Bank Reconcilliation Statement


MY SUCCESS MANTRAS
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विश्वास TRUST
SELF-RELIANCE आत्मनिर्भरता


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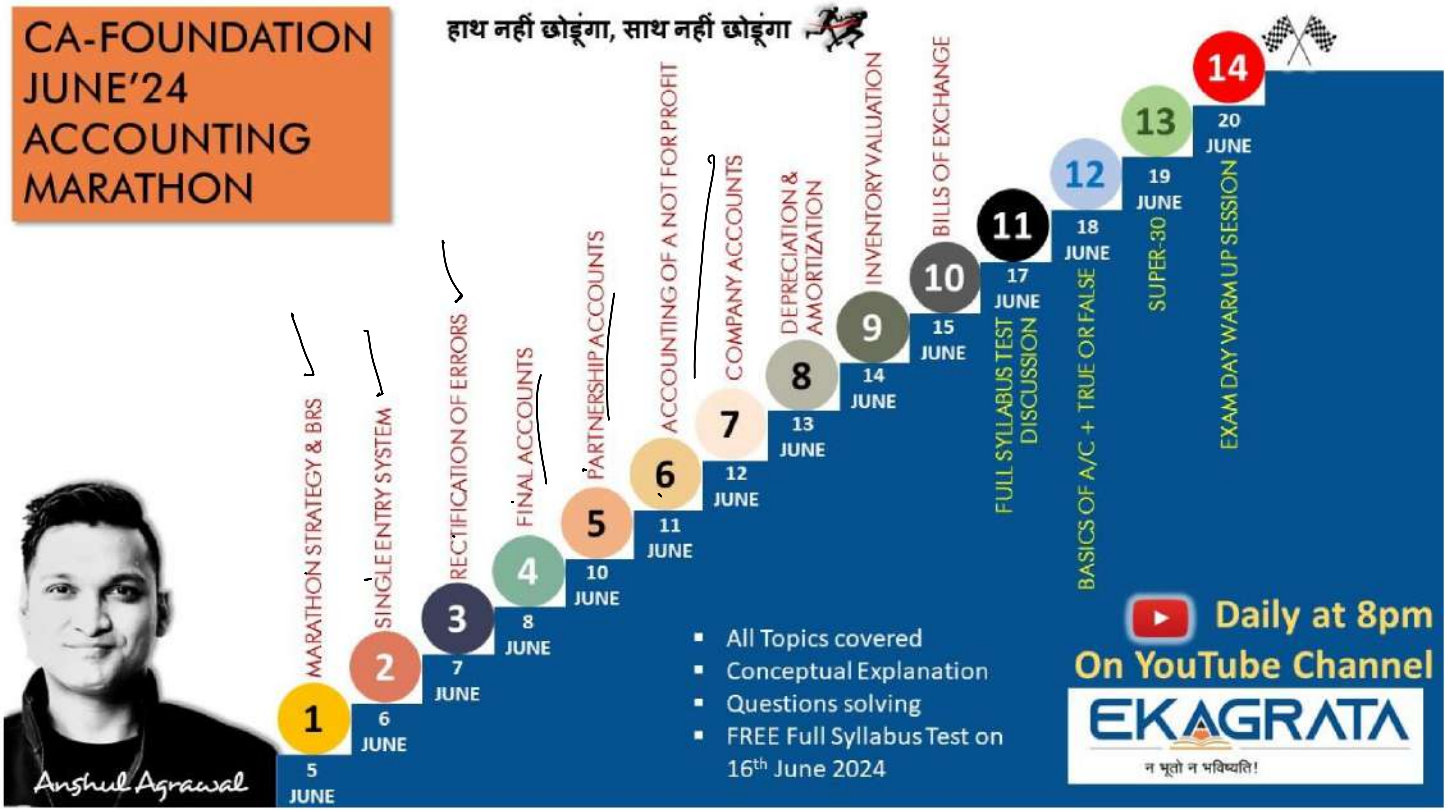
CA-FOUNDATION JUNE'24
ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

- ❑ SERIES OF MARATHON is better than ONE STRECHED MARATHON.
- ❑ All topics systematically covered in daily revisions. It gives you time for other subjects & self studies.
- ❑ PYQ Analysis followed by complete conceptual revision.
- ❑ Ample of Questions to be practiced. Meticulously handpicked and selected, some crafted by me.
- ❑ Self Assessment in between of session.
- ❑ Uniform timing – adequate break – low data consumption.
- ❑ Marathon Notes will be uploaded on Google Drive folder. SCAN QR Code to access it.
- ❑ Full Syllabus Test on 16th June 2024 with analysis class next day.
- ❑ Lots of Motivation throughout all the sessions.
- ❑ Anshul Sir's USP – Warm Up session on examination day.


CA-FOUNDATION
JUNE'24
ACCOUNTING
MARATHON
हाथ नहीं छोडूंगा, साथ नहीं छोडूंगा
1 5 JUNE MARATHON STRATEGY & BRS
2 6 JUNE SINGLE ENTRY SYSTEM
3 7 JUNE RECTIFICATION OF ERRORS
4 8 JUNE FINAL ACCOUNTS
5 10 JUNE PARTNERSHIP ACCOUNTS
6 11 JUNE ACCOUNTING OF A NOT FOR PROFIT
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हाथ नहीं छोडूंगा, साथ नहीं छोडूंगा
1
10 Marks
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हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

REVISION STRATEGY

#1: DURING MARATHON SESSION

(a) Do conceptual revision
(b) Solve Questions along with me
(c) Be Participative throughout the session
(d) Take up Self Assessment

#2: AFTER MARATHON SESSION

(a) Solve additional questions of the topic done
(b) Study for 2 to 4 Hours and complete those topics

#3: Make the Best use of BREAK DAYS i.e. Self Study Day and revise syllabus entirely.

#4: Take up Full Syllabus Test

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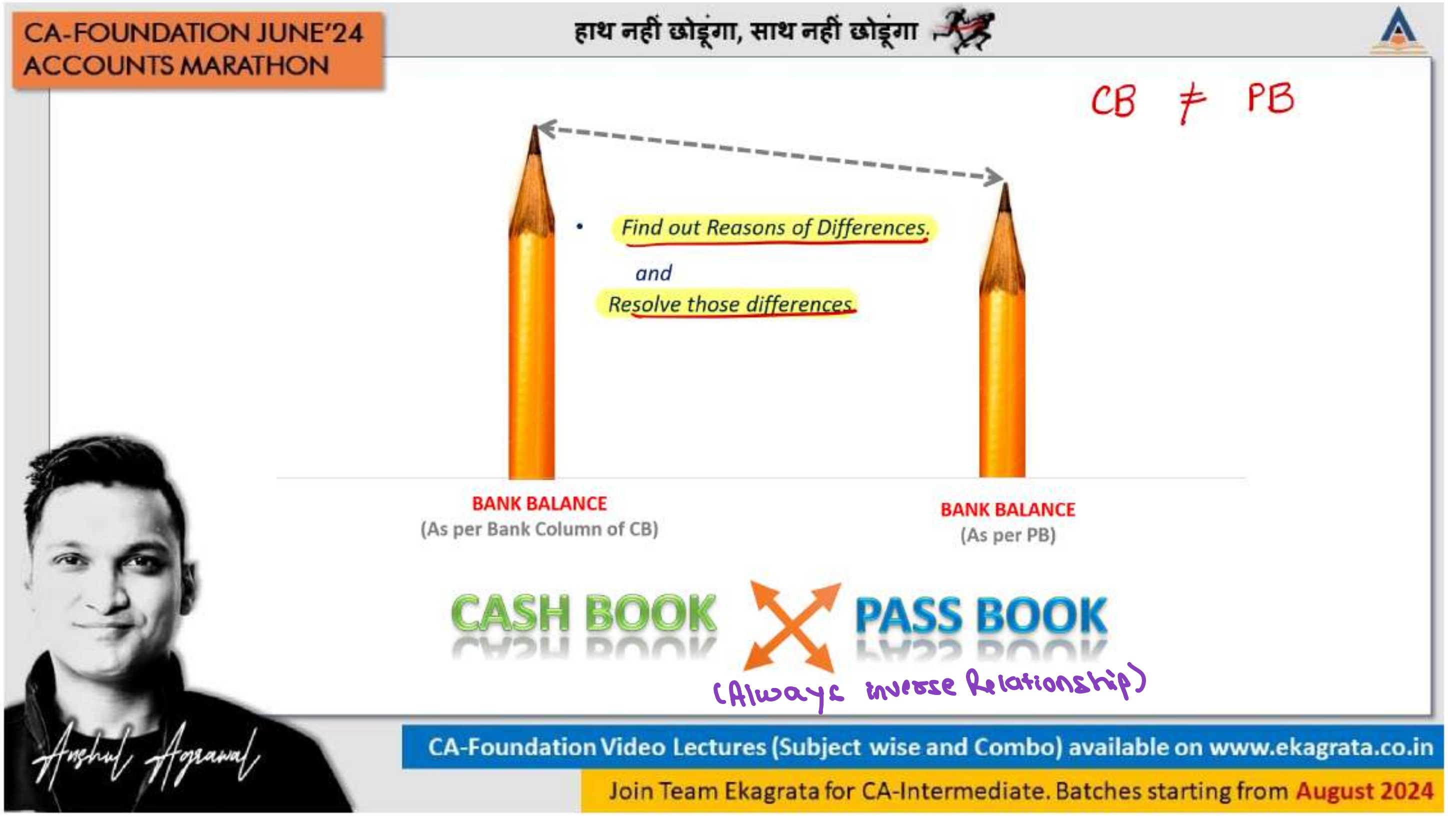
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

ICAI EXAM PAPER ANALYSIS

BANK RECONCILIATION STATEMENT

EXAM	MARKS	
MAY'18	10M	Q6(a)
NOV'18	10M	Q4(b)
MAY'19	10M	Q2(a)
NOV'19	10M	Q2(a)
DEC'20	10M	Q2(a)
JAN'21	4M	Q1(c)
JULY'21	5M	Q2(b)
DEC'21	10M	Q2(c)
JUNE'22	5M	Q2(c)
DEC'22	10M	Q2(a)
JUNE'23	5M	Q2(b)
DEC'23	8M	Q2(a)
JUNE'24	?	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ACCOUNTS MARATHON
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा
CB ≠ PB
Find out Reasons of Differences.
and
Resolve those differences.
BANK BALANCE
(As per Bank Column of CB)
BANK BALANCE
(As per PB)
CASH BOOK
PASS BOOK
(Always inverse Relationship)
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Table No. 1 :

Bank Column (Personal)

	CB	PB
Dr.	Receipt	Payment
Cr.	Payment	Receipt

Table No. 2 :

	CB	PB
Dr. Bal. DR > CR	R > P +ve Bank Bal. Favourable Bal.	P > R -ve Bank Unf. Bank OD
Cr. Bal. DR < CR	R < P -ve Bank Bal. Unfav. Bal. Bank OD	P < R +ve Bank Bal. Fav. Bal.

Table No. 3 :

	Fav. Bal.	Unf. Bal.
Receipt	+ve Bal. ↑	-ve Bal. ↓
Payment	+ve Bal. ↓	-ve Bal. ↑

Starting Balance (CB or PB)		xxx
Add/Less	Reconc. transactions	xxx
Ending Point		xxx

RT are those transactions which creates difference in CB Bal. & PB Bal.

#Shanaya

RTP November 2018

Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2018:

(i) Balance as per Pass Book is Rs. 10,000.

(ii) Bank collected a cheque of Rs. 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of Rs. 1,589 as Rs. 1,598. Correct Wrong 9₹

(iv) Withdrawal column of the Pass Book undercast by Rs. 100. Withdrawal ↓ PB Bal. ↑

(v) The credit balance of Rs. 1,500 on page 5 was recorded on page 6 as debit balance. Unfav Bal.

(vi) The payment of a cheque of Rs. 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of Rs. 1,000 deposited by Shri Hari (another customer of the bank).

ANSWER: Balance as per Cash Book Rs. 12,741

Bal. as per PB	10,000	
	500	
	(9)	
	(100)	
	3000	
	350	
	(1000)	12,741

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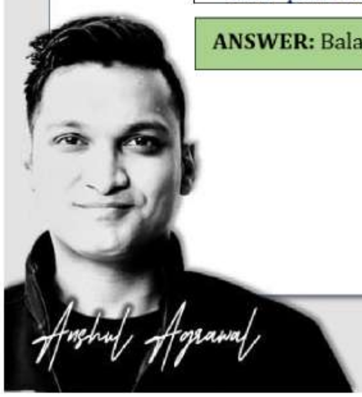
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

ICAI RTP MAY 2020 & CA-F-N18

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

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

ANSWER: Balance as per Pass Book Rs. 13,70,250

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Suggested Q.1

CA-F-M18-Q6(a)-10 Marks

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

(i) A Cheque of Rs,1,080 credited in the pass book on 28thMarch 2018 being dishonoured is debited again in the pass book on 1stApril 2018. There was no entry in the cash book about the dishonour of the cheque until 15thApril 2018.

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

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

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

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

(vi) A cheque for Rs. 1,000 entered in Cash Book but omitted to be banked on 31stMarch, 2018.

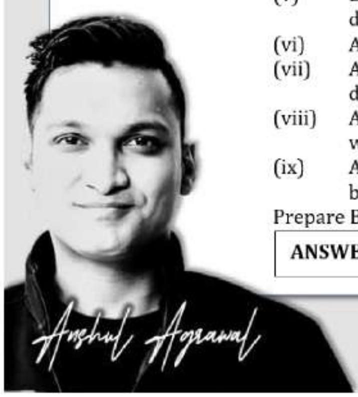
(vii) A Bill Receivable for Rs. 5,200 previously dishonoured (Discount Rs. 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.

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

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

Prepare Bank Reconciliation Statement as on 31stMarch, 2018.

ANSWER: Overdraft as per Cash Book Rs. 27,950



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+ POV overdraft

CA-F-M19-Q2(a)-10 Marks

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

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

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

(iii) Out of cheques issued worth Rs. 34,000, cheques amounting to Rs. 20,000 only were presented for payment till 30thJune, 2018. Unpresented Cheques 14,000

(iv) A chequefor Rs. 4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth Rs. 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2018,Rs. 14,000 [No entry]

(2) Cheques collected on 10th July, 2018, Rs. 4,000

(3) Cheques collected on 12th July, 2018, Rs. 2,000. Uncollected Chq. → (6000)

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

(vii) Interest on Overdraft chargedby the bank Rs. 1,600 was not recorded in the Cash Book.

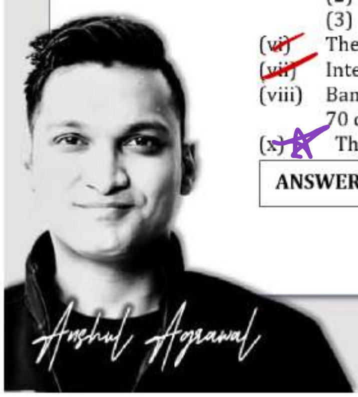
(viii) Bank charges worth Rs. 80 have been entered twice in the cash book whereas Insurance charges for Rs. 70 directly paid by Bank was not at all entered in the Cash Book.

(x) The credit sideof bank column of Cash Book was under cast by Rs. 2,000. CB Pay ↓ CB OD ↓

PB 25000
400
14,000
(4000)
(6000)
(600)
(1600)
80
(70)
(2000)
CB 25,210

ANSWER: Overdraft as per Cash Book Rs. 25,210

CB Payments



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हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

transactions to be adjusted in CB ✓	transactions Not to be adjusted in CB ✗
• Errors in CB	• Errors in PB
• Genuine transactions	• Tim. Dif. transactions

When to follow Method #2 i.e. Adjusted CB Method:

#1) If Question clearly asks to solve a question after rectification / accounting / modification / adjusting CB

OR

#2) If Question is silent but data is as under –
Starting point is Balance as per cash Book AND
BRS is prepared on Year Ending date i.e. 31st March.

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ACCOUNTS MARATHON

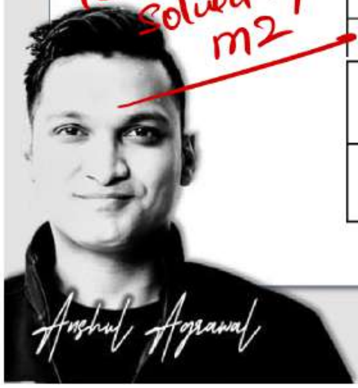
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

Real time Gross Settlement

PYQ
Exceptional
Actual of M1
But
ICAI Sugg. Ans
Solved by M2

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

Particulars	₹	
Bank Balance as per Cash Book (Debit) Favourable	1,98,000	
Bank Charges debited by the bank not recorded in Cash Book	34,000	✓ GT
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	1,00,000	✓ GT
Cheque issued but not presented for payment	+ 45,000	× TD
Cheque deposited but not cleared	− 25,000	× TD
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000	✓ GT
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	4,000	× TD



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ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

Adjusted Cash Book as on 31st December, 2020

Particulars	₹	Particulars	₹
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000
	2,98,000		2,98,000

→ Adj. CB Bal.

Bank Reconciliation Statement as on 31st December, 2020

Particulars	₹	₹
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented	45,000	
Payment not effected by bank	4,000	
		49,000
		3,08,000
LESS: Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass book		2,83,000


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Suggested
Q.2

ILLUSTRATION 8

The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2019, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(1) On 15th December, 2019 the payment side of the Cash Book was undercast by ₹ 10,000.

(2) A cheque for ₹ 1,31,000 issued on 25th December, 2019 was not taken in the bank column.

(3) One deposit of ₹ 1,50,000 was recorded in the Cash Book as if there is no bank column therein.

(4) On 18th December, 2019 the debit balance of ₹ 15,260 as on the previous day, was brought forward as credit balance.

(5) Of the total cheques amounting to ₹ 11,514 drawn in the last week of December, 2019, cheques aggregating ₹ 7,815 were encashed in December.

(6) Dividends of ₹ 25,000 collected by the Bank and subscription of ₹ 1,000 paid by it were not recorded in the Cash Book.

(7) One out-going Cheque of ₹ 3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

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FM & SM
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CLASS 3
CA-FOUNDATION JUNE 2024
MARATHON
ACCOUNTS
RECTIFICATION OF ERRORS
CA CS ANSHUL AGRAWAL
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10 Marks
10 Marks
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2
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ACCOUNTS MARATHON

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ICAI EXAM PAPER ANALYSIS

RECTIFICATION OF ERRORS

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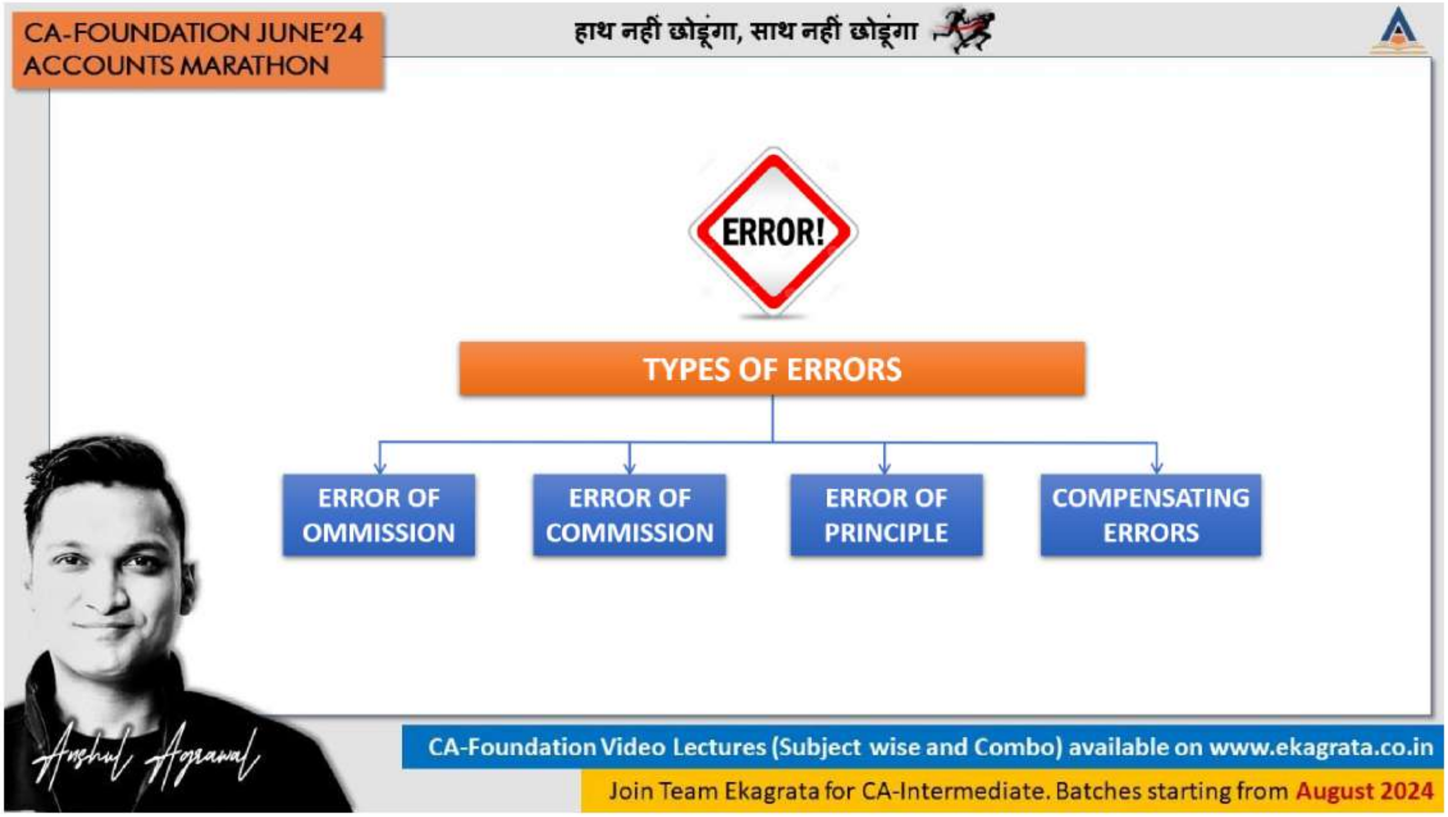
DEC'22	10M	Q2(b)
JUNE'23	-	-
DEC'23	-	-
JUNE'24	?	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ERROR!
TYPES OF ERRORS
ERROR OF OMMISSION
ERROR OF COMMISSION
ERROR OF PRINCIPLE
COMPENSATING ERRORS
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ERROR OF OMMISSION

→ Chhut Jana ya Chhod dena

- When a Transaction is omitted to be recorded, either in whole or in Part, it is known as an 'Error of Ommission'.

