Page No.
Date 5.4.19

ACCOUNTING POLICY.

- SLM or straight line method.
- WDV : If every year efficiency going on decrease then use WDV method.

Accounting Policy = Accounting Principle + Methods of applying such principles.

= Depriciation + SLM / WDV.

SLM.		WDV.	
↓		↓	
A	10.00.000	B	10,00,000
(-) Dep. 10% -	1,00.000	(-) Dep. 10%	1,00,000
	9,00,000		9,00,000
(-) Dep 10%	1,00,000	(-) Dep 10%	90,000
	8,00,000		8,10,000
(-) Dep 10%	1,00,000	(-) Dep. 10%	81,000
	7,00,000		7,29,000

If change in accounting policy from SLM to WDV.

Change in depriciation with prospective effect.

- **Prospective Effect:** Making changes in amount for future period.

- **Retrospective Effect:** Making changes in amount from the beginning.

ACCOUNTING ESTIMATE
(Prediction).

Bad debts	12,000
(+) New bad-debts	5,000
(+) New provision	
(-) Old provision for doubtful debts	10,000
	7,000.

Required In: 1) All Provisions
2) Life of Asset
3) Scrap value of asset etc.

· If there is change in accounting estimates then **Prospective Effect** shall be given.

e.g. Mr. X purchased machinery for ₹ 10,00,000 estimated useful life is 10 years at the time of purchase on 1st April 2014.

In the 7th year it came to know inspection asset that this asset will be working only for total 8 years. Calculate depriciation for 7th & 8th year. (SLM Method).

→ Cost of Asset – 10.00.000. Depn = 10.00.000 (÷) 10 yrs.

on 1-4-2014

Depriciation = $\frac{10.00.000}{10 \text{ yrs}}$

= 1.00.000

(-) Dep. of 6 years : 10.00.000

1.00.000 x6 (-) 6.00.000

1-4-2020. 4.00,000.

Change in accounting estimates. Revised Depn. $\frac{4.00.000}{2 \text{ yrs}}$

(-) Depn 7th year = 2.00.000 = 2.00.000.

2.00.000

(-) Depn 8th year 2.00.000

NIL.

★ Substance Overform:

Consider reality over its legal form.

Eg. 1) In case of Hire Purchase, Initially it is Rental agreement and it will be treated as sale once all the installments are paid. But as per accounting it is treated as sale because ultimate intention of this agreement is to sale.

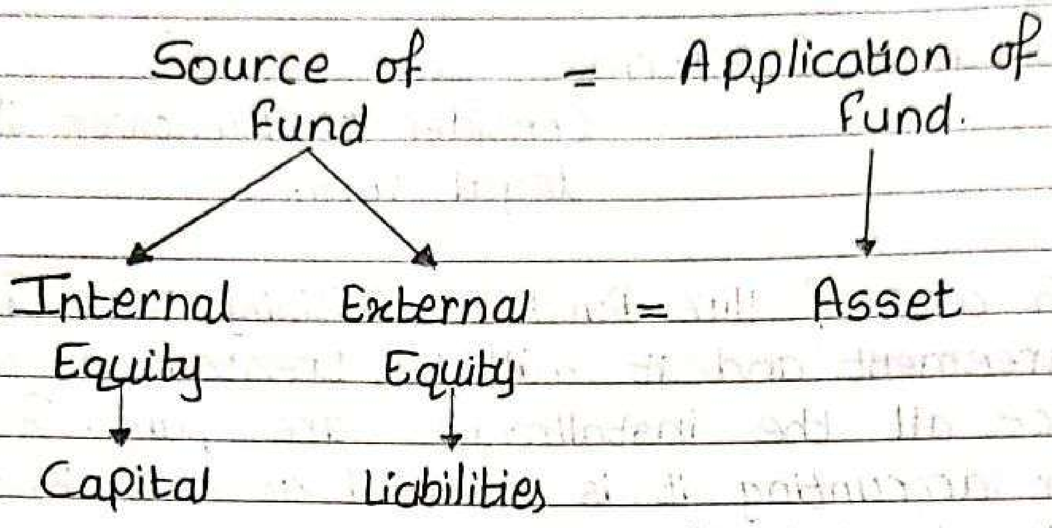
2) If advance taken for sale of land (any fixed assets) on 15th March, 2019 but legal formalities will be completed on 20th April, 2019. In this case this is not sale as per law on 31st March but as per accounting this shall be treated as sale and land should not be shown on Asset side.

• ACCOUNTING EQUATION :-

$\boxed{A - L = C}$

Balance Sheet.

Liabilities		Assets.	
Capital	5L		
Loan.		₹ -	5L



$$\boxed{\begin{array}{l} \text{Capital} + \text{liabilities} = \text{Assets} \\ \therefore\ \text{Capital} = \text{Assets} - \text{liabilities.} \end{array}}$$

$$\boxed{C = A - L}$$

(+) Incomes
(-) Expenses

- Dual Aspect :

→ liability ↑ Assets ↑ } Direct Relation
liability ↓ Assets ↓

→ Assets ↑ Assets ↓ } Indirect Relation
Liability ↑ Liability ↓

- **Contigent** : Depends on happening or non-happening of future events.

CONTIGENT

If result will be outflow of benefit
↓
Contigent Liabilities
↓
- Disclose it in Notes to A/C
↓
- E.g:
1) Bills Discounted
2) Suit (case) filed by Outsiders on organisation.

If result will be inflow of benefit.
↓
Contigent Assets.
↓
- No disclosure in Notes to A/C.
↓
- Can be disclosed in Board of Directors Reports.
↓
- E.g:-
1) Suit filed by organisation on outsiders.

- Provisions shall be recognised if all conditions are satisfied :-
  1) Present obligation
  2) Expected outflow of Benefit
  3) Reliable estimation is available.

- If one or two conditions are not fulfilled then it is Contigent liability.

Eg. :- Provisions for Taxation.

-

ACCOUNTING STANDARDS

Acounting standards :- Rules & Regulations issued by ICAI

Self Generated Goodwill

Never Recorded

Issued by accounting standard Board (ASB). [Set up by ICAI]

★ Impairment :- Asset की Value कम होना.

18. 5. 18

- Accounting Standards Prescribes rules for:

1) Recognition :- पैचान कौन, अंदाजा लगाना की Transaction कौनसा है.

2) Meaurment :- Amt. का अंदाजा लगाना

3) Presentation / Disclosure :- दिखाना

- Advantages of Accounting Standards:

1) Reduction in Variation:
e.g: AS-2 for Inventory allows FIFO method & Weighted Average Method.
(LIFO and simple avg. method not allowed)

2) Improves Comparison:

3) AS demands additional information even which is not required by law.

- Limitations of Accounting Standards:

1) In case of disputes between law and AS then law will be applicable.

2) Variations are reduced but not completely eliminated.

3) No flexibility and involves rigidity.

- 29 AS introduced from AS : 8 has been deleted as AS : 26 was available for rules of intagible assets.

AS : 6 → Depreciation → deleted and merged with AS : 10 → property, Plant & Equipment.

19 6 18.

ACCOUNTING as MEASUREMENT DISCIPLINE:

- Money Measurement :-
  ↓
  Counting

→ All items which can be measured in terms of money shall be recorded.

→ Items which can not be converted in terms of money shall be ignored.

- Measurement Scale:-
  Unit in which value is measured.
  example → Kilogram, litre, Meter etc.

- Suitability of Scale →
  Other scales are not suitable for comparison, only money is suitable for comparison.

- Limitations of money as Measurement scale:-

1) Money is volatile in nature
2) Money has no universal applicability
   ₹ → India , $ → USA

- Meaurement Principles / Basis :

1) Historical Cost : Purchase Price of Asset.

Historical / Purchase Cost
↓
₹ 50,000

(−) 25% Dep^n

37,500 → WDV / Book Value / Carrying Value.

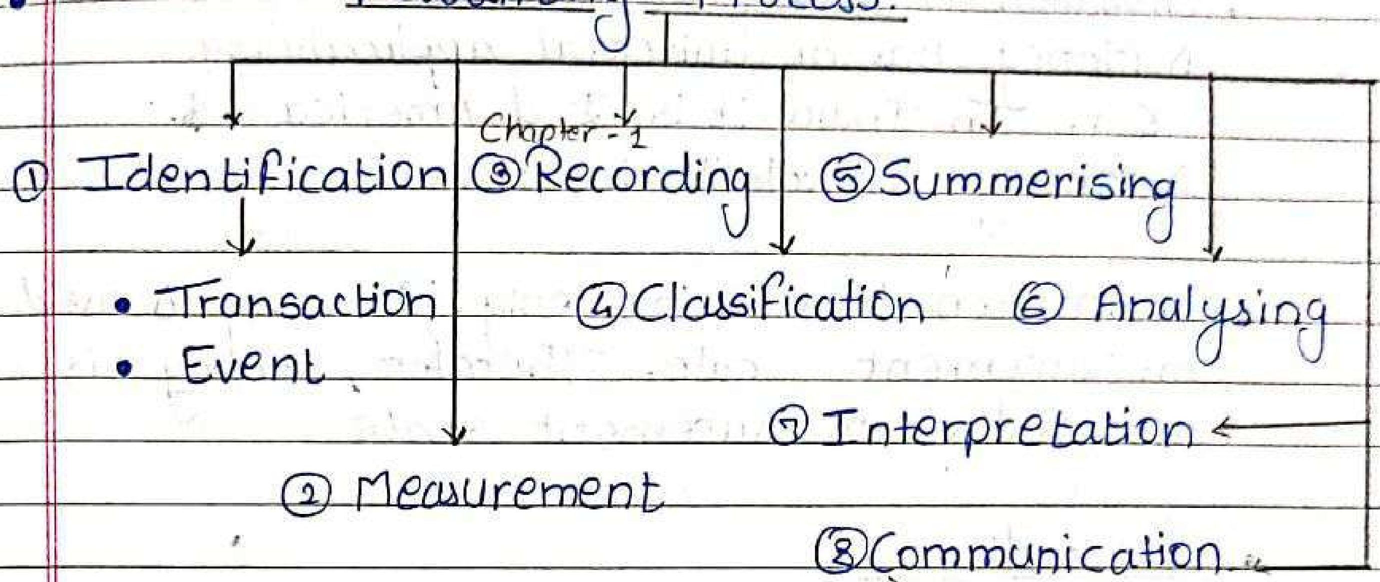
20,000 Selling Price → Realisable Value

85,000 → Current Cost.

Unit 1

Date 29.3.19

Accounting Process.



- ## Identification:

★ Transaction:

Exchange of benefit with outsiders.

★ Event : Ultimate result of transaction

Example: Purchase → 2,00,000 - Transaction
(-) Goods sold → 1,50,000 - Transaction

50,000. - Event.

Event is always shown on balance sheet.

- ## Measurement:

In accounting we record the items which can be converted interms of money.

★ If it is not possible to convert then ignore it.

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* Limitations of money as measurement scale:
1) Money has no universal applicability.
e.g. In India it is ₹ & America $.
2) Money is volatile in nature.

* Comparison is possible only if money is used as measurement scale. Therefore, money is accepted as measurement scale.

- Recording:

* In journal or subsidiary books.
* In chronological order. (According to time/datewise)

- Classification:

* Analytical order is followed.
* Headingwise.

- Summerising:

1) Trial balance
2) Trading & P&L A/c / Income & Exp.
3) Balance Sheet. / Asset & Liability.
4) Cash flow Statement
5) Notes of A/c.

} Financial Statement

- Analysing: Detail study.

* Calculation of ratio.

- Interpretation:

↓

Why?

* We will try to find out reason behind result of organisation.

- Communication:

* Internal Users:
BOD, Managers etc.

* External Users:
Employee, govt., customers etc.

- General Accepted Accounting Principles (GAAP's)

↓

Materiality. Conservatism Going Concern Periodicity.

- Materiality:
Item is treated as material if it has effects on decision making of user of accounting information.

Example: Punching Machine, Stepler is asset by nature, but it is treated as expenses. because this items are not material.

* (Matching Principle)

28/3/19.

- Conservatism:

Expect and record all future losses but don't expect and record future gains.

Effects:

1) Assets are shown at Actual Amount.
2) Provisions are created.
3) Stock is valued at cost price or market price whichever is less.

- Going Concern:

Assumes that the life of business is long lasting.

- Periodicity:

To calculate the profit or loss after a period of time (everytime)

Elements of Accounting.

Income Expenses Liability Assets.

- Assets:

Assets are the things which gives benefit in future.

Current Year	Next Year	Future.
Benefit Received	Benefit within next 1 year	Benefit receivable is more than 1 year.
Expenses	Current Asset	Fixed Asset.

- Liability : Benefit to be given in future.
- Income : Amount received in return of ~~obligation~~ completion of obligation (work) (Benefit given)
- Expenses : Things which gives immediate benefit. (Benefit Received).

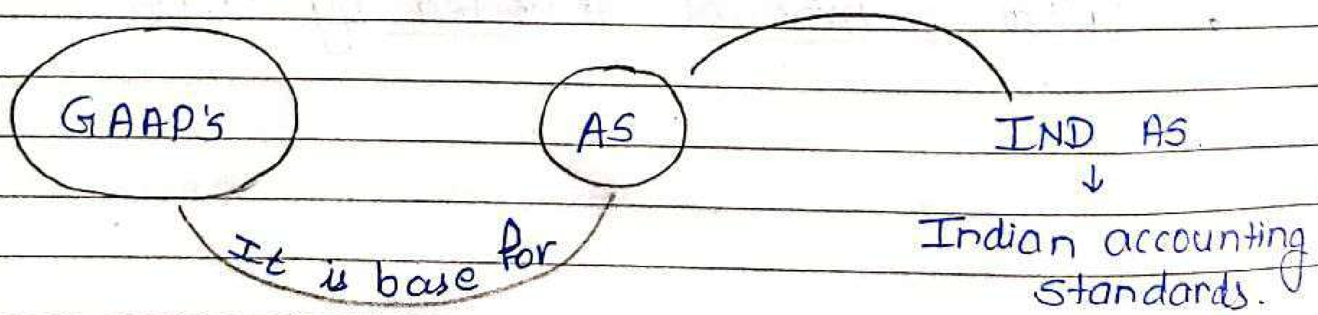
★ Trade off = Balancing.

- Capital : Amount invested by owner.

1/4/2019

Reserves	Provisions.
Created out of profits. (Means it is created only if there is profit).	Provision is charged against profit.
It is optional	It is compulsory.
Generally there is no specific purpose.	Created with specific purpose.

- GAAP's → General Accepted Accounting Principles
  AS → Accounting Standards.
  IND AS → Indian Accounting Standards.
  ICAI → Indian Charterred Accountant's Institute.



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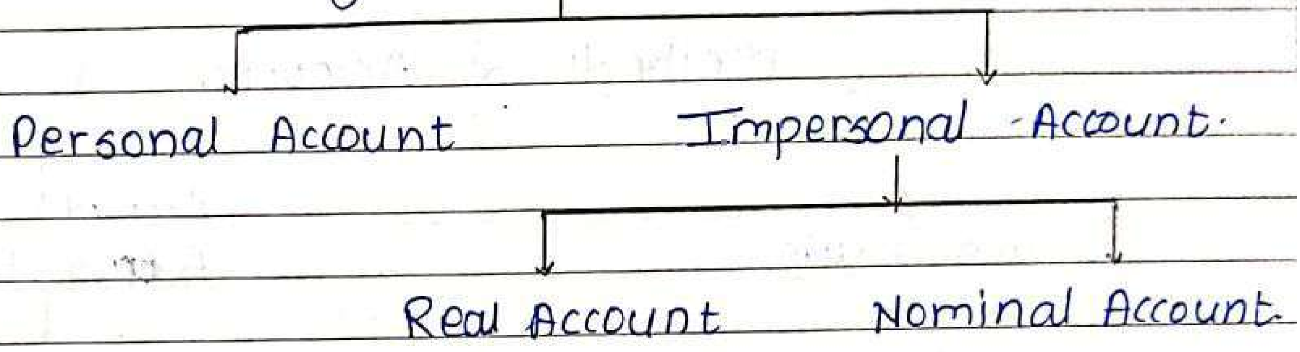
- Father of Accounting : Luca Pacioli.
  (founder of double entry system)

- Types of Accounts.



- Personal Account : In case of Incomplete transaction.
  - Dr – the ~~giver~~ receiver.
  - Cr. the ~~receiver~~ giver

- Impersonal Account : Complete Transaction.

Real Account : Dr. what comes in
(which has existance) Cr. what goes out.
e.g. Goodwill

Nominal Account : Dr. all expenses and losses
(which has existance for limited period of time).
Cr. all incomes of gains.
e.g. salary.

If transaction is incomplete or previous incomplete transaction is completed then there is <u>personal account</u>.

Methods of Accounting

<u>Cash Basis</u>	Accrual <u>Actual Basis</u>.
- Record expenses when it is paid.	- Record expenses when it is Incurred.
- Record income when it is Received.	- Record Income when it is Earned.

<u>Accrual basis</u> :- Merckhantile system.
:- Record all current year expenses whether they are paid or not.

- Also known as merchantile system
- Income tax act and companies act recommends to follow accrual basis.

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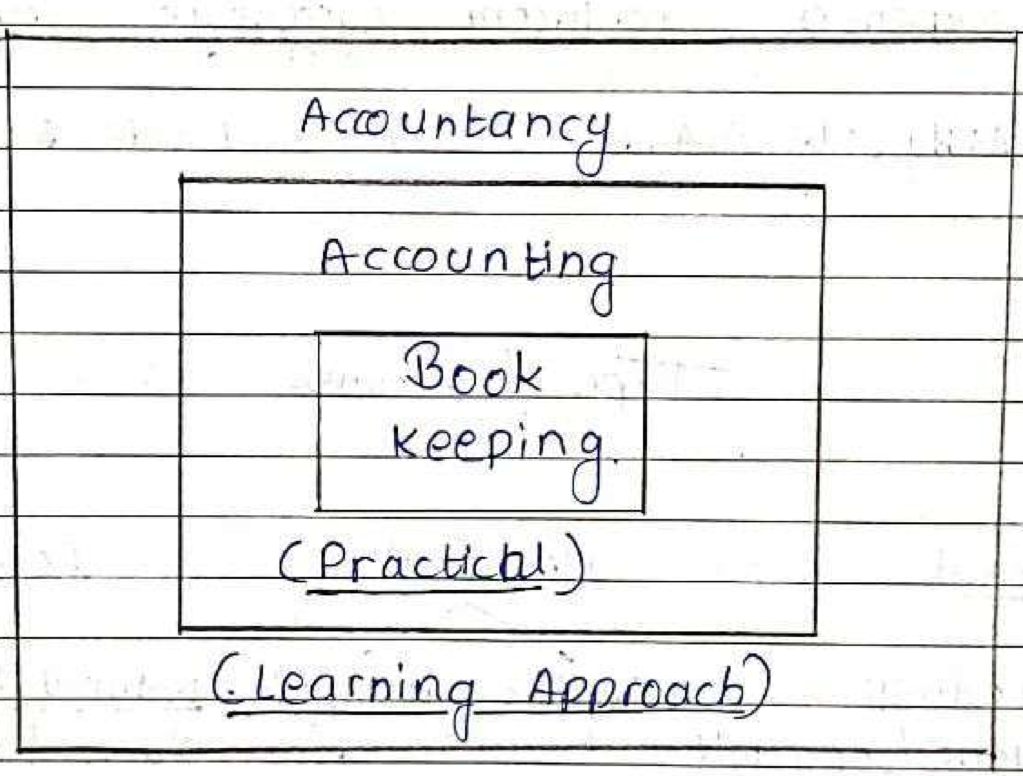
- Matching Principle:- Record all incomes and expenses for only current year and don't record expenses & incomes of next or previous year.

Examples:
Profit / loss for 2019-20 → Income for 2019-20 - Expenses for 2019-20



- Accountancy :- Contains rules, principles which explains how to do accountancy.

- Accounting : IE is the actual process.

- Book-keeping : Journal & Ledger.

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Outstanding Expenses	Acrue Income	Prepaid Expenses.	Advance Income
Accrual	Accrual	Matching	Matching.
① Add in current yr. expenses	① Add in current yr. Income	① Deduct from current yr. exp.	① Deduct from current yr. income
② Liability side	② Asset side	② Asset side	② Liability side.

Types of Accounts.

Real

- Goodwill
- Patent /copyright
- Land & building
- Furniture
- vehicle
- Computer
- Gold / Investment
- Cash.

Nominal

Exp/loss

- paid.
- P&S.
- octroi
- theft
- Electricity
- Salary.

Income/gain

- Received

Personal.

- Natural Personal A/c
  Name & Surname
- Artificial Person A/c
  Companies, banks, schools, govt., hospitals, firms
- Representative personal A/c.
  Capital A/c, drawing A/c, O/s exp. A/c, accrued income A/c.

NON PROFIT ORGANISATION.

Date 31.8.19

1) Profit Organisation	Non-Profit Org.
1) Profit & loss A/c	- Income & Expenditure A/c [It is also based on periodic matching and accrual concept] - Profit : Known as 'surplus' for NPO - Loss : Known as 'deficit' for NPO.
2) Balance Sheet	Balance Sheet (Same Principle)
Additionally Cash Book	Receipt and Payment A/c

- Difference between Income and Expenditure A/c and Receipt and Payment A/c.

I & E A/c	R & P A/c.
- Accrual principle strictly followed	- Accrual की ऐसी की तैसी. Accrual not followed

Income & Expenditure	Receipt and Payment
- Only revenue expenditure are recorded. (Capital exp. are shown as asset) . Example: 1) Salary Paid → Dr. of I&E 2) Building purchased → Balance sheet (not in I&E) Both payment side (only dep. on building is debited to I & E)	- Receipt and Payment recorded irrespective of whether it is capital or revenue item.
3) Sports material consumed is recorded here on Dr. of I & E	- Payment for sports material is recorded here (irrespective of use).
- It records Income & Exp. of current year only. ∴ Advance income and prepaid exp. are deducted/ excluded	- It records all receipt and payment including Advance income and prepaid exp. but outstanding exp. & acrued incomes are deducted/ excluded because there is no Receipt or Payment.
सोचो :- Expenditure or Income इस साल का है या नही.	सोचो :- Receipt या Payment हो गया है या नही.

