

CMA INTER

PAPER 6

PCA
Exclusively for CMA

FINANCIAL ACCOUNTING

CONCEPT BOOK

VOLUME 1

MBA

DISHA

CHANDAK



Financial Accounting V1 - Index

SN	Chapter Name	Page No
1	Frameworks of Accounting	1
2	Accounting Principles: Concepts & Conventions	2-5
3	Capital & Revenue Transactions	6-14
4	Accounting Cycle	15-21
5	Journal, Ledger & Trial Balance	22-53
6	Cash Book, Bank Book & Bank Reconciliation Statement	54-72
7	Rectification of Errors & Adjustment Entries	73-92
8	Depreciation	93-103
9	Bills of Exchange	104-124
10	Joint Venture	125-137
11	Consignment	138-159
12	Financial Statements of Commercial Organisation	160-183



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1 ACCOUNTING FUNDAMENTALS

Pranav Chandak

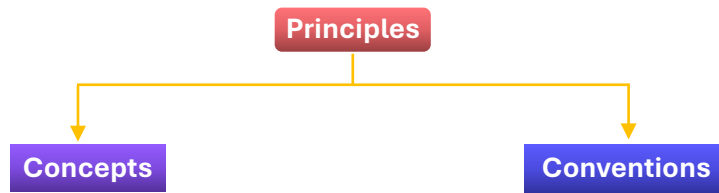
1.1 FRAMEWORKS OF ACCOUNTING

Collins Dictionary	'Framework' is a supporting structure (skeleton) .
In Accounting	It refers to set of principles, rules & guidelines used to prepare and present financial statements.

There are 4 frameworks of accounting:

1	Conceptual framework	[Accounting Concepts & Principles]
<ul style="list-style-type: none"> ▪ It is a system of interrelated objectives, fundamentals & concepts. ▪ Objectives: Define the goals & purposes of financial reporting (Ex: providing useful information to investors, creditors). ▪ Fundamentals: Include the basic principles and assumptions that guide: <ul style="list-style-type: none"> - Selection, Recognition, Measurement - Reporting of transactions & events. ▪ Purpose of Conceptual framework: Issued to ensure consistency in financial reporting. 		
2	Legal framework	[Applicable Laws]
<ul style="list-style-type: none"> ▪ Derived from laws governing different forms of business entities. ▪ Businesses are regulated by laws under which they are established, such as the <i>Indian Partnership Act, 1932</i>, the <i>Limited Liability Partnership Act, 2008</i>, and the <i>Companies Act, 2013</i>. ▪ These laws govern: <ul style="list-style-type: none"> - Business structure - Accounting records & disclosure obligations - Treatment of various transactions. 		
3	Institutional framework	[Guidelines by various institutes/professional bodies]
<ul style="list-style-type: none"> ▪ It refers to the standards and guidelines issued by authorized professional bodies. ▪ ICAI (Institute of Chartered Accountants) – sets Accounting Standards (AS) and Ind AS. ▪ ICMAI (Institute of Cost Accountants) – through CASB, sets Cost Accounting Standards (24 so far). ▪ It ensures uniformity, comparability, and credibility in financial and cost reporting. 		
4	Regulatory framework	[Rules & regulations by regulatory authorities]
<ul style="list-style-type: none"> ▪ Managed by key regulatory authorities across sectors RBI – regulates banking; SEBI – regulates capital markets; IRDAI – regulates insurance ▪ Their guidelines impact: <ul style="list-style-type: none"> - Accounting treatments - Presentation of financial statements - Audit and compliance requirements 		

1.2 ACCOUNTING PRINCIPLES - CONCEPTS & CONVENTIONS



- **Accounting Principles** are the **basic rules** which act as a **primary standard** for **recording** business transactions & **maintaining books** of accounts.
- A **widely accepted** set of **rules, conventions, standards & procedures** for reporting financial information, as **established by FASB** are called as **Generally Accepted Accounting Principles (GAAP)**.

Accounting Concepts

Accounting Concepts refer to the fundamental **assumptions & principles** that form the foundation of the accounting process. They ensure consistency, reliability, and comparability in financial statements. They are:

Entity Concept or Separate Entity Concept

- In this concept, an **organisation is treated as distinct & separate from the owner**.
- Business transactions are recorded from organisation's perspective, not the owner's.
- Owner's investment (capital) is considered an **internal liability** for business.
- **Personal transactions of the owner are not mixed with business transactions.**

Example 1: Owner's Investment (Capital)

Prisha starts a business & invests ₹10,00,000 in cash.

From the business perspective, ₹10,00,000 is a liability for the business. (Owner's Capital A/c).

DC Note: The money belongs to the business now, not Prisha personally.

Going Concern Concept

- It is assumed that **enterprise will continue its operation for indefinite period**.
- It is assumed that an enterprise neither has intention nor need to liquidate & windup its scale of operation.
- Due to this concept, a **distinction is made between assets & expense, fixed & current assets/liabilities**.
- It forms the **basis for preparing the Balance Sheet**.

Example 1: Fixed Assets

Scenario: PCA Ltd. buys machinery for ₹10,00,000 (useful life: 10 years).

Accounting Treatment as per Going Concern:

- Recorded as a **fixed asset** (not an expense).
- Depreciated over 10 years (₹1,00,000/year).

Periodicity Concept or Accounting Period Concept

- Life of an enterprise is **divided into periods** so that **performance** can be **measured** at **regular intervals**.
- Generally, one year period is taken up for performance measurement & appraisal of financial position.
- At the end of accounting period, financial statements are prepared.

Example 1: Annual Financial Reporting

Scenario: PCA Ltd. follows the **April–March** financial year.

Application:

- All revenues & expenses between **1st April – 31st March** are recorded in the respective FY.
- Financial statements are prepared **only for this period**, not for the entire business life.

Money Measurement Concept

- Any event which can be **expressed in terms of money** are recorded in the books of accounts.
- Transactions & events, that cannot be expressed in terms of money are not recorded in books of accounts, even if they are very useful or affect the result of business.
- Limitation of this concept is that **only the absolute value of the money is considered**, whereas the **real value may fluctuate** from time to time due to inflation, exchange rate changes, etc.

Examples of Recorded Transactions (Monetary)	Examples of Non-Recorded Transactions (Non-Monetary)
Purchase of Machinery	Experience & Skills of an employee
Payment of Salary	Customer Satisfaction
Sale of Goods	Market Reputation (Except acquired in business takeover).

Accrual Concept

- This concept recognises both **cash & credit transactions**.
- **Cash transactions** immediately affect owner’s equity, **credit transactions** create obligations.
- In credit transactions, **revenues** differ from **cash receipts**; **expenses** differ from **cash payments**.

Example 1: Revenue Recognition (Credit Sales)

Scenario: PCA Ltd. sells goods worth ₹1,00,000 on **15th March** (credit terms: payment due in 30 days).

Accounting Treatment: Revenue is recorded on **15th March** (when sale occurred), not when cash is received.

Example 2: Expense Recognition (Outstanding Salaries)

Scenario: An Employee worked in March, but salary is paid in April.

Accounting Treatment: Salaries are recorded in **March** (when the service was rendered).

Dual aspect concept or Duality concept

- Dual aspect concept assumes that **every transaction** recorded in the books of accounts is **based on two aspects** (**‘Debit’ & ‘Credit’**). It is the **basis for recording business transactions** in accounting.
- It means every transaction **impacts at least two accounts** on opposite sides (debit & credit), requiring entries in a minimum of two accounts.

Example 1: Business Started with Capital (Owner's Investment)

Scenario: Pratik invests ₹5,00,000 cash into his business.

Effects:

- (1) Cash (Asset) increases → Cash A/c – **Debit**
- (2) Capital (Owner's Equity) increases → Capital A/c - **Credit**

Matching concept

- This concept states that **revenues and expenses** should be **recorded** in the **same period they are incurred**.
- **Revenues earned must match with related expenses** to accurately determine the operating result.
- Application of this concept include adjustments for prepaid expenses, accrued incomes, etc..

Example 1: Cost of Goods Sold

Scenario: A company sells goods worth ₹1,00,000 in March. Raw material cost: ₹60,000; Labor cost: ₹20,000

Matching Treatment: Record ₹80,000 (COGS) in March's P&L to match ₹1,00,000 revenue.

Example 2: Expense Recognition (Outstanding Salaries)

Scenario: An Employee worked in March, but salary is paid in April.

Accounting Treatment: Salaries are recorded in **March** (when the service was rendered).

Realisation concept

- This concept ensures that **income is recorded only when it is earned & is realizable**.
- Thus, only getting an order from a customer won't make it eligible to be recognized as revenue.
- This ensures that financial statements avoid **overstating of income** by recognizing only **assured revenues**.

Example 1: Sale of Goods (Credit Transaction)

Scenario: Sold goods worth ₹1,00,000 on **10th March** (payment due in 30 days).

Treatment: Sale recorded in **March** (when goods were delivered).

Example 2: Advance Payment (Unearned Revenue)

Scenario: Received ₹50,000 in **March** for services to be provided in **April**.

Revenue Recognition: Not recorded as revenue in March (service not yet performed). Treated as a **liability**.

Historical cost concept

- Cost concept states that all **business assets should be recorded** in the books at **cost of acquisition, including expenses** like installation and transport, not at market price.

Ex: A machine costs ₹ 40,00,000 with ₹ 30,000 transport & ₹ 20,000 installation, it will be recorded at ₹ 40,50,000. This is called '**Historical Cost**'."

Example 1: Land Purchase (Appreciating Asset)

Scenario: Bought land for ₹10,00,000 in 2010. Current market value: ₹50,00,000.

Accounting Treatment: Recorded at ₹10,00,000 (historical cost).

Example 2: Purchase of Machinery

Scenario: Pranav bought a machine for ₹4,00,000; ₹20,000 transport; ₹30,000 installation.

Accounting Treatment: ₹4,00,000 + ₹20,000 + ₹30,000 = **₹4,50,000** (recorded value).

DC Note: Historical cost includes all the expenses incurred to bring asset in ready to use condition.

Accounting Conventions

- They are **commonly accepted customs, methods, & guidelines** for applying accounting principles.
- Ensures **consistency in recording transactions** across organizations, enabling reliable financial comparison.
- However, these conventions may evolve over time with changes in **general practices & opinions**.

Convention of Conservatism/ Prudence

- Conservatism states that **expect & record all future losses but don't expect & record future gains**.
- As such, application of it would always result in **understatement of incomes, profits & resources**.

Example 1: Provision for Bad Debts

Scenario: A company has ₹5,00,000 in receivables; 5% are Bad & Doubtful debts.

Conservative Treatment: Record ₹ **25,000** as bad debt expense (even if no default yet).

Example 2: Closing Stock (Lower of Cost or Market Value)

Scenario: Closing Stock = ₹ 2,00,000, Market value = ₹1,80,000.

Conservative Treatment: Record closing stock at ₹**1,80,000**

Convention of Consistency

- This convention advocates **consistent application of accounting rules & practices**.
- Uniformity is essential for **accurate profit calculations & performance comparisons**, while frequent changes create inconsistency & reduce reliability.
- Consistency ensures accounting information remains **truthful, accurate, & complete**.

Example 1: Depreciation Method

Scenario: A company uses **Straight-Line Depreciation method** for machinery.

Consistent Treatment: Continues using SLM for all future years.

Convention of Materiality

- This convention advocates **recording & reflection of all material facts** in the accounting records.
- An item is **material** if it could **influence an informed investor's decision**. Materiality depends on the amount, nature, business size, and decision-maker level.
- An item may be **material for one entity but immaterial for another**.

Ex: A firm buys stapler for ₹ 300. Though it's a fixed asset, it is treated as an expense as the amount is immaterial.

Convention of Full disclosure

- This convention advocates the full disclosure of all material information, whether favourable or otherwise, in the accounting statements of a business enterprise.
- This principle mandates truthful preparation of all financial statements. Full disclosure is particularly crucial for businesses where owners and managers are separate parties.

1.3 CAPITAL & REVENUE TRANSACTIONS

Importance of Classifying Revenue & Capital Transactions

[Not for Exam]

1	Correct Profit or Loss Calculation
	<ul style="list-style-type: none"> ▪ Revenue transactions affect the Profit & Loss Account. ▪ If capital expenses are wrongly treated as revenue, profits may be understated. ▪ Example: Treating machinery purchase (capital) as an expense will wrongly reduce profit.
2	True and Fair Financial Position
	<ul style="list-style-type: none"> ▪ Capital transactions reflect in the Balance Sheet. ▪ Proper classification ensures correct reporting of assets, liabilities, and owner’s equity. <p>Ex: A building should appear as an asset, not as an expense.</p>
3	Compliance with Accounting Principles
	<ul style="list-style-type: none"> ▪ Concepts like matching, accrual, and consistency depend on this classification. ▪ It ensures income and related expenses are recorded in the correct period.
4	Avoids Manipulation of Accounts (window-dressing)
	<ul style="list-style-type: none"> ▪ Prevents companies from inflating profits or assets by misclassifying items. ▪ Ensures transparency and reliability in financial statements.

Basis	Revenue Transactions	Capital Transactions
Frequency & Nature	<ul style="list-style-type: none"> ▪ Recurring; ▪ Day-to-day transactions 	<ul style="list-style-type: none"> ▪ Non-recurring; ▪ ‘Once in a while’ transactions
Effect	Affects Profit/Loss Account	Affects Balance Sheet
Duration of Benefit	Short-term (1 accounting year)	Long-term (multiple years)
Examples	Salaries, rent, sales etc.	Land, building, machinery, loans
A/c Treatment	Expensed fully in P&L	<ul style="list-style-type: none"> ▪ Capitalized in balance sheet in the first year ▪ Depreciated (tangible assets) over the years OR Amortised (intangible assets) over the years

Capital & Revenue Expenditure

Capital Expenditure

Meaning	<ul style="list-style-type: none"> It refers to spending on assets that provide benefits over multiple accounting periods. It is typically non-recurring in nature. It occurs when acquiring new assets or services & improving existing fixed assets. Assets resulting from capital expenditure are not meant for resale. 	
Examples	Purchase of machinery	Development of website
	Heavy repairs of a non- current asset	Installation charges of new equipment
Accounting Treatment	<ul style="list-style-type: none"> It is not fully expensed in the period incurred but capitalized as an asset in balance sheet. It is gradually recognized as revenue expenditure over the years by way of depreciation or amortization & charged against profits. 	

Revenue Expenditure

Meaning	<ul style="list-style-type: none"> It refers to spending where benefits are consumed within the current accounting period. It is typically recurring in nature. It is incurred to carry on the regular course of operations. 	
Accounting Treatment	<ul style="list-style-type: none"> Recognized as an expense in the period incurred. Directly reduces profit for that accounting period. Matches with revenue earned in the same period. 	
Examples	Payment of salaries	Electricity charges
	Repair of machinery	Purchase of stationery

Distinguish between Capital & Revenue Expenditure

SN	Capital expenditure	Revenue expenditure
1	Economic benefits from capital expenditure are enjoyed for > 1 accounting period .	Economic benefits from revenue expenditure are enjoyed for only 1 accounting period .
2	It is non-recurring in nature.	It is recurring in nature.
3	Normally, it involves heavy cash outlay .	Normally, it involves lower cash outlay .
4	It is reflected in the Balance Sheet .	It is debited to Income Statement .
5	incurred before or after commencement of operations of an entity.	always incurred after commencement of operations of an entity.
6	Enhances operational capacity, productivity, or long-term cost efficiency	Sustains current operational throughput without capacity expansion
7	Systematically allocated across periods via depreciation/amortization	Entire amount of such expenditure is matched against the revenue to determine the operating result.

Certain Rules for Identification of Capital Expenditure

- (1) **Expenditure for acquiring long-term assets**, useful for more than one accounting period & which are not meant for resale.
Ex: A second-hand car dealer buying furniture for office use - **Capital Expenditure.**
 Buying cars for resale - **Revenue Expenditure.**
- (2) **Expenditure to improve existing assets or make them operational** is capitalised & added to asset's cost.
Ex: Transport & installation charges of a new machine.
- (3) **Expenditure to enhance the earning capacity of a business** is capital in nature.
Ex: Shifting a factory for better access to raw materials.
- (4) **Preliminary expenses incurred before starting business operations** are treated as capital expenditure.
Ex: Legal charges for drafting Memorandum & Articles of Association, brokerage for raising capital.

Deferred Revenue Expenditure

Meaning	<ul style="list-style-type: none"> ▪ Deferred Revenue Expenditure refers to a revenue expense that is incurred in one accounting period, but its benefit extends over two or more years. ▪ It is different from capital expenditure. (Refer distinction given below) ▪ Benefits typically extend into the near future (usually 3-5 years) rather than long-term.
Examples	Heavy advertisement expense incurred prior to product launches, research, training etc.
Accounting treatment	<ul style="list-style-type: none"> ▪ Earlier: Spread over multiple years in P&L A/c. ▪ Now: Treated as revenue expenditure [AS 26]
AS 26	Expenses like advertising, research, & training must be fully recorded as expenses in the same year they incur. This means: <ul style="list-style-type: none"> - These costs can't be shown as assets. - They must fully reduce profits in the current year. - It makes financial reports more consistent & conservative.

Basis	Deferred Revenue Expenditure	Capital Expenditure
Meaning	Large revenue expense whose benefit lasts for more than one year (usually 2 to 5 years).	Expense incurred to acquire fixed asset or to improve existing fixed assets.
Example	Heavy advertising expense for brand building.	Purchase of building, plant, or machinery.
Nature	Revenue in nature, but not written off in same year.	Capital in nature, shown as an asset.
Benefit	Short to medium term (usually 2–3 years).	Long-term (more than 1 year).
Accounting Treatment	<ul style="list-style-type: none"> ▪ Earlier: Spread over multiple years in P&L A/c. ▪ Now: Treated as revenue expenditure [AS 26] 	Capitalized in Balance Sheet & then depreciated or amortised annually.

Capital & Revenue Receipt

Capital Receipts

Meaning	<ul style="list-style-type: none"> Capital receipts arise from non-operational activities like asset sale, loans, investments etc. They do not affect annual profit/loss calculations. Typically one-time transactions that impact balance sheet.
Example	PCA Ltd. Issues new shares to raise funds for expansion
Treatment	Such receipt is credited to respective account of capital nature, & is reflected in Balance Sheet.

Revenue Receipts

Meaning	<ul style="list-style-type: none"> Revenue Receipts are generated from core business operations like sales & services. They directly impact profit/loss calculations. Matched against revenue expenses to determine net income.
Example	PCA Ltd. sells 1,000 units of books
Treatment	These are recognised as income & should be credited to the Income Statement.

Distinguish between Capital & Revenue Receipt

Capital receipts	Revenue receipts
These receipts arise from activities outside the entity's normal business operations .	These receipts are obtained by an entity from regular day-to-day operations .
It is irregular and hence, non-recurring in nature.	It is recurring in nature.
It is not recognised as an income.	It is recognised as an income.
It gets reflected in the Balance Sheet .	It is credited to Income Statement .
It does not affect the operating result of an entity.	It affects the operating result of an entity.
It may result in creation of liability.	It does not create any liability .

Capital & Revenue Profits

Capital Profit

Meaning	<ul style="list-style-type: none"> Arises from non-operational business activities of an entity. Typically one-time/non-recurring gains. Generally arises through Sale of fixed assets (not inventory), Capital transactions, Acquisition-related gains. 	
Example	<i>Profit prior to incorporation</i>	<i>Profit made on re-issue of forfeited shares</i>
	<i>Premium received on issue of shares</i>	<i>Redemption of Debenture at a discount</i>
Treatment	Capital profits are generally capitalised i.e. transferred to a Capital Reserve Account.	

Revenue Profit

Meaning	<ul style="list-style-type: none"> Arises from regular operational business activities of an entity. Typically recurring in nature. 	
Example	<i>Commission income received</i>	<i>Royalty income from business operations</i>
	<i>Discount received from suppliers</i>	<i>Interest income on investments held as current assets</i>
Treatment	It is determined in Income Statement, & is either distributed as dividend or retained in Reserves.	

Capital & Revenue Losses

Capital Loss

Meaning	Arises from non-operational business activities of an entity.	
Example	Loss on Sale of Fixed Assets	Loss due to natural calamities
	Loss on issue of debentures at a discount	Loss on redeeming debentures at a premium
Treatment	It is either charged against revenue or reflected in asset-side of Balance Sheet.	

Revenue Loss

Meaning	Arises from regular operational business activities of an entity.	
Example	Loss due to bad debts	Loss due to obsolete (unsaleable) stock
	Loss from theft of inventory	Loss from sale of goods below cost price
Treatment	Such loss is recorded in debit-side of Income Statement.	

CQ1. Classify the following transactions between capital and revenue:

[CMAI SM NQ 1]

- (1) A plant constructed for ₹ 10,50,000.
- (2) Profit earned by sale of fixed assets ₹ 25,000.
- (3) Amount received from customers for services rendered ₹ 2,00,000.
- (4) Regular repairs and maintenance incurred on old machine ₹ 24,000.
- (5) Annual rates and taxes paid to local authority ₹ 2,000.

Answer:

- (1) Capital Expenditure
- (2) Capital Profit
- (3) Revenue Receipt
- (4) Revenue Expenditure
- (5) Revenue Expenditure

CQ2. Classify following items as capital or revenue expenditure.

[CMAI Example 1 & CMAF Illustration 3]

- (1) An extension of railway tracks in the factory area.
- (2) Wages paid to machine operators.
- (3) Installation costs of new production machine.
- (4) Materials for extension to foremen's offices in the factory.
- (5) Payment for computer time to operate a new stores control system.
- (6) Wages paid to own employees for building the foremen's offices.

Answer:

- (1) **Capital Expenditure** because it will yield benefit for more than one accounting period.
- (2) **Revenue Expenditure** as it will yield benefit for the current period only.
- (3) **Capital Expenditure** because it will benefit the business for more than one accounting period.
- (4) **Capital Expenditure** because it will benefit the business for more than one accounting period.
- (5) **Revenue Expenditure** because it has been incurred to carry on the normal business.
- (6) **Capital Expenditure** because it will benefit the business for more than one accounting period.

CQ3. State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

- (1) Expenses incurred in connection with obtaining a license for starting the factory were ₹ 10,000.
- (2) ₹ 1,000 paid for removal of stock to a new site. [CMAI SM Example 2]
- (3) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get full efficiency.
- (4) ₹ 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.
- (5) ₹ 10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.
- (6) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials.

Answer:

- (1) **Capital Expenditure** because it secures a long-term right to operate the business.
- (2) **Revenue Expenditure** because it facilitates current operations without enhancing asset value.
- (3) **Revenue Expenditure** because it maintains (not improves) the engine's original efficiency.
- (4) **Capital Expenditure** because it protects a permanent asset (factory site).
- (5) **Revenue Expenditure** as per AS-26.
- (6) **Both are Capital expenditure**

CQ4. State whether the following are capital, revenue or deferred revenue expenditure: **[CMAF SM Illustration 1]**

- (1) Carriage of ₹ 7,500 spent on machinery purchased and installed.
- (2) Heavy advertising costs of ₹ 20,000 spent on the launching of a company's new product.
- (3) ₹ 200 paid for servicing the company vehicle, including ₹ 50 paid for changing the oil.
- (4) Construction of basement costing ₹ 1,95,000 at the factory premises.

Answer:

- (1) **Capital Expenditure** because it is necessary to bring the asset to working condition.
- (2) **Revenue Expenditure** as per AS-26
- (3) **Revenue Expenditure** because it is a routine maintenance expense to maintain operational efficiency.
- (4) **Capital Expenditure** because it provides long-term benefits.

CQ5. State whether the following are capital or revenue expenditure.**[CMAF SM Illustration 2]**

- (1) Paid a bill of ₹10,000 of Mr. Kumar, who was engaged as the erection engineer to set up a new automatic machine costing ₹20,000 at the new factory site.
- (2) Incurred ₹26,000 expenditure on varied advertisement campaigns undertaken yearly, on a regular basis, during the peak festival season.
- (3) In accordance with the long-term plan of providing a well-equipped Labour Welfare Centre, spent ₹90,000 being the budgeted allocation for the year.

Answer:

- (1) **Capital Expenditure** because they are necessary to bring the asset to its working condition.
- (2) **Revenue Expenditure** because it is a recurring expense meant to maintain or boost sales during the festival season. It does not create any long-term asset.
- (3) **Capital Expenditure** because it creates a long-term facility for employee welfare, which will provide benefits over multiple years.

CQ6. Indicate whether the income/expenditure is capital or revenue.**[CMAF SM Illustration 4]**

- (1) Payment of wages to one's own employees for building a new office extension.
- (2) Regular hiring of computer time for the preparation of the firm's accounts.
- (3) The purchase of a new computer for use in the business.
- (4) The use of motor vehicle, hired for five years, but paid at every 6 months.

Answer:

- (1) **Capital Expenditure** because wages are directly involved in constructing a permanent office extension that will benefit the business for many years.
- (2) **Revenue Expenditure** because hiring computer time is a regular, recurring operational expense for routine accounting work that doesn't create any long-term asset.
- (3) **Capital Expenditure** because purchasing a computer represents acquiring a fixed asset that will be used in the business operations over multiple accounting periods.
- (4) **Revenue Expenditure** because the vehicle hire payments are regular operational expenses for using the vehicle, even though the hire agreement spans multiple years. Each payment maintains current operations rather than creating an asset.

CQ7. State with reasons whether the following are capital or revenue expenditure: **[CMAF SM Illustration 5]**

- (1) Freight & cartage on the new machine Rs. 150, & erection charges Rs. 500.
- (2) Fixtures of the book value of Rs. 2,500 sold off at Rs. 1,600 & new fixtures of the value of Rs. 4,000 were acquired. Cartage on purchase Rs. 100.
- (3) A sum of Rs. 400 was spent on painting the factory.
- (4) Rs. 8,200 spent on repairs before using a second-hand car purchased recently, to put it in usable condition.

Answer:

- (1) **Capital Expenditure** because these costs are essential to make the machine operational.
- (2) **Revenue Expenditure** for the loss on sale; **Capital Expenditure** for new fixtures and cartage as they create a new asset.
- (3) **Revenue Expenditure** because painting maintains but doesn't improve the factory.
- (4) **Capital Expenditure** because these repairs were necessary to make the car usable.

CQ8. State the nature of expenditure incurred by Vedanta & Co. during the year ended 30 June, 2025:

- (1) Rs. 350 was spent on repairing a second-hand machine which was purchased on 8 May, 2025 & Rs. 200 was paid on carriage & freight in connection with its acquisition. **[CMAF SM Illustration 6]**
- (2) A sum of Rs. 30,000 was paid as compensation to two employees who were retrenched.
- (3) Rs. 150 was paid in connection with carriage on goods purchased.
- (4) Rs. 20,000 customs duty is paid on import of a machinery for modernization of the factory production during the current year & Rs. 6,000 is paid on import duty for purchase of raw materials.
- (5) Rs. 18,000 Interest had accrued during the year on term loan obtained & utilized for the construction of factory building & purchase of machineries; however, the production has not commenced till the last date of the accounting year.

Answer:

- (1) **Capital Expenditure** because carriage and freight (Rs. 200) were essential to acquire the machine.
Revenue Expenditure because Rs. 350 was spent on repairs after purchase to maintain the machine.
- (2) **Revenue Expenditure** because compensation was paid for employee retrenchment, it is an operational cost.
- (3) **Revenue Expenditure** because carriage was paid for goods purchased as part of regular business operations.
- (4) **Capital Expenditure** because customs duty was paid for machinery import to modernize the factory.
Revenue Expenditure because import duty was paid for raw materials used in production.
- (5) **Capital Expenditure** because interest was paid on loans used for construction before production began.

CQ9. State whether the following items relating to Parvati Sugar Mill Ltd. are capital or revenue:

- (1) Rs. 50,000 received from issue of shares including Rs. 10,000 by way of premium.
- (2) Purchased agricultural land for mill for Rs. 60,000 & Rs. 500 was paid for land revenue for period after purchase.
- (3) Rs. 5,000 paid as contribution to PWD for improving roads of sugar producing area.
- (4) Rs. 40,000 paid for excise duty on sugar manufactured.
- (5) Rs. 70,000 spent for constructing railway siding.

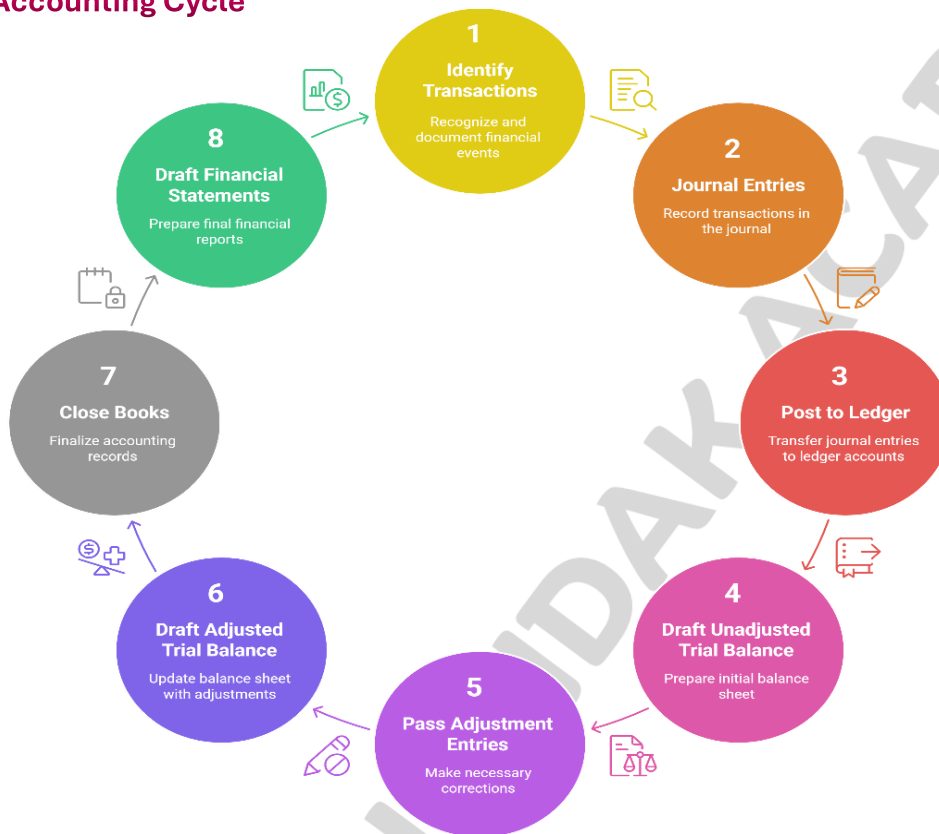
Answer:

- (1) **Capital Receipt** because amount from issuing shares increases the company's capital base.
- (2) **Capital Expenditure** because agricultural land was purchased as a long-term asset for the mill's operations. Rs. 500 land revenue is **Revenue Expenditure**
- (3) **Revenue Expenditure** because road contribution maintains existing infrastructure
- (4) **Revenue Expenditure** because excise duty is a regular tax payment
- (5) **Capital Expenditure** because it will benefit the company for many years.

1.4 Accounting Cycle, Analysis of Transaction

- Accounting Cycle is the **sequence of steps** an accountant follows to **record, process, & report** an organisation's financial transactions during an accounting period.
- It covers everything from **identifying transactions to recording, preparing financial statements, & closing A/c.**
- Managing this cycle is a **key responsibility of a bookkeeper.**

Stages of Accounting Cycle



1	Identifying Transactions	Analyze events to identify financial transactions.
2	Recording in Books of Original Entry	Record transactions as journal entries.
3	Posting to Ledger	Transfer journal entries to ledger accounts (Posting).
4	Drafting Unadjusted Trial Balance	Prepare a trial balance to check arithmetical accuracy (optional).
5	Passing Adjustment Entries	Record necessary adjusting entries at period-end.
6	Drafting Adjusted Trial Balance	Prepare a revised trial balance after adjustments.
7	Closing of Books	Close and balance all ledger accounts.
8	Drafting Financial Statements	Prepare Income Statement, Retained Earnings, Balance Sheet & Cash Flow Statement.

Analysis of Transactions

- An organisation’s transactions during its operations cause **changes in its financial position**.
- Transaction analysis involves identifying how these transactions affect one or more of the five basic elements of accounting: **Assets, Liabilities, Capital/Equity, Expenses, and Revenue**.

1	Prisha commences her business by investing Rs. 5,00,000 in cash.
	Cash increases in the business by Rs. 5,00,000 (Element changed: Asset increase)
	Capital increases by Rs. 5,00,000 (Element changed: Capital/ Equity increase)
2	Prisha opened a current account with the bank by depositing Rs. 2,00,000.
	Cash balance decreases by Rs. 2,00,000 (Element changed: Asset decrease)
	Bank balance increases by Rs. 2,00,000 (Element changed: Asset increase)
3	Prisha borrows Rs. 1,20,000 from bank interest @ 10% p.a.
	Bank balance increases by Rs. 1,20,000 (Element changed: Asset increase)
	Bank loan increases by Rs. 1,20,000 (Element changed: Liability increase)
4	Prisha purchases equipments worth Rs. 80,000 for cash.
	Equipments increase by Rs. 80,000 (Element changed: Asset increase)
	Cash decrease by Rs. 80,000 (Element changed: Asset decrease)
5	She purchased goods worth Rs. 1,00,000 for resale, out of which 60% was paid in cash, 30% by cheque and balance was due.
	Purchases increases by Rs. 1,00,000 (Element changed: Expenses increase)
	Cash balance decreases by Rs. 60,000 (Element changed: Asset decrease)
	Bank balance decreases by Rs. 30,000 (Element changed: Asset decrease)
	Creditors/ Payables increases by Rs. 10,000 (Element changed: Liability increase)
6	Goods sold in cash Rs. 1,70,000.
	Cash increases by Rs. 1,70,000 (Element changed: Asset increase)
	Sales increase by Rs. 1,70,000 (Element changed: Revenue increase)
7	Goods sold on credit for Rs. 80,000.
	Debtors/ Receivables increases by Rs. 80,000 (Element changed: Asset increase)
	Sales increase by Rs. 80,000 (Element changed: Revenue increase)
8	Prisha incurred Rs. 20,000 as wages.
	Wages increases by Rs. 20,000 (Element changed: Expenses increase)
	Cash decreases by Rs. 20,000 (Element changed: Asset decrease)
9	Interest on bank loan charged Rs. 3,000.
	Bank interest increased by Rs. 3,000 (Element changed: Expenses increase)
	Bank balance decreased by Rs. 3,000 (Element changed: Asset decrease)
10	She collected cash Rs. 20,000 from her customer.
	Cash increases by Rs. 20,000 (Element changed: Asset increase)
	Debtors/ Receivables decreases by Rs. 20,000 (Element changed: Asset decrease)

11	Prisha paid Rs. 8,000 to her supplier.
	Cash decreases by Rs. 8,000 (Element changed: Asset decrease)
	Creditors/ Payables decreases by Rs. 8,000 (Element changed: Liability decrease)
12	She withdrew cash Rs. 7,000 for her personal use.
	Cash decreases by Rs. 7,000 (Element changed: Asset decrease)
	Capital decreases by Rs. 7,000 (Element changed: Capital/ Equity decrease)

Accounting Equation

- Accounting equation is a representation of how the three important components of accounting namely **Assets, Liabilities & Equity** are associated with each other. **Accounting equation: Assets = Liabilities + Equity.**
- Assets are **valuable resources controlled by a company**, like cash, receivables, inventory, and fixed assets.
- Liabilities are **obligations to external parties**, while Equity is the owners' **net claim on assets**.
- Together, Liabilities & Equity show how assets are financed.
- All the three form an **accounting equation & appear in balance sheet**, reflecting an entity's financial position.
- Expanded Accounting Equation:** (1) Assets = Liabilities + [Capital + (Revenue – Expenses) – Drawings]
(2) Assets + Expenses + Drawings = Liabilities + Capital + Revenue

CQ11. Prepare Accounting Equation from the following transactions in the books of Mr. X for Jan 2021:

1 Jan	Invested Capital in the firm Rs. 20,000	[CMAF SM Illustration 8 – Very Basic Question]
2 Jan	Purchased goods on credit from Das & Co. for Rs. 2,000	
4 Jan	Bought plant for cash Rs. 8,000	
8 Jan	Purchased goods for cash Rs. 4,000	
12 Jan	Sold goods for cash (Cost Rs. 4,000 + Profit Rs. 2,000) Rs. 6,000.	
18 Jan	Paid to Das & Co. in cash Rs. 1,000	
22 Jan	Received from B. Banerjee Rs. 300	
25 Jan	Paid salary Rs. 6,000	
30 Jan	Received interest Rs. 5,000	
31 Jan	Paid wages Rs. 3,000	

Answer:

Date	Transaction	Assets	=	Liabilities	+	Capital
1 Jan	Invested Capital in the firm Rs. 20,000	20,000		-		20,000
2 Jan	Purchased goods on credit from Das & Co.	2,000		2,000		-
	Revised Equation	22,000	=	2,000	+	20,000
4 Jan	Bought Plant for cash Rs. 8,000	8,000 (8,000)		-		-
	Revised Equation	22,000	=	2,000	+	20,000
8 Jan	Purchased goods for cash Rs. 4,000	4,000 (4,000)		-		-
	Revised Equation	22,000	=	2,000	+	20,000
12 Jan	Sold Goods for cash (Cost Rs. 4,000 Profit Rs. 2,000)	6,000 (4,000)				2,000
	Revised Equation	24,000	=	2,000	+	22,000
18 Jan	Paid to Das & Co. for Rs. 1,000	(1,000)		(1,000)		-
	Revised Equation	23,000	=	1,000	+	22,000
22 Jan	Received from B. Banerjee for Rs. 300	300 (300)				
	Revised Equation	23,000	=	1,000	+	22,000
25 Jan	Paid salary for Rs. 6,000	(6,000)				(6,000)
	Revised Equation	17,000	=	1,000	+	16,000
30 Jan	Received Interest for Rs. 5,000	5,000				5,000
	Revised Equation	22,000	=	1,000	+	21,000
31 Jan	Paid Wages for Rs. 3,000	(3,000)				(3,000)
	Final Equation	19,000	=	1,000	+	18,000

PRANAV

Double Entry System

- Double Entry System of Book-keeping is an accounting system which recognizes the fact that every transaction has two aspects & both aspects of the transaction are recorded in the books of accounts.
- **“Luca Pacioli”** is known as **father of double entry system**.
- Double entry system records the transactions by classifying them as a Debit item or Credit item.
- ‘Debit’ is derived from Latin word ‘debitum’ which means ‘what is due’. It is abbreviated by ‘Dr.’
- ‘Credit’ is derived from Latin word ‘credere’ which means ‘what is trusted. It is abbreviated by ‘Cr.’
- This system is based on accounting equation & requires total debits recorded = total credits recorded.



Assets

Resources owned by a business



Expenses

Costs incurred in business operations



Liabilities

Obligations owed to others



Revenue

Income generated from business activities



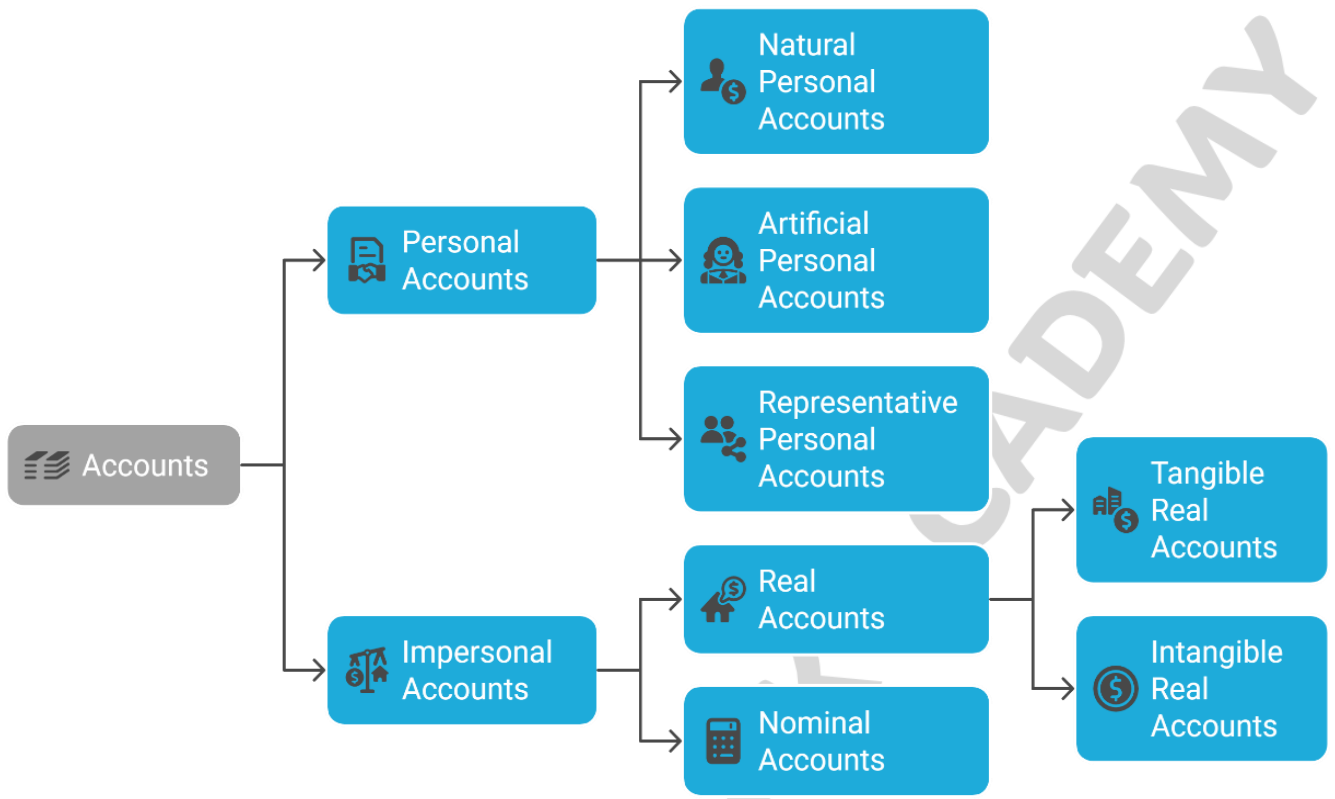
Equity

Ownership interest in a business

Golden Rules of Accounting (Accounting Equation Approach)

Type of Account	Debit (Dr.)	Credit (Cr.)
Personal	Receiver	Giver
Real	What comes in	What goes out
Nominal	Expenses & losses	Incomes & Gains

Classification of Accounts



1 Personal Accounts

Personal accounts relate to **persons, trade receivables or trade payables**. It is classified into:

1	Natural Personal	<ul style="list-style-type: none"> It records transactions of human beings like Pranav, Prisha, Pratik etc.
2	Artificial (legal) Personal	<ul style="list-style-type: none"> Business is a separate entity, law recognizes it as Artificial Person. Ex: Government, PCA Ltd, SBI bank, etc.
3	Representative Personal	<ul style="list-style-type: none"> These accounts don't belong to specific individuals/organizations but represent obligations or advances. Ex: Prepaid Salary, Outstanding Rent etc.