- **ERROR OF PARTIAL OMMISSION**

  When either of the effect of a Transaction i.e. Debit or Credit is not given.

  E.g. Goods purchased from Lakshya For Rs. 68,000 recorded in Purchase book but not posted to Lakshya's A/c.

  Debit effect given but credit effect not given – **TB will not Agree (Liabilities are understated), No Effect on Profitability**

- **ERROR OF COMPLETE OMMISSION**

  When both the effects of a Transaction i.e. Debit and Credit are not given.

  E.g. Goods purchased from Lakshya For Rs. 68,000 neither recorded in Purchase book nor posted to Lakshya's A/c

  Both Debit and credit effect not given – **TB will Agree, Profits will be overstated (since expenses are understated)**

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ERROR OF COMMISSION

- If an amount is posted in wrong account, wrong side of an account, wrong amount, wrong Casting Totaling, wrong balances carried/brought forward, it is known as an 'Error of Commission'.

E.g. Goods purchased from Lakshya for Rs. 68,000 recorded in Purchase book at Rs. 68,000 but posted to Lakshya's A/c as Rs. 86,000 .

Debited with Rs. 68,000 but credited with Rs. 86,000
Since, DR. of TB $\neq$ CR. Of TB
TB will not Agree (Liab. Are overstated)
No effect on Profitability

E.g. Goods purchased from Lakshya for Rs. 68,000 wrongly posted to Vishal's A/c.

Debited with Rs. 68,000 and credited with Rs. 68,000 (but in wrong account)
Since, DR. of TB $=$ CR. Of TB
TB will Agree
No effect on Profitability

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+ fundamental errors

ERROR OF PRINCIPLE

- When a transaction is recorded in contravention to the accounting principles i.e. accounting concepts, accounting conventions or accounting standards, it is known as an 'Error of Principle'.

E.g. Goods purchased from Lakshya for Rs. 68,000 recorded as purchase of an asset.

Debited with Rs. 68,000 and credited with Rs. 68,000
Since, DR. of TB = CR. Of TB
TB will Agree
Profits will be overstated (since expenses are understated)

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Do galtiyan ek doosre ki bharpai kar deti hai.

COMPENSATING ERROR

- When one error is compensated by an another error, it is known as 'Compensating Error'.

E.g. Goods purchased from Lakshya for Rs. 68,000 recorded in Purchase Book but not credited to Lakshya's Account.
and
Sales Book is over-casted by Rs. 68,000.

In first error Purchase Account is Debited with Rs. 68,000 but Lakshya's Account is not credited.
Therefore, Total DR. ≠ CR.
But in second error there is excess CR. Of Rs. 68,000.
By this way **TB will Agree**
Profits will be overstated (since Sales are overstated)

ICAI RTP NOV 2018

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

P (i)Sale of furniture credited to Sales Account.

O (ii)Purchase worth Rs. 4,500 from M not recored in subsidiary books.

C (iii)Credit sale wrongly passed through the Purchase Book.

O (iv)Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

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

RTP May 2018 and RTP November 2019

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

(i)Credit sale of Rs. 400 to Trivedi & Co. was posted to the credit of their account.

(ii)Purchase of Rs. 420 from Mantri & Co. passed through Sales Day Book as Rs. 240

How would you rectify the errors assuming that :

(a)they were detected before preparation of Trial Balance. Stage-1 (Transactional Stage)

(b)they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c. Stage-2

(c)they were detected after preparing Final Accounts. Stage-3

(i) CE Trivedi a/c — Dr. 400
To Sales a/c 400

WE NO DEBIT
To Sales a/c 400
To Trivedi & Co. a/c 400

(ii) CE Purchase a/c — Dr. 420
To Mantri & Co. 420

Mantri & Co. a/c — Dr. 240 240
To Sales a/c

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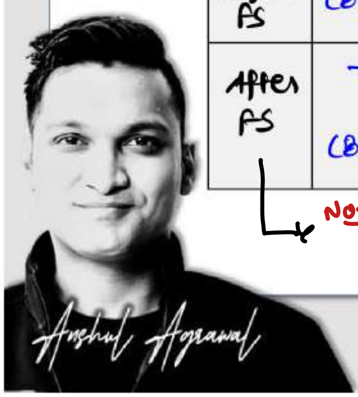
Note:- in this stage you cannot use Suspense A/c & you can instead pass one sided entry.

	(i)	(ii)
Before TB	Dr. Trivedi & Co. A/c by ₹800	Purchase A/c —— Dr. 420 Sales A/c —— Dr. 240 To Manti & Co. 420 To Manti & Co. 240
After TB Before FS	Trivedi & Co. A/c — Dr. 800 To Suspense A/c 800 (Being error rectified).	Nominal A/c's Purchase A/c —— Dr. 420 Sales A/c —— Dr. 240 To Manti & Co. 420 To Manti & Co. 240
After FS	Trivedi & Co. A/c — Dr. 800 To Suspense A/c 800 (Being error rectified).	P&L Adj. A/c —— Dr. 660 To Manti & Co. A/c 660 (Being error rectified).

Note:- If in this stage there is a nominal A/c in Dr or Cr side then exchange it with P&L Adj A/c



CA-F-N19 (10 Marks)

Correct the following errors

(i) Without opening suspense account and Stage-1 ✓

(ii) With opening suspense account: Stage-2 ✓

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

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

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

(4) Furniture purchased from Mary Associates, Rs. 15,000 has been entered in purchased day book.

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

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

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	Without Susp. A/c	With Susp. A/c
1	Cr. ₹2100 to Sales A/c	Suspense A/c — Dr. 2100 To Sales A/c 2100
2	Sales Ret A/c Dr 1800 To Gaurav & Co 1800	Sales Ret A/c Dr 1800 To Gaurav & Co 1800
3	Cr ₹4500 to Sen Bros A/c	Suspense A/c Dr 4500 To Sen Bros

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4	furniture A/c Dr 15000 To purchase A/c 15000	furniture A/c Dr 15000 To purchase A/c 15000
5	Black & White A/c Dr 1200 To Disc Recd A/c 1200	Black & White A/c Dr 1200 To Disc Recd A/c 1200
6	Dr ₹180 to Disc All A/c	Disc All A/c Dr 180 To Susp A/c 180

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Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed an Accountant who examined the old books and found the following mistakes: Stage-3:- where Nominal A/c gets replaced with P&L Adj A/c.

1. Purchase of a vehicle was debited to conveyance account Rs. 30,000.
2. Purchase account was over cast by Rs. 10,000.
3. A credit purchase of goods from Mr. P for Rs. 2,000 was entered as a sale.
4. Receipt of cash from Mr. A was posted to the account of Mr. B Rs. 1,000.
5. Receipt of cash from Mr. C was posted to the debit of his account Rs. 500.
6. Rs. 500 due from Mr. Q was omitted to be taken to trial balance.
7. Sale of goods to Mr. R for Rs. 2,000 was omitted to be recorded.
8. Payment of Rs. 2,395 for purchase was wrongly posted as Rs. 2,593. Cash Purchases Diff. 198
9. Mr. Roy used to charge 10 % depreciation on vehicles.

Give the necessary rectification entries.

CE Purchase a/c ~~Dr~~ 2395
to Bank a/c 2395

WE Purchase a/c — Dr. 2593
to Bank a/c 2395

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(1) Vehicle A/c — Dr 30,000
To P&L Adj. A/c 30,000

(2) Suspense A/c — Dr. 10,000
To P&L Adj A/c 10,000

(3) P&L Adj. A/c — Dr. 4000
To P A/c 4000

(4) Mr. A A/c — Dr. 1000
To Mr. B A/c 1000

(5) Suspense A/c — Dr 1000
To Mr. C 1000

(6) Mr. Q A/c — Dr. 500
To Suspense A/c 500

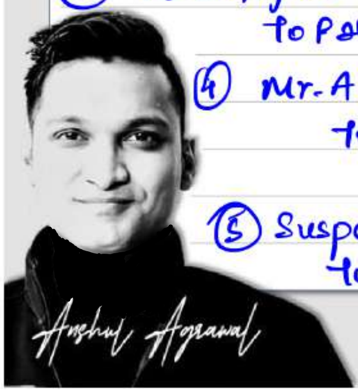
(7) R A/c — Dr 2000
To P&L Adj. A/c 2000

(8) Susp. A/c — Dr. 198
To P&L Adj. A/c 198

(9) P&L Adj. A/c — Dr. 3000
To Vehicle A/c 3000

(10) Roy's Cap A/c — Dr.
To Susp. A/c

(11) P&L Adj. A/c — Dr
To Susp. A/c



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Suspense a/c

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To P&L Adj.	10,000	By Mr. Q	500
To Mr. C	1,000		
To P&L Adj.	198	By Roy's Cap. a/c	*10,698
	11,198		11,198

P&L Adjustment a/c

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To P	4,000	By Vehicles	30,000
To Vehicles	3,000	By Suspense	10,000
		By R	2,000
To Roy's Capital a/c	35,198	By Suspense	198
	42,198		42,198


CLASS 2
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MARATHON
ACCOUNTS
EKAGRATA
SINGLE ENTRY SYSTEM
Preparation of A/c's from incomplete Records.
CA CS ANSHUL AGRAWAL


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हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा
1
2
3
4
5
6
7
8
9
10
11
12
13
14
10 Marks
10 Marks
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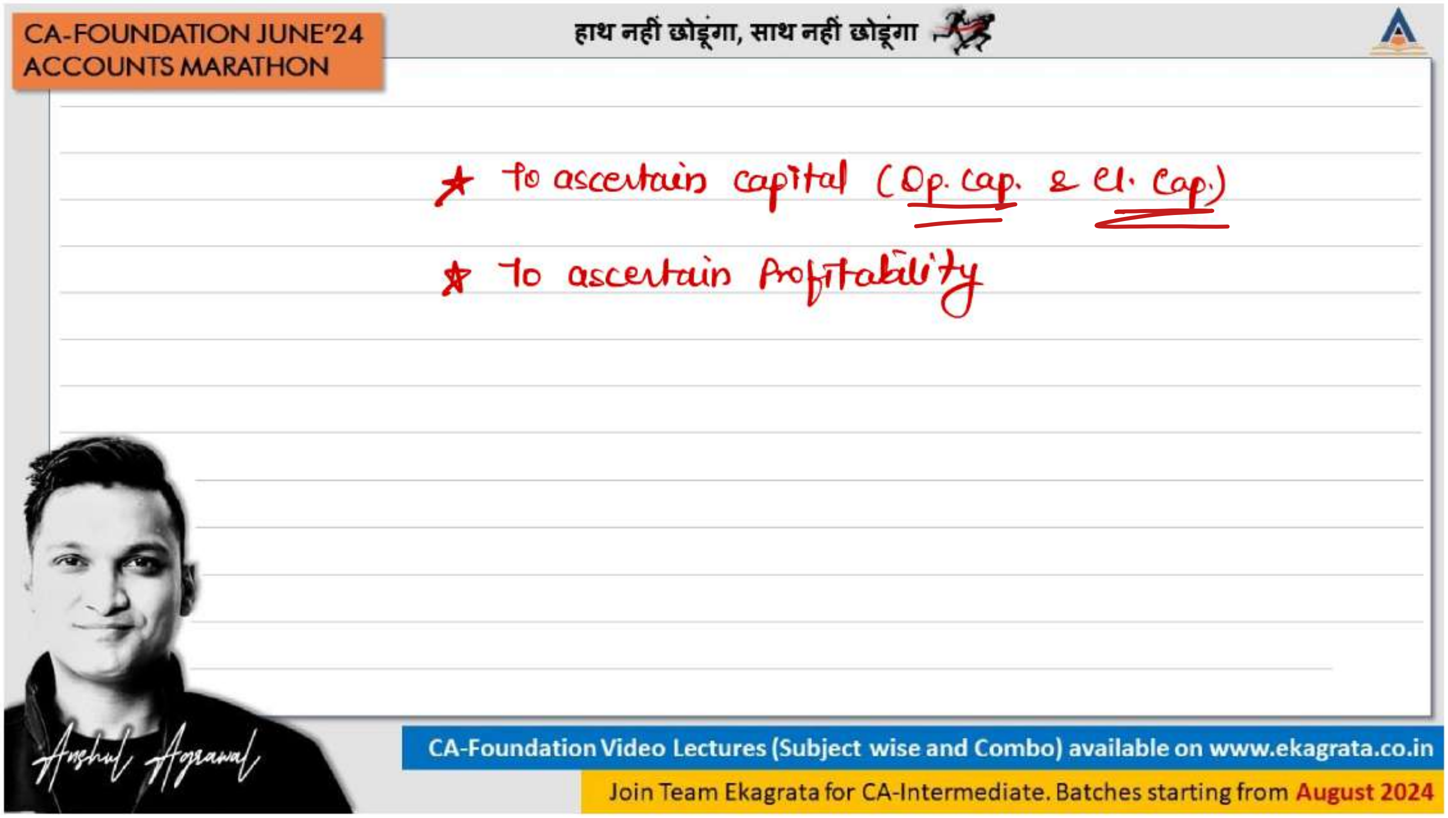
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★ To ascertain capital (Op. cap. & Cl. Cap.)
★ To ascertain Profitability
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ILLUSTRATION 1

Raju does not maintain proper records of his business. However, he provides the following information:

	₹
Opening capital	10,000
Closing capital	12,500
Drawings during the year	3,000
Capital added during the year	3,750

You are required to calculate the profit or loss for the year.

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Capital Account (Personal)

To Drawings a/c	3,000	By Balance b/d (Op. cap.)	10,000
To Int. on Drawings	–	By Cash/ Bank a/c (Addl. Cap.)	3,750
		By Int. on Capital	–
To Bal. c/d (Cl. Cap.)	12,500	By P&L a/c (Profit)	*1,750 ↳ Bal fig.
	15,500		15,500

OR -

Closing capital	12,500	Statement of Profit & Loss
Add :- Drawings	3,000	
less :- Additional Capital	(3,750)	
less :- Opening capital	(10,000)	
∴ Profit during the year	1,750	

ILLUSTRATION 3 & Ill.4

Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021	31-03-2022
	Op. SOA ₹	Cl. SOA ₹
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses. Drawings 12000

Addl. capital

Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022.

Note:-

Statement of Affairs is like :- Balance Sheet
Statement of P&L is like :- P&L A/c

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Statement of Affairs

Liabilities	31/03/21	31/03/22	Assets	31/03/21	31/03/22
Capital a/c (A−L) *	*241,200	*440,700	Building	100,000	97,500
Loans	100,000	80,000	Furniture	50,000	45,000
Sundry Creditors	40,000	70,000	Inventory	120,000	270,000
			Debtors	40,000	90,000
			Cash at Bank	70,000	85,000
			Cash in Hand	1,200	3,200
	381,200	590,700		381,200	590,700

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Statement of Profit and Loss

Closing capital	(Cl. SOA)	440,700
Add:- Drawings	(2000×12)	24,000
less:- Additional capital		(40,000)
less:- Opening capital	(Op. SOA)	(241,200)
∴ Profit during the year		183,500

→ NP after all exps. which is transferred to Cap. a/c

Suggested Question

Similar to Illu. 3 & 4

ILLUSTRATION 5

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

				₹
1-4-2020	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Wife's Jewellery	75,000
	Liabilities	:	Owing to Moti's Brother	40,000
			Sundry creditors	35,000
1-4-2022	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500
			Land and Building	1,90,000
			Motor Car	1,25,000
			Wife's Jewellery	1,25,000
			Loan to Moti's Brother	20,000
	Liabilities	:	Sundry creditors	55,000

228,000

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

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


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ILLUSTRATION 6

Calculate the bad debts from the below information:

Opening balance of Debtors	₹ 5,00,000
Closing balance of Debtors	₹ 7,00,000
Amount received in Cash	₹ 6,00,000
Discount allowed	₹ 10,000
Credit Sales	₹ 11,40,000
Bills Receivable	₹ 3,00,000
Bad Debts	???

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Debtors Account

To Balance b/d	500,000	By Cash/Bank A/c	600,000
To Sales A/c	11,40,000	By Disc. Allowed A/c	10,000
		By Bad Debts A/c	* 30,000
		By Bills Receivable A/c	300,000
		By Balance c/d	700,000
	16,40,000		16,40,000

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हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

ILLUSTRATION 7

Calculate the credit purchases from the below information:

Opening balance of creditors	₹ 4,00,000
Closing balance of creditors	₹ 5,00,000
Payments made in Cash	₹ 8,50,000
Discount received	₹ 20,000

Cl bal 500000

Dr all expences & loss, Cr all profits & gain. (Nominal A/c)

Creditor's Account

To Cash/Bank A/c	850000	By Balance b/d	400,000
To Disc. Received A/c	20,000	By Purchase A/c	* 970,000
To Balance c/d	500,000		
	13,70,000		13,70,000

ILLUSTRATION 10

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	OP 31st March 2021	CL 31st March 2022
Sundry debtors	70,000	82,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021-2022:

→ Cash book → P&L → P&L → BS cap-drawings

(i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750. 7200 110,400 16800

(ii) Cash Withdrawn from bank ₹ 1,21,000.
↳ cash book - contra entry

(iii) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.
↳ cash book, Cr A/c, B/S - Asset

(iv) Cheques collected from customers but dishonoured ₹ 5,700.
↳ Net effect = 2850 but mention a note

(v) Bills accepted by customers ₹ 40,000.

(vi) Bills endorsed ₹ 10,000.

(vii) Bills discounted ₹ 20,000, discount ₹ 750. Amt Recd. 19,250 Bank book, P&L - Dr,

(viii) Bills matured and duly collected ₹ 16,000.
↳ Br A/c, B... n book)

(ix) Bills accepted ₹ 24,000.
↳ Creditors A/c, Bills Payable

(x) Paid suppliers by cheque ₹ 3,20,000.
↳ Creditors A/c, Bank A/c (Cas... ook)

Page-1 [Trading & P/L a/c – 1/2 Page + 4 Lines

Page-2 [Balance Sheet in columnar format – 1/2 Page
WN1. Two column Cash Book – 1/2 Page

Page-3 [WN2. Sundry Drs. a/c
WN3. Bills Recv. a/c
WN4. Sundry creditors a/c
WN5. Bills Payable a/c
} 7 lines each

→ Bank A/c (cash book) Dr side, B/S Cap (+Add cap) ↳ curr year

(xi) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.

→ Same as above, but in cash A/c

(xii) Rent received ₹ 14,000 by cheque for the premises owned by proprietor.

(xiii) A building was purchased on 30-11-2021 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained. ?

