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Paper-6

Financial Accounting

29th Edition

Applicable for
June 2023 Attempt

Updated as per Companies
(Amendment) Act, 2020

Prof. Arun Kumar
CA (Dr.) Mohit Bahal
CS (Dr.) Himanshu Srivastava



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In this edition

| Questions | Solutions |
|---|---|
| December - 2012 to December - 2022 Duly incorporated in chapters. | December - 2012 to December - 2021 Duly incorporated in chapters. |

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Scanner is published in India by Shuchita Prakashan (P) Ltd.
Registered Office: 25/19, L.I.C. Colony, Tagore Town, Prayagraj - 211002.
Editor-in-chief : Mrs. Anjali

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First edition : July 2009

Twenty Ninth edition : January 2023

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CMA Inter Gr. I

SCANNERTM

(2022 Syllabus)

Paper 6 - Financial Accounting

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Visit us at : www.scanneradda.com

Published by : Shuchita Prakashan (P) Ltd,
B-45/141, Street No. 5, Guru Nanak Pura Laxmi Nagar,
Delhi - 110092.
E-mail : care@scanneradda.com
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Personal Secretary to the Director on Mobile No.
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Laser Typeset at : Shuchita Prakashan (P) Ltd.

ISBN : 978-93-5586-232-7

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Preface to Scanner

We are pleased to commend to readers the Twenty Ninth edition of Financial Accounting Scanner, which has been revised and enlarged as per 2022 Syllabus of CMA Inter Exam.

It is a comprehensive presentation of the subject matter containing solved problems from past years examination paper. These will help students to maintain a meaningful focus on examination requirements.

The book is intended to serve as a standard text for students pursuing their CMA Inter and many more Professional Courses.

The following are the main features of the book:

1. Including Questions of December 2022.
2. Chapter- wise Classification.
3. Questions with Complete Solutions.
4. Trend Analysis with Lot of Analysis, Graphs and Ratings.
5. Examination Trend Analysis- 5 attempts.
6. Repeatedly Asked and Compulsory Questions listed.
7. Study Material Based Classification.

We hope this edition will endear itself to students and peers. We welcome comments and suggestions for improving the utility of this book.

Prof. Arun Kumar
CA (Dr.) Mohit Bahal
CS (Dr.) Himanshu Srivastava

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- An **Examination Trend Analysis** for question paper based contents of last five examinations before the paper.
- Questions are arranged according to the **subject/topic** in ascending order of examinations/years.
- **Graph** for every chapter, showing marks allotment for last twenty examinations amongst Short Notes, Distinguish Between, Descriptive Questions and Practical Questions.
- Line Chart Showing Relative Importance of Chapters.
- Table Showing Marks of **Compulsory Questions** at the end of every chapter.
- Analytical Classification of every Chapter in **Four** Categories:
 - (1) Short Notes,
 - (2) Distinguish Between,
 - (3) Descriptive Questions and
 - (4) Practical Questions.
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Syllabus

Paper 6

(100 marks)

Financial Accounting

Syllabus Structure:

| Module No. | Module Description | Weight |
|--|--|--------|
| Section A: Accounting Fundamentals | | |
| 1. | Accounting Fundamentals | 15% |
| Section B: Accounting for Special Transactions | | |
| 2. | Bills of Exchange, Consignment, Joint Venture | 10% |
| Section C: Preparation of Financial Statements | | |
| 3. | Preparation of Final Accounts of Commercial Organisations, Not-for-Profit Organisations and from Incomplete Records | 20% |
| Section D: Partnership Accounts | | |
| 4. | Partnership Accounts | 20% |
| Section E: Lease, Branch and Departmental Accounts etc. | | |
| 5. | Lease Accounting | 15% |
| 6. | Branch (including Foreign Branch) and Departmental Accounts | 15% |
| 7. | Insurance Claim for Loss of Stock and Loss of Profit | |
| 8. | Hire Purchase and Installment Sale Transactions | |
| Section F: Accounting Standards | | |
| 9. | Accounting Standards | 20% |
| SECTION A: ACCOUNTING FUNDAMENTALS | | |
| 1. | Accounting Fundamentals | |
| | 1.1 Four Frameworks of Accounting (Conceptual, Legal, Institutional and Regulatory) | |
| | 1.2 Accounting Principles, Concepts and Conventions | |
| | 1.3 Capital and Revenue Transactions - Capital and Revenue Expenditures, Capital and Revenue Receipts | |
| | 1.4 Accounting Cycle – Charts of Accounts and Codification Structure, Analysis of Transaction – Accounting Equation, Double Entry System, Books of Original Entry, Subsidiary Books and Finalisation of Accounts | |

- 1.5 Journal (Day Books and Journal Proper - Opening Entries, Transfer Entries, Closing Entries, Adjustment entries, Rectification entries), Ledger
- 1.6 Cash Book, Bank Book, Bank Reconciliation Statement
- 1.7 Trial Balance (Preparation and Scrutiny)
- 1.8 Adjustments and Rectifications
 - 1.8.1 Depreciation and Amortisation
 - 1.8.2 Adjustment Entries and Rectification of Errors
 - 1.8.3 Accounting Treatment of Bad Debts and Provision for Doubtful Debts, Provision for Discount on Debtors and Provision for Discount on Creditors

SECTION B: ACCOUNTING FOR SPECIAL TRANSACTIONS

2. **Bills of Exchange, Consignment, Joint Venture**

SECTION C: PREPARATION OF FINANCIAL STATEMENTS

3. **Preparation of Final Accounts of Commercial Organisations, Not-for-Profit Organisations and from Incomplete Records**
 - 3.1 Preparation of Financial Statements of Commercial Organisations (other than Corporate Form of Organisation)
 - 3.1.1 Income Statement
 - 3.1.2 Balance Sheet
 - 3.2 Preparation of Financial Statements of Not-for-Profit Organisation
 - 3.2.1 Preparation of Receipts and Payments Account
 - 3.2.2 Preparation of Income and Expenditure Account
 - 3.2.3 Preparation of Balance Sheet
 - 3.3 Preparation of Financial Statements from Incomplete Records

SECTION D: PARTNERSHIP ACCOUNTS

4. **Partnership Accounting**
 - 4.1 Admission of Partner
 - 4.2 Retirement of Partner
 - 4.3 Death of Partner
 - 4.4 Treatment of Joint Life Policy
 - 4.5 Dissolution of Partnership Firms Including Piecemeal Distribution

- 4.6 Amalgamation of Partnership Firms
- 4.7 Conversion of Partnership Firm into a Company and Sale of Partnership Firm to a Company
- 4.8 Accounting of Limited Liability Partnership

SECTION E: LEASE, BRANCH AND DEPARTMENTAL ACCOUNTS ETC.

- 5. Lease Accounting
- 6. Branch (including Foreign Branch) and Departmental Accounts
- 7. Insurance Claim for Loss of Stock and Loss of Profit
- 8. Hire Purchase and Installment Sale Transactions

SECTION F: ACCOUNTING STANDARDS

9. Accounting Standards

- 9.1 Introduction to Accounting Standards
 - 9.1.1 GAAP
 - 9.1.2 AS
 - 9.1.3 Convergence to Ind AS – Applicability and Scope
- 9.2 Specified Accounting Standards with Comparative Provisions under Ind AS
 - 9.2.1 Disclosure of Accounting Policies (AS 1)
 - 9.2.2 Property Plant and Equipment (AS 10)
 - 9.2.3 The Effects of Changes in Foreign Exchange Rate (AS 11)
 - 9.2.4 Accounting for Government Grants (AS 12)
 - 9.2.5 Borrowing Costs (AS 16)
 - 9.2.6 Accounting for Taxes on Income (AS 22)

Examination Trend Analysis

Paper 6

Financial Accounting

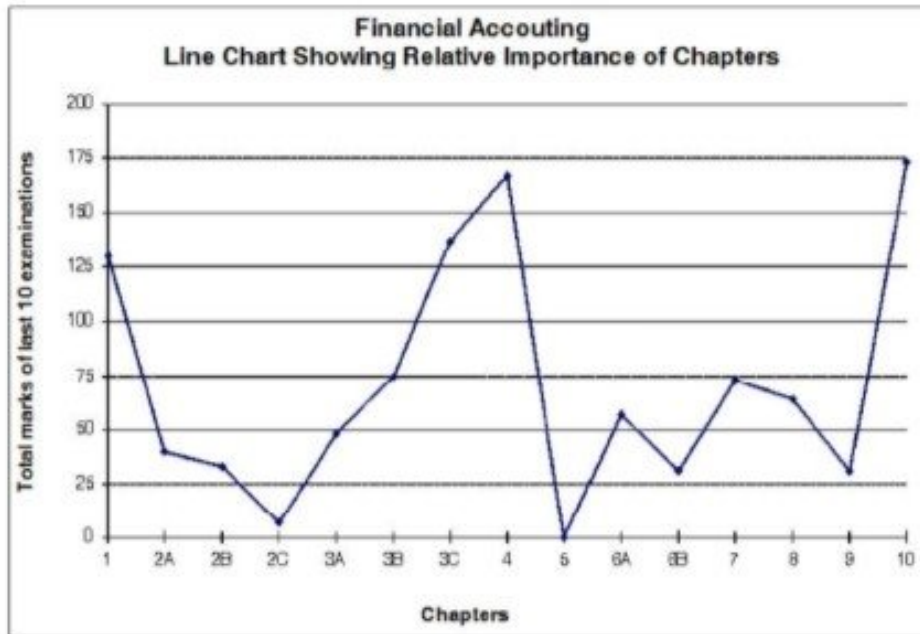
Question Paper Based Contents of Last Five Examinations

| Years | Q. No. | Chapter | | Page No. |
|--------------|--------------|--|--|---------------------|
| | | No. | Name | |
| 2018 Dec | 1. (a) | 10 | Objective Questions | 397 |
| | (c) | 10 | " " " | 398 |
| | (d) | 10 | " " " | 398 |
| | 2. (a) | 1 | Accounting Fundamentals | 38 |
| | (b) | 3C | Financial Statements from Incomplete Records | 167 |
| | 3. | 3B | Financial Statements of Not for Profit Organisations | 131 |
| | 4. | 4 | Partnership Accounting | 233 |
| | 5. (a) | 6B | Departmental Accounting | 291 |
| | 6. (a) | 7 | Insurance Claim for Loss of Stock and Loss of Profit | 314 |
| | 8. (i) | 4 | Partnership Accounting | 184 |
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| | (iii) | 8 | Hire Purchase and Installment Sale Transactions | 324 |
| | (iv) | 1 | Accounting Fundamentals | 19 |
| | 2019 June | 1. | 10 | Objective Questions |
| 2. (a) | | 1 | Accounting Fundamentals | 40 |
| (b) | | 3C | Financial Statements from Incomplete Records | 171 |
| 3. | | 3A | Financial Statements of Commercial Organisations | 97 |
| 4. | | 4 | Partnership Accounting | 236 |
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| 6. (a) | | 7 | Insurance Claim for Loss of Stock and Loss of Profit | 316 |
| (b) | | 8 | Hire Purchase and Installment Sale Transactions | 341 |
| 7. (c) | | 2B | Consignment Accounting | 78 |
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| (b) | 3A | Financial Statements of Commercial Organizations | 91 | |
| (c) | 3B | Financial Statements of Not-for Profit Organizations | 109 | |
| (d) | 4 | Partnership Accounting | 185 | |
| 2019 Dec. | 1. (a) | 10 | Objective Questions | 403 |
| | (b) | 10 | " " " | 405 |
| | (c) | 10 | " " " | 405 |
| | (d) | 10 | " " " | 406 |
| | 2. (a) | 3C | Financial Statements from Incomplete Records | 172 |

| | | | | | |
|------|----------|----|---|--------------------|-----|
| | (b) | 3B | Financial Statements of Not-for Profit Organizations | | 134 |
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| 5. | (a) | 6B | Departmental Accounting | | 292 |
| | (b) | 7 | Insurance Claim for Loss of Stock and Loss of Profit | | 318 |
| 8. | (a) | 1 | Accounting Fundamentals | | 18 |
| | (b) | 9 | Accounting Standards | | 352 |
| | (c) | 4 | Partnership Accounting | | 185 |
| | (d) | 2B | Consignment Accounting | | 71 |
| 2021 | 1.to 20. | 10 | Objective Questions | (Sec. A - MCQ) | 407 |
| Dec. | 1. | 8 | Hire Purchase and Installment Sale Transactions | (Sec. B - SAQ) | 326 |
| | 2. | 1 | Accounting Fundamentals | " " | 21 |
| | 3. | 3A | Financial Statements of Commercial Organizations | " " | 92 |
| | 4. | 1 | Accounting Fundamentals | " " | 21 |
| | 5. | 1 | " " " | " " | 22 |
| | 7. | 3C | Financial Statements from Incomplete Records | " " | 141 |
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| | 9. | 6A | Branch Accounting | " " | 260 |
| | 10. | 4 | Partnership Accounting | " " | 242 |
| | 12. | 2A | Bills of Exchange | " " | 64 |
| | 13. | 9 | Accounting Standards | " " | 356 |
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| | 15. | 1 | " " " | " " | 22 |
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| | 17. | 1 | Accounting Fundamentals | " " | 22 |
| | 18. | 1 | " " " | " " | 22 |
| | 19. | 1 | " " " | " " | 23 |
| | 20. | 1 | " " " | " " | 23 |
| | 1. | 1 | Accounting Fundamentals | (Sec. C - One LAQ) | 23 |
| | 2. | 1 | " " " | " " | 23 |
| | 3. | 2A | Bills of Exchange | " " | 64 |
| | 1. | 3C | Financial Statements from Incomplete Records | (Sec. C - Two LAQ) | 174 |
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| | 3. | 4 | Partnership Accounting | | 242 |

| | | | | | |
|------|--------|----|--|--------------------------------|-----|
| | 1. | 8 | Hire Purchase and Installment Sale Transactions | " " | 343 |
| | | | | (Sec. C - Three LAQ) | |
| | 2. | 7 | Insurance Claim for Loss of Stock and Loss of Profit | " " | 320 |
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| | 2. | 6B | Departmental Accounting | " " | 294 |
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| | 3. | 10 | Objective Questions | " " | 411 |
| | 1. | 1 | Accounting Fundamentals | (Sec. C - Six LAQ) | 18 |
| | 2. | 1 | " " " | " " | 19 |
| | 3. | 2B | Consignment Accounting | " " | 69 |
| | 1. | 3C | Financial Statements from Incomplete Records | (Sec. D - Case Study Question) | 175 |
| 2022 | 1. | 10 | Objective Questions | | 413 |
| Dec | 2. | 6A | Branch Accounting | | 283 |
| | 3. | 3C | Financial Statements from Incomplete Records | | 177 |
| | 4. | 4 | Partnership Accounting | | 244 |
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| | (b)(i) | 7 | Insurance Claim for Loss of Stock and Loss of Profit | | 322 |
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| | 7. (a) | 8 | Hire Purchase and Installment Sale Transactions | | 343 |
| | (b) | 1 | Accounting Fundamentals | | 44 |
| | 8. (a) | 1 | " " " | | 19 |
| | (b) | 1 | " " " | | 19 |
| | (c) | 8 | Hire Purchase and Installment Sale Transactions | | 326 |
| | (d) | 2A | Bills of Exchange | | 48 |