2 Impersonal Accounts

Accounts which are not personal. These can be further sub-divided as follows:

1 Real Accounts

These accounts tracks a business's owned assets (not debts), it is further classified into:

A	Tangible Real A/c	<ul style="list-style-type: none"> Assets which can be seen & touched. (Depreciation) Ex: Machinery, Stock, Raw Material, Cash, Vehicles etc.
B	Intangible Real A/c	<ul style="list-style-type: none"> Assets that have no physical existence but can be measured in terms of money and have value. (Amortization)

- **Ex:** Goodwill, Trademark, Patents & Copyrights, Intellectual Property Rights etc.

2 Nominal Accounts

- Accounts which relate to **expenses, losses, gains, revenue**, etc. like salary account, interest paid, commission received.
- Net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. **Nominal accounts are, therefore, temporary.**

DC Note: Generally, Personal A/c & Real A/c **are balanced**. Nominal A/c are not usually balanced but are **closed** by transfer to **Trading & P&L A/c**.

Modern Approach (Accounting Equation Approach)

1	Assets, Expenses & Drawings	Increases → Debit	Decreases → Credit
2	Liabilities, Revenues & Capital	Increases → Credit	Decreases → Debit

CQ12. Ascertain the debit & credit from the following particulars under Modern Approach.

- | | | |
|---------------------------------------|----------------------------------|-------------------------------------|
| (1) Started business with capital | (2) Bought goods for cash | [CMAF SM Illustration 9] |
| (3) Sold goods for cash | (4) Paid salary | (5) Received Interest on Investment |
| (6) Bought goods on credit from Mr. Y | (7) Paid Rent from Personal cash | |

Answer:

SN	Effect of Transaction	Debit	Credit
1	Cash (Asset) & Capital (Liability) Increases	Cash A/c	Capital A/c
2	Stock (Asset) Increases & Cash (Asset) Decreases	Purchase A/c	Cash A/c
3	Stock (Asset) decreases & Cash (Asset) Increases	Cash A/c	Sales A/c
4	Expense increases & Cash (Asset) Decreases	Salary A/c	Cash A/c
5	Cash (Asset) Increases & Income increases	Cash A/c	Interest A/c
6	Stock (Asset) Increases & Liability increases	Purchase A/c	Mr. Y A/c
7	Capital (Liability) decreases & Cash (Asset) decreases	Drawings A/c	Cash A/c

1.5 Journal, Ledger & Trial Balance

Journal

- Journal is the **book of original entry** where financial transactions are first recorded in **chronological order**.
- '**Journal**' is derived from French word '**Jour**' meaning '**a day**'.
- It is also called as **Book of Prime Entry** or **Book of First Entry**.
- The process of recording transactions in journal is called **Journalizing**.
- The entries made are known as **Journal Entries**, each followed by a **short description** called a **Narration**.
- Each journal entry** is based on **source documents** like purchase invoices, sales receipts, debit & credit notes.
- Accounting process doesn't end with journalizing; for **classification**, transactions are **summarized & posted to respective ledger A/c**.

Types of Journal Entries

1 Simple Journal Entry

Simple journal entry affects **only two accounts, one debited & one credited**.

Ex: Sale of goods for ₹44,000 cash

Cash A/c	Dr.	₹44,000	
	To Sales A/c		₹44,000

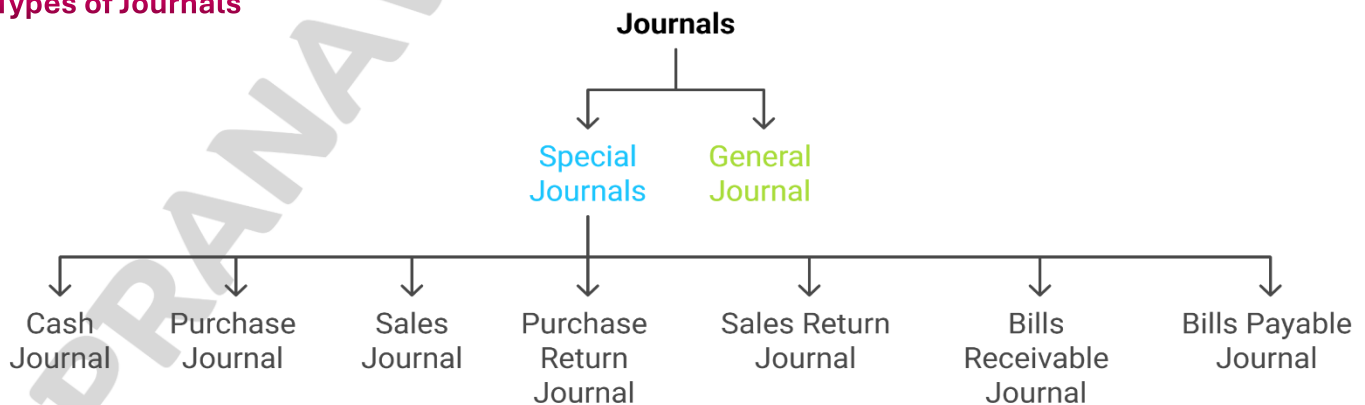
2 Compund Journal Entry

It involves **at least two debits & one credit** or **one debit & two or more credits**.

Ex: Sale of goods worth ₹54,000 [₹44,000 cash and ₹10,000 credit]

Cash A/c	Dr.	₹44,000	
Debtors A/c	Dr.	₹10,000	
	To Sales A/c		₹54,000

Types of Journals



Special Journal

- It is a book of **primary entry** used to record specific types of transactions like **credit purchases, credit sales, & returns, before posting them in ledger.**
- It is also called **Subsidiary Books**, they help manage records efficiently when **transaction volume grows** beyond the capacity of a **single journal.**

Cash Journal or Cash Book

- It is a **special journal** for recording all **cash transactions**, both **inflows & outflows.**
- It is a book of original entry for all cash dealings.
- It records transactions of **every type** (capital or revenue) with details like **date, particulars, voucher number, ledger folio, & amount.**

Purchase Journal or Purchase Book

- Purchase Journal (also called Purchase Day Book or Purchase Book) is a **book of original entry** for recording **credit purchases of goods.**
- It does **not record cash purchases** or **credit purchases of fixed assets** (like machinery, furniture, etc.).
- It records date, particulars of items purchased, inward invoice number, ledger folio number, & amount.
- Entries are made from **Purchase Invoices, issued by seller**, showing date, quantity, rate, total amount, & payment terms.
- Format of Purchase book:**

Date	Particulars	Inward Invoice No.	Ledger Folio No.	Rs.

DC Note: Total of credit purchases → posted to **Purchases A/c** in General Ledger.
 Individual transactions → posted to **Suppliers' Personal Ledger A/c.**

Purchase Returns Journal or Purchase Return Book

- It is a book of original entry which is meant for **recording returns of goods purchased on credit** from suppliers.
- It is also known as **Returns Outward Day Book.**
- Returns arising out of **cash purchases** of goods, or return of **any assets other than merchandising goods on credit** are not recorded in this day book.
- It records the details of returns arising out of credit purchase of goods viz. date of return, particulars of items returned, name of supplier, debit note number, ledger folio & total amount.
- Format of a purchase returns journal:

Date	Particulars	Debit Note No.	Ledger Folio No.	Rs.

- Entries are made from **Debit Notes** issued to suppliers or **Credit Notes** received from suppliers.

DC Note:

- Total of purchase returns → posted to **Purchase Returns A/c (or Return Outwards A/c)** in General Ledger.
- Individual returns → posted to **Suppliers' Personal Ledger A/c (Creditors Ledger).**

Sales Journal or Sales Day Book

- Sales Journal is a book of original entry that records **credit sales of goods**.
- It excludes **cash sales** & sales of **long-term assets** like machinery or furniture.
- It records details like **date, buyer’s name, invoice number, ledger folio, and amount** of each credit sale.
- **Format:**

Date	Particulars	Outward Invoice No.	LF	Rs.

Sales Returns Journal or Sales Returns Book

- Sales Returns Journal (also Sales Returns Day Book) is a book of original entry that records **returns of goods previously sold on credit**.
- It records date of return, particulars of items returned, credit note number, ledger folio number, and amount.
- Entries are made from **Credit Notes issued by seller** to customers when goods sold on credit are returned.
- **Format of Sales Returns Journal:**

Date	Particulars	Credit Note No.	LF	Rs.

DC Note:

- Total of sales returns → posted to **Returns Inward (or Sales Returns) A/c** in the General Ledger.
- Individual returns → posted to **Customers’ Personal Ledger A/c (Debtors Ledger)**.

Bill Receivable Journal

- A book of original entry for recording **bills of exchange received from customers** for credit sales.
- It records customer name, drawer, acceptor, date of receipt, drawing date, acceptance date, tenure, maturity date, ledger folio, and bill amount.
- Entries are made from **Bills of Exchange received from customers**.

DC Note: Total bills received → posted to **Bills Receivable A/c** in the General Ledger.

Individual bills → posted to **Customers’ Personal Ledger A/c (Debtors Ledger)**.

Bills Payable Journal

- A book of original entry for recording **bills of exchange issued to suppliers for credit purchases**.
- It records supplier name, drawer, acceptor, date of issue, drawing date, acceptance date, tenure, maturity date, ledger folio, and bill amount.
- Entries are made from **Bills of Exchange issued to suppliers**.

DC Note: Total bills issued → posted to **Bills Payable A/c** in the General Ledger.

Individual bills → posted to **Suppliers’ Personal Ledger accounts (Creditors Ledger)**.

General Journal or Journal Proper

- It is a book where **all types of transactions are recorded for the first time**, especially those which do **not fit into any special journal**.
- It records date, debit & credit accounts, & a brief narration (reason for the entry).
- Also known as **the Book of Original Entry**.
- When **business transactions increase**, & recording everything in **one journal becomes difficult**, special journals (like Purchase Book, Sales Book) are introduced to divide the work.

Transactions Recorded:

- Purchase of non-current asset on credit
- Sale of non-current asset on credit
- Rectification entries (to correct errors)
- Adjustment entries (to adjust ledger balances)
- Opening entries (when business starts)
- Closing entries (to transfer Nominal Accounts to Trading & Profit & Loss A/c)

Types of Entries in Journal Proper

Type of Entry	Purpose of Entry
Opening Entries	To bring forward balances of assets, liabilities, & capital from previous year's Balance Sheet into the current period.
Transfer Entries	To transfer an amount from one account to another , either to correct a wrong entry or reallocate expenses/revenues.
Closing Entries	To close all Nominal Accounts (incomes, expenses, gains, losses) at the end of the period by transferring them to Trading, Profit & Loss, or other final accounts .
Adjustment Entries	To record adjustments at the time of finalizing accounts , ensuring compliance with accounting concepts & conventions .
Rectification Entries	To correct errors made during recording, posting, totaling, or balancing in books of accounts.
Miscellaneous Entries	For entries not covered under other journals or subsidiary books like goods given in charity, depreciation entries, or loss by fire.

Steps in Journalising

- Identify the accounts** involved in the transaction.
- Classify the accounts** as **Nominal, Real, Personal** or as **Assets, Liabilities, Capital, Drawings, Expenses, Revenue**.
- Apply the debit and credit rules** to decide which account to debit and which to credit.
- Record the transaction** including date, particulars, debit and credit amounts.
- Write a brief narration** explaining the transaction.

Functions of Journal

Historical	Maintains a chronological record of all transactions for future reference.
Recording Function	Records transactions based on accounting principles, with a narration explaining each transaction clearly.
Analytical Function	Analyzes each transaction into debit & credit aspects, showing how it affects business financially.

Advantages of Journal

Chronological Record	Records transactions as they occur, providing daily, future-referable data.
Reduces Errors	Analyzing debit & credit aspects clarifies each transaction’s financial impact.
Narrative Explanation	Every entry carries a narration summarizing the transaction.
Helps Classify Accounts	Acts as the basis for ledger posting and preparing the Trial Balance .
Legal Evidence	Entries can serve as proof in a court of law .

Limitations of Journal

Not Suitable for Large Organizations	Becomes impractical with numerous daily transactions.
Complex System	Requires expertise to record and analyze properly.
Time-Consuming	Process of journalising takes considerable time.
Limited Internal Control	Since transactions are recorded chronologically, control over specific types of transactions is limited.

CQ1. Journalise the following transactions in the books of Mr. Rup

[CMAF SM Illustration 12]

1 April	He started business with a capital of – Plant = Rs. 10,000; Bank = Rs. 8,000; Stock = Rs. 12,000
2 April	Bought furniture for resale Rs. 5,000
	Bought furniture for Office decoration Rs. 3,000
3 April	Paid rent out of personal cash for Rs. 2,000
8 April	Sold furniture out of those for resale Rs. 6,000
12 April	Paid Salary to Mr. X for Rs. 1,200
15 April	Purchased goods from Mr. M for cash Rs. 3,000
18 April	Sold goods to Mr. S on credit for Rs. 8,000
20 April	Mr. S returned goods valued Rs. 1,000

22 April	Received cash from Mr. S of Rs. 6,500 in full settlement
28 April	Bought goods from Mr. B on credit for Rs. 5,000
30 April	Returned goods to Mr. B of Rs. 500 & paid to Mr. B Rs. 4,000 in full settlement.

Answer: **In the Books of Mr. Rup Journal Entries**

Date	Particulars	Dr.	Cr.
1 April	Plant A/c	Dr.	10,000
	Bank A/c	Dr.	8,000
	Stock A/c	Dr.	12,000
	To Capital A/c		30,000
[Being Plant, Cash, Stock introduced to the business]			
2 April	Purchase A/c	Dr.	5,000
	To Cash A/c		5,000
[Being furniture purchased for resale]			
	Furniture A/c	Dr.	3,000
	To Cash A/c		3,000
[Being furniture purchased for office decoration]			
3 April	Rent A/c	Dr.	2,000
	To Capital A/c		2,000
[Being rent paid out of personal cash]			
8 April	Cash A/c	Dr.	6,000
	To Sales A/c		6,000
[Being furniture out of those meant for resale are sold]			
12 April	Salary A/c	Dr.	1,200
	To Cash A/c		1,200
[Being salary paid to Mr. X]			
15 April	Purchase A/c	Dr.	3,000
	To Cash A/c		3,000
[Being goods purchased]			

18 April	Mr. S A/c	Dr.	8,000	
	To Sales A/c			8,000
	[Being goods sold on credit to Mr. S]			
20 April	Returns Inward A/c	Dr.	1,000	
	To Mr. S A/c			1,000
	[Being goods returned from Mr. S]			
22 April	Cash A/c	Dr.	6,500	
	Discount Allowed A/c	Dr.	500	
	To Mr. S A/c			7,000
	[Being cash received from Mr. S in full settlement]			
28 April	Purchase A/c	Dr.	5,000	
	To Mr. B A/c			5,000
	[Being goods purchased from Mr. B on credit]			
30 April	Mr. B A/c	Dr.	5,000	
	To Cash A/c			4,000
	To Returns Outward A/c			500
	To Discount Received A/c			500
	[Being goods returned to Mr. B & paid cash in full settlement]			

CQ2. Journalise the following transactions:

[CMAF SM NQ 1]

Date	Particulars	₹
3 Jan	Received cash from Ram	15,000
4 Jan	Purchased goods for cash	2,500
11 Jan	Sold goods to Hari	3,200
13 Jan	Paid Ramesh	1,400
17 Jan	Receive from Hari	1,100
20 Jan	Bought Furniture from Ram	2,200
27 Jan	Paid rent	480
30 Jan	Paid salary	1,100

Answer:

Date	Particulars	Dr. (₹)	Cr. (₹)
3 Jan	Cash A/c Dr.	15,000	
	To Ram A/c		15,000
	(Being cash received from Ram)		
4 Jan	Purchase A/c Dr.	2,500	
	To Cash A/c		2,500
	(Being goods purchased for cash)		
11 Jan	Hari A/c Dr.	3,200	
	To Sales A/c		3,200
	(Being goods sold to Hari)		
13 Jan	Ramesh A/c Dr.	1,400	
	To Cash A/c		1,400
	(Being amount paid to Ramesh)		
17 Jan	Cash A/c Dr.	1,100	
	To Hari A/c		1,100
	(Being cash received from Hari)		
20 Jan	Furniture A/c Dr.	2,200	
	To Ram A/c		2,200
	(Being furniture purchased from Ram)		
27 Jan	Rent A/c Dr.	480	
	To Cash A/c		480
	(Being rent paid)		
30 Jan	Salary A/c Dr.	1,100	
	To Cash A/c		1,100
	(Being salary paid)		

PR

CQ3. Journalise the following transactions:

[CMAF SM NQ 2]

Date	Particulars	₹
Jan 1	Started business with cash	50,000
Jan 2	Paid into bank	36,000
Jan 3	Bought goods from M/s Singh & Co. on credit	22,000
Jan 4	Purchased furniture	4,200
Jan 5	Purchased adding machine & typewriter (Payment in all cases made by cheque)	8,400
Jan 6	Paid for postage	215
Jan 8	Sold goods for cash	5,400
Jan 9	Sold goods on credit to M/s Sharda & Co.	4,600
Jan 15	Paid to M/s Singh & Co.	21,000
	Discount allowed by them	1,000
Jan 25	Sold goods to M/s Ray & Co.	5,000
Jan 26	Received cheque from M/s Sharda & Co. in full settlement of amount due by them	4,560
Jan 31	Paid for: Electric Charges	100
	Paid salary	1,500
	Paid rent by cheque	2,000
	Drew for private use	3,500

Answer:

Date	Particulars	Dr. (₹)	Cr. (₹)
Jan 1	Cash A/c	Dr. 50,000	
	To Capital A/c		50,000
(Being business started with cash)			
Jan 2	Bank A/c	Dr. 36,000	
	To Cash A/c		36,000
(Being cash deposited into bank)			
Jan 3	Purchase A/c	Dr. 22,000	
	To M/s Singh & Co. A/c		22,000
(Being goods purchased on credit from M/s Singh & Co.)			

Jan 4	Furniture A/c	Dr.	4,200	
	To Cash A/c			4,200
	(Being furniture purchased for cash)			
Jan 5	Office Equipment A/c	Dr.	8,400	
	To Bank A/c			8,400
	(Being adding machine & typewriter purchased via cheque)			
Jan 6	Postage A/c	Dr.	215	
	To Cash A/c			215
	(Being paid for postage)			
Jan 8	Cash A/c	Dr.	5,400	
	To Sales A/c			5,400
	(Being goods sold for cash)			
Jan 9	M/s Sharda & Co. A/c	Dr.	4,600	
	To Sales A/c			4,600
	(Being goods sold on credit to M/s Sharda & Co.)			
Jan 15	M/s Singh & Co. A/c	Dr.	22,000	
	To Cash A/c			21,000
	To Discount Received A/c			1,000
	(Being payment made to M/s Singh & Co. after discount)			
Jan 25	M/s Ray & Co. A/c	Dr.	5,000	
	To Sales A/c			5,000
	(Being goods sold to M/s Ray & Co. on credit)			
Jan 26	Bank A/c	Dr.	4,560	
	Discount Allowed A/c	Dr.	40	
	To M/s Sharda & Co. A/c			4,600
	(Being cheque received from M/s Sharda & Co. in full settlement)			
Jan 31	Electric Charges A/c	Dr.	100	
	To Cash A/c			100
	(Being paid for electric charges)			

Salary A/c	Dr.	1,500	
To Cash A/c			1,500
(Being salary paid)			
Rent A/c	Dr.	2,000	
To Bank A/c			2,000
(Being rent paid by cheque)			
Drawings A/c	Dr.	3,500	
To Cash A/c			3,500
(Being cash withdrawn for personal use)			

CQ4. Journalise the following in the books of Rama & Co.

[CMAF SM NQ 3]

Date	Particulars	₹
Jan 1	Business started with	50,000
	Cash deposited in Bank	20,000
	Goods purchased	10,000
Jan 2	Furniture purchased for cash	3,000
	Office stationery purchased for cash	2,000
Jan 3	Goods purchased from X	20,000
Jan 5	Goods sold to Y	25,000
	Paid rent	1,000
Jan 8	Paid for repairs	800
Jan 9	Paid for advertisement	1,500
	Cash paid to X	10,000
	Discount received	50
Jan 10	Goods purchased from Z	9,000
	Goods purchased in cash from A	6,000
Jan 15	Cash paid to Z in full settlement of his account	8,800
Jan 16	Cash received from Y in full settlement of his account	24,500
Jan 20	Goods sold to B	6,000
	Goods purchased	9,000

Jan 25	Cash withdrawn from bank	5,000
	Cash paid to X	4,000
Jan 28	Allowed us a discount	100
	Cash received from B	3,000
Jan 30	Allowed a discount	200
Jan 31	Cash deposited in bank	4,000
	Cash paid for electricity	400
	Cash paid for salaries	1,000
	Wages paid	500
	Rent paid	400

Answer:

In the books of Rama & Co.

Date	Particulars	Debit ₹	Credit ₹	
Jan 1	Cash A/c Dr.	50,000		
	To Capital A/c		50,000	
	(Being business started with cash)			
	Bank A/c Dr.	20,000		
	To Cash A/c		20,000	
	(Being cash deposited in bank)			
	Purchases A/c Dr.	10,000		
	To Cash A/c		10,000	
(Being goods purchased for cash)				
Jan 2	Furniture A/c Dr.	3,000		
	To Cash A/c		3,000	
	(Being furniture purchased for cash)			
	Office Expenses A/c (or Stationery A/c) Dr.	2,000		
	To Cash A/c		2,000	
(Being office stationery purchased for cash)				
Jan 3	Purchases A/c Dr.	20,000		
	To X A/c		20,000	
	(Being goods purchased on credit from X)			

Jan 5	Cash A/c	Dr.	25,000	
	To Sales A/c			25,000
	(Being goods sold to Y for cash)			
	Rent A/c	Dr.	1,000	
	To Cash A/c			1,000
(Being rent paid)				
Jan 8	Repairs A/c	Dr.	800	
	To Cash A/c			800
	(Being paid for repairs)			
Jan 9	Advertisement A/c	Dr.	1,500	
	To Cash A/c			1,500
	(Being advertisement expenses paid)			
	X A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being cash paid to X)			
	Cash A/c	Dr.	50	
	To Discount Received A/c			50
(Being discount received)				
Jan 10	Purchases A/c	Dr.	9,000	
	To Z A/c			9,000
	(Being goods purchased on credit from Z)			
	Purchase A/c	Dr.	6,000	
	To Cash A/c			6,000
(Being cash purchase of goods)				
Jan 15	Z A/c	Dr.	9,000	
	To Cash A/c			8,800
	To Discount Recieved A/c			200
	(Being cash paid to Z in full settlement)			
Jan 16	Cash A/c	Dr.	24,500	
	Discount Allowed A/c	Dr.	500	
	To Y A/c			25,000
	(Being cash received from Y in full settlement)			

Jan 20	Cash A/c	Dr.	6,000	
	To Sales A/c			6,000
	(Being goods sold to B for cash)			
	Purchases A/c	Dr.	9,000	
	To Cash A/c			9,000
	(Being goods purchased for cash)			
Jan 25	Drawings A/c	Dr.	5,000	
	To Bank A/c			5,000
	(Being cash withdrawn from bank for personal use)			
	X A/c	Dr.	4,000	
	To Cash A/c			4,000
	(Being cash paid to X)			
Jan 28	Cash A/c	Dr.	3,000	
	To B A/c			3,000
	(Being cash received from B)			
	Discount Allowed A/c	Dr.	100	
	To B A/c			100
	(Being discount allowed to B)			
Jan 30	Cash A/c	Dr.	200	
	To Discount Received A/c			200
	(Being discount received)			
Jan 31	Bank A/c	Dr.	4,000	
	To Cash A/c			4,000
	(Being cash deposited in bank)			
	Electricity Charges A/c	Dr.	400	
	To Cash A/c			400
	(Being cash paid for electricity)			
	Salaries A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Being salaries paid)			
	Wages A/c	Dr.	500	
	To Cash A/c			500
(Being wages paid)				

Ledger

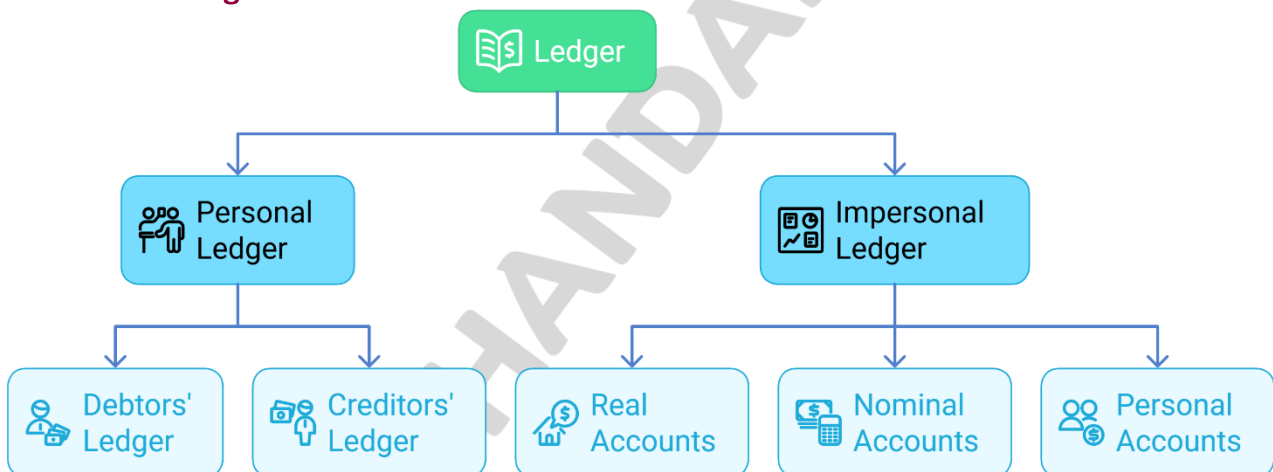
- Ledger is the **book of final entry** where transactions, after being recorded in the journal, are posted in a **classified, chronological, & permanent manner**.
- It contains various ledger A/c, shows **final position** of each A/c, & forms the **basis for preparing Trial Balance**.
- **Format of Ledger:**

Dr.				[Name of A/c]				Cr.	
Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.		

Functions of Ledger

- (1) It acts as a **permanent store house** of all transactions, arranged for ready reference.
- (2) **Summarises the effects** of transactions in individual accounts, showing **positive & negative changes & balances** at the end of each period.
- (3) Serves as a **mirror of the business**, helping analyse operations & plan future actions.

Subdivisions of Ledger



1	Personal Ledger
Contains personal accounts of debtors & creditors . It is again subdivided into:	
A	Debtors’/Sales Ledger Accounts of customers/trade debtors .
B	Creditors’/Purchase Ledger Accounts of suppliers/trade creditors .
2	Impersonal Ledger (General Ledger)
Contains all other accounts: Real, Nominal, and Personal (except trade debtors and creditors) .	

Advantages of Sub-Division of Ledger

- (1) Provides **complete, detailed information** of similar accounts in one place.
- (2) Shows **summarised information** through balanced ledger accounts.

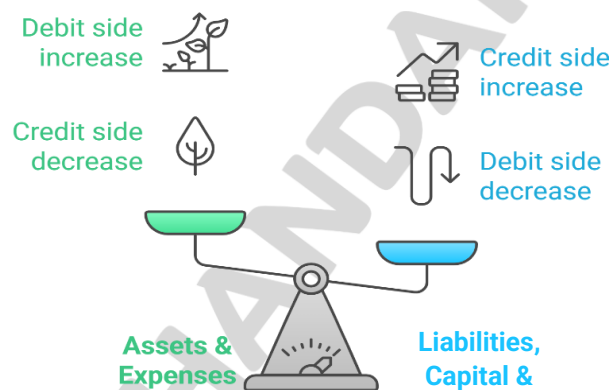
Ledger Posting

As transactions occur, they are recorded as journal entries & then **posted to respective ledger accounts** under the double entry system. This process is called **ledger posting**.

Debit & Credit

1	Debit denotes
	<ul style="list-style-type: none"> In Personal Accounts, the person has received a benefit and is liable to the firm. In Real Accounts, an increase in value or stock of assets. In Nominal Accounts, an expense incurred or a loss suffered.
2	Credit denotes
	<ul style="list-style-type: none"> In Personal Accounts, a person has given a benefit and can claim from the firm. In Real Accounts, a decrease in value or stock of assets. In Nominal Accounts, a gain or income earned.

Rules for Debit & Credit in Different Accounts



1	Assets & Expenses	Increases → Debit (Left side)	Decreases → Credit (Right Side)
2	Liabilities, Revenues & Capital	Increases → Credit (Right Side)	Decreases → Debit (Left side)

Balancing of Ledger Accounts

After posting all transactions, net effect in each ledger account is ascertained by **totaling both debit & credit sides and finding the difference between them**.

An account shows:

- Debit balance** if debit total > credit total
- Credit balance** if debit total < credit total
- Nil balance** if debit total = credit total

CQ1. For the following transactions pass journal entries & post them in Ledger:

April 1	Mr. Vikas and Mrs. Vaibhavi who are husband and wife start consulting business by bringing in their personal cash of Rs. 5,00,000 and Rs. 2,50,000 respectively.
April 10	Bought office furniture of Rs. 25,000 for cash. [CMAF SM Illustration 11] [CMAI SM Illustration 1]
April 11	Opened a Current Account with Bank of BB by depositing Rs. 1,00,000
April 15	Paid office rent of Rs. 15,000 for the month by cheque.
April 20	Bought a motor car for Rs. 4,50,000 from Millenium Motors by making a down payment of Rs. 50,000 by cheque and the balance by taking a loan from HH Bank.
April 25	Vikas and Vaibhabi carried out a consulting assignment for AA Pharmaceuticals and raised a bill for Rs. 10,00,000 as consultancy fees. AA Pharmaceuticals have immediately settled Rs. 2,50,000 by way of cheque and the balance will be paid after 30 days. The cheque received is deposited into bank.
April 30	Salary of a receptionist at the rate Rs. 5,000 per month and an officer at the rate Rs. 10,000 per month the salary for the current month is payable to them.

Answer:

In the books of Vikas & Vaibhavi Journal Entries

Date	Particulars	Rs.	Rs.
April 1	Cash A/c	Dr.	7,50,000
	To Vikas's Capital A/c		5,00,000
	To Vaibhavi's Capital A/c		2,50,000
(Being capital brought by the partner)			
April 10	Furniture A/c	Dr.	25,000
	To Cash A/c		25,000
(Being furniture purchased in cash)			
April 11	Bank of BB A/c	Dr.	1,00,000
	To Cash A/c		1,00,000
(Being current account opened with Bank of BB)			
April 15	Rent A/c	Dr.	15,000
	To Bank of BB A/c		15,000
(Being Rent paid)			
April 20	Motor Car A/c	Dr.	4,50,000
	To Bank of BB A/c		50,000
	To Loan from HH Bank A/c		4,00,000
(Being car purchased from Millenium Motors by down payment & Loan arrangements)			

April 25	Bank of BB A/c	Dr.	2,50,000	
	AA Pharmaceuticals A/c	Dr.	7,50,000	
	To Consultancy Fees A/c			10,00,000
(Being consultancy fees billed and part received by cheque)				
April 30	Salary A/c	Dr.	15,000	
	To Salary Payable A/c			15,000
	(Being the entry to record salary obligation for the month.)			

LEDGERS

Cash A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
1 April	To Vikas's Capital A/c		5,00,000	10 April	By Furniture A/c		25,000
1 April	To Vaibhavi's Capital A/c		2,50,000	11 April	By Bank of BB A/c		1,00,000
				30 April	By Bal c/d		6,25,000
			7,50,000				7,50,000
1 May	To Bal b/d		6,25,000				

Vikas's Capital A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30 April	To Bal c/d		5,00,000	1 April	By Cash A/c		5,00,000
				1 May	By Bal b/d		5,00,000

Vaibhavi's Capital A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
30 April	To Bal c/d		2,50,000	1 April	By Cash A/c		2,50,000
				1 May	By Bal b/d		2,50,000

Furniture A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
1 April	To Cash A/c		25,000	30 April	By Bal b/d		25,000
1 May	To Bal b/d		25,000				

Bank of BB A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
11 April	To Cash A/c		1,00,000	15 April	By Rent A/c		15,000
25 April	To Consultancy Fees A/c		2,50,000	20 April	By Motor Car A/c		50,000
				30 April	By Bal c/d		2,85,000
			3,50,000				3,50,000
1 May	To Bal b/d		2,85,000				

Rent A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
15 April	To Bank of BB A/c		15,000	30 April	By Bal c/d		15,000
1 May	To Bal b/d		15,000				

Motor Car A/c

Date	Particulars	J.F.	(Rs.)	Date	Particulars	J.F.	(Rs.)
20 April	To Bank of Baroda A/c		50,000				
	To Loan from HH Bank A/c		4,00,000	30 April	By Bal c/d		4,50,000
			4,50,000				4,50,000
1 May	To Bal b/d		4,50,000				

Loan from HH Bank A/c

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
30 April	To Bal c/d		4,00,000	20 April	By Motor Car A/c		4,00,000
				1 May	By Bal b/d		4,00,000

Avon Pharmaceuticals A/c

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
25 April	To Consultancy Fees A/c		7,50,000	30 April	By Bal c/d		7,50,000
	To Bal b/d		7,50,000				

Consultancy Fees A/c

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
30 April	To Bal c/d		10,00,000	25 April	By Bank of BB A/c		2,50,000
					By AA Pharmaceuticals A/c		7,50,000
			10,00,000				10,00,000
				1 May	By Bal b/d		10,00,000

Salary A/c

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
30 April	To Salary Payable A/c		15,000	30 April	By Bal c/d		15,000
	To Bal b/d		15,000				

Salary Payable A/c

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
30 April	To Bal c/d		15,000	30 April	By Salary A/c		15,000
				1 May	By Bal b/d		15,000

CQ2. Record following transactions in the Personal Account of Raman.

[CMAF SM Illustration 19]

Date	Particulars	₹
1 Sept	Sold goods to Raman	5,420
4 Sept	Received from Raman cash	5,150
	And allowed him discount	270
15 Sept	Raman bought goods	6,000
28 Sept	Received cash from Raman on account	2,000
1 Oct	Balance from last month b/d	4,000
13 Oct	Sold goods to Raman	10,000
20 Oct	Received from Raman cash	3,960
	allowed him discount	40
31 Oct	Received cash in full settlement of Raman's account	9,800

Answer:

Raman A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1 Sept	To Sales A/c	5,420	4 Sept	By Cash A/c	5,150
15 Sept	To Sales	6,000	4 Sept	By Discount	270
			28 Sept	By Cash	2,000
			30 Sept	By Balance c/d	4,000
		11,420			11,420
1 Oct	To Balance b/d	4,000	20 Oct	By Cash	3,960
13 Oct	To Sales	10,000	20 Oct	By Discount	40
			31 Oct	Cash	9,800
			31 Oct	Discount (Balancing figure)	200
		14,000			14,000

CQ3. Prepare the Ledger account of Mr. Solkar from the following:

[CMAF SM NQ 4]

March	Particulars
1	Debit balance to his account ₹2,000.
3	Sold goods on credit to him worth ₹10,800
8	Received cash from him ₹12,600 and allowed discount of ₹200.
10	Solkar bought goods on credit ₹3,000.
15	Received cash from him ₹2,900 and allowed him discount ₹100
20	Purchased goods on credit from Solkar worth ₹2,000
25	Paid cash to Solkar ₹1,000
28	Returned goods to him ₹200.
31	Paid cash to him in full settlement of his account ₹780.

Answer:

Mr. Solkar's A/c

Date	Particulars	Dr. (₹)	Date	Particulars	Cr. (₹)
Mar 1	To Balance b/d	2,000	Mar 8	By Cash A/c	12,600
Mar 3	To Sales A/c	10,800	Mar 8	By Discount A/c	200
Mar 10	To Purchases A/c	3,000	Mar 15	By Cash A/c	2,900
Mar 20	By Purchases A/c	2,000	Mar 15	By Discount A/c	100
Mar 25	To Cash A/c	1,000	Mar 28	By Sales Return A/c	200
Mar 31	To Cash A/c	780	Mar 31	By Balance c/d	1,000
		17,580			17,580

Trial Balance

- Accounting process involves **recording** transactions in the journal, **posting** them to ledger, & **balancing ledger accounts at period-end** for financial statements.
- Before finalizing accounts, a document called **Trial Balance** is prepared using **closed ledger balances** to check **arithmetical accuracy**.
- Trial Balance is a statement with five columns — Serial Number, Name of Ledger A/c, Ledger Folio (L.F.), Debit Amount, & Credit Amount.
- If accounts are **correct & complete**, both amount columns **tally**.
- Format of Trial Balance:**

Trial Balance of _____ as on _____

SN	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)

Features of Trial Balance

- A Trial Balance is a **statement**, not an account.
- It is **not part of the double-entry system**.
- It does **not appear in the books of accounts** & is prepared as a **separate document**.
- It is prepared **as on a particular date**, not for a period.
- It can be made **monthly, quarterly, half-yearly, or annually**, but must be drafted **at year-end before financial statements**.
- If books are **arithmetically accurate**, **total debit balances = total credit balances**.
- Trial Balance agreement is **prima facie evidence of arithmetical accuracy**, not conclusive proof of absolute accuracy.

Advantages of a Trial Balance

- It provides a **useful check on ledger postings**, proving both **debit & credit aspects are recorded**.
- It proves accounts are **arithmetically correct**, with correct amounts posted.
- It facilitates financial statement preparation by **summarising ledger balances**.
- Acts as a **link between ledger accounts & financial statements**.

Limitations of a Trial Balance

- It can be prepared **only under the double-entry system**; smaller concerns using single-entry can't draft it.
- Its agreement is **not conclusive proof of accuracy**. it only offers **prima facie evidence** as certain errors remain undisclosed.

Errors Not Detected by a Trial Balance

1	Error of Omission/Duplication	Complete omission or double recording of an entry.
2	Error of Commission	Wrong amount in correct accounts or wrong account involved.
3	Error of Principle	Not following accounting principles, e.g., treating asset purchase as expense.
4	Error of Original Entry	Incorrect amount recorded in subsidiary books.
5	Compensating Errors	Two or more mistakes that cancel each other out.

Methods of Preparation of Trial Balance

1	Total Method	<ul style="list-style-type: none"> ▪ Totals of debit & credit sides of ledger accounts are placed in Trial Balance's debit & credit columns. ▪ It can be prepared even if ledger accounts aren't balanced.
2	Balance Method	<ul style="list-style-type: none"> ▪ Trial Balance is prepared only after each ledger account has been balanced. ▪ So, for each ledger account only one amount is posted in Trial Balance.

CQ1. From following ledger A/c balances, prepare Trial Balance of Mr. Sen as on 31.03.25

Capital	Rs. 80,000	Prepaid Insurance	Rs. 2,000
Sales	Rs. 10,00,000	Depreciation	Rs. 4,000
Adjusted Purchase	Rs. 8,00,000	Cash at Bank	Rs. 80,000
Current A/c(Cr)	Rs. 10,000	Loan A/c (Cr)	Rs. 66,000
Petty Cash	Rs. 10,000	Profit & Loss A/c(Cr)	Rs. 20,000
Sales Ledger Balance	Rs. 1,20,000	Bad Debts Recovered	Rs. 2,000
Purchase Ledger Balance	Rs. 60,000	Stock at 31.03.2024	Rs. 1,20,000
Salaries	Rs. 24,000	Interest Received	Rs. 10,000
Carriage Inwards	Rs. 4,000	Accrued Interest	4,000
Carriage Outward	Rs. 6,000	Investment	20,000
Discount Allowed	Rs. 10,000	Provision for Bad Debts	Rs. 6,000
Building	Rs. 80,000	General Reserve	Rs. 20,000.
Outstanding Expenses	Rs. 10,000		

[CMAF SM Illustration 28]

[CMAI SM Illustration 6]

Answer:

Trial Balance of Mr. Sen as on 31st March 2025

Particulars	Dr. (Rs.)	Particulars	Cr. (Rs.)
Adjusted Purchase	8,00,000	Capital	80,000
Petty Cash	10,000	Sales	10,00,000
Sales Ledger Balance	1,20,000	Current A/c	10,000
Salaries	24,000	Purchase Ledger Balance	60,000
Carriage Inward	4,000	Outstanding Expenses	10,000
Discount Allowed	10,000	Loan A/c	66,000
Building	80,000	Profit & Loss A/c (Cr.)	20,000
Prepaid Insurance	2,000	Bad Debts Recovered	2,000
Depreciation	4,000	Interest Received	10,000
Cash at Bank	80,000	Provision for Bad debts	6,000
Closing Stock (31.03.2024)	1,20,000	General Reserve	20,000
Accrued Interest	4,000		
Investment	20,000		
Carriage outward	6,000		
	12,84,000		12,84,000

DC Note: Closing Stock will appear in Trial Balance since there is adjusted purchase.

Adjusted purchase = Opening Stock + Purchase - Closing Stock

It shall be noted that if only adjusted purchase is considered then matching concept is affected.

Therefore, to satisfy matching concept, closing stock is also considered in Trial Balance.

CQ2. The given trial balance of MM Bakery for the quarter January to March, 2025 has been prepared by an intern.

Ledger Accounts	Dr. (Rs.)	Cr. (Rs.)
Cost of Goods Sold [CMAI SM Illustration 7]	7,50,000	
Closing Stock		1,20,000
Sundry Debtors		1,80,000
Sundry Creditors		90,000
Fixed assets	1,50,000	
Opening Stock	1,80,000	

Expenses		60,000
Sales		9,00,000
Capital	2,70,000	
	13,50,000	13,50,000

You are senior accountant of the concern & has been given responsibility to check same & redraft it if required.

Answer: **Redrafted Trial Balance of MM bakery as on 31.03.2025**

SN	Particulars	Dr. (Rs.)	Cr. (Rs.)	Remarks
1	Cost of Goods Sold	7,50,000		Expense
2	Closing Stock	1,20,000		Asset
3	Sundry Debtors	1,80,000		Asset
4	Sundry Creditors		90,000	Liability
5	Fixed assets	1,50,000		Asset
6	Wages, Salaries & other expenses	60,000		Expenses
7	Sales		9,00,000	Income
8	Capital		2,70,000	Equity
		12,60,000	12,60,000	

CQ3. Prepare a Trial Balance from the following information:

[CMAF SM NQ 18]

Particulars	(₹)
Cash A/c	9,46,400
Capital A/c	7,50,000
Loan A/c	2,50,000
Purchases A/c	51,500
Sales A/c	21,000
Bank A/c	22,400
Loss by Fire A/c	5,500
Commission Received A/c	3,500
Discount Allowed A/c	100
Loss by Theft A/c	1,000
Interest Received A/c	2,400

Answer:

Trial Balance

Particulars	Debit (₹)	Credit (₹)
Cash A/c	9,46,400	
Bank A/c	22,400	
Purchases A/c	51,500	
Loss by Fire A/c	5,500	
Loss by Theft A/c	1,000	
Discount Allowed A/c	100	
Capital A/c		7,50,000
Loan A/c		2,50,000
Sales A/c		21,000
Commission Received A/c		3,500
Interest Received A/c		2,400
Total	10,26,900	10,26,900

CQ4. Journalize following transactions in books of Gaurav, post them into ledger & prepare trial balance for June:

June 1	Gaurav started business with ₹10,00,000 of which 25% amount was borrowed from wife.
June 4	Purchased goods from Aniket worth ₹40,000 at 20% TD and 1/5th amount paid in cash.
June 7	Cash purchases ₹25,000. [CMAF SM Illustration 29]
June 10	Sold goods to Vishakha ₹30,000 at 30% TD and received 30% amount in cash.
June 12	Deposited cash into bank ₹20,000.
June 15	Uninsured goods destroyed by fire ₹5,500.
June 19	Received commission ₹3,500.
June 22	Paid to Aniket ₹25,500 in full settlement of Account.
June 25	Cash stolen from cash box ₹1,000.
June 27	Received from Vishakha ₹14,500 and discount allowed ₹200.
June 30	Interest received ₹2,400 directly added in our bank account.