• Common Adjutments:

1) Subscription (Income for NPO)

Subscription Received (Given in R & P A/c)	xxx
(−) Subscription outstanding last year	xxx
(−) Advance subscription in current year (belong to next year)	xxx
(+) O/s subscription of current year	xxx
(+) Advance subscription received in last year	xxx
Subscription income of current year	xxx

↑ Follow Reverse for Receipt of Subscription
('+' = '−' & '−' = '+')

↓

This format is applicable for expenses also.

2) Entrance fees or Admission fees:-

If nothing is specified then treated as revenue income (credit I & E A/c)

3) Life Membership fees:

Added in capital fund.

4) Donation Received:

- For specific Purpose
  - For Example: It is recvd For building
    - Show on liability side irrespective of fund.
- For General purpose.
  - Donation of small amt. or to meet revenue exp.
    - Cr. I & E A/c
  - If Question is silent
    - Capital receipt
      - Added in capital fund.

5) Legacies:

Added to Capital fund.

6) Special fund:

Show it on liability & income received by investing such asset also credited to special fund.

7) Sale of Asset:

Profit on loss on sale transferred to I & E A/c.

8) Sale of News paper.

Cr. Income & Expenditure A/c.

9) Material Consumed.
(Dr. to I & E A/c)

Opening Stock	xxx
(+) Purchase	xxx
cash + credit (If credit purchase is missing then prepare creditors A/c & find out B.F)	
(–) Closing stock	(xxx)
Material consumed	xxx

Paid to creditors for sports material.
↓
Creditors A/C

Dr.			Cr.
To Bank / cash (BF)*	xxx	By Bal. b/d	xxx
To Balance c/d. (closing)	xxx	By purchase (W.N. given below) If ↓ not given directly)	xxx
	xxx		xxx

↓
How to calculate Purchase
↓

Material Consumed	xxx
(+) Closing Stock	xxx
(–) Opening Stock	(xxx)
Total Purchase	xxx
(–) Cash purchase	(xxx)
Credit Purchase	xxx

1/9/19 10)
10) If opening capital fund is not given / missing then - Prepare opening Balance Sheet to find out opening ~~balance~~ capital as Balancing figure.

- Depriciation may be given directly in amount or percentage. Otherwise we can calculate it as follows. (Same as material consumed)

3. 9. 19

Opening	xxx
(+) Purchase / Addition to assets	xxx
(−) Sale (if any)	xxx
(−) Closing Balance	xxx
Depriciation	xxx

Question No. 1 **RTP May 2018 & Mock Test April 2019 (20 MARKS)**

Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

	₹		₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:
Membership subscription included ₹ 10,000 received in advance. Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.
Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.
75% of the entrance fees is to be capitalized.
Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for ₹ 40,000.

Answer

Smith Library Society Income and Expenditure Account for the year ended 31st March, 2018

Dr.					Cr.
Expenditure	₹	₹	**Income**		₹
To Electric charges		7,200	By Entrance fee (25% of ₹ 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000				
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Balance Sheet of Smith Library Society as on 31st March, 2018

Liabilities	₹	₹	**Asset**	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		Less: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	(16,700)	7,98,800	Less: Depreciation	(5,000)	45,000
Outstanding expenses:			Books	4,60,000	
Rent	4,000		Less Depreciation	(46,000)	4,14,000
Salaries	3,000	7,000	**Investment:**		
Membership subscription in advance		10,000	Securities	1,90,000	
			Accrued interest	500	1,90,500
			Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			**8,15,800**

Working Notes:

1. **Depreciation**

	₹
Electrical fittings 10% of ₹ 1,50,000	15,000
Furniture 10% of ₹ 50,000	5,000
Books 10% of ₹ 4,60,000	46,000

2. **Interest on Securities**

	₹	₹
Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

Question No. 2 **RTP Nov. 2018**

The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	**As on 01-04-2017 (₹)**	**As on 31-3-2018 (₹)**
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

Answer

Subscription for the year ended 31.3.2018

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	**2,17,500**

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	**₹**	**Assets**	**₹**
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

Question No. 3 **RTP May 2019**

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

Receipts		**Amount ₹**	**Payments**	**Amount ₹**
To Balance b/d		450	By Expenses (including For sports material ₹ 2,700)	6,300
To Annual Income from Payment Subscription	4,590			
Add: Outstanding of last year received this year	180		By Loss on Sale of Furniture (cost price ₹ 450)	180
	4,770		By Balance c/d	90,450
Less: Prepaid of last year	90	4,680		
To Other fees		1,800		
To Donation for Building		90,000		
		96,930		96,930

Additional information:

1. Trustwell club had balances as on 1.4.2017 : -
   Furniture ₹ 1,800; Investment at 5% ₹ 27,000;
   Sports material ₹ 6,660;
2. Balance as on 31.3.2018 :
   Subscription Receivable ₹ 270;
   Subscription received in advance ₹ 90;
   Stock of sports material ₹ 1,800.
   Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

Answer

Corrected Receipts and Payments Account of Trustwell Club for the year ended 31st March, 2018

Receipts	**₹**	**Amount ₹**	**Payments**	**Amount ₹**
To Balance b/d		450	By Expenses	
To Subscription			(₹ 6,300 - ₹ 2,700)	3,600
Annual Income	4,590		By Sports Material	2,700
Less: Receivable as on 31.3.2018	270		By Balance c/d	
Add: Advance received for the year 2018-2019	90		(Cash in Hand and at Bank)	90,720
Add: Receivable as on 31.3.2017	180			
Less: Advance received as on 31.3.2017	90	4,500		
Other Fees		1,800		
To Donation for Building		90,000		
To Sale of Furniture		270		
		97,020		**97,020**

Income and Expenditure Account of Trustwell club for the year ended 31st March, 2018

Expenditure		Amount	Income	Amount
		₹		₹
To Sundry Expenses		3,600	By Subscription	4,590
To Sports Material			By Other fees	1,800
Balance as on 1.4.2017	6,660		By Interest on investment	1,350
Add: Purchases	2,700		(5% on ₹ 27,000)	
Less: Balance as on 31.3.2018	1,800	7,560	By Deficit: Excess of Expenditure over Income	3,600
To Loss on sale of Furniture		180		
		11,340		**11,340**

Balance Sheet of Trustwell club as on 31st March, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure over Income	3,600	32,400	Less: Sold	450	1,350
			5% Investment		27,000
Building Fund		90,000	Interest Accrued on Investment		1,350
Subscription Received in Advance		90	Sports Material		1,800
			Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			**1,22,490**

Working Note:

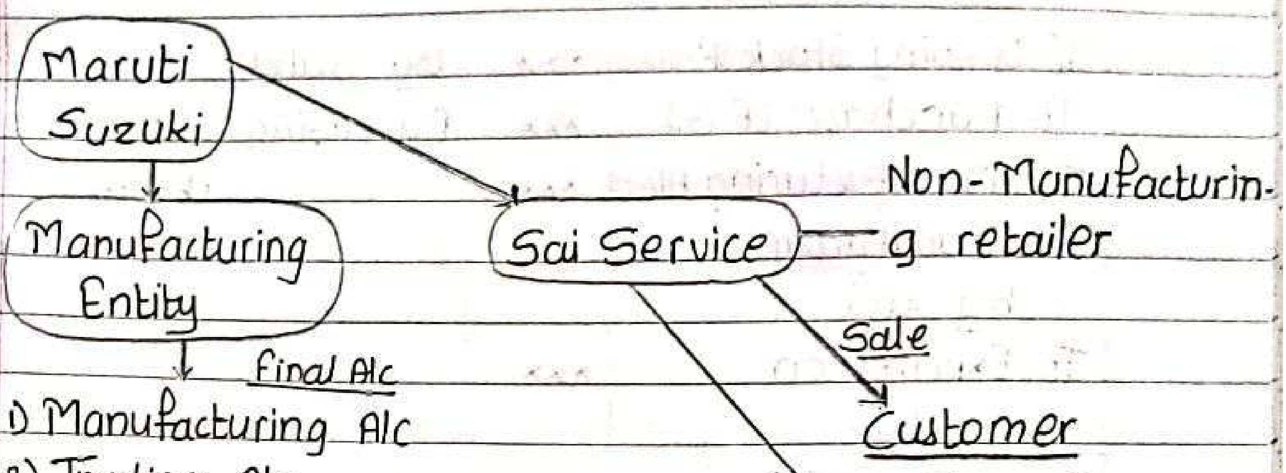
Balance Sheet of Trustwell Club as on 1st April, 2017

Liabilities	Amount	Assets	Amount
	₹		₹
Subscription Received in Advance	90	Furniture	1,800
Capital Fund (Balancing Figure)	36,000	Investment	27,000
		Sports Material	6,660
		Subscription Receivable	180
		Cash in Hand and at Bank	450
	36,090		**36,090**

FINAL ACCOUNT

21.8.19

(Sole Proprietership)



Manufacturing Entity — Final A/c

1) Manufacturing A/c
2) Trading A/c
3) P & L A/c
4) Balance Sheet

Non Manufacturing

1) Trading A/c
2) P & L A/c
3) Balance Sheet

Types of Expenses

Direct Expenses

1) Direct Material Consumed (Raw Material)

Opening Stock	xxx
(+) Purchase	xxx
(+) Exp. on Purchase	xxx
(–) Purchase Return	xxx
(–) Closing stock	xxx
Raw material consumed	xxx

2) Direct Labour

3) Other Direct Expenses

Indirect Expenses

Factory Overhead
- Indirect Material
- Electricity, coal, gas
- factory rent
- Supervisors Salary

Manufacturing A/c

Office & Administrative Overhead
- Dep. on computer
- Office rent
- Salary
- P&S
- Manager/ Accountant salary

P&L A/c

Selling & distribution
- Salesman salary
- Advertsmnt
- Showroom expenses
- Carriage Outward
- Dep. on delivery van
- free sample
- Bad debts

F.G. :- Finished Goods

Trading A/c

Dr.			Cr.
To Opening Stock (F.G)	xxx	By Sales	xxx
To Purchase (F.G.)	xxx	By Closing stock (F.G.)	xxx
To Manufacturing A/c (F.G. Manufactured by us)	xxx		
To Expenes on purchase	xxx		
To G.P. (B.D)*	xxx		
	xxx		xxx

P & L A/c

To Office and Administration expenses	xxx	By G.P.	xxx
To selling & distribution A/c	xxx		
To Net Profit (B.P)*	xxx		
	xxx		xxx

- **Types of Goods:**

	Opening	Closing
① Raw Material	Manu. Dr	RM Deduct from op. + Purchas
② Work in Progress	Manu. Dr.	WIP Manu. Cr- deduct from
③ Finished Goods	Trading Dr.	FG Trading Cr.

21 8 19

1) Raw Material Consumed:

Opening Stock (RM)	xxx
(+) Purchase (RM)	xxx
(+) Exp. on purchase (R	xxx
(-) Purchase Return (RM)	xxx
(-) Closing (RM)	xxx
• Raw material Consumed	xxxx
(+) Labour	xxx
(+) Factory Exp	xxx
(+) Opening WIP	xxx
(-) Closing Stock (WIP)	(xxx)
• Cost of goods manufactured / Produced	xxx
(+) Opening stock of F.G.	xxx
(-) Closing stock of F.G.	xxx
• Cost of Goods Sold	xxx
(+) Gross Profit	xxx
Sale	xxx

23/8/19

- Goods used for purpose other than sale / Goods not sold (Closing Stock)

Entry	Adjustment
Free sample A/c — Dr (Advertisement)	P & L A/c — Dr.
To Purchase A/c.	Trading A/c — Cr.

[illegible]
Periodicity,
Matching,
Accrual principle

Entry	Adjustment
Free Sample A/c — Dr.	P&L A/c — Dr
Donation A/c — Dr.	P&L A/c — Dr
Asset A/c — Dr.	Balance sheet
loss by fire/theft A/c — Dr.	P&L A/c — Dr
Drawings A/c — Dr.	(–) from capital
Closing Stock/Goods in transit A/c — Dr.	Asset
To Purchase A/c	Trading A/c. (Cr. side)

- Closing Stock always valued at cost or MP whichever is less. (Due to conservatism)

- Prepaid Expenses:

Entry	
Prepaid Exp. A/c — Dr To Bank A/c.	If separate entry is not recorded for prepaid exp. then such expenses are debited to expenses A/c which is not correct. 1st Effect - deduct from exp. 2nd -"- - Show on prepaid exp. on Asset side.

- Advance Income

Bank A/c — Dr To Advance Income A/c. (liab)	If separate entry is not recorded then adv. income gets included in income A/c. 1st effect: Deduct from Income 2nd -"- : Show it on liab. side

- Outstanding Expenses

Expenses A/c — Dr.	1: Add in respective exp.
To o/s exp. A/c (liability)	2: Show on liability side

- Accrued Income / Outstanding Income:

Acrued Income A/c — Dr	1: Add in Income.
To Income A/c	2: Show on asset side

- Depreciation (P&L A/c)

Depreciation A/c — Dr	1: Dr. in P&L A/c.
To Asset A/c	2: Deduct from asset.

- Bad-debts & Provision for doubtful debts.
  (Conservatism)

Provision Created

P&L A/c — Dr
To provision for
doubtful debts A/c

Bad-debts or further bad
debts provision for
doubtful debts A/c — Dr.
To Debtors A/c

P & L A/c

Bad debts	xxx
(+) New / further bad-debts	xxx
(+) New RDD	xxx
(-) Old RDD	xxx
Dr. to P&L A/c	xxx

Balance Sheet

If answer is negative then cr. this amount to P & L A/c.

Debtors	xxx
(-) New bad-debts	xxx
(-) New RDD	xxx
Debtors	xxx

- Debtors

Debtors	xxx
(-) New Bad debts	xxx
(-) New Discount	xxx
	xxx
(-) Provision for Bad-debts	xxx
	xxx
(-) Provision for discount	xxx
	xxx

- Abnormal loss/ loss due to fire (Goods):

(Assume loss- 10L)

Loss by fire A/c	— Dr	10.00.000	-
To purchase A/c		-	10.00.000

Insurance Company Accepted claim of ₹ 8.00.000

Insurance Company A/c	— Dr	8.00.000	-
P & L A/c	— Dr	2.00.000	-
To loss by fire A/c		-	10.00.000

- Income Tax Paid:

Sole Proprietors	Company / Firm
↓	↓
Tax paid is treated as drawing	Tax paid is treated as Business expenses.
↓ Deduct from capital	↓ P&L A/c
Drawing A/c — Dr To Bank A/c	Income Tax A/c — Dr To Bank A/c.

Final accounts

Question No. 1 (Final Account & Rectification of Errors) RTP May 2018, RTP Nov. 2019

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

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

Additional Information:

1. Purchases include sales return of ₹2,575 and sales include purchases return of ₹1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹450 were included in wages account.
4. Free samples distributed for publicity costing ₹825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

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

Answer

Rectification Entries

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

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

Dr.	**Amount**	**Amount**	**Cr.**	**Amount**	**Amount**
	₹	₹		₹	₹
To Opening stock		32,250	By Sales	2,13,575	
To Purchases	1,53,100		Less: Sales return	2,575	2,11,000
Less: Purchases return	1,725	1,51,375	By Closing stock		
To Carriage inward		1,125	= 80,000 x 100/80 x 100/80		1,25,000
To Wages		11,715			
To Gross profit c/d		1,39,535			
		3,36,000			**3,36,000**
To Salaries		22,550	By Gross profit b/d		1,39,535
To Rent		4,300	By Bad Debts recovered		450
To Advertisement expenses		4,175			
To Printing and stationery		1,250			
To Bad debts		1,100			
To Carriage outward		1,350			
To Provision for doubtful					

debts 5% of ₹1,20,000	6,000				
Less: Existing provision	3,200	2,800			
To Provision for discount on debtors 2.5% of ₹1,14,000	2,850				
Less: Existing provision	1,375	1,475			
To Depreciation:					
Plant and machinery	3,000				
Furniture and fittings	1,025	4,025			
To Office expenses		10,160			
To Interest on loan		3,000			
To Net profit (Transferred to capital account)		83,800			
		1,39,985			**1,39,985**

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

	Amount	**Amount**		**Amount**	**Amount**
Liabilities	₹	₹	Assets	₹	₹
Capital account	65,000		Plant and machinery	20,000	
			Less: Depreciation	3,000	17,000
Add: Net profit	83,800		Furniture and fittings	10,250	
	1,48,800		Less: Depreciation	1,025	9,225
Less:	11,500		Closing stock		1,25,000
Drawings		1,37,300	Sundry debtors	1,20,000	
Bank overdraft		80,000			
Sundry creditors		47,500	Less: Provision for doubtful debts	6,000	
Payable salaries		2,450	Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			**2,67,250**

Question No. 2 **RTP Nov. 2018**

The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	Cr.
	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-

Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	______
	5,11,330	5,11,330

The following adjustments are to be made:

(1) Included amongst the debtors is ₹3,000 due from Ram and included among the creditors ₹1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to ₹600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹400 had been omitted from the books.

(8) Stock on 31.12.2017 was ₹78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017.

Answer

Trading and Profit and Loss Account of Mr. Hari for the year ended 31st December, 2017

	₹	₹		₹	₹
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		Less: Returns	(8,600)	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	(5,800)				
	3,16,300				
Less: Drawings	(600)	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			**4,59,600**
To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and Stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			

To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings		500			
To Net profit		34,503			
		81,940			**81,940**

Balance Sheet of Hari as at 31st December, 2017

Liabilities	₹	₹	**Assets**	₹	₹
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		Less: Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			Less: Provision for bad & doubtful debts (W.N.2)	1,150	
Cash 30,000				21,850	
Goods 600	30,600	80,593	Less: Provision for discount (W.N.2)	437	21,413
Bank loan		20,000	Stock		78,600
Bank interest due		1,700	Prepaid expenses:		
Sundry creditors (W.N.3)		14,200	Printing & stationary		3,600
			Bank balance		8,000
			Cash balance		380
		1,16,493			**1,16,493**

Working Notes:

(1) Sundry debtors

Balance as per trial balance	24,000
Less: Due to Ram	1,000
	23,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹23,000	1,150

Provision for discount:

2% on ₹21,850 (23,000 -1,150)	437

(3) Sundry creditors

Balance as per trial balance	14,800
Less: Set off in respect of Ram	1,000
	13,800
Add: Purchase invoice omitted	400
	14,200

Date 15.5.19.

BANK RECONCILIATION STATEMENT:

Deposit 10.000

Ⓐ → Businessman

→ Bank A/c — Dr 10.000
To Cash A/c 10.000

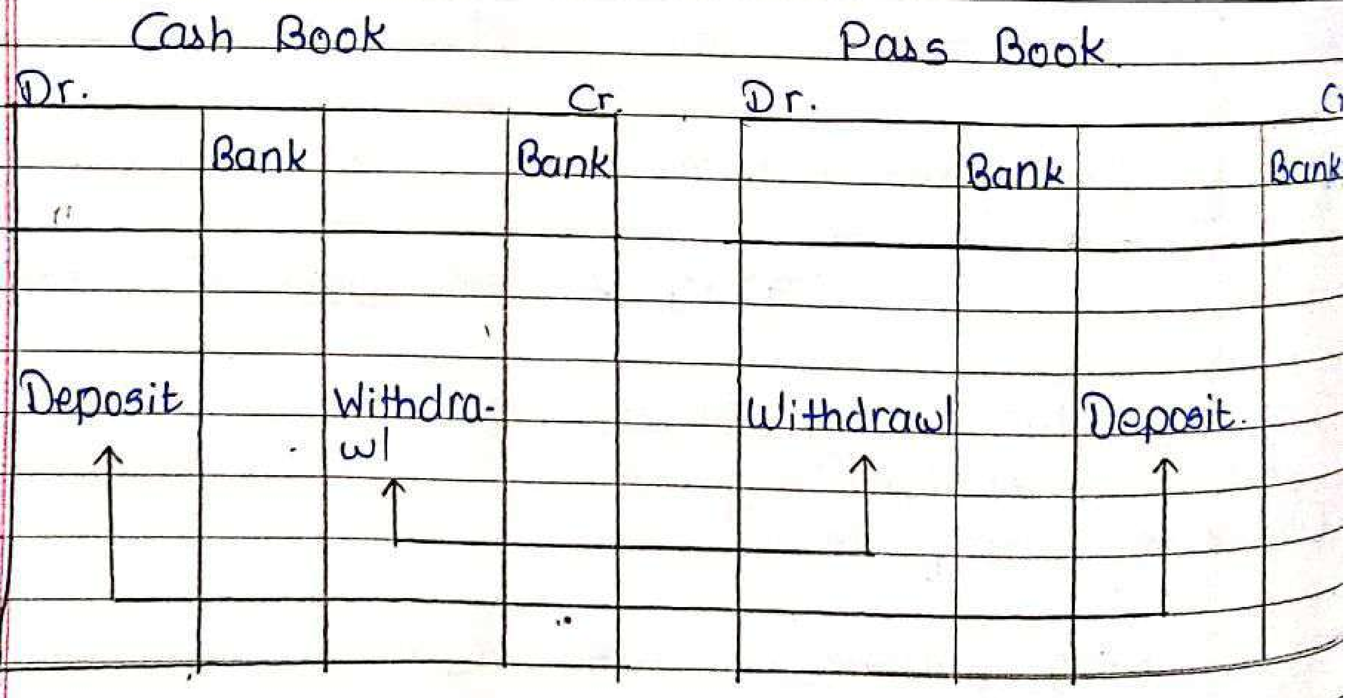
Ⓑ → In the books of bank

Cash A/c — Dr 10.000
To Customer/A A/c 10.000.