Bal. fig in Bank Col. of CB

(xiv) Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.
↳ P&L

Other transactions:

→ P&L A/c Dr-side [Legal fees, Prov for loss]

(i) Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit. & B-S Liab side

(ii) Goods returned to suppliers ₹ 4,200. → creditors A/c Dr, Trading - Dr

(iii) Goods returned by customers ₹ 1,200. → Trading - Dr, Debtors - Cr

(iv) Discount offered by suppliers ₹ 2,700. → P&L - Cr, Cred A/c - Dr

(v) Discount offered to the customers ₹ 2,400. → P&L - Dr, Debtors - Cr

(vi) The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end. P&L - Dr, B/S - liab

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

Trading & P/L Account

To Op. Stock	110,000	By Sales 959,750 (-) Returns (1200)	958,550
To Purchase 454,100 (-) Returns (4200)	449,900		
To Gross Profit	588,650	By Closing stock	190,000
	11,48,550		11,48,550
To Shop exp.	7,200	By Gross Profit b/d	588,650
To Salaries	110,400	By Disc. Received	2700
To Disc.	750		
To Electricity & Telephone	20,900		
To legal fees	17,000		
To Prov. for Loss	155,000		
To Disc. Allowed	2400		
To Rent	20,000		
To NP	257,700		
	591,350		591,350

SD a/c

70,000	5,700
5,700	40,000
Drs a/c — Dr 3000 To BR a/c	1,200
	2,400
Sales 959,750	847,150 Coll. from Drs.
	92,000
10,38,450	10,38,450

SC a/c

77,200	40,000
10,000	454,100 Purch.
24,000	
320,000	
4200	
2,700	
56,000	
494,100	494,100

BR a/c

15,000	10,000
40,000	750
	19,250
	16,000
	3000
	6,000
55,000	55,000

BP a/c

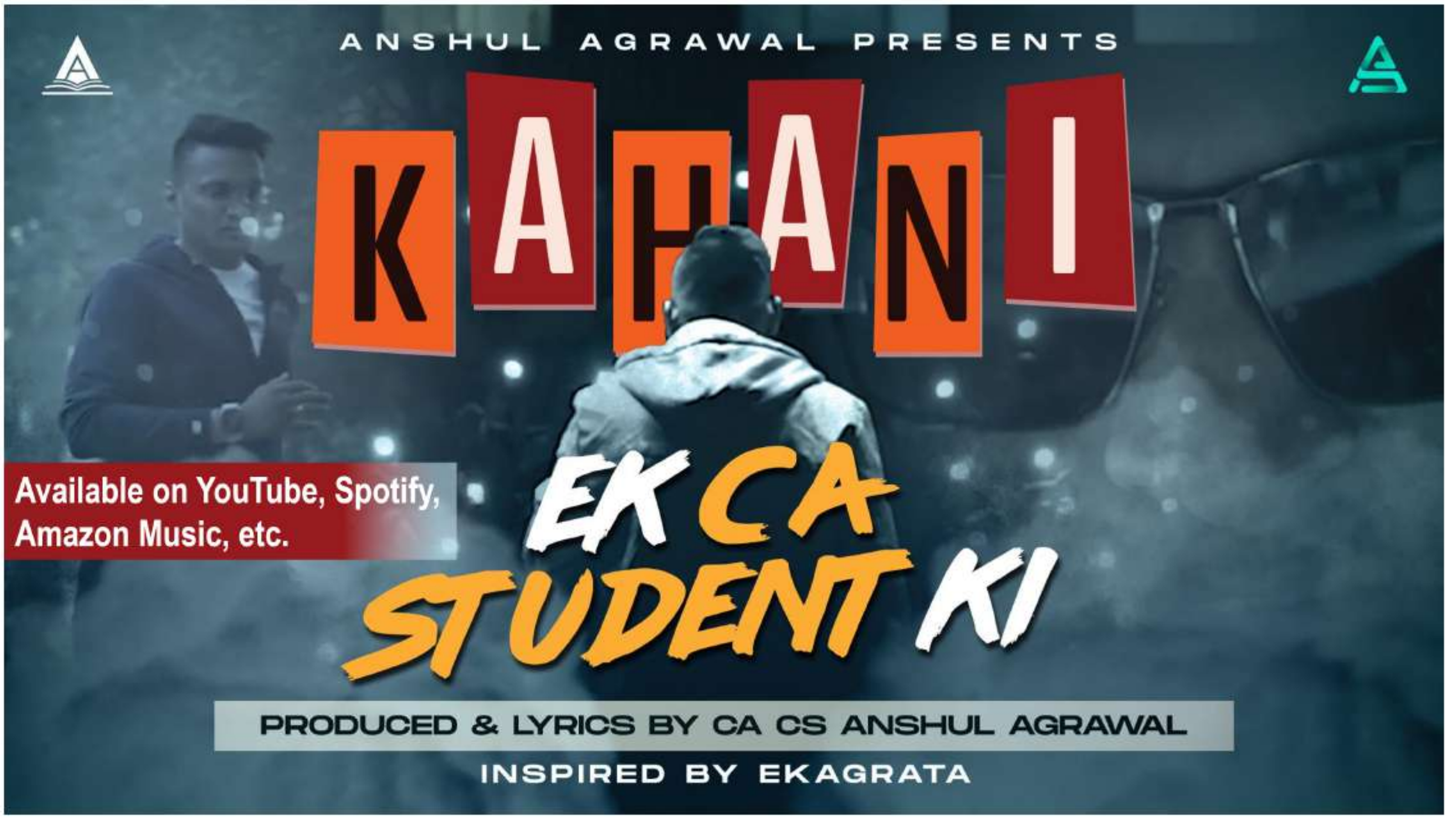
To Bank a/c 22,000	12,000
	24,000
14,000	
36,000	36,000

	Op.	Cl. BS		Op.	Cl.
capital:- Opening (-) Drawings (+) Addl. Cap. (+) Addl. Cap. (+) NP	238,200	238,200 (16,800) 20,000 14,000 257,700 513,100	Furniture Building (350,000+ 22,000)	– –	25,000 372000
O/s Rent	–	20,000	Stock	110,000	190,000
Creditors	40,000	56,000	Debtors	70,000	92,000
Bills Payables	12000	14,000	Bills Recv.	15,000	6,000
Legal Charges	–	17,000	Bank	90,000	87,000
Prov. for exp.	–	155,000	cash	5200	5,300
O/s Elec. & Tel.	–	2200			
	290,200	777,300		290,200	777,300

Cash Book

	C	B		C	B
To Bal. b/d	5200	90,000	By Bank a/c	762,750	–
To Cash a/c	–	762,750	By Shop exp.	7,200	–
To Bank	121,000	–	By Salaries	110,400	–
To Drs. a/c	–	5,700	By Drawings	16,800	–
To BR	–	19,250	By Cash a/c	–	121,000
To BR	–	16,000	By Creditors	77,200	–
To Cap. a/c	–	20,000	By Furniture	25,000	–
To Cap. a/c	–	14,000	By Drs. a/c	–	5700
To Sundry Drs. a/c	*897,150		By Crs. a/c	–	320,000
			By Building	–	350,000
			By Building a/c	–	22,000
			By Electricity & Telephone	18700	

		By BP a/c	–	22,000
		By Bal. c/d	5,300	87,000
10,23,350	927,700		10,23,350	927,700

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JUNE'24
ACCOUNTING
MARATHON
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा
1 MARATHON STRATEGY & BRS 5 JUNE
2 SINGLE ENTRY SYSTEM 6 JUNE
3 RECTIFICATION OF ERRORS 7 JUNE
4 FINAL ACCOUNTS 8 JUNE
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ACCOUNTS MARATHON
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4
5
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10 Marks
10 Marks
10 Marks
10 Marks
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ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

EXAM	MARKS	
MAY'18	20M	Q3(a)
NOV'18	5M	Q3(b)
MAY'19	10M	Q4(b)
NOV'19	5M+10M	Q5(b) & (c)
DEC'20	5M+10M	Q5(b) & (c)
JAN'21	10M 5M	Q4(b) Q5 (b)
JULY'21	10M 5M	Q4(a) Q5 (b)(ii) Optional
DEC'21	15M	Q5(b) M+T+PL
JUNE'22	20M	Q5 M+T+PL+BS
DEC'22	10M	Q5(c)
JUNE'23	-	-

FINAL ACCOUNTS
ICAI EXAM PAPER ANALYSIS

CA-FOUNDATION JUNE'24
ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

ICAI Nov 2018 Exam Q3(b) 5M

Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit C/d	2300000 ?		45,00,000
	4500000	By Gross Profit B/d	2300000 ?
To Salaries paid	12,00,000	By Other Income	45,000
To General Expenses	6,00,000		
To Selling Expenses (1% of sales)	45000 ?		
To Commission to Manager (On net profit before charging such commission)	1,00,000		
To Net Profit	400000 ?		
	2345000?		2345000 ?

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ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

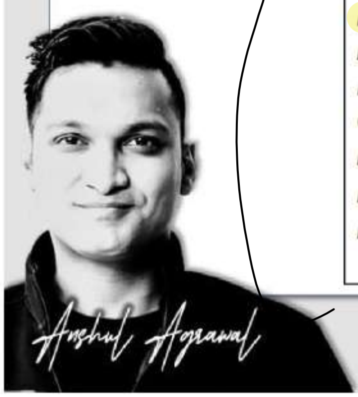
Normal Final A/c Question M19 Exam 10M

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

Trad - Dr side
P&L - Dr Side
B/S - Asset Side

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

Tr - Cr Side
P&L - Cr Side
B/S - Liab Side



Trading A/c

Other information :

(i) *Closing stock was valued at ₹ 4,500*

(ii) *Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.*

(iii) *Commission received in advance is ₹ 100.*

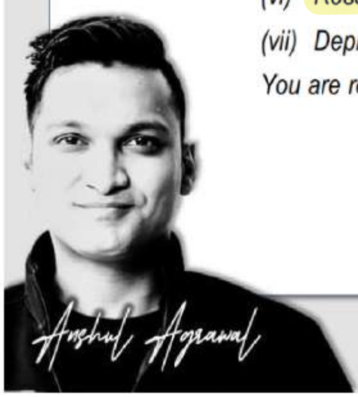
(iv) *Interest accrued on investment is ₹ 210*

(v) *Interest on overdraft is unpaid ₹ 300*

(vi) *Reserve for bad debts is to be kept at ₹ 1,000*

(vii) *Depreciation on furniture is to be charged @ 10%*

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



Trading & P&L A/C

Particulars	Amt	Particulars	Amt
To op Stock	1400		
To purch 12000		By Sales 9000	
(-) Ret 2000	10,000	(-) Ret 1000	8000
To gross profit	* 1100	By closing st.	4500
	12500		12500
		By gross profit	1100
—			
Salaries 2500			
Add: O/S 100	2600		
Tax & ins		By comm 500	
500		(-) less:- Adv (100)	400
Add: O/S 200			
less:- prepaid (50)	650	By int	210
To New RDD 1000			
Add- Bad debts 500		By net loss	2500*
less:- old RDD 1000	500		
To int on OD	300		
To Depn	160		
	4210		4210

Balance Sheet

Liab	Amt	Asset	Amt
Capital 16000		Furn 1600	
(-) Draw (2000)		(-) Depr (160)	1440
(-) Net loss (2500)	11,500		
		Closing St.	4500
		Inv. 4000	
		Add: int 210	4210
Bank OD 2000		Bills Receivable	3000
Add: O/s int 300	2300	Debtors 5000	
Creditors	2000	(-) RDD 1000	4000
Bills payable	2500	Prepaid ins	50
O/s liab	100	Cash in hand	1500
O/s Tax	200		
Comm in Adv	100		
	18700		18,700 -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ACCOUNTS MARATHON
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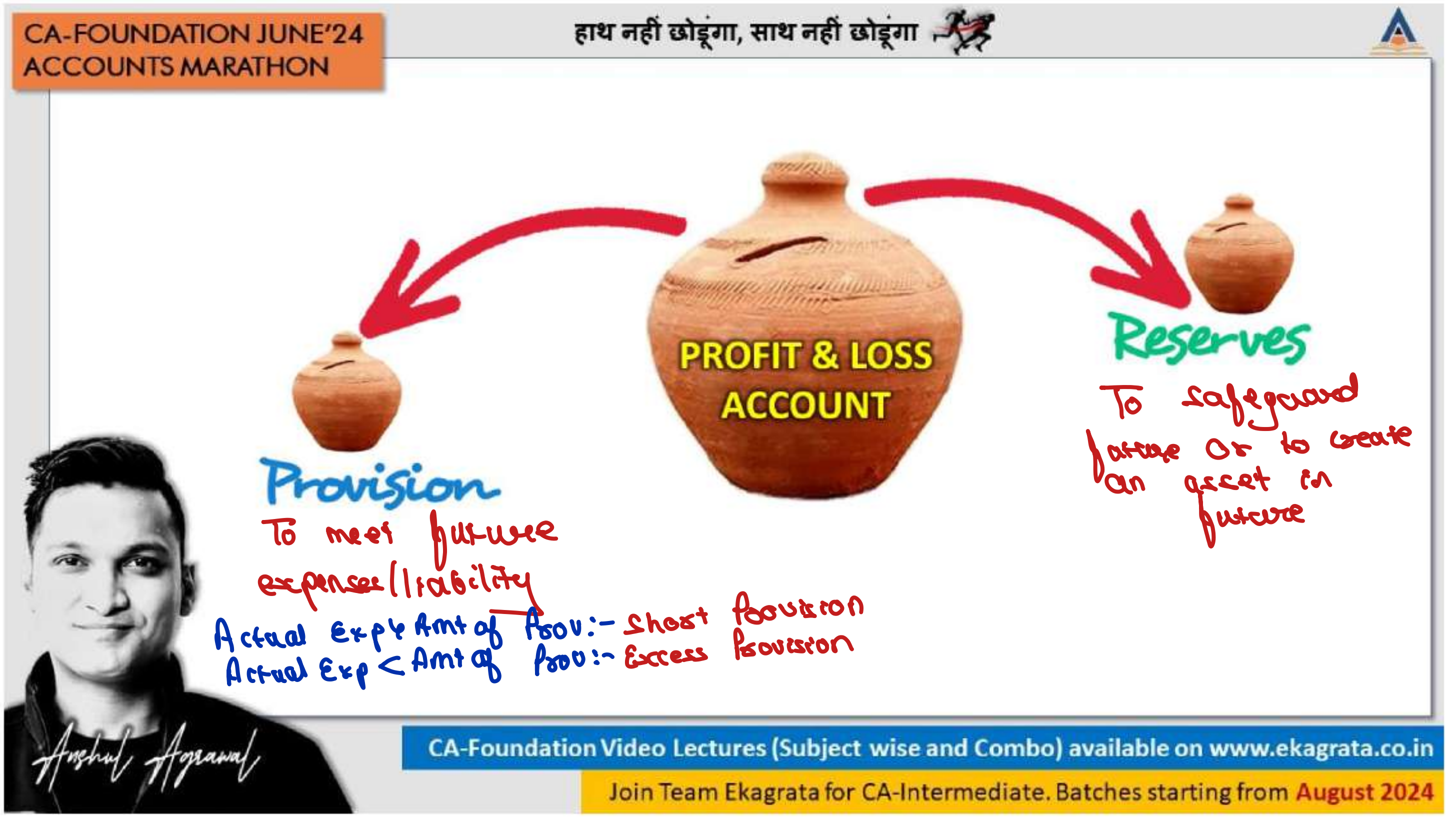
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ACCOUNTS MARATHON
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा
PROFIT & LOSS
ACCOUNT
Provision
To meet future expenses/liability
Actual Exp > Amt of Prov :- Short Provision
Actual Exp < Amt of Prov :- Excess Provision
Reserves
To safeguard future or to create an asset in future
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ILLUSTRATION 13

Crimpson Ltd.'s profit and loss account for the year ended 31st March, 2020 includes the following information:

		₹
(i)	*Depreciation*	*57,500*
(ii)	*Bad debts written off*	*21,000*
(iii)	*Increase in provision for doubtful debts*	*18,000*
(iv)	*Proposed dividend*	*15,000*
(v)	*Retained profit for the year*	*20,000*
(vi)	*Liability for tax*	*4,000*

Required

State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

SOLUTION

(a) Transfer to provisions - (i), (iii) (vi)

(b) Transfer to reserves - (v)

(c) Neither related to provisions nor reserves - (ii), (iv).

ICAI July'21 Q4(a) 10M

Question 4

(a) *Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.*

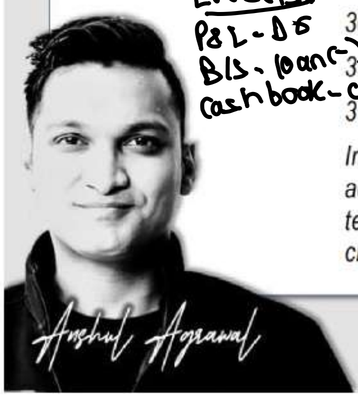
Installment: Principal + interest

Loan and interest repaid by her in the first year are as follows:

Effects:-
P&L - DE
B/S - loan(-)
cashbook - Cr

30th June, 2020	-	*₹ 15,000 principal+ ₹ 9,000 interest*	= 24000
30th September, 2020	-	*₹ 15,000 principal+ ₹ 8,550 interest*	= 23550
31st December, 2020	-	*₹ 15,000 principal+ ₹ 8,100 interest*	= 23100
31st March, 2021	-	*₹ 15,000 principal+ ₹ 7,650 interest.*	= 22650
		60,000 33,300	93,300

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.



At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

2015

Other Information:

(i) She withdrew ₹5,000 by cheque each month for her personal expenses. 5000×12=60,000

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: ₹5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date. **(10 Marks)**

Trading & P&L A/c

Particulars	Amt	Particulars	Amt
To purchases	17,00,000	By sales	20,00,000
		By cl stock	5,50,000
To gross pro c/d	850,000		
	25,50,000		25,50,000
To int on loan	33,300		
To elec exp 40,000			
Add o/s 20,000	60,000		
To carriage out	60,000	By gross profit b/d	850,000
To entertain exp	5000		
To misc exp	15 000		
To Telephone charges	50,000		
To Travelling exp	45 000		
To maint exp	25000		
To Depn	31,000		
To net profit	525700		
	850,000		850000

Balance Sheet

Liab		Amt	Asset		Amt
capital	300000		Building	600000	
Add:- Add cap	200000		(-) Depⁿ @ 5%	30,000	5,70,000
less:- Draw	(60,000)		furniture	10,000	
Add:- Net Profit	525700	965,700	(-) Depⁿ @ 10%	1000	9000
Bank loan	300000				
(-) Repaid	(60,000)	2,40,000			
			Telephone dep		7000
O/s elect. charge		20,000	closing stock		5,50,000
			Bank bal		89700
		1225700			1225700

(Bank A/c) Cash book

payment side

Particulars	Amt	Particulars	Amt
To capital	300000	By Building A/c	600000
To Bank loan	300000	By bank loan	60,000
To Capital A/c	200000	By Interest	33,300
To sales	20,00,000	By Telephone dep	7000
		By furniture	10,000
		By Purchases	17,00,000
		By elect. exp	40,000
		By carriage out	60,000

		By entertain exp	5000
		By Misc exp	15 000
		By Telephone charges	50,000
		By Travelling exp	45 000
		By maint exp -	25000
		By Drawings	60,000
		By bal c/d	89700
	28,00,000		28,00,000

CA-FOUNDATION JUNE'24
ACCOUNTS MARATHON

ICAI May'22 Q5 20M

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

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad	
Plant and Machinery	1,05,000	and doubtful debts	7,000
Investments	87,500	Sales	29,75,000
Cash in Hand	70,000	Bank Overdraft	80,500
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

(i) *Stock of finished goods at the end of the year was ₹ 3,50,000.* [closing stock]

(ii) *A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.*

(iii) *Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.*

(iv *Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.*

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March,2021 and Balance Sheet as at that date. **(20 Marks)**

Trading & P&L Specimen

Trading account for the year ended..........

To opening stock		xxx	By Sales	xxxx	
To purchases	xxxx		Less returns	xx	
Less returns	xxx			--------	xxxx
	-------------	xxxx	By closing stock		xxx
To Direct expenses:			By gross loss (if loss)		xxx
Carriage inward		xxx			
Freight		xxx			
Octroi		xxx			
Dock dues		xxx			
Excise duty		xxx			
Royalty		xxx			
Motive power		xx			
Coal, gas, water		xxx			
Factory expenses		xxx			
To Gross Profit (if profit)		xxx			
		xxxxx			xxxxx

Profit & Loss Account

(For the year ended...)

Dr. Particulars	Amount	Particulars	Cr. Amount
To Gross loss b/d	Xxx	By Gross Profit b/d	Xxx
To Salaries	Xxx	By Discount Received	Xxx
To Office rent, rates and taxes	Xxx	By Commission Received	Xxx
To Printing & stationery	Xxx	By Bank Interest	Xxx
To Telephone expenses	Xxx	By Rent received	Xxx
To Postage & telegram	Xxx	By Dividend on shares	Xxx
To Discount Allowed	Xxx	By Interest earned on debentures	Xxx
To Insurance	Xxx	By Profit on sale of asset	Xxx
To Audit Fees	Xxx	By Net loss	Xxx
To Electricity charges	Xxx		
To Repairs & renewals	Xxx		
To Depreciation	Xxx		
To Advertisement	Xxx		
To Carriage Outwards	Xxx		
To Bad Debts	Xxx		
To Provision for Bad debts	Xxx		
To Selling commission	Xxx		
To Bank Charges	Xxx		
To Interest on loans	Xxx		
To Loss on sale of asset	Xxx		
To Net Profit	Xxx		
	xxx		xxx

CA-FOUNDATION JUNE'24
ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

In the books of Mr. B

Manufacturing Account for the year ended 31st March, 2021

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

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	35,000	29,40,000
		By Closing Stock		3,50,000
To Gross Profit c/d	1,99,500			
	32,90,000			32,90,000

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

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

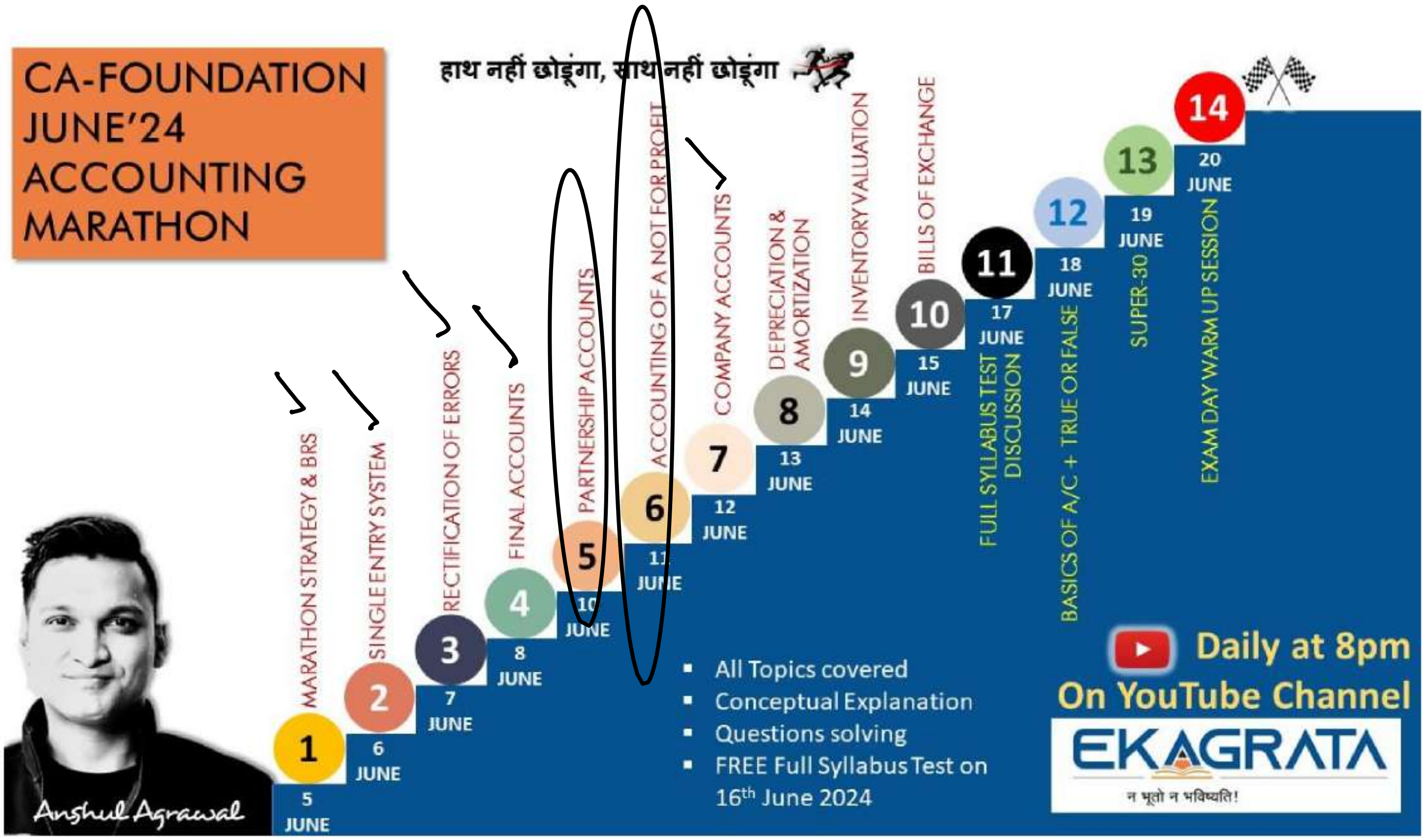
*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

CA-FOUNDATION JUNE'24
ACCOUNTS MARATHON

हाथ नहीं छोडूंगा, साथ नहीं छोडूंगा

Balance Sheet as on 31st March, 2021

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	10,500	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	70,000	3,64,000	Less: Depreciation	3,500	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	
			Less: Provision for Bad & Doubtful Debts	7,000	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			14,10,500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JUNE'24
ACCOUNTING
MARATHON
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1. Accounting of Issue of Shares
2. Accounting of Forfeiture & Re-issue of Forfeited shares
3. Accounting of Issue of Debentures
4. Accounting of Bonus & Right Issue
5. Redemption of Preference Shares
6. Redemption of Debentures

Over Subscription & Issue at Premium (Pro-rata)

Lakshya Ltd. is a company with an authorised share capital of 10,00,000 equity shares of Rs. 10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,00,000 of these Rs. 10 shares at a price of Rs. 14 each, the arrangements for payment being:

(a) Rs. 2 per share payable on application, to be received by 1st July, 2018.

