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

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.

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

(iv) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(v) Contingent Asset

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

Contingent Liability

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