Line Chart



Frequency Table Showing Distribution of Marks

| Chap No. | Chapter Name | Years | | 16 | 16 | 17 | 17 | 18 | 18 | 19 | 19 | 21 | 22 | Total | Ave. |
|----------|---|-------|------|------|------|------|------|------|------|------|------|------|------|-------|------|
| | | June | Dec. | June | Dec. | June | Dec. | June | Dec. | June | Dec. | Dec. | Dec. | | |
| 1. | Accounting Fundamentals | 7 | | 20 | 16 | 8 | 12 | 13 | 5 | 34 | 15 | 130 | 13.0 | | |
| 2A. | Bills of Exchange | 10 | 7 | 9 | | 4 | | | | 5 | 5 | 40 | 4.0 | | |
| 2B. | Consignment Accounting | 7 | | 5 | 5 | 5 | | 3 | 5 | 3 | | 33 | 3.3 | | |
| 2C. | Joint Venture Accounts | | 7 | | | | | | | | | 7 | 0.7 | | |
| 3A. | Financial Statements of Commercial... | 2 | 3 | | | 7 | | 20 | 15 | 1 | | 48 | 4.8 | | |
| 3B. | Financial Statements of Not-for Profit... | | 3 | | 15 | 15 | 15 | 5 | 7 | | 15 | 75 | 7.5 | | |
| 3C. | Financial Statements from Incomplete... | 15 | 12 | 20 | 15 | 20 | 8 | 7 | 8 | 17 | 15 | 137 | 13.7 | | |
| 4. | Partnership Accounting | 17 | 17 | 15 | 16 | 15 | 20 | 20 | 20 | 12 | 15 | 167 | 16.7 | | |
| 5. | Lease Accounting | | | | | | | | | | | | | | |
| 6A. | Branch Accounting | 9 | 9 | 9 | | 6 | | 8 | | 1 | 15 | 57 | 5.7 | | |
| 6B. | Departmental Accounting | | | | 8 | | 9 | | 8 | 6 | | 31 | 3.1 | | |
| 7. | Insurance Claim for Loss of Stock and... | 8 | 8 | 7 | 10 | 5 | 12 | 7 | 7 | 7 | 2 | 73 | 7.3 | | |
| 8. | Hire Purchase and Installment Sale... | 2 | 6 | 8 | 8 | 5 | 5 | 8 | | 7 | 15 | 64 | 6.4 | | |
| 9. | Accounting Standards | | 2 | 5 | | 5 | | | 5 | 1 | 13 | 31 | 3.1 | | |
| 10. | Objective Questions | 6 | 5 | 16 | 17 | 18 | 18 | 22 | 24 | 22 | 25 | 173 | 17.3 | | |

Frequency Table Showing Marks of Compulsory Questions

| Chap No. | Chapter Name | Years | 16 | 16 | 17 | 17 | 18 | 18 | 19 | 19 | 21 | 22 | Total | Ave. |
|----------|---|-------|------|------|------|------|------|------|------|------|------|------|-------|------|
| | | | June | Dec. | June | Dec. | June | Dec. | June | Dec. | Dec. | Dec. | | |
| 1. | Accounting Fundamentals | | | | | | | | | | | | | |
| 2A. | Bills of Exchange | | | | | | | | | | | | | |
| 2B. | Consignment Accounting | | | | | | | | | | | | | |
| 2C. | Joint Venture Accounts | | | | | | | | | | | | | |
| 3A. | Financial Statements of Commercial... | | 2 | | | | | | | | | | 2 | 0.2 |
| 3B. | Financial Statements of Not-for Profit... | | | | | | | | | | | | | |
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Legends for the Graphs



1






ACCOUNTING FUNDAMENTALS

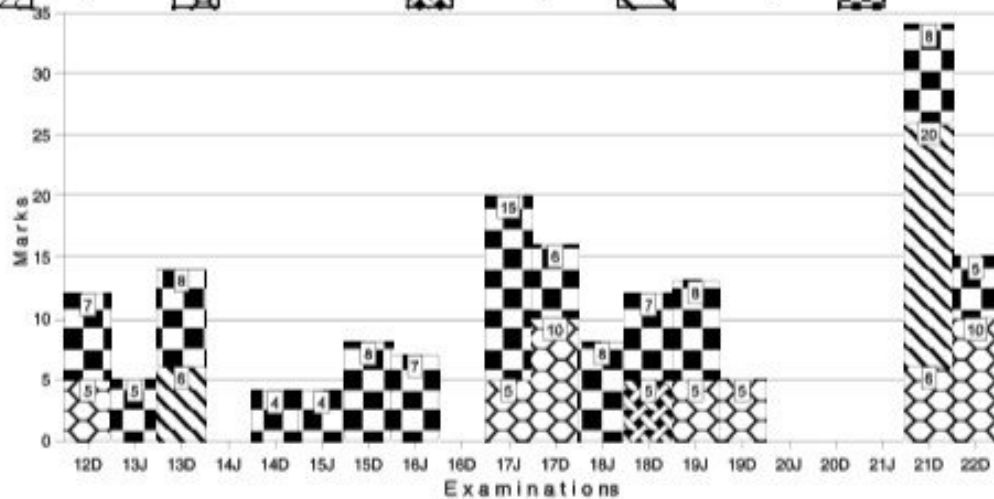
THIS CHAPTER INCLUDES

- Four Frameworks of Accounting
- Accounting Principles, Concepts and Conventions
- Capital and Revenue Transactions
- Accounting Cycle Charts of Accounts, Accounting Equation, Double Entry System, Books of Original Entry, Subsidiary Books and Finalisation of Accounts.
- Journal (Day Books Opening Entries, Transfer Entries, Closing Entries, Adjustment Entries, Rectification Entries), Ledger
- Cash Book, Bank Book, Bank Reconciliation Statement
- Trial Balance
- Adjustments and Rectifications

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Accounting Concepts**

Accounting Concepts refer to the assumptions and conditions that define the parameters and constraints within which the accounting operates. They lay down the foundation for accounting principles, and ensure recording of financial facts on sound bases and logical considerations.

Accounting Conventions

Accounting Conventions are customs, methods, procedures or guidelines associated with the practical application of accounting principles.

Capital Expenditure

Capital Expenditure refers to that expenditure, benefit from which can be enjoyed by an entity over a number of accounting periods. This type of expenditure happens to be non-recurring in nature. A capital expenditure takes place when an asset or service is acquired or improvement of a fixed asset is affected.

Revenue Expenditure

Revenue Expenditure refers to that expenditure, benefit from which can be enjoyed by an entity in the current accounting period. This type of expenditure happens to be recurring in nature. Revenue expenditures are incurred to carry on the regular course of operations by an organisation.

Capital Receipts

Capital Receipts refer to the receipts which are obtained by an entity from operations other than the regular operations of the entity. Capital receipts do not have any effect on the operating result during the course of a year.

Revenue Receipts

Revenue Receipts refer to the receipts which are obtained by an entity from its regular course of operations. Receipts of money in the revenue nature increase the profits or decrease the losses of a business and must be set against the revenue expenses in order to ascertain the profit for the period.

Capital Profit

Capital Profit refers to a profit which arises out of the non-operating activities of an entity. It is non-recurring in nature. Generally, capital profits arise out of the sale of assets other than inventory, or in connection with the raising of capital or at the time of purchasing an existing business.

Revenue Profit

Revenue Profit refers to a profit which arises out of the regular operating activities of an entity. It is recurring in nature.

Capital Loss

Capital Loss refers to a loss which does not arise to an entity in the regular course of its operations.

Revenue Loss

Revenue Loss arise to an entity from the normal course of business.

Charts of Accounts

A Chart of Accounts (COA) is a listing of all accounts in the general ledger, each account accompanied by a reference number.

Double Entry System

Double Entry System of Bookkeeping is an accounting system which recognizes the fact that every transaction has two aspects and both aspects of the transaction are recorded in the books of accounts.

Journal

Journal is the book of original entry in which financial transactions are firstly recorded after their occurrence in chronological order. It is in this book of accounts where the transactions are recorded in the first place.

Ledger

The book of account in which transactions are recorded in respective account, after they have been entered in the journal is called the Ledger. It is the book of account in which the transactions are recorded in a classified

and permanent manner. It is the final destination of all the accounts, and hence, it is also called the Book of Final Entry. The process of recording the entry in the ledger is technically known as posting.

Cash Book

The book of account that records all cash receipts and cash payments of an organisation is referred to as cash book. The receipts are entered on the debit side, while the payments are recorded in the credit side of the cash book.

Bank Book

Deviating from the traditional method of keeping an additional column for bank transactions in a double and triple column cash book, today organisations keep a separate subsidiary book similar to cash book to record all receipts and payments made through the bank. This is known as Bank Book or Bank Journal.

Bank Reconciliation Statement

At any point of time, the balances as per cash book (bank column) and pass book should be equal in amount. But, in reality it rarely happens due to certain specific reasons. To reconcile the balances as reflected by these two related books a statement is prepared, which is referred to as the Bank Reconciliation Statement.

Trial Balance

The Trial Balance is a statement drawn up using the ledger balances to test of the arithmetical accuracy of the ledger account. The primary purpose of drafting a Trial Balance is to ensure that there are no arithmetical errors.

Depreciation

The gradual decline in the value of a tangible asset is termed as Depreciation. Thus, it can be stated that depreciation is a part of cost of tangible fixed asset which has expired because of its usage, lapse of time etc.

Amortisation

Amortisation is a gradual and systematic writing-off of intangible asset over its estimated useful life. For example, patents, purchased goodwill, copyrights are amortised over their useful life being intangible assets.

Depletion

Depletion is the value of wasting asset extracted from quarry, mine, etc. Extraction reduces the available quantity of material.

SHORT NOTES

2012 - Dec [8] Write short note:

(c) Accounting convention of consistency;

(5 marks)

Answer :

In order to enable the management to draw important conclusions regarding the working of a company over a number of years it is essential that accounting practices and methods remain unchanged from one accounting period to another. According to AS-1 consistency is a fundamental assumption and it is assumed that accounting policies are consistent from one period to another. Where this assumption is not followed, the fact should be disclosed with proper reasons.

Kohler has talked about three types of consistencies:

- (i) **Vertical consistency:** Consistency maintained within the interrelated financial statements of the same date.
- (ii) **Horizontal consistency:** This enables the comparison of performance of the organization in one year with its performance of previous/next year.
- (iii) **Third dimensional consistency:** Performance of one organization can be compared with that of another organization in the same industry.

— Space to write important points for revision —

2017 - June [8] Write short note on the following:

(a) The Accrual Concept

(5 marks)

Answer:

The Accrual Concept :

The accrual concept is based on recognition of both cash and credit transactions. In case of a cash transaction, owner's equity is instantly affected as cash either is received or paid. In a credit transaction, however, a mere obligation towards or by the business is created. When credit transactions exist (which is generally the case), revenues are not the same as cash receipts and expenses are not same as cash paid during the period.

When goods are sold on credit as per normally accepted trade practices, the business gets the legal right to claim the money from the customer. Acquiring such right to claim the consideration for sale of goods or services is called accrual of revenue. The actual collection of money from customer could be at a later date.

Similarly, when the business procures goods or services with the agreement that the payment will be made at a future date, it does not mean that the expense effect should not be recognized. Because an obligation to pay for goods or services is created upon the procurement thereof, the expense effect also must be recognized.

Today's accounting systems based on accrual concept are called as Accrual System or Mercantile System of Accounting.

— Space to write important points for revision —

2017 - Dec [8] Write short notes on the following:

(a) Objectives of Accounting

(b) Methods/ Criteria to the selection and application of Accounting policies

(5 marks each)

Answer:

(a) Objectives of Accounting:

The main objective of Accounting is to provide financial information to stakeholders. This financial information is normally given via financial statements, which are prepared on the basis of Generally Accepted Accounting Principles (GAAP). There are various accounting standards

developed by professional accounting bodies all over the world. In India, these are governed by The Institute of Chartered Accountants of India, (ICAI). In the US, the American Institute of Certified Public Accountants (AICPA) is responsible to lay down the standards. The Financial Accounting Standards Board (FASB) is the body that sets up the International Accounting Standards. These standards basically deal with accounting treatment of business transactions and disclosing the same in financial statement:

The following are the main objectives of accounting:

- (a) To ascertain the amount of profit or loss made by the business i.e. to compare the income earned versus the expenses incurred and the net result thereof.
- (b) To know the financial position of the business i.e. to assess what the business owns and what it owes.
- (c) To provide a record for compliance with statutes and laws applicable.
- (d) To enable the readers to assess progress made by the business over a period of time.
- (e) To disclose information needed by different stakeholders.

Answer:

(b) The major considerations governing the selection and application of accounting policies are:

1. **Prudence:** Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement, these uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.
2. **Substance over form:** It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.
3. **Materiality:** Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

———— Space to write important points for revision —————

2019 - June [8] Write short note on the following:

(a) The Accrual concept

(5 marks)

Answer:

Please refer 2017 - June [8] (a) on page no. 16

— Space to write important points for revision —

2019 - Dec [8] Write short notes on the following:

(a) Users of Accounting information

(5 marks)

Answer:

Users of Accounting Information

Accounting provides information both to internal users as well as external users. The internal users are all the organizational participants, at all levels of management (i.e. top, middle and lower). Generally top: level management requires information for planning, middle level management which requires information for controlling the operations. For internal use, the information is usually provided in the form of reports, for instance Cash Budget Reports, Production Reports, Idle Time Reports, Feedback Reports, whether to retain or replace an equipment decision reports, project appraisal report, and the like.

The external users (e.g. Banks, Creditors) do not have direct access to all the records of an enterprise, they have to rely on financial statements as the source of information. External users are basically, interested in the solvency and profitability of an enterprise.

— Space to write important points for revision —

2021 - Dec [1] Write short notes on Source documents :

(3 marks) [Sec. C - Six LAQ]

Answer:

Source documents:

Vouchers are the documentary evidence of the transactions so happened. Source documents at the basis on which transactions are recorded in subsidiary books, i.e source documents are the evidence and proof of transactions.

— Space to write important points for revision —

2021 - Dec [2] Write short notes on Error of principle.

(3 marks) [Sec. C - Six LAQ]

Answer:

Error of principle: Entering revenue expenses as capital expense or *vice versa* or entering revenue receipt as capital receipt or *vice versa*.

— Space to write important points for revision —

2022 - Dec [8] Write short notes:

(a) Advantages of Double Entry System.

(b) The main objective of Depreciation Policy.

(5 marks each)

— Space to write important points for revision —

DISTINGUISH BETWEEN

2018 - Dec [8] (iv) Distinction between Fundamental accounting assumptions and Accounting policies. (5 marks)

Answer:

| Basis of Distinction | Fundamental Accounting Assumptions | Accounting Policies |
|---------------------------|--|--|
| 1. Number | There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual. | There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises. |
| 2. Disclosure if followed | No disclosure is required if all the fundamental assumptions have been followed. | Disclosure is required if a particular accounting policy has been followed |

| | | |
|--------------------------------------|---|---|
| 3. Disclosure if not followed | In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statements together with the reasons. | In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed. |
| 4. Choice | There is no choice. | The firm has a choice to select a particular policy. |

— Space to write important points for revision —

DESCRIPTIVE QUESTIONS

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

- (ii) State briefly the three fundamental accounting assumptions.

(2 marks)

Answer:

The three fundamental assumptions are (a) going concern; (b) consistency; and (c) accrual.

Going Concern: It is assumed that the concern would be continuing in operation for the foreseeable future. It is also assumed the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operations.

Consistency: The accounting policies followed are consistent from one accounting period to another.

Accrual: The revenues and expenses are accrued, that is recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

— Space to write important points for revision —

2013 - Dec [2] (b) What are the steps or phases of 'Accounting Cycle'?
(4 marks)

Answer:

Steps/ Phases of Accounting Cycle:

- (i) **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.
- (ii) **Journal:** The transactions are recorded in Journal chronologically.
- (iii) **Ledger:** All journals are posted into ledger chronologically and in a classified manner.
- (iv) **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.
- (v) **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.
- (vi) **Adjusted Trial Balance:** An adjusted Trial Balance may also be prepared.
- (vii) **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.
- (viii) **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

— Space to write important points for revision —

2021 - Dec [2] What is a depreciable cost? (1 mark) [Sec. B - SAQ]

Answer:

Depreciable cost = Cost of asset- Scrap value.

— Space to write important points for revision —

2021 - Dec [4] Name the side on which increase in capital is recorded.
(1 mark) [Sec. B - SAQ]

Answer:

Credit side.

— Space to write important points for revision —

2021 - Dec [5] Under which accounting concept provision is made for doubtful debts. **(1 mark) [Sec. B - SAQ]**

Answer:

Prudent concept.

— Space to write important points for revision —

2021 - Dec [8] Why is the capital of the owner shown on the liability side of the balance sheet? **(1 mark) [Sec. B - SAQ]**

Answer:

Due to separate entity concept.

— Space to write important points for revision —

2021- Dec [14] What type of account is a revaluation account?

(1 mark) [Sec. B - SAQ]

Answer:

Nominal account.

— Space to write important points for revision —

2021 - Dec [15] What is the traditional function of accounting?