(b) Allotment to be made on 10th July, 2018 and a further Rs. 5 per share (including the premium) to be payable;

₹7

(c) The final call for the balance to be made, and the money receive by 30th April, 2019.

Application were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;

(ii) Applicants for 30,000 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;

(iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants;

(iv) 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 Lakshya Ltd.

No. of Sh. Applied	Allotment Ratio	No. of Sh. Allotted	Appl. Money Received	Appl. Money DUE	Excess Appl. Money Received
5,000	1:1	5,000	10,000	10,000	Nil
30,000	1:2	15,000	60,000	30,000	30,000
320,000	1:4	80,000	640,000	160,000	480,000
355,000		100,000	710,000	200,000	5,10,000

Allot. Money DUE	Excess Appl. Money Adj.	Allot. Money Receivable	Excess Appl. Money Refund
25,000	Nil	25,000	Nil
75,000	30,000	45,000	Nil
400,000	400,000	Nil	80,000
500,000	430,000	70,000	80,000

① Bank a/c — Dr. 710,000 → Total money received
  To Sh. Appl. a/c 710,000

② Sh. Appl. a/c (100,000 share × ₹2) - Dr. 200,000
  Sh. Allot. a/c (100,000 share × ₹5) Dr. 500,000
  To ESC a/c (100,000 share × 3) 300,000
  To SP a/c (100,000 × 4) ← Amt of premium 400,000

③ Bank a/c — Dr. 70,000 (New Allotment money received in bank)
  Sh. Appl. a/c Dr. 430,000 (excess Application money settled)
  To Sh. Allot. a/c 500,000

④ Sh. Appl. a/c — Dr. 80,000 (excess money refund)
  To Bank a/c 80,000

⑤ Sh. Call a/c (100,000 × 7) — Dr. 700,000 (call Due)
  To ESC a/c 700,000

⑥ Bank a/c — Dr. 700,000 (call received)
  To Sh. Call a/c 700,000

The money challange Masterclass.

"Forfeiture of Shares & Re-issue of Forfeited shares"

जब्त करना

KEYPOINTS :

#1) Until & Unless a share is fully paidup, it remains to be the property of co. i.e. the co. can take back i.e. Forfeit its shares for non-payment of money.

#2) Forfeiture of share results into cancellation of share, thereby reduction of company's share capital.

#3) When co. forfeits their shares, the amount already paid on such shares is not refunded to the concerned shareholder, it is retained by co. & credited to "Share Forfeiture A/c".

#4) The co. re-issues the forfeited shares by way of Auction sale. Hence, reissue of forfeited share results into Sale of share and not Issue of Shares.

#5) While forfeiting shares, it is important to note the terms on which originally shares were issued – Par/Prem./Discount.

#6) Forfeited shares may be re-issued at Par/Prem./Discount.

#7) If forfeited shares are re-issued at discount, then amt. of discount is financed out of share forfeiture A/c.

When a New share is issued at Discount	When a forfeited share is re-issued at discount
Bank A/c ——— Dr.	Bank A/c ——— Dr.
Discount A/c ——— Dr.	Sh. Forf. A/c ——— Dr.
To SC A/c	To SC A/c.

#8) Un-utilised Balance of SF A/c for those forfeited shares which are re-issued, should be transferred to CAPITAL RESERVE A/c

Shares forfeited
- Re-issued: Un-utilised Bal. of SF to be transferred to CR A/c
- Not Re-issued: Un-utilised Bal. of SF to be retained in SF A/c itself.

Note:-

Amt to be transferred to capital reserve A/c = Balance of share forfeiture of those forfeited Shares which are reissued.

ILLUSTRATION 15

issue at premium & full subscription

Beautiful Co. Ltd issued 30,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of ₹ 2 per share.

Application money received

(1) Bank a/c (30,000 × 3) — Dr. 90,000
To Sh. Appl. a/c 90,000

[Allotment & Appli money being called]

(2) Sh. Appl. a/c — Dr. 90,000
Sh. Allot. a/c — Dr. 150,000
To Sh. Cap. a/c 180,000
[Prem] To Sec. Prem. a/c 60,000

Being Allotment money received

(3) Bank a/c (29,500 × 5) — Dr. 147,500 (30,000 − 500 [Ram's share])
To Sh. Allot. a/c 147,500

Note: No calls in Arrears because the arrear is in allotment & not in calls

(4) Sh. Call a/c (30,000 × 4) — Dr. 120,000
first call due — To Sh. Cap. a/c 120,000

(5) Bank a/c (28,500 × 4) — Dr. 114,000 (30,000 − 1500)
Calls in Arr. (1500 × 4) Dr. 6,000
To Sh. Call a/c 120,000

(6) Sh. Cap. a/c (500 × 10) — Dr. 5000
SP a/c (500 × 2) — Dr. 1000 (Securities Prem. — face value)
forfeiting Ram's shares.
Ram:- Allot money — ✗, Call money — ✗
To Sh. Allot. a/c [500 × 5] 2500
To calls in Arr. a/c [500 × 4] 2000
(Jo nahi mila woh)
To Sh. Forf. a/c (500 × 3) 1500 (Jo paisa mila hai)

Shyam: App — ✓ Allot — ✓ call — ✗

(7) Sh. Cap. a/c (1000 × 10) — Dr. 10,000
Security Prem Dr nahi hoga because prem already received
To calls in Arr. a/c [1000 × 4] 4000
To Sh. Forf. a/c (1000 × 6) 6000 (Jo paisa mil gaya hai)

Being shares reissued to Jadu @ ₹8 (8 + 2 Discount)

(8) Bank a/c (1250 × 8) — Dr. 10,000
Discount ke liye — Sh. Forf. a/c (1250 × 2) — Dr. 2,500
To Sh. Capital a/c 12,500

unutilised bal of Sh. forf A/c will be transferred to Sh cap A/c

(9) Sh. Forf. a/c Dr. 3500
To Capital Res. a/c 3500

Ram = 500(3 − 2) + Shyam 750 (6 − 2) = 3500

Accounting treatment of Total Exps. on issue & redemption of PS/Deb.

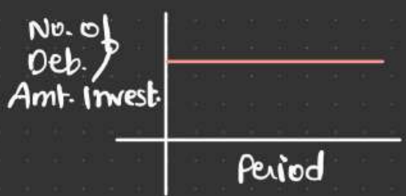
Discount on Issue ← → Premium on Redemption

↓

Depends upon Type of Redemption

LUMPSUM REDEMPTION

When all the debentures are redeemed at once, it is known as lumpsum redemption.



REDEMPTION IN INSTALMENT

When some debentures are redeemed periodically, gradually decreasing your debentures, it is known as 'Red. in Inst.'.

HDC Ltd issues 1,00,000, 12% Debentures of Rs.100 each at Rs.94 on 1st January, 2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

Total Disc. 100,000 × 6 = 600,000

Amt. to be w/off to P&L A/c every year = ₹600,000 ÷ 5 yrs.

= ₹120,000

easy

HDC Ltd issues 1,00,000, 12% Debentures of Rs.100 each at Rs.94 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are redeemable every year from the end of the first year. Calculate the amount of discount to be written-off in each of the 5 years.

Total Exp. on Issue of Debentures (Disc. on Deb.) = 100,000 × ₹6/deb.
= ₹600,000

Amt. of Exp. to be w/off (written off) every year

Year	No. of Debentures	Exp. to be w/off
1	100,000	120,000
2	100,000	120,000
3	100,000	120,000
4	100,000	120,000
5	100,000	120,000
	500,000	600,000

for exc. SLM method of Depn

or

$$\frac{\text{Total Exp.}}{\text{Red. Period}} = \frac{600,000}{5 \text{ yrs.}} = ₹120,000$$

Total Exp. on Issue of Debentures (Disc. on Deb.) = 100,000 × ₹6/deb.
= ₹600,000

Amt. of Exp. to be w/off (written off) every year

Year	No. of Debentures	Exp. to be w/off
1	100,000	200,000
2	80,000	160,000
3	60,000	120,000
4	40,000	80,000
5	20,000	40,000
	300,000	600,000

Ratio

for ex:- WDV method of Depn

SECTION-63
Companies Act 2013

63(1)
Resources

- CRR (Sec.55) → Capital Redemption Reserve
- CR (Real. in cash) → capital reserve
  (CRR not allowed) → Revenue reserve
- SP (Real. in cash) (52) → Securities premium
- GR/PL → General reserve → P&L A/C

(Free Reserves)

63(2).
Conditions

1) Fully paidup ES only
2) Authorised by AOA
3) Rec. by BOD, approved by SH
4) ITUS – DH
5) ITUS – Employees
6) Any other conditions as prescribed

ITUS = Iski
Topi
Uske
Sar

63(3)
Prohibition/ Restriction

A company cannot issue bonus shares in lieu of Dividend.

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2020:

		Rs.
AUTHORISED CAPITAL:		
15,000	12% Preference shares of Rs. 10 each	1,50,000
1,50,000	Equity shares of Rs. 10 each	15,00,000
		16,50,000
ISSUED AND SUBSCRIBED CAPITAL:		
	12,000 12% Preference shares of Rs. 10 each fully paid	1,20,000
	1,35,000 Equity shares of Rs. 10 each, Rs. 8 paid up	10,80,000
RESERVES AND SURPLUS:		
	General reserve	1,80,000
	Capital Redemption Reserve	60,000
	Securities premium (Collected in Cash)	37,500
	Profit and Loss Account	3,00,000

Total Previous shares; old to bonus shares ratio; No of bonus shares to be issued

135,000 × $\frac{1}{4}$ = 33,750 ES × ₹10 = ₹337,500

On 1st April, 2020 the Company has made final call @ Rs. 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2020. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue.

for making the shares fully paid up

(1) Sh. Call a/c (135,000 × 2) — Dr. 270,000
To Sh. Capital a/c 270,000
call money being called

(2) Bank a/c — Dr. 270,000
To Sh. Call a/c 270,000
being call money received

(3) CRR a/c — Dr. 60,000
SP a/c — Dr. 37,500
GR a/c — Dr. 180,000
P/L a/c — Dr. 60,000
To Bonus to ESH a/c 337,500
Being bonus shares issued.

(4) Bonus to ESH a/c — Dr. 337,500
To ESC a/c 337,500

Issued SC = 135,000 + 33,750 = 168,750 → Total No of Shares

The Co. need to alter its capital clause of Memorandum of Association to increase its authorised share capital. ☆

Authorised Share Capital :-

15,000 12% PS of ₹10 each	150,000
168,750 ES of ₹10 each	16,87,500
	18,37,500

Issued & Subscribed Share capital :-

12,000 12% PS of ₹10 each	120,000
168,750 ES of ₹10 each	16,87,500
[Out of above 33,750 ES were issued for Non-Cash consideration] ☆	18,07,500

Reserves & Surplus :-

P&L a/c (300,000 − 60,000)	240,000

"RIGHT SHARES"

[Ye paenu dhyan thi jovanu chhe.

A company offers new shares of Rs. 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is Rs. 150. Calculate the value of a right. What should be the ex-right market price of a share?

Value of Right = Cum Right Price per share − Ex-Right Price per share

Cum → Including

Ex → Excluding

= ₹150/ES − * ₹145/ES

= ₹5

* Ex-Right Price/ES = $\frac{(4ES \times ₹150) + (1ES \times ₹125)}{4ES + 1ES}$ = $\frac{₹725}{5ES}$ = ₹145/ES

Redemption of Preference Share

As per Section 55 following are the requirements for redemption of "Redeemable preference shares"-

1. No such shares shall be redeemed unless they are **fully paid**.
2. No such shares shall be redeemed except **out of the profits of the company**, which would otherwise be available for distribution by way of dividend or out of **proceeds of a fresh issue of shares** made for the purpose of redemption.
3. Where any such shares are redeemed out of profits, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits of the company to a reserve called the **"Capital Redemption Reserve Account".**
4. The Capital Redemption Reserve can be **utilised for the issue of fully paid bonus shares** to the shareholders. Otherwise, the Account must be maintained intact.
5. If preference shares are redeemed at premium, then the amount of premium payable can be utilised out of:

PREMIUM ON REDEMPTION OF P.S.

Cos. Governed u/s 133 & comply with Accounting Std.

Premium payable of redemption of preference shares shall be provided out of profits of the company and such cos. **can't utilise their balance in Securities Premium account.**

Other Companies (Sec. 132 Cos.)

Premium payable of redemption of preference shares shall be provided out of profits of the company or out of **Securities Premium account.**

VERY IMPORTANT FROM EXAMINATION VIEW POINT
All the question are to be solved on the assumption that the companies referred in the question are governed u/s 133 of Companies Act 2013 and are complying with accounting standards. Accordingly for the purpose of premium payable on redemption of preference shares, the balance in 'Securities Premium' account has not been utilised. ***[Reference: ICAI Module Chapter-11 Page 11.156]***

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

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

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

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

(a) to sell all the investments for Rs. 15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of Rs. 12,000.

(c) to issue minimum equity share of Rs. 50 each share to raise the balance of funds required.

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

Bank A/c

	31,000	71,500
	15,000	
ESH	* 37,500	12,000
	83,500	83,500

P&L a/c

3,500	48,000
6,500	
21,500	
* 10,500	
48,000	48,000

Total Amt. Req. for Red. of P.S.

650 PS × ₹110 = ₹71,500

PSC (FV) → face Value (Preference Share Capital)

₹65,000

→ Out of DP/P&L a/c → CRR (DP → Divisible profit)

₹27,500

→ Fresh Issue of ES

₹37,500

750 ES of ₹50 each.

Amt. of Premium

₹6500

↓

P/L

① Bank a/c —— Dr. 15,000
P&L a/c → (loss) —— Dr. 3500
To Investments 18,500

② PSC a/c (→ Preference Share Capital) —— Dr. 65,000
Prem. on Red —— Dr. 6500
To PSH a/c 71,500

③ P&L a/c —— Dr. 34,000
To Prem. on Red. a/c 6500
To CRR a/c 27,500

④ Bank a/c —— Dr. 37,500
To ESC a/c 37,500

⑤ PSH a/c —— Dr. 71,500
To Bank a/c 71,500

Red. of PS	Red. of Debentures
Sec. 55	Sec. 71
CRR	DRR

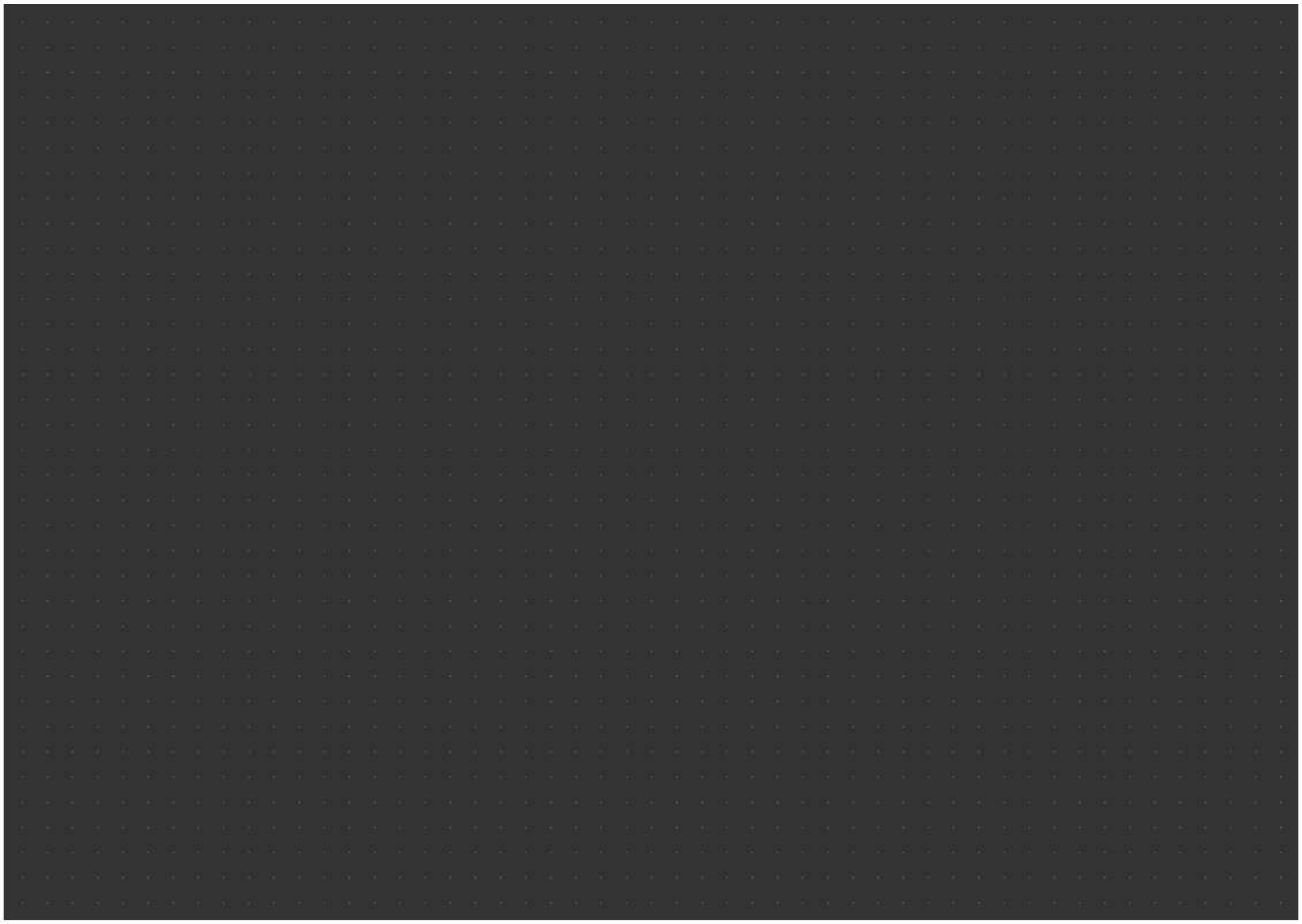
- Certain specified Cos. need to maintain a 'Deb. Red. Reserve' of 10% of the FV of Deb. outstanding at the end of the year.
- DRR is created out of Revenue Profits.
- If Co. redeems the deb. during the year then the balance of DRR on such redeemed debentures will be transferred to GR A/c.

Unlisted Companies other than –
- AIFI
- HFC
- NBFC
- Banking Cos.

P&L a/c — Dr.
To DRR a/c

VVIMP : Every Co. needs to maintain DRI/DRRI of 15% of FV of outstanding debentures upto 31st March of that financial year.

	ISSUING COMPANIES	ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)
(i)	All India Financial Institutions **(AIFIs)** regulated by Reserve Bank of India and **Banking Companies for both public** as well as privately placed debentures	**No DRR** is required
(ii)	For other **Financial Institutions (FIs)** within the meaning of clause (72) of section 2 of the Companies Act, 2013	**DRR** will be **as applicable to NBFCs** registered with RBI **(as per iii below)**.
(iii)	**For LISTED COMPANIES** (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	
(a)	All **listed NBFCs** (registered with RBI under section 45-IA of the RBI Act,) and **listed HFCs** (Housing Finance Companies registered with National Housing Bank) **for both public** as well as **privately placed debentures**	**No DRR** is required
(b)	**Other listed companies for both public** as well as **privately placed debentures.**	**No DRR** is required
(iv)	**For UNLISTED COMPANIES** (other than AIFIs and Banking Companies as specified in Sr. No. 1 above	
(a)	All **unlisted NBFCs** (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and **unlisted HFCs** (Housing Finance Companies registered with National Housing Bank)**for privately placed debentures**	**No DRR** is required
(b)	**Other Unlisted Companies**	**DRR** shall be **10% of** the **value of the outstanding debentures** issued.



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

(i) 12 % Debentures Rs. 7,50,000

(ii) Balance of DRR Rs. 25,000

(iii) DRR Investment 1,12,500 represented by 10% Rs. 1,125 Secured Bonds of the Government of India of Rs. 100 each.