Withdrawal 5.000.

Cash A/c — Dr 5.000
To Bank A/c 5.000.

Customer/A A/c — Dr 5.000
To Cash A/c 5.000.



Rule 1:

Dr. Balance as Cash Book = Cr. Balance as per pass book = Bank Balance/ Favourable Bal.

Rule 2:

Cr. Balance as per Cash Book = Dr. Balance as per Pass Book = Overdraft / Unfavourable / Negative Bal.

चलो जी आज साफ साफ कहता हूँ, इतनी सी बात है !

Dr. side of Cash Book (Bank Column) = Deposit

Reasons of Difference in Cash Book & Pass Book.

- Mistakes / Errors
- Timing Difference
- Fraud

TIMING DIFFERENCE:

- It is not a mistake
- Transaction recorded in cash Book and in Pass Book at different dates

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- When transaction is recorded in one book but not recorded in another book then there will be difference in balances of both the books:

e.g.

① Cheque deposited but not cleared or cheque paid into Bank but not yet credited.

	Cash Book	Pass Book.
When	First	later. (When cheque is cleared)
Where	Dr. side	Cr. side.
Effect	↑ (–)	↓ (+)
If overdraft (old)	(+)	(–)

Date 16/5/19

② Cheque issued / drawn but not presented:

Cash Book	Pass Book
First	Later (When cheque presented)
Cr. ↓	Dr. ↑
(+)	(−)
Old (−)	(+)

③ Interest charged by Bank OR Direct Payment by bank.

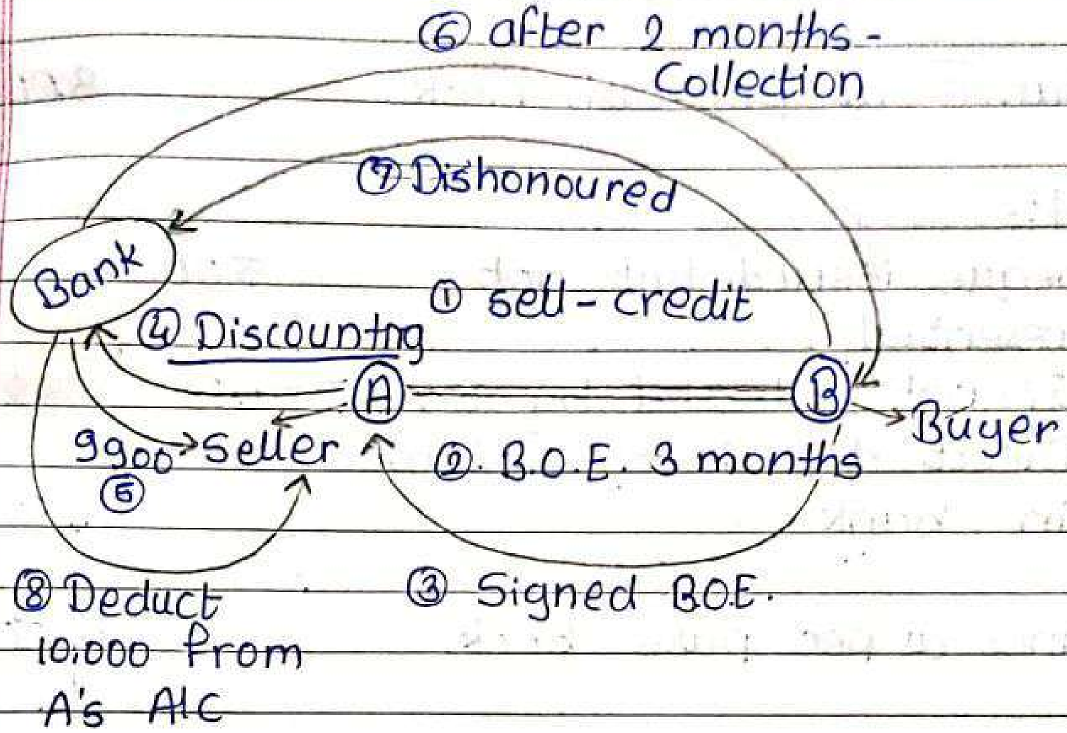
Cash Book	Pass Book
Later (When P.B. is updated)	First
Cr. Side ↑	Dr.-side ↓
(−)	(+)
Old (+)	(−)

④. Direct collection by Bank.
Direct deposit by customer in Bank.
Interest allowed by Bank.

Cash Book	Pass Book.
later (after updation of P.B).	first
Dr. side ↓	Cr. side. ↑
(+)	(−)

⑤. Bill discounted is dishonoured:

Cash Book	Pass Book.
Later ↑ Cr.side (−)	First. ↓ Dr.side. (+)
old (+)	Old (−)



7/5/19

- ★ Started with Bal. & Answer is positive = Balance
- ★ Started with Bal. & Answer is negative = Overdraft
- ★ Started with Old & Answer is positive = Overdraft
- ★ Started with old & Answer is negative = Balance.

Bank Reconciliation Statement

Question No. 1

Problem No. 1 : From the following entries in the Bank column of the Cash book of Saimurali and the corresponding pass book, prepare the bank reconciliation statement as on 30th September, 1983.

Bank Column Of Cash Book

Sept.	**₹**	**Sept.**	**₹**
1 To Ramprasad	1,500	1 By Balance b/d	2,500
12 To Vasantha Krishna	1,700	8 By Ramchandra	2,000
18 To Devidas	2,500	10 By Sainath	1,000
20 To KrishnaMurari	1,500	15 By Drawings	500
29 To Kailas Nath & Co.	1,000	20 By Salary	1,500
30 To Balance c/d	1,100	28 By Ghanshyam	1,800
	9,300		9,300

Saimurali In Account With Sivam Bank
Bank Pass Book

Sept.	**₹**	**Sept.**	**₹**
1 To Balance b/d	2,500	2 By Ramprasad	1,500
9 To Ramchandra	2,000	14 By Vasantha Krishna	1,700
11 To Sainath	1,000	19 By Devidas	2,500
15 To Drawings	500	25 By Sale of Security	1,500
20 To Salary	1,500	28 By Bills collected	300
25 To subscription to club	100	30 By Balance c/d	300
26 To LIC premium	50		
30 To Interest on o/d	150		
	7,800		7,800
Oct. 1. To Balance b/d	300		

Question No. 2

Problem No.2: The following is the summary of a cash book as presented to you for the month of December, 1977 :

Receipts	1,469	Balance brought forward	761
Balance, carried forward	554	Payments	1,262
	2,023		2,023

All receipts are banked and payments are made by cheque. On investigation you discover :

1. Bank charges of ₹ 136 entered in the bank statement had not been entered in cash book.
2. Cheques drawn amounting to ₹ 267 had not been presented to the bank for payment.

3. Cheques received totalling ₹ 762 had been entered in the cash book and paid into the bank, but had not been credited by the bank until January, 1978.
4. A cheque for ₹ 22 had been entered as a receipt in the cash book instead of as a payment.
5. A cheque for ₹ 25 had been debited by the bank erroneously.
6. A cheque received for ₹ 80 had been returned by the bank and marked "No funds available". No adjustment had been made in the cash book.
7. All dividends receivable are credited directly to the bank account. During December amounts totalling ₹ 62 were credited by the bank and no entries made in the cash book.
8. A cheque drawn for ₹ 6 had been incorrectly entered in the cash book as ₹ 66.
9. The balance brought forward should have been ₹ 711.
10. The bank statement as on 31st December 1977, showed an overdraft of ₹ 1,162.

You are required to:

- a) Show the adjustments required in the cash book, and
- b) prepare a bank reconciliation statements as on 31st December, 1977.

Capital Revenue Expenditure

Question No. 1

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

(1) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.
(2) Money spent to reduce working expenses is Revenue Expenditure.
(3) Legal fees to acquire property is Capital Expenditure.
(4) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.
(5) Amount spent for replacement of worn out part of machine is Capital Expenditure.
(6) Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.
(7) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.
(8) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the cinema house was ready, is Capital Expenditure.

Question No. 2

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

(1) Expenses incurred in connection with obtaining a license for starting the factory for ₹ 10,000.
(2) ₹ 1,000 paid for removal of Inventory to a new site.
(3) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.
(4) Money paid to Mahanagar Telephone Nigam Ltd. (MTNL) ₹ 8,000 for installing telephone in the office.
(5) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred in the construction of temporary huts for storing building material.

Question No. 3

Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2016.

(i) Second-hand furniture worth ₹ 9,000 was purchased; repainting of the furniture costs ₹ 1,000. The furniture was installed by own workmen, wages for this being ₹ 200.
(ii) Expenses in connection with obtaining a license for running the cinema worth ₹ 20,000. During the course of the year the cinema company was fined ₹ 1,000, for contravening rules. Renewal fee ₹ 2,000 for next year also paid.
(iii) Fire insurance, ₹ 1,000 was paid on 1st October, 2015 for one year.
(iv) Temporary huts were constructed costing ₹ 1,200. They were necessary for the construction of the cinema.
They were demolished when the cinema was ready.

Point out how you would classify the above items.

Question No. 4

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

1. Overhauling expenses of ₹ 25,000 for the engine of a motor car to get better fuel efficiency.
2. Inauguration expenses of ₹ 25 lacs incurred on the opening of a new manufacturing unit in an existing business.
3. Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Question No. 5

Classify the following expenditures and receipts as capital or revenue:

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

(ii) Amount received from Trade receivables during the year.

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

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

Question No. 6

Are the following expenditures capital in nature?

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

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

(iii) M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav& Co. spent ₹ 40,000 for transportation of such machinery. The year ending is 31st Dec, 2015.

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• TRANSACTIONS.

1) Mr. Y started business with cash ₹ 10,00,000.
2) Purchased machinery for ₹ 5,00,000.
3) Purchased computer on credit for ₹ 30,000 from A and company.
4) Paid salary worth ₹ 6,000.

→ Entries:

1)	Cash A/c ⟶ Dr	10,00,000
	To Capital A/c.	10,00,000.
2)	Machinery A/c ⟶ Dr	5,00,000
	To Cash A/c.	5,00,000.
3)	Computer A/c ⟶ Dr	30,000
	To A & Co. A/c.	30,000.
4)	Salary A/c ⟶ Dr	6,000
	To cash A/c.	6,000.

Cash A/c.

Dr.			Cr.
To Capital A/c.	10,00,000	By Machinery A/c.	5,00,000
		By Salary	6,000
		By Bal. c/d.	4,94,000
	10,00,000		10,00,000
To Bal. b/d.	4,94,000		

Capital A/c.

Dr			Cr
~~By~~ To Bal. b/d.	10,00000	By cash A/c.	10,00,000

Machinery A/c.

Dr.			Cr.
To Cash A/c	5,00,000	~~To~~ By Bal. c/d.	5,00,000.
To Bal. b/d.	5,00,000		

Computer A/c.

Dr.			Cr.
To A & Company A/c.	30,000.	By Bal. c/d.	30,000
To Bal. b/d.	30,000.		

A & Company A/c.

Dr.			Cr.
~~To~~ Bal. b/d.	30,000.	By Computer	30,000.

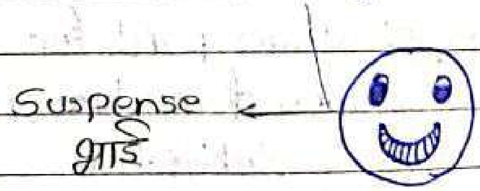
Salary A/c.

Dr			Cr
To Cash A/c	6,000.	By Bal. c/d.	6,000
To Bal. b/d.	6,000.		

Trial Balance.

Particulars	Dr. Balance	Cr. Balance
Cash	4,94,000	-
Capital A/C.	-	10,00,000.
Machinery A/C.	5,00,000	-
Computer	30,000	-
A & Company	-	30,000.
Salary.	6,000	-
Total.	10,30,000	10,30,000.

- If Dr. Amount = Cr. Amount then trial balance will agree / tally. — No effect on suspense A/c.
- If Dr. Amount ≠ Cr. Amount then trial balance won't tally. — Difference will go to suspense A/c.
  — On shorter side.
- Suspense A/c — जिथे कमी तिथे आम्ही!



- **Note:**
  - Suspense account may have Dr. or Cr.
  - balance.
  - If suspense account has Dr. Balance then it is to be shown on asset side and if suspense account has Cr. Balance then it is to be shown on liability side.

TYPES OF ERRORS.

- Error of principles
  - ↓ Accountant is not aware about few accounting rules therefore he will give effect to wrong A/C.
  - ↓ But trial balance will tally Beccause Dr. Amt = cr. Amt.
  - ↓ Example: wages paid for installation of machinery of ₹ 1,000 is debited to wages. A/c.
- Clerical errors
  - Error of ommission
  - Error of commission
  - Compensat errors

dification:
chinery A/c
Dr 1000
wages
c 1000

Correct: Machinery A/c → Dr 1000
To Cash A/c. 1000

Wrong: Wages A/c → Dr 1000
To Cash A/c. 1000

Date 9.4.19

Expenditure

Revenue Expenditure	Capital Expenditure.
↓	↓
- Recurring	- Non recurring
- Regular	- Not regular
- Benefit will receive in same year.	- Benefit will receive in next few years

---

Asset ready to use.	
Before	After
Capital	Revenue.
↓	Eception: ↓
All expenses incurred before use of aset.	If expenses incurred for expansion, increasing capacity/performance/reducing operating cost then it is capital exp.
↓	↓
Added in value of asset.	Added in P&L A/c.
↓	↓
Benefit received for more than 1 yr.	Benefit received in current yr.
↓	↓
① Purchase cost ② Loading, unloading ③ Transportation, Insurance ④ Site preparation ⑤ Installation charges/wages ⑥ Trial Run.	e.g. administrative & selling expenses, repairs, maintainance.

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Receipt.

Capital Receipt

- Non Recurring.

Generally it is received from activity which is not regular business activity.

① Loan taken
② Issue of shares / Debentures
③ Sale of asset.
④ Compensation Received from Govt. for aquisition of Asset

either treated as liability

Reduction in asset

Revenue Receipt.

Recurring.

Generally it is received on regular basis in regular course of business.

① Sale of goods.
② Commission received
③ Rent received.
④ Interest received.

Treated as income & credited to Trading & P&L account.

Clerical Errors. (जल्दबाजी मे गलतीया हो जाती है)

Error of Ommission

a) Partial Ommission:

↓

One effect given and another is pending.

↓

Trial balance won't tally. Bal./Totalling of A/c is ommited.

b) Complete ommission:

↓

Transaction not recorded/posted completely.

↓

Trial Balance will Tally.

Error of commission

↓ Trial Balance (T.B)

- Wrong A/c - ✓
- Wrong Amount - x
- Wrong side - x
- Wrong Totalling - x
- Wrong Balance - x

Compensating Errors

↓

Effect of one mistake is compensated by other mistake.

↓

No effect on Trial Balance.

↓

Trial Balance will Tally.

Clerical Errors. (जल्दबाजी मे गलतीया हो जाती है)

Error of Ommission

a) **Partial Ommission:**

One effect given and another is pending.

Trial balance won't tally: Bal./Totalling of A/c is ommited.

b) **Complete Ommission:**

Transaction not recorded / posted completely.

Trial Balance will Tally.

Error of commission

Trial Balance (T.B)

- Wrong A/c - ✓
- Wrong Amount - x
- Wrong side - x
- Wrong Totalling - x
- Wrong Balance - x

Compensating Errors

Effect of one mistake is compensated by other mistake.

No effect on Trial Balance.

Trial Balance will Tally.

ERRORS.

Having No effect on Trial Balance and Suspense A/c.

1) Error of principles.
2) Complete ommission
Transaction not recorded or not posted completely.
3) Wrong A/c, Wrong amt. on both sides (In error of omission)
4) Compensating errors.

Having effect on Trial Balance and Suspense A/c.

a) Partial Omission:
1) Dr. or Cr. not posted
2) One A/c is not totalled.
3) One A/c is not balanced.

b) Error of Comission:
1) Wrong side
2) Wrong Amount
3) Wrong totalling
4) Wrong balancing.

Real A/c → Balanced

Nominal A/c → closed

Personal A/c. → Balanced.

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- Transactions:

1) Amount ₹ 10.000 paid to Mr. A is credited to Mr. B.
2) Amount paid to Mr. X. ₹500 is credited to Mr. Y as 5,000/-.
3) Amount ₹3,000. paid to Mr. P is debited to Mr. Q ₹ 300.
4) Furniture purchased by Furniture Dealer is debited to Furniture A/c ₹ 15,000
5) Rent paid ₹ 5,000 is not recorded.
6) Wages paid ₹ 1000 is not debited to wages A/c.

Correct Entry	Wrong/Actual entry	Rectification Entry
1) Mr. A A/c → Dr 10,000 To Cash A/c 10000	Suspense A/c → Dr. 20000 To Cash A/c 10,000 To B's A/c 20,000.	Mr. A's A/c → Dr 10,000 Mr. B's A/c → Dr 10,000 To Suspense A/c. 20,000
2) Mr. X A/c → Dr 500 To Cash A/c. 500	Suspense A/c → Dr 5500 To Cash A/c 500. To Y's A/c 5000	Mr. X's A/c → Dr 500 Mr. Y's A/c → Dr 5000 To Suspense A/c 5,500.
3) Mr. P A/c → Dr 3,000 To Cash A/c 3,000	Mr. Q's A/c → Dr 300. Suspense A/c → Dr 2,700 To Cash A/c 3,000.	Mr. P's A/c → Dr 3,000. To Q's A/c 300 To Suspense A/c 2,700
4) Purchase A/c → Dr 15,000 To Cash A/c. 15,000	Furniture A/c — Dr 15,000 To Cash A/c 15,000	Purchase A/c — Dr 15,000 To Furniture A/c 15,00

5)	Correct Entry.	Wrong/Actual Entry	Rectification Entry.
5)	Rent A/c — Dr 5000 To Cash A/c 5000	No Entry.	Rent A/c → Dr 5000 To Cash A/c 5000
6)	Wages A/c — Dr 1000 To Cash A/c 1000	Suspense A/c — Dr 1000 To Cash A/c 1000.	Wages A/c — Dr 1000 To Suspense A/c 1000

Question No. 1 **RTP May 2018, RTP Nov. 2019**

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

1. Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.
2. Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 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.

Answer

(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 (₹ 800) will be taken.

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

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

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

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	

Question No. 2 RTP May 2019

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

I. A purchase of ₹ 5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.

II. A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.

III. Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of of ₹ 90 to M/s Bantu Bros. has been omitted.

IV. A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Answer

Journal Proper of Suman & Co.

Rectification Entries

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	M/s Mintu & Co. A/c	6,500	
	To M/s Minu & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated....as ₹ 6,500 in M/s Mintu & Co.'s Account in place of M/s Minu & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for ₹ 9,800 dated as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Bantu Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).		
(iv)	M/s Bantu Bros. A/c	9,700	
	T o Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated.... is being rectified).		

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

Question No. 3 May 2018 (4 Marks)

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

1. Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.
2. A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.
3. Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.
4. An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Answer

Journal Entries

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

Question No. 4 Nov. 2018 (10 Marks)

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

I. Sales Day Book was overcast by ₹ 1,000.
II. A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.
III. General expenses ₹ 180 was posted in the General Ledger as ₹ 810.
IV. A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.
V. Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.
VI. Cash received from Ram was debited to Shyam ₹ 1,500.
VII. While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

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

Answer

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

Suspense A/c

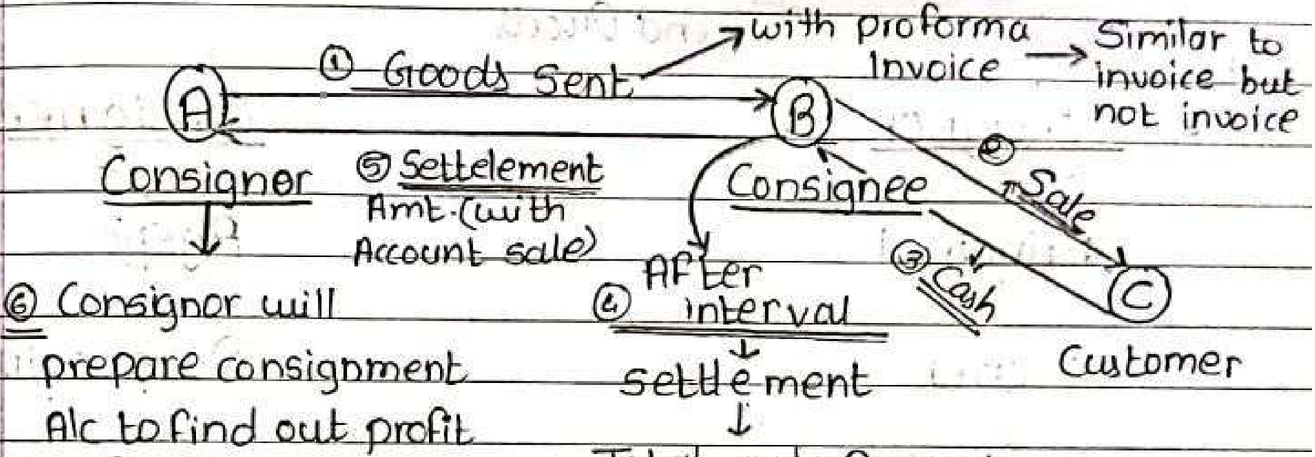
	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram To Shyam	1,500 1,500	By Difference in Trial Balance (Balancing figure)	2,720
To P&L Adjustment A/c	90		
	3,720		3,720

CONSIGNMENT

01.08.19

- **Consignment** :
  To Dispatch (Goods)

- **Invoice Price (IP)** = Cost Price (CP) + Loading.