Answer:

Journal

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
1-Jun	Cash A/c	Dr.	10,00,000	
	To Capital A/c			7,50,000
	To Loan from Wife A/c			2,50,000
(Being capital brought into business)				
4-Jun	Purchases A/c	Dr.	32,000	
	To Cash A/c			6,400
	To Aniket's A/c			25,600
(Being goods purchased at 20% TD & 1/5th paid in cash)				
7-Jun	Purchases A/c	Dr.	25,000	
	To Cash A/c			25,000
(Being cash purchases)				
10-Jun	Vishakha A/c	Dr.	14,700	
	Cash A/c	Dr.	6,300	
	To Sales A/c			21,000
(Being goods sold at 30% TD and 30% cash received)				
12-Jun	Bank A/c	Dr.	20,000	
	To Cash A/c			20,000
(Being cash deposited into bank)				
15-Jun	Loss by Fire A/c	Dr.	5,500	
	To Purchases A/c			5,500
(Being uninsured goods destroyed by fire)				
19-Jun	Cash A/c	Dr.	3,500	
	To Commission Received A/c			3,500
(Being commission received)				
22-Jun	Aniket's A/c	Dr.	25,600	
	To Cash A/c			25,500
	To Discount Received A/c			100

	(Being full payment to Aniket, discount received)			
25-Jun	Loss by Theft A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Being cash stolen)			
27-Jun	Cash A/c	Dr.	14,500	
	Discount Allowed A/c	Dr.	200	
	To Vishakha A/c			14,700
	(Being cash received from Vishakha and discount allowed)			
30-Jun	Bank A/c	Dr.	2,400	
	To Interest Received A/c			2,400
	(Being interest credited in bank account)			

Cash A/c

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
1 June	To Capital A/c		7,50,000	4 June	By Purchases A/c		6,400
1 June	To Loan from Wife A/c		2,50,000	7 June	By Purchases A/c		25,000
10 June	To Sales A/c		6,300	12 June	By Bank A/c		20,000
19 June	To Commission A/c		3,500	22 June	By Aniket's A/c		25,500
27 June	To Vishakha A/c		14,500	25 June	By Loss by Theft A/c		1,000
				30 June	By Balance c/d		9,46,400
	Total		10,24,300		Total		10,24,300
1 July	To Balance b/d		9,46,400				

Bank Account

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
12 June	To Cash A/c		20,000	30 June	By Balance c/d		22,400
30 June	To Interest A/c		2,400				
1 July	To Balance b/d		22,400				

Loss by Fire Account

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
15 June	To Purchases A/c		5,500	30 June	By Balance c/d		5,500
1 July	To Balance b/d		5,500				

Commission Account

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
30 June	To Balance c/d		3,500	19 June	By Cash A/c		3,500
1 July	To Balance b/d		3,500				

Discount Account

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
27 June	To Vishakha's A/c		200	22 June	By Aniket's A/c		100
				30 June	By Balance c/d		100
1 July	To Balance b/d		200				

Loss by Theft Account

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
25 June	To Cash A/c		1,000	30 June	By Balance c/d		1,000
1 July	To Balance b/d		1,000				

Interest Account

Date	Particulars	J.F.	₹ (Dr.)	Date	Particulars	J.F.	₹ (Cr.)
30 June	To Balance c/d		2,400	30 June	By Bank A/c		2,400
1 July	To Balance b/d		2,400				

Particulars	Dr. (Rs.)	Cr. (Rs.)
Cash A/c	9,46,400	
Capital A/c		7,50,000
Loan from Wife A/c		2,50,000
Purchases A/c	51,500	
Aniket's A/c	-	-
Vishakha's A/c	-	-

Sales A/c		21,000
Bank A/c	22,400	
Loss by Fire A/c	5,500	
Commission A/c		3,500
Discount A/c	100	
Loss by Theft A/c	1,000	
Interest A/c		2,400
Total	10,26,900	10,26,900

CQ5. The total of debit side of Trial Balance of a larger boot and shoe repairing firm as on 31 Dec is ₹ 1,66,590 & that of credit side is ₹ 42,470. After several checking and re-checking the mistakes are discovered:

Items of Account	Correct Figure (as it would be) ₹	Figures as it appears in the Trial Balance ₹
Opening Stock	14,900	14,800
Repairs (outstanding)	61,780	61,780 (appear in the Debit side)
Rent & Taxes	2,160	2,400
Sundry Creditors	6,070	5,900
Sundry Debtors	8,060	8,310

[CMAF SM Illustration 32]

Answer:

Particulars	Debit (₹)	Credit (₹)
Total as per Trial Balance	1,66,590	42,470
Opening Stock understated (14,900–14,800)	(+) 100	-
Repairs being credit balance, but shown as debit balance	(-) 61,780	(+) 61,780
Rent & Taxes overstated (2,400–2,160)	-240	-
Sundry Creditors understated (6,070–5,900)	-	(+) 170
Sundry Debtors overstated (8,310–8,060)	(-) 250	-
Total	1,04,420	1,04,420

CQ6. From the following details, prepare an **Adjusted Trial Balance** as at 31 March.

[Dec 23 (7 Marks)]

Purchase	65,000	Sundry Creditors	35,000
Carriage Inward	1,000	Plant and Machinery	10,000
Wages	6,000	Buildings	5,000
Salaries	10,000	Furniture	3,000
Rent, rates and taxes	1,800	Bills Receivable	10,000
Insurance	1,500	Sundry Debtors	40,000
Interest paid	1,000	Capital	66,000
Sales	95,000	Sundry Expenses	5,000
Cash at Bank	21,500	Opening Stock	21,000
Bills Payable	5,800		

Notes:

- (a) Salaries and wages due to be paid Rs. 2,000 and Rs. 1,000 respectively.
- (b) Insurance was paid to the extent of Rs. 300 advances.
- (c) Rs. 500 to be written off as bad debt out of sundry debtors & a provision of 5% to be created for doubtful debts.
- (d) Sundry expenses include Rs. 2,000 spent for the personal purpose of the proprietor.
- (e) Sales for the period include Rs. 500 worth of goods (cost price) taken by proprietor for personal consumption.
- (f) He has also taken goods worth Rs. 1,000 (cost price) for personal consumption which has not been recorded in books.
- (g) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

- (h) Closing Stock Rs. 20,000.

Answer:

Trial Balance as on 31st March

Particulars	Rs.	Rs.
Purchase (65,000 – 1,500 - 20,000)	43,500	
Carriage Inward	1,000	
Wages	7,000	
Outstanding Wages		1,000
Salaries	12,000	

Outstanding Salaries		2,000
Rent, rates & taxes	1,800	
Insurance	1,200	
Prepaid Insurance	300	
Interest paid	1,000	
Sales (95,000 – 500)		94,500
Cash at bank	21,500	
Bills Payable		5,800
Sundry Creditors		35,000
Plant and Machinery	9,000	
Buildings	4,750	
Furniture	2,700	
Depreciation	1,550	
Bills Receivable	10,000	
Sundry Debtors (40,000 – 500 – 500)	39,000	
Bad Debts (500 + 1,950)	2,450	
Provision for bad debts		1,950
Capital		66,000
Sundry Expenses (5,000 – 2,000)	3,000	
Drawings (2,000 + 1,000 + 500)	3,500	
Opening Stock	21,000	
Closing stock	20,000	
Total	2,06,250	2,06,250

PRAI

1.6 Cash Book, Bank Book & Bank Reconciliation

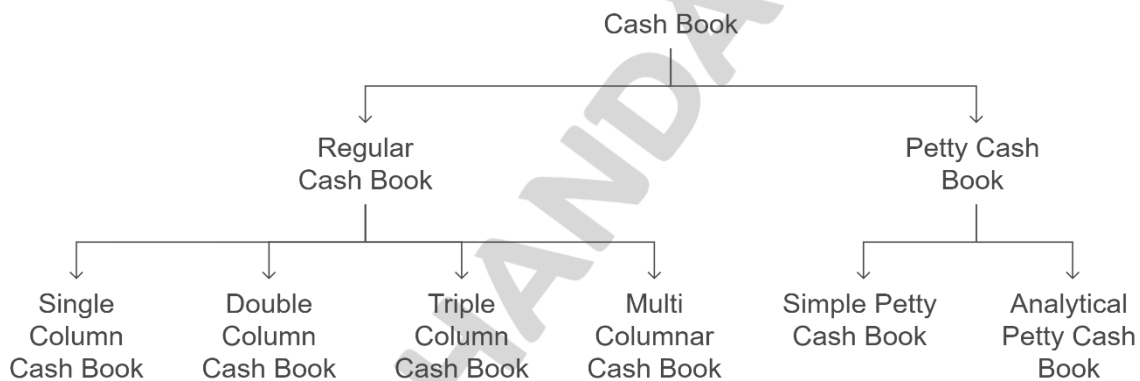
Cash Book

- An organisation enters into numerous transactions during an accounting period, most of which involve cash settlements.
- Cash book** is maintained to record these transactions, a book of account recording all **cash receipts & payments** (through cash, cheque, or online transfer).
- Receipts are entered on the debit side and payments on the credit side.**

Features of Cash Book

- Records only **cash transactions**.
- Entries are made in **chronological order**.
- Format resembles a **ledger account** with debit and credit sides.
- Acts as both a **primary entry book & a final entry book** (journalized ledger).
- Its balance reflects the **available cash balance**.

Types of Cash Book



Regular Cash Book

It records all **cash & sometimes bank transactions** of an entity. It is further classified based on number of amount columns on each side:

1 Single Column Cash Book

- Maintains **one amount column on each side** to record **cash transactions only**.
- Typically used by **small organisations without a bank account**, businesses with a bank account may also maintain this & record bank transactions separately in ledger.
- The balance represents **cash-in-hand at a specific time**.
- Format:**

Date	Particulars	L.F.	Cash (Rs.)	Date	Particulars	L.F.	Cash (Rs.)

2 Double Column Cash Book

- In many organisations **two amount columns on each side** of cash book are maintained.
- Typically, an **additional column** is added to record **bank transactions**, avoiding the need for a separate bank account in the ledger.
- Balance of this cash book shows both **Cash-in-hand** & **Cash-at-bank** at a specific point of time.
- **Format:**

Date	Particulars	L.F.	Cash	Bank	Date	Particulars	L.F.	Cash	Bank

- These type of cash books give rise to a special type of entry known as a **Contra Entry**.
- **Contra Entry** is when a transaction affects both **Cash & Bank A/c**, & is recorded on **both sides of same cash book**.
Ex: Deposit of cash into bank; Withdrawal of cash from bank
- To identify such entries, the letter '**C**' is marked in **Ledger Folio (L.F.)** on both sides.

3 Triple Column Cash Book

- It has three amount columns on each side **Cash, Bank, & Discount**.
- The discount columns represent separate discount accounts:
(1) Debit side: Discount Allowed
(2) Credit side: Discount Received
- There are two types of discounts:
(1) Trade Discount: Given on bulk purchases; **not recorded** in the books.
(2) Cash Discount: Given for prompt payment; **recorded in the discount columns** of the cash book.
- **Format:**

Date	Particulars	LF	Cash	Bank	Discount	Date	Particulars	LF	Cash	Bank	Discount

DC Note: Unlike Cash and Bank columns, **Discount columns aren't balanced**.

- Total **debit side of discount column** is posted to **Discount Allowed A/c**.
- Total **credit side of discount column** is posted to **Discount Received A/c** in General Ledger.

4 Multi-columnar Cash Book

It is a **customised form of cash book** maintained by organisations with large volumes of cash transactions under specific fixed heads.

It is commonly used by clubs, schools, colleges, & similar institutions.

Format:

Date	Particulars	Subscription	Donation	Interest Received	Misc. Income	Date	Particulars	Salaries & wages	Rent & Taxes	Communication charges	Misc. Exp

CQ1. Prepare a triple column cash book from the following transactions in the books of Mr.Ratanlal:

1 March	Opening cash balance	[CMAI SM Illustration 2]	20,000
	Bank balance in S.B.I		26,000
2 March	Purchase of printer in cash		12,000
5 March	Sold goods for cash.		34,000
7 March	Received from Hriday on account		32,000
8 March	A laptop purchase for the personal use of the proprietor by cheque		22,000
10 March	Amount deposited into Bank		31,000
17 March	Mr. Sen settled his account against a gross claim of Rs. 24 500.		24,000
	Office rent paid by cheque		2,000
19 March	Cash withdrawn from bank for personal use		3,400
	Received from Mr. Ratul against his account of Rs. 23,000.		22,800
	Goods purchased on credit from Sneha		24,000
24 March	Salaries paid to employees		12,000
	Cheque received from Sandeep and kept in cash box		12,800
25 March	The cheque of Sandeep deposited in the bank account		
	Bank charges shown in the bank statement		300
	Interest received from the savings account of bank		200
28 March	The cheque of Sandeep was returned dishonoured by the bank		
	Amount paid to Sneha in full settlement of her claim of 24,000		23,700

Answer:

In the Books of Mr. Ratanlal [Cash Book]

Date	Particulars	Cash	Bank	Disc	Date	Particulars	Cash	Bank	Disc
1 Mar	To bal. b/d	20,000	26,000	-	2 Mar	By office equipment	12,000	-	-
5 Mar	To Sales A/c	34,000	-	-	8 Mar	By Drawings A/c	-	22,000	-
7 Mar	To Hriday A/c	32,000	-	-	10 Mar	By Bank A/c	31,000		
10 Mar	To Cash A/c	-	31,000	-	17 Mar	By Office Rent	-	2,000	-
17 Mar	To Mr. Sen	24,000	-	500	19 Mar	By Drawings A/c	-	3,400	-
19 Mar	To Mr. Ratul	22,800	-	200	24 Mar	By Salary A/c	12,000	-	-
25 Mar	To Sandeep	-	12,800	-	25 Mar	By Bank Charges	-	300	-
	To Interest A/c	-	200	-	28 Mar	By Sandeep A/c	-	12,800	-
						By Sneha A/c	23,700	-	300
						By bal. c/d	54,100	29,500	400
		1,32,800	70,000	700			1,32,800	70,000	700

CQ2. Prepare a Triple Column Cash Book for the following transactions in the books of Mr. Abhishek

1 Jan	Opening cash balance was ₹3,800 and bank balance was ₹27,500	[CMAF SM Illustration 20]
4 Jan	Wages paid in cash ₹1,500	
5 Jan	received cheque of ₹19,800 from KBK enterprises after allowing discount of ₹200	
7 Jan	Paid to consultancy charges by cheque for ₹7,500	
10 Jan	Cash of ₹2,500 withdrawn from bank	
12 Jan	Received a cheque for ₹4,500 in full settlement of the account of Mr. X at a discount of 10% and deposited the same into the Bank.	
15 Jan	X's cheque returned dishonoured by the Bank	

Answer: **In the books of Mr. Abhishek [Cash Book]**

Date	Particulars	Cash	Bank	Disc	Date	Particulars	Cash	Bank	Disc
1 Jan	To bal. b/d	3,800	27,500		4 Jan	By Wages A/c	1,500		
5 Jan	To KBK Enterprise		19,800	200	7 Jan	By Consultancy Charges		7,500	
10 Jan	To Bank A/c	2,500			10 Jan	By Cash A/c		2,500	
12 Jan	To Mr. X		4,500	500	15 Jan	By Mr. X		4,500	
						By Bal. c/d	4,800	37,300	
		6,300	51,800	700			6,300	51,800	700

CQ3. Enter the following transactions in a Double (Cash & discount) Column Cash Book:

Dec	Particulars	₹	Dec	Particulars	₹
1	Commenced business with cash	50,000	16	Paid into bank	10,000
2	Bought goods for cash	28,000	18	Cash sales	2,500
5	Received cash from Arun	2,000	20	Purchased stationery for cash	250
7	Paid cash to Sanjay	2,900	23	Paid Suresh cash	3,900
	Discount allowed by him	100		Discount allowed	100
10	Paid wages	3,000	26	Received from Rajesh	1,900
14	Received from Rajesh cash	950		Allowed him discount	100
	Allowed him discount	50	30	Paid salaries	2,000

[CMAF SM NQ 8]

Answer:

Cash Book (Double Column)

Dec	Particulars	Cash	Disc	Dec	Particulars	Cash	Disc
1	To Capital A/c	50,000	-	2	By Purchase A/c	28,000	-
5	To Arun A/c	2,000	-	7	By Sanjay A/c	2,900	100
14	To Rajesh A/c	950	50	10	By Wages A/c	3,000	-
18	To Sales A/c	2,500	-	16	By Bank A/c	10,000	-
26	To Rajesh A/c	1,900	100	20	By Stationery A/c	250	-
				23	By Suresh A/c	3,900	100
				30	By Salary A/c	2,000	-
						7,300	-
		57,350	150			57,350	200

CQ4. Prepare Three Column Cash Book from following transactions & bring down balance for start of next month.

April	Particulars	₹	April	Particulars	₹
1	Cash in hand	2,500	19	Paid into Bank	400
	Cash at bank	10,000	23	Withdrew from Bank for private exp.	600
2	Paid into Bank	1,000	24	Received cheque from Patel	1,430
5	Bought furniture & issued cheque	2,000		Allowed him discount	20
8	Purchased goods for cash	500	26	Deposited Patel's cheque into bank	
12	Received from Mohinder	980	28	Withdrew cash from Bank for office use	2,000
14	Cash sales	4,000	30	Paid rent by cheque	800
16	Paid to Amarnath by cheque	1,450			[CMAF SM NQ 9]
	Discount allowed	50			

Answer:

Triple Column Cash Book

April	Particulars	Cash	Bank	Disc	April	Particulars	Cash	Bank	Disc
1	To Bal b/d	2,500	10,000		2	By Bank A/c	1,000		
2	To Cash A/c		1,000		5	By Furniture A/c		2,000	
12	To Mohinder A/c	980			8	By Purchase A/c	500		
14	To Sales	4,000			16	By Amarnath's A/c		1,450	50
19	To Cash A/c		400		19	By Bank A/c	400		
26	To Patel A/c		1,430	20	23	By Drawings A/c		600	
28	To Bank A/c	2,000			28	By Cash A/c		2,000	
					30	By Rent A/c		800	
							7,580	5,980	
		9,480	12,830				7,480	12,830	
1 May	To Bal b/d	7,580	5,980						

Petty Cash Book

▪ In organisations with **numerous cash transactions**, it becomes difficult for a single person to manage both **major & minor cash dealings**. To address this, cash handling is divided into two parts:

- (1) **Principal Cashier (or Chief Cashier)** handles all main transactions.
- (2) **Petty Cashier** manages **small, frequent cash payments**, recorded in a **Petty Cash Book**.

▪ This book records **minor, routine expenses** like postage, stationery, & conveyance.

The petty cash amount is provided under two systems:

Ordinary System	<ul style="list-style-type: none"> ▪ A lump sum amount is given as petty cash to the petty cashier. ▪ Once it is spent, petty cashier submits details of expenses for review, & gets reimbursed.
Imprest System	<ul style="list-style-type: none"> ▪ An estimated fixed amount (called Imprest Cash or Imprest Float) is given for a set period. ▪ At period-end, expenses are submitted, reviewed, & the same amount is reimbursed, restoring the imprest amount for next period. ▪ The petty cash balance thus never exceeds the imprest amount.

Simple Petty Cash book

- It has two sides, **Receipts & Payments**.
- **Cash/cheque from head cashier** is entered on the **receipt side & petty expenses paid** on the **payment side**.
- Each transaction must be posted to the **respective expense account in the ledger**, which involves **extra time and effort**, so most firms avoid using it.
- **Format:**

Reciepts	Date	Particulars	VN	LF	Payments

Analytical Petty Cash Book

- It has two sides, **Receipts on the left & payments on the right**.
- Its **payment side has sub-columns for various expenses** like **Printing, Postage, Carriage, etc.**
- The number of columns isn't fixed. A **Ledger column** may also be added for payments to Personal or Real A/c.
- **Petty Cashier prepares a summary of expenses** and submits it to the **Chief Cashier**.
- **Format:**

Reciepts	Date	Particulars	V N	Total	Postage	Printing & Stationery	Cartage	Travelling Expenses	Misc.	L F	Ledger

CQ6. Prepare Analytical Petty Cash Book on Imprest System of Ashutosh, Kolkata from the following transactions:

January	Particulars	Amount (₹)
1	Received Cash for Petty Expenses [CMAI SM Illustration 3]	20,000
2	Paid Bus fare	100
	Paid cartage	500
3	Paid for postage	1000
	Paid wages for casual labourers	1200
4	Paid for stationery	800
	Paid auto charges	400
5	Paid for repairs of chairs	3000
	Paid Bus fare	200
6	Paid Conveyance charges	600
	Paid cartage	600
	Paid for Stationery	400
	Refreshment to customers	1000

Answer:

In the books of Ashutosh, Analytical Petty Cash Book

Receipts	Jan	Particulars	VN	Total	Conveyance	Cartage	Postage	Wages	Misc.	Stationery
20,000	1	To Cash A/c		-	-	-	-	-	-	-
	2	By Conveyance		100	100	-	-	-	-	-
		By Cartage		500	-	500	-	-	-	-
	3	By Postage		1,000	-	-	1,000	-	-	-
		By Wages		1,200	-	-	-	1,200	-	-
	4	By Stationery		800	-	-	-	-	-	800
		By Conveyance		400	400	-	-	-	-	-
	5	By Repairs		3,000	-	-	-	-	3,000	-
		By Conveyance		200	200	-	-	-	-	-
	6	By Conveyance		600	600	-	-	-	-	-
		By Cartage		600	-	600	-	-	-	-
		By Stationery		400	-	-	-	-	-	400
		By Miscellaneous		1,000	-	-	-	-	1,000	-
	6	By Bal c/d		10,200						
20,000				20,000	1,300	1,100	1,000	1,200	4,000	1,200
10,200	7	To Bal b/d								
9,800		To Cash A/c								

CQ7. Prepare Columnar Petty Cash Book on imprest system from the following particulars: **[CMAF SM NQ 11]**

June	Particulars	₹	June	Particulars	₹
1	Received for petty cash payments	1,000	20	Paid for conveyance	44
2	Paid for postage	80	25	Paid for travelling expenses	160
5	Paid for stationery	50	27	Paid for postage	100
8	Paid for advertisement	100	28	Wages to office cleaner	20
12	Paid for wages	40	30	Paid for telegrams	40
16	Paid for carriage	30	30	Sent registered notice to landlord	6

Answer:

Analytical Petty Cash Book

Receipts	June	Particulars	Total	Travelling & Conveyance	Carriage & Cartage	Postage & Telegram	Wages	Misc.	Stationery	Advt.
1,000	1	To Cash A/c	-	-	-	-	-	-	-	
	2	By Postage	80	-	-	80	-	-	-	
	5	By Stationery	50	-	-	-	-	-	50	
	8	By Advertise.	100	-	-	-	-	-	-	100
	12	By Wages	40	-	-	-	40	-	-	
	16	By Carriage	30	-	30	-	-	-	-	
	20	By Conveyance	44	44	-	-	-	-	-	
	25	By Travelling Exp	160	160	-	-	-	-	-	
	27	By Postage	100	-	-	100	-	-	-	
	28	By Wages	20	-	-	-	20	-	-	
	30	By Telegrams	40	-	-	40	-	-	-	
		By Misc	6	-	-	-	-	6	-	
	30	By Bal c/d	330							
1,000			1,000	204	30	220	60	6	50	100
330	1 July	To Bal b/d								
670		To Cash A/c								

CQ8. Enter the following transactions in the columnar petty cash book of a cashier who was given ₹10,000 on 1st March on the imprest system:

March	Particulars	₹	March	Particulars	₹
2	Paid for postage stamps	800	23	Paid for ink and nibs	400
2	Paid for stationary	1,000	25	Paid for Tiffin to office staff	600
3	Paid for cartage	400	26	Paid for train fair	500
3	Paid for postage stamps	600	28	Paid for bus fair	400
8	Paid for paper	100	29	Envelops and letter heads	600
12	Paid for cartage	600	30	Printing address on above	400
18	Paid tips for trips to office staff	200	31	Cab fare to manager	1,000

Answer:

Analytical Petty Cash Book

Receipts	March	Particulars	Total	Postage	Stationery	Cartage	Travelling Expenses	Misc.
10,000	1	To Cash	-	-	-	-	-	-
	2	By Postage	800	800	-	-	-	-
		By Stationary	1,000	-	1,000	-	-	-
	3	By Cartage	400	-	-	400	-	-
		By Postage	600	600	-	-	-	-
	8	By Paper	100	-	100	-	-	-
	12	By Cartage	600	-	-	600	-	-
		By Tips to staff	200	-	-	-	-	200
	23	By Ink and Nibs	400	-	400	-	-	-
	25	By Tiffin	600	-	-	-	-	600
	26	By Train Fare	500	-	-	-	500	-
	28	By Bus Fare	400	-	-	-	400	-
	29	By Envelops etc.	600	-	600	-	-	-
	30	By Printing	400	-	-	-	-	400
	31	By Cab Fare	1,000	-	-	-	1,000	-
		By Balance c/d	2,400	-	-	-	-	-
10,000		Total	10,000	1,400	2,500	1,000	1,900	800
2,400	1 Apr	To Balance b/d						

Bank Book

- A Bank Book is a **subsidiary book** maintained to record all receipts & payments made through bank, separate from the cash book.
- Large businesses with **high bank transaction volumes** use it, while small businesses may continue with a cash book's bank column.
- It has a **receipts (debit) side & a payments (credit) side**.
- Maintaining a Bank Book simplifies bank reconciliation & ensures clear, organised records of bank transactions.
- It reduces **chances of errors or missed entries and simplifies bank reconciliation**.
- Unlike a Pass Book or Bank Statement (bank's records of a client's A/c), Bank Book is **maintained by business**.
- **Format:**

Date	Particulars	L.F.	Bank (Rs.)	Date	Particulars	L.F.	Bank (Rs.)

Bank Reconciliation Statement

- At any time, balances of the **cash book (bank column) & pass book** should match, but they often **differ** due to timing or communication gaps.
- To identify these differences, a **Bank Reconciliation Statement (BRS)** is prepared.
- It's **not part of the books of accounts** & is made periodically to **verify the accuracy** of both records.
- It **doesn't correct errors** but **highlights the causes** of discrepancies as on a specific date.

Causes of Disagreement Between Bank Statement & Bank Book (or Bank Column of Cash Book)

A Items not appearing in Bank Pass Book	
1	Cheques issued by business entity not debited by the bank
2	Cheques deposited but not credited by the bank
3	Errors in Bank Pass Book
4	Standing Instructions
5	Clerical errors made in recording of transactions by Bank
B Items not appearing in the Cash Book	
1	Bank interest, Bank charges etc. debited by the bank
2	Amount deposited directly in bank by other parties
3	Clerical errors made in recording of transactions by customer
4	Bills for collection
5	Errors in Cash Book

Preparation of Bank Reconciliation Statement

- BRS can start with either **Cash Book (bank column) balance or Pass Book balance.**
- Adjustments are then made by **adding or subtracting items** causing the mismatch, to reconcile both balances.

Steps:

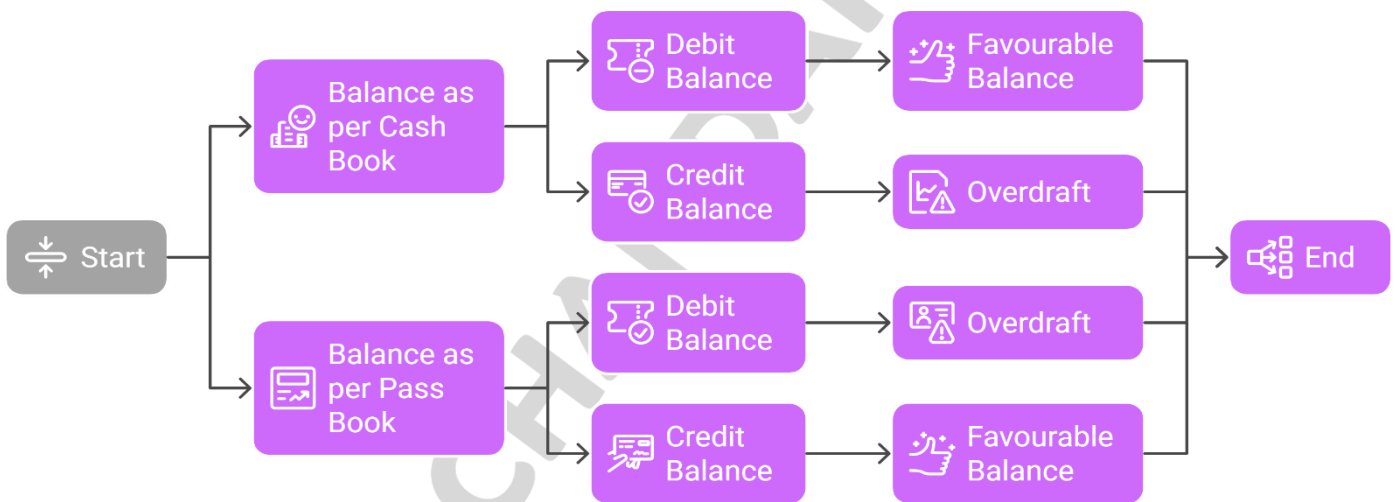
1	Identify Balances & Nature
	<ul style="list-style-type: none"> ▪ A debit balance in Cash Book = asset (Favourable balance); in Pass Book = overdraft, ▪ A credit balance in Cash Book = liability (Overdraft); in Pass Book = Favourable Balance
2	Select Starting Balance
	<ul style="list-style-type: none"> ▪ Start with balance (or overdraft) as per one book & arrive at balance (or overdraft) as per other book. ▪ Adjust the differences.
3	Adjust Differences
	Arrive at the balance as per the other book after adjustments.
4	Include All Differences
	Ensure all differing items from both books are included in the BRS.
5	Decide Add/Subtract Based on Starting Point
	Whether to add or subtract depends on the balance you begin with.

Effects of Transactions on Bank Reconciliation Statement

Particulars	Bal. as per CB	OD as per CB	Bal. as per PB	OD as per PB
Cheques deposited in Bank, but not cleared	Less	Add	Add	Less
Cheques issued, but not presented in Bank	Add	Less	Less	Add
Interest debited in PB only	Less	Add	Less	Add
Payments by Bank debited in PB only	Less	Add	Add	less
Direct payment by customer in PB only	Add	Less	Less	add
Bills discounted & dishonoured in PB only	Less	Add	Add	Less
Cheques deposited, dishonoured in PB only	Less	Add	Add	Less
Interest, Commission collected by Bank not recorded in Cash Book	Add	Less	Less	Add
Overcasting of payment side of Cash Book or Under casting of Receipt side of Cash Book	Add	Less	Less	Add
Under casting of Payment side of Cash Book or Overcasting of Receipts side of Cash Book	Less	Add	Add	Less

Deposits recorded twice in Cash Book or excess amount recorded in the Cash Book	Less	Add	Add	Less
Under casting of credit side of Pass Book or overcasting of the debit side of the Pass Book	Less	Add	Add	Less
Cheques deposited into Bank & credited with out recording in the Cash Book	Add	Less	Less	Add
Wrong debit in Pass Book for issue of cheque, Bank charges, etc.	Less	Add	Add	Less
Wrong credit in Pass Book for deposit of cheque, interest, etc.	Add	Less	less	add
Cheques drawn but not actually issued to suppliers/creditors	Add	Less	Less	Add
Bank charges recorded twice in the Cash Book	Add	Less	Less	Add
Amount withdrawn from Bank not recorded in the Cash Book	Less	Add	Add	Less

Interpretation of Balances



DC Note:

Starting Point	Nature of Balance After Reconciliation	Ending Point
Balance as per Cash Book	Favourable (Dr.)	Balance as per Pass Book
Balance as per Cash Book	Unfavourable (Cr.)	Overdraft as per Pass Book
Balance as per Pass Book	Favourable (Cr.)	Balance as per Cash Book
Balance as per Pass Book	Unfavourable (Dr.)	Overdraft as per Cash Book

Methods for Preparation of BRS

1	Without Amended Cash Book Method
	<ul style="list-style-type: none"> ▪ BRS is prepared by starting with either the balance of the Cash Book (bank column) or the Pass Book. ▪ Logical adjustments are made by adding or subtracting the transactions causing differences. ▪ Once all items are adjusted, both balances should tally.
2	Amended Cash Book Method
	<ul style="list-style-type: none"> ▪ First, an Amended Cash Book is prepared by recording items appearing in the Pass Book but not yet in the Cash Book & by correcting any Cash Book errors. ▪ Errors made by the bank are not corrected in Amended Cash Book but adjusted in the BRS. ▪ After finding the correct cash book balance, BRS is prepared to reconcile it with the Pass Book balance.

CQ9. On comparing the Cash Book of Saksham with the Bank Pass Book for the year ended 31st March, following discrepancies were noticed: **[CMAI SM Illustration 4]**

- (1) Out of Rs. 82,000 paid in by cheques into the bank on 25th March, cheques amounting to Rs. 30,000 were collected on 5th April.
- (2) Out of cheques drawn of Rs. 31,200 on 28th March a cheque for Rs. 10,000 was presented on 3rd April.
- (3) A cheque for Rs. 4,000 entered in Cash Book but omitted to be banked on 31st March.
- (4) A cheque for Rs. 2,400 deposited into bank but omitted to be recorded in Cash Book & was collected by bank on 29th March.
- (5) A bill receivable for Rs. 2,080 previously discounted (discount Rs. 80) with the bank had been dishonoured but advice was received on 3rd April.
- (6) A bill for Rs. 40,000 was retired/paid by the bank under a rebate of Rs. 600 but the full amount of the bill was credited in the bank column of the Cash Book.
- (7) A cheque of Rs. 10,000 wrongly credited in the Pass Book on 29th March was reversed on 2nd April.
- (8) Bank had wrongly debited Rs. 20,000 in the account on 31st March and reversed it on 10th April.
- (9) A cheque of Rs. 800 drawn on the Savings A/c has been shown as drawn on Current A/c in Cash Book.

Prepare a BRS from Amended Cash Book as on 31st March, if Balance as per Cash Book on 31st March was Rs. 1,58,280.

Answer: **Amended Cash Book as on 31st March (Bank column only)**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31 Mar	To balance b/d	1,58,280	31 Mar	By Debtors A/c	2,080
	Cheque deposited not recorded	2,400			
	Rebate not entered in cash book	600			
	Cheque drawn recorded in different A/c	800		By Balance c/d	1,60,000
		1,62,080			1,62,080
1 April	To Balance b/d	1,60,000			

Bank Reconciliation Statement as on 31st March

Particulars		(Rs.)	(Rs.)
Balance as per Cash Book (Dr.)			1,60,000
Add	(2) Cheques issued on 28th March but not yet presented for payment	10,000	
	(7) Cheque wrongly credited by bank	10,000	
Less	(1) Cheques deposited on 25th March but not yet collected till 31st March	30,000	
	(3) A cheque entered in Cash Book but not yet banked	4,000	
	(8) Amount Wrongly debited by the Bank	20,000	
Balance as per Bank Pass Book (Cr.)			1,26,000

CQ10. On 31st January, Sethi’s cash book showed a bank overdraft of Rs. 2,50,000. On comparing with the pass book, the following differences were noted. **[CMAI SM Illustration 5]**

- (1) Cash and cheques amounting to Rs. 26,800 were sent to the bank on 27th January, but cheques worth 4600 were credited on 2nd February and one cheque for 900 was returned by them as dishonoured on 4th February.
- (2) During the month of January, Sethi issued cheques worth Rs. 33,400 to his creditors. Out of these, cheques worth 27,400 were presented for payment on 5th February.
- (3) According to Sethi’s standing orders, the bankers have made the following payments during January:
 - (a) Life insurance premium Rs. 3,840
 - (b) Television license fee Rs. 2,400
- (4) Sethi’s bankers have collected Rs. 3,000 as dividend on his shares.
- (5) Interest charged by the bank Rs. 2,500
- (6) A bill receivable of Rs. 2,000 discounted with the bank in December, 2022, was dishonoured on 31st January,.

You are required to:

- (a) Ascertain the amended cash book balance as on 31st January.
- (b) Prepare a Bank Reconciliation Statement from the amended cash book as on 31st January.

Answer: **In the Books of Sethi, Cash Book (Bank column only)**

Jan	Particulars	(Rs.)	Jan	Particulars	(Rs.)
31	To Dividend on shares	3,000	31	By Balance b/d	2,50,000
				By Drawings (Rs. 3840 + Rs. 2400)	6,240
				By Interest	2500
	To Balance c/d	2,57,740		By Debtors- discounted bill dishonoured	2000
		2,60,740			2,60,740
			1 Feb	By Balance b/d	2,57,740

Bank Reconciliation Statement as on 31st January

Particulars		(Rs.)	(Rs.)
Bank balance as per Cash Book (overdrawn)			2,57,740
Add	Cheques deposited but not credited in the Pass Book (4600+ 900)	5,500	
			2,65,240
Less	Cheques issued but not presented for payment	27,400	
Bank balance as per Pass Book (overdrawn)			2,35,840

CQ11. From the following particulars of M/s Ramesh enterprises, prepare a Bank Reconciliation Statement:

Bank overdraft as per Pass Book as on 31st March was ₹88,000.

[CMAF SM Illustration 22]

- (1) Cheques deposited in Bank for ₹58,000 but only ₹20,000 were cleared till 31st March.
- (2) Cheques issued were ₹25,000, ₹38,000 & ₹20,000 during the month. Cheque of ₹58,000 is still with supplier.
- (3) Dividend collected by Bank ₹12,500 was wrongly entered as ₹15,200 in the Bank Column of Cash Book.
- (4) Amount transferred from FD A/c into the Current A/c ₹20,000 appeared only in Pass Book.
- (5) Interest on overdraft ₹9,300 was debited by Bank in Pass Book & the information was received only on 3rd April.
- (6) Direct deposit by M/s Nabin Traders ₹4,000 not entered in Bank Column of Cash Book.
- (7) Corporation tax ₹12,000 paid by Bank as per standing instruction appears in Pass Book only.

Answer:

BRS as on 31st March

Particulars		Rs.	Rs.
Overdraft as per Pass Book			88,000
Add	(2) Cheques issued but not presented till 31st March	58,000	
	(4) Transfer from fixed deposit	20,000	
	(6) Direct deposit by M/s Nabin Traders	4,000	82,000
			1,70,000
Less	(1) Cheques deposited but not cleared ₹(58,000 - 20,000)	38,000	
	(3) Dividend collected excess recorded in Cash Book (15,200 - 12,500)	2,700	
	(5) Interest on overdraft debited in Pass Book only	9,300	
	(7) Corporation tax paid appeared in Pass Book only	12,000	62,000
Overdraft as per Cash Book			1,08,000

CQ12. On 31st Dec, P. Roy’s Bank Balance as shown by Cash Book was ₹75,000. On receipt of Bank Statement it was found that: **[CMAF SM Illustration 23]**

- (1) Three cheques of ₹3,000, ₹4,000 & ₹1,500 drawn in favour of suppliers respectively on 28th, 29th & 30th December had been debited in the Bank Statement on 2nd January of the succeeding year.
- (2) Bank had credited ₹8,000 on 30th December, in respect of collection made by Bank directly from a customer, the intimation not having yet been received.
- (3) Two cheques of ₹5,000 & ₹6,000 were deposited into Bank on 30th December had been credited in the Bank statement on 4th January of the succeeding year.
- (4) Bank had debited ₹30 as incidental charges on 30th December but not entered in the Cash Book.

Show reconciliation of Bank Balance as per Cash Book with Bank Balance as per Bank Statement as on 31st Dec.

Answer: **Bank Reconciliation Statement of Mr. P. Roy as on 31st December**

Particulars		Rs.	Rs.
Bank Balance as per Cash Book (Dr.)			75,000
Add	(1) Cheques issued but not presented for payment (3,000 + 4,000 + 1500)	8,500	
	(2) Collection by Bank from a Customer not recorded in the Cash Book	8,000	16,500
			91,500
Less	(3) Cheques deposited but not credited in Pass Book (5,000 + 6,000)	11,000	
	(4) Bank charges not recorded in the C.B.	30	11,030
Balance as per Pass Book (Cr.)			80,470

CQ13. On 31st Dec your pass book showed a credit balance of ₹5,000. **[CMAF SM Illustration 24]**

- (1) Before 31st Dec you had issued cheques worth ₹1,000 of which cheques worth ₹300 were not yet cashed.
- (2) On 26th December, you deposited a cheque for ₹150 in the bank but you did not enter it in cash book.
- (3) The pass book showed a credit of ₹40 for interest and a debit of ₹10 for bank charges and the cash book had not corresponding entries for them.
- (4) A cheque for ₹1,200 deposited in your account No. 2 was wrongly credited by the bank to this account.
- (5) Dishonoured bill was debited in the pass book only ₹500.
- (6) Cheques for ₹700 paid in to the bank were not yet credited in the pass book.
- (7) A wrong debit of ₹100 appears in the pass book.
- (8) A cheque of ₹150 received from a customer was entered in the cash book in December but the same was omitted to be paid in to the bank.

Determine the balance as per cash book as on that date.

Answer:

BRS as on 31st Dec

Particulars		Rs.	Rs.
Credit Balance as per pass book			5,000
Add	(3) Bank charges not recorded in cash book	10	
	(5) Dishonoured bill debited only in pass book	500	
	(6) Cheques paid in to bank but not yet credited in pass book	700	
	(7) Wrong debit in the pass book	100	
	(8) Cheque received but not presented with the bank	150	1,460
			6,460
Less	(1) Cheques issued but not yet encashed (₹1,000 - ₹700)	300	
	(2) Cheque deposited but not recorded in cash book	150	
	(3) Interest not recorded in cash book	40	
	(4) A wrong credit appears only in pass book	1,200	1,690
Balance as per Cash Book (Dr.)			4,770

CQ14. Bank Pass Book of Mr. Anil showed an overdraft of ₹6,000 on 31 Dec. Prepare BRS based on the following:

- (1) Cheques issued but not presented upto 31 Dec, ₹5,500
- (2) Cheques deposited but not credited upto 31 Dec, ₹9,000
- (3) Bank commission ₹30 was entered only in the Pass Book.
- (4) A cheque for ₹6,500 issued in settlement of a debt was encashed on 28 Dec but entered in Cash Book as ₹8,500.