(1 mark) [Sec. B - SAQ]

Answer:

Recording of financial transactions.

— Space to write important points for revision —

2021 - Dec [17] Should a transaction be first recorded in a journal or Ledger. Why? **(1 mark) [Sec. B - SAQ]**

Answer:

Transactions are first recorded in a journal because it is a book of original entry.

— Space to write important points for revision —

2021 - Dec [18] On which basis of accounting outstanding expenses are not recorded? **(1 mark) [Sec. B - SAQ]**

Answer:

Cash basis of accounting.

— Space to write important points for revision —

2021 - Dec [19] Name the error committed by violating the rules of accounting. **(1 mark) [Sec. B - SAQ]**

Answer:

Error of principle.

— Space to write important points for revision —

2021 - Dec [20] Define merchandise. **(1 mark) [Sec. B - SAQ]**

Answer:

Merchandise means goods for resale.

— Space to write important points for revision —

2021 - Dec [1] Which transactions will:

- (i) Decrease the assets and decrease the capital.
- (ii) Increase the assets and increase the liabilities.
- (iii) Increase the assets and decrease another asset.
- (iv) Decrease the assets and decrease the liabilities.

(4 marks) [Sec. C - One LAQ]

Answer:

- (i) Drawing or expenses.
- (ii) Purchase of an asset on credit.
- (iii) Purchase or sale of an asset in cash.
- (iv) Payment of liability.

— Space to write important points for revision —

2021 - Dec [2] When you proceed to reconcile the bank account starting with 'credit' cash book Balance, how is the following dealt with and why?

- (i) Cheque issued but not presented for payment
- (ii) Cheque deposited but not yet credited.

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- (iii) Bank charges charged by the bank not recorded in the cash book.
- (iv) Interest allowed by the bank is not recorded in the cash book.

(4 marks) [Sec. C - One LAQ]

Answer:

- (i) Cheques issued but not yet presented for payment are deducted because the bank shows lower overdrawn balance.
- (ii) Cheques deposited but not cleared are added because the bank shows a higher overdrawn balance.
- (iii) Bank charges are added because the bank shows a higher overdrawn balance.
- (iv) Interest allowed is deducted because the bank shows lower overdrawn balance.

— Space to write important points for revision —

2021 - Dec [1] Why is goodwill considered an "Intangible asset" but not a "fictitious asset"?

(2 marks) [Sec. C - Five LAQ]

Answer:

Goodwill cannot be seen or touched. It can only be felt. Hence, it is treated an intangible asset. But it is not a fictitious asset because fictitious do not have a value. Whereas Goodwill has value and it can be purchased or sold with any other asset.

— Space to write important points for revision —

PRACTICAL QUESTIONS

2012 - Dec [4] (c) Mr. X is owner of a Cinema Hall. He spent a heavy amount for complete renovation of the hall, for installation of air-condition machines and for sitting arrangement with cushion seats. As a result the revenue has been doubled. He also spent for few more doors for emergency exit.

State your opinion about the treatment of the entire expenditure.

(2 marks)

Answer :

If due to any expenditure, the future benefits from the assets increases beyond its previously assessed standard of performance, then it should be capitalized. The size of the expenditure is not important for capitalizing the expenditure. In the present case, renovation expenses should be capitalized because it has enhanced the revenue generating capacity of the hall but expenditure for making more emergency exit does not enhance the revenue generating capacity of the hall, so it should be charged to revenue.

— Space to write important points for revision —

2012 - Dec [6] (b) The total of debit side of the Trial Balance of Lotus Stores as at 31.03.2012 is ₹ 3,65,000 and that of the credit side is ₹ 2,26,000.

After checking, the following mistakes were discovered:

| Items of account | Correct figures (as it should be) (₹) | Figures as it appears in the Trial Balance (₹) |
|------------------|---|--|
| Opening stock | 15,000 | 10,000 |
| Rent and rates | 36,000 | 63,000 |
| Sundry creditors | 81,000 | 18,000 |
| Sundry debtors | 1,04,000 | 1,58,000 |

Ascertain the correct total of the Trial Balance. **(5 marks)**

Answer :

**In the books of Lotus Stores calculation of correct
Total of Trial Balance**

| Particulars | Dr. | Cr. |
|---|-----------------|-----------------|
| Total of Trial Balance as per on 31.03.12 | 3,65,000 | 2,26,000 |
| <i>Add:</i> under statement of op. stock | 5,000 | — |
| <i>Less:</i> over statement of Rent & Rates | 27,000 | — |
| <i>Add:</i> under statement of sundry creditors | — | 63,000 |
| <i>Less:</i> over statement of sundry debtors | 54,000 | — |
| Correct Total | 2,89,000 | 2,89,000 |

— Space to write important points for revision —

2013 - June [4] (a) State whether the following items are in the nature of Capital, Revenue and/or Deferred Revenue Expenditure:

- (i) Expenditure on special advertising campaign ₹ 66,000; suppose the advantage will be received for six years.
- (ii) An amount of ₹ 8,000 spent as legal charges for abuse of Trade Mark.
- (iii) Legal charges of ₹ 15,000 incurred for raising loan.
- (iv) Share issue expenses ₹ 5,000.
- (v) Freight charges on a new machine ₹ 1,500 and erection charges ₹ 1,800 for that machine. **(1 × 5 = 5 marks)**

Answer:

- (i) As per Para 56 of AS 26, the expenditure incurred on intangible items would have to expense off when they are incurred. So, the Advertisement Expenses is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c. So, ₹ 66,000 consider for revenue expenditure.
- (ii) Revenue expenditure ₹ 8,000
- (iii) Capital expenditure ₹ 15,000
- (iv) Capital expenditure ₹ 5,000
- (v) Capital expenditure = 1,500 + 1,800 = ₹ 3,300.

_____ Space to write important points for revision _____

2013 - Dec [1] {C} Answer the following questions (give workings wherever required):

- (i) A trader acquired furniture & fittings for ₹ 10,000 but included the same in purchase account. He paid ₹ 5,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.
- (iii) The company maintains 10% of debtors as provision towards bad debts. It has routed all bad debts through the provision account. The opening balance of provision as on 01.04.2012 was ₹ 68,000. The closing provision i.e. on 31st March, 2013 was ₹ 92,000. Bad debts written off debited to provision account was ₹ 28,000. How much should be debited to Profit & Loss Account towards provision for doubtful debts for the year ended 31st March, 2013? **(2 marks each)**

Answer:

- (i) The first error is **error of principle**. The capital expenditure has been claimed as revenue expenditure. The second one is, **error of omission**.

The Journal Entries are:

| Particulars | | ₹ | ₹ |
|---|-----|--------|--------|
| Furniture & Fittings A/c | Dr. | 10,000 | |
| To Purchase A/c | | | 10,000 |
| [Being error in purchase A/c being rectified] | | | |
| Sundry Creditors A/c | Dr. | 5,000 | |
| To Cash A/c | | | 5,000 |
| [Being the omission to record the transaction now being recorded] | | | |

(iii) Provision for bad and doubtful debts account

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|------------|-------------------|----------|------------|----------------|----------|
| 31.03.2013 | To Sundry Debtors | 28,000 | 01.04.2012 | By Balance b/d | 68,000 |
| 31.03.2013 | To Balance c/d | 92,000 | 31.03.2013 | By P & L A/c | 52,000 |
| | | 1,20,000 | | | 1,20,000 |

— Space to write important points for revision —

2013 - Dec [6] (b) State with reason whether the followings are capital or revenue expenditure:

- Freight charges of ₹ 12,000 incurred for machinery purchased for ₹ 2,00,000.
- ₹ 90,000 being expenditure incurred for well equipped labour welfare centre.
- Compensation of ₹ 1,50,000 each paid to three employees who were retrenched.
- Purchase of TV set for ₹ 30,000 to be installed in the reception hall.

(1 × 4 = 4 marks)

Answer:

- (i) Expenditure incurred towards freight charges for bringing the machinery to the location and till regular production is capital expenditure. Hence, the freight charge is to be capitalized.
- (ii) Labour welfare centre is a permanent addition and therefore a capital expenditure.
- (iii) Compensation to retrenched employees will not bring any permanent benefit and hence is revenue expenditure.
- (iv) Television set purchased is a capital expenditure unless the person acquiring the same is a dealer of television sets.

— Space to write important points for revision —

2014 - Dec [2] Answer the question:

- (b) Pass necessary journal entries to rectify the following errors assuming that the errors were detected after the preparation of final accounts:
- (i) Return inward book was undercast by ₹ 18,000.
 - (ii) Goods purchased for proprietor's use for ₹ 10,000 debited to purchase account.
 - (iii) ₹ 5,200 paid for freight on machinery was debited to freight account.
 - (iv) No adjustment entry was passed for an amount of ₹ 15,000 relating to outstanding rent.
 - (v) Furniture of ₹ 13,000 purchased from Chandra Furniture House was entered in purchase book.
 - (vi) ₹ 10,000 received from Mohan has been credited to Sohan.

(4 marks)

Answer:

| | ₹ | ₹ |
|---|------------|--------|
| (i) Profit & Loss Adjustment A/c | Dr. 18,000 | |
| To Suspense A/c | | 18,000 |
| (Under cash of return inward book rectified.) | | |
| (ii) Capital A/c | Dr. 10,000 | |
| To Profit & Loss Adjustment A/c | | 10,000 |
| (Drawing rectified.) | | |

| | | | |
|--|-----|--------|--------|
| (iii) Machinery A/c | Dr. | 5,200 | |
| To Profit & Loss Adjustment A/c | | | 5,200 |
| (Wrong debit to freight A/c now rectified.) | | | |
| (iv) Profit & Loss Adjustment A/c | Dr. | 15,000 | |
| To Outstanding Rent A/c | | | 15,000 |
| (Adjustment entry for outstanding rent passed.) | | | |
| (v) Furniture A/c | Dr. | 13,000 | |
| To Profit & Loss Adjustment A/c | | | 13,000 |
| (Furniture wrongly entered in purchase book now rectified) | | | |
| (vi) Sohan's A/c | Dr. | 10,000 | |
| To Mohan's A/c | | | 10,000 |
| (Wrong credit to Sohan's A/c rectified.) | | | |

— Space to write important points for revision —

2015 - June [2] Answer the question:

(a) Journalise the following transactions in the books of SHIVA.

- 01.05.2015 — Started business with ₹ 5,00,000 of which 50% amount was borrowed from SBI and 20% amount was borrowed from his sister Patta.
- 05.05.2015 — Purchased goods from Chinu Mart worth ₹ 1,60,000 at 25% trade discount and 40% amount paid in cash.
- 08.05.2015 — Sold goods to Satish ₹ 60,000 at 20% trade discount and received $\frac{1}{4}$ amount in cash.
- 15.05.2015 — Paid to Chinu Mart ₹ 69,500 in full settlement of A/c.

(4 marks)

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Answer:

Journal of SHIVA

| Date | Particulars | L. F. | Amount ₹ | Amount ₹ |
|---------|--|-------|------------------|----------------------------------|
| 1.5.15 | Cash A/c Dr. To Capital A/c To Loan from Patta A/c To Loan from SBI A/c (Being business started) | | 5,00,000 | 1,50,000 1,00,000 2,50,000 |
| 5.5.15 | Purchases A/c Dr. To Cash A/c To Chinu Mart A/c (Being goods purchased and trade discount received) | | 1,20,000 | 48,000 72,000 |
| 8.5.15 | Satish A/c Dr. Cash A/c Dr. To Sales (Being goods sold and trade discount allowed) | | 36,000 12,000 | 48,000 |
| 15.5.15 | Chinu Mart A/c Dr. To Cash A/c To Discount A/c (Being payment made to Chinu Mart in full settlement of his account) | | 72,000 | 69,500 2,500 |

Space to write important points for revision

2015 - Dec [2] Answer the question.

(a) Trial Balance of ANKIT LTD. failed to agree and the difference was put into Suspense Account pending investigation which discovered the following:

- (i) Discount received ₹ 1,320 had been debited to Discount allowed as ₹ 132.

- (ii) Goods of the value of ₹ 200 returned by Kishan were entered in the Sales Day Book and posted therefrom to the credit of Krishan as ₹ 20.
- (iii) A credit purchase of ₹ 500 from N. Kumar was recorded as sale to M. Kumar for ₹ 50.
- (iv) A credit sale of machine of P. Dass for ₹ 600 recorded through Sales Day Book as sale to C. Dass for ₹ 60.

Required:

Pass the Rectifying Entries in the Book of Ankit Ltd.

(4 marks)

Answer:

**In the books of ANKIT LTD.
Journal Entries**

| | | | |
|-------|---|------------------|--------------|
| (i) | Suspense A/c Dr. To Discount received To Discount allowed (Being wrong debit to discount allowed commission of recording discount received, now rectified) | 1,452 | |
| | | | 1,320 132 |
| (ii) | Krishan A/c Dr. Sales A/c Dr. Sales Return A/c Dr. To Kishan A/c To Sales A/c (Being sales returns recorded as sale with wrong amount and wrong posting therefrom, now rectified) | 20 200 200 | 200 220 |
| (iii) | Sales A/c Dr. Purchase A/c Dr. To N. Kumar To M. Kumar (Being the credit purchase recorded as sale, now rectified) | 50 500 | 500 50 |

6.32

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| | | | | |
|--|--------------|-----|-----|-----|
| (iv) | Sales A/c | Dr. | 60 | |
| | P. Dass A/c | Dr. | 600 | |
| | To Machinery | | | 600 |
| | To C. Dass | | | 60 |
| (Being the credit sale of machine recorded as sale, now rectified) | | | | |

— Space to write important points for revision —

2015 - Dec [5] Answer the question.

- (a) MILTON LTD. sold goods worth ₹ 1,00,000 to NARMADA LTD. Narmada Ltd. asked for discount of ₹ 16,000 which was agreed by Milton Ltd. The sale was effected and Goods despatched. After receiving, Goods Worth ₹ 14,000 was found defective, which they returned immediately. They made the payment of ₹ 70,000 to Milton Ltd. The accountant of Milton Ltd. booked the Sales for ₹ 70,000.

Discuss whether the accounting entry passed by the accountant of the company is correct? **(4 marks)**

Answer:

The accounting entry passed by the accountant of the company is incorrect as it does not depict the original transaction. Sales should be shown at the gross amount and thereafter, entry of sales return should be passed.

The goods returned cost 14,000 on which discount was availed which needs to be reversed.

$$\begin{aligned} \text{Discount} &= \frac{14,000 \times 16,000}{1,00,000} \\ &= 2,240 \end{aligned}$$

— Space to write important points for revision —

2016 - June [3] (a) The trial balance of M/s SEWADA & CO., on 31st March, 2016 did not agree. In order to close the books, the accountant placed the difference for ₹ 12,385 (Dr.) to Suspense Account for necessary adjustments in the next period. On 30th April, 2016 the following errors, arising in 2015-16 were detected:

- (i) ₹ 1,000 allowed as cash discount to a trade debtor was not debited to the discount account.
- (ii) Credit sale of ₹ 4,850 was posted to the credit of the customer's account as ₹ 4,535.
- (iii) Machinery purchased for ₹ 50,000 in cash was posted to the Purchases Account in the ledger.
- (iv) Sales Book was overcast by ₹ 2,000 in February, 2016.

Required:

- (a) Pass the necessary Journal Entries to rectify these errors.
- (b) Prepare suspense account in the book of SEWADA & CO.

(5 + 2 = 7 marks)

Answer :

(a)

| Date | Particulars | Dr. (₹) | Cr. (₹) |
|------------------|---|---------|---------|
| 2016 April 30 | P & L Adjustment A/c To Suspense A/c (Being discount allowed not posted to discount A/c, now rectified) | 1,000 | 1,000 |
| April 30 | Customer's A/c To Suspense A/c (Being credit sale of ₹ 4,850 wrongly posted to the credit of customer's a/c, as ₹ 4,535, now rectified) | 9,385 | 9,385 |
| April 30 | Machinery A/c To P & L Adjustment A/c (Being machinery purchased a/c, now rectified) | 50,000 | 50,000 |
| April 30 | P & L Adjustment A/c To Suspense A/c (Being sales day book overcast, now rectified) | 2,000 | 2,000 |

Suspense A/c

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|-----------------|----------------|---------------|------------------|---------------------|---------------|
| 2016 April 1 | To Balance b/d | 12,385 | 2016 April 30 | By P & L Adj. A/c | 1,000 |
| | | | April 30 | By Customer A/c | 9,385 |
| | | | April 30 | By P & L Adjustment | 2,000 |
| | | 12,385 | | | 12,385 |

— Space to write important points for revision —

2017 - June [2] (b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of Final Accounts.