Total sale Proceeds	xxx
(–) Commission	xxx
(–) Expenses incurred by consignee on behalf of consignor	xxx
(–) Advance (If Any)	xxx
Settlement Amt.	xxx

- **Account Sale** : Details of all transactions given by consignee.

- Separate consignment A/c for each consignee
- Profit or loss from consignor A/c shall be transferred to P & L A/c.

- Advance
  - Normal → Adjusted in full.
  - Advance as an security → Adjusted in proportion to sale.

28/19

Send Goods.

- Consignor → Principal → Owner → Risk → Profit

  Consignee → Agent → Possession → No Risk → Commission

Cost Price	Invoice Price
↓	↓
100%	50% $\left(\frac{1}{2}\right)$
50% $\left(\frac{1}{2}\right)$	33.33% $\left(\frac{1}{3}\right)$
33.33% $\left(\frac{1}{3}\right)$	25% $\left(\frac{1}{4}\right)$
25% $\left(\frac{1}{4}\right)$	20% $\left(\frac{1}{5}\right)$
20% $\left(\frac{1}{5}\right)$	16.67% $\left(\frac{1}{6}\right)$

Stock Reserve is loading included in closing stock.

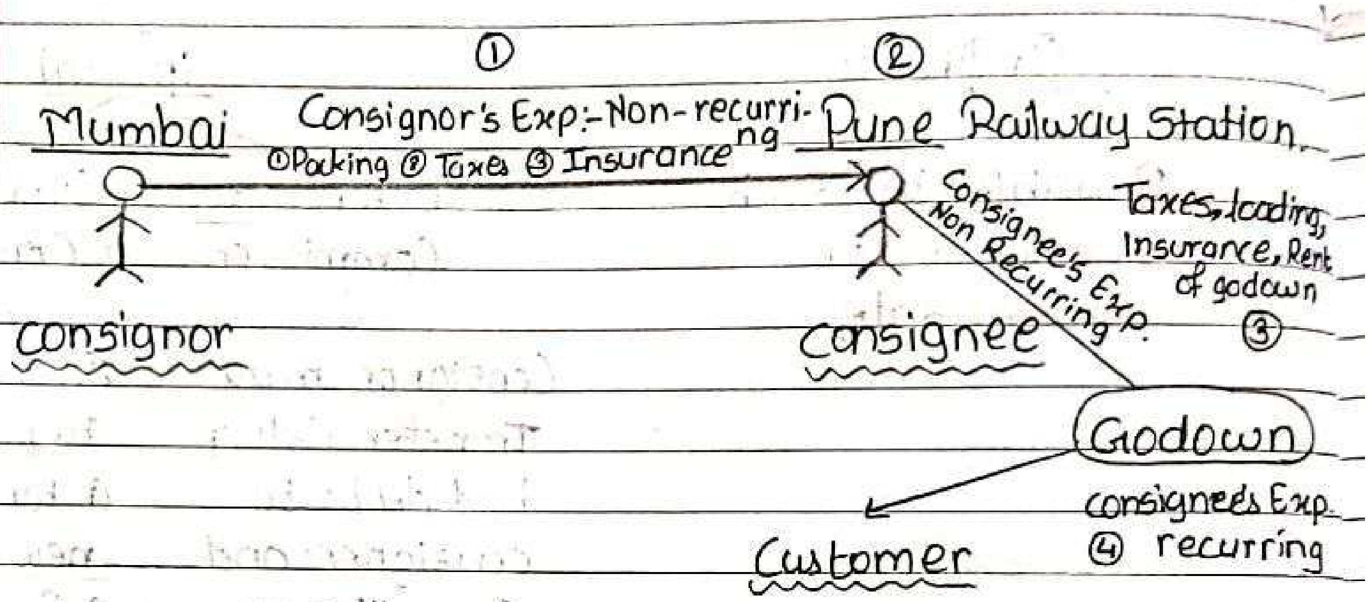
2 / 8 / 19

COMMISSION

- **Ordinary**
  - Payable to each consignee on Gross sale.
- **Special**
  - **Delcredere Commission**
    - Consignor may transfer risk of bad-debts to consignee and he will pay extra commission for sale, such commission is known as Del credere commission.
      - Generally Responsibility of consignor
        - Consignment A/c debited.
      - If Del credere commission given then it it loss/ responsibility of consignee
        - Comm^n will Dr. to comm^n earned A/c.
  - **Over riding Commission**
    - Given in two cases:
      ① for sale of new product
      ② for selling goods at higher price than normal price.
      - Calculation method is given otherwise gross sale

Consignment A/c debited / Comm^n will Dr. to comm^n earned A/c → Calculated on Gross Sale.

- Valuation of Closing Stock:

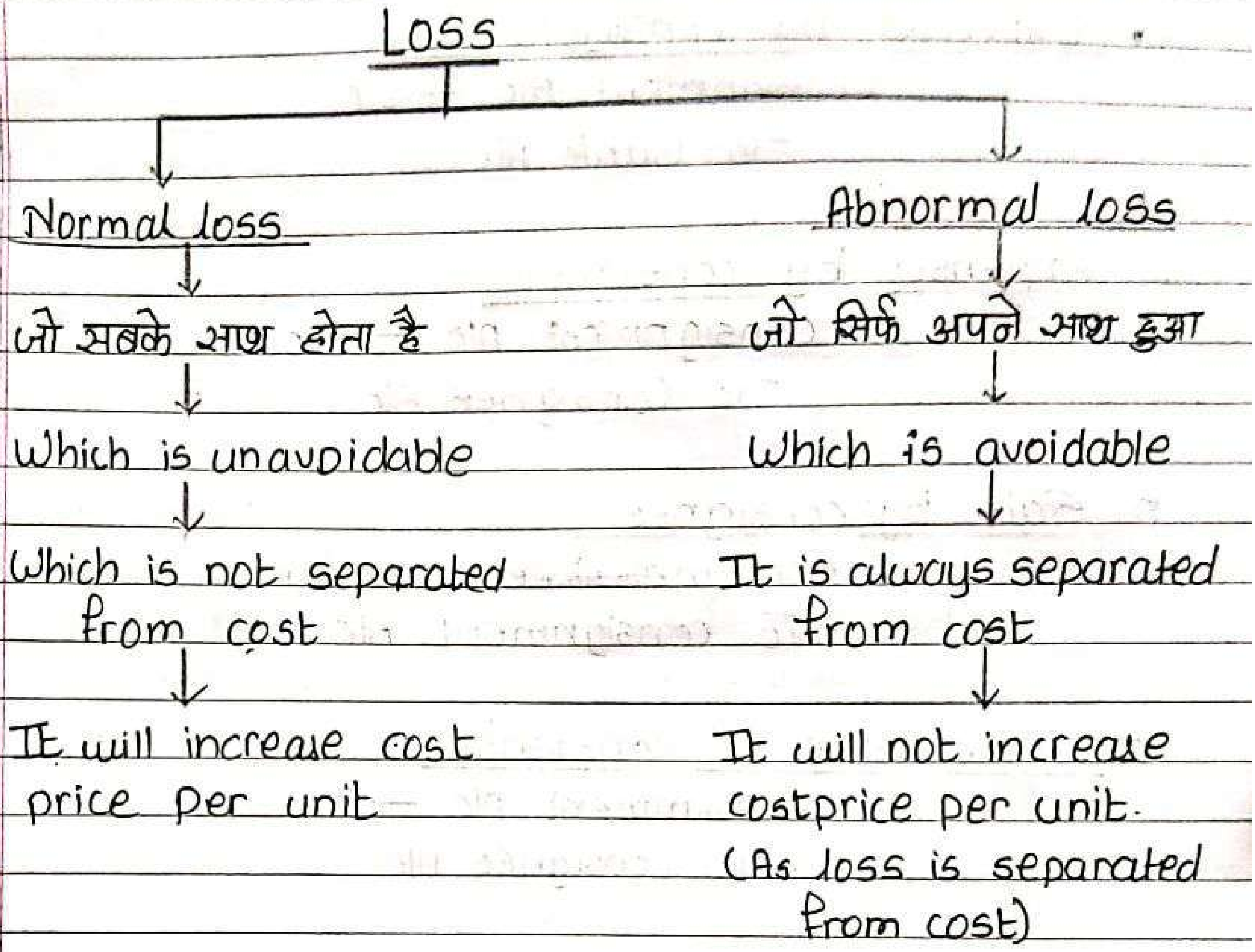


- Valuation of Closing Stock in Godown = Cost of goods + Proportionate Non Recurring exp. of consignor + Pro-N.R. exp. of consignee

Valuation of closing stock lost in godown = ——— " ———

Goods lost in Transit = Cost of goods + Pro. N.R. exp. of consignor.

- Abnormal loss is always calculated on cost price and not at invoice price.



- Loss

Normal loss
↓
जो सबके साथ होता है
↓
Which is unavoidable
↓
Which is not separated from cost
↓
It will increase cost price per unit

Abnormal loss
↓
जो सिर्फ अपने साथ हुआ
↓
Which is avoidable
↓
It is always separated from cost
↓
It will not increase costprice per unit. (As loss is separated from cost)

18/8/19 ① Goods Sent on Consignment at invoice price or cost price.

Consignment A/c —— Dr
To Goods sent ~~of~~ on consignment A/c.

② loading on goods sent (Only if goods are sent at invoice price).

Goods sent on consignment A/c —— Dr
To Consignment A/c.

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③ Expenses by consignor:

Consignment A/c — Dr
To Bank A/c.

④ Expenses by consignee.

Consignment A/c — Dr
To Consignee A/c.

⑤ Sale by consignee

Consign~~ment~~ee A/c — Dr
To consignment A/c.

⑥ Commission of consignee.

Consignment A/c — Dr
To consignee A/c.

⑦ Settlement amount paid by consignee to consignor.

Bank A/c — Dr
To consignee A/c.

⑧ Entry for consignment stock (closing Stock)

Consignment stock A/c — Dr
To consignment A/c.

⑨ Entry for abnormal loss.

Abnormal loss A/c — Dr
To consigment A/c.

- This abnormal loss will be transferred to P&L A/c.

Consignment

Multiple choice Questions

1. Ram of Kolkata sends out goods costing 1,00,000 to Y of Mumbai at 20% profit on invoice price. 1/10'" of the goods were lost in transit. 1/2 of the balance goods were sold. The amount of stock reserve On consignment stock will be:

(a) 4,500 (b) 9,000 (c) 11,250 (d) None

2. On 1st July Krishnan of Chennai consigned 100 bales of cotton to Dheeraj of Hyderabad (Cost price 7,500) at a proforma invoice price of 25% profit On sales. Consignment accounted would be credited for loading by_

(a) 2,000 (b) 1,500 (c) 2,500 (d) 3,300

3. X of Kolkata sends out 500 bags to Y costing 400 each at an invoice price or 500 each. Consignor's A/c expenses 4,000 consignee's expenses, non-selling 1,000, selling 2,000. 400 bags were sold. The Stock Reserve will be -

(a) 10,000 (b) Nil (c) 20,000 (d) 20,400

4. Rabin consigned goods for the value of 8,250 to Raj of Kanpur paid freight etc. of 650 and insurance 400. Drew a bill of Raj at 3 months after date for 3,000 as an advance against consignment, and discounted the bill for 2960. Received Account sales from Raj showing that part of the goods had realized gross 8,350 and that his expenses and commission amounted to 870. The stock unsold was valued at 2,750. Consignee wants to remit a draft for the amount due. The amount of draft will be:

(a) 2130 (b) 4480 (c) 5130 (d) 5090

5. X of Kolkata sends out goods costing 1,00,000 to Y of Delhi. 3/5th of the goods were sold by consignee for 70,000, commission 2% on sales plus 20% of gross sales less all commission exceeds cost price. The amount of commission will be:

(a) 2833 (b) 2900 (c) 3000 (d) 2800

6. A of Mumbai sold goods to b of Delhi, the goods are to be sold at 125% of cost which is invoice price. Commission 10% on sales at IP and 25% of any surplus realized above IP. 10% of the goods sent out on consignment, invoice value of which is 12,500 were destroyed. 75% of the total consignment is sold by B at 1,00,000. What will be the amount of commission payable to B?

(a) 10,937.50 (b) 10,000 (c) 9,000 (d) 9,700

7. X of Kolkata sends out goods costing 3,00,000 to Y of Delhi. Commission agreement 2% on sales + 3% on sales as del-credere commission. The entire goods is sold by consignee for 4 lacs. However, consignee is able to recover 3,95,000 from the debtors. The amount of profit to be transferred to P/L as net commission by consignee will be:

(a) 15,000 (b) 22,000 (c) 21,000 (d) 20,000

8. B sold 50 televisions at 15,000 per television. He was entitled to commission of 500 per television sold plus one fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of 12,500 per television sold. Amount of commission will be -

(a) 45,000 (b) 50,000 (c) 40,000 (d) 35,000

9. 1000 kg of apples are consigned to a wholesaler, the cost being 3 per kg plus Rs.400 of freight, it is known that a loss of 15% is unavoidable. The cost per kg will be:
(a) 5 (b) 4 (c) 3.40 (d) 3

10. X of Kolkata sends out 2000 boxes to Y of Delhi costing 100 each. Consignor's expenses 5000. *1/10th* of the boxes were lost in consignee's godown and treated as normal Loss 1200 boxes were sold by consignee. The value of consignment stock will be
(a) 68333 (b) 61500 (c) 60000 (d) 60250

11. Mahendra of Madras sent goods to Jaya of Delhi at an invoice price of 29,675. He paid freight 762; cartage 231 and insurance 700. On the way one-fourth of the goods was lost by fire and claim of 5,000 was recovered from the insurance company. calculate abnormal loss
(a) 5,000 (b) 7,842 (c) 2,419 (d) 2,842

12.X sends out 1000 bag to Y costing 200 each. Consignor's expenses 4000, V's expenses non-selling 4000, selling 5000, 100 bags were lost in transit. Value of loss in transit will be:
(a) 20,400 (b) 20,800 (c) 20,000 (d) 21,300

13. 200 cases @ 150 case were sent on consignment. 180 cases @ 250 per case were sold by consignee. Expenses incurred by consignor were: freight 1,500, Insurance 850, loading charges 250. Expenses incurred by consignee were: Unloading 200, Storage 200, selling expenses 100, Insurance 150. Find the value of unsold stock
(a) 3,315 (b) 3,325 (c) 3,280 (d) 3,295

14. A of Ahmadabad consigned goods of 10,000 to M of Madras and paid Rs. 500 for expenses. The consignee paid 100 for freight and 50 godown rent. 80%of goods were sold and commission of 500 was paid. Find the value of closing stock
(a) 2,000 (b) 2,120 (c) 2,100 (d) 2,030

15. Goods sent out on consignment 2,00,000. Consignor's expenses 5,000. Consignee's expenses 2000. cash sales 1,00,000, credit sales 1,10,000. Consignment stock 40,000.. Ordinary commission payable to consignee 3,000. Del-credere commission 2,000. The amount irrecoverable from customer 2,000. What will be the profit on consignment?
(a) 38,000 (b) 40,000 (c) 36,000 (d) 43,000

16. Goods sent on consignment 7,60,000. Opening consignment stock 48,000. cash sales 7,00,000. Consignor's expenses 20,000. Consignee's expenses 12,000. Commission 20,000. Closing consignment stock 3,00,000. The profit on consignment is:
(a) 1,50,000 (b) 1,40,000 (c) 92,000 (d) None

Practical Questions

Question No. 1 **RTP May 2018**

Mr. A of Assam sent on 18th February, 2017 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

B sold on 15th March, 2017, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2017, 300 DVD players @ ₹ 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2017.

You are required to prepare the consignment account and B's account in the books of A.

Answer

In the books of A
Consignment Account

Dr.		Amount	Cr.		Amount
		₹			₹
2017			2017		
Feb. 18	To Goods Sent on Consignment account	1,00,000	March 15	By B's account (Sales) (600 x ₹ 160)	96,000
Feb. 18	To Cash/Bank account (Expenses)	1,500	May 20	By B's account (Sales) (300 x ₹ 170)	51,000
Feb. 18	To B's account (Clearance charges)	3,000	June 30	By Consignment Stock (Working note 2)	10,450
June 30	To B's account: Selling expenses (900 x ₹ 20)	18,000			
	Commission (Working note 1)	24,900			
June 30	To Profit and loss account (profit on consignment transferred)	10,050			
		1,57,450			1,57,450

B's Account

Dr.		Amount	Cr.		Amount
		₹			₹
2017			2017		
March 15	To Consignment Account (Sales)	96,000	Feb 18	By Consignment account (Clearance charges)	3,000
May 20	To Consignment Account (Sales)	51,000	June 30	By Consignment account: Selling expenses Commission	18,000 24,900
			June 30	By Cash/Bank account	1,01,100
		1,47,000			**1,47,000**

Working Notes:

1. **Calculation of total commission: Let total commission be *x***

x = 900 × ₹ 25 + ¼ [(₹ 96,000 + ₹ 51,000) – x – (900 × ₹ 125)]

x = ₹ 22,500 + ¼ [₹ 1,47,000 – x – ₹ 1,12,500]

x = ₹ 22,500 + ¼ [₹ 34,500 – x]

4x + x = ₹ 90,000 + ₹ 34,500

5x = ₹ 1,24,500

x = ₹ 24,900

2. **Valuation of consignment stock:**

100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A (₹1,500×100)/ 1,000	150
Proportionate expenses paid by B (₹3,000×100) /1,000	300
	10,450

Question No. 2 **RTP Nov. 2018**

On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

Answer

In the books of Mr. Jill

Consignment Account

Date 2018	*Particulars*	₹	*Date* 2018	*Particulars*	₹
Jan. 1	To Goods sent on Consignment A/c (Invoice price)	1,50,000	Jan. 1	By Goods sent on Consignment A/c (Loading) ₹ (1,50,000 – 1,00,000)	50,000
Mar.31	To Bank A/c Consignor's Expenses	10,000	Mar.31	By Jack – Sales	**1,20,000**
Mar.31	To Jack – Expenses	3,000	Mar.31	By Stock on Consignment A/c 1/5 x ₹ (1,50,000+10,000+3,000)	32,600
	– Commission* (0.05 x ₹ 1,20,000)	6,000			
Mar.31	To Stock Reserve	10,000			

	A/c (₹ 50,000 x 1/5)				
	To Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600			
		2,02,600			2,02,600

*Invoice price of goods sold: = 4/5 of ₹ 1,50,000 = ₹ 1,20,000.

The goods were sold for ₹ 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack.

Jack's Account

Particulars	**₹**	**Particulars**	**₹**	**₹**
To Consignment A/c -		By Consignment A/c:		
Sales	1,20,000	Expenses	3,000	
		Commission	6,000	9,000
		By Bills Receivable A/c		1,00,000
		By Bank A/c (Balancing figure)		11,000
	1,20,000			**1,20,000**

1)①

PARTNERSHIP.

Date 10 / 9 / 19

- As per partnership Act, following rules will apply to partners / firm of if unless agreed :-

1) Profit sharing ratio is equal
2) No right to receive interest on capital.
3) No right to receive remuneration / salary.
4) Partner can claim interest on advance / loan given to partner at 6% p.a.

Above rules may changed by agreement between partners.

- Interest on capital is payable only if agreed.
(Given in problem).

- Interest on capital shall be paid only in case of profit. In case of loss no partners are received interest on capital.
- But if there is insufficient profit then available prof shall be distributed in capital ratio.

- Interest on Capital (for full year)	xxx
- Interest on Additional Capital (Calculate interest from the date of introduction of capital to year end)	xxx
	xxx

1) Prefer Notes

Methods of Partners Capital

- **Fixed Capital Method**
  - Prepare : 1) Capital A/c
    2) Current A/c
- **Fluctuating Capital Method.**
  - Prepare : Capital A/c

- Interest is not payable on current A/c.

Interest on Drawing

- When drawing is not uniform/ regular or there is no consistant pattern of date & amount of drawing
  - Calculate interest on drawing Separately on each drawing from date of drawing to ~~you~~ year end.
- When drawing is uniform and there is consistant pattern in date & amount
  - Drawing of same amt. at beginning of month
    - Calculate interest for 6.5 months on annual drawing
  - Drawing of same amt at middle of month
    - Calculate interest for 6 months on annual drawing
  - Drawing of same amt. at end of month
    - Calculate interest for 5.5 months on annual drawing

- Guarantee of Minimum Profit : (Refer Notes)

- GOODWILL :

Gaining partner shall pay amount of goodwill to sacrificing partner as an compensation.
∴ Amount of goodwill shall be distributed in sacrificing ratio.
- If nothing is specified about sacrificing ratio and new PSR then it may be assumed that old PSR of those partners is sascrificing ratio.

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1) Partner Introduced Goodwill in cash
↓
Option 1 : Goodwill shown in capital only.
Bank A/c — Dr
To New partners Capital A/c
(Capital + goodwill)

New partner capital A/c — Dr
(Gaining)
To Sacrificing partner A/c
(Only goodwill amt. in sacrificing return)

2) Partner is not introduced goodwill in cash
↓
Then adjust it from his capital

3) Settlement outside firm
↓
No Entry

Same
(Option 1)

Option 2:

Bank A/c — Dr.	+	Premium for Goodwill A/c — Dr.
To New partner capital A/c		To sacrificing partner cap. A/c
To Premium for Goodwill A/c		

4)

- **Methods of Goodwill Valuation :**

1) Average Profit Method:

Average Profit x No. of year of purchase.

2) Super Profit Method:

Super profit x No. of year of purchase

Super profit = Average profit - Normal Profit.

Normal Profit = Capital Employeed x Normal Rate of Return.
(N.R.R.)