[CMAF SM Illustration 25]

Answer:

Bank Reconciliation Statement as on 31st December

Particulars		(₹)	(₹)
Overdraft as per Pass Book			6,000
Add	(1) Cheques issued but not presented for payment	5,500	
	(4) Cheque for ₹6,500 issued and encashed but entered in the Cash Book at ₹8,500 (8,500 - 6,500)	2,000	7,500
			13,500
Less	(2) Cheques deposited but not credited	9,000	
	(3) Bank commission entered in the Pass Book only	30	9,030
Over Draft as per Cash Book (Cr.)			4,470

CQ15. On 30 Sep 2023, Shri Sachin Chatterji's Cash Book shows that he had an overdraft of Rs. 400 on his current account at the bank. On checking the Cash Book with Bank Statement, you find the following:

- (1) Cheques issued Rs. 1,500 had been entered in the Cash Book but had been presented into Bank Rs. 1,000.
- (2) Dividend amounting to Rs. 150 had been directly deposited into bank. [Dec 23 (7 Marks)]
- (3) Bank had credited interest on Bank Deposit of Rs. 170 but it had been debited in Cash Book on 6 Oct 2023.
- (4) Bank charge of Rs. 50 shown in the bank statement but the same had not been entered in the Cash Book.
- (5) A cheque is issued to N.K. Chatterjee for Rs. 50 was replaced when out of date, it was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unpresented cheques shown above.
- (6) The receipt side of the Cash Book had been overcast by Rs. 20.
- (7) A cheque for Rs. 20 had been entered as a receipt in the Cash Book instead of as a payment.
- (8) A cheque drawn for Rs. 8 had been incorrectly entered in the Cash Book as Rs. 88.

You are required to prepare:

- (1) Adjusted Cash Book &
- (2) Bank Reconciliation Statement as on 30.9.2023.

Answer:

Adjusted Cash Book

Date	Particulars	Rs.	Date	Particulars	Rs.
30.9.23	To Dividend A/c	150	30.9.23	By Bal B/d	400
	To Interest A/c	170		By Bank Charges A/c	50
	To Error A/c (Cheque amount incorrectly recorded)	80		By Overcasting error	20
	To Bal c/d	110		By Party A/c (Wrongly recorded Cheque)	40
		510			510

Bank Reconciliation Statement 30.9.23

Particulars	Rs.
Balance as per Adjusted Cash Book	(110)
Add: Cancelled cheque issued	50
Add: Cheque issued but not presented	500
Balance as per pass Book	440

CQ16. On comparing the Cash Book of Shivam with the Bank Pass Book for the year ended 31st March, 2024, following discrepancies were noticed: **[Dec 24 (7 Marks)]**

- (1) Cheques of Rs. 85,000 deposited into bank on 25th March, cheques amounting to Rs. 25,000 were collected on 5th April.
- (2) Cheques amounting to Rs. 38,000 drawn on 28th March, of which a cheque for Rs. 8,000 was presented on 3rd April.
- (3) A cheque for Rs. 4,000 entered in Cash Book but omitted to be banked on 31st March.
- (4) A bill receivable for Rs. 18,000 previously discounted (discount Rs. 90) with the bank had been dishonoured but advice was received on 3rd April.
- (5) A cheque of Rs. 20,000 wrongly credited in the Pass Book on 29th March was reversed on 2nd April.
- (6) Bank had wrongly debited Rs. 15,000 in account on 31st March & reversed it on 10th April, 2024.

Prepare a BRS as on 31st March, 2024, if the Balance as per Cash Book on 31st March, 2024 was Rs. 1,82,500.

Answer:

BRS as on 31st March 2024

Particulars		Rs.	Rs.
Balance as per Cash Book			1,82,500
Add	(2) Cheque issued but not presented yet	8,000	
	(5) Cheque wrongly credited by bank in Pass Book	20,000	28,000
Less	(1) Cheques deposited but not credited by bank yet	25,000	
	(3) Cheque deposited but not credited by bank	4,000	
	(4) Bill dishonoured but not recorded yet	18,000	
	(6) Cheque wrongly debited by bank	15,000	62,000
Balance as per Pass Book			1,48,500

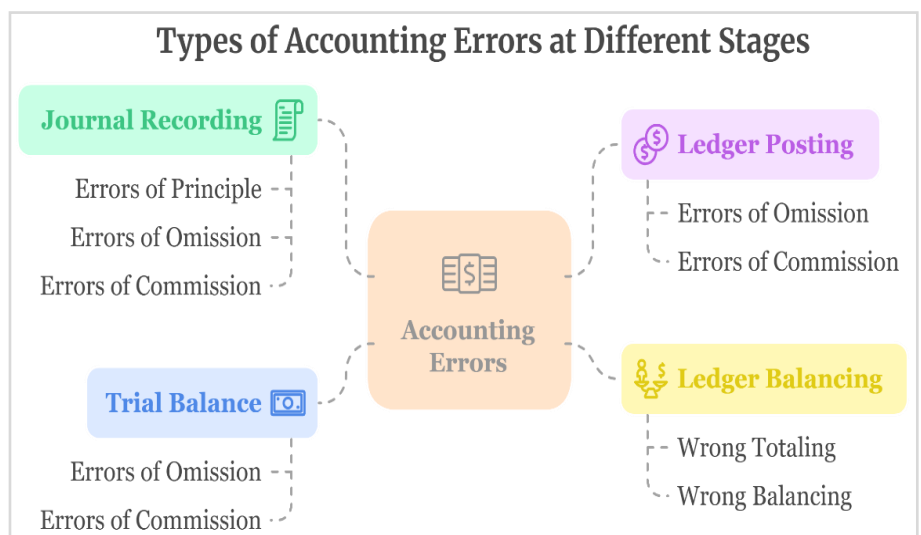
1.7 Rectification of Errors & Adjustment Entries

Types of Errors

Type of Error	Meaning	Effect on Trial Balance	Example
Error of Principle	Transaction recorded against accounting principles . Ex: Treating capital as revenue	No effect, as amount on correct side.	Typewriter purchase debited to Office Expenses A/c
Error of Omission	Transaction wholly or partly omitted from the books.	May or may not affect.	Credit purchase of furniture not recorded, or posting omitted.
Error of Commission	Amount posted in wrong A/c, side, total, or balance .	May or may not affect.	Amount posted to wrong customer's A/c, or side of ledger.
Compensating Error	Two or more errors cancel out each other's effect.	No effect, Trial Balance agrees.	₹10 from A not credited to A's A/c, but Sales Book total ₹10 excess.

Type of Error	Rectification
Error of Principle	Pass journal entry for correct effect.
Error of Omission	Pass the correct entry.
Error of Commission	Debit/credit wrong A/c & post to correct A/c.
Compensating Errors	Pass correcting entry.
Wrong Totaling of Subsidiary Books	Pass entry through Suspense A/c .
Posting on Wrong Side of an A/c	Pass double effect, one to cancel wrong side, other for correct.
Posting of Wrong Amount	Pass entry with differential amount.

Error of	Effect on TB
Principle	TB will tally
Partial omission	TB will not tally
Full omission	TB will tally
Commission	TB will not tally
Compensating	TB will tally



CQ1. Pass necessary journal entries to rectify the following errors:

[CMAI SM Illustration 21]

- (1) An amount of Rs. 200 withdrawn by owner for personal use was debited to trade expenses.
- (2) Purchase of goods of Rs. 300 from Nathan was wrongly entered in sales book.
- (3) A credit sale of Rs. 100 to Santhanam was wrongly passed through purchase book.
- (4) Rs. 150 received from Malhotra was credited to Mehrotra.
- (5) Rs. 375 paid as salary to cashier Dhawan was debited to his personal A/c.
- (6) A bill of Rs. 2,750 for extension of building was debited to building repairs A/c.
- (7) Goods of Rs. 500 returned by Akashdeep were taken into stock, but returns were not recorded.
- (8) Old furniture sold for Rs. 200 to Sethi was recorded in sales book.
- (9) The period end total of sales book was under cast by Rs. 100.
- (10) Amount of Rs. 80 received as interest was credited to commission.

Answer:

SN	Correct Entry		Wrong Entry		Rectification Entry	
1	Drawings A/c	200	Trade Expenses A/c	200	Drawings A/c	200
	To Cash A/c	200	To Cash A/c	200	To Trade Expenses A/c	200
2	Purchases A/c	300	Nathan A/c	300	Purchases A/c	300
	To Nathan A/c	300	To Sales A/c	300	Sales A/c	300
					To Nathan A/c	600
3	Santhanam A/c	100	Purchases A/c	100	Santhanam A/c	200
	To Sales A/c	100	To Santhanam A/c	100	To Sales A/c	100
					To Purchases A/c	100
4	Cash A/c	150	Cash A/c	150	Mehrotra A/c	150
	To Mehrotra A/c	150	To Mehrotra A/c	150	To Malhotra A/c	150
5	Salary A/c	375	Dhawan A/c	375	Salary A/c	375
	To cash A/c	375	To cash A/c	375	To Dhawan A/c	375
6	Buildings A/c	2,750	Building Repairs A/c	2,750	Buildings A/c	2,750
	To Cash A/c	2,750	To Cash A/c	2,750	To Building Repairs A/c	2,750
7	Sales Returns A/c	500	No entry passed		Sales Returns A/c	500
	To Akashdeep A/c	500			To Akashdeep A/c	500
8	Sethi A/c	200	Sethi A/c	200	Sales A/c	200
	To Furniture A/c	200	To Sales A/c	200	To Furniture A/c	200
9	Suspense A/c	100	No entry passed		Suspense A/c	100
	To Sales A/c	100			To Sales A/c	100

10	Cash A/c	80	Cash A/c	80	Commission A/c	80
	To Interest A/c	80	To Commission A/c	80	To Interest A/c	80

CQ2. The following errors were detected in the books of M/s S R Traders while preparing the Trial Balance.

- (1) Freight paid for bringing purchased goods wrongly debited to Machinery Account Rs. 72,600.
- (2) Equipments purchased worth Rs. 8,50,000 wrongly passed through Purchases A/c.
- (3) Returns Outward book was overcast by Rs. 54,000. [CMAI SM NQ 3]
- (4) Goods purchased from Rohan worth Rs. 79,000 has been debited to his account.
- (5) An amount of rent outstanding Rs. 13,000 in the previous year, had not been brought forward as an opening balance in the current year.
- (6) Fresh cash introduced by the proprietor of Rs. 44,000 was not posted in ledger account.

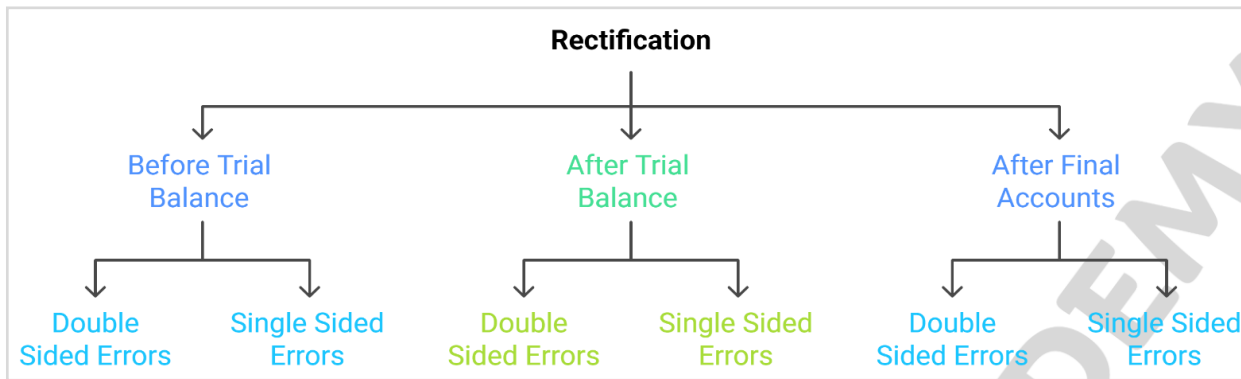
You are required to pass necessary journal entries to rectify the errors.

Answer:

Rectification Entries

SN	Particulars	Debit	Credit
1	Freight Inward A/c Dr.	72,600	
	To Machinery A/c		72,600
(Being freight on purchases wrongly debited to Machinery A/c, now rectified)			
2	Machinery A/c Dr.	8,50,000	
	To Purchases A/c		8,50,000
(Being equipment purchase wrongly passed, now rectified)			
3	Returns Outward A/c Dr.	54,000	
	To Suspense A/c		54,000
(Being Returns Outward book overcast, excess credited now rectified)			
4	Purchases A/c Dr.	79,000	
	To Rohan A/c		79,000
(Being purchase from Rohan wrongly debited to his A/c, now rectified)			
5	Rent Outstanding A/c Dr.	13,000	
	To Opening Balance A/c		13,000
(Being previous year's outstanding rent not brought forward, now rectified)			
6	Cash A/c Dr.	44,000	
	To Capital A/c		44,000
(Being fresh capital introduced by proprietor, omitted earlier, now posted)			

Stages of Detection & Rectification of Error



Stage 1: Before Preparation of Trail Balance

If errors are detected before the preparation of Trail Balance, effect of each error should be known.

Double Sided Error	Following principles should be followed: (1) What was the correct entry? (2) What entry has been done? (3) Pass Rectifying entry
Single Sided Error	No separate entry but affected A/c should be rectified by appropriate posting.

Stage 2: After Preparation of Trial Balance

If the errors are detected after preparation of trial balance, the following procedure should be followed:

Double Sided Error	The following principles should be followed: (1) What was the correct entry? (2) What entry has been done? (3) Pass Rectifying entry
Single Sided Error	Rectify the relevant account using Suspense Account.

Suspense Account

- If the **Trial Balance doesn't agree**, final accounts can't be prepared.
- To proceed, the difference is **temporarily transferred to Suspense A/c.**
- When errors are **found and rectified**, Suspense Account is **closed (becomes Nil).**

Appearance in Trial Balance	Treatment in Balance Sheet
Debit side	shown on Assets side
Credit side	shown on Liabilities side

Stage 3: After Preparation of Final Accounts

Double Sided Error	<ul style="list-style-type: none"> ▪ The following principles should be followed: <ol style="list-style-type: none"> (1) What was the correct entry? (2) What entry has been done? (3) Pass Rectifying entry ▪ All the nominal accounts are to be replaced by Profit & Loss Adjustment Account. ▪ Suspense Account will be carried forward to the next year ▪ Real & Personal Accounts are to be carried forward to the next year.
Single Sided Error	<ul style="list-style-type: none"> ▪ Rectify the relevant account using Suspense Account. ▪ All the nominal account are to be preplaced by Profit & Loss Adjustment Account.

CQ3. Rectify the following errors assuming that the errors were detected (a) Before Preparation of Trial Balance; (b) After preparation of Trial Balance & (c) After preparation of Final Accounts. **[CMAI SM Illustration 19]**

- (1) Purchase Plant for Rs. 10,000 wrongly passed through Purchase Account.
- (2) Sales Day Book was cast short by Rs. 1,000.
- (3) Cash paid to Mr. X for Rs. 1,000 was posted to his account as Rs. 100.
- (4) Purchase goods from Mr. T for Rs. 3,500 was entered in the Purchase Day Book as Rs. 500.
- (5) Paid salary for Rs. 3,000 wrongly passed through wages account.

Answer:

Rectification Entries

SN	Before preparation of TB		After preparation of TB		After preparation of Final A/c	
1	Plant A/c	10,000	Plant A/c Dr.	10,000	Plant A/c Dr.	10,000
	To Purchase A/c	10,000	To Purchase A/c.	10,000	To P&L Adjustment A/c	10,000
2	Sales A/c Cr.	1,000	Suspense A/c Dr.	1,000	Suspense A/c Dr.	1,000
			To Sales A/c	1,000	To P&L Adjustment A/c	1,000
3	X A/c Dr.	900	X A/c Dr.	900	X A/c Dr.	900
			To Suspense A/c	900	To Suspense A/c	900
4	Purchase A/c Dr.	3,000	Purchase A/c Dr.	3,000	P&L Adjustment A/c Dr.	3,000
	To T A/c	3,000	To T A/c	3,000	To T's A/c.	3,000
5	Salary A/c	3,000	Salary A/c Dr.	3,000	P&L Adjustment A/c Dr.	3,000
	To Wages A/c	3,000	To Wages A/c	3,000	To P&L A/c	3,000

CQ4. A merchant, while balancing his books of accounts notices that the TB did not tally. It showed excess credit of Rs.1,700. He placed the difference to Suspense A/c. Subsequently he noticed the following errors:

- (1) Goods brought from Narayan for Rs. 5,000 were posted to the credit of Narayan’s A/c as Rs. 5,500
- (2) An item of Rs. 750 entered in Purchase Returns Book was posted to the credit of Pandey to whom the goods had been returned. **[CMAI SM Illustration 20]**
- (3) Sundry items of furniture sold for Rs. 26,000 were entered in the sales book.
- (4) Discount of Rs. 300 from creditors had been duly entered in creditor’s A/c but was not posted to discount A/c.

Pass necessary journal entries to rectify these errors. Also show the Suspense A/c.

Answer: **Rectification Entries**

1	Narayan’s A/c	Dr.	500	
	To Suspense A/c			500
(Being omission of debit to Narayan’s A/c, now rectified through Suspense A/c)				
2	Pandey A/c Dr.		1,500	
	To Suspense A/c			1,500
(Being omission of debit to Pandey’s A/c, now rectified through Suspense A/c)				
3	Sales A/c Dr.		26,000	
	To Furniture A/c			26,000
(Being amount of ₹26,000 wrongly credited to Furniture A/c instead of Sales A/c, now rectified)				
4	Suspense A/c			300
	To Discount received A/c			300
(Being excess credit to Discount Received A/c, now rectified through Suspense A/c)				

Suspense A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	1,700	By Narayan	500
To Discount received	300	By Pandey	1,500
	2,000		2,000

Effect of Errors on Profit or Loss

- P&L A/c includes **incomes, gains, expenses & losses** (nominal accounts).
- Errors involving **nominal accounts** affect profit or loss.
- Errors in real & personal accounts do not.

CQ5. The books of accounts of A Co. Ltd. for the year ending 31 March were closed with a difference of Rs. 21,510 in books carried forward. The following errors were detected subsequently: **[CMAI SM Illustration 22]**

- (1) Return outward book was under cast by Rs. 100.
- (2) Rs. 1,500 being the total of discount column on the credit side of the cash book was not posted.
- (3) Rs. 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.
- (4) A credit sale of Rs. 760 was wrongly posted as Rs. 670 to the customers A/c. in the sales ledger.
- (5) The Sales A/c was under casted by Rs. 10,000 being the carry over mistakes in the sales day book.
- (6) Closing stock was over casted by Rs. 10,000 being casting error in the schedule or inventory.

Pass rectification entries in next year. Prepare suspense A/c & state effect of errors in determination of net profit of last year.

Answer:

Rectification Entries

SN	Particulars		(Rs.)	(Rs.)
1	Suspense A/c To Profit & Loss Adjustment A/c (Returns outward book was under cast now rectified).	Dr.	100	100
2	Suspense A/c To Profit & Loss Adjustment A/c (Discount received was not recorded, now rectified).	Dr.	1,500	1,500
3	Office Furniture A/c To Profit & Loss Adjustment A/c (Office furniture purchased wrongly debited to Purchase A/c, now rectified.)	Dr.	6,000	6,000
4	Debtors' A/c To Suspense A/c (Debtors account was posted Rs. 670 in place of Rs. 760, now rectified.)	Dr.	90	90
5	Suspense A/c To Profit & Loss Adjustment A/c (Sales account was under casted, now rectified)	Dr.	10,000	10,000
6	Profit & Loss Adjustment A/c To Closing Stock A/c (Closing Stock was overcastted, now rectified.)	Dr.	10,000	10,000

Suspense Account

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1 April	To Profit & Loss Adjustment A/c	100	1 April	By Difference in Trial Balance	21,510
	To Profit & Loss Adjustment A/c	1,500		By Debtors A/c.	90
	To Profit & Loss Adjustment A/c	10,000			
	To Profit & Loss Adjustment A/c	10,000			
		21,600			21,600

Effect on Profit

SN	Particulars	Increase	Decrease
1	Return outward book was under cast	-	100
2	Total of discount column on the credit side of the cash book was not posted.	-	1,500
3	Cost of purchase of office furniture was debited to Purchase A/c.	-	6,000
4	Amount of credit sale was wrongly posted in customers A/c	No Effect	
5	Sales A/c was undercast	-	10,000
6	Closing stock was over casted	10,000	-
		10,000	17,600
	Profit will decrease by	7,600	-
		17,600	17,600

CQ6. Trial Balance of a concern has agreed but following mistakes were discovered after preparation of final A/c.

- (1) No adjustment entry was passed for an amount of Rs.2,000 relating to outstanding rent.
- (2) Purchase book was overcast by Rs.1,000.
- (3) Rs. 4,000 depreciation of Machinery has been omitted to be recorded in the book.
- (4) Rs. 600 paid for purchase of stationary has been debited to Purchase A/c.
- (5) Sales books was overcast by Rs. 1,000.
- (6) Rs. 5,000 received in respect of Book Debt had been credited to Sales A/c.

[CMAI SM Illustration 23]

Show the effect of the above errors in Profit and Loss Account & Balance Sheet.

Answer: Effects of the errors in P&L A/c & Balance Sheet

SN	Profit & Loss A/c	Balance Sheet
1	Profit was overstated by Rs. 2,000	Capital was also overstated by Rs. 2,000 & outstanding Liability was understated by 2,000.
2	GP was under stated by Rs. 1,000 & also NP.	Capital was understated by Rs. 1,000.
3	Net Profit was overstated by Rs. 4,000.	Machinery was overstated by Rs. 4,000 & Capital A/c was also overstated by Rs. 4,000.
4	No effect on Net Profit.	No effect in Balance Sheet.
5	GP & NP were overstated by Rs.1,000.	Capital was overstated by Rs. 1,000.
6	GP & NP were overstated by Rs.5,000.	Capital & Sundry Debtors were overstated by Rs.5,000.

CQ7. The total of debit side of the Trial Balance of SR Ltd. as at 31.3.2023 is Rs. 2,92,000 and that of the credit side is Rs. 1,80,800. After detailed checking, the following errors were identified: **[CMAI SM NQ 4]**

Name of Accounts	Correct Figures (as it should be)	Figures as it appears in Trial Balance
Opening stock	12,000	8,000
Salaries	28,800	50,400
Accounts Receivable	83,200	1,26,400
Trade Creditors	64,800	14,400

You are required to ascertain the correct total of the Trial Balance.

Answer:

Particulars		Rs.	Rs.
Total of Trial Balance		2,92,000	1,80,800
Add	Opening Stock (12,000 instead of 8,000)	4,000	-
Less	Salaries (28,800 instead of 50,400)	21,600	-
	Accounts Receivable (83,200 instead of 1,26,400)	43,200	-
Add	Trade Creditors (64,800 instead of 14,400)	-	50,400
Total After rectification		2,31,200	2,31,200

CQ8. The Trial Balance of Rajesh Brothers on 31 March, 2023 did not agree. In order to close the books, the accountant placed the difference for Rs. 26,700 (Dr) to Suspense Account for necessary adjustment in the next period. On 25th April, 2023 the following errors, arising in 2022-23 were detected: **[June 24 (7 Marks)]**

- (1) Rs. 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.
- (2) Credit Sale of Rs. 6,550 was posted to the credit of the customer's account as Rs. 5,650.
- (3) Machine purchased on 1 October, 2022 for Rs. 50,000 in cash was posted to the Purchase Account in the ledger. Rate of Depreciation was applicable on machine 15% per annum.
- (4) Sales book was overcast by Rs. 10,000 in February 2023.

Give Journal entries to rectify the errors and prepare Suspense Account.

Answer: **Journal of Rajesh Brothers**

Date	Particulars		Dr.	Cr.
25.04.23	P&L Adjustment A/c	Dr.	4,500	
	To Suspense A/c			4,500
25.04.23	Customer's A/c Dr	Dr.	12,200	
	To Suspense A/c			12,200
25.04.23	Machinery A/c Dr	Dr.	46,250	
	To P&L Adjustment A/c			46,250
25.04.23	P&L Adjustment A/c	Dr.	10,000	
	To Suspense A/c			10,000
25.04.23	P&L Adjustment A/c	Dr.	31,750	
	To Capital A/c			31,750

Suspense A/c

Date	Particulars	Amt	Date	Particulars	Amt
01.04.23	To Bal B/d	26,700	25.04.23	By P&L Adjustment A/c	4,500
			25.04.23	By Customer's A/c	12,200
			25.04.23	By P&L Adjustment A/c	10,000
		26,700			26,700

Adjustment Entries

- Financial statements are prepared using **ledger balances**, but these often need **adjustments to reflect the true financial position**.
- Adjustment entries are journal entries passed at the end of an accounting period **to record transactions not yet properly reflected**.
- It ensures that accounts show **correct situation** as on the reporting date & are an essential part of accounting cycle.
- These entries impact both **income statement & balance sheet** & **aren't based on source documents**.
- After adjustments, an **adjusted trial balance** is prepared, which forms the **basis** for final financial statements.

Features of Adjustment Entries

- Special type** of journal entries.
- Recorded in the **General Journal / Journal Proper**.
- Passed to reflect the **true financial position**.
- Ensures **compliance** with accounting principles.
- Made at the **end of an accounting period**.

Classification of Adjustment Entries

1 Pre-payments & Pre-receipts	
Prepaid expenses	Money paid in advance for future expenses. Ex: Prepaid Insurance, Rent etc
Unearned revenue	Money received in advance for services not yet rendered. Ex: Received advance rent
2 Accruals	
Accrued expenses	Expenses incurred but not yet paid or recorded. Ex: Unpaid electricity bill
Accrued incomes	Incomes earned but not yet received or recorded. Ex: Salary not received yet
3 Non-cash Expenses (Estimates)	
Expenses recorded based on estimates , without any cash outflow . Ex: Depreciation, Provision for doubtful debts.	

Examples of Adjustment Entries

Adjustment	Adjustment Entry
Closing stock	Closing Stock A/c Dr. To Purchases/ Trading A/c
★ It is necessary for recording unsold stock as an asset & to remove closing stock from cost of goods sold .	
Goods withdrawn by owner for personal use	Drawing A/c Dr. To Purchases A/c
★ It is necessary for reducing business purchases & recording personal withdrawals (Drawings) .	
Goods distributed as free samples to public	Advertisement A/c Dr. To Purchases A/c
★ It is necessary for reducing business purchases & recording it as a selling expense .	
Goods distributed as free samples to employees	Wages/ Salaries A/c Dr. To Purchases A/c
★ It is necessary for reducing business purchases & recording it as an employee benefit expense .	
Goods-in-Transit	Goods-in-transit A/c Dr. To Purchases/ Trading A/c
★ It is necessary for reducing business purchases & recording it as an asset because these goods are not yet received & hence shouldn't be included in cost of goods sold.	
Abnormal loss of stock	Abnormal Loss A/c Dr. To Purchase/ Trading A/c
★ It is necessary for reducing business purchases & recording it as a separate loss because such stock is neither sold nor available , & its loss must be shown separately in Profit & Loss A/c.	
Stock used as stationary	Stationery A/c Dr. To Purchases/ Stock A/c
★ It is necessary for reducing business purchases & recording it as office expense because such stock is used internally only , not for sale.	
Materials used for constructing Fixed Assets	Fixed Assets A/c Dr. To Purchases/ Stock A/c
★ It is necessary for reducing business purchases & capitalising it as a fixed asset since the materials are not sold but used to build an asset for business use .	
Goods sent on approval basis, pending approval on Balance Sheet date	(1) Sales A/c Dr. To Sale or Return Suspense A/c
	(2) Stock on Sale or Return A/c Dr. To Trading A/c
★ It is necessary to cancel unapproved sales & add goods back to stock to show correct stock & sales	

Outstanding expenses	Expenses A/c To Outstanding Expenses A/c	Dr.
★ It is necessary for recording expenses incurred but not yet paid to show true profit & liability.		
Prepaid expenses	Prepaid Expenses A/c To Expenses A/c	Dr.
★ It is necessary for reducing current year's expenses & recording it as an asset since the benefit belongs to the next year .		
Pre-received Incomes	Income A/c To Pre-received Income A/c	Dr.
★ It is necessary for reducing current year's income & recording it as a liability as it belongs to the next year.		
Accrued Incomes	Accrued Income A/c To Income A/c	Dr.
★ It is necessary for recording income earned but not yet received to show true profit & asset.		
Depreciation/Amortisation on fixed assets	Depreciation/Amortisation A/c To Fixed Assets A/c	Dr.
★ It is necessary for reducing asset's value & recording it as an expense to reflect asset's usage & profit .		
Provision for Bad Debts	P&L A/c To Provision for Bad Debts A/c	Dr.
★ It is necessary to record expected future losses on debtors , show true profit & reduce value of receivables .		
Provision for Discount on Debtors	P&L A/c To Provision for Discount on Debtors A/c	Dr.
★ It is necessary to record expected future discounts to debtors to show true profit & reduce receivables.		
Mutual Set-off between debtors & creditors	Creditors A/c To Debtors A/c	Dr.
★ It is necessary for settling common amount btwn debtor & creditor to show correct balances of both A/c.		

PRANAV

Accounting Treatment of Bad Debts, Discount on Creditors & their Provisions

For any business, purchases and sales are regular activities, often involving credit.

- **Debtors** are entities **from whom cash** is to be **received**.
- **Creditors** are entities **to whom cash** is to be **paid later**.

The amounts **receivable from others** are termed as **“Debts”**, are classified **based on their recoverability**:

Good Debts	Fully recoverable amounts, with no risk of loss. No provision is needed.
Doubtful Debts	<ul style="list-style-type: none"> ▪ Amounts with uncertain recovery as of final accounts date. ▪ Though not written off, a provision is created (as per Matching Principle) based on past experience, charging it to the current year’s P&L A/c.
Bad Debts	<ul style="list-style-type: none"> ▪ Amounts as irrecoverable. ▪ Treated as a business loss & debited to Bad Debts A/c, transferred to P&L A/c at year-end.

Provisions for Doubtful Debts

- It is a charge against profit to **cover possible losses** from **uncollected customer debts**.
- It appears as a **credit balance** and is **deducted** from **Debtors/Accounts Receivable** in Balance Sheet.

Accounting Treatment for Doubtful Debts

In the 1st Year		
For Bad Debts written off	Bad Debts A/c	Dr.
	To Sundry Debtors A/c	
For creating Provision for Doubtful Debts	Profit & Loss A/c Dr.	
	To Provision for Doubtful Debts A/c	
For transferring Bad Debts to P&L A/c	P&L A/c	Dr.
	To Bad Debts A/c	
In Second/Subsequent Years		
For Bad Debts		
Write-off	Bad Debts A/c	Dr.
	To Sundry Debtors A/c	
Transfer to Profit & Loss A/c	Profit & Loss A/c	Dr.
	To Bad Debts A/c	

For Provision for Doubtful Debts

If Closing Provision > Opening Provision	Profit & Loss A/c	Dr.
	To Provision for Doubtful Debts A/c	
If Closing Provision < Opening Provision	Provision for Doubtful Debts A/c	Dr.
	To Profit & Loss A/c	

CQ1. M/s Adhuna & Co. had a provision for bad debts of Rs.13,000 against their book debts on 1st April, 2024. During the year ended 31st March, 2025, Rs.8,500 proved irrecoverable & it was desired to maintain the provision for bad debts @ 5% on Debtors which stood at Rs.3,90,000 before writing off Bad Debts. Prepare the provision for Bad Debt Account for the year ended March 31, 2025. **[CMAI SM Illustration 15]**

Answer: Books of M/s Adhuna & Co. Provision for Bad Debts A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31 March	To Bad Debts A/c	8,500	1 April	By Balance b/d	13,000
31 March	To Balance c/d [5% of (3,90,000 - 8,500)]	19,075	31 March	By P&L A/c (Bal fig) (further provision required)	14,575
		27,575			27,575

CQ2. On 1st April, 2024 balance of provision for bad & doubtful debts was Rs.13,000. Bad debts during the year 2024-25 were Rs.9,500. The sundry debtors as on 31st March, 2025 stood at Rs.3,25,000 out of these debtors of Rs.2,500 are bad & cannot be realized. The provision for bad & doubtful debts is to be raised to 5% on sundry debtors. You are required to: **[CMAI SM Illustration 16]**

- Pass necessary adjustment entries for bad debts & its provision on 31st March, 2025.
- Prepare the necessary ledger accounts.
- Show the relevant items in the Profit & Loss Account and Balance Sheet.

Answer: Journal

Date	Particulars	(Rs.)	(Rs.)
31 March	Bad Debts A/c To Sundry Debtors A/c (Being Bad Debts)	Dr. 2,500	2,500
31 March	Provision for Bad & Doubtful Debts A/c To Bad Debts A/c (2500 + 9500) (Being Bad Debts during the year)	Dr. 12,000	12,000
31 March	Profit and Loss A/c To Provision for Bad & Doubtful Debts A/c (Being Provision for Bad Debts transferred to Profit & Loss A/c)	Dr. 15,125	15,125

Bad Debts Account

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31 Mar	To Balance b/d	9,500	31 Mar	By Provision for Bad & Doubtful Debts A/c	12,000
31 Mar	To Sundry Debtors A/c	2,500			
		12,000			12,000

Provision for Bad & Doubtful Debts Account

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31 March	To Bad Debts A/c	12,000	1 April	By Balance b/d	13,000
31 March	To Balance c/d [5% on (3,25,000 - 2,500)]	16,125	31 March	By Profit and Loss A/c (b/fig)	15,125
		28,125			28,125

Sundry Debtors Account

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31 March	To Balance b/d	3,25,000	31 March	By Bad Debts A/c	2,500
				By Balance c/d	3,22,500
		3,25,000			3,25,000

Profit and Loss Account for the year ended 31st March, 2025

Particulars	(Rs.)	(Rs.)
To Provision for Bad & Doubtful Debts:		
Provision as on 31 March	16,125	
Add: Bad Debts (9,500 + 2,500)	12,000	
	28,125	
Less: Provision as on 1 April	13,000	15,125

Balance Sheet as on 31st March, 2025

Liabilities	(Rs.)	Assets	(Rs.)	(Rs.)
		Sundry Debtors	3,25,000	
		Less: Further Bad Debts	2,500	
			3,22,500	
		Less: Provision for Bad Debts	16,125	3,06,375

Provisions for Discount on Debtors

- Suppliers often **allow cash discounts** for prompt payment. To account for this **expected loss**, a **Provision for Discount on Debtors** is created based on past experience **at a certain rate**.
- It's calculated on **good debtors** (**total debtors = bad debts - provision for bad debts**).
- Since these debtors are expected to **pay on time**, a provision is made for possible discounts to reflect true expected **cash inflow**.

Accounting Treatment for Doubtful Debts

For the First year		
For Discount Allowed	Discount Allowed A/c	Dr.
	To Sundry Debtors A/c	
When Discount Allowed is transferred	Profit & Loss A/c	Dr.
	To Discount Allowed A/c	
For Provision for Discount on Debtors	Profit & Loss A/c	Dr.
	To Provision for Disc on Debtors A/c	
For the Second/ Subsequent year		
For Discount Allowed	Discount Allowed A/c	Dr.
	To Sundry Debtor A/c	
For Provision for Discount on Debtors	Provision for Discount on Debtor A/c	Dr.
	To Discount Allowed A/c	
Next year provision is estimated		
New Provision > Old Provision	Profit and Loss A/c	Dr.
	To Provision for Discount on Debtor A/c	
New Provision < Old Provision	Provision for Discount on Debtor A/c	Dr.
	To Profit and Loss A/c	

CQ3. A company maintains its provision for bad debts @ 5% & a provision for discount on debtors @ 2%. You are given the following details: (in '000s) **[CMAI SM Illustration 17]**

Particulars	2024 (Rs.)	2025 (Rs.)
Bad debts	800	1,500
Discount allowed	1,200	500
Sundry debtors (before providing all bad debts and discounts)	60,000	42,000

On 01 Jan 2024, Provision for bad debts & discount on debtors had balance of Rs.4,550 & Rs.800 respectively. Show Provision for Bad Debts & Provision for Discount on Debtors Account for the year 2024 & 2025.

Answer: **Provision for Bad Debts A/c (in '000s)**

Date	Particulars	Rs. '000	Date	Particulars	Rs. '000
31 Dec 24	To Bad Debts A/c	800	01 Jan 24	By Balance b/d	4,550
31 Dec 24	To Profit & Loss A/c	850			
31 Dec 24	To Balance c/d	2,900			
	5% of (Rs.58,000)				
		4,550			4,550
31 Dec 25	To Bad Debts A/c	1,500	01 Jan 25	By Balance b/d	2,900
31 Dec 25	To Balance c/d	2,000	31 Dec 25	By Profit & Loss A/c	600
	5% of (Rs.40,000)				
		3,500			3,500

Provision for Discount on Debtors Account (in '000s)

Date	Particulars	Rs. '000	Date	Particulars	Rs. '000
31 Dec 24	To Discount A/c	1,200	01 Jan 24	By Balance b/d	800
31 Dec 24	To Balance c/d [2% on (Rs.58,000 – Rs.2,900)]	1,102	31 Dec 24	By Profit & Loss A/c	1,502
		2,302			2,302
31 Dec 25	To Discount	500	01 Jan 25	By Balance b/d	1,102
31 Dec 25	To Balance c/d [2% on (Rs.40,000 – Rs.2,000)]	760	31 Dec 25	By Profit & Loss A/c	158
		1,260			1,260

Recovery of Bad Debts

- Bad debt is a **loss & transferred** to current year's **P&L A/c**, either **directly or indirectly**.
- If any **amount is received from a debtor** in a **succeeding** accounting period, it is called **Bad Debt Recovery**.
- It is treated as **income** for the organisation & **credited** to P&L A/c in the **year of receipt**.

When bad debts are recovered	Cash/Bank A/c	Dr.
	To Bad Debts Recovery A/c	
When the same bad debts are transferred	Bad Debts Recovery A/c	Dr.
	To Profit & Loss A/c	

CQ4. On 31 Dec 2024, Sundry Debtors and Provision for Doubtful Debts are ₹50,000 and ₹5,000 respectively. During the year 2025, ₹3,000 are bad and written off on 30 Sep 2025, an amount of ₹400 was received on account of a debt which was written off as bad last year. **[CMAI SM Illustration 18]**

On 31 Dec 2025, the debtors ledger was verified and it was found that Sundry Debtors stood in the books at ₹40,000, out of which a customer Mr. X, who owed ₹800, was to be written off as bad.

Prepare Bad Debt A/c and Provision for Doubtful A/c assuming that the same percentage should be maintained for Provision for Doubtful Debt as it was on 31 Dec 2024.

Also show how the illustration appears in Profit & Loss A/c and Balance Sheet.

Answer: **Bad Debt Account**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
30 Sept 25	To Sundry Debtors A/c	3,000	31 Dec 25	By Provision for Bad Debts A/c	3,800
31 Dec 2025	To X A/c	800			
		3,800			3,800

Provision for Doubtful Debt Account

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31 Dec 25	To Bad Debt A/c	3,800	1 Jan 25	By Balance b/d	5,000
31 Dec 25	To Bal c/d [10% of (₹40,000 - ₹800)]	3,920	31 Dec 25	By P&L A/c (provision required)	2,720
		7,720			7,720

Profit & Loss Account for the year ended 31.12.2025 (Extract)

Particulars	(Rs.)	Particulars	(Rs.)
To Provision for Doubtful Debts	2,720	By Bad Debts Recovery A/c	400

Balance Sheet as on 31 Dec 2025 (Extract)

Liabilities	(Rs.)	Assets	(Rs.)
		Sundry Debtors	40,000
		Less: Bad Debts	800
		Less: Provision for Bad Debts	3,920
			35,280

Working Notes:

- (1) Calculation of Rate of Provision for Bad Debts = $(5,000 / 50,000 \times 100) = 10\%$
- (2) Provision to be created on 31 Dec 2025 = 10% of ₹39,200 = **₹3,920**

1.8 Depreciation & Provision for Depreciation

Depreciation, Amortisation & Depletion

Depreciation	<ul style="list-style-type: none"> Measure of wearing out, consumption, or loss of value of a depreciable asset due to use, efflux of time, or obsolescence. It is allocation of cost of tangible fixed asset as expense over its estimated useful life. Ex: Machine, plant, furniture, Leasehold Land etc.
Amortisation	<ul style="list-style-type: none"> Gradual & systematic writing-off of intangible asset over its estimated useful life. Ex: Patents, goodwill, copyrights.
Depletion	<ul style="list-style-type: none"> Depletion is the reduction in value or quantity of a natural (wasting) asset due to extraction or usage. Ex: Minerals, oil, coal, or timber [resources that are gradually used up over time].

Some Important Terms

Depreciable Asset	<ul style="list-style-type: none"> A tangible fixed asset used in business operations, having a limited useful life Ex: Buildings, Machinery.
Depreciable Value	<ul style="list-style-type: none"> The portion of an asset's cost that will be written off as depreciation over its useful life. Cost of Asset – Residual (Scrap) Value.
Depreciable Life	<ul style="list-style-type: none"> Expected useful life of an asset during which it will be economically useful & subject to depreciation. Depreciable life of an asset may differ from its physical life.
Book Value (WDV)	<ul style="list-style-type: none"> It reflects current value of the asset. BV = Original Cost - Total Depreciation. Amount of depreciation cannot be more than book value of the asset.

DC Note:

[Important]

- Freehold land is non depreciable due to its **infinite life**
- Leasehold land is depreciable due to its **limited life**.
- Depreciation is charged from the time when the **asset is in a 'ready to use' condition**.
- If Date of 'Ready to use' is not given then, **Date of Purchase = Date of Ready to use**.
- Change in method or rate of depreciation** should be applied **prospectively**, meaning the changes should be made **current year onwards & not retrospectively** for previous years.

Characteristics of Depreciation

- Depreciation is a **reduction in the book value** of fixed assets (except freehold land).
- Such reduction in the book value of a fixed asset is **permanent, gradual & of continuing nature**.
- Continuous process** i.e. provided every year as BV is reduced **due to use or with passage of time**.
- It occurs **gradually** unless there is a quick **physical deterioration or technological obsolescence**.

Items to be Included in Cost of Asset	
1 Purchase Price	Cost paid to acquire asset, including import duties & non-refundable taxes (net of discounts & rebates).
2 Directly Attributable Costs	Costs necessary to bring the asset in ready to use condition & it's intended location .
Site Preparation	Leveling land, clearing the area, etc.
Delivery and Handling	Freight, insurance during transit, loading-unloading charges etc.
Installation & Assembly	Wages, materials, setup charges etc.
Trial Run Expense	Net cost for testing an asset by operating it.
Professional Fees	Architect, engineer, consultant fees for asset setup.
3 GST Adjustment	
	If GST is refundable, adjustable or Input Tax Credit is allowed → Not included in Cost of Asset
	If GST is non-refundable, not adjustable or Input Tax Credit is not allowed → included in Cost of Asset
DC Note:	
(1) Unless specifically mentioned, assume that GST is refundable/adjustable & Input Tax Credit is allowed. Hence, do not include it in cost of asset.	
(2) Cost of Asset includes all the expenses incurred to bring the asset in 'ready to use condition' & any expense that 'enhances asset's efficiency or extends asset's useful life'.	