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

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

Debentures A/c, DRR A/c, DRR Investment A/c, Bank A/c, Debentureholder A/c.

12% Deb. a/c

750,000	750,000

DRR a/c

75,000	25,000
	50,000

DRI a/c

112,500	112,500

① GR/PL a/c —— Dr. 50,000
To DRR a/c 50,000

② Bank a/c —— Dr. 11,250
To Int. on DRI a/c 11,250

③ Bank a/c —— Dr. 112,500
To DRI 112,500

④ Deb. Int. a/c —— Dr. 90,000
To Bank a/c 90,000

⑤ 12% Deb a/c —— Dr. 750,000
Prem. on Red — Dr. 75,000
To Deb. Holder a/c 825,000

⑥ Deb. Holder a/c —— Dr. 825,000
To Bank a/c 825,000

⑦ DRR a/c —— Dr. 75,000
To GR a/c 75,000

#1) Check type of Co. & if Co. will need to maintain DRR?
Debenture Redemption Reserve

#2) Check adequacy of DRR. If inadequate then transfer from GR/PL

#3) Check adequacy of DRI. If inadequate, invest addl. amt.

#4) If Deb. are redeemed –

(a) Receive Interest on DRI

(b) Sell DRI

(c) Pay interest on debentures

(d) Cancel Debentures for redemption

(e) Pay to Debentureholders

(f) Transfer balance of DRR to GR.

Depreciation & Amortization

CA-FOUNDATION
ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

ICAI EXAM NOV 2018

A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year. **(4 Marks)**

C = 10,00,000
RV = 0
n = 10 yrs

$$\text{Original Dep}^n = \frac{\text{Cost} - \text{Residual value}}{\text{life}} = \frac{10,00,000 - 0}{10}$$

$$= 100000 ₹$$

$$\text{WDV (at end of } 4^{th} \text{ year)} = 10,00,000 - (100000 \times 4)$$

$$= 6,00,000$$

$$\text{Depreciation for } 5^{th} \text{ year} = \frac{(600000 + 40,000) - 0}{8 \text{ years}}$$

$$= ₹ 80,000$$

ICAI EXAM NOV 2019

X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

When a machinery retires
- A/c of Sale proceeds
- A/c of depn upto date of Retirement.
- A/c of profit/loss on retirement

Machinery Account

Dr | Cr

DATE	PARTICULARS	AMT.	DATE	PARTICULARS	AMT.
2017			2017		
Jan-1	To Bank A/c (m1)	5,00,000	Dec 31	By Depreciation A/c	
	[4,80,000 + 20,000]			[5,00,000 × 10%] + [2,00,000 × 10% × 6/12]	60,000
July 1	To Bank A/c (m2)	200000	Dec 31	By Balance c/d	6,40,000
		700000			7,00,000
2018			2018		
Jan 1	To Bal b/d	6,40,000	July 1	By Bank A/c [m1]	2,90,000
July-1	To Bank A/c [m3]	5,00,000	July 1	By Depreciation A/c	25,000
				[5,00,000 × 10% × 6/12]	
			July-1	By P&L A/c (WN-1) (loss)	1,35,000
			Dec-31	By Depreciation A/c	45,000
				(2,00,000 × 10%) + (5,00,000 × 10% × 6/12)	
			Dec-31	By Bal c/d	6,45,000
		11,40,000			11,40,000

WN-1) Calculation of profit/loss on sale of Asset.

	Sale proceeds	2,90,000
(-)	WDV on 1/7/18	(4,25,000)
	(5,00,000 - 50,000 - 25,000)	
	∴ loss :-	1,35,000

CA-FOUNDATION ACCOUNTS MARATHON

हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

ICAI EXAM NOV 2019

M/s Surya & Co. took lease of a quarry on 1-1-2017 for ₹ 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2017	2,000 tonnes
2018	10,000 tonnes
2019	15,000 tonnes

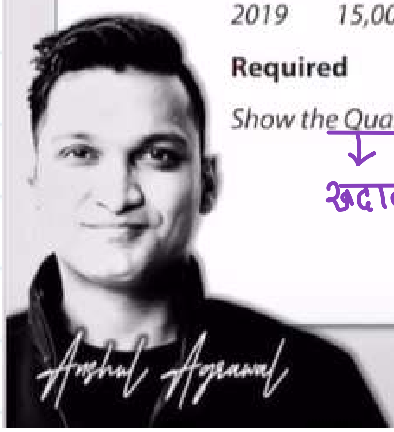
$$\frac{₹ 1,00,00,000}{2,00,000\ T} = ₹ 50/T$$

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2017 to 2019.

खदान

2017
2018
2019



Quarry lease Account

Dr | Cr

DATE	PARTICULARS	AMT.	DATE	PARTICULARS	AMT.
2017			2017		
Jan 1	To Bank A/C	1,00,00,000	Dec 31	By Depreciation A/C (2000 × ₹50/T)	1,00,000
			Dec-31	By Bal c/d	99,00,000
		1,00,00,000			1,00,00,000
2018			2018		
Jan-1	To Bal b/d	99,00,000	Dec 31	By Depreciation A/C (10,000 T × ₹50/T)	5,00,000
			Dec 31	By bal c/d	94,00,000
		99,00,000			99,00,000
2019			2019		
Jan 1	To balance b/d	94,00,000	Dec 31	By Depreciation A/C (15000 T × ₹50/T)	7,50,000
			Dec 31	By Balance c/d	86,50,000
		9400000			9400000

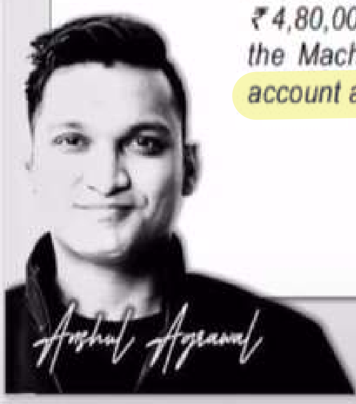
DATE	PARTICULARS	AMT.	DATE	PARTICULARS	AMT.

The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	*12,00,000*
Provision for depreciation account as on 01.04.2021	*4,65,000*

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

(10 Marks)



CA-FOUNDATION
हाथ नहीं छोड़ूंगा, साथ नहीं छोड़ूंगा

Machinery Account (cost basis)

DATE	PARTICULARS	AMT.	DATE	PARTICULARS	AMT.
21-22			21-22		
Apr-1	To bal b/d	12,00,000	Oct-1	By Asset Disp A/C	2,00,000
Oct-1	To Bank A/C	4,80,000	Mar-31	By Bal c/d	14,80,000*
		16,80,000			16,80,000

Provision for Depreciation A/C (Depn)

DATE	PARTICULARS	AMT.	DATE	PARTICULARS	AMT.
21-22			21-22		
Oct 1	To Asset Disp A/C * [WN-1]	61,490	Apr 1	By bal b/d	4,65,000
			Oct 1	By Depn A/C	7290
			Mar 31	By Depn A/C [WN-2]	82,920
Mar 31	To Bal c/d	493720*			
		555,210			555210

Asset Disposal Account (Sold)

DATE	PARTICULARS	AMT.	DATE	PARTICULARS	AMT.
21-22			21-22		
Oct-1	To Mach A/c	2,00,000	Oct-1	By Prov for Depn A/c	61,490
			Oct-1	By Bank A/c	110,000
			Oct-1	By P&L A/C	28,510
		200000			200000

WN-1)

Date of purchase	01/04/18	
Cost of purchase	200000	
(-) Dep 2018-19	(20,000)	
WDV - 01/04/19	180,000	
(-) Dep 2019-20	(18000)	→ Total Accumulated Depn
WDV - 01/04/20	162000	
(-) Dep 2020-21	(16200)	∴ ₹61,490 -
WDV - 01/04/21	145,800	
(-) Depn 2021-22 for 6 months	(7290)	
	138510	
Sale proceeds	110,000	
∴ loss	₹ 28510	

WN2) Depn for 2021-22

op WDV on 1/4/21 (12,00,000 - 4,65,000)	= ₹7,35,000
(-) WDV of Asset Sold on 1/4/21	(145,800)
∴ WDV of Rem Assets	589,200
Depn @ 10%	(58920)
+	
New Asset Cost	₹4,80,000
Depn @ 10% for 6m	(₹ 24,000)

∴ Total Depn = 58920 + 24,000

$\boxed{82,920}$

ILLUSTRATION 13

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of ₹ 28,00,000 and spent ₹ 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year.

Required

Show the Patent Account and Amortisation Account for the year 2021 and 2022.

SOLUTION

Useful Life: 10 years from 1 July, 2021

Residual Value: NIL

Value of patent = ₹ 30,00,000 (₹ 28,00,000 cost + ₹ 2,00,000 legal expenses and registration fees)

Therefore, annual depreciation: ₹ 30,00,000 ÷ 10 years = ₹ 3,00,000

18,00,000 - (180,000 × 3) = $\frac{12,60,000}{5}$

10 - 3 = 7

= 2,52,000

ILLUSTRATION 14

Prime Streaming Co. acquired the streaming rights of a movie for ₹ 18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years.

Required

Calculate amortisation for the fourth year. ₹2,52,000

SOLUTION

Amortisation per year = ₹ 18,00,000 / 10 = ₹ 1,80,000

Amortisation on SLM charged for three years = ₹ 1,80,000 x 3 years = ₹ 5,40,000

Carrying Amount of the Streaming Rights at the end of third year = ₹ 18,00,000 – ₹ 5,40,000 = ₹ 12,60,000.

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10 Marks
10 Marks
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ICAI EXAM PAPER ANALYSIS

PARTNERSHIP ACCOUNTS

EXAM	MARKS	
MAY'18	10M	Q4(b) Retirement
NOV'18	15M	Q3(a) Admission
MAY'19	10M	Q4(a) Death
NOV'19	10M	Q4(a) Death
DEC'20	10M	Q4(a) Retirement + Admission
JAN'21	10M	Q4(a) Death
JULY'21	5M	Q5(b) Optional
DEC'21	10M	Q4(b) Admission
JUNE'22	10M	Q4(b) Retirement
DEC'22		
JUNE'23		
DEC'23		
JUNE'24		

Accounting Treatment on

Admission of a Partner

1. Change in PSR
2. Valuation & Treatment of Goodwill
3. Revaluation of Assets & Liabilities
4. Transfer of Reserves & Provision
5. Capital Balance Adjustment

Retirement of a Partner

Death of a Partner

first 5 same as admission

6. Calculation of share of Profit upto DOR/DOD
   - Date of Retirement | Date of Death
7. Treatment of JLP/SLP
   - Joint life policy
   - Several life policy
8. Final Settlement (lumpsum/instalment)

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Admission of a Partner
ICAI MTP Oct 2020

+old PSR

P and Q are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of P and Q as on 31.3.2020 was as follow:

Liabilities		Amount ₹	Assets		Amount ₹
Sundry Creditors –		25,800	Building		52,000
Bill Payable		8,200	Furniture–		11,600
Bank Overdraft		18,000	Stock-in-Trade–		42,800
Capital Accounts:			Debtors	70,000	
P	88,000		Less: Provision+	400	69,600
Q	72,000	1,60,000	Investment +		5,000
			Cash		31,000
		2,12,000			2,12,000

'R' 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 ₹ 50,000.

(ii) The new profit sharing ratio of P, Q and R will be 3 : 2 : 1 respectively.

(iii) 'R' 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 'R's share in the profits and the capital contribution made by him to the firm.

+Create

inferred goodwill

(iv) Furniture is to be written down by ₹ 1,740 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 ₹3,120. The value of Buildings having appreciated be brought upto ₹ 58,400. The value of investment is increased by ₹ 900.

unrecorded liab

(v) It is found that the creditors included a sum of ₹ 2,800, 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 'R'.

Revaluation Account

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Furniture A/c	1740	By Building A/c	6400
To Stock	2140	By Investments	900
To RDD	3,100	By Creditors	2800
To O/s wages	3120		
	10,100		10,100

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Partner's Capital Account

PARTICULARS	P	Q	R	PARTICULARS	P	Q	R
				By Bal b/d	88000	72000	–
				By Cash A/c	–	–	50,000
				By Goodwill A/c	54000	36000	
Bal c/d	142000	108000	50,000				
	142000	108000	50,000		142000	108000	50,000

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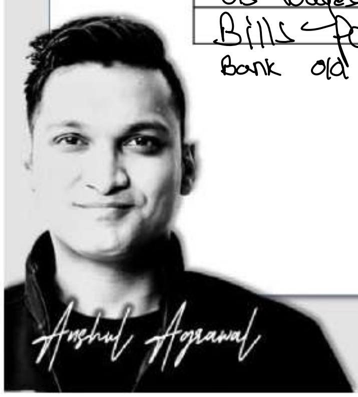
Balance Sheet

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Partner's Capital A/c -		Building	58,400
P -	142000	Furniture	9860
Q -	108000	Stock in Trade	40,660
R -	50,000	Debtors	66,500
Creditors	23000	Investments	5900
O/s Wages	3120	Cash (31,000 + 50,000)	81000
Bills Payable	8200	Goodwill	90,000
Bank o/d	18000		
	352,320		352320



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WN-1)	Old Ratio	New Ratio	SR/GR [OR-NR]
P	$\frac{3}{5}$	$\frac{3}{6}$	$\frac{3}{5}-\frac{3}{6}=\frac{3}{30}$ sacrifice
Q	$\frac{2}{5}$	$\frac{2}{6}$	$\frac{2}{5}-\frac{2}{6}=\frac{2}{30}$ sacrifice
R	-	$\frac{1}{6}$	$0-\frac{1}{6}=-\frac{1}{6}\times\frac{5}{5}=-\frac{5}{30}$ gain

WN-2) Step-1:- Calculate Exp. Capital $= \frac{₹50,000}{1/6} = ₹3,00,000$

Step-2:- Value of firm's goodwill:- $₹3,00,000 - \underbrace{88,000 - 72,000}_{\text{Old Part Cap}} - \underbrace{50,000}_{\text{New Part Contri}}$

$= 90,000$

$$\boxed{\begin{array}{llr} \text{Goodwill A/c} & \text{Dr} & 90,000 \\ \quad \text{To P A/c} & \text{sac Ratio} & 54000 \\ \quad \text{To Q A/c} & & 36000 \end{array}}$$


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Retirement + Admission of a Partner
ICAI Dec 2020 PYQ

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Total ratio

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	Amount (')	Assets	Amount (')
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building –	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery –	4,00,000
Long Term Loan	4,20,000	Investments +	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables –	1,59,000
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad. ~~BDA~~ (Bad Debts)

(c) In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3. → New PSR

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes. **(10 Marks)**

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Revaluation Account

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Building	11000	By investments	4,000
To Plant & Machinery	80,000		
To Bad Debts	23,850		
		By Part Cap A/c	110850
	114850		114850

Partner's Capital Account

PARTICULARS	A	B	C	D	PARTICULARS	A	B	C	D
To Investments A/c	–	46000	–	–	By bal b/d	24000	96000	160000	–
To B & C (WN1)				90,000	By D's A/c (WN-1)	–	60,000	30,000	–
To B's loan A/c	–	87830	–	–	By cash/Bank A/c	29255	–	25,425	–
To Rev A/c	33255	22170	55425	–					
To Bal c/d	120,000	–	160000	120000					
	153255	156000	215425	2,10,000		153255	156000	215425	2,10,000

WN1)

			OR – NR
A	3/10	3/10	
B	2/10	–	2/10 – 0 = 2/10 Sac
C	5/10	4/10	5/10 – 4/10 = 1/10 Sac
D	–	3/10	0 – 3/10 = 3/10 Gain

Firm's value of G/W = 3,00,000 Raised & Written off

∴ Gaining Part A/c – D &
To losing Part A/c

∴ D's Cap A/c Dr 90,000
To B's cap A/c 60,000
To C's cap A/c 30,000

300000 × 3/10
300000 ×
300000 ×

JLP = Joint life policy
SLP = Several life policy

Partnership firm $\xrightarrow{\text{pays annual prem}}$ Ins. Co

$\xleftarrow{\text{Receive Sum Assured / Surrender value}}$

Accounting methods of JLP/SLP
[Depends upon A/c of Premium]

Method 1
Expense method

① JLP Prem A/c — Dr
 To Bank A/c

② P&L A/c — Dr
 To JLP Prem A/c

Method-2
Asset method

① JLP Prem A/c — Dr
 To Bank A/c

JLP Prem is recognized as an asset at SV.

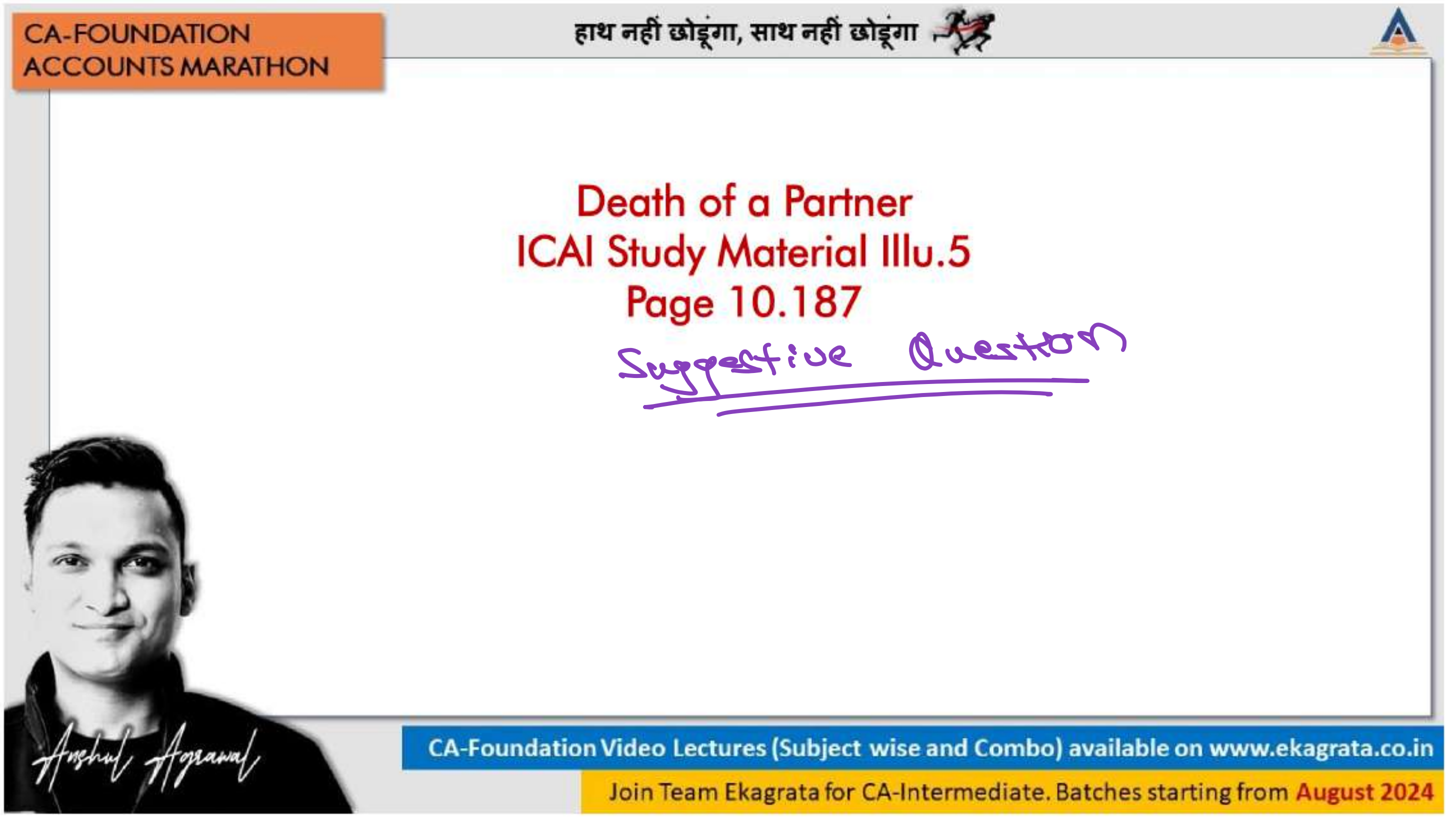
Excess prem. over & above surr value is Dr to P&L A/c

Meth 3
Asset & Reserve method

① JLP Prem A/c — Dr
 To Bank A/c

② Recog Asset at S.V

③ Create a JLP Res equal to surrender value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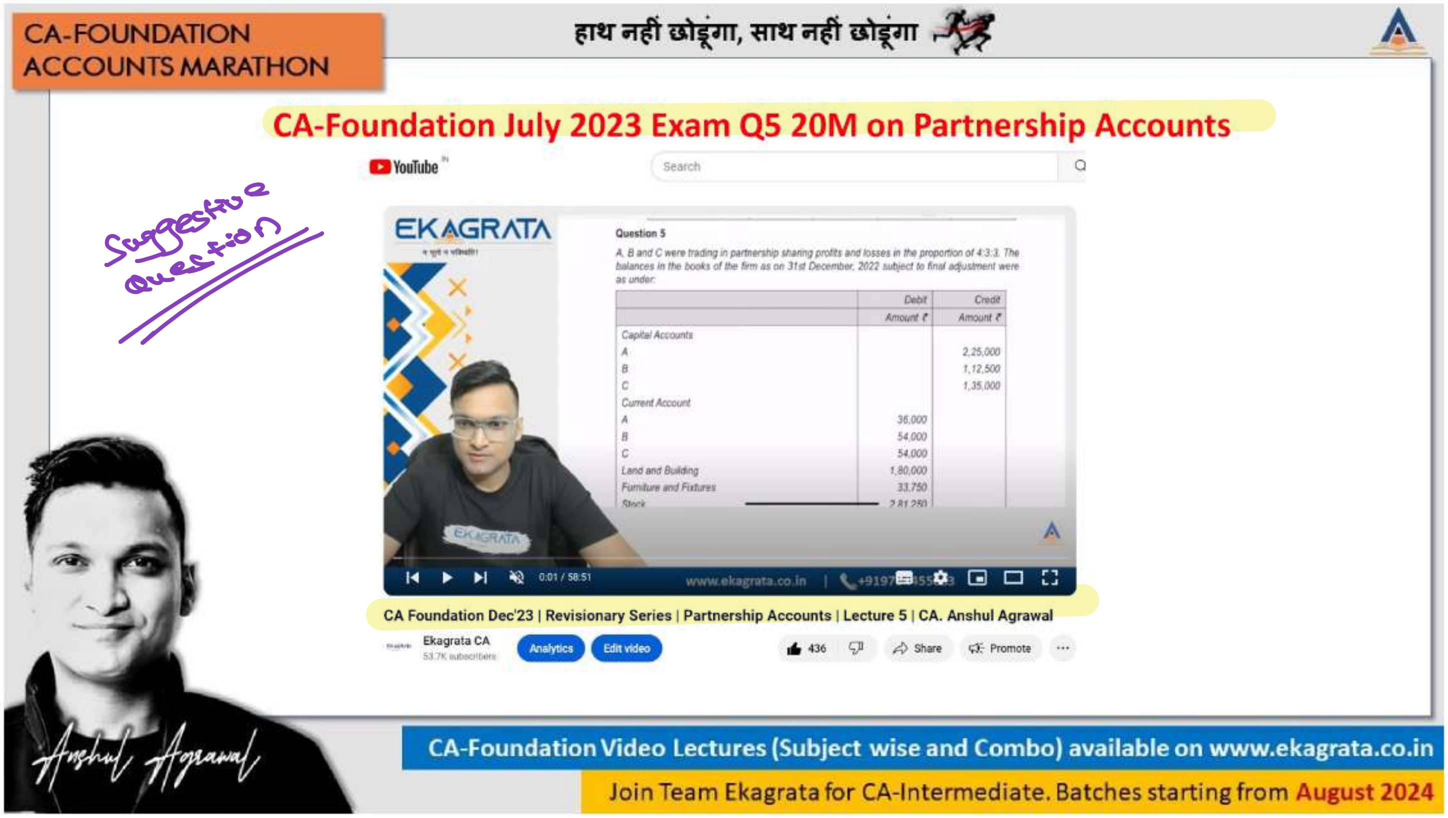


Question 5

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
Capital Accounts		
A		2,25,000
B		1,12,500
C		1,35,000
Current Account		
A	36,000	
B	54,000	
C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	

Dissolution of partnership firm

Case-1:- One lot dissolution
ek sath

Case-2:- Piecemeal dissolution
→ Takdo mein
Highest Relative cap method
max loss method

① Transfer all the Assets to Realisation A/c
→ Nominal A/c
↳ Real A/c Dr
To Asset A/c

② Transfer all the liab to Realisation A/c @ Book value
↳ liab A/c — Dr
To Real A/c

③ Realise all the Assets at RV → Bank A/c — Dr
To Real A/c

④ Pay off all the liab at RV → Real A/c Dr
To Bank A/c

⑤ Treatment of Reals exp → Real A/c — Dr
To Bank A/c

⑥ Calculate Realisation Gain/loss → Part Cap A/c Dr
To Real A/c

Real A/c - Dr
To Part Cap A/c.