- **3) Capitalization Method :**

Goodwill = Normal Capital - Actual Capital

$$\text{Normal capital} = \frac{\text{Average Profit}}{\text{Normal rate of return}}$$

Actual Capital = Assets - Liabilities

4) Annuity Method :

Goodwill = Super Profit x Sum of discounting factors of of No. of years of purchase

$$\frac{1}{1+r}$$

5)

Average Profit

Past Adjustment

- Wrong Valuation of Inventory / Depreciation in any year.
- Abnormal loss / Gain.

Reverse the above situation & in respective years of profit & find out correct profit for each yr.

If either continuous decrease in profit OR continuous increase in profit ↓ Weighted Average Method ↓

2017	10,000 × 1	=	10,000
2018	20,000 × 2	=	40,000
2019	30,000 × 3	=	90,000
	6		1,40,000

$$\frac{1,40,000}{6} = \boxed{23,333}$$

If profit is fluctuating ↓ Simple Average Method ↓

1st 2nd 3rd

$$\frac{10,000 + 30,000 + 20,000}{3}$$

$$= \underline{20,000}$$

Find Average

Future Adjustment

↓ Always adjusted from average profit.

Example:

1) It is proposed that every partner shall get salary / remuneration from next year.

2) Interest on Capital

↓

Now this is final profit (Average) for calculation of goodwill

- Admission of Partner:

Steps:

1) Calculation of new PSR or Gaining / Sacrificing ratio.
(If not given / if required)

2) Balance to reserves and Profit & loss A/C before admission shall be credited to old partners in old PSR.

3) Revaluation of assets and liabilities:
If profit on revaluation : Credit to old partners in old PSR.

If losses on revaluation : Debit to old partners in old PSR.

4) Introduction of capital by new partner and Introduction of share of goodwill by new partner.

5) Adjustment of Goodwill (In gaining / sacrificing ratio)

6) Maintaining Proportionate Capital.
(Only if specified in problem).

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- Revaluation of Assets and Liabilities.

Revaluation A/c is prepared to find out profit or loss on revaluation. (Nominal A/c)

Revaluation A/c.

Dr.			Cr.
Loss:		Profit	
- Increase in liability and		- Decrease in liability	xxx
- decrease in asset. (Unrecorded liability)	xxx	- Increase in assets (Includes unrecorded assets)	xxx
If Profit* (Credit old partner in old PSR).	xxx	If Loss* (Dr. old partners in old PSR)	xxx

- Increase in Asset:

  Asset A/c —— Dr.
  To Revaluation A/c.

- Decrease in Asset:

  Revaluation A/c —— Dr.
  To Asset A/c.

- Increase in Liability:

  Revaluation A/c —— Dr.
  To liability A/c.

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- Decrease in Liability:

Liability A/c — Dr.
To Revaluation A/c.

- If firm is willing to Revaluate Asset without affecting values of Assets & Liabilities:

In other word firm can follow process of revaluation without making changes in values of assets.

Dr. Cr.

Capital:		Land	10.00.000
A	5.00.000		
B	5.00.000		
	10.00.000		10.00.000

Land revalued at 25.00.000. New partner introduced 5.00,000 as capital and his share will be 1/5th. No changes in value of asset to be made.

Memo. Revaluation A/c

Dr. Cr.

To Profit*	15.00.000	Land ↑	15.00.000
	15.00.000		15.00.000

New Partner (C) Capital A/c —— Dr 3.00.000 -
To (Gaining) (15.00.000 x 1/5)
To A's Capital A/c - 1,50,000
To B's Capital A/c - 1,50,000

New Balance Sheet

Capital:			
A(5L + 1.5 L)	6.50.000	Land	10.00.000
B(5L + 1.5 L)	6.50.000	Cash:	
C (5L - 3 L)	2.00.000	New Partner	5.00.000
	15.00.000		1500.000

- HIDDEN GOODWILL:

New Partners Capital × Reciprocal (Reverse) share of new partner = ~~40,000~~ xxx

~~14,000~~ × ~~5/1~~

(−) Actual Capital of all partners = (xxx)

Goodwill xxx

Date 15/9/19

RETIREMENT & DEATH:

Steps :-

1) Adjustment of Goodwill. (Similar to admission)

2) Revaluation of Assets & liabilities. (Similar to admission)

3) Calculation of New PSR / Gaining or sacrificing ratio. (Similar to admission)

4) Distribution of Balance of Reserves & Surplus / P&L A/c.

5) Adjustment of Joint life Policy.

6) Repayment of Capital of outgoing partner:
   If not repaid then it is credited to
   outgoing partners loan A/c (in case of retirement) / Executors loan A/c (in case of death)

7) Calculate profit sharing of current year taking the base of profit of last year.

- ## Distribution of Balance of Reserves & Surplus

Share Balance of Reserves & surplus between all partners.

If R&S = 1,50,000
PSR = A : B : C
1 : 1 : 1

A B C
50,000 50,000 50,000

No balance in R.&S A/C.

Share of only outgoing partner transferred to outgoing partners capital A/c

If R & S = 1,50,000
& PSR = A : B : C
1 : 1 : 1

C will receive 50,000

∴ Balance of R & S 1,00,000

Balance of R&S will be constant & remaing partner will pay outgoing partner share in R & S out of their capital A/c.

A's Cap. A/c — Dr 2500
B's Cap. A/c — Dr 2500
To C's Cap. A/c 5000

∴ Balance of R& S 1,50,000.

- **JOINT LIFE POLICY :**

- TLP may be taken jointly or severally

In case of Death
Policy amount is receivable

In case of Retirement
Surrender value can be claimed.

- Jointly

A B C

Jointly
1 Policy
↓
Death of C
↓
Policy Amount
↓
Profit distributed to all partners in PSR

Severally

A	B	C
Policy 1	Policy 2	Policy 3
↓	↓	↓
Surrender Value	Surrender Value	IF Death ↓ Policy Amt.

↓
Profit on 3 policies shall be distributed to all partners in PSR.

- Methods

Business Expenditure Method	Surrender Value Method	Joint life Policy Reserve Method.
↓	↓	↓
Premium paid is treated as expenditure	JLP is treated as asset & shown at surrender value	(It is extension of 2nd Method) Additionally JLP reserve is maintained.
↓	↓	↓
Payment made → Insu. Premi A/c — Dr To Bank A/c	JLP A/c — Dr To Bank	All treatment same as 2nd Method except we have to create JLPR A/c from P&L A/c to the extent of Surrender value
→ P & L A/c — Dr To Insu. Prem A/c	→ Not Applicable	↓

Additionally entry is made → P & L A/c — Dr
To JLPR A/c

- Surrender Value Method:

Example:

	Premium	Surrender Value
1st year	20.000	0
2nd year	20.000	20.000
3rd year	20.000	50.000
4th year	20.000	80.000
5th year	20.000	1,20.000

JLP A/c (Asset S.V)

	Dr.			Cr.
1st yr	To Bank A/c	20.000	end. By P&L A/c	20.000
		20.000		20.000
3rd year	To Bank A/c	20.000		
	To Balance b/d.	20.000		
	To P&L A/c (B.F)*	10.000	By Bal. c/d	50.000
		50.000		50000
2nd year	To Bank A/c	20.000	By Balance c/d	20.000
		20.000		20.000
4th year	To Bal. b/d	50.000		
	To Bank A/c	20.000		
	To P & L A/c (B.F.)*	10.000	By Bal. c/d	80.000
		80.000		80.000
5th year	To Bal b/d	80.000		
	To Bank A/c	20.000		
	To P & L A/c (B.F.)*	20.000	By Bal. c/d	1,20000
		1,20.000		1,20,000

Treatment in case of Retirement and Death :

	Business Expenditure	Surrender Value	JLPR A/c
	How to Identify this method: ↓ → No JLP & JLPR A/c in Balance sheet → Or problem specifies that premium charged to P&L A/c or against revenue	How to identify ↓ Only JLP A/c is on Asset side	How to Identify ↓ JLP A/c on asset side + JLPR A/c on liability side.
Retirement	Whatever amt. received shall be credited to partners capital A/c in old PSR (Previously amt. paid is treated as expense in full ∴ receipt is treated as income)	Firm will receive S.V. & ∴ no profit & no effect to partners capital A/c ↓ Bank A/c —Dr To JLP A/c ↓ (If Q. specifies that amt. is less or higher then only Dr. or Cr. Partners capital A/c)	Same + Balance of JLPR credited to all partners capital A/c in old PSR. ↓ JLPR A/c — Dr To All partners Capital A/c

In case of Death : (Policy amt. received).

Business expenditure	Surrender value	JLPR
Same as above	Bank A/c —Dr To JLP A/c (S.V) To all partner's capital A/c (in old PSR) ↓ Amt Received in excess of S.V.	same as above + same

MCQ'S

1. A and B are partner sharing profits and losses in the ratio 5:3. On admission, C brings ₹ 70,000 cash and ₹ 48,000 cash against Goodwill. New profit sharing ratio between A,B,C is 7:5:4. The sacrificing ratio among A and B is:
A. 3:1 **B.** 4:7 **C.** 5:4 **D.** 2:1

2. A and B are partners sharing profits in the ratio 7:3. C is Admitted as new partner. 'A' surrenders 1/7 of his share and B's Surrenders 1/3rd of his share in favour of C. the new profit sharing ratio will be:
A. 6:2:2 **B.** 4:1:1 **C.** 3:2:2 **D.** None.

3. A and B are partners sharing profits in the ratio 5:3, they admitted C giving him 3/10th share of profit. If C acquires 1/5th share from A and 1/10th from B, new profit sharing ratio will be:
A. 5:6:3. **B.** 2:4:6. **C.** 18:24:38. **D.** 17:11:12

4. A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹ 30,000. Find the contribution of A and C to compensate B.
A. ₹ 20,000 and ₹ 10,000. **B.** ₹ 8,000 and ₹ 4,000.
C. They will not contribute anything. **D.** Information is insufficient for any comment.

5. A and B are partners in a firm sharing profits in the ratio of 3:2. They admit C as the new partner for 1/6th share in the profits. The firm goodwill was valued at ₹ 1,50,000/-. For adjustment of goodwill, C's account will be debited by
A. ₹ 20,000. **B.** ₹ 15,000. **C.** ₹ 25,000. **D.** None of the three.

6. A firm has on average profit of ₹ 60,000. Rate of return on capital employed is 12.5% p.a. Total capital employed in the firm was ₹ 4,00,000. Goodwill on the basis of two years purchase of super profits is
A. ₹ 20,000 **B.** ₹ 15,000 **C.** ₹ 10,000 **D.** None of the above.

7. Find the goodwill of the firm using capitalization method from the following information: Total capital employed in the firm ₹ 80,00,000. Reasonable rate of return 15% Profits for the year ₹ 12,00,000
A. ₹ 68,00,000. **B.** ₹ 12,00,000. **C.** ₹ 11,88,000.D. Nil.

8. A firm earns profit of ₹ 1,10,000. The normal rate of return in a similar type of business is 10%. The value of total assets (excluding goodwill) and total outside liabilities are ₹ 11,00,000 and ₹ 1,00,000 respectively. The value of goodwill is
A. ₹ 1,00,000 **B.** ₹ 10,00,000 **C.** Nil. **D.** None of the above.

9. X and Y are partners sharing profits and losses in the ratio 5:3. They admitted Z for 1/5th share of profits, for which he paid ₹ 1,20,000 against capital and ₹ 60,000 against the Goodwill. Find the capital balances for each partner taking Z's capital as base capital:
A. ₹ 3,00,000, ₹ 1,20,000, and ₹ 1,20,000
B. ₹ 3,00,000, ₹ 1,20,000, and ₹ 1,80,000
C. ₹ 3,00,000, ₹ 1,80,000, and ₹ 1,20,000
D. ₹ 3,00,000, ₹ 1,80,000, and ₹ 1,80,000

10. A and B are partners of a firm sharing profits in the ratio of 3:2. C was admitted for 1/5th share of profit. Machinery would be appreciated by 10% (Block value ₹ 80,000) and Building would be depreciated by 20% (₹ 2,00,000). Unrecorded debtors of ₹ 1,250 would be bought to books and creditors of ₹ 2,750 died and needn't to pay anything. What will be the Profit /Loss on Revaluation?
A. Loss ₹ 28,000 **B.** Loss ₹ 40,000
C. Profit ₹ 28,000 **D.** Profit ₹ 40,000

11. At the time of admission of new partner in a firm, the journal entry for an unrecorded investment of ₹ 30,000 will be:

A. Revaluation A/c…………………………Dr.	30,000	
To Unrecorded Investment A/c		30,000
B. Unrecorded Investment A/c …………Dr.	30,000	
To revaluation A/c		30,000
C. Partner's Capital A/c …………………Dr.	30,000	
To Unrecorded Investment A/c		30,000
D. Unrecorded Investment A/c ………….Dr.	30,000	
To Partners capital A/c		30,000

12. Mr. X is a partner in a firm. He withdraws ₹ 200 at the end of each month. If rate of interest is @ 5% p.a., the interest on drawings is

A. ₹ 65 **B.** ₹ 55 **C.** ₹ 60 **D.** ₹ 50

13. Rishi is a partner in a firm. He withdrew the following amounts during the year ended on 31st December, 2009.

February 1	**₹ 12,000**
April 30	**₹ 6,000**
June 30	**₹ 9,000**
August 31	**₹ 12,000**
October 1	**₹ 8,000**
December 31	**₹ 7,000**

Interest on drawings @ 9% p.a. will be

A. ₹ 2,295 **B.** ₹ 2,000 **C.** ₹ 2,200 **D.** None of the above

14. The profit of the M/s ABC, a partnership firm before charging managerial commission is ₹ 44,000. The managerial commission is charged @ 10% on profit after charging such commission. The amount of managerial commission will be

A. ₹ 4,400 **B.** ₹ 40,000 **C.** ₹ 4,000 **D.** ₹ 39,600.

15. A, B, and C are partners sharing profits and losses in the ratio of ½, 3/10, and 1/5. B retires from the firm, A and C decided to share the future profits and losses in 3:2. Calculate gaining ratio:

A. 1:2 **B.** 3:2 **C.** 2:3 **D.** None

16. A, B and C are partners with profits sharing ratio 4:3:2. B retires. If A & C shares profits of B in 5:3, then find the new profit sharing ratio.

A. 47:25. **B.** 17:11. **C.** 31:11. **D.** 14:21.

17. A, B, and C were partners in a firm sharing profits and losses in the ratio of 2:2:1. The capital balances of A, B, and C are ₹ 50,000, ₹ 50,000 and ₹ 25,000 respectively. B declared to retire from the firm on 1st April, 2008. Balances on reserves on the date was ₹ 15,000. If goodwill of the firm was valued as ₹ 30,000 and profit on revaluation was ₹ 7,050, then what amount will be transferred to the loan account of B?

A. ₹ 70,820 **B.** ₹ 50,820 **C.** ₹ 25,820 **D.** ₹ 20,820

18. X, Y, Z are partners sharing profits and losses equally. They took a joint life policy of ₹ 5,00,000 with a surrender value of ₹ 3,00,000. The firm treats the insurance premium as an expenses Y retired and Z and Z decided to share profits and losses in 2:1. The amount of Joint Life Policy will be transferred as:

A. Credited to X, Y and Z's capital Accounts with 1,00,000 each
B. Credited to X, Y and Z's capital Account with 1,66,667 each
C. Credited to X, and Z capital accounts with ₹ 2,50,000 each
D. Credited to Y's capital account with ₹ 3,00,000 each

19. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹

2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy premium is fully charged to revenue as and when paid?

A. ₹ 50,000 credited to all the partners in old ratio.
B. ₹ 2,50,000 credited to all the partners in old ratio.
C. ₹ 2,00,000 credited to all the partners in old ratio.
D. No treatment is required.

20. A, B and C takes a Joint Life Policy, after five years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹ 2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at the surrender value?

A. ₹ 50,000 credited to all the partners in old ratio.
B. ₹ 2,50,000 credited to all the partners in old ratio.
C. ₹ 2,00,000 credited to all the partners in old ratio.
D. No treatment is required.

21. A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹ 2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at surrender value along with the reserve?

A. ₹ 50,000 credited to all the partners in old ratio.
B. ₹ 2,50,000 credited to all the partners in old ratio.
C. ₹ 2,00,000 credited to all the partners in old ratio.
D. Distribute JLP Reserve Account in old profit sharing ratio.

Practical Questions

Question No. 1 RTP May 2018

On 31st March, 2017, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		**80,000**

On 1st April, 2017, 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 ₹10,000.
(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.
(v) Provisions for bad debts should be provided at 5%.
(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
(ix) Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.
(x)

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 1.04.2017.

Answer

(a) Revaluation Account

Date	Particulars	₹	Date	Particulars	₹
2017 April	To Plant & Machinery	6,000	2017 April	By Land and building	6,000
	To Stock of goods	2,000		By Sundry creditors	2,000
	To Provision for bad and doubtful debts	550		By Cash & Bank - Joint life Policy surrendered	7,550
	To Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2,000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000			
		15,550			15,550

(b) Partners' Capital Accounts

Dr.	Cr.

Particulars	P	Q	R	Particulars	P	Q	R
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To P's Capital A/c - goodwill	-	1,000	3,000	By Balance b/d	20,000	30,000	20,000
To Cash & bank A/c - (50% dues paid)	13,000	-	-	By Revaluation A/c	2,000	3,000	2,000
To P's Loan A/c -(50% transfer)	13,000	-	-	By Q & R's Capital A/cs - goodwill	4,000	-	-
To Balance c/d	-	35,000	35,000	By Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
	26,000	36,000	38,000		26,000	36,000	38,000

(c) Cash and Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	7,000	By P's Capital A/c - 50% dues paid	13,000
To Revaluation A/c - surrender value of joint life policy	7,550	By Balance b/d	20,550
To Q's Capital A/c	3,000		
To R's Capital A/c	16,000		
	33,550		33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2017

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		Add: Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	Less: Depreciation 30%	6,000	14,000
			Stock of goods	12,000	
Sundry Creditors		8,000	Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:

Goodwill of the firm =	14,000
Mr. P's Share (2/7) =	4,000

Gaining ratio of Q & R;
Q = ½ - 3/7 = 1/14
R = ½ - 2/7 = 3/14
Q:R = 1:3
Therefore, Q will bear - ¼ X 4000 or ₹1,000
R will bear = ¾ X 4000 or ₹3,000

Question No. 2 **RTP Nov. 2018 , Mock Test April 2019 (10 Marks)**

Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2018 is as under:

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

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

a) Goodwill is to be valued at ₹1 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 ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.
    i. The surplus funds, if any, will be used for repaying bank overdraft.
    ii. The amount due to retiring partner shall be transferred to his loan account.

Required:
Prepare
(a) Revaluation account;
(b) Partners' capital accounts;
(c) Bank account; and
(d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Answer

Revaluation Account

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R 12,160	60,800
	63,800		63,800

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Invt. A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	**56,000**	**1,12,160**	**60,000**		**1,10,400**	**56,000**	**1,12,160**	**60,000**

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA Co.as at 1st April, 2018

Liabilities	₹	₹	**Assets**	₹	₹
Capital Accounts:			Land		10,000
P	80,000		Buildings		1,90,000
Q	80,000		Plant and Machinery		1,04,000
R	40,000	2,00,000	Furniture		43,000
Long Term Debts		3,00,000	Inventories		1,30,000
Trade payables		1,70,000	Trade receivables		1,39,000

Q's Loan Account		22,760	Less: Provision for Doubtful Debts	(27,800)	1,11,200
			Balance at Bank		1,04,560
		6,92,760			**6,92,760**

Question No. 3 RTP May 2019

A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Sundry Creditors		12,900	Building		26,000
Bill Payable		4,100	Furniture		5,800
Bank Overdraft		9,000	Stock-in-Trade		21,400
Capital Account:			Debtors		35,000
A	44,000		Less: Provision	200	34,800
B	36,000	80,000	Investment		2,500
			Cash		15,500
		1,06,000			1,06,000

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

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

Answer

(i) Revaluation Account

	₹		₹
To Furniture	870	By Building	3,200
To Stock	1,070	By Sundry creditors	1,400
To Provision of doubtful debts (₹1,750 -1,550 ₹ 200)	1,550	By Investment	450
To Outstanding wages	1,560		
	5,050		**5,050**

(ii) Partners' Capital Accounts

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To Balance c/d	71,000	54,000	25,000	By Balance b/d	44,000	36,000	-
				By Cash A/c	-	-	25,000
				By Goodwill A/c (Working Note)	27,000	18,000	
	71,000	**54,000**	**25,000**		**71,000**	**54,000**	**25,000**

(iii) Balance Sheet of New Partnership Firm (after admission of C) as on 1.1.18

Liabilities	₹	**Assets**	₹
Capital Accounts:		Goodwill	45,000
A 71,000		Building (26,000 + 3,200)	29,200
B 54,000		Furniture (5,800 - 870)	4,930
C 25,000	1,50,000	Stock-in-trade (21,400 - 1,070)	20,330
Bills Payable	4,100	Debtors 35,000	
Bank Overdraft	9,000	Less: Provision for bad debts (1,750)	33,250
Sundry creditors (12,900-1,400)	11,500	Investment (2,500 + 450)	2,950
Outstanding wages	1,560	Cash (15,500 + 25,000)	40,500
	1,76,160		1,76,160

Working Note:

Calculation of goodwill

C's contribution of ₹ 25,000 consists only 1/6th of capital.
Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.
But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.

Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 - ₹ 1,05,000).

Question No. 4 May 2018 (10 Marks)

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

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

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	**₹**
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

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

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

Answer

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs: A 2,31,000 B 1,54,000 C 77,000	4,62,000		
	5,62,000		5,62,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹

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

Balance Sheet as on 1.4.2018 (After B's retirement)

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

Working Notes:

Calculation of goodwill:

1. **Average of last 4 year's profit**

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

2. **Goodwill at three years' purchase**
   = ₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

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

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INVENTORY.

- Inventory : Depends on business.

Types of Business.