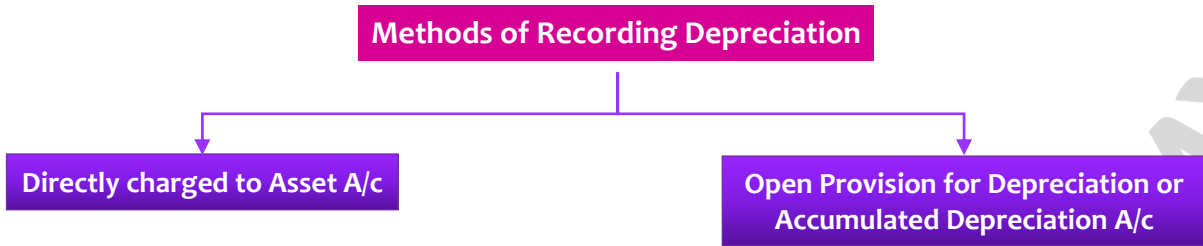
Items NOT Included in Cost of Asset (Expensed Directly)	
Routine Maintenance Cost	Servicing, electricity, petrol, diesel, etc.
Administrative & training costs	Salary of employees, Staff training etc
Abnormal losses	Wastage, defective material, labour inefficiency.
Initial Operational Losses	Loss due to delay in installation
Interest or Finance Charges	If asset purchased on credit basis, interest is not included in Cost of Asset.

Example: A company purchases machinery for ₹5,00,000. Additional costs incurred:

GST paid: ₹90,000 (ITC available)	Import Duty: ₹20,000
Installation: ₹5,000	Freight & Insurance: ₹10,000
Trial Run: ₹2,000	Architect Fees: ₹3,000
Staff Training: ₹4,000	Fuel Cost: ₹1,000

Answer: Cost of Asset = 5,00,000 + 20,000 + 5,000 + 10,000 + 2,000 + 3,000 = 5,40,000

Methods of Recording (Accounting) Depreciation

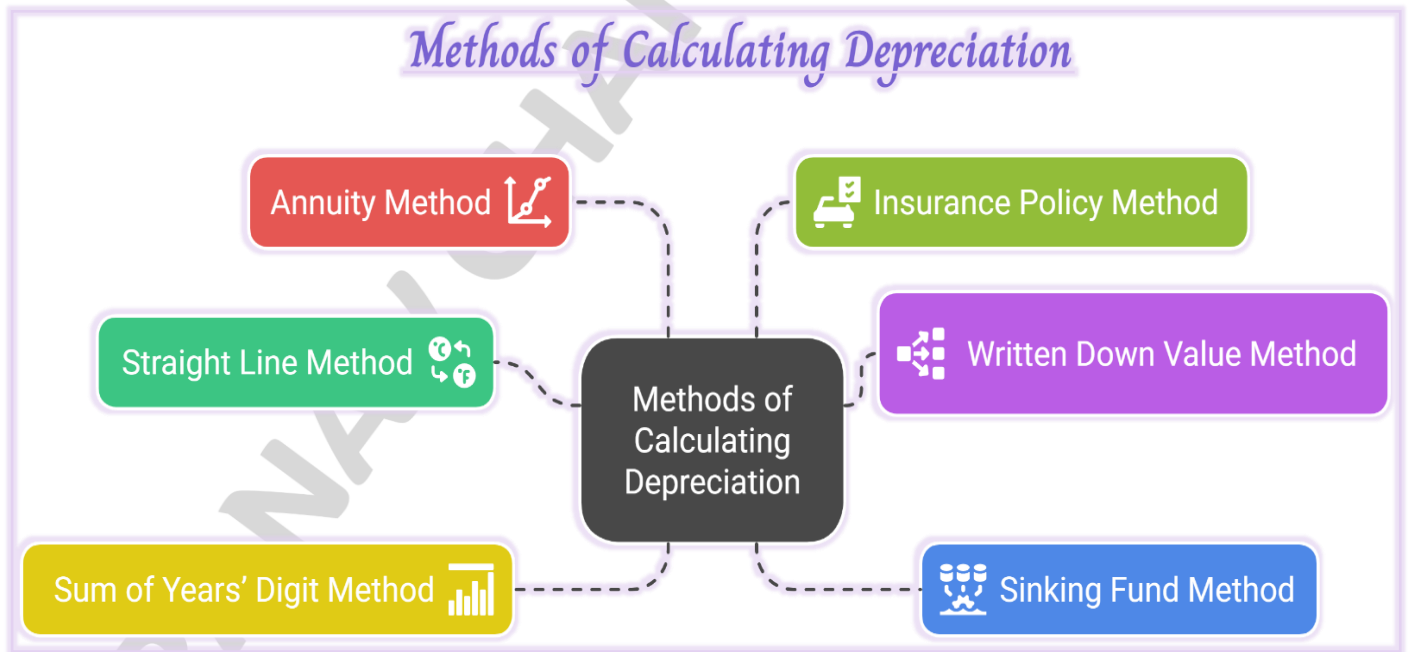


Depreciation is directly charged against asset

- Under this method, depreciation is **credited to the Asset A/c**.
- Depreciation A/c (nominal) is transferred to **Profit & Loss A/c**.
- Asset is shown in the Balance Sheet at **written down value** (cost less depreciation till date).
- Journal entries for **charging depreciation** & **transferring it to Profit & Loss Account**

Depreciation A/c	Dr.	Profit & Loss A/c	Dr.
To Asset A/c		To Depreciation A/c	
(Being depreciation on asset charged)		(Being depreciation transferred to P&L A/c)	

Methods of Calculating Depreciation



Straight Line Method or Fixed Installment Method

- Under this method, a **fixed portion** of the **asset's original cost** is charged as **equal periodic depreciation**.
- Depreciation remains the **same** each year.

$$\text{Depreciation} = \frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Useful Life}}$$

CQ1. Compute the amount of depreciation to be charged & rate of depreciation under SLM.

Machine No.	Cost of Machine	Expenses incurred at the time of purchase to be capitalized	Estimated Residual Value	Expected Useful Life in years
1	90,000	10,000	20,000	8
2	24,000	7,000	3,100	6
3	1,05,000	20,000	12,500	3
4	2,50,000	30,000	56,000	5

Answer:

[CMAI SM Illustration 8]

Formulae: $\text{Depreciation} = \frac{(\text{Cost of Asset} + \text{Pre Operation Expenses}) - \text{Scrap Value}}{\text{Useful Life}}$

$$\text{Rate of Depreciation} = \frac{\text{Amount of Depreciation}}{\text{Total Cost of Asset}} \times 100$$

Machine No.	Calculation of Depreciation	Depreciation	Rate
1	$\frac{(90,000 + 10,000) - 20,000}{8 \text{ yrs}}$	10,000	$\frac{10,000}{1,00,000} \times 100 = 10\%$
2	$\frac{(24,000 + 7,000) - 3,100}{6 \text{ yrs}}$	4,650	$\frac{4,650}{31,000} \times 100 = 15\%$
3	$\frac{(1,05,000 + 20,000) - 12,500}{3 \text{ yrs}}$	37,500	$\frac{37,500}{1,25,000} \times 100 = 30\%$
4	$\frac{(2,50,000 + 30,000) - 56,000}{5 \text{ yrs}}$	44,800	$\frac{44,800}{2,80,000} \times 100 = 16\%$

DC Note: Solutions of Machine 3 & Machine 4 given in the module is wrong.

CQ2. A machine is purchased for Rs. 7,00,000. Expenses incurred on its cartage & installation Rs. 3,00,000.

Calculate the amount of depreciation @ 20% p.a. according to Straight Line Method for the first year ending on 31st March, 2025 if this machine is purchased on:

[CMAI SM Illustration 9]

- (a) 1st April, 2024 (b) 1st July, 2024 (c) 1st October, 2024 (d) 1st January, 2025

Answer:

Depreciation for the year ended 31st March 2023

SN	Date of Purchase	Calculation of Depreciation	Depreciation
1	1st April, 2024	$(7,00,000 + 3,00,000) \times 20\%$	2,00,000
2	1st July, 2024	$(7,00,000 + 3,00,000) \times 20\% \times \frac{9}{12}$	1,50,000
3	1st October, 2024	$(7,00,000 + 3,00,000) \times 20\% \times \frac{6}{12}$	1,00,000
4	1st January, 2025	$(7,00,000 + 3,00,000) \times 20\% \times \frac{3}{12}$	50,000

CQ3. On 1st April, 2023, Som Ltd. purchased a machine for Rs.66,000 & spent Rs.5,000 on shipping & forwarding charges, Rs.7,000 import duty, Rs.1,000 for carriage & installation, Rs.500 as brokerage & Rs.500 for an iron pad. It was estimated that the machine will have a scrap value of Rs. 5,000 at the end of its useful life which is 15 years. On 1st January, 2024 repairs & renewals of Rs.3,000 were carried out. On 1st October, 2025 this machine was sold for Rs. 50,000. Prepare Machinery Account for the 3 years, year ends on 31st March. **[CMAI SM Illustration 14]**

Answer: **Machinery A/c**

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
1.4.23	To Bank A/c	80,000	31.3.24	By Depreciation A/c	5,000
				By Balance c/d	75,000
		80,000			80,000
1.4.24	To Balance b/d	75,000	31.3.25	By depreciation	5,000
				By Balance c/d	70,000
		75,000			75,000
1.4.25	To Balance b/d	70,000	1.7.25	By Bank A/c	50,000
				By Depreciation	2,500
				By P&L A/c (Loss on Sale)	17,500
		70,000			70,000

WN1: Calculation of Cost of Asset

Cost of asset = 66,000 + 5,000 + 7,000 + 1,000 + 500 + 500 = **80,000**

WN2: Calculation of Depreciation

Depreciation = $\frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Useful Life}} = \frac{80,000 - 5,000}{15} = \mathbf{5,000}$

Reducing Balance Method/ Diminishing Balance Method/ Written Down Value Method

- Under this method, depreciation is charged at a **fixed percentage** on **original cost** in the first year & on **written down value** in subsequent years.
- The rate of depreciation remains **constant**, but amount of depreciation **decreases each year**.

▪ **Formulae:**

Newly acquired Fixed Asset Original Cost x Rate of Depreciation

Existing Fixed Asset Opening WDV x Rate of Depreciation

CQ4. On 1.1.2023 a machine was purchased for Rs. 1,00,000 & Rs. 50,000 was paid for installation. Assuming that rate of depreciation was 10% on Reducing Balance Method, calculate amount of depreciation upto 31.12.25.

Answer: Total Cost of Machine = 1,00,000 + 50,000 = **1,50,000**

[CMAI SM Illustration 10]

Year	Opening Book Value (Rs.)	Rate	Depreciation (Rs.)	Closing Book Value (Rs.)
2023	1,50,000	10%	15,000	1,35,000
2024	1,35,000	10%	13,500	1,21,500
2025	1,21,500	10%	12,150	1,09,350

CQ5. On 1.1.2023 machinery was purchased for Rs. 80,000. On 01.07.2024 additions were made to the amount of Rs. 40,000. On 31.3.2025, machinery purchased on 1.7.2023, costing Rs. 12,000 was sold for Rs. 11,000 and on 30.06.2025 machinery purchased on 01.01.2023 costing Rs. 32,000 was sold for Rs. 26,700. On 1.10.2025, additions were made to the amount of Rs. 20,000. **[CMAI SM Illustration 12]**

- (1) Depreciation was provided at 10% p.a. on the Diminishing Balance Method.
- (2) Show the Machinery Accounts for three years from 2023-2025. (year ended 31st December)

Answer: **Working Note for Calculation of Profit or Loss on Sale of Machine**

Date	Particulars	M1		M2		M3
		A	B	C	D	
1.1.23	Purchase	32,000	48,000	-	-	-
31.12.23	Less: Depreciation (10%)	3,200	4,800	-	-	-
	WDV	28,800	43,200			
1.7.24	Purchase	-	-	12,000	28,000	-
31.12.24	Less: Depreciation (10%)	2,880	4,320	600	1,400	-
	WDV	25,920	38,880	11,400	26,600	
1.10.25	Purchase	-	-	-	-	20,000
	Less: Depreciation (10%)	1,296	3,888	285	2,660	500
	WDV	24,624	34,992	11,115	23,940	19,500
	Sold for	26,700	-	11,000	-	-
	Profit or Loss on Sale	(+) 2,076	-	(-) 115	-	-

Machinery A/c

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.23	To Bank A/c (M1)	80,000	31.12.23	By Depreciation A/c	8,000
				By Balance c/d	72,000
		80,000			80,000
01.01.24	To Balance b/d	72,000	31.12.24	By Depreciation A/c	9,200
01.07.24	To Bank A/c (M2)	40,000		By Balance c/d	1,02,800
		1,12,000			1,12,000
01.01.25	To Balance b/d	1,02,800	31.3.25	By Bank A/c (sold C)	11,000
30.06.25	To P&L A/c (Profit on Sale of A)	2,076		By Depreciation A/c (C)	285
	To Bank A/c	20,000	30.6.25	By P&L A/c (Loss on Sale of C)	115
				By Bank A/c (Sold A)	26,700
			31.12.25	By Depreciation A/c (A)	1,296
				By Depreciation A/c	7,048
				By Balance c/d	78,432
		1,24,876			1,24,876

CQ6. On Apr. 1, 2022, Brite Ltd. purchased a machine for ₹ 1,50,000 and spent ₹ 30,000 on its installation. On Oct. 1, 2023, a new machine was purchased at a cost of ₹ 1,20,000. On June 30, 2024, the first machine got damaged and was sold as scrap for ₹ 25,000. On July 1, 2024, the machine was replaced by a new machine purchased for ₹ 2,60,000 and a sum of ₹ 40,000 was spent on its installation. Show machinery account for the three years ended 31st March, 2025 while charging depreciation @ 10% p.a. as per the diminishing balance method. Accounts of Brite Ltd. are closed every year on 31st March. [CMAI Workbook]

Answer: Machinery A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1.04.22	To Bank A/c	1,80,000	31.03.23	By Depreciation A/c	18,000
				By Balance c/d	1,62,000
		1,80,000			1,80,000
1.04.23	To Balance b/d	1,62,000	31.03.24	By Depreciation A/c	22,200
1.09.23	To Bank A/c (New Machine)	1,20,000		By Balance c/d	2,59,800
		2,82,000			2,82,000
1.04.24	To Balance b/d	2,59,800	30.06.24	By Bank A/c (Scrap)	25,000
1.07.24	To Bank A/c	3,00,000		By Depreciation A/c	3,645
				By P&L A/c (Loss on Sale)	1,17,155
			31.03.25	By Depreciation A/c	33,900
				By Balance c/d	3,80,100
		5,59,800			5,59,800

Sum of the Units Method

- It is usage-based depreciation method.
- It is based on actual output/usage of asset.
- **Depreciation = Production during the year ÷ Estimated Total Production**

CQ7. A machine is purchased for Rs.60,00,000, estimated life of which is 10 years residual value is Rs. 4,00,000. Expected production of the machine is 2,00,000 during its useful life. Production pattern is as follows:

Year	Units
1-2	20,000 per year
3-6	15,000 per year
7-10	25,000 per year

Compute the amount of depreciation for each year applying Sum of the Units Method. [CMAI SM Illustration 11]

Answer:

Year	Calculation of Depreciation	Depreciation
1-2	$(20,000 \div 2,00,000) \times (60,00,000 - 4,00,000)$	5,60,000
3-6	$(15,000 \div 2,00,000) \times (60,00,000 - 4,00,000)$	4,20,000
7-10	$(25,000 \div 2,00,000) \times (60,00,000 - 4,00,000)$	7,00,000

Provision for Depreciation A/c or Accumulated Depreciation A/c is maintained

- Depreciation is **credited** to **Provision for Depreciation** or **Accumulated Depreciation A/c**, not the Asset A/c.
- Asset **remains at cost**, and total depreciation is shown in the **Provision A/c**.
- In Balance Sheet, asset is shown at the **Written Down Value** (cost less depreciation).
- Journal entries for **charging depreciation** & **transferring it to Profit & Loss Account**

Depreciation A/c	Dr.	Profit & Loss A/c	Dr.
To Provision for Depreciation A/c		To Depreciation A/c	
(Being depreciation on asset charged)		(Being depreciation transferred to P&L A/c)	

Features of Provision for Depreciation A/c

- Fixed asset is recorded at **original cost**; yearly depreciation is **not transferred to the Asset Account**.
- Provision for Depreciation Account shows the **accumulated value of all past depreciation**.
- This system can be used under both Straight Line Method & Diminishing Balance Method of depreciation.

Entries when Provision for Depreciation A/c is maintained

For purchase of asset	Asset A/c		Dr.
	To Cash/Bank A/c		
For providing depreciation at end of year	Depreciation A/c		Dr.
	To Provision for depreciation A/c		
For sale of assets	Asset Sold or Disposal A/c is opened		
	Asset Disposal A/c	Dr.	
	To Asset A/c (original cost)		
	When Cash Realised on sale of Asset:		
	Cash/Bank/ Debtor A/c	Dr.	O R
	Provision for depreciation A/c	Dr.	
	P&L A/c (loss)	Dr.	
	To Asset Sales A/c		
	To P&L A/c (profit)		
	Asset Sold or Disposal A/c is not opened		
Cash/Bank A/c		Dr.	
Provision for depreciation A/c		Dr.	
		To Asset Sales A/c	

Asset Sold or Disposal A/c

- It is a temporary ledger A/c used to record all transactions related to sale or disposal of a fixed asset.
- Main purpose of preparing Asset Sold or Disposal A/c is to **identify profit or loss on sale or disposal of asset.**

DC Note: In Asset Sold or Disposal A/c:

- Debit Original Cost** of the asset transferred from the Asset A/c
- Credit** sale proceeds, accumulated depreciation & current year's depreciation
- Balance** represents **profit or loss**, which is transferred to P&L A/c.

Accounting Treatment for Disposal of Fixed Assets

SN	With Asset Disposal A/c	SN	Without Asset Disposal A/c
1	WDV is transferred to Asset Disposal A/c	1	On sale of asset
	Asset Disposal A/c Dr.		Cash/Bank A/c Dr.
	To Asset A/c		To Asset A/c
2	In case of Sale of an Asset	2	For depreciation
	Cash/Bank A/c Dr.		Depreciation (P&L A/c) Dr.
	To Asset Disposal A/c		To Asset A/c
3	For depreciation (if any)	3	In case of Profit on Sale
	Depreciation (P & L A/c) Dr.		Asset A/c Dr.
	To Asset Disposal A/c		To Profit & Loss A/c
4	In case of Profit on Sale of Asset	4	In case of Loss on Sale
	Asset Disposal A/c Dr.		Profit & Loss A/c Dr.
	To Profit & Loss A/c		To Asset A/c
5	In case of Loss on Sale of Asset		
	Profit & Loss A/c Dr.		
	To Asset Disposal A/c		

Change of Method of Depreciation

- Depreciation method should reflect the **pattern of consumption** of the asset's future economic benefits.
- It must be reviewed annually, & if there's a significant change in usage pattern, method should be changed.
- Such a change is treated as a **change in accounting estimate (as per AS 5)**, not accounting policy.
- New method is applied **prospectively**.
- Selected method must be **consistently followed** unless change is needed to better match with revenue.

CQ8. S & Co. purchased a machine for Rs. 1,00,000 on 1.1.2023. Another machine costing Rs. 1,50,000 was purchased on 1.7.2024. On 31.12.2025, the machine purchased on 1.1.2023 was sold for Rs. 50,000. The company provides depreciation at 15% on Straight Line Method. The company closes its accounts on 31st December every year.

[CMAI SM Illustration 13]

Prepare: (i) Machinery A/c, (ii) Machinery Disposal A/c and (iii) Provision for Depreciation A/c.

Answer:

Machinery A/c

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.23	To Bank A/c	1,00,000	01.01.23	By Balance c/d	1,00,000
		1,00,000			1,00,000
01.01.24	To Balance b/d	1,00,000			
01.07.24	To Bank A/c	1,50,000	31.12.24	By Balance c/d	2,50,000
		2,50,000			2,50,000
01.01.25	To Balance b/d	2,50,000	31.12.25	By Machinery Disposal A/c	1,00,000
			31.12.25	By Balance c/d	1,50,000
		2,50,000			2,50,000
01.01.26	To Balance b/d	1,50,000			

Provision for Depreciation A/c

Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
31.12.23	To Balance c/d	15,000	31.12.23	By Depreciation A/c	15,000
		15,000			15,000
31.12.24	To Balance c/d	41,250	01.01.24	By Balance b/d	15,000
			31.12.24	By Depreciation A/c	26,250
		41,250			41,250
31.12.25	To Machinery Disposal A/c	30,000	01.01.25	By Balance b/d	41,250
31.12.25	To Balance c/d	33,750	31.12.25	By Depreciation A/c	22,500
		63,750			63,750
			01.01.26	By Balance b/d	33,750

Machinery Disposal A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Machinery A/c	1,00,000	By Provision for Depreciation A/c	30,000
		By Depreciation A/c	15,000
		By Bank A/c	50,000
		By Profit & Loss A/c(Loss on Sale)	5,000
	1,00,000		1,00,000

CQ9. The following information relates to Z Ltd:

[CMAI Workbook]

Particulars	Opening Balance (₹)	Closing Balance (₹)
Fixed Assets	4,00,000	5,50,000
Accumulated Depreciation	80,000	1,35,000

A machine of ₹ 60,000 has been sold for ₹ 30,000, on which accumulated depreciation was ₹ 15,000.

You are required to prepare Fixed Assets A/c, Accumulated Depreciation A/c & Asset Disposal A/c.

Answer:

Fixed Assets A/c

Particulars		Rs.	Particulars		Rs.
Opening	To Balance b/d	4,00,000	Sale	By Asset Disposal A/c	60,000
Purchase	To Bank A/c (Bal fig)	2,10,000	Closing	By Balance c/d	5,50,000
		6,10,000			6,10,000

Accumulated Depreciation A/c

Particulars		Rs.	Particulars		Rs.
Opening	By Balance b/d	80,000	Sale	To Asset Disposal A/c	15,000
Transfer	By P&L A/c (Bal. fig.)	70,000	Closing	To Balance c/d	1,35,000
		1,50,000			1,50,000

Asset Disposal A/c

Particulars		Rs.	Particulars		Rs.
Opening	To Fixed Assets A/c	60,000	Sale	By Accumulated Dep. A/c	15,000
			Sale	By Bank A/c	30,000
			Profit	By P&L A/c	15,000
		60,000			60,000

CQ10. On 31 March, 2023 in the Trial Balance of Singhania Brothers, balance of the Machinery Account appears as Rs. 19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at Rs. 4,50,000 was disposed off on 30 Nov, 2022 in exchange of new machinery costing Rs. 3,50,000. **[CMAI June 24 – 7 Marks]**

Calculate: (1) Total depreciation to be charged in Profit & Loss A/c

(2) Profit or loss on exchange of machine

(3) Book value of machinery in Balance Sheet as on 31.03.2023

Answer:

1	WDV as on 31.3.23 = Rs. 19,80,000 Depreciation on machinery disposed off on 30.11.22 = $4,50,000 \times 15\% \times 8/12 = 45,000$ WDV of machine (sold) on 30.11.22 = $4,50,000 - 45,000 = 4,05,000$ New machine taken for 3,50,000 Depreciation on new machine = $3,50,000 \times 15\% \times 4/12 = 17,500$ Depreciation on Machinery other than sold & purchased = $(19,80,000 - 4,50,000) \times 15\% = 2,29,500$ Total depreciation for the year = $2,29,500 + 45,000 + 17,500 = \text{Rs. } 2,92,000$
2	Loss on exchange $4,05,000 - 3,50,000 = \text{Rs. } 55,000$
3	Book value of Machinery on 31.3.2023 = $19,80,000 - 2,92,000 - 55,000 = \text{Rs. } 16,33,000$

2 BILLS OF EXCHANGE

Disha Chandak

Negotiable Instrument

- A negotiable instrument, as per Section 13(1) of Negotiable Instruments Act, 1881, refers to a **promissory note, bill of exchange, or cheque**, payable either to order or to bearer.
- 'Negotiable' means **transferable**, & 'instrument' means a **written document creating a right in favour of a person**.
- Thus, a negotiable instrument is a written document **entitling a person to a specific sum of money, transferable by delivery or endorsement**.

Bill of Exchange [Section 5, NI Act, 1881]

A bill of exchange is a written instrument containing an **unconditional order**, signed by the maker, **directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer**.

- An order is **not regarded as conditional** merely because payment is scheduled after a specific event, provided that the **event is certain** to occur, even if the **exact timing is uncertain**.
- Sum payable is still considered **certain** even if it includes future interest, is linked to an exchange rate, or becomes fully due on default of an instalment.
- A person is considered '**certain**' even if **misnamed or described by title only**, as long as it is clear who is intended to receive the payment.

Essential Elements

Written Form	Must be in writing ; can be in any language or form
Date of Drawing	Must be drawn on a specific date
Parties Involved	Drawer, Drawee & Payee
Signature	Must be signed by Drawer
Unconditional Order	Must contain an unconditional & imperative order to pay
Direction to Certain Person	Order must be directed to a specific, identifiable person (Drawee)
Certain Sum of Money	Must be for a definite amount of money only
Stamp Duty	Must be duly stamped as per legal requirements

Parties to Bill of Exchange

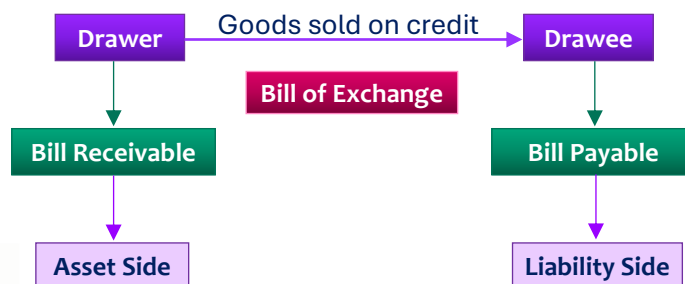
Drawer	Party that issues BOE (Creditor, Lender, or Seller), maker of the bill & signature is essential.
Drawee	<ul style="list-style-type: none"> ▪ Party to whom order to pay is directed (Debtor, Lendee, or Purchaser). ▪ Becomes Acceptor upon signing the bill.
Payee	Beneficiary to whom the payment is to be made. May be Drawer or any other party .

Classification of Bill of Exchange	
Documentary Bill	Supported by documents that prove genuineness of transaction between buyer & seller.
Demand Bill	Payable on demand; has no fixed date of payment & must be paid when presented.
Usance Bill	Time-bound bill; payment is to be made within a specified period.
Inland Bill	Payable within the same country; not valid for international transactions.
Clean Bill	Not backed by any documents; carries higher interest due to lack of security.
Foreign Bill	Payable outside India; includes export & import bills.
Accommodation Bill	Drawn & accepted without any actual transaction; used to provide financial assistance.
Trade Bill	Issued strictly for trade transactions between buyer & seller.
Supply Bill	Drawn by a supplier or contractor on a government department.

Differentiate between Trade & Accommodation Bill

Trade Bill	Accommodation Bill
Drawn to facilitate trade transactions involving sale & purchase of goods.	Drawn to provide financial help to a party in need.
Backed by a genuine consideration (actual sale of goods/services).	No consideration; not linked to any real trade transaction.
A form of credit extension between buyer & seller.	Not a credit extension; purely for financial accommodation.
When discounted, proceeds are retained by holder.	When discounted, proceeds are often shared between drawer & drawee as per mutual agreement.
If dishonoured, recovery can be made legally through court proceedings.	If dishonoured, drawer cannot sue drawee since no legal trade transaction exists.

Bills Receivable (B/R)	Person who draws the bill & is entitled to receive payment treats bill as B/R. Shown on Assets side of Balance Sheet by Drawer.
Bills Payable (B/P)	Person who accepts the bill & is liable to make payment treats bill as B/P. Shown on Liabilities side of Balance Sheet by Drawee.



Maturity / Due Date and Days of Grace	
Maturity or Due Date	
On Demand / At Sight / On Presentation Bill	<ul style="list-style-type: none"> Payable immediately on presentation. No specific time for payment mentioned. No Days of Grace allowed.
After Date Bill	<ul style="list-style-type: none"> Payable after a specified period from date of the bill. 3 Days of Grace are added.
After Sight Bill	<ul style="list-style-type: none"> Payable after a specified period from date of acceptance. 3 Days of Grace are added.
Grace Period	
Period Given in Months	<ul style="list-style-type: none"> Count calendar months. Add 3 days of grace. Ex: Bill dated 4th May, payable after 3 months → 7th August
Period Given in Days	<ul style="list-style-type: none"> Count in days (exclude transaction date, include payment date). Add 3 Grace days. Ex: Bill dated 5th June, payable after 65 days → 12th August
Maturity Falls on National Holiday	<ul style="list-style-type: none"> Due date moves to the preceding business day. Ex: Due date is 26th Jan → maturity date is 25th Jan.
Maturity Falls on Emergency Holiday	<ul style="list-style-type: none"> Due date shifts to the next working day. Ex: If due date is 25th July (emergency holiday) → maturity date is 26th July.

CQ1. Calculate the due dates of the bills in the following cases

[CMAI SM Illustration 1]

SN	Date of Bill	Tenure (Period)
1	1 st January 2025	4 months
2	23 rd November 2025	2 months

Answer:

(1) Due date = 1 Jan 25 + 4 Months + 3 Grace Days = **4 May 25**

(2) Due date = 23 Nov 25 + 2 Months + 3 Grace Days = **26 Jan 26**

Since 26th Jan is a National Hoilday, due date would be preponed = **25th Jan 2026**

Journal Entries					
	Particulars	In the Books of Drawer		In the Books of Drawee	
1	Goods sold by Drawer to Drawee	Drawee's A/c	Dr.	Purchase A/c	Dr.
		To Sales A/c		To Drawer's A/c	
2	Bill drawn on drawee by drawer	Bill Receivable A/c	Dr.	Drawer's A/c	Dr.
		To Drawee's A/c		To Bill Payable A/c	

3	Case 1: Bill Kept till Maturity	No Entry		} No Entry
	Case 2: Bill discounted by bank	Bank A/c	Dr.	
		Discount A/c	Dr.	
		To Bill receivable A/c		
	Case 3: Bill Endorsed to a creditor	Creditor A/c	Dr.	
To Bill receivable A/c				
Case 4: Bill sent for collection	Bill sent for collection A/c	Dr.		
	To Bill receivable A/c			
4	Bill honoured on due date			
Case 1: Bill kept till Maturity	Cash A/c	Dr.	} Bill Payable A/c Dr.	
	To Bill Receivable A/c			
Case 2: Bill discounted by bank	No Entry		} To Cash A/c	
Case 3: Bill Endorsed to a creditor	No Entry			
Case 4: Bill sent for collection	Bank A/c	Dr.		
	To Bill sent for collection			
5	Bill Dishonoured on due date			
Case 1: Bill kept till Maturity	Drawee's A/c	Dr.	} Bills Payable A/c Dr.	
	To Bills Recievable A/c			
Case 2: Bill discounted by bank	Drawee's A/c	Dr.	} Noting Charges A/c Dr.	
	To Bank A/c			
Case 3: Bill Endorsed to a creditor	Drawee's A/c	Dr.	} To Drawer's A/c	
	To Creditor's A/c			
Case 4: Bill sent for collection	Drawee's A/c	Dr.	} Interest A/c Dr.	
	To Bills sent for collection A/c			
Case 5: Interest due accrued	Drawee's A/c	Dr.	} To Drawer's A/c	
	To Interest A/c			
Case 6: Settlement in case of insolvency	Cash A/c	Dr.	} Drawer's A/c Dr.	
	Bad debts A/c	Dr.		} To Cash A/c
	To Drawee's A/c			
			} To Deficiency A/c	

Dishonour of Bill		
Dishonour by Non-Acceptance	Drawee refuses to accept bill or presentment is excused & bill is not accepted.	No entry in books
Dishonour by Non-Payment	When drawee fails to pay the bill amount on due date.	Entries required in books of drawer, drawee & endorsee (if any) .
Noting of Bill	Official recording of dishonour by a Notary Public.	Noting Charges: Expense for holder, recoverable from drawee.
Dishonour due to Insolvency	Drawee becomes insolvent ; either nothing or partial amount (Final Dividend) is recovered.	Drawer: Debit to Bad Debts A/c Drawee: Debit to Deficiency A/c .

CQ2. X sold goods for Rs. 20,000 to Y on credit on 01 January. X drew a bill of exchange upon Y for the same amount for three months. Y accepted the bill and returned it to X. Y met his acceptance on maturity. Record the necessary journal entries under the following circumstances: **[CMAI SM Illustration 2]**

- (1) X retained the bill till the date of its maturity and collected directly.
- (2) X discounted the bill @ 12% p.a. from his bank on 01 January
- (3) X endorsed the bill to his creditor Z, on 01 January
- (4) X retained bill & on 31 March, X sent bill for collection to its bank. On 05 April bank advice was received.

Answer: **In the books of X**

Case 1: Bill retained till Maturity or Due Date				
1 Jan	Y A/c	Dr.	20,000	
	To Sales A/c			20,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	20,000	
	To Y A/c			20,000
	[Being acceptance received from Y]			
4 April	Cash or Bank A/c	Dr.	20,000	
	To Bills Recievable A/c			20,000
	[Being Bill honoured & payment received from Y]			

In the books of Y

1 Jan	Purchase A/c	Dr.	20,000	
	To X A/c			20,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	20,000	
	To Bills Payable A/c			20,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	20,000	
	To Cash or Bank A/c			20,000
	[Being payment made for the bill payable]			

In the Books of X

Case 2: Bill discounted from Bank				
1 Jan	Y A/c	Dr.	20,000	
	To Sales A/c			20,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	20,000	
	To Y A/c			20,000
	[Being acceptance received from Y]			
1 Jan	Bank A/c	Dr.	19,400	
	Discount A/c (20,000 × 12% × 3/12)	Dr.	600	
	To Bills Receivable A/c			20,000
	[Being bill discounted by bank]			

In the books of Y

1 Jan	Purchase A/c	Dr.	20,000	
	To X A/c			20,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	20,000	
	To Bills Payable A/c			20,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	20,000	
	To Bank A/c			20,000
	[Being payment made for the bill payable to the bank]			

In the books of X

Case 3: Bill endorsed by X to his creditor Z				
1 Jan	Y A/c	Dr.	20,000	
	To Sales A/c			20,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	20,000	
	To Y A/c			20,000
	[Being acceptance received from Y]			
1 Jan	Z A/c	Dr.	20,000	
	To Bills Receivable A/c			20,000
	[Being bill endorsed to Z]			

In the books of Y

1 Jan	Purchase A/c	Dr.	20,000	
	To X A/c			20,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	20,000	
	To Bills Payable A/c			20,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	20,000	
	To Cash or Bank A/c			20,000
	[Being payment made for the bill payable to the creditor]			

In the books of X

Case 4: Bill sent to bank for collection

1 Jan	Y A/c	Dr.	20,000	
	To Sales A/c			20,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	20,000	
	To Y A/c			20,000
	[Being acceptance received from Y]			
31 Mar	Bill Sent for Collection A/c	Dr.	20,000	
	To Bills Receivable A/c			20,000
	[Being bill sent for collection to bank]			
5 April	Bank A/c	Dr.	20,000	
	To Bill sent for collection A/c (advice from bank received on 5 April)			20,000
	[Being bill collected by bank]			

In the books of Y

1 Jan	Purchase A/c	Dr.	20,000	
	To X A/c			20,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	20,000	
	To Bills Payable A/c			20,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	20,000	
	To Bank A/c			20,000
	[Being payment made for the bill payable to the bank]			

CQ3. Mr. X sold goods for Rs. 15,000 to Mr. Y & immediately drew a bill upon him on 01 Jan payable after 3 months. On maturity bill was dishonoured & Rs. 50 were paid by the holder of the bill as noting charges.

Journal entries will be recorded in the books of Mr. X & Mr. Y as given below under the following circumstances:

- (1) When the bill was kept by Mr. X till maturity. **[CMAI SM Illustration 3]**
- (2) When the bill was discounted by Mr. X with his bank immediately @ 12% p.a.
- (3) When the bill was endorsed by Mr. X in favour of his creditor Miss. Z.

Answer: **In the books of X**

Case 1: Bill retained Maturity or Due Date & dishonoured				
1 Jan	Y A/c	Dr.	15,000	
	To Sales A/c			15,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	15,000	
	To Y A/c			15,000
	[Being acceptance received from Y]			
4 April	Y A/c	Dr.	15,050	
	To Bills Recievable A/c			15,000
	To Cash A/c (Noting Charges)			50
	[Being Bill dishonoured by Y & noting charges paid]			

In the books of Y

1 Jan	Purchase A/c	Dr.	15,000	
	To X A/c			15,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	15,000	
	To Bills Payable A/c			15,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	15,000	
	Noting Charges A/c	Dr.	50	
	To X A/c			15,050
	[Being bill dishonoured]			

In the books of X

Case 2: Bill discounted by bank dishonoured				
1 Jan	Y A/c	Dr.	15,000	
	To Sales A/c			15,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	15,000	
	To Y A/c			15,000
	[Being acceptance received from Y]			

1 Jan	Bank A/c	Dr.	14,550	
	Discount A/c	Dr.	450	
	To Bills Recievable A/c			15,000
	[Being Bill discounted by bank]			
4 April	Y A/c	Dr.	15,050	
	To Bills Receivable A/c			15,000
	To Bank A/c			50
	[Being bill dishonoured by Y & Noting charges paid]			

In the books of Y

1 Jan	Purchase A/c	Dr.	15,000	
	To X A/c			15,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	15,000	
	To Bills Payable A/c			15,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	15,000	
	Noting Charges A/c	Dr.	50	
	To X A/c			15,050
	[Being bill dishonoured]			

In the books of X

Case 3: Bill endorsed to creditor Z

1 Jan	Y A/c	Dr.	15,000	
	To Sales A/c			15,000
	[Being Goods Sold on Credit]			
1 Jan	Bills Recievable A/c	Dr.	15,000	
	To Y A/c			15,000
	[Being acceptance received from Y]			
1 Jan	Z A/c	Dr.	15,000	
	To Bills Recievable A/c			15,000
	[Being Bill endorsed to creditor Z]			
4 April	Y A/c	Dr.	15,050	
	To Z A/c			15,050
	[Being bill dishonoured by Y & Noting charges paid by Z]			

In the books of Y

1 Jan	Purchase A/c	Dr.	15,000	
	To X A/c			15,000
	[Being Goods purchased on credit]			
1 Jan	X A/c	Dr.	15,000	
	To Bills Payable A/c			15,000
	[Being acceptance given to X]			
4 April	Bills Payable A/c	Dr.	15,000	
	Noting Charges A/c	Dr.	50	
	To X A/c			15,050
	[Being bill dishonoured]			

Renewal of a Bill

- When holder of a bill cannot meet it on the due date, drawee may request drawer for an extension.
- If agreed, old bill is cancelled & new bill is drawn & accepted with extended terms.
- Interest is charged for the extended period.

CQ4. On 01 February X sold goods to Y for Rs. 18,000; Rs. 3,000 were paid by Y immediately and for the balance he accepted three months bill drawn upon him by X. On the date of maturity of the bill Y requested X to cancel the old bill & draw new bill for a period of 2 months. He further agreed to pay interest in cash to X @ 12% p.a. X agreed to Y's request & cancelled the old bill and drew a new bill. New bill was met on maturity by Y.

Pass necessary journal entries in the books of drawer and drawee.

[CMAI SM Illustration 4]

Answer:

In the books of X

Date	Particulars	Dr.	Cr.
1 Feb	Y A/c	Dr.	15,000
	Cash A/c	Dr.	3,000
	To Sales A/c		18,000
	[Being goods sold; 3,000 received in cash and balance on credit]		
1 Feb	Bills Recievable A/c	Dr.	15,000
	To Y A/c		15,000
	[Being bill drawn on Y for 3 Months]		
4 May	Y A/c	Dr.	15,000
	To Bills Recievable A/c		15,000
	To Interest A/c (15,000 x 12% x 2/12)		300
	[Being old bill cancelled]		
4 May	Bills Recievable A/c	Dr.	15,000
	Cash A/c	Dr.	300
	To Y A/c		15,300
	[Being bill drawn on Y for 2 Months & interest received]		

7 July	Cash or Bank A/c		15,000	
	To Bills Receivable A/c			15,000
	[Being Bill honoured by Y & payment received]			

In the books of Y

1 Feb	Purchase A/c	Dr.	18,000	
	To X A/c			15,000
	To Cash A/c			3,000
	[Being Goods purchased 3,000 paid cash & balance on credit]			
1 Feb	X A/c	Dr.	15,000	
	To Bills Payable A/c			15,000
	[Being acceptance given to X]			
4 May	Bills Payable A/c Dr.		15,000	
	Interest A/c Dr.		300	
	To X A/c			15,300
	[Being old bill cancelled & 12% Interest charged]			
4 May	X A/c	Dr.	15,300	
	To Bills Payable A/c			15,000
	To Cash A/c			300
	[Being new bill accepted & interest paid]			
7 July	Bills Payable A/c	Dr.	15,000	
	To Cash A/c			15,000
	[Being bill honoured & payment made to X]			

Retirement of a Bill

- When the drawee pays the bill **before its due date**, it is called retirement of a bill.
- It occurs with **mutual understanding** between drawer and drawee.

Rebate on Bill

- When bill is retired, interest for **unexpired period** is given as rebate.
- Rebate is paid by the **holder to the drawee** at an agreed rate.
- Rebate is **income** for drawee & **expense** for payee.

CQ5. X sold goods Rs. 10,000 to Y on 1st January & immediately drew a bill on Y for three months for the same amount, Y accepted the bill and returned it to X. On 4th March Y retired her acceptance under rebate of 6% pa.

- (1) Pass the journal entries to record the above transactions in the books of X and Y;
- (2) Prepare Y A/c & Bill Receivable A/c in the books of X; and
- (3) Prepare X A/c and Bill Payable A/c in the books of Y.

[CMAI SM Illustration 5]

Answer:

In the books of X

Date	Particulars	Dr.	Cr.
1 Jan	Y A/c	Dr.	10,000
	To Sales A/c		10,000
	[Being goods sold on credit]		
1 Jan	Bills Recievable A/c	Dr.	10,000
	To Y A/c		10,000
	[Being bill drawn on Y]		
4 Mar	Y A/c	Dr.	9,950
	Rebate A/c (10,000 x 6% ÷ 12)	Dr.	50
	To Bills Recievable A/c		10,000
	[Being bill retired & rebate allowed]		

In the books of X

Date	Particulars	Dr.	Cr.
1 Jan	Purchase A/c	Dr.	10,000
	To X A/c		10,000
	[Being goods purchased on credit]		
1 Jan	X A/c	Dr.	10,000
	To Bills Payable A/c		10,000
	[Being acceptance given to X]		
4 Mar	Bills Payable A/c	Dr.	10,000
	To Cash A/c		9,950
	To Rebate A/c		50
	[Being bill retired & rebate received]		

Ledger A/c in the books of X

Y's A/c

Date	Particulars	Dr.	Date	Particulars	Cr.
1 Jan	To Sales A/c	10,000	1 Jan	By Bills Receivable A/c	10,000
		10,000			10,000

Bills Receivable A/c

Date	Particulars	Dr.	Date	Particulars	Cr.
1 Jan	To Y A/c	10,000	1 Jan	By Cash A/c	9,050
				By Rebate A/c	50
		10,000			10,000

**Ledger A/c in the books of Y
X's A/c**

Date	Particulars	Dr.	Date	Particulars	Cr.
1 Jan	To Purchase A/c	10,000	1 Jan	By Bills Payable A/c	10,000
		10,000			10,000

Bills Payable A/c

Date	Particulars	Dr.	Date	Particulars	Cr.
1 Jan	To Cash A/c	9,050	1 Jan	By X A/c	10,000
	To Rebate A/c	50			
		10,000			10,000

CQ6. On 1st Jan , X sold goods to Y valuing Rs. 30,000. On 4th Jan X received from Y a cheque of Rs. 10,000 & drew a bill payable 3 months after date for the balance. On the same date, X endorsed accepted bill to Z for full settlement of a debt of Rs. 21,000. On the due date, bill was dishonoured & Y having become insolvent, met on 12th April , 80% of his acceptance as full & final dividend. You are required to pass journal entries to record above transactions.