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

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. **(6 marks)**

Answer:

Effects of the errors in Profit and Loss A/c and Balance Sheet

| Profit and Loss A/c | Balance Sheet |
|---|--|
| (a) Profit was overstated by ₹ 2,000 | (a) Capital was also overstated by ₹ 2,000 and outstanding Liability was understated by 2,000. |
| (b) Gross profit was under stated by ₹ 1,000 and also the Net Profit. | (b) Capital was understated by ₹ 1,000. |

| | |
|---|--|
| (c) Net Profit was overstated by ₹ 4,000. | (c) Machinery was overstated by ₹ 4,000 and so the Capital A/c was also overstated by ₹ 4,000. |
| (d) No effect on Net Profit. | (d) No effect in Balance Sheet. |
| (e) Gross Profit & Net Profit were overstated by ₹ 1,000. | (e) Capital was overstated by ₹ 1,000. |
| (f) Gross Profit & Net Profit were overstated by ₹ 5,000. | (f) Capital & Sundry Debtors were overstated by ₹ 5,000. |

— Space to write important points for revision —

2017 - June [3] (a) Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for current year. Comment. **(3 marks)**

(b) Alex. Ltd. intends to set up a solar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired. **(6 marks)**

Answer:

(a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treatment adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

Answer:

| | | |
|---|---|-------------------|
| (b) Cost of Land acquired (7500 × 70,000) | = | 5,250 lacs |
| Add: Demolishing Cost | = | 50 lacs |
| Less: Salvage Value of Material (43,57,500×100/105) | = | 41.50 lacs |
| Add: Stamp Duty & Valuation (5,250 × 5%) | = | 262.50 lacs |
| Add: Legal & Consultancy Charge | = | 5 lacs |
| Add: Title Guarantee Insurance | = | 2 lacs |
| Value of Land | = | <u>5,528 lacs</u> |

— Space to write important points for revision —

2017 - Dec [4] (b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.

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

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. **(6 marks)**

Answer:

Please refer 2017 - June [2] (b) on page no. 34

— Space to write important points for revision —

2018 - June [2] (a) The Trial Balance of S Ltd. as on 31/03/2018 showed the credit in excess by ₹ 415 which was been carried to Suspense Account. On a closed scrutiny of the books, the following errors were revealed:

- A cheque of ₹ 3,456 received from AB Ltd. after allowing it a discount of ₹ 46 was endorsed to CD Ltd. in full settlement for ₹ 3,500. The cheque was finally dishonoured but no entries are passed in the books of account.

- (ii) Goods of the value of ₹ 230 returned by PQ Ltd. were entered in Purchase Day book and posted therefrom to MN Ltd. as ₹ 320.
- (iii) Bad debts aggregating ₹ 505 written off during the year in Sales Ledger but were not recorded in General Ledger.
- (iv) Bill for ₹ 750 received from Z Ltd. for repairs to Machinery was entered in the Inward Invoice Book as ₹ 650.
- (v) Goods worth ₹ 1,234 purchased from Y Ltd. on 28/03/2018 had not been entered in Day book and credited to Y Ltd. but Goods were not delivered till 5th April, 2018. The title of Goods was however passed on 28/03/2018 and was taken into stock on 31-03-2018.
- (vi) ₹ 79 paid for Freight on Machinery was debited to Freight account as ₹ 97.

Pass the necessary Journal Entries to rectify the above mentioned errors.

(8 marks)

Answer:

Journal Entries

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|-------------|------------------|
| | AB Ltd. A/c Dr. Discount Received A/c Dr. To CD Ltd. A/c To Discount Given A/c (Being cheque received from AB Ltd. was endorsed to CD Ltd. However, the cheque was later dishonoured) | | 3,502 44 | 3,500 46 |
| | Sales Return A/c Dr MN Ltd. A/c Dr To Purchase A/c To PQ Ltd. A/c To Suspense A/c (Being goods returned by PQ Ltd. were wrongly recorded in purchase book and from thereon wrongly posted to MN Ltd.) | | 230 320 | 230 230 90 |

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| | | | |
|---|------------|----------|------------|
| Bad debts A/c To Suspense A/c (Being Bad debts written off in Sales Ledger but not yet recorded in General Ledger, now recorded) | Dr. | 505 | 505 |
| Repairs A/c To Purchase A/c To Z Ltd. (Being repair of machinery amounting to ₹ 750 wrongly entered in Inward book as ₹ 650) | Dr. | 750 | 650 100 |
| Goods - in - Transit A/c To Trading A/c (Being goods - in - transit were recorded in books) | Dr. | 1,234 | 1,234 |
| Machinery A/c Suspense A/c To Freight A/c (Being amount paid on Freight on Machinery amounting to ₹ 79 was wrongly debited to Freight A/c as ₹ 97) | Dr. Dr. | 79 18 | 97 |

Space to write important points for revision

2018 - Dec [2] (a) A bookkeeper extracted the following Trial Balance as on 31st March, 2018:

| Heads of Accounts | Dr. Balance (₹) | Cr. Balance (₹) |
|-------------------------------------|-----------------|-----------------|
| Furniture | 20,000 | — |
| Capital | — | 2,00,000 |
| Debtors | 2,00,000 | — |
| Stock (1 st April, 2017) | 1,04,000 | — |
| Creditors | — | 80,000 |

| | | |
|--------------------------------------|------------------|------------------|
| Trade Expenses | 50,000 | — |
| Sales | — | 8,58,000 |
| Wages | 30,000 | — |
| Stock (31 st March, 2018) | 98,000 | — |
| Machinery | — | 50,000 |
| Purchases | 6,25,000 | — |
| Wife's loan to the business | 50,000 | — |
| Discount Allowed | — | 4,000 |
| Drawings made by the Proprietor | — | 45,000 |
| Motor Van | 60,000 | — |
| Total | 12,37,000 | 12,37,000 |

You are required to:

- (i) State the errors giving reasons,
- (ii) Redraft the Trial Balance correctly.

(7 marks)

Answer:

- (i) (I) Stock on 31st March, 2018, will not appear in the Trial balance because it represents a part of the goods purchased but not yet sold. As the total purchases have been included in the Trial balance, there is no need of including the Closing Stock again.
- (II) Machinery is an asset and thus will appear in the debit column.
- (III) Wife's loan to the business is a liability. It will appear in the credit column.
- (IV) Discount allowed, being an expense, will appear in the debit column.
- (V) Drawings made by the proprietor is a decrease of capital (i.e., decrease of proprietor's claim from the business). It will appear in the debit column.

(ii) Trial balance as on 31st March, 2018

| Heads of Accounts | L.F. | Dr. Balance (₹) | Cr. Balance (₹) |
|-------------------------------------|------|--------------------|--------------------|
| Furniture | | 20,000 | — |
| Capital | | — | 2,00,000 |
| Debtors | | 2,00,000 | — |
| Stock (1 st April, 2017) | | 1,04,000 | — |
| Creditors | | — | 80,000 |
| Trade Expenses | | 50,000 | — |
| Sales | | — | 8,58,000 |
| Wages | | 30,000 | — |
| Machinery | | 50,000 | — |
| Purchases | | 6,25,000 | — |
| Wife's loan to the business | | — | 50,000 |
| Discount Allowed | | 4,000 | — |
| Drawings made by the Proprietor | | 45,000 | — |
| Motor Van | | 60,000 | — |
| Total | | 11,88,000 | 11,88,000 |

— Space to write important points for revision —

2019 - June [2] (a) Rectify the following errors:

- (i) A Credit Sale of goods to X ₹ 3,000 posted as ₹ 30,000.
- (ii) A Cash Sale of goods to Y ₹ 3,000 posted as ₹ 30,000.
- (iii) A Credit Sale of furniture to Z ₹ 3,000 posted as ₹ 30,000.
- (iv) A Credit Sale of goods of ₹ 3,000 to Krishan entered in the purchases book as ₹ 30,000 and posted therefrom to the credit of Krishan as ₹ 3,000.
- (v) A Cash Sale of goods of ₹ 3,000 to Krishan posted to the credited of Krishan as ₹ 30,000.

- (vi) A Credit Purchase of old machinery from Sohan for ₹ 17,000 was entered in the Purchases Book as purchase from Mohan for ₹ 71,000. ₹ 3,000 paid as Repair Charges of this Machinery debited to General Expenses Account.
- (vii) A Bill drawn on Meenu for ₹ 30,000 was passed through bills payable book with ₹ 3,000 and posted therefrom to the credit of Meena as ₹ 300.
- (viii) Sales included a sale of furniture having a book of value of ₹ 900 for ₹ 850 on 31st March, 2018. **(8 marks)**

Answer:

Journal

| Date | Particulars | Dr.(₹) | Cr. (₹) |
|------|---|------------|---------|
| (i) | Suspense A/c To X A/c (Being wrong posting now rectified) | Dr. 27,000 | 27,000 |

Or,

| | | | |
|------|---|------------|--------|
| | Sales A/c To X A/c (Being credit sale of ₹ 3,000 wrongly posted as ₹ 30,000, now rectified) | Dr. 27,000 | 27,000 |
| (ii) | Sales A/c To Suspense A/c (Being wrong posting now rectified) | Dr. 27,000 | 27,000 |

Or,

| | | | |
|-------|--|------------|--------|
| | Sales A/c To, Cash A/c (Being, cash sale of ₹ 3,000 wrongly posted as ₹ 30,000, now rectified) | Dr. 27,000 | 27,000 |
| (iii) | Furniture A/c To Z A/c (Being wrong posting, now rectified) | Dr. 27,000 | 27,000 |

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| | | | | |
|--------|---|---|--------------------------|-----------------------------------|
| (iv) | Krishan A/c Kishan A/c Suspense A/c To Sales A/c To Purchases A/c (Being sale recorded as purchase with wrong amount and wrong posting therefrom, now rectified) | Dr. | 3,000 3,000 27,000 | 3,000 30,000 |
| (v) | Kishan A/c To Sales A/c To Suspense A/c (Being wrong posting, now rectified) | Dr. | 30,000 | 3,000 27,000 |
| (vi) | Mohan A/c Machinery A/c To Sohan A/c To Purchases A/c To General Expenses A/c (Being purchase of old machinery recorded the Purchases Book and repairing charges debited to General Expenses A/c, now rectified) | Dr. Dr. | 71,000 20,000 | 17,000 71,000 3,000 |
| (vii) | Bills Receivable A/c Bills Payable A/c Meena A/c To Meenu A/c To Suspense A/c (Being B/R drawn recorded in B/P Book, now rectified) | Dr. Dr. Dr. | 30,000 3,000 300 | 30,000 3,300 |
| (viii) | Sales A/c Loss on Sale of Furniture A/c To Furniture A/c (Being the sale of furniture recorded as sales, now rectified) | Dr. Dr. | 850 50 | 900 |

— Space to write important points for revision —

2021 - Dec [2] From the following particulars calculate operating profit.

Net profit. ₹1,00,000

Rent received. ₹10,000

Gain on the sale of machines. ₹15,000

Interest on loan paid. ₹18,000

Donation paid. ₹4,000

(2 marks) [Sec. C - Two LAQ]

Answer:

Operating Profit = 1,00,000 – 10,000 – 15,000
+ 18,000 + 4,000 = 97,000

∴ Operating Profit = ₹97,000

— Space to write important points for revision —

2021 - Dec [1] Ruma Ltd. purchased a plant on 1st April, 2015 for ₹ 2,40,000. It bought another plant on 1st July, 2016 for ₹1,60,000. On 1st January 2018 Plant bought on 1st April 2015 was sold for ₹1,60,000 and a fresh plant was purchased on the same date. Payment of this plant will be made as under.

1st January 2018 ₹40,000.

1st January 2019 ₹48,000.

1st January 2020 ₹44,000.

Payments made in 2019 and 2020 include interest of ₹ 8,000 and ₹ 4,000, respectively. Depreciation is charged at 10% P.a. on the diminishing balance method.

From the above particulars, Find out.

- (i) Cost of plant bought on January 1st, 2018.
- (ii) Loss on sale of plants.
- (iii) Closing balance of plant 2 and plant 3 as on 31-3-2018

(6 marks) [Sec. C - Four LAQ]

Answer:

(i) **Cost of Plant:**

40,000 + 48,000 – 8,000 + 44,000 – 4,000
= 1,20,000

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(ii) **Loss on sale of Plant:**

$$\begin{aligned} \text{WDV on 1.1.2018} &= 2,40,000 - 24,000 - 21,600 - 14,580 \\ &= 1,79,820 \end{aligned}$$

$$\text{Loss} = 1,79,820 - 1,60,000 = 19,820$$

(iii) **Closing balance of Plant:****Plant 2**

$$\begin{aligned} &1,60,000 - \left(1,60,000 \times \frac{10}{100} \times \frac{9}{12} \right) \\ &- 14,800 = 1,33,200 \end{aligned}$$

Plant 3

$$\begin{aligned} &1,20,000 - 1,20,000 \times \frac{10}{100} \times \frac{3}{12} \\ &= 1,17,000 \end{aligned}$$

_____ Space to write important points for revision _____

2022 - Dec [7] (b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹ 4,00,000. As on 31st March, 2021 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'. Show the treatment of machine in the books of ABC Ltd. **(5 marks)**

_____ Space to write important points for revision _____

| Repeatedly Asked Questions | | |
|----------------------------|---|-----------|
| No. | Question | Frequency |
| 1 | Write short note on the following: The Accrual concept 17 - June [8] (a), 19 - June [8] (a) | 2 Times |

2A






BILLS OF EXCHANGE

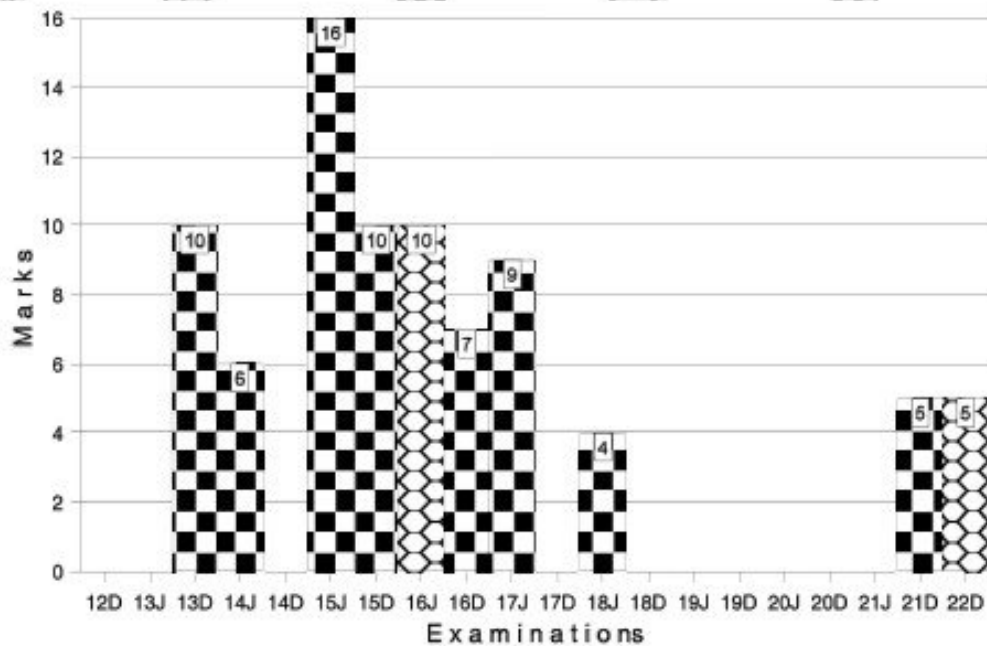
THIS CHAPTER INCLUDES

- Bill of Exchange
- Parties Involved
- Discounting
- Renewal
- Retirement
- Accommodation Bills
- Dishonour

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Bill of Exchange**

"An instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to the order of the certain person or to the bearer of the instrument"

Discounting a Bill

If the holder of a bill wants to get the money of the bill before its due date, he can do so by selling the bill to a bank or a Discounting House who in consideration of a charge called discount, provides him with ready cash. This is known as discounting the bill.