Purchases of Goods.	Printing & Stationery	Laptop dealer	Car dealer.
Purchase of laptop.	Asset	Stock	Asset.
Printing & stationery	Stock	Expenses	Expenses.
Car.	Asset	Asset	Stock.

- Inventory Includes :-
  ① Raw Material
  ② Work in Progress
  ③ Finished Goods.

- Agent : A person acting on behalf of others

Valuation of Inventories.

At cost or Net Realisable Value. (Whichever is less.)

At cost

Goods are Homogenous

↓

Methods:-

① FIFO

② LIFO

③ Simple Average

④ Weighted Average

Goods are not Homogenous.

↓

① Specific Identification Method.

Net Realisable Value.

↓

① For finished Goods

↓

Sale Price/Market Price - Selling Exp.

② For W.I.P.

↓

Sale Price (–) Expected selling exp. (–) Expected cost of completion.

③ For Raw Material.

↓

for raw material there is no NRV. but there is replacement cost.

↓

Valuation depends on finished Goods:-

① If finished Goods valued at cost :- R.M. also valued at cost.

② If F.G. Valued at NRV :- R.M. valued at replacement cost.

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• Valuation of Inventories Before or After Closing Date.

Assume that Closing Date is 31st March.

Valuation Before closing date Assume:- 20th March		Valuation After Closing date 10th April (Valuation completed)	
Value as on 20th March	xxx	Value as on 10th April	xxx
(+) Purchase between 20th March to 31st March	xxx	(–) Purchase between ~~20th March to~~ 31st March to 10th April	xxx
(–) Cost of sales between 20th March to 31st March	xxx	(+) Cost of sales between ~~20th March to~~ 31st March to 10th April	xxx
(+) Sales Return (at cost) (in 11 days)	xxx	(–) Sales Return (in 10 days)	xxx
(–) Purchase Return (in 11 days)	xxx	(+) Purchase Return (in 10 days)	xxx
(–) Abnormal losses (in 11 days)	xxx	(+) Abnormal losses (in 11 days)	xxx
Value as on 31st March	xxx	Value as on 31st March	xxx

Date 3.5.19

* SYSTEM FOR RECORDING INVENTORY.

Perpetual Recording System	Periodical System.
Under this system, all transactions related to purchase, sales etc. are regularly recorded	Not recorded continuously (Regularly)
Generally adopted by Large Business.	Generally adopted by Small Business. (Periodic inventories - Physical stock taking)
Opening xxx (+) Purchase xxx (-) C.O.G.S (xxx) Closing Stock xxx	Opening xxx (+) Purchase xxx (-) Closing (xxx) Cost of goods sold. xxx
In this method loss gets included in Closing Stock	In this method loss gets included in C.O.G.S.

* **Note :-** To find out loss/Shortage/pilferage. we shall find out closing stock by perpetual system & that should be compared with physical stock as per periodical system & difference is loss.

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- Difference Between Physical Stock and Stock as per Record.

Physical Stock	Stock as per Record.
It is the stock available physically in Godown/shop on the date of valuation	It is the stock which belongs to us. (Ownership held by us even though possession is with others)

Finding stock as per record / Balance sheet from Physical Stock.

Physical stock closing date	xxx
(+) Sale on approval	(xxx)
(+) Goods with Consignee / Agent	xxx
(+) Goods in Transit (Goods purchased but not recrd)	xxx
(−) Goods sold but not sent	(xxx)
(−) Goods of consignor	(xxx)
(−) Goods taken from seller on Approval basis.	(xxx)
E.T.C.	
	xxx

* Formula for Weighted Average = $\frac{\text{Total Cost}}{\text{Total Qty.}}$

Weighted Average Cost shall be calculated everytime whenever there are more than one goods at different price.

---

* Find out cost of goods sold and any missing figure related to goods.

Opening stock	xxx
(+) Purchase	xxx
(+) Expenses on Purchase e.g. Carriage Inward / Freight	xxx
(+) Manufacturing expenses	xxx
(–) Purchase Return	xxx
(–) Closing Stock	xxx
Cost of Goods Sold	xxx
(+) Gross Profit	xxx
Sales	xxx

- If any other information is missing like opening stock, Purchase, closing then follow this formula in Reverse way.

∴ COGS can be calculated:

① Opening + Purchase + Exp. − closing.

OR

② Sales − Gross Profit.

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ADJUSTED SELLING PRICE METHOD:

In this method, closing stock is given at selling price and we are required to find out closing stock at cost price.

(% of G.P. or G.P. is not available)

- How to calculate cost price :-

1) Find out total goods available for sale at cost price :- Opening stock + Purchase in year (including expenses)

2) Stock available for sale at selling price: Sales + Closing stock at sale price.

3) find out G.P. (assuming that all goods are sold) :-

Step (2)	Goods available for sale at selling price.	xxx
– Step (1)	Goods available for sale at cost price	xxx
		xxx

4) find out % of G.P. on sales (Step 2) :-

$$\frac{\text{Expected G.P.}}{\text{Goods available for sale at selling price}} \times 100$$

5) Closing stock at cost price :

Closing stock at S.P. – Gross Profit %. (Step 4).

Multipal Choice Questions

1. The books of T Ltd. revealed the following information:

Particular	**₹**
Opening inventory	**6,00,000**
Purchases during the year 2010-2011	**34,00,000**
Sales during the year 2010-2011	**48,00,000**

On March 31, 2011, the value of inventory as per physical Inventory-taking was Rs. 3,25,000. The company's gross profit on sales has remained constant at 25%. The management of the company suspects that some inventory might have been pilfered by a new employee. What is the estimated cost of missing inventory?

A.Rs. 75,000 B.Rs. 25,000 C.Rs. 1,00,000 D.Rs. 1,50,000.

Practical Questions

Question No. 1

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2016:

Goods received from suppliers (subject to trade discount and taxes)	₹15,75,500
Trade discount 3% and sales tax 11%	
Packaging and transportation charges	₹87,500
Sales during the year	₹22,45,500
Sales price of closing inventories	₹2,35,000

Find out the historical cost of inventories using adjusted selling price method.

Question No. 2

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2017 on which date the total cost of goods in his godown came to ₹ 5,00,000. The following facts were established between 31st March and 15th April, 2017.

(i) Sales ₹ 4,10,000 (including cash sales ₹ 1,00,000)

(ii) Purchases ₹ 50,340 (including cash purchases ₹ 19,900) (iii) Sales Return ₹ 10,000.

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

You are required to ascertain the value of inventory as on 31st March, 2017.

Question No. 3

The following are the details of a spare part of Sriram Mills:

1-1-2016	Opening Inventory	Nil
1-1-2016	Purchases	100 units @ ₹ 30 per unit
15-1-2016	Issued for consumption	50 units
1-2-2016	Purchases	200 units @ ₹ 40 per unit
15-2-2016	Issued for consumption	100 units
20-2-2016	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2016 if the company follows Weighted Average basis.

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BILLS OF EXCHANGE.

- **Negotiable Instrument** : Easily Transferable.
  ↓
  Here, Written Document.

- **Bearer Instrument** can be transferred by **delivery**.

- **Order Instrument** can be transferred by **endorsement + delivery**.

- **Debtor** : To whom goods are sold on credit and had given oral promise.

- **Bills Receivable** : Written promise is given by person to whom goods are sold on credit.

- **Promissory Note (Bearer)** → currency : ~~An~~ ~~ca~~ Can not be issued by individual and it can be issued by only RBI.

- **Bearer / Holder** : Amount is paid to person who has note / cheque.

Date 20 . 6 . 19.

Time Instrument	Demand Instrument
- In case of time instrument amount is payable after particulars days, month or on particular event.	Amount is payable immediately when demanded/Requested. (No need to wait for minimum time)
- Example:- Payable 80 days after sight / presentment	Example: Payable at sight / Payable at presentment.
- 3 grace days are available.	No grace days.
	Cheque is best example of Demand Instrument.

Promissory Note	Bills of Exchange
→ Unconditional or promise to pay	→ Unconditional order to pay
→ This is drawn by Debtor / Buyer	→ This is drawn by Creditor / Seller
→ There are 2 parties Drawer & Drawee / Payee Drawer ↓ Debtor Drawee / Payee ↓ Creditor	→ There are 3 parties Drawer ↓ Creditor Drawee ↓ Debtor Payee (Drawer & Payee may be same)
	→ Cheque is one type of Bill of Exchange.

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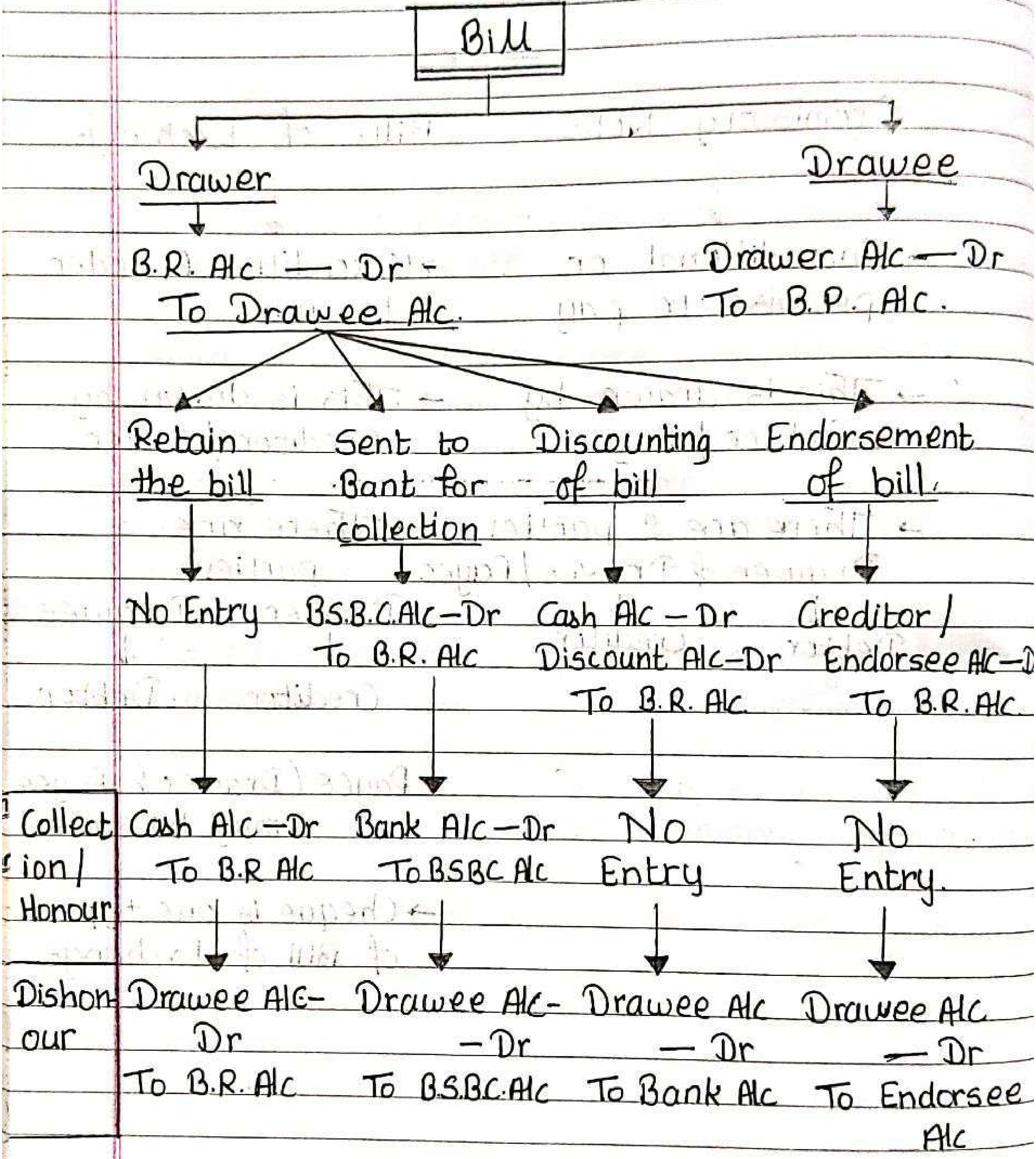

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• DISCOUNTING OF BILL:

Drawer may approach the bank for early payment of bill and Bank may pay bill after deducting discount/interest for the period of early payment from date & Discounting to Maturity date.

Example:

MCQ.16

Date of bill = 1-1-06.

Period of bill = 3 months, i.e. 4-4-06.

Date of bill ——— Maturity date

3 months + 3 days

1-1-06 → 4-4-06

3 months early payment

$\because 2,00,000 \times \frac{12}{100} \times \frac{3}{12} = 6,000.$

• REBATE:

Drawee may make early payment to Drawer (Payment before maturity date) the in such case drawer may give discount equivalent to interest for the period of early payment. (Date of payment to maturity date).

MCQ.14.

Date of bill ——— Maturity date

3 months + 3 days

1-1-05 → 4-4-05

4-03-05 payment by drawee

1 month early payment.

$= 10,000 \times 12\% \times \frac{1}{12}$

$= \boxed{100}$

Amt. Paid = $10,000 - 100 = \boxed{9,900}$

- ## RENEWAL OF BILL:

Drawee may request Drawer to cancel previous bill due to non availability of funds and make new bill. In this case previous bill is treated as dishonoured and noting charges may be paid on such bill. While calculating amount of bill following format should be followed :-

Amount of previous bill	xxx
(+) Noting Charges	xxx
	xxx
(-) Amt. paid (if any)	xxx
Balance	xxx
(+) Int. on bal. amt. for delay	xxx
Amt. of new bill	xxx

24.6.19

- ## ACCOMODATION:

- If bill is drawn for consideration then it is Trade Bill.

- If bill is drawn & signed for without consideration but just to help other party then it is Accommodation bill.

- Mutual Accomodation:

  Bill drawn and signed for the mutual benefit. The bill will be discounted with bank and proceeds of bill shall be distributed by party.

- Discounting charges shall also be distributed in proportion to sharing of amount.

25/6/19.

- ## AVERAGE DUE DATE:

- Due Date: Date on which amount is payable/due.

  e.g. Suppose X sold goods to Y on 25th June with credit period of 1 month then due date is 25th July.

- Average Due Date (ADD):

  ADD shall be calculated where there are frequent transactions between same

Question No. 1 **RTP May 2018**

Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A . On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 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, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

Answer

Date	Particulars	L.F.	Dr.	Cr.
			Amount ₹	Amount ₹
2017 August 1	Bills Receivable A/c......................Dr. To B (Being the acceptance received from B to settle his account)		10,000	 10,000
1 August	Bank A/c...................................Dr. Discount A/c........................Dr. To Bills Receivable (Being the bill discounted for ₹ 9,800 from bank)		9,800 200	 10,000
4 November	B...Dr. To Bank Account (Being the B's acceptance is to be renewed)		10,000	 10,000
4 November	B ....Dr. To Interest Account (Being the interest due from B for 3 months i.e., 8000 x 3/12× 12%=240)		240	 240
4 November	Cash A/c ....Dr. Bills Receivable A/c................Dr. To B (Being amount and acceptance of new bill received from B)		2,240 8,000	 10,240
31 December	B A/c ....Dr. To Bills Receivable A/c (Being B became insolvent)		8,000	 8,000
31 December	Cash A/c.........................Dr. Bad debts A/c.........................Dr. To B (Being the amount received and written off on B's insolvency)		3,200 4,800	 8,000

Question No. 2 **RTP Nov. 2018**

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

i. Katrak's acceptance to Basu for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

ii. G. Gupta's acceptance for ₹ 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹ 20 noting charges. Bill withdrawn against cheque.

iii. D. Dalal retires a bill for ₹ 2,000 drawn on him by Katrak for ₹ 10 discount.

iv. Katrak's acceptance to Patel for ₹ 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.

ANSWER

Books of K. Katrak Journal Entries.

		₹	₹
i.	Bills Payable Account Interest Account To Cash A/c To Bills Payable Account (Bills Payable to Basu discharged by cash payment of ₹ 1,000 and a new bill for ₹1,550 including ₹ 50 as interest)	2,500 50	 1,000 1,550
ii.	(a) G. Gupta To M. Mehta (G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)	4,020	 4020
	(b) M. Mehta To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)	4,020	 4,020
iii.	Bank Account Discount Account To Bills Receivable Account (Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)	1,990 10	 2,000
iv.	Bills Payable Account To Bills Receivable Account (Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)	5,000	 5,000

Question No. 3 RTP May 2019

Rita owed ₹1,00,000 to Siriman. On 1st October, 2018, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2018. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

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

ANSWER

Particulars	L.F.	₹	₹
Bills Receivable A/c To Rita (Being a 3 month's bill drawn on Rita for the amount due)	Dr.	1,00,000	1,00,000
Bank A/c Discount A/c To Bills Receivable A/c (Being the bill discounted)	Dr. Dr.	99,000 1,000	1,00,000
Rita To Bank A/c (Being the bill cancelled up due to Rita's inability to pay it)	Dr.	1,00,000	1,00,000
Rita To Interest A/c (Being the interest due on ₹ 50,000 @ 12% for 3 months)	Dr.	1,500	1,500
Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	51,500	51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)	Dr.	50,000	50,000
Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)	Dr.	50,000	50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from Rita's estate)	Dr. Dr.	20,000 30,000	50,000

Question No. 4 **Mock Test March 2019 (10 Marks)**

Mr. B accepted a bill for Rs. 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs. 9,800.

On the due date, B approached A for renewal of the bill. Mr. A 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, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

Answer

Date		Particulars	L.F.	Dr. Amt ₹	Cr. Amt ₹
2017 August	1	Bills Receivable A/c Dr. To B (Being the acceptance received from B to settle his account)		10,000	10,000
August	1	Bank A/c ....Dr. Discount A/c ....Dr. To Bills Receivable (Being the bill discounted for ₹ 9,800 from bank)		9,800 200	10,000
November	4	B A/c ....Dr. To Bank Account (Being the B's acceptance is to be renewed)		10,000	10,000
November	4	B...Dr. To Interest Account (Being the interest due from B for 3 months i.e., 8000 x 3/12 12%=240)		240	240
November	4	Cash A/c...Dr. Bills Receivable A/c.........................Dr. To B (Being amount and acceptance of new bill received from B)		2,240 8,000	10,240
December	31	B A/c..Dr. To Bills Receivable A/c (Being B became insolvent)		8,000	8,000
December	31	Cash A/c..Dr. Bad debts A/c.................................Dr. To B (Being the amount received and written off on B's insolvency)		3,200 4,800	8,000

24.6.19

- ACCOMODATION:

- If bill is drawn for consideration then it is Trade Bill.

- If bill is drawn & signed for without consideration but just to help other party then it is Accommodation bill.

- Mutual Accomodation:
  Bill drawn and signed for the mutual benefit. The bill will be discounted with bank and proceeds of bill shall be distributed by party.

- Discounting charges shall also be distributed in proportion to sharing of amount.

25/6/19.

- AVERAGE DUE DATE:

- Due Date: Date on which amount is payable/ due.

  e.g. Suppose X sold goods to Y on 25th June with credit period of 1 month then due date is 25th July.

- Average Due Date (ADD):
  ADD shall be calculated where there are frequent transactions between same

parties with different due dates and parties are willing to settle their A/c (Full Payment) on single date.

- ADD means date on which there is no loss of interest to any party.

- <u>Steps For Calculation of ADD:</u>

1) Calculate due date for each transaction.
   (<u>Date of transaction + credit period</u>)
   (Where credit period is not given then date of transaction is treated as due date)

2) Select Base date/zero date from the above due dates. (Preferably earlier date shall be taken as due date)

3) Calculate number of days from Base date to Actual due date.
   (Always ignore first da~~te~~y and include last day)

4) ~~If days are in~~ Calculate Total <u>product</u> for each due date. <u>No. of days X Amt.</u>

5) $$\boxed{\text{ADD} = \text{Base Date} + \frac{\text{Total of Product}}{\text{Total of } \cancel{\text{Days}} \text{ Amt.}}}$$

4.7.19

Calculation of average due date where amount is repaid in installments.

Base date = Date on which loan is taken.

$$\underline{\text{Average Due Date}} = \text{Date of loan} + \frac{\text{Sum of no. of yrs/months/days from the date of lending to the date of repayment of each installments.}}{\text{No. of Installments}}$$

Question No. 1 **RTP May 2018**

Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2017	2 months	4,000
10th March, 2017	3 months	3,000
5th April, 2017	2 months	2,000
23rd April, 2017	1 months	3,750
10th May, 2017	2 months	5,000

Answer

Calculation of Average Due Date

(Taking 4th May, 2017 as the base date)

Date of bill	Term	Due date	Amount ₹	No. of days from the base date i.e. May 4, 2017	Product ₹
2017		**2017**			
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
23rd April	1 month	26th May	3,750	22	82,500
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,22,500

Average due date=Base date+ Days equal to Total of products /Total amount

$$= 4^{th}\text{ May, 2017} + \frac{₹\ 6{,}22{,}500}{17{,}750} = 4^{th}\text{ May, 2017} + 35\text{ days} = 8^{th}\text{ June, 2017}$$

Question No. 2 **May 2018 (5 MARKS)**

Mr. Alok owes Mr. Chirag ₹ 650 on 1st January 2018. From January to March, the following further transactions took place between Alok and Chirag

January 15	Alok buys goods	₹ 1,200
February 10	Alok buys goods	₹ 850
March 7	Alok received Cash loan	₹ 1,500

Alok pays the whole amount on 31st March, 2018 together with interest @ 6% per annum. Calculate the interest by average due date method.

Answer

Calculation of average due date

Alok pays the whole amount on 31st March, 2018 together with interest at 6% per annum.