⑦ Settlement of Partner's Account with Bank A/c.

Cross verify:- At the end of Accounting, all the ledger Accounts should get closed, especially cash/bank A/c

CA CPT/Foundation Accounts Theory Notes

A. Basics of Accounts:

1) What is Accounting?

Ans:

It is an art of recording, classifying and summarizing in a significant manner in terms of money transactions and events which are in part at least of a financial character and interpreting the result thereof

Thus accounting includes –

a) Recording transactions
b) Classifying transactions as per its nature
c) Getting its summary (Trial Balance, Final A/c)
d) Analyzing it properly (fixed assets v/s current assets).
e) Making interpretations (Eg: GP Ratio, NP Ratio. Etc.)
f) Communicating the interpretation to the management.

2) Difference between Accounting and Book keeping.

Ans:

BOOK KEEPING	ACCOUNTING
Its related with	
Recording transaction	Summarizing transaction
Its treated as	
Base of Accounting	Language of business.
Relation with Financial Statement	
No relation	Direct connection of preparing and analyzing financial statement.
Connection with management decision	
No Connection	Directly Connected
Sub Fields	
No sub-fields	It has subfields like financial Accounting, management and Cost accounting.
Knowing Financial Position	
Not possible	Possible

Book Keeping + Accounting = Accountancy

3) Objectives behind Accounting.

Ans:

The accounting serves the following purposes

a) For recording transactions systematically.
b) To find out result of organization
c) To find financial position of business (Balance Sheet)
d) To get data for future decisions.
e) To confirm that business is solvent.

4) **What are functions of Accounting?**

Ans:

a) Accounting helps the measurement of fact (Profit, Loss etc)
b) It helps for forecasting / prediction.
c) It helps for future decisions.
d) It gives comparison with our own past performance and also with other performance
e) It helps to calculate taxes properly

What are sub-fields of Accounting?

Ans:

Sr. No.	Sub-field	It include
5.	Financial Accounting	Preparation of final A/c, cash flow statement etc.
6.	Management Accounting	It includes ratio analysis and other tools for management decisions.
7.	Cost Accounting	Calculation of cost, cost control, cost reduction etc.
8.	Social responsibility Accounting	Accounting for social expenses
9.	(HR) Human Resource Accounting	Analysis of wages, salary, training expenses etc.

10. **Who are the users of accounting information?**

Ans:

Sr. No.	User	Accounting information useful for
1	Investors	Decision about investing amount or not.
2	Employee	Prediction about future income and stability
3	Money Lenders	Decision to give the loan or not, interest rate etc.
4	Suppliers	Decision about supplying goods or not.
5	Customers	Decision about purchasing product or not.
6	Government	Knowing profit position and taxes
7	Public	Knowing role of organization in the society

11. **Relationship between accounting and other disciplines.**

Ans:

Sr. No.	Discipline	Connection with Accounting
1	Economics	Economics gets data from Accounting and helps accountant to take decision in scarcity.
2	Statistics	It gets data from accounting and helps for analysis of data.
3	Mathematics	Ratio analysis etc gets data from accounting and helps the accountant for decision making.
4	Law	Accountant has to follow all the laws and law helps for all transactions which are then recorded by accountant.
5	Management	Management accounting gets data from accounts and helps for decision making of accountant.

12. Limitations of Accounting.

Ans:

a) Non-financial things are ignored.
b) If data is wrong then accounting is useless.
c) Only accounting is not enough it needs other disciplines also.
d) Accounting standards are complex and changes in different countries.
e) There may be some conflict between Accounting Standards and some laws.

13. Roles of Accountants in society.

Ans:

Sr. No.	Role	It includes
1	Accounting	Recording all transactions properly.
2	Internal Audit	Confirmation of proper accounting of organization internally.
3	External Audit	Confirmation of accounting on behalf of shareholders.
4	Taxation	Perfect tax planning and payment of taxes.
5	Consultancy	Giving opinion to client.
6	Financial Advice	Suggestions for new investments, expansion etc
7	Investigation	Finding out reasons for fraud etc.
8	Arbitration	Solving disputes
9	Costing	Cost control, reduction etc.
10	Other work	Company formation, shares related activity, liquidation of company, solving problem of PSU (Public sector undertakings) helping creation of budget to government etc.

14. What are essential features of good financial statement?

Ans:

Sr. No.	Feature	It means, it should be
1	Understand ability	Clear enough to understand result (simple)
2	Relevance	Connected with financial data.
3	Reliability	Reliable and authentic to take decisions.
4	Materiality	Containing all important facts.
5	Comparability	Able to make comparison with our past performance and with others performance.
6	Substance over formed	Giving importance to important facts and not only to the format.
7	Neutrality	Prepared without any bias.
8	Prudence	Containing information based on rationality.
9	Complete	Containing 100% information
10	Full and fair disclosure	Disclosing all facts properly

B. Accounting Standards:

15. Accounting is the language of the business and to have the standardisation and consistency and transparency, the Accounting standards and introduced.

16. Advantages:

a. The AS makes the books of accounts comparable.
b. It avoids confusions
c. Brings standardisation in accounting,
d. Gives guidelines to the accountants

17. Limitations of AS:

a. Sometimes different alternatives given by AS creates the confusion,
b. It may affect the flexibility in accounting and results in rigidity,
c. Clashes between the AS and the statute (Law). The AS cant override the statute.

18. In India the Accounting Standards Board (ASB) of Institute of Chartered Accountants of India (ICAI) has prepared the AS for the government. These are based on the international Accounting Standards.
19. Recently the standard AS are proposed to be introduced world wide, called as International Financial Reporting Standards (IFRS).
20. The list of prevailing AS in India: (You are expected to mug it up)

Ans:

Accounting Standards are the guidelines given for proper accounting and uniformity. These are prepared by the accounting standard board of ICAI by behalf of government. These are based on the International Accounting Standards.

Objectives

i) To give guide lines in accounting
ii) To bring uniformity in accounting
iii) To make data comparable and authentic

Limitations

i) Sometimes there is a conflict between Accounting Standards and Law.
ii) The Accounting Standards of different countries are different eg. US follows US- GAAP (now IFRS-international financial reporting standards are to be introduced.)
iii) Sometimes Accounting Standards becomes rigid (not flexible)

21. Explain Accounting Standards in brief. (Mug up the numbers and names please).

Ans:

Accounting Standards No.	Accounting Standard	It gives guideline for
1	Disclosure of accounting policies	Choosing best Accounting policy along with basic accounting conventions.
2	Inventory Valuation	Valuation of stock by different methods.
3	Cash Flow Statement (CFS)	Preparation of CFS by direct and indirect methods
4	Contingencies and events occurring after balance sheet date	Contingent Assets and Liabilities and Post Balance Sheet events.
5	Net profit for period, prior period items and changes	Calculation of Net Profit after considering abnormal items, prior period items etc.

	in accounting policy	
6	Depreciation Accounting	Depreciation methods and accounting
Accounting Standards No.	**Accounting Standard**	**It gives guideline for**
7	Construction contract	Accounting incase of long term constructions.
9	Revenue Recognition	Recording income in books of Accounts at appropriate time.
10	Fixed Assets	Identifying fixed assets and its recording
11	Effect of changes in foreign exchange rates	Recording of forex gain or loss.
12	Government grants	Recording of government grants in cash or kind.
13	Investment Accounting	Recording of investments and its income.
14	Amalgamation	Accounting when 2 or more companies comes together.
15	Employee Benefits	Recording of different benefits to employees Eg: wages, Bonus etc
16	Borrowing cost	Recording of interest in the books
17	Segment Reporting	Identifying the important segments to be reported to the management.
18	Related party disclosure	Identifying the related party and transactions with it.
19	Leases	Accounting of operating and financing lease.
20	Earning per share (EPS)	Calculation of EPS in different situations.
21	Consolidated financial statement	Consolidation of books of accounts of holding company and subsidiary company.
22	Taxes on income	Calculation of taxes as per book profit and taxable profit.
23	Investment in associate	Accounting where investment is more than 20% but less than 50% of equity capital.
24	Discontinuing operations	Recording of income / loss for the operations to be discontinued.
25	Interim financial reporting	Preparation of the quarterly Final Account.
26	Intangible Assets	Recording of the intangible assets like goodwill patents etc.
27	Joint Ventures	Accounting for Joint Venture in different situations.
28	Impairments of Assets	Accounting for sudden reduction in value of asset
29	Provisions, contingent Assets and Liabilities	Same as Accounting Standard – 4
30, 31 & 32	Accounting for financial instrument	Recording of all financial instruments like fixed assets, debtors, creditors etc.

23. What is Accounting policy and what should be considered in choosing proper policy.

Ans:

Accounting policy means every step taken in accounting. Eg: Method of depreciation, inventory valuation etc.

While choosing accounting policy we should consider 3 factors.

i) Prudence – rationality

ii) Materiality – important facts must be disclosed

iii) Substance over formed – importance should be given to a particular item ignoring the format

Basically the accounting policy should be constant but if its changed due to any act then it should be properly disclose.

24. What is Accounting estimate?

Ans:

These are the predictions about some item like tax provision, R.D.D. provision etc. if these estimate changes then these can be adjusted in books of accounts.

25. What are different types of cost of an Asset?

Ans:

Sr. No.	Types of cost	Meaning & Examples
1	Historical Cost	**Meaning:** The cost already paid in the past. **Example:** Purchase price of machine as on 1/1/95 for Rs. 10,00,000.
2	Current Replacement Cost	**Meaning:** Cost to be paid today to replace earlier asset. **Example:** Above machine can be replaced today by paying Rs. 12,00,000.
3	Realizable Value / Resale Price	**Meaning:** Its todays selling price in market. **Example:** Above machine can be sold today for Rs. 1,00,000.
4	Present Value	**Meaning:** Its value in use i.e. discounted value of future cash flow from asset.

26. The Qualities which the financial statement must possess:

Sr. Number	Quality to be possessed	It means the data included in the financial statement must be..
i.	**Understandability**	..easy to understand by the use having even the basic knowledge of the data
ii.	**Relevance**	..having the relevant information
iii.	**Reliability**	..is collected from the reliable sources and documents
iv.	**Comparability**	.. be able to be compared with the data of other firms and also with that of the same firm in the earlier years
v.	**Materiality**	.. contain all the important (Material) financial facts relating to the business.
vi.	**Faithful representation:**	..showing all the information without hiding anything or twisting any information.
vii.	**Substance over form:**	.. disclosed considering its importance and not merely the legal formalities. Eg. If the asset is sold, agreement is done just transfer of document is due, it should be disclosed as a foot note even if the transfer of name is still due.
viii.	**Neutrality:**	.. shown impartially i.e. without any bias.
ix.	**Prudence:**	..shown with rationality.
x.	**Full, fair and adequate representation:**	.. contain all the detailed information which must be known by its users.
xi.	**Completeness:**	.. complete from all the aspects and without having any mistakes in it.

C. Accounting Policy:

27. It means the methods, techniques etc. Used in the accounting process by the firm.

28. E.g. for inventory valuation Mr. A uses FIFO method while his brother Mr. B uses the LIFO method depending upon the nature of issue of material. These are the policies of their accounting.

29. While making the choice of the perfect accounting policy, the following 3 factors must be considered:

a. **Prudence:**
Rationality: the policy selected must be suitable to the business according to the logic,

b. **Substance over form:**
The policy should contain disclosing considering its importance and not merely the legal formalities.

c. **Materiality:**
The policy must the system to disclose all the important (Material) financial facts relating to the business.

30. Change in accounting policy:
The accounting policy once adapted should not be changed frequently following the consistency principle but it can be changed if and only if needed by any Act or AS or for the better presentation of the business information. Also if the policy is changed then its impact must also be disclosed in the foot note below the balance sheet. E.g. Change in the method of depreciation.

D. Basic Accounting Procedure, Journal, Ledger, Trial Balance, Subsidiary Books:

31. Double entry system is introduced by Fra Luca Pacioli,

32. Advantages of Double entry system:

a. Accuracy in the accounting,
b. Profit or loss can be ascertained for the period,
c. Financial position of the business can be analysed (Assets and liabilities),
d. Accounts give all the significant informations.
e. The results of different years become comparable.

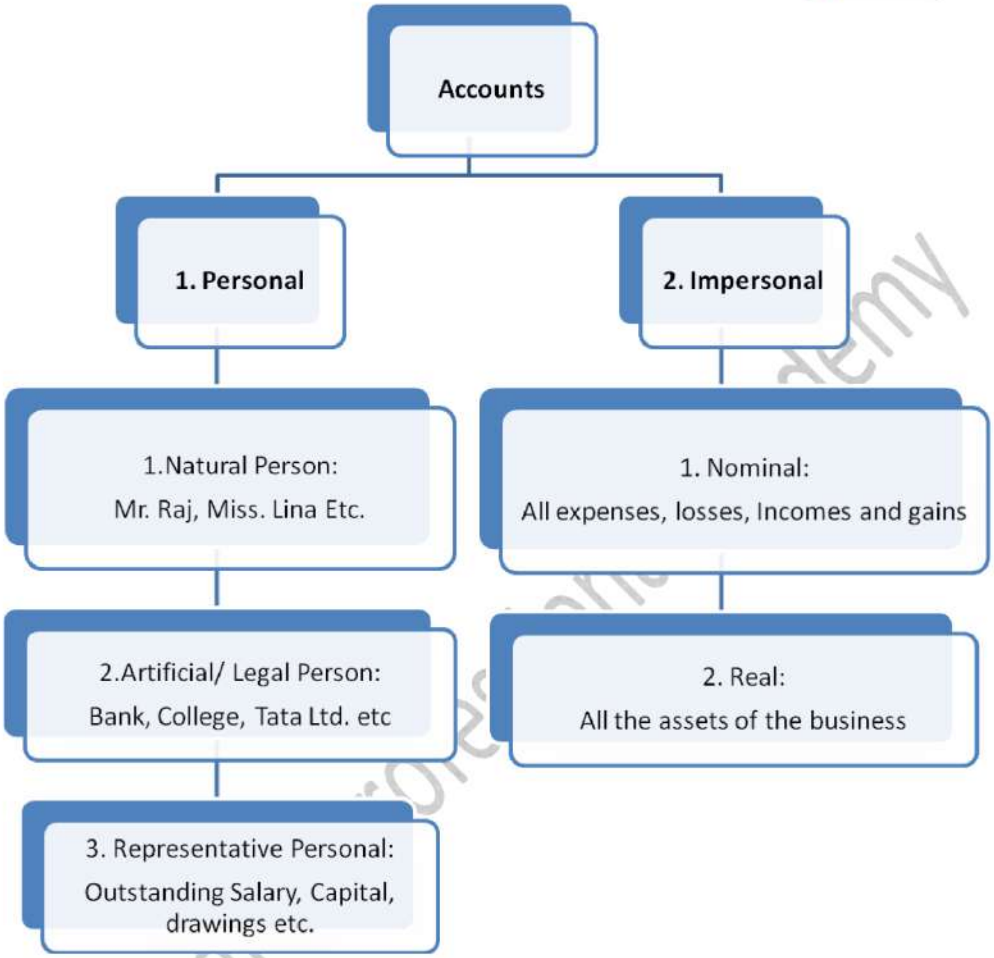
33. The books of accounts record all the **Transactions relating to the business only.**

34. The transaction is an event which results in inflow or outflow of cash at present or in future. Eg. X thought about purchasing the goods yesterday and made an enquiry too is an event and not a transaction. Today he purchased goods for cash (Present outflow of cash) or on credit (future outflow of cash) so now the event becomes the transaction. Thus, every transaction must be an event 1st but every event can't be the transaction.

35. Every transaction has 2 effect : Debit and Credit. For example when a car is purchased for cash the car comes in (1st Effect) and the cash goes out (2nd effect). If the same care is purchased against the loan then the car comes in (1st Effect) and the liability is created (2nd effect).

36. Basic accounting equation is:
Equity + Liabilities = Assets.

37. There are basically 2 and in total 3 types of accounts.



38. Journal is the principal book of accounting.
39. In journal the transactions are recorded in the chronological order.
40. Thus the information given by journal is on time basis.
41. All the journal entries are supported by the narrations.
42. The journal entries form the base for the ledger posting.
43. The process of transferring the debit and credit items from the journal to the ledger is called as "POSTING".
44. The process of comparing the debit and credit balance of the ledger account and finding the net balance is called as "BALANCING OF THE ACCOUTS".
45. Ledger book is also known as "PRICIPAL BOOK OF ACCOUNTS".
46. **At the end of each year, all the nominal accounts** are not balanced rather their net balance is trnasfered to the Trading, Profit & Loss account.
47. **At the end of each year, all the real & personal accounts are** balanced and their balances are carried down and brought down which ultimately goes to the balance sheet.
48. The net balances of the ledger accounts are finally transferred to the trial balance.

49. The tallied trial balance shows the arithmetical accuracy of the accounting.
50. The tallied trial balance do not assure that there is no error in accosting for eg. The trial balance is tallied even if there are the errors of omission, error of principle or the compensating errors.