Dishonour of Bill

Dishonour of a Bill means that the acceptor refuses to honour his commitment on due date and for this, payment of the bill on presentation does not take place.

Renewal of Bills

Sometimes the drawee of a bill is not able to meet the bill on due date. He may request the drawer to draw a new Bill for the amount due. Sometimes he pays a certain amount out and accepts a first bill for the balance for which he has to pay a certain amount of interest which is either paid in cash or is included with the fresh bill. This bill is known as Renewal of Bills.

Retirement of Bill

Sometimes the drawee pays the bill before the date of maturity. Under the circumstances, the drawer allows certain amount of rebate or discount which is calculated on certain percentage p.a. basis. The rebate is calculated from the date of payment to the date of maturity.

Types of Bills of Exchange

- (a) **Trade bill:** This bill is drawn to settle a trade transaction.
- (b) **Accommodation bill:** This bill is used without a trade transaction and is for mutual benefit.

Insolvency of Drawee (Acceptor)

Insolvency of acceptor means that he cannot pay the amount owed by him. Therefore, on insolvency of the acceptor, bill will be treated as dishonoured and entries for dishonour of bill will be passed in the books of respective parties.

SHORT NOTES

2016 - June [9] Write short notes on the following:

- (a) Accommodation Bill **(5 marks)**
- (c) Rebate on Bills Discounted **(5 marks)**

Answer:

- (a) **Accommodation Bill :** An Accommodation Bill is a bill of exchange signed by-a party as drawer, drawee, endorser to accommodate another party whose credit is not strong enough to enable him to borrow on his single name. It is drawn for the purpose, of arranging temporary finance. Therefore, an Accommodation Bill is a Bill of exchange which has been drawn, on and accepted by a reputable party for the purpose of giving value to the bill so that it can be discounted. What actually happens in the case of an accommodation bill is that one party draws the bill and the other party accepts it. Then, the drawing party gets it discounted from the bank and receives ready cash of which he is in need. The money received is either wholly utilized by the drawer, or by both, the drawee and the acceptor. Before the due date approaches, the required sum of money is sent to the acceptor in order to make him able to honour the

bill and the bill is honoured on the due date. Thus, although there is no legal liability, there exists a strong moral understanding between the parties concerned.

- (c) **Rebate on Bills Discounted:** When a bank discounts a bill of exchange, the full amount of the discount earned is credited to the Discount Account but some of the Bills discounted may not mature for payment by the close for the year; as a result, the amount of discount in respect of such bill would not have been earned during the year. On this consideration, the unexpired portion of such discount is carried forward by Debiting the Discount Account and crediting Rebate on Bills Discounted Account. The latter account is shown on the liabilities side of the Balance Sheet as income received which had not accrued before the close of the year. At the commencement of the period next following the account is close off by transfer to the Discount Account.

— Space to write important points for revision —

2022 - Dec [8] Write short note:

- (d) Features of a Bill of Exchange.

(5 marks)

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - Dec [3] (a) On 20th July, 2012, Sohan drew a bill for ₹ 50,000 on Mohan for the period of four months and Mohan accepted it. It was for mutual accommodation of both to the extent of $\frac{2}{3}$ and $\frac{1}{3}$. On 23rd July, 2012, Sohan discounted the bill with the Bank @ 12% per annum and remitted one-third of proceeds to Mohan. On 18th November, 2012 Mohan drew another bill for ₹ 71,000 on Sohan to provide funds to meet the first bill, for the period of three months, which was accepted by Sohan. On 21st November, 2012, Mohan discounted it with Bank @ 12% per annum. With this amount, the first bill was met out and ₹ 12,580 was remitted to Sohan.

On 1st February, 2013, Sohan became insolvent and Mohan received a dividend of 60 paise in a rupee in full settlement on 15th February, 2013. Give journal entries to record the above transactions in the books of Sohan and prepare Sohan's account in the ledger of Mohan. (10 marks)

Answer:

Journal of Sohan

| Date | Particulars | ₹ | ₹ |
|------------|--|-----------------|---------------|
| 20.07.2012 | B/R A/c Dr. To Mohan A/c (B/R Acceptance received) | 50,000 | 50,000 |
| 23.07.2012 | Bank A/c Dr. Discount A/c Dr. To B/R A/c (B/R discounted @ 12% per annum) | 48,000 2,000 | 50,000 |
| 23.07.2012 | Mohan A/c Dr. To Bank / Cash A/c To Discount A/c (Remittance sent to Mohan & 1/3 of discount debited) | 16,667 | 16,000 667 |
| 18.11.2012 | Mohan A/c Dr. To B/P A/c (Bill of Mohan accepted) | 71,000 | 71,000 |
| 24.11.2012 | Cash A/c Dr. Discount A/c Dr. To Mohan A/c (Amount received from Mohan & 2/3 discount charged by him) | 12,580 1,420 | 14,000 |

6.50

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| | | | | |
|------------|--|-----|--------|------------------|
| 01.02.2013 | B/P A/c To Mohan A/c (B/P dishonoured) | Dr. | 71,000 | 71,000 |
| 15.02.2013 | Mohan A/c To Cash A/c To Deficiency A/c (Payment of 60 paise in a rupee made to Mohan for the amount due) | Dr. | 47,333 | 28,400 18,933 |

**Ledger of Mohan
Sohan's A/c**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|----------|-----------------|----------|----------|-----------------|----------|
| 20.07.12 | To B/P A/c | 50,000 | 23.7.12 | By Cash A/c | 16,000 |
| 24.11.12 | To Cash A/c | 12,580 | 23.7.12 | By Discount A/c | 667 |
| 24.11.12 | To Discount A/c | 1,420 | 18.11.12 | By B/R A/c | 71,000 |
| 01.02.13 | To B/R A/c | 71,000 | 15.2.13 | By Cash A/c | 28,400 |
| | | | | By Bad Debts | 18,933 |
| | | 1,35,000 | | | 1,35,000 |

Calculation of distribution of discount

In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Sohan and Mohan is given as two third and one third.

| | 1 st Bill | | 2 nd Bill | |
|-------------|----------------------|--------------|----------------------|--------------|
| | Proceeds (₹) | Discount (₹) | Proceeds (₹) | Discount (₹) |
| Sohan (2/3) | 32,000 | 1,333 | 45,913 | 1,420 |
| Mohan (1/3) | 16,000 | 667 | 22,957 | 710 |
| Total | 48,000 | 2,000 | 68,870 | 2,130 |

— Space to write important points for revision —

2014 - June [4] (b) Big owes Fast ₹ 12,000 for which the former accepts a three months' bill drawn by the latter. Fast immediately discounts the bill with his banker, Strong Bank, at 12% p.a. On the due date the bill is dishonoured and Strong Bank pays ₹ 40 as noting charges. Big pays ₹ 2,360 including interest of ₹ 400 and gives another bill at three months' for the balance. Fast endorses the bill to his creditor Thin in full settlement of his debt for ₹ 10,200. Thin discounts the bill with banker Strong Bank who charges ₹ 80 as discount. Before maturity Big becomes bankrupt and first and final dividend of 20 paise in a ₹ is realized from his estate.

Show the journal entries in the books of Thin and Strong Bank and the ledger account of Big in the books of Fast. **(6 marks)**

Answer:

In the books of Thin Journal

| Particulars | L.F. | Debit (₹) | Credit (₹) |
|---|------|-----------|------------|
| Bills Receivable A/c Dr. | | 10,080 | |
| Discount Allowed A/c Dr. | | 120 | |
| To Fast A/c | | | 10,200 |
| (Being Endorsed bill received from Fast in full settlement) | | | |
| Bank A/c Dr. | | 10,000 | |
| Discount A/c Dr. | | 80 | |
| To Bills Receivable A/c | | | 10,080 |
| (Being Bill discounted by the bank) | | | |
| Fast A/c Dr. | | 10,200 | |
| To Bank A/c | | | 10,080 |
| To Discount Allowed A/c | | | 120 |
| (Being Bills dishonoured at maturity) | | | |

In the books of Strong Bank Journal

| Particulars | L.F. | Debit (₹) | Credit (₹) |
|--------------------------|------|-----------|------------|
| Bills Discounted A/c Dr. | | 12,000 | |
| To Fast's Current A/c | | | 11,640 |

6.52

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

| | | | |
|--|-----|--------|--------------|
| To Discount A/c (Being bill discounted which is due for 3 months) | | | 360 |
| Noting Charges A/c To Cash A/c (Being Noting charges incurred for dishonor of bill) | Dr. | 40 | 40 |
| Fast's Current A/c To Bills Discounted A/c To Noting Charges A/c (Being Bills dishonoured, noting charges being ₹ 40) | Dr. | 12,040 | 12,000 40 |
| Bills Discounted A/c To Thin's Current A/c To Discounted A/c (Being Bill discounted which is due for 3 months) | Dr. | 10,080 | 10,000 80 |
| Thin's Current A/c To Bills Discounted A/c (Being Bill dishonoured at maturity) | Dr. | 10,080 | 10,080 |

In the books of Fast Big Account

| Particulars | Amount (₹) | Particulars | Amount (₹) | Amount (₹) |
|--------------------|---------------|-------------------------|---------------|---------------|
| To Balance b/d | 12,000 | By Bills Receivable A/c | | 12,000 |
| To Strong Bank A/c | 12,040 | By Cash A/c | | 2,360 |
| To Interest A/c | 400 | By Bills Receivable A/c | | 10,080 |
| To Thin A/c | 10,080 | By Cash A/c (20%) | 2,016 | |
| | | By Bad Debt A/c | 8,064 | 10,080 |
| | 34,520 | | | 34,520 |

— Space to write important points for revision —

2015 - June [6] Answer the question:

- (a) BABAI sold goods to KACHARI for ₹ 90,000 on 1st April, 2014 for which the later accepted three bills of ₹ 30,000 each due respectively in 1, 2 and 3 months. The first bill is retained by Babai and is duly met. The second bill was discounted (discount being ₹ 600) and is met in due course. The third bill is also discounted (discount being ₹ 900) and is dishonoured, the Noting charges being ₹ 150.

New arrangements were duly made whereby Kachari pays Cash ₹ 10,150 and accepts a new bill due in 2 months for the balance of the amount with interest at 15% p.a. The bill is retained. On due date the same is dishonoured, noting charges being ₹ 180. Kachari declared insolvent on 15th Sept. 2014 and 35 paise in a rupee were received from his estate.

Required:

Pass Journal entries in the Books of BABAI.

(8 marks)

Answer:

| | | In the book of Babai Journals | | |
|-----------------|--|-------------------------------|---------------|----------|
| Date | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
| 2014 April 1 | Bills receivable A/c Dr. To Kachari A/c (Acceptance received for 3 bills for ₹ 30,000 each payable at one, two and three months after date respectively) | | 90,000 | 90,000 |
| April 1 | Bank A/c Dr. Discount on Bills Receivable A/c Dr. To Bills receivable A/c (Second bill discounted) | | 29,400 600 | 30,000 |

6.54

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

| | | | |
|----------|---|-----------------|---------------|
| April 1 | Bank A/c Dr. Discount on Bills Receivable A/c Dr. To Bills receivable A/c (Third bill discounted) | 29,100 900 | 30,000 |
| May 4 | Bank A/c / Cash A/c Dr. To Bills receivable A/c (Payment of first bill received) | 30,000 | 30,000 |
| July 4 | Kachari A/c Dr. To Bank A/c (Third bill dishonoured and noting charges paid by Bank) | 30,150 | 30,150 |
| July 4 | Cash A/c Dr. To Kachari A/c (Cash received from Kachari under new arrangement) | 10,150 | 10,150 |
| July 4 | Kachari A/c Dr. To Interest A/c [$20,000 \times 15\% \times 2/12$] (Interest charged on renewal of bill) | 500 | 500 |
| July 4 | Bills receivable A/c Dr. To Kachari A/c (Acceptance received for new bill) | 20,500 | 20,500 |
| Sept. 7 | Kachari A/c Dr. To Bills receivable A/c To Cash A/c (noting charges) (Bill dishonoured by Kachari and noting charges paid) | 20,680 | 20,500 180 |
| Sept. 15 | Cash A/c ($20,680 \times 0.35$) Dr. Bad debts A/c Dr. To Kachari A/c (35 paise in a rupee received on the insolvency of Kachari) | 7,238 13,442 | 20,680 |

2015 - June [7] Answer the question:

(a) On 1st April, 2014 NANU BANK LTD. had a balance of ₹ 45 Lakhs in 'Rebate on Bills Discounted Account.'

During the year ended 31st March, 2015, Nanu Bank Ltd. discounted bills of exchange of ₹ 51,000 Lakh charging interest at 15% per annum, the average period of discount being for 73 days. Out of these, Bill of Exchange of ₹ 3,067 Lakh were due for realization from the acceptor/customers after 31st March, 2015, the average period outstanding after 31st March, 2015 being 53 days.

You are required to pass the necessary Journal Entries and show the Ledger Accounts in the Books of NANU BANK LTD. pertain to

(i) Rebate on Bills Discounted Account

(ii) Interest and Discount Account

(4 + (2 + 2) = 8 marks)

Answer:

In the books of NANU BANK Ltd.

| | | | | (₹ in lacs) | |
|------------|--|------|--------|-----------------|--|
| Date | Particulars | L.F. | Debit | Credit | |
| 01.04.2014 | Rebate on bill disc. Dr. To Discount on bills. (Being t/f of opening balance to Rebate on bill discount A/c) | | 45 | 45 | |
| 20.14.15 | Cash A/c Dr. To Bills Purchased and Discount A/c (Being the discounted bills collected) | | 51,000 | 51,000 | |
| .. | Bills purchased & discount Dr. To Client To Discount on bills (51,000 lacs × 15/100 × 73/365) | | 51,000 | 49,470 1,530 | |

6.56

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

| | | | | |
|------------|---|-----|---------|---------|
| 31.03.2015 | Discount on bills To Rebate on bills disc. (Being the prov. for unexp. discount) | Dr. | 66.80 | 66.80 |
| „ | Discount on bills To P/L (Being amount of income for year from discounting of bills T/F to P/L) | Dr. | 1508.20 | 1508.20 |

Rebate on bills discount

| Date | Particular | Amount | Date | Particular | Amount |
|---------|----------------------|---------------|---------|----------------------|---------------|
| 1.4.14 | To Discount on bills | 45.00 | 1.4.14 | By Balance b/d | 45.00 |
| 31.3.15 | To Balance c/d | 66.80 | 31.3.15 | By Discount on bills | 66.80 |
| | | <u>111.80</u> | | | <u>111.80</u> |

Interest and Discount Account

| | | | | | |
|---------|-----------------------------|-----------------|---------|-----------------------------------|-----------------|
| 31.3.15 | To Rebate on bills discount | 66.80 | 1.4.14 | By Rebate on bills | 66.80 |
| „ | To P/L | 1,508.20 | 2014-15 | By Bills purchased & discount A/c | 1,508.20 |
| | | <u>1,575.00</u> | | | <u>1,575.00</u> |

— Space to write important points for revision —

2015 - Dec [1] Answer the following question (Give workings):

(g) On 1st April, 2015 ALOKE accepted a bill for ₹ 5,000 for 3 months drawn by KUNTAL. Kuntal endorses the bill in favour of Chinu. At maturity, the bill was dishonoured.

Pass the Journal Entries in the Book of KUNTAL.

(2 marks)

Answer:**In the Books of Kuntal**

| | | | | |
|--------|---|-----|-------|-------|
| 1.4.15 | B/R A/c To Alope A/c (Being a bill drawn on Alope) | Dr. | 5,000 | 5,000 |
| 1.4.15 | Chinu A/c To B/R A/c (Being the bills previously drawn on Alope new endorsed in favour of Chinu) | Dr. | 5,000 | 5,000 |
| 4.7.15 | Alope A/c To Chinu A/c (Being the bill dishonoured at maturity) | Dr. | 5,000 | 5,000 |

— Space to write important points for revision —

2015 - Dec [6] (b) GOURU and GYANI were friends and in need of funds. On 1st April, 2015 Gouru drew a bill for ₹ 2,00,000 for three months on Gyani. On 4.4.15 Gouru got the bill discounted at 15% per annum and remitted half of the proceeds to Gyani. On the due date, Gyani could not meet the bill, instead, Gouru accepted Gyani's bill for ₹ 1,20,000 on 4th July, 2015 for two months. This was discounted by Gyani at 15% per annum and out this ₹ 19,500 was paid to Gouru after deducting ₹ 500 discounting charges. Due to financial crisis, Gouru became insolvent and the bill drawn on him was dishonoured and his estate paid 40%.