[CMAI SM NQ 1]

Answer:

In the books of X

Date	Particulars	Dr.	Cr.
1 Jan	Y A/c	Dr.	30,000
	To Sales A/c		30,000
	[Being goods sold on credit]		
4 Jan	Bank A/c	Dr.	10,000
	Bills Recievable A/c	Dr.	20,000
	To Y A/c		30,000
	[Being part payment received by cheque & bill drawn of balance amount on Y]		
4 Jan	Z A/c	Dr.	20,000
	To Bills Receivable A/c		20,000
	[Being bill endorsed to creditor Z in full settlement]		
7 April	Y A/c	Dr.	20,000
	To Z A/c		20,000
	[Being bill dishonoured by Y & X liable to Z again]		
12 April	Bank A/c	Dr.	16,000
	Bad debts A/c	Dr.	4,000
	To Y A/c		20,000
	[Being 80% of amount received from Y & balance written off]		

Accommodation Bill

- Accommodation Bills are drawn & accepted **without any consideration**.
- When two or more parties (not in a debtor-creditor relationship) draw & accept bills on each other **to discount & share proceeds** & later **provide funds to honour them**, such bills are called Accommodation Bills.
- They are also known as **Kite Bills**.

DC Note: No grace period is allowed in case of Accommodation Bill.

CQ7. For mutual accommodation of X & Y, X drew upon Y a bill of Rs. 6,000 at 3 months on 1st April. Y accepted the bill & returned to X who discounted it immediately @6% p.a. According to agreement, X & Y shared the proceeds as 2:1. On date of maturity X remitted his share to Y who honoured bill by payment. Show journal entries in the books of X & Y.

[CMAI SM Illustration 6]

Answer: In the books of X

Date	Particulars	Dr.	Cr.	
1 April	Bills Receivable A/c	Dr.	6,000	
	To Y A/c		6,000	
	[Being bill drawn & accepted]			
	Bank A/c	Dr.	5,910	
	Discount A/c	Dr.	90	
	To Bills Receivable A/c		6,000	
	[Being bill discounted by bank]			
	Y A/c (1/3 rd)	Dr.	2,000	
	To Discount A/c (1/3 rd of Discount)		30	
	To Bills Receivable A/c		1,970	
[Being proceeds remitted proportionately & discount charged]				
1 July	Y A/c	Dr.	4,000	
	To Cash or Bank A/c		4,000	
	[Being X's share of accommodation remitted to Y]			

In the books of Y

Date	Particulars	Dr.	Cr.	
1 April	X A/c	Dr.	6,000	
	To Bills Payable A/c		6,000	
	[Being accommodation bill accepted]			
	Bank A/c	Dr.	1,970	
	Discount A/c	Dr.	30	
1 July	To X A/c		2,000	
	[Being proceed received proportionately & discount allowed]			
	Bank A/c	Dr.	4,000	
	To X A/c		4,000	
	[Being X's share received]			
1 July	Bills Payable A/c	Dr.	6,000	
	To Bank A/c		6,000	
	[Being bill honoured & payment made to bank]			

CQ8. X draws a bill for Rs. 1,200 & Y accepts the same for mutual accommodation in ratio of 4:2. X discounts bill for Rs. 1,110 & remits $\frac{1}{3}$ rd of the proceeds to B. Before due date, Y draws another bill for Rs. 1,800 on X in order to provide funds to meet the first bill. Second bill is discounted for Rs. 1,740 by Y & a sum of Rs. 360 is remitted to X after meeting first bill. Second bill is duly met. Show journal entries in books of both X & Y.

Answer: ✂
In the books of X

Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Bills Receivable A/c Dr.	1,200	
	To Y A/c		1,200
	(Being on 1st bill drawn on Y for mutual accommodation)		
2	Bank A/c Dr.	1,110	
	Discount on Bills A/c Dr.	90	
	To Bills Receivable A/c		1,200
	(Being bill discounted by bank)		
3	Y A/c (Rs. 1,200 x $\frac{1}{3}$) Dr.	400	
	To Bank A/c		370
	To Discount on Bills A/c (Rs. 90 x $\frac{1}{3}$)		30
	(Being proceeds remitted to Y & discount charged proportionately)		
4	Y A/c Dr.	1,800	
	To Bills Payable A/c		1,800
	(Being the bill drawn on X by Y)		
5	Bank A/c Dr.	360	
	Discount on Bills A/c Dr.	40	
	To Y A/c (Rs. 1,200 x $\frac{1}{3}$)		400
	(Being the net amount remitted to X by Y)		
6	Bank A/c Dr.	600	
	To Y A/c		600
	(Being the balance amount of the 2nd cbill remitted by Y)		
7	Bills Payable A/c Dr.	1,800	
	To Bank A/c		1,800
	(Being the 2nd bill honoured at maturity)		

In the books of Y

Particulars		Dr. (Rs.)	Cr. (Rs.)
1	X A/c Dr.	1,200	
	To Bills Payable A/c		1,200
	(Being on acceptance on 1st bill given)		
2	Bank A/c Dr.	370	
	Discount on Bills A/c Dr.	30	
	To X A/c		400

	(Being proceeds received from X & discount allowed)		
3	Bills Receivable A/c	Dr.	1,800
	To X A/c		1,800
	(Being bill drawn on X)		
4	Bank A/c	Dr.	1,740
	Discount on Bills A/c	Dr.	60
	To Bills Receivable A/c		1,800
	(Being bill discounted by bank)		
5	X A/c	Dr.	400
	To Bank A/c		360
	To Discount A/c		40
	(Being bill proceeds remitted to X & discount allowed proportionately)		
6	Bills Payable A/c	Dr.	1,200
	To Bank A/c		1,200
	(Being the 2nd bill honoured at maturity)		
7	X A/c		600
	To Bank A/c		600
	[Being balance amount of 2nd bill remitted to X]		

CQ9. Vijay draws a bill for Rs. 60,000 & Anand accepts the same for mutual accommodation of both of them to the extent of Vijay 2/3rd & Anand 1/3rd. Vijay discounts it with bank for Rs. 56,400 and remits 1/3rd share to Anand. Before the due date, Anand draws another bill for Rs. 84,000 on Vijay in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at Rs. 81,600. With these proceeds, the first bill is settled and Rs. 14,400 were remitted to Vijay. Before the due date of the second bill, Vijay becomes insolvent and Anand receives a dividend of only 50 paise in a rupee in full satisfaction. Pass journal entries in the books of Vijay.

Answer:

In the books of Vijay

[CMAI SM Illustration 8]

Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Bills Receivable A/c	Dr.	60,000
	To Anand's A/c		60,000
	(Being bill drawn on Anand)		
2	Bank A/c	Dr.	56,400
	Discount A/c	Dr.	3,600
	To Bills Receivables A/c		60,000
	(Being bill discounted by bank)		
3	Anand's A/c	Dr.	20,000
	To Bank A/c (60,000 x 1/3)		18,800
	To Discount A/c (3,600 x 1/3)		1,200
	(Being proceeds remitted to Anand)		

4	Anand's A/c	Dr.	84,000	
	To Bills payable A/c			84,000
	(Being acceptance given to new bill by Anand)			
5	Bank A/c	Dr.	14,400	
	Discount A/c	Dr.	1,600	
	To Anand's A/c			16,000
	(Being Vijay's share of proceeds received from Anand after discounting of 2nd bill & settlement of 1st bill)			
6	Bills Payable A/c	Dr.	84,000	
	To Anand's A/c			84,000
	(Being dishonour of bill)			
7	Anand's A/c	Dr.	56,000	
	To Bank A/c			28,000
	To Deficiency A/c			28,000
	(Being payment of 50% received & balance transferred to deficiency A/c)			

Working Note:

	1st Bill		2nd Bill	
	Proceeds (Rs.)	Discount (Rs.)	Proceeds (Rs.)	Discount (Rs.)
Vijay (2/3 rd)	37,600	2,400	54,400	1,600
Anand (1/3 rd)	18,800	1,200	27,200	800
Total	56,400	3,600	81,600	2,400

CQ10. Rahim, for mutual accommodation, draws a bill for Rs. 3,000 on Ratan. Rahim discounted it for Rs. 2,925. He remits Rs. 975 to Ratan. On the due date, Rahim is unable to remit his dues to Ratan to enable him to meet the bill. He, however, accepts a bill for Rs. 3,750 which Ratan discounts for Rs. 3,625. Ratan sends Rs. 175 to Rahim after discounting the above bill. Rahim becomes insolvent and a dividend of 80 paise in the rupee is received from his estate. Pass the necessary journal entries in the books of both the parties. **[CMAI SM Illustration 9]**

Answer:

In the books of Rahim

	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Bills Receivable A/c	Dr.	3,000	
	To Ratan A/c			3,000
	(Being bill drawn on Ratan)			
2	Bank A/c	Dr.	2,925	
	Discount A/c	Dr.	75	
	To Bills Receivable A/c			3,000
	(Bill discounted by the bank)			
3	Ratan A/c (3,000 x 1/3)	Dr.	1,000	
	To Bank A/c			975
	To Discount A/c (75 x 1/3)			25
	(Being proceeds remitted to Ratan after deducting share of discount)			

4	Ratan A/c	Dr.	3,750	
	To Bills Payable A/c			3,750
	(Being accommodation bill accepted)			
5	Bank A/c	Dr.	175	
	Discount A/c	Dr.	75	250
	To Ratan A/c			
	(Being proceeds received from Ratan & discount charged)			
6	Bills Payable A/c	Dr.	3,750	
	To Ratan A/c			3,750
	(Being dishonour of the bill due to Rahim's insolvency)			
7	Ratan A/c	Dr.	2,250	
	To Bank A/c			1,800
	To Deficiency A/c			450
	(Being payment of 80% to Ratan; balance treated as deficiency)			

In the books of Ratan

Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Rahim A/c	Dr.	3,000
	To Bills Payable A/c		3,000
	(Being bill accepted for mutual accommodation)		
2	Bank A/c	Dr.	975
	Discount A/c	Dr.	25
	To Rahim A/c		1,000
	(Being 1/3rd proceeds received from Rahim including share of discount)		
3	Bills Receivable A/c	Dr.	3,750
	To Rahim A/c		3,750
	(Being accommodation bill drawn and accepted by Rahim)		
4	Bank A/c	Dr.	3,625
	Discount A/c	Dr.	125
	To Bills Receivable A/c		3,750
	(Being bill discounted with bank)		
5	Rahim A/c	Dr.	250
	To Bank A/c		175
	To Discount A/c		75
	(Being proceeds remitted to Rahim after discount)		
6	Rahim A/c	Dr.	2,250
	To Bank A/c		1,800
	To Deficiency A/c		450
	(Being 80% amount received from Rahim's estate and balance transferred to Deficiency A/c)		

CQ11. On 1st July 'A' drew a bill for Rs. 1,80,000 for 3 months on 'B' for mutual accommodation. 'B' accepts the bill of exchange. 'A' purchased goods worth Rs. 1,81,000 from 'C' on the same date. 'A' endorsed B's acceptance to 'C' in full settlement. On 1st September, 'C' purchased goods worth Rs. 1,90,000 from 'B'. 'C' endorsed bill of exchange received from A to B & paid Rs. 9,000 in full settlement of amount due to B.

On 1st October 'B' purchased Goods worth Rs. 2,00,000 from 'A'. He paid amount due to 'A' by Cheque.

Pass necessary journal entries in the books of 'B'.

[CMAI SM NQ 2]

Answer: **In the books of B**

Particulars		Rs.	Rs.
1 July	A A/c	Dr.	1,80,000
	To Bills Payable A/c		1,80,000
	[Being Acceptance given to 'A' for mutual accommodation bill]		
	C A/c	Dr.	1,90,000
	To Sales A/c		1,90,000
	[Being Goods sold on credit]		
	Bills Receivable A/c	Dr.	1,80,000
	Bank A/c	Dr.	9,000
	Discount A/c	Dr.	1,000
	To C A/c		1,90,000
[Being bill endorsed to C & 9,000 received in full settlement]			
1 Sept	Bills Payable A/c	Dr.	1,80,000
	To Bills Receivable A/c		1,80,000
	[Being own bill acceptance now settled with receipt of bill]		
1 Oct	Purchase A/c	Dr.	2,00,000
	To A A/c		2,00,000
	[Being Goods purchased from A]		
	A A/c	Dr.	20,000
	To Cash or Bank A/c		20,000
[Being balance amount paid to A]			

DC Note: Amounts mentioned in the module are incorrect.

CQ12. On 1 July, G drew a bill for Rs. 80,000, for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth Rs. 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September J purchased goods worth Rs. 90,000 from H. J endorsed the bill of exchange received from G to H and paid Rs. 9,000 in full settlement of the amount due to H.

On 1 October H purchased goods worth Rs. 1,00,000 from G. H paid the amount due to G by cheque. Give the necessary Journal entries in the books of H. [Similar to CQ11] [Dec 23 – 7 Marks]

Answer: In the books of H

Particulars		Rs.	Rs.
1 July	G A/c	Dr.	80,000
	To Bills Payable A/c		80,000
	[Being Acceptance given to 'G' for mutual accommodation bill]		
	J A/c	Dr.	90,000
	To Sales A/c		90,000
	[Being Goods sold on credit]		
	Bills Receivable A/c	Dr.	80,000
	Bank A/c	Dr.	9,000
	Discount A/c Dr.		1,000
	To J A/c		90,000
	[Being bill endorsed to J & 9,000 received in full settlement]		
	1 Sept	Bills Payable A/c	Dr.
To Bills Receivable A/c			80,000
[Being own bill acceptance now settled with receipt of bill]			
1 Oct	Purchase A/c	Dr.	1,00,000
	To G A/c		1,00,000
	[Being Goods purchased from G]		
	G A/c	Dr.	20,000
	To Cash or Bank A/c		20,000
	[Being balance amount paid to G]		

CQ13. Indra drew upon Chandra a bill for Rs. 90,000 on 1st April for 3 months, for mutual accommodation. Chandra accepted the same immediately on receipt. On April 4, Indra got it discounted at 6% p.a. & remitted 1/3rd of the proceeds to Chandra, at maturity, Indra was not able to send the required sums & asked Chandra to receive a 2 months promissory note for Rs. 60,900 which Chandra did. Chandra got the Note discounted for Rs. 60,000 & met his acceptance. Indra became insolvent just before his promissory note was due for payment. Only 25% was received from his estate. You are required to pass journal entries in the book of Indra **[Dec 24 - 7 Marks]**

Answer: **In the books of Indra**

Particulars		Dr. (Rs.)	Cr. (Rs.)
1 April	Bills Receivable A/c	Dr.	90,000
	To Chandra A/c		90,000
	[Being bill drawn on Chandra for mutual accommodation]		
4 April	Bank A/c	Dr.	88,650
	Discount A/c		1,350
	To Bills Receivable A/c		90,000
	[Being Bill discounted from bank @6%]		
	Chandra A/c	Dr.	30,000
	To Bank A/c		29,550
	Discount A/c		450
[Being Chandra's share remitted & discount charged proportionately]			
4 July	Chandra A/c	Dr.	60,900
	To Bills Payable A/c		60,900
	[Being acceptance to promissory note given to Chandra]		
	Interest A/c	Dr.	900
	To Chandra A/c		900
(Being interest allowed to Chandra for extension of time on promissory note)			
7 Sept	Bills Payable A/c	Dr.	60,900
	To Chandra A/c		60,900
	(Being amount due on promissory note now payable to Chandra)		
	Chandra A/c	Dr.	60,900
	To Cash or Bank A/c		15,225
	To Deficiency A/c		45,675
(Being 25% amount paid to Chandra & balance transferred to Deficiency A/c)			

3 JOINT VENTURE

Disha Chandak

- A Joint Venture is a temporary business arrangement between two or more persons
- Who jointly undertake a specific project, sharing profits & losses in an agreed ratio.
- It is formed to pool resources, skills, & investments for activities involving higher risk or complexity, where a single party may not suffice. A Memorandum of Understanding (MoU) is signed to formalize the arrangement.
- The parties involved in a joint venture are known as Co-venturers or Joint Venturers.

Characteristics of Joint Venture

Agreement	Formed through an agreement between two or more parties
Purpose	Undertaken for a specific business plan or project
Nature	Temporary partnership without a firm name
Profit & Loss Sharing	Shared as per agreement; if absent, divided equally
Written Agreement	Contains roles, duration, liabilities & terms of association, signed by all parties
Duration	Short-term; ends once the purpose of the venture is fulfilled

Difference between Partnership Firm & Joint Venture

Partnership	Joint Venture
Operates with a firm name	Operates without a firm name
Members are called partners	Members are called co-venturers
Long-term arrangement; may cover multiple projects	Temporary; formed for a specific project
Full, continuous books for the firm are maintained	Limited, project-specific accounts are maintained
Governed by Partnership Act, 1932	No separate Act; treated as partnership under law
Maximum Members: 10 (banking), 20 (other businesses)	No specified legal limit
Unlimited liability, covers both personal & business assets	Liability limited to the specific venture or project undertaken

Methods of Accounting of a Joint Venture

There are three methods of accounting of a Joint Venture:

- (1) When separate set of books are maintained
- (2) When each co-venturer keeps record of all transactions.
- (3) When each co-venturer keeps record of its own transactions [Memorandum Method]

Method 1: Separate set of books are maintained

- Since a joint venture is of short duration, **books of accounts are not maintained comprehensively.**
- Primary objective is to **ascertain profit or loss** from the venture. Following accounts are maintained:

Joint Venture A/c	<ul style="list-style-type: none"> ▪ A Nominal A/c that records all venture-related transactions. ▪ Debit side: All expenses (by co-venturers or from joint bank). ▪ Credit side: All sales (to outsiders or co-venturers). ▪ Net result shows profit or loss.
Joint Bank A/c	<ul style="list-style-type: none"> ▪ A cash book of the venture, used to record all cash/bank transactions. ▪ Debit side: Cash inflows like contributions & sale proceeds. ▪ Credit side: Expenses & final payments to co-venturers. ▪ Used for final settlement.
Co-venturer's A/c	<ul style="list-style-type: none"> ▪ A personal A/c for each co-venturer. ▪ Records transactions between co-venturer & joint venture. ▪ Works like a capital A/c in partnership. ▪ Settled through joint bank A/c.

Journal Entries when separate set of books are maintained

1	Contribution made by co-venturers	Joint Bank A/c To Co-Venturer A/c	Dr.
Amount contributed by co-venturers is deposited into the Joint Bank Account.			
2	Expenses paid through Joint Bank A/c	Joint Venture A/c To Joint Bank A/c	Dr.
All joint venture-related expenses paid from the joint bank are debited to the Joint Venture Account.			
3	Expenses paid or goods supplied by co-venturer privately	Joint Venture A/c To Co-Venturer A/c	Dr.
Co-venturer's personal payments or goods supplied are recorded as venture expenses & credited to their A/c.			
4	Sale proceeds or collections received in Joint Bank	Joint Bank A/c To Joint Venture A/c	Dr.
Sales collections deposited into the Joint Bank are credited to Joint Venture Account.			
5	Collections received by co-venturer	Co-Venturer A/c To Joint Venture A/c	Dr.
If a co-venturer collects any proceeds, it is debited to their account and credited to the venture.			
6	Asset taken over by co-venturer	Co-Venturer A/c To Joint Venture A/c	Dr.
When a co-venturer takes over an asset, it is adjusted by debiting their account and crediting the venture.			

7	Liability taken over by co-venturer	Joint Venture A/c To Co-Venturer A/c	Dr.
Liability assumed by a co-venturer is treated as payment and debited to the venture account.			
8	Profit on joint venture	Joint Venture A/c To Co-Venturer A/c	Dr.
Profit earned is transferred from the venture to co-venturers' accounts.			
9	Loss on joint venture	Co-Venturer A/c To Joint Venture A/c	Dr.
Loss incurred is borne by co-venturers and debited to their accounts.			
10	Final settlement made to co-venturer	Co-Venturer A/c To Joint Bank A/c	Dr.
Final payment made to a co-venturer is credited to the Joint Bank and debited to their account.			

CQ1. Sagar and Pakhi entered into Joint Venture and undertook building construction of P & Co. Ltd., Mumbai for Rs. 5,00,000. The following information are available for the undertaking business: **[CMAI SM Illustration 21]**

- Sagar supplied materials of Rs. 35,000 and Pakhi paid Rs. 20,000 his architect fees.
- Sagar & Pakhi contributed Rs. 1,25,000 & Rs. 75,000; deposited the same amount in Joint Bank Account.
- They paid from Joint Bank Account for materials Rs. 2,80,000 and wages Rs. 1,20,000.
- On completion of the venture they received contract price as per the terms.
- Pakhi took over the unused materials for Rs. 15,000.
- Profit/Loss on Joint Venture will be shared by Sagar and Pakhi equally.

Prepare Joint Venture A/c, Co-Venturers A/c and Joint Bank A/c.

Answer:

Joint Venture A/c

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Sagar (material)		35,000	By Joint Bank A/c		5,00,000
To Pakhi (architect fees)		20,000	By Pakhi (unused material)		15,000
To Joint Bank A/c: Material	2,80,000				
Wages	1,20,000	4,00,000			
To Profit on JV: Sagar	30,000				
Pakhi	30,000	60,000			
		5,15,000			5,15,000

Co-Venturers A/c

Particulars	Sagar	Pakhi	Particulars	Sagar	Pakhi
To Joint Venture A/c	-	15,000	By Joint Bank A/c	1,25,000	75,000
To Joint Bank A/c	1,90,000	1,10,000	By Joint Venture A/c	35,000	20,000
				30,000	30,000
	1,90,000	1,25,000		1,90,000	1,25,000

Joint Bank A/c

Particulars	Rs.	Particulars	Rs.
To Sagar	1,25,000	By Joint Venture A/c	4,00,000
To Pakhi	75,000	By Sagar	1,90,000
To Joint Venture A/c	5,00,000	By Pakhi	1,10,000
	7,00,000		7,00,000

CQ2. X & Y entered into a joint venture for purchase & sale of some household items. They agreed to share profits & losses in ratio of their respective contributions. X contributed Rs. 10,000 in cash & Y Rs. 13,000.

Whole amount was placed in a Joint Bank A/c. Goods were purchased by X for Rs. 10,000 & expenses paid by Y amounted to Rs. 2,000. They also purchased goods for Rs. 15,000 through Joint Bank A/c. [CMAI SM Illustration 22]

Expenses on purchase & sale of articles amounted to Rs. 6,000 (those made by Y). Goods costing Rs. 20,000 were sold for Rs. 45,000 & balance were lost by fire. Prepare JV A/c, Joint Bank A/c & Co-Venturers A/c closing venture.

Answer:

Joint Venture A/c

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To X A/c (goods)		10,000	By Joint Bank A/c		45,000
To Y A/c (expense)		2,000			
To Joint Bank A/c (goods)		15,000			
To Joint Bank A/c (expense) (includes only paid through JB A/c)		4,000			
T Profit on JV: X (4)	8,000				
Y (3)	6,000	14,000			
		45,000			45,000

Co-Venturers A/c

Particulars	X	Y	Particulars	X	Y
To Joint Bank A/c	28,000	21,000	By Joint Bank A/c	10,000	13,000
			By Joint Venture A/c	10,000	2,000
			By Joint Venture A/c	8,000	6,000
	28,000	21,000		28,000	21,000

Joint Bank A/c

Particulars	Rs.	Particulars	Rs.
To X	10,000	By Joint Venture A/c (goods)	15,000
To Y	13,000	By Joint Venture A/c (expense) (excludes paid by Y)	4,000
To Joint Venture A/c	45,000	By X	28,000
		By Y	21,000
	68,000		68,000

Method 2: When each co-venturer keeps record of all transactions

Each co-venturer prepares a Joint Venture A/c & Other Co-venturer's A/c in their own books, recording all transactions (both theirs & co-venturer's) to calculate profit or loss independently.

After closure of joint venture, co-venturer who has received surplus cash will remit it to the other co-venturer.

In books of co-venturer A		In books of co-venturer B	
When goods are supplied and expenses paid by A			
Joint Venture A/c To Purchases A/c To Cash / Bank A/c	Dr.	Joint Venture A/c To A's A/c	Dr.
When goods are supplied by B and expenses paid by B			
Joint Venture A/c To B's A/c	Dr.	Joint Venture A/c To Purchases A/c To Cash / Bank A/c	Dr.
When advance is given by A to B or bill accepted by A			
B's A/c To Cash / Bank A/c To B/P A/c	Dr.	Cash / Bank A/c B/R A/c To A's A/c	Dr. Dr.
When sale proceeds are received by A			
Cash / Bank A/c To Joint Venture A/c	Dr.	A's A/c To Joint Venture A/c	Dr.
When sale proceeds are received by B			
B's A/c To Joint Venture A/c	Dr.	Cash / Bank A/c To Joint Venture A/c	Dr.
For unsold goods taken over by A			
Goods A/c To Joint Venture A/c	Dr.	A's A/c To Joint Venture A/c	Dr.
For unsold goods taken over by B			
B's A/c To Joint Venture A/c	Dr.	Goods A/c To Joint Venture A/c	Dr.
For profit on joint venture business			
Joint Venture A/c To B's A/c To P & L A/c	Dr.	Joint Venture A/c To A's A/c To P & L A/c	Dr.
For loss on joint venture business			
B's A/c P&L A/c To Joint Venture A/c	Dr. Dr.	A's A/c P&L A/c To Joint Venture A/c	Dr. Dr.

CQ3. Anil & Mukesh enter into a venture to take a job for Rs. 2,40,000. They provide the following information regarding the expenditure incurred by them: **[CMAI SM Illustration 23]**

Particulars	Anil (Rs.)	Mukesh (Rs.)
Materials	68,000	50,000
Cement	13,000	17,000
Wages	-	27,000
Architects fees	10,000	-
License fees	-	5,000
Plant	-	20,000

Plant was valued at Rs. 10,000 at the end of the contract and Mukesh agreed to take it at that value. Contract amount was received by Anil. You are required to prepare:

- (1) Joint Venture Account and Mukesh Account in the books of Anil; and
- (2) Joint Venture Account and Anil Account in the books of Mukesh.

Answer:

In the books of Anil

Joint Venture A/c

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Bank A/c:			By Bank A/c (Contract)		2,40,000
Material	68,000		By Mukesh A/c (Plant)		10,000
Cement	13,000				
Architect Fees	10,000	91,000			
To Mukesh A/c:					
Material	50,000				
Cement	17,000				
Wages	27,000				
License Fees	5,000				
Plant	20,000	1,19,000			
To Profit on JV: P&L A/c	20,000				
Mukesh A/c	20,000	40,000			
		2,50,000			2,50,000

Mukesh A/c

Particulars	Rs.	Particulars	Rs.
To Joint Venture A/c (Plant)	10,000	By Joint Venture A/c	1,19,000
To Bal c/d	1,29,000	By Joint Venture A/c (Profit)	20,000
	1,39,000		1,39,000

In the books of Mukesh			Joint Venture A/c		
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Anil A/c:			By Anil A/c (Contract)		2,40,000
Material	68,000		By Bank A/c (Plant)		10,000
Cement	13,000				
Architect Fees	10,000	91,000			
To Bank A/c:					
Material	50,000				
Cement	17,000				
Wages	27,000				
License Fees	5,000				
Plant	20,000	1,19,000			
To Profit on JV: P&L A/c	20,000				
Anil A/c	20,000	40,000			
		2,50,000			2,50,000

Anil A/c

Particulars	Rs.	Particulars	Rs.
To Joint Venture A/c	2,40,000	By Joint Venture A/c	91,000
		By Joint Venture A/c (Profit)	20,000
		By bal c/d	1,29,000
	2,40,000		2,40,000

CQ4. Sahani & Sahu entered into a joint venture to sale 800 bags of food grains. Business risks are to be shared in ratio of 3:2. Sahani supplied 400 bags at Rs. 800 per bag & paid freight Rs. 8,000 & insurance Rs. 2,000.

Sahu sent 400 bags at Rs. 1,000 per bag. He paid Rs. 2,500 as freight, Insurance Rs. 8,000 and sundry expenses as Rs. 500. Sahani paid Rs. 50,000 as advance to Sahu. **[CMAI SM Illustration 24]**

They appointed Sandeep as agent for sale of grains. Sandeep sold all bags at Rs. 1,200 per bag. He deducted Rs. 21,000 as his expenses & commission of 5% on sales. He remitted Rs. 6,00,000 by cheque to Sahani and the balance to Sahu by way of a bill of exchange. The co-venturers settled their accounts. Prepare Joint Venture A/c, Sahu's A/c and Sandeep's A/c in the books of Mr. Sahani.

Answer:

In the books of Sahani			Joint Venture A/c		
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Bank A/c			By Sandeep A/c [(1,200 x 800)]		9,60,000
Purchase (400 x 800)	3,20,000				
Freight	8,000				
Insurance	2,000	3,30,000			
To Sahu A/c:					
Purchase (400 x 1,000)	4,00,000				

Expenses(2,500 + 500 + 8,000)	11,000	4,11,000		
To Sandeep A/c (expenses)		21,000		
To Sandeep A/c (commission)		48,000		
To Profit on JV: P&L A/c	90,000			
Sahu's A/c	60,000	1,50,000		
		9,60,000		9,60,000

Sahu's A/c

Particulars	Rs.	Particulars	Rs.
To Bank A/c	50,000	By Joint Venture A/c	4,11,000
To Sandeep A/c	2,91,000	By Joint Venture A/c (profit)	60,000
To Bank A/c (bal fig)	1,30,000		
	4,71,000		4,71,000

Sandeep's A/c

Particulars	Rs.	Particulars	Rs.
By Joint Venture A/c	9,60,000	By Joint Venture A/c (21,000 + 48,000)	69,000
		By Sahu A/c	2,91,000
		By Bank A/c	6,00,000
	9,60,000		9,60,000

Method 3: When each co-venturer keeps record of its own transactions (Memorandum method)

- Co-venturers may maintain a **Memorandum Joint Venture A/c** to determine profit or loss.
- This account records transactions by each co-venturer under their names & is not a double-entry A/c.
- Each co-venturer maintains a '**Joint Venture with Co-venturer A/c**' to record only their own transactions.
- They also share **periodic statements** of joint venture transactions.
- Based on these, a Memorandum Joint Venture A/c is prepared to compute overall profit or loss.

Journal Entries when each co-venturer keeps record of its own transactions

Amount received from co-venturer in cash/cheque or B/R	Cash/ Bank/ B/R A/c	Dr.
	To Joint Venture with Co-Venturer's A/c	
Discounting of Bills Receivable	Bank A/c	Dr.
	Joint Venture with Co-venturer A/c (Discount)	Dr.
	To Bills Receivable A/c	

Purchase of goods	Joint Venture with Co-venturer A/c	Dr.
	To Cash/ Bank A/c To JV Creditors A/c	
Making payment to creditors (including discount received)	JV Creditors A/c	Dr.
	To Cash/ Bank/ B/P A/c To Joint Venture with Co-venturer A/c	
Goods supplied by co-venturer from own stock	Joint Venture with Co-venturer A/c	Dr.
	To Purchases A/c / Goods sent to JV A/c	
Payment of expenses	Joint Venture with Co-venturer A/c	Dr.
	To Cash/ Bank A/c	
Sale of goods	Cash/ Bank/ JV Debtors A/c	Dr.
	To Joint Venture with Co-venturer A/c	
Collection from customer (including bad debts & discount allowed)	Cash/ Bank A/c	Dr.
	Joint Venture with Co-venturer A/c	Dr.
	To JV Debtors A/c	
Taking away of unsold goods	Goods sent to JV A/c	Dr.
	To Joint Venture with Co-venturer A/c	
Co-venturer entitled to commission/ salary etc.	Joint Venture with Co-venturer A/c	Dr.
	To Commission/ Salary A/c	
Share of profit on joint venture	Joint Venture with Co-venturer A/c	Dr.
	To Profit & Loss A/c	
Share of loss on joint venture	Profit & Loss A/c	Dr.
	To Joint Venture with Co-venturer A/c	
Settlement of balance with co-venturer (if debit balance)	Cash/ Bank A/c	Dr.
	To Joint Venture with Co-venturer A/c	
Settlement of balance with co-venturer (if credit balance)	Joint Venture with Co-venturer A/c	Dr.
	To Cash/ Bank A/c	

CQ5. Azad and Arjun entered into a joint venture and opened a fast food shop during Durga Puja festival at Maddox Square in Kolkata. Their profit sharing ratio is 1:1. Azad delivers stock of Rs.50,000. He also paid carriage charges amounting to Rs.2,500. Arjun incurred expenses on carriage & electricity charges for Rs.6,500 & receives cash from sales Rs.30,000. Arjun took over stock at an agreed value of Rs.10,000 for his personal use. At the end of the venture, Azad took over the remaining stock which was valued at Rs. 11,000. **[CMAI SM NQ 4]**

Prepare Memorandum Joint Venture A/c & also other necessary ledger A/c in the books of Azad & Arjun.

Answer:

In the Books of Azad

Joint Venture with Arjun A/c [only Azad's transactions]

Particulars	(Rs.)	Particulars	(Rs.)
To Bank A/c	52,500	By Bank A/c (stock taken over)	11,000
		By Loss on JV	4,000
		By bal c/d	37,500
	52,500		52,500

In the Books of Arjun

Joint Venture with Azad A/c [only Arjun's transactions]

Particulars	(Rs.)	Particulars	(Rs.)
To Bank A/c (expense)	6,500	By Bank A/c (sales)	30,000
To bal c/d	37,500	By Bank A/c (stock taken over)	10,000
		By Loss on JV	4,000
	44,000		44,000

Memorandum Joint Venture A/c

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To Azad A/c:			By Arjun (sales)		30,000
Goods	50,000		By Arjun (stock taken over)		10,000
Expense	2,500	52,500	By Azad A/c (stock taken over)		11,000
To Arjun A/c (expense)		6,500	By Loss on JV: Azad A/c	4,000	
			Arjun A/c	4,000	8,000
		59,000			59,000

DC Note: Memorandum JV A/c is only a working (rough) account used to ascertain profit or loss of the venture.

CQ6. Hari & Om agreed for purchasing and selling furniture in a joint venture, their profit sharing ratio being 3:2 respectively. Hari purchased 10 sofas at Rs. 10,000 per sofa. He sent those sofas to Om for sale after spending Rs. 1,000 per sofa on insurance and transportation. He drew a bill of Rs. 50,000 on Om and this bill was discounted at a discount of Rs. 5,000 after acceptance. Om incurred further expenses of Rs. 2,000 on these sofas before sale. He sold all the sofas @ Rs. 15,000 per sofa, giving 5% commission to the dealer. **[CMAI SM Illustration 25]**

Prepare Joint Venture with Om Account A/c in the books of Hari & Memorandum Joint Venture A/c.

Answer: **In the Books of Hari** **Joint Venture with Om A/c**

Particulars	(Rs.)	Particulars	(Rs.)
To Bank A/c	1,10,000	By Bills Receivable A/c	50,000
To Discount on Bill A/c	5,000	By Balance c/d	80,300
To P/L A/c [Share of profit]	15,300		
	1,30,300		1,30,300

Memorandum Joint Venture A/c

Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To Hari A/c			By Om A/c (Rs. 15,000 x 10)		1,50,000
Purchase (10,000 x 10)	1,00,000				
Expense (1,000 x 10)	10,000	1,10,000			
To Discount A/c (Bill discounted)		5,000			
To Om A/c					
Expenses	2,000				
Commission (1,50,000 x 5%)	7,500	9,500			
To Profit on JV: Hari	15,300				
Om	10,200	25,500			
		1,50,000			1,50,000

Underwriting of Shares

- An agreement where an **underwriter guarantees** to subscribe for or buy any shares (or debentures) not taken up by the public, thus ensuring issuer's offer is fully subscribed.
- Main purpose is to **remove subscription risk for issuer** & provide confidence that issue proceeds will be realised.
- Underwriters earn **commission** a percentage of amount underwritten paid by the company.
- Commission cash & value of shares received by JV → **JV receipts** (credit Memorandum JV A/c).
- Expenses & purchase of shortfall → **JV payments** (debit Memorandum JV A/c).
- **Prepare Memorandum Joint Venture A/c first** to compute profit; then Joint Venture with co-venturer's A/c in each venturer's books (**only record cash items paid/received**).
- Other venturer's expenses/commission → **posted to Co-venturer's A/c**

Conversion of Consignment into Joint Venture

DC Note: Topic is easier to understand after studying 'Consignment' thus to be covered in 'Chapter 4 - Consignment'. Illustration 27 (Daga & Lodha) will also be covered in 'Chapter 4 - Consignment'

Joint Ventures Running for More than One Accounting Period

Core Concept

- If JV runs >1 accounting year, closing stock must be carried forward so profit is matched across periods.
- **Credit:** closing stock in Memorandum JV A/c (year n); **Debit:** opening stock in Memorandum JV (year n+1).

Valuation of closing stock

- Closing stock = Cost + Proportionate non-recurring expenses (directly attributable).

DC Note: Do not include recurring selling/administration expenses.

Accounting treatment in Year 1

- Treat unsold stock as asset of JV & exclude it from current year profit.
- **In Memorandum JV A/c** → **Credit:** Closing stock (so that profit reduces)

Accounting treatment in Year 2 (succeeding year)

- Restore the carried cost to JV so Year-2 profit is determined correctly.
- **In Memorandum JV A/c (Year 2)** → **Debit:** Opening stock

Interim settlement (Co-venturers settle partially)

- Each co-venturer brings in their **proportionate share** of closing stock into their **Joint Venture with Co-venturer A/c** & settle cash balances.
- In each venturer's books → **Debit:** Joint Venture with Co-venturer A/c [Carried Forward]

Final settlement / on winding up

- Reverse carried share & allocate remaining stock proceeds or profit as per ratio.
- **On final settlement:** reverse the entries in individual JV a/c & distribute the proceeds.

DC Note: Memorandum JV A/c closes with final profit/loss. Final settlement shall tally with Memorandum JV A/c.

4 CONSIGNMENT

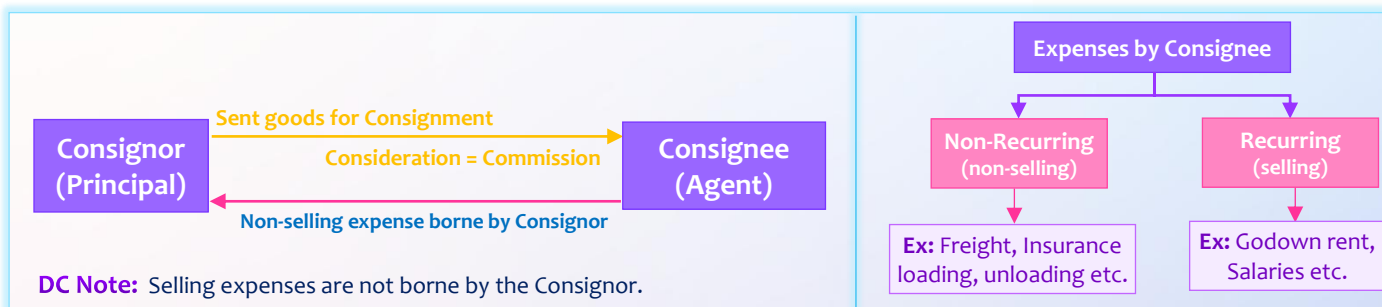
Disha Chandak

- Consignment is a special transaction where a **consignor** (principal) sends goods to a **consignee** (agent) in another town/city to sell on its behalf for a **pre-determined commission**.
- It is an agency contract involving **consignor, consignee, & buyer**.
- Revenue is recognised by the **consignor only** when the consignee sells the goods. [AS-9]

Parties involved in Consignment	
Consignor	Consignee
Sends goods to agent for sale	Receives goods on consignment to sell
May be a manufacturer or wholesaler	Acts as an agent , not the owner of goods
Principal in the principal - agent relationship	Agent in the principal - agent relationship
Retains ownership of goods till actually sold	Entitled to commission as consideration

Documents Related to Consignment Transactions	
Proforma Invoice	Account Sales
Issued by consignor to consignee when of sending goods	Sent by consignee to consignor periodically after sales
Contains details like quantity, cost/invoice price, expenses, minimum selling price, etc.	Contains details of sales made, sale proceeds, consignee's commission, expenses, remittance, abnormal loss, etc.
Acts as evidence of dispatch of goods	Conveys post sales developments of consignment at consignee's end
Resembles a regular invoice in format	Basis for recording transactions in consignor's books

Difference between Consignment & Regular Sales	
Consignment	Sales
Business expansion technique	Primary business activity
Entered into by some entities	Entered into by every commercial organisation
Parties: Consignor & Consignee	Parties: Buyer & Seller
Relationship: Principal - Agent	Relationship: Debtor-Creditor
Ownership & risk stays with consignor	Ownership & risk passed to buyer
Expenses borne by consignor	Expenses before transfer borne by seller
Goods sent at cost or invoice price	Goods sold at selling price (above cost)
Consignor sends Proforma Invoice	Seller issues Sales Invoice
Consignee can return goods	Buyer cannot return goods (unless agreed)



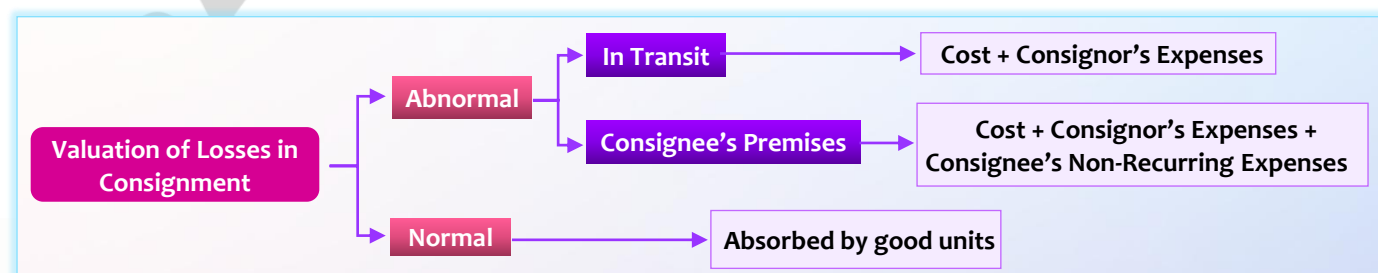
Transactions related to Consignment

Goods sent on consignment	<ul style="list-style-type: none"> Consignor sends goods to consignee for sale. Ownership, risk & property remain with consignor. Recorded only in consignor's books. Adjusted against Purchases A/c or Trading A/c. Valuation either at Cost Price or Invoice Price (IP = CP + Load %). 				
Advance by consignee to consignor	<ul style="list-style-type: none"> Consignee gives advance before goods are sent. Mode: Bank draft or Bill of Exchange. Adjusted against sale proceeds later. Security Deposit/Caution Money may be required. Proportionate amount for unsold stock carried forward. 				
Expenses on consignment by Consignor (Non recurring)	<ul style="list-style-type: none"> When Goods sent to consignee: Carriage, freight, packing, loading, export duty, transit insurance. Above expenses are considered for valuation of unsold stock, abnormal loss, goods in transit. <p>DC Note: Unless specified, expenses by consignor are considered as Non recurring.</p>				
Expenses on consignment by Consignee (Recurring)	<ul style="list-style-type: none"> After goods reach consignee: godown rent, godown insurance, carriage outward, establishment charges, advertising, salesman salary, commission, selling expenses. Above expenses are adjusted in Account Sales against consignor's proceeds. <p>DC Note: Unless specified, expenses by consignee are considered as recurring.</p>				
Types of Expenses	<table border="1"> <tr> <td>Non recurring</td> <td> <ul style="list-style-type: none"> Incurred once, before goods reach consignee Ex: unloading, dock, clearing, customs duty, octroi, freight </td> </tr> <tr> <td>Recurring</td> <td> <ul style="list-style-type: none"> Incurred after goods reach consignee Ex: rent, insurance, advertising For unsold stock/abnormal loss → only non recurring expenses of consignee </td> </tr> </table>	Non recurring	<ul style="list-style-type: none"> Incurred once, before goods reach consignee Ex: unloading, dock, clearing, customs duty, octroi, freight 	Recurring	<ul style="list-style-type: none"> Incurred after goods reach consignee Ex: rent, insurance, advertising For unsold stock/abnormal loss → only non recurring expenses of consignee
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Recurring	<ul style="list-style-type: none"> Incurred after goods reach consignee Ex: rent, insurance, advertising For unsold stock/abnormal loss → only non recurring expenses of consignee 				
Consignment Sale	<ul style="list-style-type: none"> Goods sold by consignee on behalf of consignor. Revenue of consignment business. Cash sales → recorded in both books. Credit sales → depends on Del credere Commission. Proceeds collected by consignee → remitted to consignor after deducting expenses & commission. 				