51. **Methods to prepare the trial balance:**
   a. **TOTAL METHOD:**
      The total of debit side and the credit side of each ledger account is recorded. An outdated system,
   b. **BALANCE METHOD:**
      The net balance brought down is shown in the trial balance.
   c. **TOTAL & BALANCE METHOD:**
      Combination of both the above methods.
52. **The debit side of the trial balance contain:** the balances of assets, expenses, losses, drawings, cash and bank balances.
53. **The credit side of the trial balance contain:** the balances of liabilities, incomes, profits and capital.
54. **THE SUBSIDIARY BOOKS** are also called as **the book of original or the prime entry.**
55. The subsidiary books includes the following:

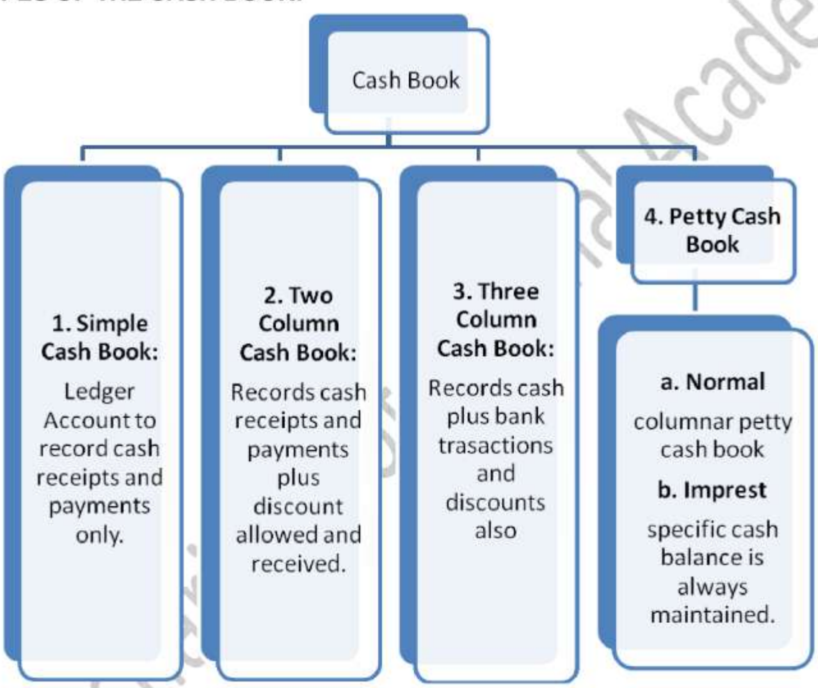
Sr. No.	Book maintained	It records:
1	**Cash Book**	..receipts and payment in cash or cash equivalents like bank etc. It can be simple cash book, columnar cash book (2 columns, 3 columns), petty cash book etc.
2	**Purchase Book**	.. all the credit purchases. Total shows the total credit purchases in the current year and is transferred to the purchases account.
3	**Purchase Return Book**	.. all the purchase returns to the creditors against the earlier credit purchases. Total shows the total purchase return in the current year and is transferred to the purchase return account.
4	**Sales Book**	.. all the credit sales. Total shows the total credit sales in the current year and is transferred to the sales account.
5	**Sales Return Book**	.. all the sales returns from the debtors against the earlier credit sales. Total shows the total sales return in the current year and is transferred to the sales return account.
6	**Bills Receivable Book**	.. all the receipts and other details of Bills receivables, hundies, promissory notes etc.
7	**Bills Payable Book**	.. all the issues and other details of Bills payables, promissory notes etc.
8	**Journal Proper**	.. all those transactions which are not covered by the above 7 books like Machinery purchased against cash or against loan etc.

56. **Advantages of the subsidiary books:**
   a. The work of recording gets perfectly divided in 8 parts,
   b. Efficiency of recording the transaction increases,
   c. Saves time of recording due to different types of books,
   d. The perfect and specific information is available in each type of the book,
   e. The checking the errors and accuracy in a specific area becomes easy.

57. THE JOURNAL PROPER RECORDS:

a. **The transactions not covered by the 1st 7 books,**
b. **Opening entries** at the beginning of the year,
c. **Closing entries** at the end of the year,
d. **Rectification entries** at the time of rectification of errors,
e. **Transfer entries** from one account to the other.
f. **Adjusting entries** like outstanding expenses, prepaid expenses, income received in advance or still receivable etc.
g. **Entries for the dishonour of the bills etc.**

58. TYPES OF THE CASH BOOK:



59. **The contra entry** is possible in case of **THREE COLUMN CASH BOOK ONLY** i.e. ehn the cash and bank both columns are maintained and the transaction is of cash deposited into the bank or cash withdrawn from the bank.

60. Cash book is actually a **SUBSIDIARY BOOK** but it is **TREATED AS TE PRINCIPAL BOOK** of entry.

61. The final balance in any type of cash book in th cash column is an asset.

E. Bank Reconciliation Statement (BRS)

62. Bank Reconciliation Statement is a statement to find out the reasons for the difference between Cash Book and Pass Book balance.

63. It's a memorandum statement and can be prepare at any time when needed.

64. It is not the part of Cash Book, Pass Book or Final Account.

65. It is prepare by the account holder i.e. any type of business enterprise.

66. The account holder maintains Cash Book while the banks maintains Pass Book / Bank Statement.

67. Pass Book is copy of customer's account maintained by the bank.

68. Bank Reconciliation Statement reconciles the Pass Book balance with the bank column of Cash Book.

69. Type of balances from account holders point of view :-

Particulars	Positive	Negative
Cash Book	Debit Balance	Credit Balance
Pass Book	Credit Balance	Debit Balance

70. Cheque deposited / banked indicates inflow of cash.

71. Cheque issue indicates outflow of cash.

72. Negative balance means overdraft balance.

73. When we compare Cash Book and Pass Book of the same month then Bank Reconciliation statement include uncommon items.

74. When we compare Cash Book and Pass Book of the different months then the common items comes in Bank Reconciliation Statement.

75. In case of adjusted Cash Book method :-

a) Items adjusted in Cash Book – Non cheque items and mistakes in Cash Book.
b) Items adjusted in Bank Reconciliation Statement – Cheque related items.

76. Mistakes in Pass Book are not adjusted in adjusted Cash Book method.

77. Balance Sheet always records the balance as per Cash Book.

78. Account debited by bank = Expenses / Payments.

79. Bank Account credited by bank = Income / Receipts.

80. The account holder instruct the bank about some direct Payment / Receipts called as Standing Instructions.

F. Bills of Exchange

81. Bills of Exchange and Promissory Notes are negotiable instruments (Transferable).

82. Bills of Exchange is an order while promissory note is a promise.

83. Requirements of Valid Bills of Exchange :-

a) It must be in writing.
b) It must be dated.
c) It must have an order to pay the amount.
d) The amount must be certain.
e) The receiver or his order (agent) must be contained.
f) It must be accepted by drawee.

84. Essential of Promissory Notes :-

a) It must be in writing.
b) It must contain a promise to pay the amount.
c) It must be unconditional
d) Promisor must sign on it.
e) It can not be made payable to bearer (Bearer Promissory Note can be issued by the government only called as currency).

85. Number of parties in Bills of Exchange is maximum 3 and in Promissory Note 2.

86. In cash of Bills of Exchange there is grass period of 3 days.

87. Maturity Date + Grass Days = Due Date.

88. Bills at sight mean the bill payable on demand.

89. ____________ days from site means ____________ days from acceptance.

90. ____________ days after the date of preparing the bill.

91. If due date is predeclared holiday then the earlier working date is a due date.

92. If the due date is sudden holiday then the next working day becomes due date.

93. If the bill is honoured before the due date then it is called as retirement of bill. Here rebate is given for the period between the payment date upto the due date.

94. Charges for recording the event of dishonored of bill are called as Noting Charges paid by the holder and ultimately bared by the drawee.

95. Additional amount paid by drawee against extension of some days is called as Interest.

96. An accountant should maintain the Bills Receivable book and Bills Payable book of which the balances transferred to Bills Receivable and Bills Payable accounts.

G. Depreciation (Accounting Standard – 6 (old) (now AS10)

97. Depreciation is a planed reduction of value of assets.

98. The sudden unplanned reduction is called as Impairment.

99. Depreciation is charged due to following reasons :-

a) It is compulsory as per Income Tax Act.
b) To find the real value of asset.
c) To find a real profit of current year.
d) To create Depreciation / Sinking Fund

100. Planed reduction tangible Fixed Asset = Depreciation

101. Planed reduction of intangible Fixed Asset = amortization. E.g – Goodwill Written off

102. Planed reduction of Wasting Asset = Depletion.

Methods of depreciation :-

Sr. No.	Method	Here, Depreciation is calculated on the basis of -
103.	Straight Line Method / fixed Instalment Method / Original Cost Method	Life, cost and scrap value.
104.	Written Down Value / Reducing Balance Method	Opening Balance of asset every year and depreciation rate.
105.	Productions Unit Method	Units produced per annum.
106.	Machine Hours Method	Machine Hours work per annum.
107.	Sum of years Digits Method	Life of Asset.
108.	Annuity Method	Annuity Table.
109.	Depletion Method	Units extracted from wasting assets like coal mine.

110. Income tax department recommends the WDV method because, every year the depreciation amount reduces, gives space to the increasing maintenance cost and keep Net Profit constant.

111. Any expense which is essential for acquiring the asset or making it useable for the business or increasing the life / efficiency of asset is capitalized i.e. added to the cost of asset.

112. Some times, an organization keeps some amount aside in a special fund every year called as sinking fund from which the investment purchase at the end of life of asset the investment are sold to acquired new asset.

113. Residual value means expected scrap value at the end of life of asset.

114. Depreciable Amount = $\frac{\text{Purchase Price of Fixed Asset} - \text{Scrap Value of Fixed Asset}}{\text{life of Fixed Asset}}$

H. Inventory Valuation

115. Accounting standard – 2 covers all the provisions relating to inventory.

116. Inventory is of 3 types:

- Raw materials
- Work in Progress (WIP)
- Finished goods

117. Purpose of valuation of inventory

- To find value of stock available
- To find out gross profit
- To find liquid position
- It is compulsory as per Companies Act.

118. Inventory is a **Current Asset.**

119. It is valued at cost price or market price whichever is lower.

i) Cost means purchasing price and all the directly connected expenses. Eg. Carriage inward.

ii) Market value is also called as net realizable value.

120. Methods for valuation of stock

i) **Historical Cost Method:** Historical cost means the cost actually paid to acquire material.

a) **FIFO Method:** Goods received first are issued first and the stock includes latest purchase material.

b) **LIFO Method:** Latest units are issued first and the stock includes earlier purchased goods.

c) **SAM Method:** Goods are issued at simple average price.

$$\frac{old\ Price + New\ Price}{2}$$

d) **WAM Method:** Goods issued are valued at weighted average price

$$\frac{Total\ Amount}{Total\ Units}$$

ii) **Non – Historical Cost Method**: Here purchasing price is not relevant.

a) **Standard Cost Method:** Here goods are valued at pre-decided standard cost.

b) **Adjusted Selling Price Method:** Here; Stock of Closing Stock = Selling price of Closing stock – Gross profit ratio (Profit amount).

121. Recording of stock can be done by two different methods –

a) Perpetual Inventory: In this system the stock records are continuously updated after every purchase and issue. So the stock data is available at every point of time. It can be done with the help of –

- **BIN CARD:** A card maintained by store keeper to record the quantity and cost of the goods only.
- **STORES LEDGER:** It is maintained by the Accounts Department to record the quantity and cost of the goods.

b) Periodic Inventory: Here the team of experts make valuation of stock after every specific period say quarterly / monthly etc.

122. **Stock Taking:** Stock taking is reverse calculation of stock many times the value of stock is available few days after the closing date. Thus stock as on year ending date is calculated by reverse calculation called a stock taking.

123. **Reconciliation of Stock:** Its a process where we have to find out the reason for difference between physical stock (godown) and books stock (Accounts department).

I. Joint Venture

124. Joint Venture is a short term partnership firm.

125. Partners in Joint Venture are called co-ventures.

126. Joint Venture may be for a specific period or a specific activity.

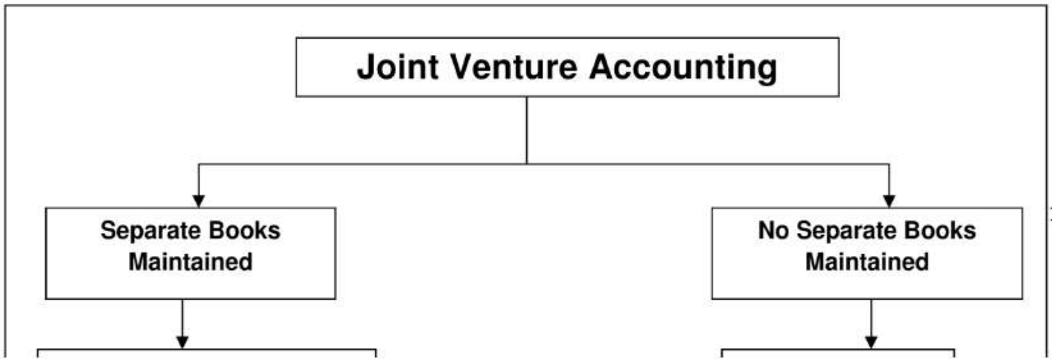
127. Joint Venture does not follow Going-Concern concept.

128. It does not makes any distinguish between revenue expenses / receipts and capital expenditure / receipts.

129. Distinguish between Joint Venture and Partnership Firm.

Sr. No.	Points	Joint Venture	Partnership Firm
1	Duration	Short	Long
2	Going concerned followed?	No	Yes
3	When to find profit	On completion of venture	On every year end
4	Act	No specific Act	Indian Partnership Act, 1932
5	Separate books of Account of entity	Not required	Required.
6	Minor as partner	Not allowed	Allowed for profits only.
7	Accounting	On liquidation basis	On Going Concern basis.

130. **Methods to find out profits.**



131. Underwriting Agreement:

Here the co-ventures work as an agent of company to issue (sale the shares in market against commission).

If some shares are not subscribed (purchased by public) then the Joint Venture has to purchase these shares.

J. Contingent Assets and Liabilities:

132. Contingent event is an event the result of which depends on the other uncertain event.

133. Contingent asset:

- **a.** An past evened which results in the a probable cash inflow in the business,
- **b.** Generally it is to be ignored and not to be recorded in the books of accounts.
- **c.** If the certainty comes then it can be disclosed in the report of directors.

134. Contingent Liabilities:

- **a.** These are the past events which may result in the cash outflow from the business
- **b.** **These are divided in 3 parts:**
  - **A. Remote Liability:** To be Ignored,
  - **B. Probable Liability:** The happening of the event and the amount both are uncertain, written as the footnote below the balance sheet. Eg. Bills discounted with the bank but not yet matured. This is pure contingent liability.
  - **C. Possible Liability:** It is the real liability of which the happening is certain but the amount is uncertain. But the amount can be calculated with some estimates. Here the provision is to be created i..e. Profit & Loss account Debit and Liability side.

K. Rectification of errors:

135. It is the process of rectifying the errors in the accounting process.

136. It can be done at either of the 3 stages:

Stage	Before Trial Balance	After Trial Balance but before Final Account	After Final Account
Suspense Account?	No	Yes	Yes
Profit & Loss	No	No	Yes

Adjustment A/c?			

137. **Suspense account** is prepared if the trial balance is not tallied, The difference in the trial balance is the opening balance of the suspense account.
138. **Profit & Loss Adjustment A/c** is prepared in the 3rd stage to record the effect of the Nominal account items i.e. the items recorded in trading and profit and loss account.
139. **Every Debit to Profit & Loss Adjustment A/c** = Reduction in Net profit.
140. **Every Credit to Profit & Loss Adjustment A/c** = Increase in Net profit.
141. Types of errors:
    a. **Error of Principle:** When the accounting rules are not followed Eg. Capital expense recorded as revenue expense or vice versa, salary paid (nominal a/c) debited to receiver person's account (Personal A/c) etc.
    b. **Clerical Errors:**
        1. **Error of omission:** Something is not recorded/ posted,
        2. **Error of Commission:** Wrong Side, wrong amount, wrong account, casting (totalling) error.
        3. **Compensating Error:** Wrong debit compensated by wrong credit and vice versa.

L. Consignment account:

142. To consign means to send the goods.
143. Consignment is an agreement wherein the owner of the goods sends the goods to the agent and the agent sells the goods to the 3rd person.
144. Owner of the goods is called as Consignor.
145. Agent is called as the consignee.
146. The document attached by the consignor while sending the goods to the consignee is called as "PROFORMA INVOICE".
147. The document sent by the consignee to the consignor giving details about the goods sold, consignee's expenses and commission and final payment amount is called as "Account sales".
148. If the goods are sent by the consignor to the consignee at the price above the cost then it is called as the "INVOICE PRICE".
149. The internal profit added by the consignee i.e. the difference between the cost and the invoice price is called as "THE LOADING".
150. The internal hidden profit in the closing stock is called as "STOCK RESERVE" or "UNREALSIED PROFIT".
151. The additional commission paid by the consignor to the consignee for taking the risk of bad debts is called as "DEL CREDERE COMMISSION".

152. Treatment of Bad debts:

Situation:	In the books of Consignor, bad debts will be	In the books of Consignee, bad debts will be
If the del Credere commission is paid	Ignored	Debited to (adjusted from) the commission income account.
If the del Credere commission is not paid	Debited to the consignment A/c	Ignored

153. The additional commission paid by the consignor to the consignee above a certain price to motivate the consignee is called as "DEL CREDERE COMMISSION".

154. The loss which is expected and which can't be avoided is called as "NORMAL LOSS".

155. The normal loss is never recorded in the books but it is absorbed by the good units.

156. In case of normal loss, the effective cost per unit = Total Cost)/ Good Units.

157. The loss which is unexpected and which can be avoided is called as "ABNORMAL LOSS".

158. The abnormal loss is credited to the consignment account and is debited to the profit and loss account after deducting the insurance claim received/ receivable if any.

159. The expenses of the consignee are divided in 2 parts: Recurring expenses and non-recurring expenses.

160. **The recurring expenses** are regularly paid even if the special consignment goods are received or not like godown rent. These are NOT CONSIDERED FOR THE VALUATION OF STOCK, ABNORMAL LOSS ETC.

161. **The non-recurring expenses** are specially paid when consignment goods are received like freight, carriage, loading and unloading etc. especially the transportation related expenses.. These are CONSIDERED FOR THE VALUATION OF STOCK, ABNORMAL LOSS ETC.

162. The goods sent are recorded in the trading account credit side at COST ONLY.

163. The consignor gets the profit or loss of the business while the consignee is eligible for the commission even if there is loss or profit to the consignor.

M. Sale on approval and return basis:

164. It is the system where the goods are sent to the customer but the ownership will be transferred after getting the confirmation from him or expiry of the given period, whichever is earlier.

165. **The accounting treatment is different in 3 situations:**

a. When the sale on approval is casual (Rare):

- No separate books are maintained.
- The goods sent are recorded as the credit sales.
- If the purchase is confirmed by the purchaser, no special entry is needed.
- In case the goods are rejected, it is recorded as sales return,
- In case of no confirmation, the sales entry is reversed and the stock with customer is added in the closing stock at its original cost.

b. When such sales are frequent:

A separate book is maintained to record the goods sent, received back, sold etc. Called as "SALE OR RETURN DAY BOOK".

c. When such transactions are numerous:

A separate subsidiary book is maintained i.e. "Sale or Return Sales Book" and "Sale or Return Sales Return Book" . **These are memorandum books.**

N. PARTNERSHIP ACCOUNTS:

166. The partnership is an association of 2 or more persons, carrying on the common business activity, acted by all or anyone of them for all, bound by the agreement , to share the profits of the business.

167. The liability of the partners is unlimited it means their private properties shall also be attached in case of dissolution of the firm.

168. In case of LLP (Limited Liability Partnership), the liability of the partners is limited.

169. The documents containing all the terms and contions of the partenship firm are called as "THE PARTNERSHIP DEED".

170. The registration of the deed is not compulsory but if the deed is not registered the the partners can't file the legal suit against each other.

171. If nothing is mentioned in the partnership deed then: **Interest on capital is "NIL".**

172. If nothing is mentioned in the partnership deed then: **Interest on drawings is "NIL"**

173. If nothing is mentioned in the partnership deed then: **Interest on partner's loan is "@6%p.a."**

174. If nothing is mentioned in the partnership deed then: **partner's salary, remuneration is "NIL".**

175. If nothing is mentioned in the partnership deed then: **profit sharing ratio is "EQUAL".**

176. A special account prepared for the distribution of the profit etc is called as **"PROFIT AND LOSS APPROPRIATION ACCOUNT".**

177. If the capital balances of the partners are decided to be FIXED then its a **FIXED CAPITAL SYSTEM**, here all the capital adjustments like drawings, capital interest etc. are done in the current account of the partners.

178. If the capital balances of the partners are decided to be CHANGING then its a **FLUCTUATING CAPITAL SYSTEM**, here all the capital adjustments like drawings, capital interest etc. are done in the capital account of the partners itself.

179. If the same amount is withdrawn per month, on the same date and for all 12 months then:

Amount withdrawn pm at	**Drawings interest is calculated for:**
The beginning of each month	6.5 months
The mid of each month	6 months
The end of each month	5.5 months

180. If any partner is agreed the minimum profit amount then it is called as "GURANTEED PROFIT". Here if the profit share of him is less than the guaranteed profit then the promisor partner/s shall pay the amount from his profit share.

181. Goodwill is an intangible asset.

182. It is the reputation of the business expressed in terms of money.

183. The goodwill valuation is generally done at the time of admission/ retirement/ death of a partner or sale of firm, amalgamation of firm etc.

184. **Method 1: Simple average method:** Goodwill = Simple Average Profit X Number of Years purchase.

185. **Method 2: Weighted average method:** Goodwill = Weighted Average Profit X Number of Years purchase.

186. **Method 3: Super profit method:** Goodwill = Super Profit X Number of Years purchase.

187. **Method 4: Capitalisation method:** Goodwill = Super Profit / NRR or Expected Capital Employed.- Actual Capital Employed.

188. **Method 5: Annuity method:** Goodwill = Super Profit X Annuity Rate.

189. **Number of Years purchase** means the expected number of years the name of the firm shall give the extra profit than others.

190. Hidden goodwill = Excepted capital of the old partners- the actual profit of the existing partners.

191. In case of admission of the partner, **if nothing is given, the OLD RATIO WILL BE THE SACRIFICE RATIO.**

192. The extra amount brought in by the incoming partner is called as goodwill.

193. The goodwill amount shall be shared by the old partners in sacrifice ratio.

194. Sacrifice ratio = Old Ratio- new ratio.

195. In case the goodwill is raised and written off then GOODWILL IS RAISED IN OLD RATIO FOR OLD PARTENRS & GOODWILL IS WRITTEN OFF IN THE NEW RATIO FOR NEW PARTNERS.

196. In case of admission/ retirement/ death of the partner, the special account prepares is called as "REVALUATION ACCOUNT".

197. **In case of admission if any partner could bring the part of goodwill amount only then:**

a. **The part amount brought in** by him is shared by old partners in Sacrifice ratio,
b. **For the balance amount,** the goodwill is raised in old ratio, it will be written off in new ratio when the new partner brings the balance cash in.