- Days of grace for discount purposes may be ignored.

Required:

- Give Journal Entries and
- Prepare Gyani's Account - in the books of Gouru.

(6 + 2 = 8 marks)

6.58

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Answer:

In the Books of Gouru

| | | | | |
|--------|-------------------|-----|----------|----------|
| 1.4.15 | B/R A/c | Dr. | 2,00,000 | |
| | To Gyani A/c | | | 2,00,000 |
| 4.4.15 | Bank A/c | Dr. | 1,92,500 | |
| | Discount A/c | Dr. | 7,500 | |
| | To B/R | | | 2,00,000 |
| 4.4.15 | Gyani A/c | Dr. | 1,00,000 | |
| | To Bank | | | 96,250 |
| | To Discount | | | 3,750 |
| 4.7.15 | Gyani A/c | Dr. | 1,20,000 | |
| | To B/P | | | 1,20,000 |
| 4.7.15 | Discount A/c | Dr. | 500 | |
| | Bank A/c | Dr. | 19,500 | |
| | To Gyani | | | 20,000 |
| 7.9.15 | B/P A/c | Dr. | 1,20,000 | |
| | To Gyani | | | 1,20,000 |
| 7.9.15 | Gyani A/c | Dr. | 1,20,000 | |
| | To Bank | | | 48,000 |
| | To Deficiency A/c | | | 72,000 |

In the Books of Gyani

| | | | | |
|--------|--------------|-----|----------|----------|
| 1.4.15 | Gouru A/c | Dr. | 2,00,000 | |
| | To B/P | | | 2,00,000 |
| 4.4.15 | Bank A/c | Dr. | 96,250 | |
| | Discount A/c | Dr. | 3,750 | |
| | To Gouru A/c | | | 1,00,000 |
| 4.7.15 | B/R A/c | Dr. | 1,20,000 | |
| | To Gouru A/c | | | 1,20,000 |
| 4.7.15 | Bank A/c | Dr. | 1,17,000 | |
| | Discount A/c | Dr. | 3,000 | |
| | To B/R A/c | | | 1,20,000 |
| 4.7.15 | Gouru A/c | Dr. | 20,000 | |

| | | | | |
|--------|-----------------|-----|----------|----------|
| | To Bank A/c | | | 19,500 |
| | To Discount A/c | | | 500 |
| 7.9.15 | Gouru A/c | Dr. | 1,20,000 | |
| | To Bank A/c | | | |
| 7.9.15 | B/P A/c | Dr. | 2,00,000 | 1,20,000 |
| | To Bank A/c | | | |
| 7.9.15 | Bank A/c | Dr. | 48,000 | 2,00,000 |
| | Bad- Debts A/c | Dr. | 72,000 | |
| | To Gouru A/c | | | 1,20,000 |

**In the books of Gouru
Gyanies A/c**

| | | | |
|---------------|-----------------|-------------|-----------------|
| To Bank | 96,250 | By B/R | 2,00,000 |
| To Discount | 3,750 | By Discount | 500 |
| To B/P | 1,20,000 | By Bank | 19,500 |
| To Bank | 48,000 | By B/P | 1,20,000 |
| To Deficiency | <u>72,000</u> | | |
| | <u>3,40,000</u> | | <u>3,40,000</u> |

— Space to write important points for revision —

2016 - Dec [2] (b) VISHAN for mutual accommodation of TITHAN and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted ½ of the proceeds to Tithan.

On 1st August 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paise in the rupee was received from his estate on 31st March, 2016.

6.60

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Note: Days of grace for discounting purposes may be ignored.

Required:

Pass the necessary Journal Entries in the Books of VISHAN.

(4 + 3 = 7 marks)

Answer:

**In the books of VISHAN
Journal Entries**

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|--------------|--|------|---------------|---------------|
| July 1, 2015 | Bills Receivable A/c Dr. To Tithan A/c (Being a bill drawn on Tithan for mutual accommodation for 3 months) | | 24,000 | 24,000 |
| July 4 | Bank A/c Dr. Discount on Bills A/c Dr. To Bills receivable A/c (Being the bill discounted with the bank @ 6% pa) | | 23,640 360 | 24,000 |
| | Tithan A/c Dr. To Bank A/c To Discount on Bills A/c (Being $\frac{1}{2}$ of the proceeds sent to Tithan and $\frac{1}{2}$ of the discount charged to him) | | 12,000 | 11,820 180 |
| August 1 | Tithan A/c Dr. To Bills Payable A/c (Being a bill accepted for mutual accommodation for 3 months) | | 9,600 | 9,600 |

| | | | | |
|-------------|--|------------|-----------------|--------|
| August 4 | Bank A/c Discount on Bills A/c To Tithan A/c (Being ½ on the proceeds received and ½ of the discount shared) | Dr. Dr. | 4,728 72 | 4,800 |
| October 4 | Tithan A/c To Bank A/c (Being the bill dishonoured and taken back from bank) | Dr. | 24,000 | 24,000 |
| Nov. 4 | Bills payable A/c To Bank A/c (Being the bill honoured at maturity) | Dr. | 9,600 | 9,600 |
| Nov. 4 | Tithan A/c To Interest A/c (Being the interest due to Tithan) | Dr. | 200 | 200 |
| Nov. 4 | Bills receivable A/c (see note) To Tithan A/c (Being a new bill drawn on Tithan for 2 months) | Dr. | 17,000 | 17,000 |
| 2016 Jan. 1 | Tithan A/c To Bills receivable A/c (Being the bill dishonoured due to Tithan's insolvency) | Dr. | 17,000 | 17,000 |
| March 31 | Bank A/c Bad debt A/c To Tithan A/c (Being final dividend received from Tithan estate @ 40 paise in a rupee) | Dr. Dr. | 6,800 10,200 | 17,000 |

Note: Value of the new bill will be ₹ 12,000 for 1st bill + ₹ 4,800 for 2nd bill + ₹ 200 for interest = ₹ 17,000.

— Space to write important points for revision —

2017 - June [2] (a) Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April. Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges ₹ 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July. Before the new bill become due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil. **(9 marks)**

Answer:

Journal entries in the books of Anil

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|-----------|---|------|-----------------|---------|
| April, 1 | Bills Receivables A/c Dr. To Sunil's A/c (Being acceptance by Sunil) | | 80,000 | 80,000 |
| April, 15 | Bank A/c Dr. Discount A/c Dr. To Bills Receivables A/c (Being discounting of the bill @ 12% p.a. and discounting charges for 2.5 months) | | 78,000 2,000 | 80,000 |
| June, 30 | Sunil's A/c Dr. To Bank A/c (Being dishonour of the bill and noting charges paid by bank) | | 80,100 | 80,100 |
| June, 30 | Bank A/c Dr. To Cash A/c (Being cash paid to bank) | | 80,100 | 80,100 |
| July, 1 | Sunil's A/c Dr. To Interest A/c (Being interest due from Sunil) | | 3,000 | 3,000 |

| | | | | |
|---------|---|------------|---------------|--------|
| July, 1 | Bills Receivables A/c To Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 and interest of ₹ 3,000) | Dr. | 83,100 | 83,100 |
| July, 1 | Bank A/c Rebate A/c To Bills Receivables A/c (Being the amount received on retirement of the bill) | Dr. Dr. | 82,600 500 | 83,100 |

— Space to write important points for revision —

- 2018 - June [7]** (a) (i) (A) X sells goods to Y for ₹ 2,00,000. Instead of one bill of ₹ 2,00,000, X draws three bills of exchange on Y for ₹ 40,000; ₹ 60,000 and ₹ 1,00,000. What is the value involved in drawing three bills instead of one?
- (B) Sunny draws a bill on Vivek for three months. On the due date, Vivek finds himself in financial difficulties and requests Sunny to renew the bill for a further period of one month. Sunny agrees to his request. What is the virtue involved in renewing the bill?
- (C) What is the value involved in accepting an accommodation bill?
- (D) What is the reason that a drawer cannot file a suit against drawee in case of dishonour of an accommodation bill? **(1 × 4 = 4 marks)**

Answer:

- (A) Any of three bills may be put to different uses i.e., any of the bill may either be discounted, endorsed or kept till the date of maturity. **For example,** if X is in need of ₹ 30,000 he may get only the first bill discounted from the bank.
- (B) Virtue involved is the expression of morality and humanism towards a fellow businessman by helping him in case of need.
- (C) Value involved in accepting an accommodation bill is helping a friend who is temporarily in need of money.
- (D) Because accommodation bills are drawn without consideration.

— Space to write important points for revision —

2021 - Dec [12] X draws a bill on Y. Y accepts the same. Can Y endorse the bill to Z? (1 mark) [Sec. B - SAQ]

Answer:

No, Y cannot endorse the bill to Z because Y is drawee only. X, the drawer can do so.

— Space to write important points for revision —

2021 - Dec [3] What journal entry will be passed in the books of a drawer and drawee at the time of dishonour of Bill of exchange in the following cases?

- (i) If Bill of ₹ 10,000 was discounted from the bank and the noting charges paid by the bank was ₹100.
- (ii) If B/R of ₹10,000 was endorsed in favour of C. Noting charges paid by ₹100.
- (iii) If B/R is retained with a drawer and noting charges was ₹100

(4 marks) [Sec. C - One LAQ]

Answer:

In the books drawer

| Date | Particulars | Dr. ₹ | Cr. ₹ |
|-------|---|------------|---------------|
| (i) | Drawee A/c To Bank A/c (Bill dishonoured and noting charges paid by Bank) | Dr. 10,100 | 10,100 |
| (ii) | Drawee A/c To C A/c (Bill dishonoured and noting charges paid by C) | Dr. 10,100 | 10,100 |
| (iii) | Drawee A/c To B/R A/c To Cash A/c (Bill dishonoured and noting charges paid) | Dr. 10,100 | 10,000 100 |

| In the books of drawee | | | |
|---|-----|--------|--------|
| In case of (i), (ii) and (iii) | | | |
| B/P A/c | Dr. | 10,000 | |
| Noting charges A/c | Dr. | 100 | |
| To Drawer | | | 10,100 |
| (Bill dishonoured and noting charges payable) | | | |

— Space to write important points for revision —

2B

CONSIGNMENT ACCOUNTING

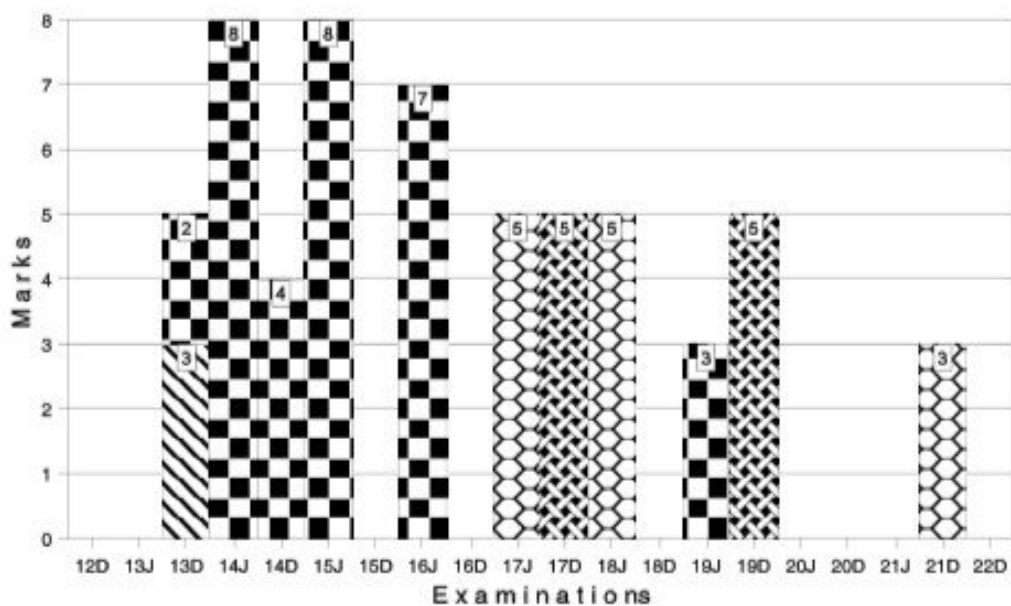
THIS CHAPTER INCLUDES

- Basic Terms
- Valuation of Stock
- Commission
- Normal and Abnormal Loss

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective Short Notes Distinguish Descriptive Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Consignment Accounting**

In case of direct selling, the company usually has depots all over. The stocks are transferred to these depots and from there finally sold to ultimate customers. This involves huge expenses and problems of maintaining the same on a permanent basis. Hence, the firm could appoint agents to whom stocks will be given. These agents distribute the products to ultimate customers and receive commission from the manufacturer. One such way of indirect selling is selling through consignment agents.

Consignor

He is the person who sends goods to agents e.g. a manufacturer or wholesaler.

Consignee

He is the agent to whom goods are sent for selling.

Proforma Invoice

When the consignor sends the goods to the consignee, he prepares only a proforma invoice and not an invoice. A proforma invoice looks like an invoice but is really not one.

Account Sales

This is a periodical statement prepared by consignee to be sent to the consignor giving details of all sales (cash and credit), expenses incurred and commission due for sales, destroyed-in-transit or in godown and deducting the amount of advance remitted by him.

Normal Loss

Normal Losses arise as a result of natural causes, e.g. evaporation, leakage, breakage etc., and they are inherent in nature. Since normal loss is a charge against gross profit no additional adjustment is required for this purpose.

Abnormal Losses -

Abnormal Losses arises as a result of negligence/ accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted.

SHORT NOTES

2017 - June [8] Write short note on the following:

(d) Treatment of Abnormal Loss in case of Consignment Account.

(5 marks)

Answer:

Abnormal Losses arises as a result of negligence/ accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted. The method of calculation is similar to the method of calculating unsold stock. Sometimes insurance company admits the claim in part or in full. The same should also be adjusted against such abnormal loss.

While valuing the abnormal loss the proportionate expenses are taken only upto the stage of the loss. For example, if goods are lost in the transit on way to the consignee's place, the value of abnormal loss will include the basic cost of the goods plus proportionate expenses of the consignor only and not the proportionate expenses of consignee because consignee has spent nothing on account of these goods.

Treatment of Abnormal Loss

- (i) For Abnormal Loss -
 Abnormal Loss A/c Dr.
 To Consignment A/c
- (ii) For the insurance claim due / received by the consignor -
 Insurance Co./Bank A/c Dr.
 To Abnormal Loss A/c
- (iii) If goods are not insured -
 Profit & Loss A/c Dr.
 To Abnormal Loss A/c
- (iv) For transferring the net loss -
 Profit & Loss A/c Dr.
 To Abnormal Loss A/c

_____ Space to write important points for revision _____

2018 - June [8] Write short note on the following:

(a) Operating cycle of Consignment Arrangement.

(5 marks)

Answer:

Operating Cycle of Consignment Arrangement:

- Goods are sent by consignor to the consignee
- Consignee may pay some advance or accept a bill of exchange
- Consignee will incur expenses for selling the goods
- Consignee maintains records of all cash and credit sale
- Consignee prepares a summary of results called as Account sales
- Consignor pays commission to the consignee.

_____ Space to write important points for revision _____

2021 - Dec [3] Write short notes on Overriding Commission.

(3 marks) [Sec. C - Six LAQ]

Answer:

Overriding Commission: It is an extra commission allowed over and above, the normal Commission is generally offered for the following reasons:

- (i) When, the agent is required to put in hard work in introducing a new product in the market.
- (ii) Where he is entrusted with the work of supervising the performance of other agents in a particular area.
- (iii) For effecting sales at prices higher than the price fixed by the consignor.