Commission		
<ul style="list-style-type: none"> Consideration for which Consignee acts as agent of Consignor. Not directly paid; adjusted against amount due in Account Sales. 		
Type	Description	Basis of Calculation
Ordinary Commission	<ul style="list-style-type: none"> For regular activities of consignee in consignment business. Adjusted in Account Sales, not directly paid. 	% on Gross Sales made by consignee.
Del-credere Commission	<ul style="list-style-type: none"> Extra commission to promote credit sales. Shifts risk of bad debts from consignor to consignee. 	% on Gross Sales , unless agreed otherwise.
Over-riding Commission	<ul style="list-style-type: none"> Also called as Special Commission. Given over & above ordinary commission. Provided to enhance sale price or sales volume. Payable when consignee sells above pre-determined price or exceeds sales target. 	On Excess Sales / Target-based sales .

Accounting Treatment of Losses in Consignment

1 Normal Loss	<ul style="list-style-type: none"> Unavoidable/expected loss due to inherent nature of goods. Included in cost of goods sold; absorbed remaining good units. Ex: Evaporation, leakage, drying, spillage. <p>DC Note: No treatment of normal loss in Consignment A/c as it is absorbed by good units.</p>	
2 Abnormal Loss	<ul style="list-style-type: none"> Avoidable/unexpected losses of goods. Shown separately in accounts; valuation depends on stage of loss. Theft, fire, accident, mishandling. <p>DC Note: Value of abnormal loss will be credited in Consignment A/c as it is not absorbed by good units.</p>	
	Abnormal Loss in Transit	Abnormal Loss at Consignee's Premises
	<ul style="list-style-type: none"> Occurs while goods move from consignor to consignee. Valued at cost + consignor's expenses (exclude consignee's non-recurring). Fire in transit, accident, destruction en route. 	<ul style="list-style-type: none"> Occurs after goods reach consignee's warehouse. Valued at cost + consignor's expenses + consignee's non-recurring expenses. Fire in godown, theft, mishandling, stolen goods.



Valuation of Unsold Stock Lying with Consignee

- In an accounting period, goods received by consignee may be unsold, called as **Consignment Stock**.
- Though lying with consignee, ownership remains with the consignor.
- Valuation is essential for correct results & depends on whether goods are recorded at Cost or Invoice Price.

Sent at Cost	Cost of goods sent + Consignor’s expenses + Consignee’s non-recurring expenses
Sent at IP	IP + Consignor’s expenses + Consignee’s non-recurring expenses - Load margin (Profit margin)

DC Note: Unsold stock must be valued at **Cost or Net Realisable Value (NRV), whichever is lower.**[AS-2]
Expected SP – Incidental expenses for sale. If **NRV < Cost**, stock valued at **NRV**

Valuation of Goods-in-Transit

- **Goods-in-Transit** are goods dispatched by consignor but not yet received by consignee.
- Ownership remains with the consignor & at period-end they must be valued in the financial statements based on consignor’s expenses only,
- Consignee’s expenses should be excluded.

Accounting for Consignment

In the books of Consignor

Goods Sent on Consign. A/c	Real A/c	Records goods sent to consignee and any returns
Consignee’s A/c	Personal A/c	Records transactions with consignee & shows amt due from him
Consignment Stock A/c	Real A/c	Records unsold stock lying with consignee at year-end
Consignment Debtors A/c	Personal A/c	<ul style="list-style-type: none"> ▪ Maintained when no del-credere commission is entitled ▪ Records credit sales, collections, bad debts & discounts allowed
DC Note: This A/c is maintained whe following conditions are satisfied:		
(1) If credit sales, bad debts, collections etc are given in the question.		
(2) Del-credere commission is not provided.		

In the books of Consignor

Consignor A/c	Personal A/c	<ul style="list-style-type: none"> ▪ Records transactions with consignor ▪ closing balance shows amount payable to consignor
Commission A/c	Nominal A/c	Maintains different commissions separately
Consignment Debtors A/c	Personal A/c	<ul style="list-style-type: none"> ▪ Used when del-credere commission is paid; ▪ Records credit sales, collections, bad debts, & discount allowed
Consignment Inwards A/c	Real A/c	Maintained to record movement of goods received [Irrelevant]

In Books of Consignor		In Books of Consignee
Opening Stock on Consignment		
At Cost	Consignment A/c To Consignment Stock A/c	No entry
At IP	Consignment A/c To Consignment Stock A/c [Note: Load to be cancelled, so reverse entry will also be passed]	
Cancellation of load on Opening Stock [only when goods are sent at IP]		
	Stock Reserve A/c To Consignment A/c	No entry
Goods Sent on Consignment		
At Cost	Consignment A/c Dr. To Goods Sent on Consignment A/c	No entry
At IP	Consignment A/c Dr. To Goods Sent on Consignment A/c [Note: Load to be cancelled, so reverse entry will also be passed]	
Cancellation of load on goods sent [When goods are sent at IP]		
	Goods Sent on Consignment A/c To Consignment A/c	No entry
Advance received from consignee by consignor		
	Bank A/c or Bills Receivable A/c To Consignee A/c	Consignor A/c Dr. To Bank A/c or BP A/c
Discounting of Bills Receivable by consignor		
	Bank A/c Discount on Bill A/c To Bills Receivable A/c	No entry
Expenses incurred by consignor		
	Consignment A/c To Cash or Bank A/c	No entry
Goods-in-Transit		
At Cost	Goods-in-Transit A/c Dr. To Consignment A/c	No entry
At IP	Goods-in-Transit A/c Dr. To Consignment A/c [Note: Load to be cancelled, so reverse entry will also be passed]	
Cancellation of load on Goods-in-Transit [When goods are sent at IP]		
	Consignment A/c Dr. To Goods-in-Transit A/c	

Cancellation of loading of abnormal goods [If goods sent at IP]		
	Consignment A/c To Abnormal Loss A/c	No entry
Insurance claim received/ admitted against Abnormal Loss		
	Bank A/c Dr. (Amount received) Insurance Claim A/c Dr. (Amount admitted but not realised) Consignee A/c Dr. (Amount received by consignee) P/L A/c (Net Loss) Dr. To Abnormal Loss A/c	Bank A/c Dr. To Consignor A/c [Amount received from Insurance Co. on behalf of the consignor]
Closing Stock on Consignment		
Goods Sent at Cost	Consignment Stock A/c To Consignment A/c	No entry
Goods Sent at IP	Consignment Stock A/c To Consignment A/c [Note: Load to be cancelled, so reverse entry will also be passed]	
Cancellation of loading on goods sent [If goods sent at IP]		
	Consignment A/c Dr. To Stock Reserve A/c	No entry
Closing of Goods sent on Consignment A/c		
	Goods sent on Consignment A/c Dr. To Purchases or Trading A/c	No entry
Profit/Loss on Consignment		
In case of Profit	Consignment A/c Dr. To P&L A/c	No entry
In case of Loss	P&L A/c Dr. To Consignment A/c	
Final Remittance received by consignor from consignee		
	Bank A/c or Bills Receivable A/c Dr. To Consignee A/c	Consignor A/c Dr. To Bank A/c or BP A/c

DC Note: When goods are sent at loaded price (invoice price):

- (1) Goods sent on consignment & closing stock will be recorded at Invoice price.
 - (2) While computing profit or loss, reverse entry will be passed to cancel the load.
- ★ Value of Abnormal loss should be calculated at cost only.

CQ1. Agarwal of Agra sent on consignment goods valued Rs. 1,00,000 to Biyani of Bhagalpur on March 1 of preceding FY. He incurred an expenditure of Rs. 12,000 on Freight & Insurance. Biyani was entitled to a commission of 5% on gross sales + del-credere commission of 3%. Biyani took delivery of the consignment by incurring expenses of Rs. 3,000 for goods consigned. **[CMAI SM Illustration 10]**

On Dec. 31 of preceding FY, Biyani informed on phone that he had sold all the goods for Rs. 1,50,000 by incurring selling expenses of Rs. 2,000. He further informed that only Rs. 1,48,000 had been realised & rest was considered irrecoverable & would be sending the cheque in a day or so for the amount due along with accounts sale. The consignor closes his books on Dec. 31 each year.

On Jan 5 of current FY; Agarwal received the cheque for the amount due from Biyani & incurred bank charges of Rs. 260 for collecting the cheque. The amount was credited by the bank on Jan 9 of current FY.

Prepare Consignment A/c finding profit/loss on consignment, Biyani A/c, Provision for Expenses A/c & Bank A/c in the books of consignor, recording transactions upto the receipt & collection of the cheque.

Answer: **In the Books of Agarwal** **Consignment to Bhagalpur A/c**

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c		1,00,000	By Biyani A/c (Sale)	1,50,000
To Bank A/c (Freight & Insurance)		12,000		
To Biyani A/c: Delivery Charges	3,000			
Selling Expenses	2,000	5,000		
To Biyani A/c: Ordinary Commission $[1,50,000 \times 5\%]$	7,500			
Del credere $[1,50,000 \times 3\%]$	4,500	12,000		
To Provision for Expenses A/c (collection charges)		260		
To P&L A/c		20,740		
		1,50,000		1,50,000

Biyani A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31 Dec	To Consignment A/c	1,50,000	31 Dec	By Consignment A/c	5,000
				By Consignment A/c	12,000
				By Balance c/d	1,33,000
		1,50,000			1,50,000
1 Jan	To Balance b/d	1,33,000	5 Jan	By Bank A/c [Final remittance]	1,33,000
		1,33,000			1,33,000

Provision for Expenses A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
9 Jan	To Bank A/c	260	31 Dec	By Consignment A/c	260
		260			260

Bank A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
9 Jan	To Bank A/c $[1,33,000 - 260]$	1,32,740	9 Jan	By Balance c/f	1,32,740
		1,32,740			1,32,740

CQ2. M/s Singha Traders of Surat consigned 5,000 litres of edible oil costing Rs. 32 each to M Ltd. of Mumbai on 1 Feb. M/s Singha Traders paid Rs. 5,000 as freight and insurance charges. During transit 200 litres were destroyed for which the insurance company agreed to pay Rs. 5,000 in full settlement. **[CMAI SM Illustration 11]**

M Ltd. paid clearing charges Rs. 6,100; godown rent Rs. 300 and Salesman’s salary Rs. 900. It was entitled to 6% ordinary commission and 4% del credere commission on sales.

On 30 June, M Ltd. reported that 4,000 litres were sold at Rs. 1,65,000 and 100 litres were lost due to evaporation. A customer who bought oil for Rs. 1,500 could pay only 40% of his amount. M Ltd. paid its balance due by a cheque. Show the Consignment Account in the books of M/s Singha Traders.

Answer: **Books of M/s Singha Traders** **Consignment to M Ltd. A/c**

Particulars		Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c		1,60,000	By M. Ltd. A/c [Sale]	1,65,000
To Bank A/c (Freight & Insurance)		5,000	By Goods Destroyed-in-Transit A/c	6,600
To M. Ltd. A/c: Clearing Charges	6,100		By Consignment Stock A/c	24,500
Godown Rent	300			
Salesman’s Salaries	900	7,300		
To M. Ltd. A/c: Ordinary Commission	9,900			
Del credere Commission	6,600	16,500		
To P&L A/c		7,300		
		1,96,100		1,96,100

Working Note: Calculation of Unsold Stock

Particulars	Units	Rs.
Cost of Goods sent on consignment	5,000	1,60,000
Add: Non-recurring expense by consignor		5,000
Less: Goods destroyed in transit [(1,65,000 ÷ 5,000) 200]	200	6,600
	4,800	1,58,400
Add: Non-recurring expenses by consignee		6,100
Less: Normal Loss	100	-
	4,700	1,64,500
Unsold Stock [5,000 – 200 – 100 – 4,000] [(1,64,500 ÷ 4,700) 700]	700	24,500

CQ3. B consigned 100 calculators to A. Cost of each calculator was Rs. 190. B incurred expenses of Rs. 500 on dispatch of such goods. A informed B that he had sold 68 calculators @ Rs. 280 each & 11 calculators @ Rs. 270 each & had spent Rs. 1,520 on behalf of the consignor. One damaged calculator was sold for Rs. 50 according to the instructions of consignor. A was entitled to a commission of 6% on gross sales and it includes del-credere commission. A could recover only Rs. 250 from a customer to whom one calculator had been sold on credit basis for Rs. 280. All other sales were made on cash basis. **[CMAI SM Illustration 12]**

Show ledger accounts in the books of both the parties. Calculations may be made to the nearest rupee & assume that the expenses of consignee are recurring in nature.

Answer:

In the books of B

Consignment A/c

Particulars	Rs.	Particulars	Rs.
To Goods sent on consignment	19,000	By A A/c (sale) [(68 x 270) + (11 x 270)]	22,010
To Bank A/c (expense)	500	By Goods Damaged A/c	195
To A A/c (expense)	1,520	By Consignment Stock A/c	3,900
To A A/c (commission)	1,320		
To P&L A/c	3,765		
	26,105		26,105

Goods Damaged A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	195	By A A/c [Sale of damaged calculator]	50
To A A/c (commission)	3	By P&L A/c	148
	198		198

Working Note: Calculation of Unsold Stock

Particulars	Units	Rs.
Cost of Goods sent on consignment	100	19,000
Add: Non-recurring expense by consignor		500
	100	19,500
Less: Damaged Goods	1	195
	99	19,305
Unsold Stock [100 - 1 - 68 - 11] [(19,305 ÷ 99) 20]	20	3,900

A A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	22,010	By Consignment A/c	1,520
To Goods Damaged A/c	50	By Consignment A/c	1,320
		By Goods Damaged (Commission)	3
		By Balance c/f	19,217
	22,060		22,060

Goods Sent on Consignment A/c

Particulars	Rs.	Particulars	Rs.
To Purchases or Trading A/c	19,000	By Consignment A/c	19,000

In the books of A		B A/c	
Particulars	Rs.	Particulars	Rs.
To Bank A/c (expenses)	1,520	By Bank A/c (sale)	21,730
To Commission A/c	1,323	By Consignment Debtors A/c	280
By balance c/f	19,217	By Bank A/c (damaged calculator)	50
	22,060		22,060

Consignment Debtors A/c

Particulars	Rs.	Particulars	Rs.
To B A/c (credit sale)	280	By Bank A/c	250
		By Commission A/c (bad debts written off)	30
	280		280

Commission A/c

Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c	30	By B A/c	1,323
To P&L A/c (bal fig)	1,293		
	1,323		1,323

CQ4. On Jan 1 goods costing Rs. 1,32,000 were consigned by Shri G of Chennai to his agent Shri H in Amritsar at a pro-forma invoice price of 20% above cost. Shri G paid freight & other forwarding charges amounting to Rs. 4,000. The consignee was allowed Rs. 2,000 p.a. towards establishment costs, 5% commission on gross sales. Shri H paid Rs. 1,000 as godown rent and insurance for three months ended March 31.

Three-fourth of the goods were sold at $33\frac{1}{3}\%$ profit on cost, half of which were credit sales. Balance stock was valued at pro-forma invoice price. Consignee reported that a customer who purchased goods worth Rs. 10,000 was untraceable & his balance was considered to be unrealisable. All other the debtors cleared their dues. Shri H cleared his dues by sending a bank draft on March 31.

[CMAI SM Illustration 14]

Prepare necessary accounts in the books of Consignor, for 3 months ending on March 31.

Answer:

In the books of Shri G

Consignment A/c

Particulars	Rs.	Particulars	Rs.	
To Goods sent on consignment (1,32,000 + 20%)		1,58,400	By Shri H A/c (WN1)	66,000
To Bank A/c (expense)		4,000	By Consignment Debtors A/c	66,000
To Shri H A/c: Establishment Charges (2,000 x 3/12)	500		By Goods sent on Consignment	26,400
Godown rent & insurance	1,000	1,500	By Consignment Stock A/c	40,600
To Shri H A/c (commission)		6,600		
To Consignment Debtors A/c		10,000		
To Stock Reserve A/c		6,600		
To P&L A/c		11,900		
		1,99,000		1,99,000

Working Note 1: Sales = (1,32,000 x 3/4) + $33\frac{1}{3}\%$ = **1,32,000**

Credit sales = 66,000; Cash Sales = 66,000

Working Note2: Calculation of Unsold Stock

Particulars	Rs.
Invoice Price of Goods sent on consignment	1,58,400
Add: Non-recurring expense by consignor	4,000
	1,62,400
Unsold Stock [1,62,400 x ¼]	40,600
Load on Unsold Stock [26,400 x ¼]	6,600

Shri H A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Sales]	66,000	By Consignment A/c [Expenses incurred]	1,500
To Consignment Debtors A/c [Collection (Rs.66,000 – 10,000)]	56,000	By Consignment A/c [Commission due]	6,600
		By Bank A/c [Final remittance] (bal fig)	1,13,900
	1,22,000		1,22,000

Consignment Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Sales]	66,000	By Shri H A/c [recovered by consignee]	56,000
		By Consignment A/c [Bad debts written off]	10,000
	66,000		66,000

Goods sent on Consignment A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Loading on goods sent]	26,400	By Consignment A/c [IP of goods sent]	1,58,400
To Purchases/Trading A/c [Transfer]	1,32,000		
	1,58,400		1,58,400

CQ5. Kunal of Kolkata consigned goods costing Rs. 45,000 to Quereshi of Meerut. Invoice price was made so as to show profit of $33\frac{1}{3}\%$ on cost. Kunal paid Rs. 300 as carriage & Rs. 1,200 as freight & insurance, Goods costing Rs. 5,000 were destroyed while in-transit & insurance company admitted full claim. In Meerut, Quereshi paid Rs. 240 as carriage & Rs. 600 as godown rent. $\frac{2}{3}$ rd of the goods received by Quereshi were sold by him. Quereshi sent a cheque to Kunal for sale proceeds after deducting expenses incurred by him & commission due to him: ordinary 5% & Del-credere $2\frac{1}{2}\%$. Show Consignment to Meerut A/c & Q's A/c in Kunal's Ledger. **[CMAI SM Illustration 15]**

Answer:

Books of Kunal

Consignment to Meerut A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c		60,000	By Quereshi A/c (Sales) [WN1]	35,556
To Bank A/c: Carriage	300		By Goods Destroyed-in-Transit [WN2]	6,833
Freight & Insurance	1,200	1,500	By Goods Sent on Consignment A/c	15,000
To Quereshi A/c: Carriage	240		By Consignment Stock A/c	18,302
Godown Rent	600	840		

To Quereshi A/c: Ordinary Commission	1,778		
Del credere Commission	889	2,667	
To Goods Destroyed-in-Transit A/c [Load]		1,667	
To Stock Reserve A/c [Load]		4,444	
To P&L A/c		4,573	
		75,691	75,691

WN1: Sales by Quereshi

Particulars	Rs.
Cost of goods sent on consignment	45,000
Less: Goods destroyed in transit	5,000
Cost of Goods received by Consignee	40,000
Goods Sold by consignee [40,000 x 2/3]	26,667
Add: Profit [$33\frac{1}{3}\%$]	8,889
Goods sold by Quereshi	35,556

WN 2: Calculation of Goods destroyed in transit & Unsold Stock

Particulars	Load	Rs.
Invoice Price of Goods sent on consignment	15,000	60,000
Add: Non-recurring expense by consignor		1,500
	15,000	61,500
Less: Goods Destroyed in Transit [(5,000 ÷ 45,000) 61,500]	1,667	6,833
	13,333	54,667
Add: Non-recurring expense by consignee		240
	13,333	54,907
Unsold Stock [IP = 54,907 x 1/3] [Load = 13,333 x 1/3]	4,444	18,302

Quereshi A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Sales]	35,556	By Consignment A/c [Expenses incurred]	840
		By Consignment A/c [Commission due]	2,667
		By Bank A/c [Final remittance] (bal fig)	32,049
	35,556		35,556

CQ6. Veemal of Delhi sends a consignment of wall clocks to Anand of Kolkata and charges proforma invoice price so as to show a profit of 25% on cost. The agent received commission @ 5% on all sales plus 3% del credere commission on credit sales made by him. Stock of goods with the agent at the beginning of the year: 40 clocks at proforma invoice price Rs. 25,000. During the year ended 31st December, Veemal had the following transactions with Anand:

[CMAI SM Illustration 16]

- (1) Proforma invoice price of 200 Clocks consigned to Anand: Rs. 1,25,000
- (2) Railway charges and insurance on the consignment paid by Veemal: Rs. 3,500
- (3) Advance received from Anand : Rs. 37,500
- (4) Sales made by Anand;
 - (a) 80 clocks for cash : Rs. 53,750
 - (b) 100 clocks on credit: Rs. 70,000
- (5) Selling expenses made by agent: Rs. 6,250 and discount allowed by him Rs. 2,500.
- (6) 30 clocks were damaged by the railway for which Anand recovered Rs. 6,750. The damaged clocks were sold on cash by Anand at Rs. 5,750.
- (7) Out of the clock sold on credit, Rs. 5,000 was irrecoverable and considered bad by the agent.
- (8) Agent remitted balance due by him via bank draft. Show necessary Ledger A/c in Veemal's books.

Answer: **In the Books of Veemal** **Consignment A/c**

Particulars	Rs.	Rs.	Particulars	Rs.
To Consignment Stock A/c [Opening stock]		25,000	By Stock Reserve A/c [(25,000 ÷ 125%) 25%]	5,000
To Goods sent on Consignment A/c		1,25,000	By Anand A/c [Sale]	1,23,750
To Bank A/c [Railway & Insurance]		3,500	By Goods Sent on Consignment A/c	25,000
To Anand A/c: Selling expenses	6,250		[(1,25,000 ÷ 125%) 25%]	
Discount Allowed	2,500	8,750	By Goods Damaged-in-Transit A/c [WN1]	19,275
To Anand A/c: Ordinary Commission	6,188		By Consignment Stock A/c [WN1]	19,275
Del credere Commission	2,100	8,288		
To Goods Damaged-in-Transit A/c [WN1]		3,750		
To Stock Reserve A/c [WN1]		3,750		
To P&L A/c		14,262		
		1,92,300		1,92,300

WN1: Calculation of Goods destroyed in transit & Unsold Stock

Particulars	Units	Rs.
Invoice Price of Goods sent on consignment	200	1,25,000
Add: Non-recurring expense by consignor		3,500
	200	1,28,500
Less: Goods Destroyed in Transit [(1,28,500 ÷ 200) 30] Load = 3,750 [(25,000 ÷ 200) 30]	30	19,275
	170	1,09,225
Unsold Stock [200 + 40 – 180 - 30] Load = 3,750 [(25,000 ÷ 200) 30]	30	19,275

Anand A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Sales]	1,23,750	By Bank A/c [Advance]	37,500
To Goods Damaged in Transit [claim received]	6,750	By Consignment A/c [Expenses]	8,750
To Goods Damaged in Transit [Sale]	5,750	By Consignment A/c [Commission]	8,288
		By Goods Damaged in Transit [commission]	288
		By Bank A/c [Final remittance] (bal fig)	81,424
	1,36,250		1,36,250

Goods Damaged in Transit A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c [Goods damaged]	19,275	By Consignment A/c [Load]	3,750
To Anand A/c [commission]	288	By Anand A/c [claim received]	6,750
		By Anand A/c [sale]	5,750
		By P&L A/c [bal fig]	3,313
	19,563		19,563

CQ7. Account Sales received from an agent disclosed that the total sales effected by him during a FY amounted to Rs. 4,50,000. This included Rs. 3,12,500 for sales made at invoice price which is cost plus 25% & balance at 10% above the invoice price. He incurred expenses to the tune of Rs. 5,000 out of which a sum of Rs.1,800 is recurring in nature. Forwarding expenses of the Consignor totalled Rs. 2,400. The Agent had remitted the balance due from him through Bank Draft after deducting the expenses. 5% commission on gross sales, bad debts Rs. 850 and a Bills payable accepted by him for Rs. 10,000.

[CMAI SM Illustration 17]

Value of unsold stock at original cost lying with the Agent at end of the year amounted to Rs. 50,000.

You are required to prepare Consignment A/c & Consignee's A/c in the Books of Consignor.

Answer:

In the books of Consignor

Consignment A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c		5,00,000	By Consignment Debtors A/c [sale]	4,50,000
To Bank A/c [Forwarding expense]		2,400	By Goods sent on Consignment [Load]	1,00,000
To Consignee A/c: Recurring Expense	1,800		By Consignment Stock A/c	63,200
[5,000 – 1,800] Non-Recurring Expense	3,200	5,000		
To Consignee A/c [commission] [4.5 lacs x 5%]		22,500		
To Consignment Debtors A/c [Bad debts]		850		
To Stock Reserve A/c		12,500		
To P&L A/c		69,950		
		6,13,200		6,13,200

WN1: Calculation of Goods sent on Consignment

Particulars	Rs.
Total Sale	4,50,000
Less: Sale at invoice price	3,12,500
Sale at IP + 10%	1,37,500
Total Sale at Invoice Price [3,12,500 + (1,37,500 ÷ 110%)	4,37,500
Less: Load [(4,37,500 ÷ 125%) 25%]	87,500
Cost of Goods Sold	3,50,000
Add: Unsold Stock	50,000
Cost of Goods sent on consignment	4,00,000
Add: Load [25%]	1,00,000
Goods sent on consignment @ Invoice Price	5,00,000

WN2: Calculation of Unsold Stock

Particulars	Rs.
Cost of unsold stock	50,000
Add: Load [25%]	12,500
	62,500
Add: Proportionate expenses of Consignor [2,400 (62,500 ÷ 5,00,000)]	300
Add: Proportionate expenses of Consignee [3,200 (62,500 ÷ 5,00,000)]	400
Unsold Stock	63,200

Consignee A/c

Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c [4,50,000 – 850]	4,49,150	By Bills Receivable A/c	10,000
		By Consignment A/c [Expenses]	5,000
		By Consignment A/c [Commission]	22,500
		By Bank A/c [Final remittance] (bal fig)	4,11,650
	4,49,150		4,49,150

CQ8. Mr. P consigned goods to Mr. D, his agent at Dhanbad, at cost price of Rs. 40,000. Mr. P's accountant at the end of the year drew up the agent is account as below: **[CMAI SM Illustration 18]**

Mr. D A/c

Particulars	Rs.	Particulars	Rs.
To Goods	40,000	By Cash	25,000
To Cash-Freight	3,000	By Balance	19,300
To P/L A/c	1,300		
	44,300		44,300

Mr. D sold part of the goods for Rs. 45,000, which exceeded by Rs. 9,000 their cost price. He collected Rs. 38,000 after allowing discount of Rs. 2,000 to customers. Bad Debts came to Rs. 1,000 and his expenses to Rs. 800 (including Rs. 200 for loading and cartage). Mr. D was entitled to a 5% commission on cash collected.

From above information draw up Consignment A/c, Consignment Debtors A/c & Mr. D A/c in the books of Mr. P.

Answer: In the books of P Consignment A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c		40,000	By Consignment Debtors A/c	45,000
To Bank A/c (freight)		3,000	By Stock on Consignment	4,320
To Consignment Debtor A/c (discount)		2,000		
To Consignment Debtor A/c (bad debts)		1,000		
To D A/c: Other Expense [800 – 200]	600			
Loading & Cartage	200	800		
To D's A/c (commission) (38,000 x 5%)		1,900		
To P&L A/c		620		
		49,320		49,320

WN1: Calculation of Unsold Stock

Particulars	Rs.
Cost of Goods sent on Consignment	40,000
Less: Cost of goods sold [45,000 – 9,000(profit)]	36,000
Cost of unsold stock	4,000
Add: Proportionate Non-Recurring Expenses of P [(4,000 ÷ 40,000) 3,000]	300
Add: Proportionate Non-Recurring Expenses of D [(4,000 ÷ 40,000) 200]	20
Value of Unsold Stock	4,320

D A/c

Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c	38,000	By Consignment A/c	800
		By Consignment A/c	1,900
		By Bank A/c	25,000
		By Bal c/d	10,300
	38,000		38,000

Consignment Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	45,000	By D A/c	38,000
		By Consignment A/c	2,000
		By Consignment A/c	1,000
		By bal c/d	4,000
	45,000		45,000

CQ9. Account sales received from an agent disclosed that the sales made at 10% above the price was 44% of the sales made at invoice price which is cost plus 25%. All the sales are made on credit basis. He incurred expenses to the tune of Rs. 5,000, out of which a sum of Rs. 1,800 is recurring in nature. Forwarding expenses of the consignor Rs. 2,400. The agent had remitted the balance due from him through bank draft of Rs. 4,11,650 after deducting the expenses, 5% commission on gross sales, bad debts Rs. 850 and a bill payable accepted by him for Rs. 10,000. The value of unsold stock at original cost lying with the agent amounted to Rs. 50,000. You are required prepare Consignment A/c & Agents' A/c in the books of the consignor. **[CMAI SM Illustration 19]**

Answer: **In the books of Consignor** **Consignment A/c**

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c		5,00,000	By Consignment Debtors A/c	4,50,000
To Bank A/c (forwarding expense)		2,400		
To Consignee A/c: Recurring Expense	1,800		By Goods sent on Consignment A/c	1,00,000
Non Recurring Expense	3,200	5,000	By Stock on Consignment A/c	63,200
To Consignee A/c (commission)		22,500		
To Consignment Debtors A/c (bad debts)		850		
To Stock Reserve A/c		12,500		
To P&L A/c		69,950		
		6,13,200		6,13,200

Consignment Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	4,50,000	By Consignment A/c (bad debts)	850
		By Consignee A/c (bal fig)	4,49,150
	4,50,000		4,50,000

Consignee A/c

Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c	4,49,150	By Bills receivable	10,000
		By Consignment A/c	5,000
		By Consignment A/c	22,500
		By Bank A/c (bal fig)	4,11,650
	4,49,150		4,49,150

WN1: Calculation of Total Sales & Commission

Let Total sales be 'x' Commission = 0.05x

Credit Sales – Bad debts = Bills Receivable + Expenses + Commission + Final Remittance

$$X - 850 = 10,000 + 5,000 + 0.05x + 4,11,650$$

$$X - 0.05x = 4,26,650 + 850$$

$$0.95x = 4,27,500 \qquad \qquad \qquad x = 4,50,000$$

Commission = 4,50,000 x 5% = 22,500

WN2: Calculation of Goods sent on Consignment on invoice price

When Cost of goods = 100; Invoice Price = 125 Goods sold on 10% above IP = 125 + 10% = 137.5

Let the goods sold at Invoice Price be 'y' Therefore, Goods sold on 10% above Invoice Price will be 0.44y

Therefore, $y + 0.44y = \text{Total Sales}$

$Y + 0.44y = 4,50,000$ **y = 3,12,500**

Goods sold at Invoice Price = 3,12,500; Goods sold on 10% above Invoice Price = 3,12,500 x 44% = **1,37,500**

WN3: Calculation of Goods sent on Consignment on Invoice Price

Particulars	Rs.
Cost of goods sold by consignee $[(3,12,500 \div 125\%) + (1,37,500 \div 137.5\%)]$	3,50,000
Cost of Closing Stock	50,000
Cost of Goods sent on consignment	4,00,000
Invoice Price of goods sent on Consignment $(4,00,000 \times 125\%)$	5,00,000

WN4: Calculation of Unsold Stock (closing stock)

Particulars	Rs.
Cost of Goods sent on consignment	4,00,000
Add: Non-recurring Expenses by Consignor	2,400
Add: Non-recurring Expenses by Consignee	3,200
Total Cost of Goods sent	4,05,600
Cost of Unsold stock $[(4,05,600 \div 4,00,000) 50,000]$	50,700
Add: Load $[(1,00,000 \div 4,00,000) 50,000]$	12,500
Invoice price of Unsold Stock	63,200

CQ10. Kush of Kanpur sent to Jatin of Jaipur, a consignment of 400 electric sewing machines costing each Rs. 24,000 (invoice price Rs.30,000). Kush paid freight and insurance of Rs. 96,000. Jatin spent Rs. 31,200 for clearance and the selling expenses were Rs.1,500 per sewing machine as and when the sale was made by Jatin. In transit, 10 sewing machines were stolen for which the insurance company paid Rs. 1,85,000 in full settlement to Kush. Jatin sold 210 sewing machines at Rs. 32,000 per sewing machine and 130 sewing machines at Rs. 35,000 per sewing machine. Jatin was entitled to a commission of 5% on total sales value plus one-fourth of the amount by which the gross sale proceeds less total commission thereon exceeded the invoice price. The final amount due was settled. You are required to show the Consignment Account, Jatin's Account, and Loss in Transit Account in the books of Kush.

[June 24 - 7 marks]

Answer:

In the Books of Kush

Consignment A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c		1,20,00,000	By Goods Sent on Consignment A/c	24,00,000
To Bank A/c (Freight & Insurance)		96,000	By Jatin A/c (sale)	1,12,70,000
To Jatin A/c: Clearing Expenses	31,200		By Goods Lost in Transit A/c	3,02,400
Selling Expense	5,10,000	5,41,200	By Stock on Consignment A/c	15,16,000
To Jatin A/c (commission)		6,64,800		
To Goods Lost in Transit A/c		60,000		

To Stock Reserve A/c		3,00,000	
To P&L A/c		18,26,400	
		1,54,88,400	1,54,88,400

Jatin A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	1,12,70,000	By Consignment A/c	5,41,200
		By Consignment A/c	6,64,800
		By Bank A/c	1,00,64,000
	1,12,70,000		1,12,70,000

Goods Lost in Transit A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	3,02,400	By Consignment A/c	60,000
		By Bank – Insurance Claim	1,85,000
		By Profit & Loss A/c	57,400
	3,02,400		3,02,400

WN1: Calculation of Unsold Stock

Particulars	Units	Rs.
Invoice Price of goods sent on consignment (30,000 x 400)	400	1,20,00,000
Add: Non Recurring expense by Consignor		96,000
	400	1,20,96,000
Less: Goods stolen [(1,20,96,000 ÷ 400) 10] Load = 60,000 (6,000 x 10)	10	3,02,400
	390	1,17,93,600
Add: Non Recurring expense by Consignee		31,200
	390	1,18,24,800
Cost of Unsold stock [(1,18,24,800 ÷ 390) 50]	50	15,16,000
Load on unsold stock [6,000 x 50]		3,00,000

WN2: Calculation of Commission

Let the commission be 'x'

$$\text{Commission} = (\text{Sale} \times 5\%) + \frac{1}{4} [\text{Sale} - \text{Commission} - \text{Invoice Price of Goods sold}]$$

$$X = (1,12,70,000 \times 5\%) + \frac{1}{4} [1,12,70,000 - x - (340 \times 30,000)]$$

$$X = 5,63,500 + \frac{1}{4} (10,70,000 - x)$$

$$X = 5,63,500 + 2,67,500 - 0.25x$$

$$1.25x = 8,31,000$$

$$X = 6,64,800$$

Difference between Joint Venture & Consignment	
Joint Venture	Consignment
Co-venturers are the owners of the joint venture.	Relationship is of owner (consignor) & agent (consignee) .
Profits are shared between co-venturers as per agreed profit-sharing ratio .	No profit-sharing ; consignee only gets commission on sales.
All co-venturers are co-owners of goods/project.	Ownership remains with the consignor ; consignee gets possession only .
Funds contributed by all co-venturers in agreed proportion.	Investment is done only by the consignor .
No continuity after completion of the specific project.	It may continue as a regular/continuous business .

Conversion of Consignment into Joint Venture
<ul style="list-style-type: none"> Sometimes, an ongoing consignment arrangement may be converted into a joint venture.
<ul style="list-style-type: none"> Till the date of conversion → Accounting is done as per consignment system (Consignment A/c, Consignee's A/c etc)
<ul style="list-style-type: none"> On date of conversion → Balance stock lying with consignee is transferred to JV A/c at agreed value.
<ul style="list-style-type: none"> Date of conversion onwards → Accounting is done as per joint venture principles (joint ownership, joint contribution, etc)

CQ11. Daga of Kolkata sent to Lodha of Kanpur goods costing Rs. 40,000 on consignment at a commission of 5% on gross sales. The packaging and forwarding charges incurred by consignor amounted to Rs. 4,000. The consignee paid freight and carriage of Rs. 1,000 at Kanpur. Three-fourth of the goods were sold for Rs. 48,000. Then the consignee remitted the amount due from him to consignor along with the account sale, but he desired to return the goods still lying unsold with him as he was not agreeable to continue the arrangement of consignment. He was then persuaded to continue on JV basis sharing profit or loss as Daga 3/5th & Lodha 2/5th.

Daga then supplied another lot of goods of Rs. 20,000 and Lodha sold out all the goods in his hand for Rs. 50,000 (gross). Daga paid expenses Rs. 2,000 and Lodha Rs. 1,700 for the second lot of goods. **[CMAI SM Illustration 27]**

Show necessary ledger account in the books of both parties. No final settlement of balance due is yet made.

Answer:

In the books of Daga

Consignment A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Goods sent on Consignment		40,000	By Lodha A/c (sales)	48,000
To Bank A/c (packing & forwarding)		4,000	By Stock on Consignment A/c	11,250
To Lodha A/c (freight & carriage)		1,000		
To Lodha A/c (commission)		2,400		
To P&L A/c		11,850		
		59,250		59,250

WN1: Calculation of unsold stock	Rs.
Cost of goods sent on consignment	40,000
Add: Non-Recurring Expense by Consignor	4,000
Add: Non-Recurring Expense by Consignee	1,000
	45,000
Cost of Goods sold (45,000 x ¼)	11,250

Lodha's A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	48,000	By Consignment A/c	1,000
		By Consignment A/c	2,400
		By bal c/d	44,600
	48,000		48,000

In the books of Lodha

Daga A/c

Particulars	Rs.	Particulars	Rs.
To Bank A/c	1,000	By Bank A/c	48,000
To Commission A/c	2,400		
	44,600		
	48,000		48,000

Memorandum Joint Venture A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Daga A/c: Purchase [11,250 + 20,000]	31,250		By Lodha A/c (sales)	50,000
Expense	2,000	33,250		
To Lodha A/c (expense)		1,700		
To Profit on JV: Daga	9,030			
Lodha	6,020	15,050		
		50,000		50,000

In the books of Daga

Joint Venture with Lodha A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Consignment to Lodha A/c		11,250	By Balance c/d	42,280
To Bank A/c: Purchase	20,000			
Expenses	2,000	22,000		
To P&L A/c		9,030		
		42,280		42,280

In the books of Lodha

Joint Venture with Daga A/c

Particulars	Rs.	Rs.	Particulars	Rs.
To Bank A/c (expense)		1,700	By Bank A/c (sales)	50,000
To P&L A/c		6,020		
To Bal c/d		42,280		
		50,000		50,000

5 FINANCIAL STATEMENTS OF COMMERCIAL ORGANISATION

Disha Chandak

Income Statement

- Income Statement refers to financial statements that determines **operating results** (profit earned or loss suffered).
- In non-corporate commercial organisations (proprietorships, partnerships, etc.), these include **Trading A/c, Profit & Loss A/c & Profit & Loss Appropriation A/c**.
- Specifically, income statements vary with the form of business organisation as follows:

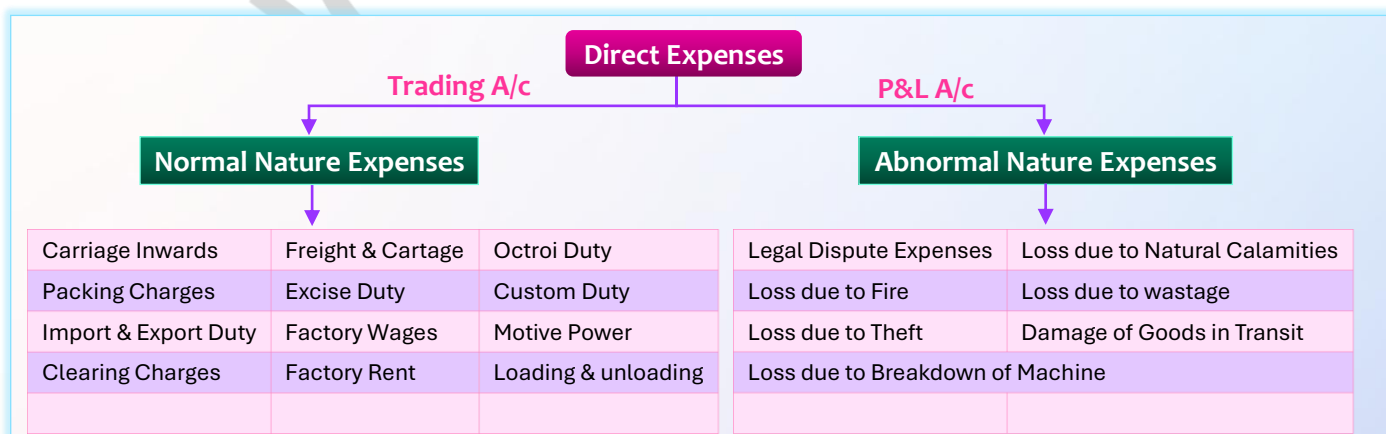
Form of Organization	Income Statements Prepared
Proprietorship Business	Trading A/c & Profit & Loss A/c
Partnership Firm	Trading A/c, P&L A/c & P&L Appropriation A/c
Company	To be covered in Group-2 [Corporate Accounting]
Non-profit Organisation	Income & Expenditure A/c (instead of P&L A/c) → Non-Commercial

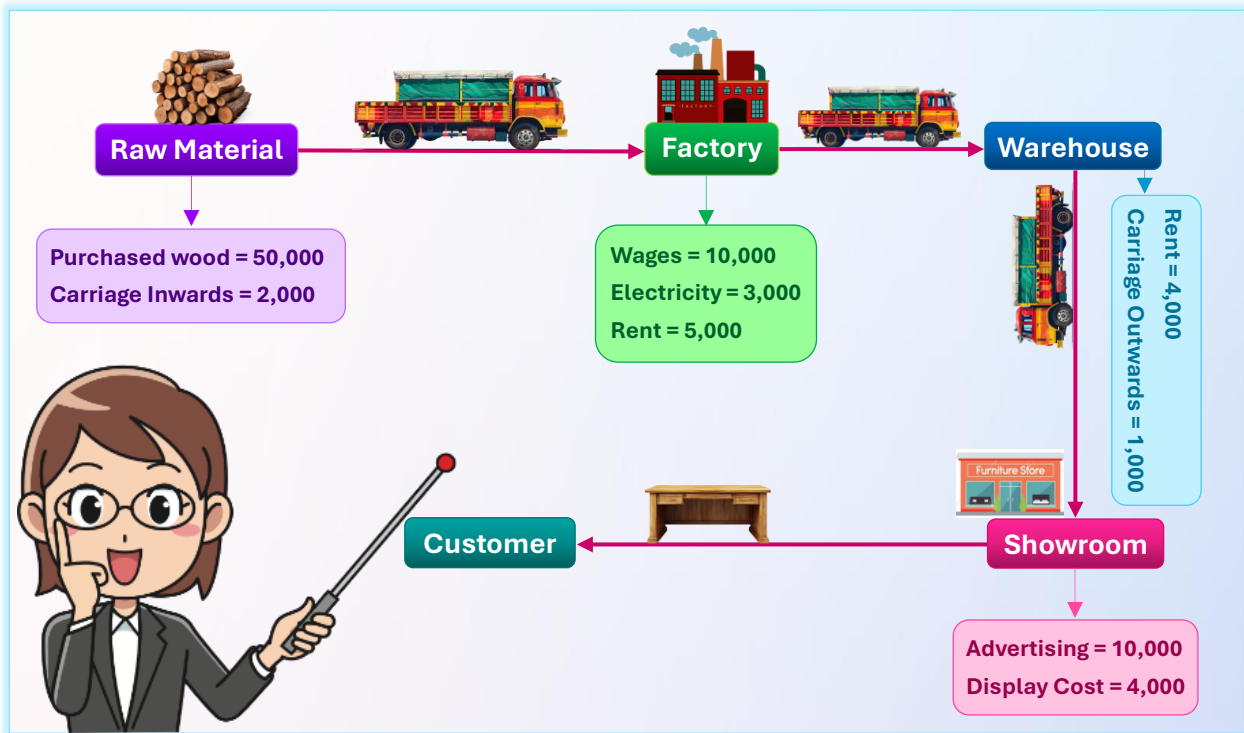
Trading A/c

- Trading A/c is the first income statement of a non-corporate trading business.
- It shows **gross results** (Gross Profit or Gross Loss) by matching **Sales with Cost of Goods Sold (COGS)**.
- It considers only **direct costs & direct incomes**.
- Being a **Nominal A/c**, it is closed by transferring Gross Profit/Gross Loss to Profit & Loss A/c

Format of Trading A/c

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		XX	By Sales	XX	
To Purchases	XX		Less: Sales Returns	XX	XX
Less: Purchase returns	XX	XX	By Closing Stock		XX
To Direct expenses [Normal nature]		XX			
To Profit & Loss A/c (Gross Profit transferred to P&L A/c)		XX	By Profit & Loss A/c (Gross Loss transferred)		XX
		XXX			XXX





Profit & Loss A/c

- Profit & Loss A/c is the second income statement, prepared after determining Gross Profit/Loss.
- It shows Net Profit/Loss by charging indirect expenses & losses against Gross Profit & indirect incomes.
- Since it is a nominal A/c, Net Profit/Loss is transferred to Capital A/c of the proprietor or partners.