198. **REVALUATION ACCOUNT DEBITS:** The Decrease in the value of asset, increase in the value of liability and revaluating expenses.
199. **REVALUATION ACCOUNT CREDITS:** The Increase in the value of asset and decrease in the value of liability.
200. **The revaluation profit or loss** is distributed among the old partners in old ratio.
201. In case of retirement or death of the partner, **if nothing is given, the OLD RATIO WILL BE THE GAIN RATIO.**
202. Gain ratio = New Ratio- Old ratio.
203. In case the partner is retired/died in the mean time of the year, then he/his legal executives gets the proportionate share of profit which is calculated on the basis of last financial year's profit as follows: **Proportionate Profit =**
Profit of the last financial year X PSR of Outgoing partner X (Months of service by outgoing partner in current year till the date of retirement or death / 12)
204. Such proportionate profit is transferred to a special account called as **PROFIT AND LOSS SUSPESE ACCOUNT** with the journal entry:
P & L Suspense A/c Dr XXXX
To Outgoing partner's capital A/c XXXX
205. The common insurance policy taken by the firm in the name of all the partners jointly or severely is called as **"THE JOINT LIFE POLICY (JLP)".**
206. **IN CASE OF DEATH OF A PARTNER:** The partnership firm receives **full policy amount** also called as the **sum assured.**
207. **IN CASE OF RETIREMENT OF A PARTNER:** The partnership firm receives **the surrender value only.**
208. **The JLP Reserve** is to be distributed among old partners in old ratio.
209. **TREATEMENT OF THE JLP PREMIUM PAID EVERY YEAR:**

JLP Premium Treated as:	Debited to P & L A/c?	Shown in the asset side?
Revenue Expense	Yes	No
Deferred Revenue Expense	No	Yes

210. **In case of the retirement of a partner,** his final unpaid balance is transferred to his **partner's Loan A/c.** Interest to be paid on this balance @6% p.a. till the amount is not paid.
211. **In case of the death of a partner,** his final unpaid balance is transferred to his **Executor's Loan A/c.** Interest to be paid on this balance @6% p.a. till the amount is not paid.

O. Company Accounts: Issue of shares

212. **A public limited company means** the company which is allowed to raise the funds from the public.
213. **A listed public limited company means** the company of which the shares are made available through the nation stock exchange.
214. When the company issues the shares 1st time, it is called as **IPO i.e. Initial Public Offer** and this market is called as **the primary market.**
215. When the shares are resold by one person to another in the share market, it is called as **the secondary market.**
216. The company can raise the funds through **shares or debentures.**

217. The shares are of 2 types:

Comparison base	Equity Shares	Preference shares
Status of the holder	Owner of the company	Money lender of the company
Voting rights?	Yes	. Allowed in some special cases related to the preference shares only.
Fixed Dividend?	No	Yes
Dividend to be paid in case of losses also?	No	Yes
Preference in case of dividend every year?	No	Yes
Preference in case of final payment at eh time of repayment?	No	Yes

218. The maximum amount sanctioned to be collated from market in the form of equity shares is called as **Authorised/Nominal/ Registered Capital.**

219. The part of authorised capital kept aside and to be issued in case of liquidation (Closure) of the company only is called as **Reserve Capital.**

220. The part of authorised capital decided to be issued immediately in the market is called as **Issued Capital.**

221. The part of authorised capital decided not to be issued immediately in the market and shall be issued in near future is called as **Unissued Capital.**

222. The part of issued capital the public is ready to purchase is called as **Subscribed Capital.**

223. The part of issued capital the public is not ready to purchase is called as **Unsubscribed Capital.**

224. The part of subscribed capital demanded from the public is called as **Called Up Capital.**

225. The part of subscribed capital not yet demanded from the public is called as **Uncalled Capital.**

226. The part of called up capital, actually paid by the public to the company is called as **paid up capital.**

227. The part of called up capital, not yet paid by the public to the company is called as **unpaid capital/ calls in arrears.**

228. If the number of applications received from the public is less than the issued number of shares, then it is called as **under subscription.**

229. If the number of applications received from the public is more than the issued number of shares, then it is called as **over subscription.**

230. In case of over subscription, the shares are given proportionately called as **Pro rata allotment.**

231. In case of pro rata allotment, if some applications are rejected then **their application amount must be refunded.**

232. **The extra application amount** due to pro rata allotment can be adjusted from the next instalments due like allotment amount, 1st call etc.

233. The company must receive at least 90% of the issued capital called as **MINIMUM SUBSCRIPTION**. If not, then the whole amount is to be refunded.

234. The Company will have to pay **interest @ 6%p.a. on the calls in advances.**

235. **The interest on calls in advances** must be paid from the date of receipt of the amount till the date of being the next instalment due.

236. The Company will collect **interest @ 5%p.a. on the calls in arrears.**

237. **The interest on calls in arrears** must be collected from the date of instalment due till the date of receipt of the amount.

238. **When the shares are given free of cost to the promoters of the company** then the goodwill account is debited.
239. When the shares are issued against any asset etc. then it is called as **the issue of shares for the consideration other than cash.**
240. If the share holder fails to pay some amount then his shares are cancelled and the amount received from him till that date is not repaid this process is called as **Forfeiture of shares.**
241. At the time of forfeiture of shares, the share capital is debited with: **the called up amount.**
242. At the time of forfeiture of shares, the securities premium is debited with: **the unpaid securities premium amount.**
243. At the time of forfeiture of shares, the share forfeiture account is credited with: **the collected amount.**
244. At the time of forfeiture of shares, the share allotment account is credited with: **the unpaid allotment amount.**
245. At the time of forfeiture of shares, the share 1st call/ 2nd call etc. account is credited with: **the unpaid call amount.**
246. The discount given at the time of reissue of shares is debited to **the share forfeiture account.**
247. The final balance of share forfeiture account after adjusting the discount is transferred to **The Capital Reserve Account.**
248. The balance of share forfeiture account on the unissued shares is **kept aside in the share forfeiture account itself.**
249. The balance of share forfeiter account is recorded under the heading of **Share Capital.**
250. The balance of securities premium account is recorded under the heading of **Reserves and surplus.**
251. As per the new Companies Act, 2013, the shares can be issued at **PAR or PREMIUM ONLY** and not at **DISCOUNT.**
252. The agents appointed for issue of shares in the market are called as **UNDERWRITERS.**
253. The maximum commission allowed to underwriters is **5% in case of shares and 2.5% in case of debentures.**

P. Company Accounts: Redemption of Preference Shares:

254. The reference shareholders are **the money lenders of the company.**
255. The preference share capital must be redeemed **on the pre-declared date and at the pre-declared amount.**
256. The preference shares can be redeemed if and only if they are **fully paid up.**
257. The redemption must be from **the profit available otherwise for the payment of dividend.**
258. The redemption premium loss is adjusted from **the Securities premium account and then from Profit and loss account if needed.**
259. The special reserve created for the equity share holders at the time of redemption of preference shares is called as **Capital redemption reserve (CRR).**
260. The CRR is created from **General Reserve first** and **then from Profit and loss account if needed.**
261. If the new shares are issued at par or premium then the amount of CRR to be created = **The face Value paid to preference share holder – the face value collected from the equity share holders .**
262. If the new shares are issued at discount then the amount of CRR to be created = **The face Value paid to preference share holder – the actual amount collected from the equity share holders.**

263. Number of shares to be issued in the market at the time of redemption = **(Balance of GR + Remaining Securities premium balance after adjusting the redemption premium + balance of Profit and loss account)/ issue price of the new share.**

Q.	**Issue of Debentures:**

264. The debenture is **a kind of loan taken from the Public.**

265. The company pays the interest to debenture holder **at the fixed rate and on the fixed date.**

266. The debenture interest must be paid **even if the company is in loss.**

267. The debentures can be **secured against the asset or unsecured.**

268. The debenture holders do not have **the voting rights.**

269. The debenture interest is **the charge against profit i.e. it is debited to the profit and loss account.**

270. In the balance sheet, The debentures are shown under the heading of **Long term borrowings in the liability side.**

271. In case of non payment of calls, the debenture **can't be forfeited.**

272. The debenture the maximum duration of the debentures is **20 years.**

273. On the liquidation date, the debenture holders are repaid **before the shareholders payment.**

274. Secured debentures means the debentures which are **secured against any asset,**

275. Unsecured debentures mean the debentures which are **not secured by any asset.**

276. Convertible debentures means the debentures which are **having an option to get converted into equity shares.**

277. Non-Convertible debentures means the debentures which are **not having an option to get converted into equity shares. These must be repaid in cash or cash equivalents.**

278. Redeemable debentures means the debentures which are **to be repaid on the pre-decided date.**

279. Irredeemable debentures means the debentures which are **to be repaid on the liquidation date only. Now not allowed to be issued.**

280. Registered debentures means the debentures which **needs the permission of the company at the time of each transfer.**

281. Unregistered/ bearer debentures means the debentures which **do not need the permission of the company at the time of transfer. These can be transferred by mere delivery of the debenture.**

282. First Mortgage debentures means the debentures which **possess the 1st claim against the specified asset.**

283. Second Mortgage debentures means the debentures which **possess the 2nd claim against the specified asset.**

284. When the debentures are issued as the collateral security against any loan then it is **just an event and not the transaction so no journal entry is needed.** Or the dummy journal entry can be given as:

Debenture Suspense A/c Dr XXX
To ...% Debenture A/c XXX

285. If the debentures are to be repaid at the premium in future then it is called as **the redemption premium or the loss on issue of debenture.**

286. The discount on issue of shares or the expense at the time of issue of debentures are to written off i.e. transferred to Profit and Loss account in the ratio of **opening balance of debentures every year during the life span of the debentures.**

287. When the debentures are issues for any asset etc., **it is called as issue of denatures for the consideration other than cash.**

288. The debentures can be issued against the asset at **par, premium or discount.**

R. Capital And Revenue Expenditure And Receipts.

289. Any outflow of the cash from the business is an expenditure. Following are the types of business expenses:

Capital Expenditure	Points	Revenue Expense
	Meaning	
An expense paid for Bringing the new asset in the business or increasing the life or efficiency of the business.		Expense paid for day to day activities of the business.
	Effect on asset	
Brings the new asset in the business or increasing the life or efficiency of the business.		No effect
	Depreciation	
Depreciation is charged on it		Not applicable
	Effect on Profit	
No direct effect expect depreciation		Reduces the profit
	Recorded at	
Asset side		Trading P&L Account
	Gives the utility for	
More than 1 financial year		1 financial year only
	Example	
New asset purchased , one time repairs of asset etc.		Wages, Salary etc.

290. **Deferred Revenue Expenses:** These are the expenses which has the combination of both types of expenses. This gives the long term impact but do not bring any new asset in the asset. Eg. Heavy Advertisement expenses. These are recorded in the assets side and then are amortised (Written off) in the years of its expected use.

291. **Receipts:** Similar to the expenses, the receipts are also of two types: Capital receipts like Loans taken etc and revenue receipts like sales, Fees received etc.

S. Basic Accounting Concepts and Conventions:

292. As we know accounting is a science. It means it is based on some basic concepts which are universally applicable. Today we shall learn these accounting concepts.

Sr. No.	Concept	It means	Practical example
293.	**Going Concern Concept**	Business is assumed to have a long life and it is not started with an objective to close down in short period.	We depreciate the assets in more than one year, we show the amount payable at the end of the year.
294.	**Consistency Concept**	The accounting methods, concepts and the techniques must be constant and should not be changed again and again.	We follow same method of depreciation, stock valuation every year.
295.	**Accrual**	The expenses and incomes of particular year must be added to that year even if not paid or	We add the outstanding expense and reduce the prepaid expenses from the current year's expense

		received in current year.	
296.	**Entity Concept**	The business and the businessman are treated are separate entities.	We show the capital as a liability & personal expenses as drawings.
Sr. No.	**Concept**	**It means**	**Practical example**
297.	**Money Measurement concept**	Everything must be expressed in terms of money to be recorded in the books	Every transaction is recorded in terms of rupee, dolor etc.
298.	**Cost Concept**	Every accounting item must be recored at the proper amount only	Fixed assets are recorded at WDV but current assets are recorded at cost and market value whichever is lower.
299.	**Realization Concept**	The selling price of the asset must be realized (Recorded) only when it is actually sold	We ignore daily fluctuation in the market price of Fixed asset.
300.	**Periodicity Concept**	The long life of business is divided in small parts of 12 months called as FINANCIAL YEAR.	We make the separate accounting for every financial year for our client.
301.	**Dual Aspect Concept**	Every transaction has two fold effects	If we purchase a car then one asset increases and the other reduces or the liability increases.
302.	**Matching Concept**	Every year we have to match the income and expenses of the business.	We calculate GP & NP by matching Income & expense.
303.	**Materiality Concept**	All the important facts must be disclosed in the books separately	Loss by theft must be shown separately even if it's a small amount.
304.	**Conservatism Concepts**	The accountant should record all future losses and expenses but should ignore all the future incomes.	Lottery gain is ignored on 31st march if the result will be declared after 31st March but any legal case against the company must be recorded immediately. or Sock is always recorded at cost or market value which ever is lower

305. Fundamental Accounting Assumptions:

Out of above concepts, every accountant is assumed to follow 1st three concepts i.e. Going Concern, Consistency & Accrual. If anyone does not follow it then it is allowed but it must be disclosed in the books. Thus these three are called as Fundamental Accounting Assumptions.

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CA Foundation MATLAB CTC Classes

CA Foundation – PAPER – 1 - Accounts

SELECTED THEORY QUESTIONS – 12 + 4 + 5 MARK'S

Question 1(a) State with reasons, whether the following statements are True or False.

(i) In case of admission of a new partner in a partnership firm, the profit/ loss on revaluation account is transferred to all partners in their new profit sharing ratio.

(ii) In the balance sheet of X Limited, preliminary expenses amounting to`5 lakhs and securities premium account of`35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

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

(iv) Purchase of office furniture & fixtures of `2,500has been debited to General Expense Account. It is an error of omission.

(v) A Limited is sending goods costing`50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.

(vi) A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants with in a period of 3 months. The Balance Sheet as on 31stDecember, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.(6 x2=12 Marks)

(i)False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(ii)True; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting `5 lakhs.

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

(iv)False; When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

(v)False; Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.

(vi)False; If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

2. What services can a Chartered Accountant provide to the society ? (4 Marks)

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

(i)Maintenance of books of accounts;

(ii)Statutory audit;

(iii)Internal Audit;

(iv)Taxation;

(v)Management accounting and consultancy services; (vi)Financial advice and financial investigations etc.

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

3. Discuss the factors taken in to consideration for calculation of depreciation. (5Marks)

Following factors are taken in to consideration for calculation of depreciation.

1.Cost of asset including expenses for installation, commissioning, trial run etc.-Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

2.Estimated useful life of the asset-Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.

3.Estimated scrap value(if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset

4. (a)State with reasons, whether the following statements are True or False:

(i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

(ii) M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18.The total expenditure incurredwas`30,000 and was treated as a revenue expenditure.

(iii) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

(iv) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

(v)A Partnership firm cannot own any Assets.

(vi)Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. (6 x 2= 12 Marks)

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

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

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

(iv)False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v)True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi)True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members

5 (b) Distinguish between Provision and Contingent Liability. (4 Marks)

(b)Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities.

The distinction between both of them can be explained as follows:

(1)Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.

A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.

(2)A provision meets the recognition criteria.

A contingent liability fails to meet the same.

(3)Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.

Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.

(4)If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.

If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

6.

S.N	Basis Of Diff	Periodic Inventory System	Perpetual Inventory System
1.	Inventory Ascertaining	Inventory is ascertained by taking an actual physical count.	Inventory is ascertained on the basis of records.
2.	Calculation Of Inventory	Inventory is directly calculated by applying the method of valuation of inventories	Inventory is calculated as a residual figure as under: Closing Inventory= Opening inventory + Purchases-Cost of goods sold
3.	Continuous Stock Checking	It does not facilitate the Checking	It facilitates the continuous stock checking.
4.	Cost Effectiveness	It is simple and inexpensive	It is elaborated and expensive.
5.	Closing Down of Work	It requires closing down of work for stock taking.	It does not require closing down of work for Stock taking.

7. (a)State with reasons, whether the following statements are True or False:

(i)Any amount spent to minimize the working expenses is revenue expenditure.

(ii)Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.

(iii)The provision for bad debts is debited to sundry debtors account.

(iv)Non-participating preference shareholders enjoy voting rights.

(v)There is no entry passed by the consigneein his books for the remaining stockofgoods lying with him.

(vi)Discountcolumn of the cash book is never balanced. (6x 2 = 12 Marks)

Answer (a)

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

(ii)True: Repairs for the first time of an old building are incurred to put the building in usable condition. This is apart of the cost of building. Accordingly, this is a capital expenditure.

(iii)False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(iv)False: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

(v)True: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.

(vi)True: Discount column is to talled and transferred to the discount allowed or received account.

8. (c)Explain the followings:

(i)Accrual Basis of Accounting

(ii)Amortisation

(iii)Contingent Assets

(iv)Contingent Liabilities (4 Marks)

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

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

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

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

9. (b)Discuss the following:

(i)What do you mean by principal books of accounts?

(ii)What are the rules of posting of journal entries into the Leger? (5 Marks)

(i)Ledger is known as principal books of accounts as it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts)(ii)Rules regarding posting of entries in the ledger:1.Separate account is opened in ledger book for each account and entries from journalareposted to respective ledger account accordingly.

2.It is a practice to use words 'To' and 'By' while posting transactions inthe ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is usedwith the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.3.The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Test Series: March, 2018

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) **State** with reasons whether the following statements are **True or False:**

(i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

(ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

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

(vi) Quick ratio is also known as Cash Ratio. ***(6 statements x 2 Marks= 12 Marks)***

(b) **Explain**, in brief, the basic considerations for distinguishing between capital and revenue expenditures? ***(4 Marks)***

Test Series: March, 2018

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

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

(vi) False: Quick ratio is also known as Acid Test Ratio and not Cash Ratio.

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

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

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

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

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

Test Series: August, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

(Time allowed: 3 Hours) **(100 Marks)**

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

1. (a) State with reasons whether the following statements are True or False:

   i. Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

   ii. The Sales book is kept to record both cash and credit sales.

   iii. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

   iv. If a partner retires, then other partners have a gain in their profit sharing ratio.

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

   vi. Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**

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

   (4 Marks)

Test Series: August, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False -** Inventory Turnover Ratio measures the efficiency of the firm to manage its inventory Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

(ii) **False-** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iii) **False-** While calculating the average due date, any transaction date may be taken as the base date.

(iv) **True-** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(v) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(vi) **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

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

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

Test Series: October, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons, whether the following statements are true or false:

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

2. Accrual concept implies accounting on cash basis.

3 Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment

4 Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.

5 Partners can share profits or losses in their capital ratio, when there is no agreement.

6. Consignment account is of the nature of real account.

(6 statements x 2 Marks= 12 Marks)

(b) "Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. ***(4 Marks)***

Test Series: October, 2018

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. **(a)** 1 False- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

2. False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

3 False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

4 False- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

5 False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

6. False: Consignment account is a nominal account

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows:

Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

Test Series: March, 2019

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) **State** with reasons whether the following statements are **True or False:**

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

(iii) Accrual concept implies accounting on cash basis.

(iii) Finished goods are normally valued at cost or market price whichever is higher.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

(v) Partners can share profits or losses in their capital ratio, when there is no agreement.

(vi) Receipts and Payments Account highlights total income and expenditure.

(6 Statements x 2 Marks = 12 Marks)

(b) Explain Cash and Mercantile system of accounting. **(4 Marks)**

Test Series: March, 2019

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(ii) **False**- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(iii) **False** - Finished goods are normally valued at cost or net realizable value whichever is lower.

(iv) **True** - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) **False** - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(vi) **False**- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

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

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

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

Test Series: April, 2019

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons whether the following statements are True or False:

(i) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

(v) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

(vi) Quick ratio is also known as Cash Ratio. ***(6 statements x 2 Marks = 12 Marks)***

(b) Explain in brief objective and advantages of setting Accounting Standards. ***(4 Marks)***

Test Series: April, 2019

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. **(a)** (i) False - Debenture interest is payable before the payment of any dividend on shares.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(vi) False: Quick ratio is known as Acid Test Ratio and not Cash Ratio.

(b) **Objective and Advantages of Accounting Standards:** An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

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

The other advantages are as follows:

(i) Reduction in variations.

(ii) Disclosure beyond that required by law.

(iii) Facilities comparison.

Test Series: October, 2019

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons whether the following statements are True or False:

i. Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.

ii. Consignment account is of the nature of real account.

iii. The Sales book is kept to record both cash and credit sales.

iv. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

v. If a partner retires, then other partners have a gain in their profit sharing ratio.

vi. Net income in case of persons practicing vocation is determined by preparing profit and loss account. **(6 Statements x 2 Marks = 12 Marks)**

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

(4 Marks)

Test Series: October, 2019

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False-** The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

(ii) **False**: Consignment account is a nominal account

(iii) **False-** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iv) **False-** While calculating the average due date, any transaction date may be taken as the base date.

(v) **True-** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(vi) ***False***: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

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

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

Test Series: May, 2020

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Time Allowed: 3 Hours **Maximum Marks: 100**

1. (a) State with reasons, whether the following statements are true or false:

(i) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

(ii) 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.

(iii) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(iv) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

(v) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

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

(6 Statements x 2 Marks = 12 Marks)

(b) Explain the objective of "Accounting Standards" in brief. **(4 Marks)**

Test Series: May, 2020

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

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

(iii) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(iv) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

(v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

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

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

Syllabus → 120 marks
paper Attempt → 100 marks

Khatarnak Confidence build up Topics:-

① A/c Theory → True & false — 12 m ⎤
Direct Question — 4 m ⎦ 16 m

② final A/c / npo → 10 marks

③ Single entry system → 5 marks

④ B.R.S / Rectification → 10 m

⑤ B.O.E → 10 m

⑥ Depⁿ → 4 m

⑦ Company (sh + d eb + Pref + Right) 20 m

⑧ Inventory → 10 m

⑨ Partner → (adm / Death) (Dissolution) } → 15 m

⑩ Subsidiary Book / Trial Bal → 5 m

⑪ A/c Theory → 4 m