— Space to write important points for revision —

DISTINGUISH BETWEEN

2017 - Dec [8] (c) Differences between sale and consignment. (5 marks)

Answer:

Difference between Sale and Consignment:

1. In sale the property in goods is transferred to the buyer immediately whereas in consignment the property transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
2. In sale, the risk attaching to the goods passes with ownership to the buyer, in case of a consignment, the risk attaching to the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.
3. The relationship of consignor and consignee is that of a principal and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.
4. Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.

— Space to write important points for revision —

2019 - Dec [8] (d) Difference between Sale and Consignment (5 marks)

Answer:

Please refer 2017 - Dec [8] (c) on page no. 70

DESCRIPTIVE QUESTIONS

2013 - Dec [3] (b) What is Del Credere commission? (3 marks)

Answer:

Sometimes the consignor allows an extra commission to the consignee in order to cover the risk of collection from customers, on account of credit sales which is known as Del Credere Commission. Naturally, if debt is found to be irrecoverable the same must be borne by the consignee. There will be no effect in the books of consignor. In short, the credit sales will be treated as cash sales to consignor.

If no Del Credere Commission is given by the consignor to the consignee, the amount of Bad Debts must be borne by the consignor.

PRACTICAL QUESTIONS

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

(ix) From the following particulars, calculate the value of unsold goods on consignment:

| | ₹ |
|---------------------------------------|----------|
| Goods sent on consignment (1500 kgs.) | 3,30,000 |
| Consignor's expenses | 13,000 |
| Consignee's non-recurring expenses | 7,000 |
| Consignee's recurring expenses | 3,500 |
| Goods sold by consignee (1000 kgs.) | 3,50,000 |
| Wastage treated as normal (100 kgs.) | — |

(2 marks)

Answer:

Value of unsold Goods:

Unsold quantity = 1,500 - 1,000 - 100 = 400 Kgs.

Cost of goods sent (3,30,000) + Consignor's Exp. (13,000) + Consignee's non-recurring exp. (7,000) = 3,50,000.

Value of unsold goods = $[3,50,000 / (1,500 - 100)] \times 400 = ₹ 1,00,000.$

— Space to write important points for revision —

2014 - June [8] (a) On 1st July, 2013 B. Dutta of Kolkata consigned 250 Computers costing ₹ 28,000 each to T. Ramasami, Chennai. Expenses of ₹ 17,000 were met by the consignor. T. Ramasami spent ₹ 14,500 for clearance on 31st July, 2013 and selling expenses were ₹ 1,500 per computer as and when the sale made by consignee. T. Ramasami sold on 4th September, 2013, 150 computers at ₹ 40,000 per computer and again on 21st September, 75 computers at ₹ 42,500.

Mr. Ramasami was entitled to a commission of ₹ 1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of ₹ 35,000 per computer sold. T. Ramasami sent the account sale and the amount due to B. Dutta on 30th September, 2013 by bank demand draft.

You are required to show the consignment account and T. Ramasami's account in the books of B. Dutta.

(8 marks)

Answer:

**Books of B. Dutta of Kolkata
Consignment to Chennai Account**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|----------|----------------------------------|------------|----------|-----------------------------|------------|
| 01.07.13 | To Goods Sent on Consignment A/c | 70,00,000 | 04.09.13 | By T. Ramasami (Sales) | 60,00,000 |
| 01.07.13 | To Bank A/c (Exp.) | 17,000 | 21.09.13 | By T. Ramasami (Sales) | 31,87,500 |
| 31.07.13 | To T. Ramasami (Clearance Exp.) | 14,500 | 30.09.13 | By Stock on Consignment A/c | 7,03,150 |
| 04.09.13 | To T. Ramasami (Selling Exp.) | 2,25,000 | | | |
| 21.09.13 | To T. Ramasami (Selling Exp.) | 1,12,500 | | | |

| | | | | |
|----------|-----------------------------|-----------|--|-----------|
| 30.09.13 | To T. Ramasami (Commission) | 5,32,500 | | |
| 30.09.13 | To Profit & Loss A/c | 19,89,150 | | |
| | | 98,90,650 | | 98,90,650 |

T. Ramasami Chennai A/c

| Dr. | | | Cr. | | |
|----------|--------------------|------------|----------|-------------------------------------|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 04.09.13 | To Consignment A/c | 60,00,000 | 31.07.13 | By Consignment A/c (Clearance Exp.) | 14,500 |
| 21.09.13 | To Consignment A/c | 31,87,500 | 04.09.13 | By Consignment A/c (Selling Exp.) | 2,25,000 |
| | | | 21.09.13 | By Consignment A/c (Selling Exp.) | 1,12,500 |
| | | | 30.09.13 | By Consignment A/c (Commission) | 5,32,500* |
| | | | 30.09.13 | By Bank A/c | 83,03,000 |
| | | 91,87,500 | | | 91,87,500 |

Working Notes:

(i) Calculation of Commission

Let 'x' be total commission

$$x = (225 \times 1,500) + \frac{1}{4} [60,00,000 + 31,87,500 - x - 1 (35,000 \times 225)]$$

$$x = 3,37,500 + \frac{1}{4} (91,87,500 - x - 78,75,000)$$

$$x = 3,37,500 + 3,28,125 - \frac{x}{4}$$

$$\frac{5}{4}x = 6,65,625$$

$$x = 5,32,500^*$$

(ii) **Valuation of stock on consignment**

| Particulars | Amount ₹ |
|--|----------|
| Valuation of stock on consignment: 250 - 150 - 75 = 25 computers @ ₹ 28,000 | 7,00,000 |

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| | |
|--|-----------------|
| Add: Consignor's Expenses = $17,000 \times \frac{25}{250}$ | 1,700 |
| Add: Share of Consignee's Clearing Exp. $14,500 \times \frac{25}{250}$ | 1,450 |
| Value of unsold stock | 7,03,150 |

— Space to write important points for revision —

2014 - Dec [1] Answer the following questions (Give workings):

- (e) Ajay of Jaipur sent goods of ₹ 2,50,000 to Vijay of Mumbai on consignment. Ajay paid ₹ 8,500 as railway freight and ₹ 4,240 as insurance. 2% goods are damaged in the Vijay's godown due to normal circumstances. Vijay incurred cartage ₹ 5,140 and selling expenses ₹ 14,700. Calculate the value of stock of unsold 15% of goods sent to Vijay.
- (h) ₹ 3,25,000 is total cost of 6500 units, consignor's expenses are ₹ 65,000, units lost in transit was 700 units and consignee's non-recurring expenses amounted to ₹ 4,300, what will be the value of stock?

(2 marks each)

Answer:

(e)

| | | | |
|---|---|---|---------------|
| Closing Stock | = | 2,50,000 @ 15% = | <u>37,500</u> |
| Cost of goods sent | = | | 2,50,000 |
| Freight paid by Ajay | = | | 8,500 |
| Insurance paid by Ajay | = | | 4,240 |
| Cartage paid by Vijay | = | | <u>5,140</u> |
| | | | 2,67,880 |
| 2% is Normal loss, hence cost of goods sent = | | | 2,45,000 |
| Closing Stock | = | $\frac{2,67,880}{2,45,000} \times 37,500$ | |
| | = | | 41,002 |

Answer:

- (h) Cost of 6500 units = Total cost + Consigner expenses
 = 3,25,000 + 65,000 = ₹ 3,90,000
 Cost of 700 units = (₹ 3,90,000 ÷ 6,500) × 700 = ₹ 42,000
 Value of closing stock = 6500 unit cost price – Cost of units lost in transit
 = ₹ 3,90,000 – ₹ 42,000 = ₹ 3,48,000
 Add: Non-recurring expenses = ₹ 4,300
 Total cost price of 5800 units = ₹ 3,52,300

— Space to write important points for revision —

2015 - June [6] Answer the question:

- (c) MR NAITIK sends goods to the value of ₹ 9,37,500 at cost to MR JATIN on consignment basis to be sold at 5% commission on sales on 01.01.2015. Jatin accepted a bill of ₹ 2,50,000 drawn by Naitik for 4 months on the same date. Naitik discounted the bill with his banker @ 15% p.a. on 04.02.2015. Naitik incurred ₹ 75,000 by way of freight and other expenses, whereas expenses of Jatin were ₹ 50,000 out of which 60% were non-recurring. Jatin sent the final balance of ₹ 7,68,750 to Naitik on 31.03.15 along with account sales. The Gross Profit margin is 25% on Sales and 10% of Goods Remained unsold with Jatin. You are required to prepare:
 (i) Consignment Account and
 (ii) Jatin Account-in the books of Mr. Naitik. **(8 marks)**

Answer:

In the books of Naitik

| Dr. | | Consignment A/c | | Cr. | |
|----------|----------------------------------|-----------------|----------|-----------------------------|-----------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 01.01.15 | To Goods Sent on Consignment A/c | 9,37,500 | 31.03.15 | By Jatin's A/c | 11,25,000 |
| | To Cash A/c | 75,000 | | By Stock on Consignment A/c | 1,04,250 |
| 31.03.15 | To Jatin A/c (Exp.) | 50,000 | | | |
| | To Jatin A/c (Comm.) | 56,250 | | | |
| | To General P&L A/c | 1,10,500 | | | |
| | | 12,29,250 | | | 12,29,250 |

| Dr. | | | Jatin's A/c | | | Cr. | | |
|----------|--------------------|-----------|-------------|--------------------------|-----------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 31.03.15 | To Consignment A/c | 11,25,000 | 01.01.15 | By Bill receivable A/c | 2,50,000 | | | |
| | | | 31.03.15 | By Consignment A/c | 50,000 | | | |
| | | | | By Consignment A/c | 56,250 | | | |
| | | | | By Bank A/c (Balance) | 7,68,750 | | | |
| | | 11,25,000 | | | 11,25,000 | | | |

Working Notes:

1. Calculation of amount of goods sold on consignment:

$$\frac{9,37,500}{1 - 0.25} \times 0.90 = ₹ 11,25,000$$

— Space to write important points for revision —

2016 - June [4] (a) IRANI & Co., of Chennai had consigned 6000 shirts to Vikram of Jaipur at cost of ₹ 425 each. Irani & Co., paid freight ₹ 50,000 and insurance ₹ 7,500. During the transit 550 shirts were totally damaged by fire. Vikram took delivery of the remaining shirts and paid ₹ 82,000 on custom duty. Vikram had sent a bank draft to Irani & Co., for ₹ 3,50,000 as advance payment. 5000 shirts were sold by him at ₹ 550 each. Expenses incurred by Vikram on godown rent and advertisement, etc., amounted to ₹ 12,000. He is entitled to a commission of 5%. One of the customer to whom the goods were sold on credit could not pay the value of 40 shirts which is not recoverable. Vikram settled his account immediately. Nothing was recovered from the insurer for the damaged goods.

You are required to prepare:

- Consignment to Vikram Account.
- Vikram Account – in the book of IRANI & Co.

((4 + 1) + 2 = 7 marks)

Answer :

(i) **In the books of Irani & Co.
Consignment to Vikram A/c**

| Particulars | Amount | Particulars | Amount |
|----------------------------------|------------------|-------------------------|------------------|
| To Goods sent on consignment A/c | 25,50,000 | By Vikram A/c (Sales) | 27,50,000 |
| To Bank (freight & insurance) | 57,500 | (5,000 x 550) | |
| To Vikram's A/c: | | By Abnormal loss A/c | 2,39,021 |
| Customs duty 82,000 | | (W -1) | |
| Godown rent Adv. etc. 12,000 | | By Stock on Consignment | 2,02,333 |
| Commission | | (W -2) | |
| (5,000 x 550 x 5%) 1,37,500 | 2,31,500 | | |
| Debtors A/c (bad debts) | 22,000 | | |
| Profit on Consignment | 3,30,354 | | |
| | 31,91,354 | | 31,91,354 |

(ii) **Vikram's A/c**

| | | | |
|--------------------|------------------|--------------------|------------------|
| To Consignment A/c | 27,50,000 | By Bank A/c | 3,50,000 |
| | | By Consignment A/c | 2,53,500 |
| | | (2,31,500+22,000) | |
| | | By Bank A/c | 21,46,500 |
| | 27,50,000 | | 27,50,000 |

Working Note:

1. Abnormal loss: $\frac{[(425 \times 6,000) + (57,500)] \times 550}{6,000} = ₹ 2,39,021$

2. **Valuation of Unsold Stock:**

| | |
|--|-----------------|
| | ₹ |
| Cost Value (450 x 425) | 1,91,250.00 |
| Freight & Insurance (57,500/6,000 x 450) | 4,312.50 |
| Add: Non- recurring ex. of consignee | <u>6,770.64</u> |
| Customs (82,000/ 5,450 x 450) | 2,02,333.14 |

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2019 - June [7] (c) From the following particulars ascertain the value of unsold stock on Consignment.

| | |
|--|----------|
| Goods sent (1000 kgs.) | ₹ 20,000 |
| Consignor's expenses | ₹ 4,000 |
| Consignees non-recurring expenses | ₹ 3,000 |
| Sold (800 kgs.) | ₹ 40,000 |
| Loss due to natural wastage (100 kgs.) | |

(3 marks)**Answer:****Value of Unsold Stocks**

| | ₹ |
|---|--------|
| Total cost of goods sent | 20,000 |
| Add: Consignor's expenses | 4,000 |
| Add: Non-recurring expenses | 3,000 |
| Cost of (1,000 Kgs – 100 Kgs) = 900 Kgs | 27,000 |

∴ Value of unsold stock (1,000 – 800 – 100) = 100 Kgs. will be = 27,000
 × (100 Kgs. / 900 Kgs.) = ₹ 3,000.

— Space to write important points for revision —

Repeatedly Asked Questions

| No. | Question | Frequency |
|-----|---|-----------|
| 1 | Difference between Sale and Consignment 17 - Dec [8] (c), 19 - Dec [8] (d) | 2 Times |

2C






JOINT VENTURE ACCOUNTS

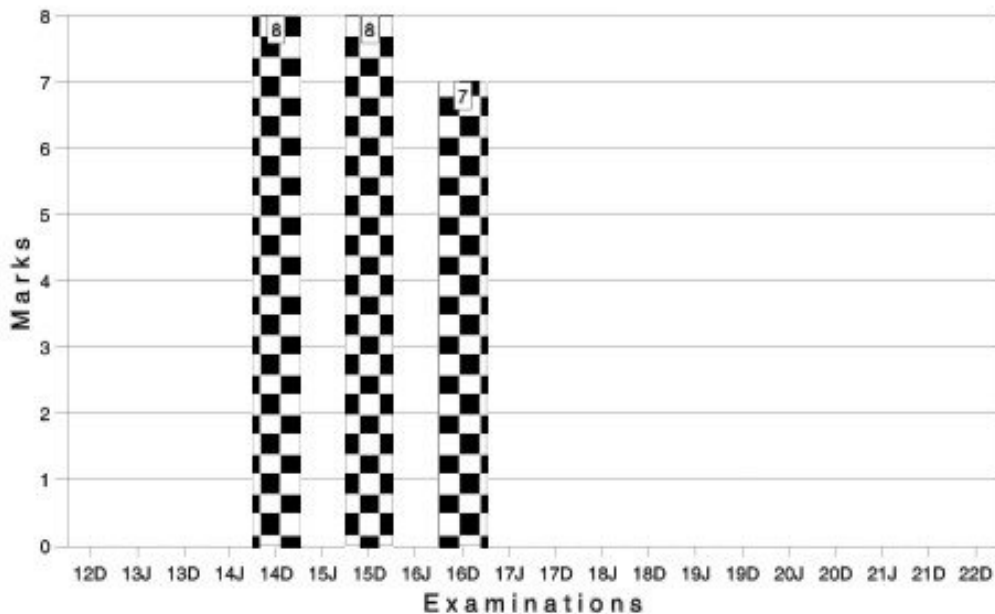
THIS CHAPTER INCLUDES

- Basic Terms
- Methods of Accounting
- Conversion of Consignment to JV.

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



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CHAPTER AT A GLANCE**Joint Venture Accounts**

Joint Venture is a temporary form of business organization. Two or more people having requisite skill sets come together to form a temporary partnership. This is called a Joint Venture.

Basic Features

The basic features of a Joint Venture business are :

- (i) It is done for a specific purpose and hence has a limited duration.
- (ii) The partners are called co-venturers.
- (iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio.
- (iv) The co-venturers may or may not contribute initial capital.
- (v) The JV is dissolved once the purpose of the business is over.
- (vi) The accounts of the co-venturers are settled immediately on dissolution.
- (vii) A joint venture has no name.