Format of P&L A/c

Particulars	Rs.	Particulars	Rs.
To Trading A/c (Gross Loss transferred)	XX	By Trading A/c (Gross Profit transferred)	XX
To Administrative Expenses	XX	By Other Income	XX
To Office Salaries & Office rent	XX	By Interest Received	XX
To Communication Expenses	XX	By Commission Received	XX
To Travel & Conveyance	XX	By Profit on Sale of Assets	XX
To Advertising	XX	By Rent Received	XX
To Audit Fees	XX	By Discount Received	XX
To Insurance	XX	By Dividend Received	XX
To Repairs & Maintenance	XX	By Capital A/c (Net Loss transferred)	XX
To Selling & Distribution Expenses	XX		
To Bad Debts	XX		
To Interest on Loans	XX		
To Depreciation & Amortisation	XX		
To Loss on Sale of Assets	XX		
To Capital A/c (Net Profit transferred)	XX		
	XXX		XXX

DC Note:

- Since **closing stock includes only normal goods**, abnormal loss must be **removed from Trading A/c**. Therefore, Abnormal losses are **credited to Trading A/c** & its corresponding **debit goes to P&L A/c**.
- Normal losses are **not treated separately** in the books of accounts.

Balance Sheet

- B/S shows the financial position of an organisation on a specific date & is prepared after Trading & P&L A/c.
- It shows assets & liabilities prepared in a Horizontal (Liabilities left, Assets right) or Vertical format (top-down).
- Items are arranged through Marshalling (specific order):
 - **Permanence (Rigidity) Order** → Permanent assets & long-term liabilities first, current items later.
 - **Liquidity (Realisability) Order** → Current assets & short-term liabilities first, permanent items later.

Sequence of Preparation of Final Accounts**Sequence of Preparation:**

- (1) **Trading A/c** → Gross Profit/Loss transferred to P&L A/c.
- (2) **P&L A/c** → Net Profit/Loss transferred to Capital A/c
- (3) **Balance Sheet** → Prepared showing assets, liabilities & capital.

DC Note:

Items appearing in Trial Balance → Already balanced (closing balances) → **single effect** in the Final Accounts.

Items appearing as Adjustments → Not yet recorded → **double effect** in Final Accounts.

CQ1. Following are the ledger balances presented by M/s. P. Sen as on 31st March: **[CMAI SM Illustration 1]**

Particulars	Rs.	Particulars	Rs.
Opening Stock	10,000	Sales	3,00,000
Purchase	1,60,000	Return Inward	16,000
Carriage Inwards	10,000	Return Outward	10,000
Wages	30,000	Royalty on Production	6,000
Freight	8,000	Gas and Fuel	2,000

Additional Information:

- (1) Stock on 31 March: (a) Market Price Rs. 24,000; (b) Cost Price Rs. 20,000;
- (2) Stock valued Rs. 10,000 were destroyed by fire & insurance company admitted claim to the extent of Rs. 6,000.
- (3) Goods purchased for Rs. 6,000 on 29th March, but still lying in-transit, not at all recorded in the books.
- (4) Goods taken for the proprietor for his own use for Rs. 3,000.
- (5) Outstanding wages amounted to Rs. 4,000.
- (6) Freight was paid in advance for Rs. 1,000.

Prepare Trading A/c from the above information.

Answer: In the books of P. Sen Trading A/c for the year ended 31 March

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		10,000	By Sales	3,00,000	
To Purchase	1,60,000		Less: Sales return	16,000	2,84,000
Less: Purchase returns	10,000		By Stock Destroyed by fire		10,000
Less: Drawings (stock)	3,000		By Closing Stock		20,000
Add: Goods in transit	6,000	1,53,000	By Goods in Transit		6,000
To Carriage Inwards		10,000			
To Wages	30,000				
Add: Outstanding	4,000	34,000			
To Freight	8,000				
Less: Advance Freight	1,000	7,000			
To Royalty on production		6,000			
To Gas & Fuel		2,000			
To P&L A/c (GP transferred)		98,000			
		3,20,000			3,20,000

DC Note:

- (1) Closing stock is valued at Cost or Market price whichever is lower as per Principle of Conservatism.
- (2) Insurance claim admitted does not appear in Trading A/c.

CQ2. From following particulars presented by Mr. Shankar for year ended 31st March, prepare a P&L A/c:

Particulars	Rs.	Particulars	Rs.
Gross Profit b/d	1,00,000	Bad Debts	2,000
Rent	22,000	Provision for Bad Debts (Opening)	4,000
Salaries	10,000	Sundry Debtors	40,000
Commission (Credit)	12,000	Discount Received (Credit)	2,000
Insurance (Debit)	8,000	Plant & Machinery	80,000
Interest (Credit)	6,000		

Adjustments:

[CMAI SM Illustration 2]

- (1) Outstanding salaries amounted to Rs. 4,000;
- (2) Rent paid for 11 months;
- (3) Interest due but not received amounted to Rs. 2,000
- (4) Prepaid Insurance amounted to Rs. 2,000;
- (5) Depreciate Plant and Machinery by 10% p.a.
- (6) Further Bad Debts amounted to Rs. 2,000 and make a provision for Bad Debts @5% on Sundry Debtors.
- (7) Commissions received in advance amounted to Rs. 2,000.

Answer: In the books of Mr. Shankar P&L A/c for the year ended 31st March

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Rent	22,000		By Trading A/c (GP)		1,00,000
Add: Outstanding [(22,000 ÷ 11)1]	2,000	24,000	By Commission	12,000	
To Salaries	10,000		Less: Advance	2,000	10,000
Add: Outstanding	4,000	14,000	By Interest	6,000	
To Insurance	8,000		Add: Outstanding	2,000	8,000
Less: Prepaid	2,000	6,000	By Discount Received		2,000
To Bad debts	2,000		By Provision for Bad debts	4,000	
Add: Further bad debts	2,000	4,000	Less: New Provision	1,900	2,100
To Depreciation (80,000 x 10%)		8,000	[(40,000 – 2,000) 5%]		
To Capital A/c (NP transferred)		66,100			
		1,22,100			1,22,100

CQ3. From the following Trial Balance of M/s BJ & Sons, prepare the final accounts for the year ended on 31st March & also Balance sheet as on that date:

[CMAI SM Illustration 4]

Particulars	Debit (Rs.)	Credit (Rs.)
Opening Stock: Finished goods	2,00,000	
Purchases & Sales	22,00,000	35,00,000
Bills receivables	50,000	
Returns	1,00,000	50,000
Carriage Inwards	50,000	
Debtors and Creditors	2,00,000	4,00,000
Carriage Outwards	40,000	
Discounts	5,000	5,000
Salaries and wages	2,20,000	
Insurance	60,000	
Rent	60,000	
Wages and salaries	80,000	
Bad debts	10,000	
Furniture	4,00,000	
BJ's capital		5,00,000
BJ's drawing	70,000	
Loose tools	1,00,000	
Printing & stationery	30,000	
Advertising	50,000	
Cash in hand	45,000	
Cash at bank	2,00,000	
Petty Cash	5,000	

Machinery	3,00,000	
Commission	10,000	30,000
	44,85,000	44,85,000

Adjustments:

- (1) Finished goods stock: Stock on 31st March was valued at Cost price Rs. 4,20,000 & Market price Rs. 4,00,000.
- (2) Depreciate furniture @ 10% p.a. and machinery @ 20% p.a. on reducing balance method.
- (3) Rent of Rs. 5,000 was paid in advance.
- (4) Salaries & wages due but not paid Rs. 30,000.
- (5) Make a provision for doubtful debts @ 5% on debtors.
- (6) Commission receivable Rs. 5,000.

Answer: In the books of M/s BJ & Sons Trading A/c for the year ended 31st March

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		2,00,000	By Sales	35,00,000	
To Purchases	22,00,000		Less: Return	1,00,000	34,00,000
Less: Returns	50,000	21,50,000	By Closing Stock		4,00,000
To Carriage Inwards		50,000			
To Wages & Salaries		80,000			
To P&L A/c [GP transferred]		13,20,000			
		38,00,000			38,00,000

P&L A/c for the year ended 31st March

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Salary & Wages	2,20,000		By Trading A/c [GP]		13,20,000
Add: Outstanding	30,000	2,50,000	By Discount		5,000
To Carriage Outwards		40,000	By Commission	30,000	
To Discount		5,000	Add: Outstanding	5,000	35,000
To Insurance		60,000			
To Rent	60,000				
Less: Prepaid rent	5,000	55,000			
To Bad Debts		10,000			
To Printing & Stationery		30,000			
To Advertising		50,000			
To Commission		10,000			
To Provision for Bad Debts		10,000			
To Depreciation: Furniture	40,000				
Machinery	60,000	1,00,000			
To NP [Transferred to Capital A/c]		7,40,000			
		13,60,000			13,60,000

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	5,00,000		Furniture	4,00,000	
Less: Drawings	70,000		Less: Depreciation @10%	40,000	3,60,000
Add: Net Profit	7,40,000	11,70,000	Machinery	3,00,000	
Creditors		4,00,000	Less: Depreciation @20%	60,000	2,40,000
Outstanding Salary		30,000	Loose Tools		1,00,000
			Prepaid Rent		5,000
			Outstanding Commission		5,000
			Debtors	2,00,000	
			Less: Provision @5%	10,000	1,90,000
			Bills Receivable		50,000
			Cash in Hand		45,000
			Cash at Bank		2,00,000
			Petty Cash		5,000
			Closing Stock		4,00,000
		16,00,000			16,00,000

CQ4. Mr. Arvind Kumar has a small business enterprise. He has given the trial balance as at 31st March

Particulars	Debit (Rs.)	Credit (Rs.)
Mr. Arvind Kumar's Capital		1,00,000
Machinery	36,000	
Depreciation on Machinery	4,000	
Repairs to Machinery	5,200	
Wages	54,000	
Salaries	21,000	
Income Tax of Mr. Arvind Kumar	1,000	
Cash in Hand	4,000	
Land & Building	1,49,000	
Depreciation on Building	5,000	
Purchases	2,50,000	
Purchase Returns		3,000
Sales		4,98,000
CC Bank		7,600
Accrued Income	3,000	
Salaries Outstanding		4,000
Bills Receivables	30,000	

Provision for Doubtful Debts		10,000
Bills Payable		16,000
Bad Debts	2,000	
Discount on Purchases		7,080
Debtors	70,000	
Creditors		62,520
Opening Stock	74,000	
	7,08,200	7,08,200

Additional information:

- (1) Stock as on 31st March was valued at Rs. 60,000
- (2) Write off further Rs. 6,000 as bad debt and maintain a provision of 5% for doubtful debt.
- (3) Goods costing Rs. 10,000 were sent on approval basis to a customer for Rs. 12,000 on 30th March, 2022. This was recorded as actual sales.
- (4) Rs. 2,400 paid as rent for office was debited to Landlord's A/c and was included in debtors.
- (5) General Manager is to be given commission at 10% of net profits after charging his commission.
- (6) Works manager is to be given a commission at 12% of net profit before charging General Manager's commission and his own.

Prepare final accounts in the books of Mr. Arvind Kumar & also Balance Sheet as on that date.

Answer: In the books of M/s Arvind Kumar **Trading A/c for the year ended 31st March**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		74,000	By Sales	4,98,000	
To Purchases	2,50,000		Less: Goods sent on Approval	12,000	4,86,000
Less: Returns	3,000	2,47,000	By Closing Stock	60,000	
To Wages		54,000	Add: Goods sent on approval	10,000	70,000
To P&L A/c [Gross Profit]		1,81,000			
		5,56,000			5,56,000

P&L A/c for the year ended 31st March

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Repairs on Machinery		5,200	By Trading A/c [Gross Profit]		1,81,000
To Salaries		21,000	By Discount Received		7,080
Depreciation: Machinery	4,000		By Provision for Bad debts	10,000	
Land & Building	5,000	9,000	Less: New Provision	2,480	7,520
To Bad debts	2,000				
Add: Further Bad debts	6,000	8,000			
To Office rent		2,400			
To Commission: Works Manager	18,000				
General Manager	12,000	30,000			
To Capital A/c [Net Profit]		1,20,000			
		1,95,600			1,95,600

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	1,00,000		Machinery		36,000
Less: Drawings (income tax)	1,000		Land & Building		1,49,000
Add: Net Profit	1,20,000	2,19,000	Debtors	70,000	
Bank Overdraft		7,600	Less: Bad Debts	6,000	
Creditors		62,520	Less: Goods sent on approval basis	12,000	
Outstanding Salary		4,000	Less: Office rent wrongly recorded	2,400	
Bills Payable		16,000	Less: Provision for Bad debts	2,480	47,120
Commission		30,000	Cash in Hand		4,000
			Accrued Income		3,000
			Bills Receivable		30,000
			Closing Stock		70,000
		3,39,120			3,39,120

DC Note:

- (1) Depreciation appeared in Trial Balance → already adjusted → no need to deduct it again in Balance Sheet.
- (2) Income Tax of Mr. Arvind is his personal expense & therefore treated as drawings.
- (3) Outstanding Salary appeared in TB → already adjusted → shown only on Liabilities side of Balance Sheet.
- (4) Goods sent on approval basis are part of closing stock & are valued at cost or market price, whichever is lower.

WN: Calculation of Commission	
Profit before charging Commission	1,50,000
Commission to Works Manager [1,50,000 x 12%]	18,000
Profit after commission of Works Manager	1,32,000
Commission to General Manager [(1,32,000 ÷ 110%) 10%]	12,000

CQ5. Mr. O maintains his accounts on Mercantile basis. Following Trial Balance has been prepared from his books as at 31st March, after making necessary adjustments for outstanding & accrued items as well as depreciation:

Trial Balance as at 31st March

[CMAI SM Illustration 7]

Particulars	Debit (Rs.)	Credit (Rs.)
Plant and Machinery	2,12,500	
Sundry Creditors		2,64,000
Sales		6,50,000
Purchases	4,20,000	
Salaries	40,000	
Prepaid Insurance	370	
Advance Rent	2,000	

Outstanding Salary		6,000
Advance Salary	2,500	
Electricity Charges	2,650	
Furniture and Fixtures	72,000	
Opening Stock	50,000	
Outstanding Electricity Charges		450
Insurance	1,200	
Rent	10,000	
Miscellaneous Expenses	14,000	
Cash in Hand	3,000	
Investments	80,000	
Drawings	24,000	
Dividend from Investments		8,000
Accrued Dividend from Investments	1,500	
Depreciation on Plant and Machinery	37,500	
Depreciation on Furniture	8,000	
Capital Account		2,11,970
Telephone Charges	6,000	
Sundry Debtors	1,70,500	
Stationery and Printing	1,200	
Cash at Bank	65,000	
Interest on Loan	8,000	
Interest Due but Not Paid on Loan		1,500
Loan Account		90,000
	12,31,920	12,31,920

Additional Information:

- (a) Salaries include Rs. 10,000 towards renovation of Proprietor's residence.
 (b) Closing Stock amounted to Rs. 75,000.

Mr. O, however, request you to prepare a Trading and Profit & Loss Account for the year ended 31st March & a Balance Sheet as on that date following cash basis of accounting.

Answer:

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

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		50,000	By Sales		6,50,000
To Purchases		4,20,000	By Closing Stock		75,000
To P&L A/c [GP]		2,55,000			
		7,25,000			7,25,000
To Salaries	40,000		By Trading A/c [GP]		2,55,000
Less: Outstanding	6,000		By Dividend	8,000	
Add: Advance	2,500		Less: Accrued	1,500	6,500
Less: Rennovation (drawings)	10,000	26,500			
To Electricity Charges	2,650				
Less: Outstanding	450	2,200			
To Insurance	1,200				
Add: Prepaid	370	1,570			
To Rent	10,000				
Add: Advance Rent	2,000	12,000			
To Miscellaneous Expenses		14,000			
To Depreciation: Plant & Machinery	37,500				
Furniture	8,000	45,500			
To Telephone Charges		6,000			
To Stationery & Printing		1,200			
To Interest on Loan	8,000				
Less: Outstanding	1,500	6,500			
To Capital A/c [NP]		1,46,030			
		2,61,500			2,61,500

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	2,11,970		Plant & Machinery		2,12,500
Less: Drawings [24,000 + 10,000]	34,000		Furnitures & Fixtures		72,000
Add: Net Profit	1,46,030	3,24,000	Cash in Hand		3,000
Sundry Creditors		2,64,000	Investments		80,000
Loan		90,000	Sundry Debtors		1,70,500
			Cash at bank		65,000
			Closing Stock		75,000
		6,78,000			6,78,000

DC Note: All the transactions are recorded on Cash or Payment Basis]

CQ6. From following ledger balances & additional information obtained from Mrs. Kamala Shrivastav, prepare Trading & P&L A/c for the year ended 31st March 2025 & Balance Sheet as on that date: **[CMAISM NQ 2]**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Stock-in-trade on 1 April 2024	3,00,000	
Purchases and Sales	20,50,000	35,40,000
Returns	40,000	50,000
Wages	2,00,000	
Carriage inwards	50,000	
Power & Light	20,000	
Discount	10,000	20,000
Miscellaneous Expenses	1,50,000	
Salaries	1,00,000	
Outstanding Salaries		30,000
Outstanding Rent		10,000
Depreciation	1,50,000	
Rent & Rates	1,20,000	
Prepaid Insurance	10,000	
Life insurance premium	10,000	
Insurance	20,000	
Income Tax paid	30,000	
Freehold Premises	10,00,000	
Furniture	2,00,000	
Debtors & Creditors	4,50,000	5,00,000
Bills Receivable and Payable	1,00,000	90,000
Drawings and Capital	50,000	20,00,000
Cash and Bank	6,80,000	
Plant	5,00,000	
	62,40,000	62,40,000

Additional Information:

- (1) Closing stock on 31.3.2025 Rs. 4,00,000.
- (2) Stock destroyed by fire was Rs. 20,000 and the insurance company accepted the claim partly for Rs.15,000.
- (3) Goods purchased on credit worth Rs. 30,000 on March 30, 2025 was omitted to be recorded in the books.
- (4) Purchases include goods valued Rs. 10,000 purchased for private purposes.
- (5) Bills Receivable and cheques from customers dishonoured Rs. 20,000 & Rs. 10,000 respectively, but no entries were made in the books of accounts.

Answer:

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

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		3,00,000	By Sales	35,40,000	
To Purchases	20,50,000		Less: Returns	40,000	35,00,000
Less: Returns	50,000		By Closing Stock		4,00,000
Add: Goods purchased on credit	30,000		By Goods Destroyed by Fire		20,000
Less: Drawings	10,000	20,20,000			
To Wages		2,00,000			
To Carriage Inwards		50,000			
To P&L A/c [GP]		13,50,000			
		39,20,000			39,20,000
To Discount		10,000	By Trading A/c [GP]		13,50,000
To Power & Light		20,000			
To Miscellaneous Expenses		1,50,000	By Discount		20,000
To Salaries		1,00,000			
To Depreciation		1,50,000			
To Rent & Rates		1,20,000			
To Insurance		20,000			
To Capital A/c [NP]		7,85,000			
To Loss by Fire		5,000			
To Capital A/c		7,95,000			
		13,70,000			13,70,000

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	20,00,000		Freehold Premises		10,00,000
Less: Drawings (30,000 + 10,000 + 50,000 + 10,000)	1,00,000		Furniture		2,00,000
Add: Net Profit	7,95,000	26,95,000	Plant		5,00,000
Creditors	5,00,000		Debtors	4,50,000	
Add: Purchases	30,000	5,30,000	Add: Bill Dishonoured	20,000	
Outstanding Salary		30,000	Add: Cheques dishonoured	10,000	4,80,000
Outstanding Rent		10,000	Cash & Bank	6,80,000	
Bills Payable		90,000	Less: Cheques dishonoured	10,000	6,70,000
			Bills Receivable	1,00,000	
			Less: Dishonoured	20,000	80,000
			Insurance Claim		15,000
			Prepaid Insurance		10,000
			Closing Stock		4,00,000
		33,55,000			33,55,000

CQ7. Mr. Abhay runs a small shop and deals in various goods. He has not been able to tally his trial balance and has closed it by taking the difference to Suspense A/c. It is given below: **[CMAI SM Illustration 6]**

Particulars (as on 31 st March)	Debit (Rs.)	Credit (Rs.)
Abhay's Capital		1,50,000
Drawings	75,000	
Fixed Assets	1,35,000	
Opening Stock	36,500	
Purchases & Returns	6,75,000	13,500
Sales & returns	34,000	8,50,000
Due from Customer & to Creditors	95,000	3,25,000
Expenses	45,750	
Cash		3,000
Bank Deposits & Interest Earned	55,000	5,750
Suspense A/c		4,000
Advertising	2,00,000	
Total	13,51,250	13,51,250

Mr. Abhay has requested you to help him in tallying his trial balance and also prepare his final accounts. On investigation of his books you get the following information:

- (1) Closing Stock was Rs. 45,000 at cost & could sell over this value.
- (2) Depreciation of Rs. 13,500 needs to be provided for the year.
- (3) A withdrawal slip indicated a cash withdrawal of Rs. 15,000 which was charged as drawing. However, it was noticed that Rs. 11,000 was used for business purpose only and was entered as expenses in cash book.
- (4) Goods worth Rs. 19,000 were purchased on 24th March & sold on 29th March for Rs. 23,750. Sales were recorded correctly, but purchase invoice was missed out.
- (5) Purchase returns of Rs. 1,500 were routed through sales return. Party's A/c was correctly posted.
- (6) Expenses include Rs. 3,750 related to the period after 31st March.
- (7) Purchase book was over-cast by Rs. 1,000. Posting to suppliers' A/c is correct.
- (8) Advertising will be useful for generating revenue for 5 years.

Answer:

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

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		36,500	By Sales	8,50,000	
To Purchase	6,75,000		Less: Returns	34,000	
Less: Returns	13,500		Add: Returns Wrongly recorded	1,500	8,17,500
Add: Additional Purchases	19,000		By Closing Stock		45,000
Less: Overcasting	1,000				
Less: Additional Returns	1,500	6,78,000			
To P&L A/c [GP]		1,48,000			
		8,62,500			8,62,500

To Expenses	45,750		By Trading A/c [GP]		1,48,000
Less: Prepaid	3,750	42,000			
To Advertisement Expense		2,00,000	By Interest		5,750
To Depreciation		13,500	By Capital A/c [Net loss]		1,01,750
		2,55,500			2,55,500

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	1,50,000		Fixed Assets	1,35,000	
Less: Drawings	75,000		Less: Depreciation	13,500	1,21,500
Add: Expenses wrongly recorded	11,000	86,000	Debtors		95,000
Creditors	3,25,000		Bank Deposits		55,000
Add: Additional Purchases	19,000	3,44,000	Prepaid Expense		3,750
			Cash	(3,000)	
			Closing Stock		45,000
			Add: Withdrawn for Business Expense	11,000	8,000
			P&L A/c [Loss]		1,01,750
		4,30,000			4,30,000

Working Note: Rectification of Errors

	Correct Entry	Wrong Entry	Rectification Entry
1	Withdrawal slip wrongly treated as drawings; ₹11,000 actually used for business expenses.		
	Expenses A/c Dr. 11,000	Expenses A/c Dr. 11,000	Cash A/c Dr. 11,000
	Drawings A/c Dr. 4,000	Drawings A/c Dr. 15,000	To Drawings A/c 11,000
	To Cash A/c 15,000	To Cash A/c 26,000	
2	Purchase returns wrongly recorded as Sales return, Supplier A/c was correct.		
	Creditors A/c Dr. 1,500	Sales Return A/c Dr. 1,500	Purchase Returns A/c Dr. 1,500
	To Purchase returns 1,500	To Debtors A/c 1,500	To Sales Returns A/c 1,500

DC Note:

- (1) As per AS 26, advertisement expenses should be charged to P&L A/c in the year incurred. It cannot be deferred (spread) over future years, since no intangible asset is created.
- (2) When Net loss > capital invested, it results in Capital Deficiency, which is shown on Assets side of Balance Sheet as debit balance of P&L A/c.

CQ8. Following Trial Balance has been prepared from the books of Mrs. Saxena as on 31st March after making necessary adjustments for depreciation on Fixed Assets, outstanding & accrued items & difference under Suspense A/c.

Trial Balance as at 31st March**[CMAI SM Illustration 8]**

Particulars	Debit (Rs.)	Particulars	Credit (Rs.)
Machineries	1,70,000	Sundry Creditors	82,000
Furniture	49,500	Capital Account	2,45,750
Sundry Debtors	38,000	Outstanding Expenses:	
Drawings	28,000	Salaries	1,500
Travelling Expenses	6,500	Printing	600
Insurance	1,500	Audit Fees	1,000
Audit Fees	1,000	Bank Interest	1,200
Salaries	49,000	Discounts	1,800
Rent	5,000	Sales (Less Return)	6,80,000
Cash in Hand	7,800		
Cash at Bank	18,500		
Opening Stock	80,000		
Prepaid Insurance	250		
Miscellaneous Expenses	21,200		
Discounts	1,200		
Printing & Stationery	1,500		
Purchase (Less Returns)	4,60,000		
Depreciation:			
Machineries	30,000		
Furniture	5,500		
Suspense Account	39,400		
	10,13,850		10,13,850

On the subsequent scrutiny following mistakes were noticed:

- (1) A new machinery was purchase for Rs. 50,000 but was wrongly posted to Furniture A/c as Rs. 5,000.
- (2) Cash received from Debtors Rs. 5,600 was omitted to be posted in the ledger.
- (3) Goods withdrawn by the proprietor for personal use but no entry was passed Rs. 5,000.
- (4) Sales included Rs. 30,000 as goods sold cash on behalf of Mr. Thakurlal who allowed 15% commission on such sales for which effect is to be given.

You are further told that:

- (a) Closing stock on physical verification amounted to Rs. 47,500.
- (b) Depreciation on Machineries & Furniture has been provided @ 15% & 10%, respectively, on reducing balancing.
- (c) Full year's depreciation is provided on addition.

You are requested to prepare a Trading & Profit & Loss A/c for the year ended 31st March & a Balance Sheet as on that date so as to represent a True & Correct picture.

Answer:

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

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		80,000	By Sales	6,80,000	
To Purchase	4,60,000		Less: Rectification	30,000	6,50,000
Less: Drawings	5,000	4,55,000	By Closing Stock		47,500
To P&L A/c [GP]		1,62,500			
		6,97,500			6,97,500
To Travelling Expense		6,500	By Trading A/c [GP]		1,62,500
To Insurance		1,500	By Bank Interest		1,200
To Audit Fees		1,000	By Discount		1,800
To Salaries		49,000	By Commission (30,000 x 15%)		4,500
To Rent		5,000			
To Miscellaneous Expense		21,200			
To Discount		1,200			
To Printing & Stationery		1,500			
To Depreciation: Machineries	37,500				
Furniture	5,000	42,500			
To Capital A/c [NP]		40,600			
		1,70,000			1,70,000

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	2,45,750		Machineries [WN2]	2,50,000	
Less: Drawings (28,000 + 5,000)	33,000		Less: Depreciation	37,500	2,12,500
Add: Net Profit	40,600	2,53,350	Furniture [WN3]	50,000	
Sundry Creditors		82,000	Less: Depreciation	5,000	45,000
Outstanding Liabilities:			Sundry Debtors	38,000	
Salaries	1,500		Less: Cash from debtors	5,600	32,400
Audit Fees	1,000		Cash in Hand		7,800
Printing	600	3,100	Cash at Bank		18,500
Thakurlal's A/c		25,500	Closing Stock		47,500
			Prepaid Insurance		250
		3,63,950			3,63,950

WN1: Machinery of Rs. 50,000 wrongly posted in Furniture A/c Rs. 5,000.

Rectification Entry			
Machinery A/c	Dr.	50,000	
	To Furniture A/c		5,000
	To Suspense A/c		45,000

WN2: Calculation WDV of Machinery & Depreciation

Machinery after depreciation (as per Trial Balance)	1,70,000
Add: Depreciation	30,000
	2,00,000
Add: Additional Machinery Purchased	50,000
WDV of Machineries	2,50,000
Depreciation @15%	37,500

WN3: Calculation of WDV of Furniture & Depreciation

Furniture after depreciation (as per Trial Balance)	49,500
Add: Depreciation	5,500
	55,000
Less: Machinery wrongly debited to Furniture A/c	5,000
WDV of Furniture	50,000
Depreciation @10%	5,000

DC Note: Outstanding Expenses are already adjusted, hence only single effect is shown in the balance sheet.

CQ9. The following Trial Balance has been extracted from the books of Mr. Agarwal as on 31 March:

Trial Balance as on 31 March

[CMAI SM Illustration 9]

Particulars	Rs.	Rs.	Particulars	Rs.
Purchase		6,80,000	Sales	8,38,200
Sundry Debtors		96,000	Capital Account	1,97,000
Drawings		36,000	Sundry Creditors	1,14,000
Bad Debts		2,000	Outstanding Salary	2,500
Furniture & Fixtures		81,000	Sale of Old Papers	1,500
Office Equipments		54,000	Bank Overdraft (PP Bank)	60,000
Salaries		24,000		
Advanced Salary		1,500		
Carriage Inward		6,500		
Miscellaneous Expenses		12,000		
Travelling Expenses		6,500		
Stationery & Printing		1,500		
Rent		18,000		
Electricity & Telephone		6,800		
Cash In Hand		5,900		
Cash at Bank (SBI)		53,000		
Opening Stock		50,000		
Repairs		7,500		
Motor Car		56,000		
Depreciation: Furniture	9,000			
Office Equipment	6,000	15,000		
		12,13,200		12,13,200

Additional Information:

- Sales includes Rs. 60,000 towards goods for cash on account of a joint venture with Mr. Reddy who incurred Rs. 800 as forwarding expenses. JV earned a profit of Rs. 15,000 to which Mr. Reddy is entitled to 60%.
- Motor car account represents an old motor car which was replaced on 1 April by a new motor car costing Rs. 1,20,000 with an additional cash payment of Rs. 40,000 laying debited to Purchase A/c.
- PP Bank has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the Bank.
- Sundry Debtors include Rs. 4,000 as due from Mr. Trivedi & Sundry Creditors include Rs. 7,000 as payable to him.
- On 31 March outstanding rent amounted to Rs. 6,000 & you are informed that 50% of total rent is attributable towards Agarwal's resident.
- Depreciation to be provided on motor car @ 20% (excluding sold item).

Mr. Agarwal requests you to prepare a Trading & P&L A/c for year ended 31 March & a Balance Sheet as on that date.

Answer:

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

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		50,000	By Sales	8,38,200	
To Purchase	6,80,000		Less: Sale of JV	60,000	7,78,200
Less: Motor Car	40,000	6,40,000	By Closing Stock [WN3]		75,000
To Carriage Inwards		6,500			
To P&L A/c [GP]		1,56,700			
		8,53,200			8,53,200
To Bad debts		2,000	By Trading A/c [GP]		1,56,700
To Salaries		24,000	By Sale of Scrap (old papers)		1,500
To Miscellaneous Expense		12,000	By Profit on JV [15,000 x 40%]		6,000
To Travelling Expense		6,500	By Profit on exchange of Motor Car		24,000
To Stationery & Printing		1,500			
To Rent	18,000				
Add: Outstanding Rent	6,000				
Less: Drawings	12,000	12,000			
To Electricity & Telephone		6,800			
To Repairs		7,500			
To Depreciation					
Furniture	9,000				
Office Equipment	6,000				
Motor Car	24,000	39,000			
To Capital A/c [NP]		76,900			
		1,88,200			1,88,200

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	1,97,000		Furniture & Fixture	90,000	
Less: Drawings (36,000 + 12,000)	48,000		Less: Depreciation	9,000	81,000
Add: Net Profit	76,900	2,25,900	Office Equipments	60,000	
Sundry Creditors	1,14,000		Less: Depreciation	6,000	54,000
Less: Due to Trivedi	4,000	1,10,000	Motor Car	56,000	
Outstanding Salary		2,500	Add: Additional Car	1,20,000	
Outstanding Rent		6,000	Less: Sold	56,000	
Bank Overdraft		60,000	Less: Depreciation	24,000	96,000
Payable to Reddy [60,000 – 6,000]		54,000	Sundry Debtors	96,000	
			Less: Due from Trivedi	4,000	92,000
			Prepaid Salary		1,500
			Cash in Hand		5,900
			Cash at Bank		53,000
			Closing Stock		75,000
		4,58,400			4,58,400

WN1: Rectification of Errors

Correct Entry			Wrong Entry			Rectification Entry		
Sales A/c included goods sold for Rs. 60,000 on cash of Joint Venture with Mr. Reddy.								
Cash A/c	Dr.	60,000	Cash A/c	Dr.	60,000	Sales A/c	Dr.	60,000
	To Sales A/c	60,000		To Joint Venture A/c	60,000		To Joint Venture A/c	60,000

WN2: Calculation of Profit on replacement of Motor Car

Cost of New Motor Car	1,20,000
Less: Exchange Value of old Motor Car	56,000
Less: Cash Payment	40,000
Profit on replacement of Motor Car	24,000

WN3: Calculation of Closing Stock

Maximum limit of Overdraft available = $100 - 20\% = 80\%$ of Closing Stock

Bank Overdraft = 60,000

Therefore, Closing Stock = $60,000 \div 80\% = 75,000$

CQ10. From following Trial Balance of Shri Gurudas, prepare Trading & P&L A/c for year ended March 31, & Balance Sheet as on that date, after taking into consideration the adjustments **[CMAI SM NQ 1]**

Trial Balance as on 31 March

Particulars	Dr. (Rs.)	Cr. (Rs.)
Cash in hand	2,000	
Stock	7,000	
Creditors		7,800
Debtors	38,400	
Drawings	10,260	
Sales		1,85,600
Purchases	1,62,400	
Wages	14,400	
Expenses	10,340	
Furniture	8,000	
Goodwill	6,000	
Capital		65,400
	2,58,800	2,58,800

Adjustments:

- Stock on 31 March was valued at Rs. 9,000. Due to constant fall in prices, it was decided to value stock at 10% less.
- Furniture (book value on 1 April Rs. 800) was sold on 30 Sept for Rs. 900 & it was passed through Sales Day Book.
- Private purchases of proprietor amounting to Rs. 200 had been booked through Purchases Book.
- Depreciate furniture at 10% p.a.
- Sales Book was overcast by Rs. 100.
- Wages outstanding Rs. 100, though included in Wages Account, was not included in the Trial Balance.
- Provision for bad debts @ 5% on debtors & 2.5% for discount on debtors.

Answer: Trading & P&L A/c for the year ended 31st March

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		7,000	By Sales	1,85,600	
To Purchase	1,62,400		Less: Sale of Furniture	900	
Less: Drawings	200	1,62,200	Less: Overcasting	100	1,84,600
To Wages		14,400	By Closing Stock (-10%)		8,100
To P&L A/c [GP]		9,100			
		1,92,700			1,92,700
To Expenses		10,340	By Trading A/c [GP]		9,100
To Provision for Bad debts		1,875	By Profit on sale of furniture		140
To Provision for Discount on debtors		891	By Capital A/c [Net Loss]		4,626
To Depreciation [WN]		760			
		13,866			13,866

Balance Sheet as on 31st March

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	65,400		Furniture	8,000	
Less: Drawings (10,260 + 200)	10,460		Less: Sold	800	
Less: Net Loss	4,626	50,314	Less: Depreciation	720	6,480
Creditors		7,800	Goodwill		6,000
Oustanding Wages		100	Debtors	38,400	
			Less: Sale of Furniture	900	
			Less: Provision for Bad debts	1,875	
			Less: Provision for Discount	891	34,734
			Cash in Hand		2,000
			Closing Stock		8,100
			Amount receivable for Furniture		900
		58,214			58,214

WN1: Calculation of Provision for Bad Debts & Provision for Discount on Debtors

Furniture as per Trial Balance	8,000
Less: Book Value of Furniture sold	800
WDV	7,200
Depreciation on remaining furniture [7,200 x 10%]	720
Depreciation on furniture sold on 30 Sept [(800 x 10%) 6/12]	40

WN2: Calculation of Profit on Sale of Furniture

WDV of Furniture sold	800
Less: Depreciation for 6 Months	40
WDV on the date of Sale	760
Profit on Sale of Furniture [900 - 760]	140

CQ11. Mr. Rajesh gives the following information for the year ending 31 March: **[CMAI June 23 - 6 marks]**

Cash Purchases	15,00,000
Cash Sales	40,00,000
Credit Purchases	3,00,000
Credit Sales	5,00,000
Income Received	80,000
Income received in advance (included Rs. 80,000)	6,000
Income due but not yet received	15,000
Expenses paid	8,50,000
Expenses paid in advance (included in Rs. 8,50,000)	20,000
Expenses not yet paid	45,000

Ascertain the Profit or Loss if he adopts (a) Cash basis & (b) Accrual Basis of Accounting. **Answer:**

Trading and P&L A/c For the year ended 31 March

(a) Cash basis of Accounting

Particulars	Rs.	Particulars	Rs.
To Purchases	15,00,000	By Sales	40,00,000
To P&L A/c [GP]	25,00,000		
	40,00,000		40,00,000
To Expenses	8,50,000	By Trading A/c [GP]	25,00,000
To Capital A/c [NP]	17,30,000	By Income	80,000
	25,80,000		25,80,000

(b) Accrual Basis of Accounting

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Purchases	15,00,000		By Sales	40,00,000	
Add: Credit Purchases	3,00,000	18,00,000	Add: Credit Sales	5,00,000	45,00,000
To P&L A/c [GP]		27,00,000			
		45,00,000			45,00,000
To Expenses	8,50,000		By Trading A/c [GP]		27,00,000
Less: Advance	20,000		By Income	80,000	
Add: Outstanding	45,000	8,75,000	Less: Advanced Income	6,000	
To Capital A/c [NP]		19,14,000	Add: Accrued Income	15,000	89,000
		27,89,000			27,89,000

Final Accounts of Partnership Firm

To be Studied in Partnership Accounting

DC Note: P&L Appropriation A/c is easier to understand while studying Partnership Accounting, therefore it is to be covered there along with Illustrations 3, 10, 11 & 12.

Profit & Loss Appropriation A/c

- It is a **nominal A/c** but represents appropriation (not charge) against profits among partners.
- Only Partnership firms are required to prepare P&L Appropriation A/c.
- Net profit may be used for dividends, reserves, etc.
- Such appropriations are **not expenses but allocations**
- Remaining surplus (undistributed profit) is transferred to **Capital A/c/Balance Sheet: Reserves & Surplus**.

Format of P&L Appropriation A/c

Particulars	Rs.	Particulars	Rs.
To Transfer to General Reserve	XX	By Balance b/d from P&L A/c	XX
To Partner's Salary / Commission	XX	By Interest on Drawings	XX
To Interest on Capital	XX	By Balance b/d (if any)	XX
To Proposed Dividend (Companies)	XX		
To Balance c/d (Capital A/c / Reserves)	XX		
	XXX		XXX

DC Note:

- ★ Profit on Revaluation of Asset is transferred to **Revaluation Reserve A/c**.
- ★ Loss on Revaluation of Asset is transferred to **P&L A/c debit Side**.



About Disha Ma'am

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