Due Date	Amoun	No. of days from Jan. 1	Product
2018	**₹**		
Jan. 1	650	0	0
Jan. 15	1,200	14	16,800
Feb. 10	850	40	34,000
March 7	1,500	65	97,500
	4,200		1,48,300

Average due date=Base date+ Days equal to Total of products /Total amount

= Jan. 1 + 1,48,300/4,200

= Jan. 1 + 35.31* Days

= Feb. 6

Interest therefore has been calculated on ₹ 4,200 from 6th Feb. to 31st March, i.e., for 54 days.
4,200 x 6% x 54/365= ₹ 37.28

ACCOUNT CURRENT

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- When due date of the transaction falls after end date then Product / Interest on such transaction shall be shown on the opposite side of the transaction and such product/ interest is written by using red ink ∴ it is known as Red Ink Interest/ Product.

DEPRICIATION.

- Depriciation:
  Reduction in value of assets over time, due to wear and tear.
  It is mainly because of limited life of asset. If asset is having unlimited life then depriciation shall not be provided. (e.g. land)

Depriciation shall be provided :-
① To know correct cost of production.
② To find out Current Profit (Financial Performance)
③ To know Actual position of Business.
④. To make funds available for replacement of assets

- Depriciation is known as opening non cash expenditure:
  Depriciation is provided if ~~th.~~ life of asset

AS-10 :- Property, Plant and Equipment.

Account Current

Question No. 1 RTP May 2019

The following are the transactions that took place between G and H during the period from 1st October, 2017 to 31st March, 2018:

2017		₹
Oct.1	Balance due to G by H	3,000
Oct 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000
Dec.7	Goods sold by H to G (invoice dated December, 17)	3,500
2018		**₹**
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2018 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Answer

In the books of G H in Account Current with G
(interest to 31st March,2018@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.18	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.18	Amt.	Product
2017	2017			₹	₹	2017	2017			₹	₹
Oct 1,	Oct 1,	To Bal. b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2018	2018					2018	2018				
Jan 3	Apr 6	To Bills Payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
						Mar 31	Mar 31	By Balance of product			1,81,600
Feb 4	Feb 4	To Cash	55	1,000	55,000						
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

Question No. 2 **Mock Test March 2019 (5 MARKS)**

On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			₹
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returned goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

Answer

X in Account Current with Y (Interest to 31st March, 2018 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2018		₹		₹	2018		₹		₹
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan.11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar.18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar.31	To Interest	219			Mar.23	By Purchases	4,000	8	32,000
					Mar.31	By Balance of Products			7,97,600
					Mar.31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:
Calculation of interest:

Interest = 7,97,600 /365 x 10 /100 = ₹ 219 (approx.)

ACCOUNT CURRENT

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- When due date of the transaction falls after end date then Product / Interest on such transaction shall be shown on the opposite side of the transaction and such product / interest is written by using red ink ∴ it is known as Red Ink Interest / Product.

DEPRICIATION.

- Depriciation:

Reduction in value of assets over time, due to wear and tear.

It is mainly because of limited life of asset. If asset is having unlimited life then depriciation shall not be provided. (e.g. land)

Depriciation Shall be provided :-

① To know correct cost of production.
② To find out Current Profit (Financial Performance)
③ To know Actual position of Business.
④. To make funds available for replacement of assets

- Depriciation is known as opening non cash expenditure:

Depriciation is provided if ~~th.~~ life of asset

AS-10 :- Property, Plant and Equipment.

- **Methods of Recording Depriciation :**

Depriciation directly charged to asset
↓
Depriciation A/c — Dr
To Asset A/c
↓
Asset is shown at WDV / BV.

Depriciation not charged to Asset but recorded in provision for Depriciation A/c.
↓
Provision
↓
Depriciation A/c — Dr
To Provision for Dep. A/c
↓
Asset shown at original value.

① If there is only one Asset in Asset A/c.

Asset is Sold at 7,50,000

Asset A/c

To Cash 10,00,000 ①	By Provision for Dep. 2,00,000 ⑥
	By Bank ⑦ 7,50,000
	By P&L A/c 50,000 (loss)
10,00,000	10,00,000

Provision A/c

	1st yr ②
	By Dep. A/c 100000
To Asset A/c ⑤ 200,000	2nd yr ③
	By Dep. A/c 100000

2) If there are more than One Asset :

Asset A/c

To Cash 10,00,000 (Asset 1)	By Disposal of Asset A/c 1,00,000
Asset 2 20,00,000	
Asset 3 15,00,000	

Provision A/c.

To Disposal of Asset 2,00,000	By Dep. A/c 1,00,000
	By Dep. A/c 1,00,000

Disposal of Asset A/c

To Asset	10,00,000	By Provision	2,00,000
		By Bank	7,50,000
		By P&L A/c (loss)	50,000
	10,00,000		10,00,000

20 . 7 . 18

Methods of Depriciation:

1) Straight Line Method (SLM):

$$\boxed{\frac{\text{Cost} - \text{Scrap Value}}{\text{Expected Useful life (in years)}}}$$

- Cost = Purchase Price + All expenses Incurred on asset before asset is ready to use.

- Assumption : It is assumed that benefit taken from asset/use of asset is same every year.

Method 1

$$\boxed{\frac{\text{Cost} - \text{scrap value}}{\text{Expected Useful life}}}$$

Method 2.

$$\boxed{\text{Cost} \times \%}$$

★ If life of asset and percentage (%) both are given follow percentage (%) method.

② WRITTEN DOWN VALUE METHOD (WDV):

Example :- 10,00,000 for 1st year dep. @ 10%

$$\begin{array}{r l} 10{,}00{,}000 & \\ -\ 1{,}00{,}000 & \\ \hline 9{,}00{,}000 & \rightarrow \text{WDV} \\ & \quad\downarrow \\ 90{,}000 & \quad 10\% \\ \hline 8{,}10{,}000 & \end{array}$$

★ Assumption: In the beginning use & efficiency of asset is higher. Therefore depriciation shall be higher in beginning and it should go down year by year after it's use and therefore, amount shall also decrease.

---

3) SUM OF YEARS DIGIT METHOD (SYD):

★ Assumption :- Similar to WDV.

Example :- Cost of asset = 36,000
Life of asset = 6 yrs.

Calculate depriciation as per SYD method.

							Sum
Digits of year =	1	2	3	4	5	6 =	21
	6st yr	5nd yr	4th yr	3rd yr	2nd yr	1st yr	

Depriciation:

For 1st year $= \frac{36{,}000}{21} \times 6 = 10{,}286.$

2nd Year : $\frac{36{,}000}{21} \times 5 = 8571$

3rd Year : $\frac{36{,}000}{21} \times 4 = 6857$

4th Year : $\frac{36{,}000}{21} \times 3 = 5143$

5th Year : $\frac{36{,}000}{21} \times 2 = 3429$

6th Year : $\frac{36{,}000}{21} \times 1 = 1714$

36,000

4) MACHINE HOURS METHOD:

- Life of machine is given in total expected hours.

$$\boxed{\frac{\text{Cost} - \text{Scrap Value}}{\text{Expected Useful life in Hours}} \times \text{Hours used in current year.}}$$

5. PRODUCTION UNITS METHOD:

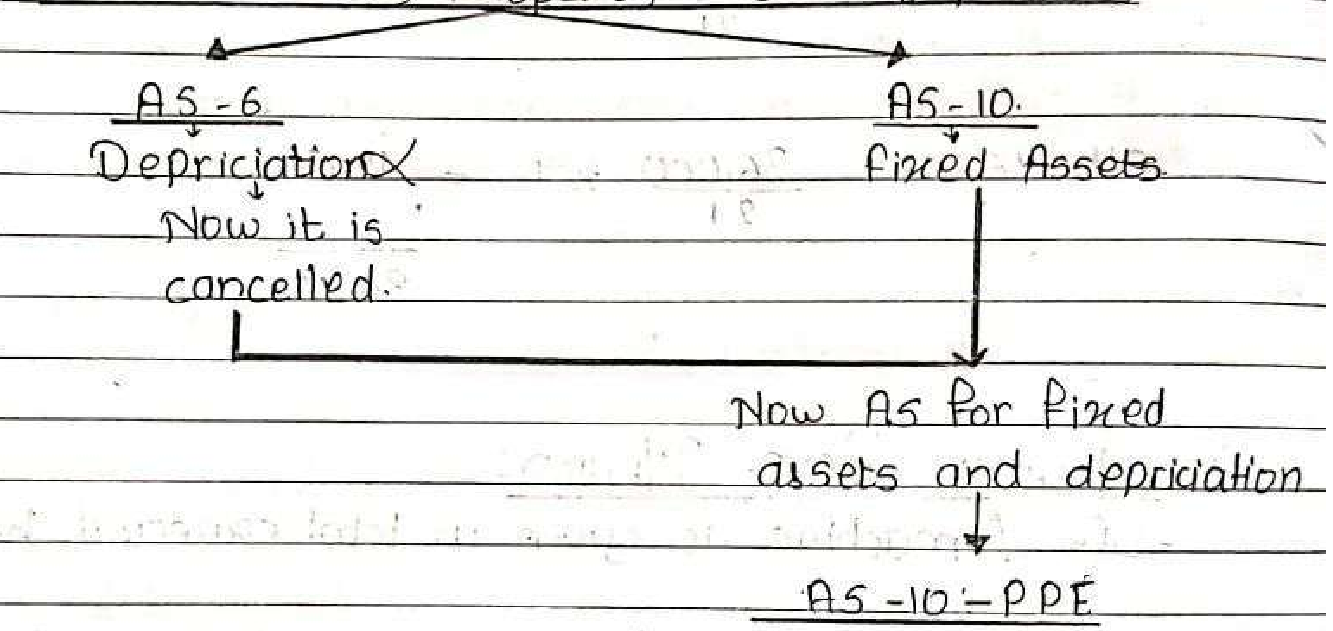
$$\boxed{\frac{\text{Cost} - \text{Scrap Value}}{\text{Expected Useful life in Units}} \times \text{Units Produced in current year.}}$$

6. DEPLETION METHOD :-
- Wasting Assets Method.
e.g. Coal Mine, oilfields etc.

$$\boxed{\frac{\text{Cost}}{\text{Maximum Possible Extraction}} \times \text{Actual Extraction in current year.}}$$

23/7/19

- AS-10 :- Plant, Property and Equipments



AS-6
Depriciation
Now it is cancelled.

AS-10.
fixed Assets

Now As for fixed assets and depriciation

AS-10 - PPE

As per AS-10 Depriciation shall be provided in the pattern of benefit/use from asset.

- **PPE**:
- Tangible Item
- Life more than 12 months
- Expected to give future economic benefit.
- Used in Production/Administration of Business.

Question No.1 RTP Nov. 2018 ,RTP Nov. 2019

M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for 1,60,000. Overhauling and erection charges amounted to ₹ 40,000. Another machine was purchased for ₹ 80,000 on 1st July, 2015.
On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000.
Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

Answer

In the books of M/s. Green Channel Co. Machinery Account

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c	24,000
	To Bank A/c (Erection charges)	40,000		(₹ 20,000 + ₹ 4,000)	
			31.12.2015	By Balance c/d	2,56,000
1.7.2015	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.1.2016	To Bal. b/d	2,56,000	31.12.2016	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2016	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			**2,56,000**
1.1.2017	To Bal. b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000
30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.2017	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d + ₹ 29,250)	89,250
		2,58,000			**2,58,000**
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c	13,387.5
				(₹ 9,000 + ₹ 4,387.5)	
				By Balance c/d	75,862.5
				(₹ 51,000 + ₹ 24,862.5)	
		89,250			**89,250**

Working Notes:

Book Value of machines (Straight line method)

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

Question No. 2 RTP May 2019

A lease is purchased on 1st April, 2014 for 4 years at a cost of ₹ 2,00,000. It is proposed to depreciate the lease by the annuity method charging 5 percent interest. A reference to the annuity table shows that to depreciate ₹ 1 by annuity method over 4 years charging 5% interest, one must write off a sum of ₹ 0.282012 [T o write off ₹ 2,00,000 one has to write off every year ₹ 5,6402.40 i.e. 0.282012 × 2,00,000].

You are required to show the Lease Account for four years (2014-15 to 2017-18) and also the relevant entries posted to the profit and loss account.

Answer

Lease Account

Dr.			**Cr.**		
2014-15 April. 1 Mar. 31	To Bank A/c To Interest A/c (5% on ₹ 2,00,000)	2,00,000.00 10,000.00	2014-15 Mar. 31	By Depreciation A/c By Balance c/d	56,402.40 1,53,597.60
		2,10,000.00			**2,10,000.00**
2015-16 April. 1 Mar. 31	To Balance b/d To Interest A/c (5% on ₹ 1,53,597.60)	1,53,597.60 7,679.88	2015-16 Mar.31	By Depreciation A/c By Balance c/d	56,402.40 1,04,875.08
		1,61,277.48			**1,61,277.48**
2016-17 April 1 Mar. 31	To Balance b/d To Interest A/c	1,04,875.08 5,243.75	2016-17 Mar 31 Mar 31	By Depreciation A/c By Balance c/d	56,402.40 53,716.43
		1,10,118.83			**1,10,118.83**
2017-18 April. 1 Mar. 31	To Balance b/d To Interest A/c	53,716.43 2,685.82	2017-18 Mar. 31	By Depreciation A/c	56,402.25
		56,402.25			**56,402.25**

Profit and Loss Account

2014-15		**₹**	**2014-15**		**₹**
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	10,000.00
2015-16			2015-16		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	7.679.88
2016-17			2016-17		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	5,243.75
2017-18			2017-18		
Mar. 31	To Depreciation A/c	56,402.25	Mar. 31	By Interest A/c	2,685.82

SALE

- Sale: Transfer of Ownership.
  (Ownership and possession are different)

- Ownership:
  Ownership is transferred when goods are selected and ready for delievery.

SALE

Sale on Approval Basis | Sale on Return Basis

- Sale on Approval Basis is treated as sale in following cases:

1) When Approval is given by buyer.

2) Goods are not returned within time.

3) Goods are sold / mortgaged to other person by buyer.

★ Possession :- Custody.

Sale on Approval:

(Actually sale on Approval is not transaction therefore, no need to record it but it is recorded to avoid chance of forgetting it)

On Regular Basis

- Separate set of Books maintained.

Regular Book

Dr. Cr.

b) Entry for sale →
Customer A/c — Dr
To Sale A/c.

b) Show it as closing stock.
Goods with customer A/c — Dr
To trading A/c.

AMBUJA CEMENT

Memorandum Book

Dr. Cr.

① When Goods Sent
Customer A/c — Dr
To Sale/Return A/c.

② When goods are returned
Sale/Return — Dr
To Customer A/c

③ When goods are sold →
a) 1st reverse the entry of approval →
Sale/Return A/c — Dr
To Customer A/c

On Casual Basis

(Few Transactions in year)

- No separate set of Books.
- Entry Recorded in same book assuming that it is regular credit sale.

Customer A/c — Dr xxx
To Sales A/c. xxx

- Goods are returned :→
Sales A/c — Dr xxx
To Customer A/c xxx

- Goods Aproved / sold :→
No Entry.

- Goods are still with customer on 31st March & no approval is received.
a) Reverse the entry for sale.
Sale A/c — Dr
To customer A/c.

Page No

Date 18.4.19

Cost Price	Sale Price.
100% (1)	50% $\frac{1}{2}$
50% $\left(\frac{1}{2}\right)$	33.33 $\left(\frac{1}{3}\right)$
33.33% $\left(\frac{1}{3}\right)$	25% $\left(\frac{1}{4}\right)$
25% $\left(\frac{1}{4}\right)$	20% $\left(\frac{1}{5}\right)$
20% $\left(\frac{1}{5}\right)$	16.67 $\left(\frac{1}{6}\right)$
$\left(\frac{1}{10}\right)$	$\left(\frac{1}{11}\right)$

- 2,52,000 S.P. and profit is 26% on cost.
  (Missing figure assumed as 100)

C.P.	S.P.
2,52,000	126
? ~~2,52,000~~	100

$$\therefore \frac{2,52,000 \times 100}{126} = \underline{2,00,000.}$$

- 25% profit on sale & Cost Price is 85,000.

S.P.	C.P.
100	125
?	85,000

$$\frac{\overset{17,000}{\cancel{85,000}} \times \overset{4}{\cancel{100}}}{\underset{5}{\cancel{125}}} = 68,000.$$

Sales of goods on approval or return basis

Question No. 1 **RTP May 2018, RTP Nov. 2019**

X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2017	M/s ABC Co.	10,000	No information till 31.12.2017
12.12.2017	M/s DEF Co	15,000	Returned on 16.12.2017
15.12.2017	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2017
20.12.2017	M/s DEF Co	16,000	Goods Retained on 24.12.2017
25.12.2017	M/s ABC Co	11,000	Good Retained on 28.12.2017
30.12.2017	M/s GHI Co	13,000	No information till 31.12.2017

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2017.
Prepare the following account in the books of 'X'.
Goods on "sales or return, sold and returned day books". Goods on sales or return total account.

Answer

In the books of 'X'
Goods on sales or return, sold and returned day book

Date 2017	Party to whom goods sent	L.F	Amount ₹	Date 2017	Sold ₹	Returned ₹
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2017		Amount ₹	2017		Amount ₹
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent on sales or return	77,000
	To Sales	47,000			
	To Balance c/d	13,000			
		77,000			77,000

Question No. 2 RTP May 2019

On 31st December, 2018 goods sold at a sale price of ₹ 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Answer

Journal Entries

Date 2018	Particulars	Dr. ₹	Cr. ₹
31st Dec.	Sales A/c ....Dr.	3,000	
	To Ritu's A/c		3,000
	(Being cancellation of entry for sale of goods, not yet approved)		
	Inventories with customers A/c (Refer W.N.)........... Dr.	2,250	
	To Trading A/c		2,250
	(Being Inventories with customers recorded at market price)		

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹ 3,000
Less: Profit (3,000 x 20/120)	₹ 500
Cost of goods	₹ 2,500

Market price = 2,500 - (2,500 x 10%) = ₹ 2,250

Question No. 3 May 2018 (5 MARKS)

Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017.
December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 80,000
December 10th - Goods returned by customers ₹ 35,000
December 17th - Received letters from customers for approval ₹ 35,000
December 23rd - Goods with customers awaiting approval ₹ 15,000
Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2017.

Answer

In the books of Mr. Badhri Journal Entries

Date	Particulars		L.F.	Dr. (in ₹)	Cr. (in ₹)
2017 Dec. 2	Trade receivables A/c.. Dr.			80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1) .... Dr	Dr.		35,000	
	To Trade receivables A/c.				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c... Dr.	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c.. Dr.	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Note:

(1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards account.

(2) No entry is required for receiving letter of approval from customer.

(3) Cost of goods with customers = ₹ 15,000 x 100/125 = ₹ 12,000

(4) It has been considered that the transaction values are at invoice price (including profit margin).

Question No. 4 **Nov. 2018 (5 MARKS)**

Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ₹ 75,000 which included ₹ 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to- Mr. Adhitya ₹ 3,900 and Mr. Bakkiram ₹ 2,600.

Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018. Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018.

Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000. Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000.

Answer

In the Books of Mr. Ganesh Journal Entries

Date	*Particulars*	*L.F.*	*Dr.* ₹	*Cr.* ₹
2018 March 31	Sales A/c.. Dr.		6,500	
	To Trade receivables A/c			6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)			
March 31	Inventories with Customers on Sale or Return A/c............. Dr		5,000	
	To Trading A/c (Note 1)			5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)			
April 25	Trade receivables A/c... Dr		3,900	
	To Sales A/c			3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)			

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	₹	*Assets*	₹	₹
		Trade receivables (₹ 75,000 - ₹ 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55,000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x ₹ 6,500 = ₹ 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

COMPANY ACCOUNTS

Date 25 9 19

- Face value : Printed Price on certificate.

Authorised Capital:
Maximum capital permitted by ROC.

Issued Capital : Invited for subscription

Subscribed Capital: No. of shares for which application money received.

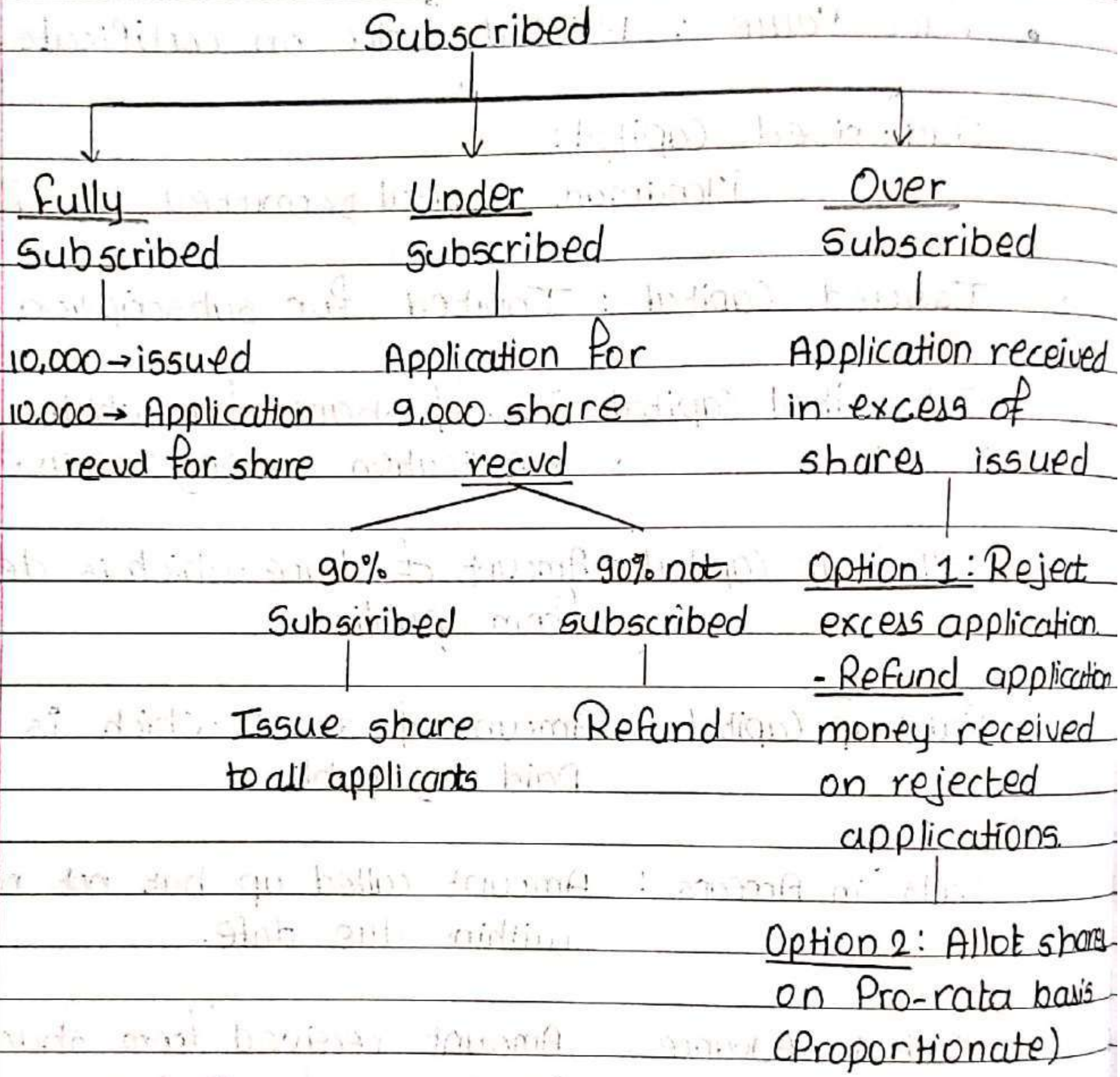
Called up Capital : Amount of share which is demanded from public.

Paid up Capital : Amount of share which is actually paid by public.

Calls in Arrears : Amount called up but not received within due date.

Calls in Advance : Amount received from shareholder in excess of called up amount.

- Paid up Capital = Called up − Calls in Arrears.



Subscribed

- **Fully Subscribed**
  - 10,000 → issued
  - 10,000 → Application recvd for share
- **Under subscribed**
  - Application for 9,000 share recvd
    - 90% Subsiribed
      - Issue share to all applicants
    - 90% not subscribed
      - Refund
- **Over Subscribed**
  - Application received in excess of shares issued
    - Option 1: Reject excess application. - Refund application money received on rejected applications.
    - Option 2: Allot shares on Pro-rata basis (Proportionate)

- Underwritters:

A bank or other financial institution ~~to~~ who takes guarantee to buy all the unsold shares in an issue of new shares.
(to undertake responsibility)

Date 25.9.19

Issue Price

- Issued at Par/ face value/ Nominal Value
  - F.V. = 10
  - I.P. = 10
- Issued at Premium
  - F.V. = 10
  - I.P. = 12
  - No limit on Premium
  - 10₹ = Equity Capital A/c
  - 2₹ = Securities Premium A/c
  - As per law this premium shall be kept separately & shall be credited to Secu. Prem. A/c
  - This premium can be used only for:
    1) To write off preliminary exp.
    2) To write off Discount on issue of shares/ deb.
    3) To issue bonus shares
    4) To pay premium on redemption of shares/Debentures.
- Issued at Discount
  - Not allowed except in case of sweat equity shares.

5) Buy Back of equity shares.

Additionally consider premium for calculation of cash and Bank Balance.
(Don't touch in any other situation)

26/9/19. Example:

Company issued 1000 shares of 100 each of 20 premium. Applications received for 9,500 shares out of which 100 applications rejected as it was incomplete.

Amount to be collected: On application = 50 (Including 20 premium)
On allotment = 20
On 1st call = 30
On final call = 20.

Application money received.	Bank A/c — Dr		4,95,000	
	To Share Application. (9500×50)			4,75000.
Duel transfer to capital.	Share Application ~~Capital~~ A/c — Dr		4,75000 →	
	To Bank (100×50)	-		5000
	To Share Capital A/c (9400×50)	-		2,82,000
	To Securities Premium A/c (9400×20)	-		1,88000

Allotment Due	Share Allotment A/c — Dr	1,88,000	-
	(9400×20)		
	To Share Capital A/c		1,88000
Receipt	Bank A/c —— Dr	1,88,000	-
	To Share Allotment A/c	-	1,28,000
first call. Due	Share 1st call A/c — Dr	2,82,000	-
	To Share Capital A/c	-	2,82000
Receipt	Bank A/c —— Dr	2,82,000	-
	To Share 1st Call A/c.	-	2,82000
final call Due.	Share final Call A/c — Dr	1,88,000	-
	To Share Capital A/c	-	1,88,000
Receipt	Bank A/c —— Dr	1,88,000	-
	To share final call A/c.	-	1,88,000.
Due/transfer of capital.	Share Application A/c — Dr	4,75,000	
	To Bank (100×50)	-	5000
	To Share Capital A/c (9400×30)	-	2,82,000
	To Securities Premium A/c (9400×20)	-	1,88,000.

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Date 26.9.19

• FORFEITURE OF SHARES (Including surrender)

Bank A/c — Dr	30	
To Share Application A/c		30
Share Application A/c — Dr	30	
To Share Capital A/c		30
Share Allotment A/c — Dr	20	
To Share Capital A/c		20
Bank A/c — Dr	20	
To Share Allotment A/c		20
Share 1st call A/c — Dr	30	
To Share Capital A/c		30

NOT RECEIVED:

Forfeiture Entry:

Share Capital A/c — Dr	80 (Called up value)	
To Share Forfeiture A/c		~~80~~ 50 (Paid up value)
To Share 1st call A/c/ Calls in arrears A/c		30 (Due but not received)

One share issued at 100 (30, 20, 30, 20)
Fist call demanded but not received, therefore share forfeitured.

Forfeiture of Shares

In case of shares issued at premium

If Premium is called & Received
↓
Don't touch premium A/c
↓
Share Capital A/c —Dr
To share forfeiture A/c
To Share 1st call A/c/
Calls in arrears A/c

If premium is not received even it was called.
↓
Share Capital A/c —Dr
(called up)
Securities Premium —Dr
(Premium Amt. on shares forfeited)
To share forfeiture A/c.
(Paid up)
To 1st call / Allotment/
calls in arrears A/c.
(called but not recvd)

27/01/19

- ## Re-Issue of Shares:

(All calculations should be excluding premium received) ~~previously)~~

Date 27 . 9 . 19

Capital Reserve	Reserve Capital
↓	↓
Created out of Capital Profit: → forfeiture of share → Profit on revaluation of assets.	Uncalled capital if reserved for purpose of liquidation then it is reserve capital.

- **Re-Issue of Shares:**

- Minimum price of re-issue shall be amount unpaid by previous shareholder (Excluding Premium)

Entry for Re-Issue:

Bank A/C ——— Dr (received from new shareholder)
Share forfeiture A/C — Dr (F.V. – Amt. received)
To Share capital A/C (F.V.)
To Securities Premium A/C (if any)

Transfer to Capital Reserve:

Share forfeiture A/C —— Dr
To Capital Reserve (Profit on reissue
↓

$$\text{No. of shares re-issued} \times \left(\text{Amt. recvd from previous shareholder} + \text{Amt recvd from new shareholder} - \text{F.V}\right)$$

↑
Profit Per Share

	Interest on Calls in Arrears	Interest on Calls in Advance.
	↓	↓
	Interest at 10% p.a. (From last due date to present date)	Interest at 12% p.a. (From date of receipt to adjustment against respective call)
	↓	↓
Interest Due →	Share holder A/c — Dr To Interests on calls in arrears A/c.	→ Interest on calls in arrears A/c — Dr To Shareholder A/c.
Interest rcvd. →	Bank A/c — Dr To Shareholder A/c	→ Shareholder A/c — Dr To Bank A/c

- If nothing is specified then dividend will be pay on Paid - Up capital.

- Issue of shares for consideration other than cash:

Asset A/c — Dr
To Vendor A/c

Vendor A/c — Dr.
To Equity share A/c
To Securities premium A/c (If any)

- Types of Preference Shares

1) Cumulative :

If dividend not paid due to insufficient profit then this dividend get ~~ammounted~~ accumulated and will be paid in the year of profit.

2) Non-Cumulative:

Dividend will not get accumulated if not paid. In other words, dividend will be paid only if in the year when there is profit.

3) Participating:

If there is surplus even after dividend payment of equity or capital repayment of equity (on liquidation) then participating preference share have right to participate in surplus.

4) Non-Participating:

No participation in surplus.

- If nothing is specified preference shares are cumulative & non-participating

5) Convertable:

Preference shares will be converted into equity shares.

6) Non-Convertable:

Preference shares remains the preference shares.

7) **Redeemable:**

Which will be redeemable (redeemed) after particular Period.

8) **Irredeemable:**

(Max. of life of preference shares is 20 yrs)
∴ Concept of irredeemable preference shares is not in existence.

• OVER SUBSCRIPTION

Pro - rata allotment

Shares Forfeited

Shareholder Paid only application money.
↓
Calculate the extra amt. paid on application by applying ratio of application & allotment

Shareholder paid Application & allotment
↓
No need to calculate extra amt. as extra amt. is already adjusted against allotment
↓
Alloted Shares × (Appl. money + Allot. money per share)

- ## BALANCE SHEET :

Balance Sheet
(as on ------)

Particulars	Note No.	Amount ₹
(A) Equity & Liabilities		
I) Shareholders funds		
a) Share Capital	1	
b) Reserves & Surplus	2	
II) Non Current liabilities		
a) long term borrowings	3	
b) long term provisions		
III) Current Liabilities		
a) Trade Payables		
b) Short term borrowings		
c) Short term provisions		
Total		
(B) Assets		
I) Non Current Assets		
a) Fixed Assets		
(i) Tangible Assets		
(ii) Intangible Assets		
b) long term investments		
II) Current Assets		
a) Investments		
b) Trade Receivables		
c) Cash & Cash Equivalent		
Total		

Note 1: Share Capital

----- Equity shares of ----- each
----- paid up/ Called up xxx

----- Preference shares of ----- each
----- Paid up xxx

ISSUE OF DEBENTURES:

1 Situations in case of Issue of Debentures

Note: Entries for issued of debentures is same as entries for issue of shares except the point of discount/ loss on issue of debentures which is discussed below:

Situation I Debentures issued at F.V. & redemed at F.V.
F.V = 10
Redemption value = 10
No discount /loss

Situation II Debentures issued at discount & Redemable at par.

Issue Price = 90
Redemption Price = 100
Discount /loss on issue of debenture = 10

Situation III :

Debentures issued at premium & redemable at par.

Issue Price = 120
Redemption Price = 100

Situation III

Debentures issued at par & redeemable at premium

Issue Price = 100
Redemption Price = 120

Situation V.

Debenture issued at discount & redemption at premium.

Bank A/c —— Dr
loss A/c —— Dr
~~To % Deb. A/c~~
To Premium on red. A/c.

Situation VI

Debentures issued at Premium & Redemption at Premium.

Example : Debentures issued at 110 each and Redeemable at 120 each. (F.V : 100)

Bank A/c —— Dr	110	
loss on Deb. —— Dr	20	
To Deb. A/c		100
To Premium on Red. A/c		20
To Securities Premium A/c		10

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~~Q.6~~ How to transfer/ Dr. Discount or loss on Issue of Debenture to P&L A/c

If repayment of deb. will be made directly at the end of life & deb.

↓

If loss on issue of deb. & life of Deb. is = 150000 = 5 yr

Discount deducted every yr:

$\frac{1,50,000}{5\emptyset} = 30,000$

If repayment of debenture is made every year in equal installments.

↓

→ Same Example and value of deb is 150000 & every yr repayment is 300000

↓

Then we sum of years digit method.

yr:	1	2	3	4	5
	5	4	3	2	1 = 15

1st yr = $\frac{1,50,000}{15} \times 5 = \underline{50,000}$

2nd = $\frac{150000}{15} \times 4 = \underline{40,000}$

3rd = $\frac{150000}{15} \times 3 = \underline{30,000}$

4th = $\frac{150000}{15} \times 2 = \underline{20000}$

5th = $\frac{150000}{15} \times 1 = \underline{10000}$

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Issue of Debentures as Collateral Security
(secondary)

↓

- Debentures kept with bank by company as additional Security.
- Debentures are not sold to bank therefore no interest is payable on debentures (Interest will be paid only on Bank Loan)

↓

No Entry for debenture issued as collateral security (Because there is no transaction)

↓

Fact can be disclosed as note

↓

IF entry is passed :-

↓

Deb. Suspense A/c — Dr
To % Deb. A/c

↓

In case of repayment of Loan :-
% Deb. A/c — Dr
To Deb. Suspense A/c

Issue, forfeiture of Shares & Issue of Debentures

Multiple Choice Questions

Issue of Shares

1. E Ltd. has allotted 10,000 shares to the application of 14,000 shares on pro-rata basis. The amount payable on application is Rs. 2. F applied for 420 shares the number of shares allotted and the amount carried forward for adjustment against allotment due from F:

A. 60 shares; Rs. 120 **B.** 340 shares; Rs. 160
C. 320 shares; Rs. 200 **D.** 300 shares; Rs. 240

2. 10,000 equity shares of Rs. 10 each were issued to public at a premium of Rs. 2 per share. Application were received for 12,000 shares. Amount of securities premium account will be:

A. Rs. 20,000 **B.** Rs. 24,000 **C.** Rs. 4,000 **D.** Rs. 1,600

3. Called up share capital (46,000 shares 10 each) Rs. 4,60,000

Calls in arrear Rs. 7,500

Proposed dividend 5%

Amount of proposed dividend will be

A. Rs. 22625 **B.** Rs. 25000 **C.** Rs. 23000 **D.** None of the three.

Forfeiture of Shares

4. 500 shares of Rs. 20 each issued at 5% discount are forfeited for non-payment of allotment and final call money @ Rs. 9 and Rs. 5 respectively. Amount credited to share forfeiture A/c is:

A. Rs. 2,000 **B.** Rs. 2,500 **C.** Rs. 3,000 **D.** Rs. 7,000

5. A company issued 5,000 shares of Rs. 10 each at 20 % premium payable as follows: Application – Rs. 2, Allotment – Rs. 5 (including premium) and First and Final call. His shares were forfeited. Calculate the amount credited to the Share Forfeited Account.

A. Rs. 1,000 **B.** Rs. 1,400 **C.** Rs. 400 **D.** None of these

6. The directors of company forfeited 1000 shares of Rs. 10 each, Rs. 7.5 paid up, for non-payment of call money of Rs. 2.5 per share. 700 of this shares are reissued @ Rs. 7 per share. The amount transfer to Capital Reserve A/c would be:

A. Rs. 2,500 **B.** Rs. 3,150 **C.** Rs. 3,500 **D.** Rs. 5,400

7. A company forfeited 100 equity shares of Rs. 100 each issued at premium of 50% (to be paid at the time of allotment) on which the first call money of Rs. 30 per share was not received, final call of Rs. 20 is yet to be made. These shares were subsequently reissued at Rs. 70 per share at Rs. 80 paid up. The amount credited to Capital Reserve is:

A. 4,000 **B.** 2,000 **C.** 3,000 **D.** None

8. A Ltd., acquired assets worth Rs. 11,25,000 from B. Ltd., by issue of equity shares of Rs. 100 at premium of 25%. The shares to be issued by A Ltd., for the purchase of consideration:
A. 9000 shares **B.** 11250 shares **C.** 14063 shares **D.** 7500 shares

9. F Ltd. purchased Machinery from G Company for a book value of Rs.4,00,000. The consideration was paid by issue of 10% debentures of Rs.100 each at a discount of 20%. The debenture account was credited with
A. Rs.4,00,000 **B.** Rs.5,00,000 **C.** Rs.3,20,000 **D.** Rs.4,80,000

10. Huge Ltd. issued 25,000 equity shares of Rs.100 each at a premium of Rs.15 each payable as Rs.25 on application, Rs.40 on allotment and balance in the first call. The applications were received for 75,000 equity shares but the company issued to them only 25,000 shares. Excess money was refunded to them after adjustment for further calls. Last call on 500 shares were not received and were forfeited after due notice. The above is the case of
A. Over subscription. **B.** Pro-rata allotment. **C.** Forfeiture of shares. **D.** All of the above

11. O Ltd. issued 10,000 equity shares of Rs.10 each at a premium of 20% payable Rs.4 on application (including premium), Rs.5 on allotment and the balance on first and final call. The company received applications for 15,000 shares and allotment was made pro-rata. P, to whom 3,000 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to Q at par. Assuming that no other bank transactions took place, the bank balance of the company after effecting the above transactions = ?
A. Rs.1,14,000 **B.** Rs.1,32,000 **C.** Rs.1,20,000 **D.** Rs.1,00,000

Practical Questions

Issue of shares

Question No. 1 **RTP May 2018**

Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal. You are required to prepare journal entries to record these transactions.

Answer

Book of Pihu Limited Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c……………………………………Dr. To Equity Share Application A/c (Money received on applications for 2,00,000 shares @₹ 2.50 per share)		5,00,000	5,00,000

	Equity Share Application A/c ....Dr. To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)		5,00,000	5,00,000
	Equity Share Allotment A/c.......................................Dr. To Equity Share Capital A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)		6,00,000	6,00,000
	Bank A/c...Dr. To Equity Share Allotment A/c (Allotment money received)		6,00,000	6,00,000
	Equity Share First Call A/c...............................Dr. To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹.2 per share)		4,00,000	4,00,000
	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 20,000 shares at ₹2.50 per share)		4,50,000	4,00,000 50,000
	Equity Share Final Call A/c...Dr. To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹2.50 each)		5,00,000	5,00,000
	Bank A/c...Dr. Calls in Advance /C Dr. Calls in Arrears A/c Dr. (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)		4,45,000 50,000 5,000	5,00,000
	Interest on Calls in Advance A/c...................................Dr. To shareholders A/c Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)		1,500	1,500
	Shareholders A/c...Dr. To bank A/c (Being payment of Interest made to shareholders)		1,500	1,500
	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%)		83.34	83.34
	Bank A/c...Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)		5,083.34	5,000 83.34

Question No. 2 **May 2018 (10 MARKS)**

Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

- (i) ₹ 2 per share payable on application, to be received by 1st July, 2017;
- (ii) Allotment to be made on 10th July, 2017 and a further ₹ 5 per share (including the premium) to be payable;
- (iii) The final call for the balance to be made, and the money received by 30th April, 2018.

Applications were received for 4,20,000 shares and were dealt with as follows:

1) Applicants for 20,000 shares received allotment in full;
2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
4) The money due on final call was received on the due date.

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

Answer

Journal of Piyush Limited

Date		Dr.	Cr.
2017	**Particulars**	**₹**	**₹**
July 1	Bank A/c (Note 1 - Column 3) ....Dr. To Equity Share Application A/c (Being application money received on 4,20,000 shares @ ₹ 2 per share)	8,40,000	 8,40,000
July 10	Equity Share Application A/c..Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1-Column 6) (Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)	8,40,000	 2,60,000 4,00,000 1,80,000
	Equity Share Allotment A/c..Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)	6,50,000	 3,90,000 2,60,000

	Bank A/c (Note 1 - Column 8) ....Dr. To Equity Share Allotment A/c (Being balance allotment money received)	2,50,000	2,50,000
	Equity Share Final Call A/c...Dr. To Equity Share Capital A/c (Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)	6,50,000	6,50,000
April 30	Bank A/c...Dr. To Equity Share Final Call A/c (Being final call money on 1,30,000 shares @ ₹ 5 each received)	6,50,000	6,50,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	4,20,000	1,30,000	8,40,000	2,60,000	4,00,000	1,80,000	6,50,000	2,50,000

Forfeiture of Shares

Question No. 3 **RTP May 2018, 2019, RTP Nov. 2019**

Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Answer

In the books of Company
Journal

Particulars	Dr. ₹	Cr. ₹
Preference Share Capital A/c (4,000 x ₹75)	3,00,000	
To Preference Share Allotment A/c		1,00,000
To Preference Share First Call A/c		1,00,000
To Forfeited Share A/c		1,00,000
(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No ..... dated.........)		
Bank A/c (3,000 x ₹65)	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	30,000	
To Preference Share Capital A/c		2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)		
Forfeited Shares A/c	45,000	
To Capital Reserve A/c (Note 1)		45,000
(Being profit on re-issue transferred to Capital/Reserve)		

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000	=	₹ 25
Loss on re-issue =₹ 75 - ₹ 65	=	₹ 10
Surplus per share re-issued		₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

Issue of Debentures

Question No. 4 **RTP May 2018, Mock Test March 2019**

Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:
(a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.
(b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 - ₹ 25,00,000 nominal value.
(c) To the banker as collateral security for a loan of ₹ 20,00,000 - ₹ 25,00,000 nominal value.
You are required to prepare necessary journal entries Journal Entries.

Answer

In the books of Riya Company Ltd.
Journal Entries

Date	Particulars	Dr.	Cr.
		₹	₹
(a)	Bank A/c.......................................Dr. To Debentures Application A/c (Being the application money received on 10,000 debentures @ ₹ 450 each)	45,00,000	 45,00,000
	Debentures Application A/c.......................................Dr. Discount on issue of Debentures A/c.......................................Dr. To 14% Debentures A/c (Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No....dated....)	45,00,000 5,00,000	 50,00,000
(b)	Fixed Assets A/c.......................................Dr. To Vendor A/c (Being the purchase of fixed assets from vendor)	20,00,000	 20,00,000
	Vendor A/c.......................................Dr. Discount on Issue of Debentures A/c.......................................Dr. To 14% Debentures A/c (Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)	20,00,000 5,00,000	 25,00,000
(c)	Bank A/c.......................................Dr. To Bank Loan A/c (See Note) (Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)	20,00,000	 20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.