PRACTICAL QUESTIONS

2014 - Dec [6] Answer the question:

- (c) X and Y entered into a joint venture for purchase and sale of some household items. They agreed to share profits and losses in the ratio of their respective contributions. X contributed ₹ 10,000 in cash and Y ₹ 13,000. The whole amount was placed in a Joint Bank Account. Goods were purchased by X for ₹ 10,000 and expenses paid by Y amounted to ₹ 2,000. They also purchased goods for ₹ 15,000 through the Joint Bank Account. The expenses on purchase and sale of the articles amounted to ₹ 6,000 (including those met by Y). Goods costing ₹ 20,000 were sold for ₹ 45,000 and the balance were lost by fire.

Prepare Joint Venture Account, Joint Bank Account and the Ventures' Accounts closing the venture. **(8 marks)**

Answer:

Joint Venture Account

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|-------------|------------------------------|-------------|
| To X (Goods) | 10,000 | By Joint Bank A/c (Sales) | 45,000 |
| To Y (Expenses) | 2,000 | | |
| To Joint Bank A/c (Goods) | 15,000 | | |
| To Joint Bank A/c (Expenses) | 4,000 | | |
| To Profit on Joint Venture transferred to: | | | |
| X (4/7 share) 8,000 | 14,000 | | |
| Y (3/7 share) 6,000 | 45,000 | | 45,000 |

Profit of joint venture is to be divided in proportion to the contributions of X and Y. Their contributions are:

| | X's Contribution ₹ | Y's Contribution ₹ |
|-----------------------------|--------------------|--------------------|
| Amount contribution in cash | 10,000 | 13,000 |
| Expenses paid by Y | | 2,000 |
| Goods purchased by X | 10,000 | |
| | 20,000 | 15,000 |

Thus, profit sharing ratio between X and Y is 20,000 : 15,000, i.e., 4:3 or 4/7 and 3/7 respectively.

Joint Bank Account

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---------------------------------|-------------|---------------------------------|-------------|
| To X | 10,000 | By Joint Venture A/c (Expenses) | 4,000 |
| To Y | 13,000 | By Joint Venture A/c (Goods) | 15,000 |
| To Joint Venture A/c (Sales) | 45,000 | By X | 28,000 |
| | | By Y | 21,000 |
| | 68,000 | | 68,000 |

Answer:

Joint Venture Account

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|-------------|------------------------------|-------------|
| To X (Goods) | 10,000 | By Joint Bank A/c (Sales) | 45,000 |
| To Y (Expenses) | 2,000 | | |
| To Joint Bank A/c (Goods) | 15,000 | | |
| To Joint Bank A/c (Expenses) | 4,000 | | |
| To Profit on Joint Venture transferred to: | | | |
| X (4/7 share) 8,000 | | | |
| Y (3/7 share) 6,000 | 14,000 | | |
| | 45,000 | | 45,000 |

Profit of joint venture is to be divided in proportion to the contributions of X and Y. Their contributions are:

| | X's Contribution ₹ | Y's Contribution ₹ |
|-----------------------------|--------------------|--------------------|
| Amount contribution in cash | 10,000 | 13,000 |
| Expenses paid by Y | | 2,000 |
| Goods purchased by X | 10,000 | |
| | 20,000 | 15,000 |

Thus, profit sharing ratio between X and Y is 20,000 : 15,000, i.e., 4:3 or 4/7 and 3/7 respectively.

Joint Bank Account

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---------------------------------|-------------|---------------------------------|-------------|
| To X | 10,000 | By Joint Venture A/c (Expenses) | 4,000 |
| To Y | 13,000 | By Joint Venture A/c (Goods) | 15,000 |
| To Joint Venture A/c (Sales) | 45,000 | By X | 28,000 |
| | | By Y | 21,000 |
| | 68,000 | | 68,000 |

X A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|-------------------|----------|-------------------------------|----------|
| To Joint Bank A/c | 28,000 | By Joint Bank A/c | 10,000 |
| | | By Joint Venture A/c (Goods) | 10,000 |
| | | By Joint Venture A/c (Profit) | 8,000 |
| | 28,000 | | 28,000 |

Y A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|-------------------|----------|---------------------------------|----------|
| To Joint Bank A/c | 21,000 | By Joint Bank A/c | 13,000 |
| | | By Joint Venture A/c (Expenses) | 2,000 |
| | | By Joint Venture A/c (Profit) | 6,000 |
| | 21,000 | | 21,000 |

— Space to write important points for revision —

2015 - Dec [6] (c) JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3. They guaranteed the subscription at par of 50 lakhs shares of ₹ 10 each in RAINBOW LTD. and to pay all expenses up to allotment in consideration of RAINBOW LTD. issuing to them 3,00,000 other shares of ₹ 10 each fully paid together with a commission @ 5% in cash which will be taken by JIBAN and MITRIK in 3:2.

Co-ventures introduced cash as follows:

| | | |
|--------|---------------------|------------|
| JIBAN: | Stamp charges, etc. | ₹ 1,65,000 |
| | Advertising charges | ₹ 1,35,000 |
| | Car expenses | ₹ 1,54,000 |
| | Printing charges | ₹ 1,88,000 |

| | |
|---------------------|------------|
| MITRIK: Rent | ₹ 1,30,000 |
| Solicitor's charges | ₹ 80,000 |

Application fell short of the 50 lakhs shares by 1,20,000 shares and MITRIK introduced ₹ 12,00,000 for the purchase of those shares.

The guarantee having been fulfilled, Rainbow Ltd. handed over to the venturers 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venturer MITRIK receiving ₹ 12,50,000 and JIBAN ₹ 25,00,000.

You are required to prepare the :

- Memorandum Joint Venture Account and
- Joint Venture Account with MITRIK - in the Books of JIBAN.

(6 + 2 = 8 marks)

Answer: Memorandum joint venture A/c

| Dr. | | | Cr. | | |
|------|---|------------------|------|-------------------------|------------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| | To Mitrik: | | | By Jiban: | |
| | Cost of Shares | 12,00,000 | | Commission (3/5) | 15,00,000 |
| | To Jiban: | | | By Mitrik: | |
| | Stamp changes | 1,65,000 | | Commission (2/5) | 10,00,000 |
| | Advertising charges | 1,35,000 | | By Jiban: | |
| | Printing Charges | 1,88,000 | | Sale proceeds of shares | 25,00,000 |
| | Car expenses | 1,54,000 | | By Mitrik: | |
| | To Mitrik: | | | Sale proceeds of shares | 12,50,000 |
| | Rent | 1,30,000 | | | |
| | Solicitor's charges | 80,000 | | | |
| | To Profit on Venture Jiban (2/3) 27,98,667 Mitrik (1/3) 13,99,333 | 41,98,000 | | | |
| | | 62,50,000 | | | 62,50,000 |

**In the Books of Jiban
Joint venture with Mitrik A/c**

| Dr. | | Cr. | |
|---|------------------|-----------------------------------|------------------|
| Particulars | (₹) | Particulars | (₹) |
| To Bank-Stamp, Adv. Car exp. & Printing | 6,42,000 | By Bank (Commission) | 15,00,000 |
| To Share of Profit | 27,98,667 | By Bank (Sale Proceeds of Shares) | 25,00,000 |
| To Bank (Remittance) | 5,59,333 | | |
| | 40,00,000 | | 40,00,000 |

— Space to write important points for revision —

2016 - Dec [3] (a) THITAN of Tatanagar and NITAN of Nagpur entered into a Joint Venture to trade together in the buying and reselling of cheap machinery. Profit or loss to be shared in the ratio of 2:3. Thitan undertook to make the purchases and Nitán to effect sales.

NITAN remitted ₹ 1,50,000 to Thitan towards the Joint Venture. Thitan Purchased machinery worth ₹ 1,20,000 and paid ₹ 57,000, for repairs of these, 2.5% as buying commission and ₹ 5,400 for other Sundry expenses. He then sent all the machines purchased and repaired to Nitán of Nagpur. While taking delivery of the machinery at Nagpur, Nitán incurred ₹ 9,000 towards Railway Freight and ₹ 4,200 towards Octroi. He sold part of the machinery for ₹ 2,10,000 and kept the remaining for himself at an agreed value of ₹ 45,000. Other expenses of Nitán were:

- (i) Godown rent ₹ 2,700
- (ii) Insurance ₹ 3,360
- (iii) Brokerage ₹ 4,980; and
- (iv) Miscellaneous ₹ 3,840

Both the parties decided to close the venture at this stage.

You are required to prepare the

- (i) Memorandum Joint Venture Account showing profit of the Business.
- (ii) Joint Venture with Nitán Account in the Books of Thitan.

(5 + 2 = 7 marks)

Answer:

(i)

In the books of THITAN
Memorandum Joint Venture Account

| Dr. | | Cr. | |
|--|----------|--------------------|----------|
| Particulars | ₹ | Particulars | ₹ |
| To Thitan | | By Nitán | |
| Purchase of machinery | 1,20,000 | Sales | 2,10,000 |
| Expenses: | | Machinery retained | 45,000 |
| Cost of repairs | 57,000 | | |
| Buying commission (2.5% of ₹ 1,20,000) | 3,000 | | |
| Sundry expenses | 5,400 | | |
| To Nitán | | | |
| Expenses: | | | |
| Railway Freight | 9,000 | | |
| Octroi | 4,200 | | |
| Godown rent | 2,700 | | |
| Insurance | 3,360 | | |
| Brokerage | 4,980 | | |
| Miscellaneous | 3,840 | | |
| To Net profit | | | |
| Thitan (2/5) | 16,608 | | |
| Nitan (3/5) | 24,912 | | |
| | 2,55,000 | | 2,55,000 |

6.86

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(ii)

In the books of THITAN
Joint Venture with Nitán Account

Dr.

Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|----------|------------------------------|----------|
| To Bank Account: | | By Bank Account: | — |
| Purchase of machinery | 1,20,000 | (Amount received from Nitán) | 1,50,000 |
| Repairs | 57,000 | By Balance c/d | 52,008 |
| Commission | 3,000 | | |
| Sundry Expenses | 5,400 | | |
| To Profit & Loss A/c (2/5* Share of Profit on Joint Venture) | 16,608 | | |
| | 2,02,008 | | 2,02,008 |

— Space to write important points for revision —

3A






FINANCIAL STATEMENTS OF COMMERCIAL ORGANIZATIONS

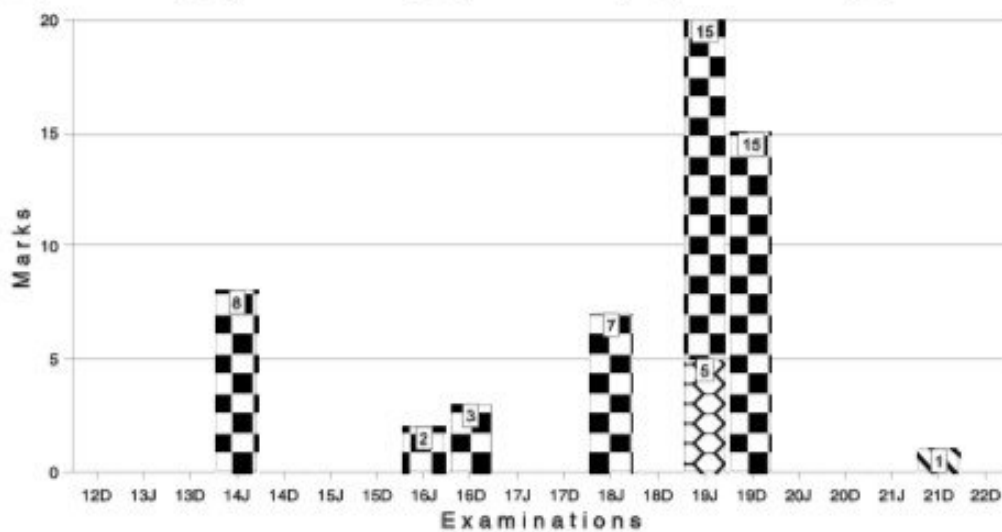
THIS CHAPTER INCLUDES

- Preparation of Trading A/c
- P/L Account
- Balance Sheet
- P/L Appropriation A/c
- Bad Debts

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Profitability Statement**

This statement is related to a complete accounting period. It shows the outcome of business activities during that period in a summarized form.

Balance Sheet

The Balance Sheet shows the list of resources and the funding of the resources i.e. assets and liabilities (towards owners and outsiders).

Trading Account

It is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period. The purpose of it to find out the gross profit or gross loss which is an important indicator of business efficiency.

Direct expenses

It means all those expenses which are incurred from the time of purchases to making the goods in suitable condition.

Capital

This indicates the initial amount the owner or owners of the business contributed.

Reserves and Surplus

The business is a going concern and will keep making profit or loss year by year. The accumulation of these profit or loss figures (called as surpluses) will keep on increasing or decreasing owners' equity.

Long Term or Non-Current Liabilities

These are obligations which are to be settled over a longer period of time say 5-10 years.

Short Term or Current Liabilities

A liability shall be classified as Current when it satisfies any of the following :

- It is expected to be settled in the organisation's normal Operating Cycle,
- It is held primarily for the purpose of being traded,
- It is due to be settled within 12 months after the Reporting Date.

Fixed Assets

These represent the facilities or resources owned by the business for a longer period of time. The basic purpose of these resources is not to buy and sell them, but to use for future earnings. The benefit from use of these assets is spread over a very long period.

Investments

These are funds invested outside the business on a temporary basis.

Current Assets

An asset shall be classified as Current when it satisfies any of the following:

- It is expected to be realised in, or is intended for sale or consumption in the organisation's normal Operating Cycle,
- It is held primarily for the purpose of being traded,
- It is due to be realised within 12 months after the Reporting Date, or
- It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for at least 12 months after the Reporting Date.

Stocks

This includes stock of raw material, semi-finished goods or WIP, and finished goods.

Debtors

They represent customer balances which are not paid. The bad debts or a provision for bad debt is reduced from debtors and net figure is shown in balance sheet.

Bills receivables

Credit to customers may be given based on a bill to be signed by them payable to the business at an agreed date in future.

Cash in Hand

This represents cash actually held by the business on the balance sheet date.

Cash at Bank

Dealing through banks is quite common. Funds held as balances with bank are also treated as current asset, as it is to be applied for paying to suppliers.

Prepaid Expenses

They represent payments made against which services are expected to be received in a very short period.

Advances to suppliers

When amounts are paid to suppliers in advance and goods or services are not received till the balance sheet date, they are to be shown as current assets.

Bad Debts

Bad debts are uncollectible or irrecoverable debt or debts which are impossible to collect is called Bad Debts.

Doubtful Debts

The debts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts.

Good Debts

The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.

SHORT NOTES

2019 - June [8] Write short note on the following:

(b) Provision for Discount on Debtors

(5 marks)

Answer:

Provision for Discount on Debtors:

We know that cash discount is allowed by the suppliers to customer for prompt settlement of cash. Naturally a provision is created for this purpose. Thus, the provision which is created on Sundry Debtors for allowing discount on receipt of cash in that accounting period is called Provision for Discount on Debtors. It is needless to say that if the customer pays their debts before the due dates, they may claim discounts and that is why discount is allowed to debtors for prompt settlement is an usual practice.

Where goods are sold on credit, debtors accounts are debited but the amount may not be realized in this same accounting periods. Naturally, a possible aim is to allow discount whether cash is received. The same will happen in the next accounting period. Due to this reason a provision for discount on debtors is made on the basis of past experience at an estimate rate on Sundry Debtors. Care should be taken while calculating discount. Discount should be calculated at a specified rate on of debtors (i.e. after discounting bad debts and provision for bad debts).

DESCRIPTIVE QUESTIONS

2021 - Dec [3] 'T' Form presentation of financial statements is known as "Horizontal" form or "Vertical" form. **(1 mark) [Sec. B - SAQ]**

Answer:

Horizontal form.

PRACTICAL QUESTIONS

2014 - June [2] (a) On 1st April, 2013 the balance of provision for bad and doubtful debts was ₹ 13,000. The bad debts during the year 2013-14 were ₹ 9,500. The sundry debtors as on 31st March, 2014 stood at ₹ 3,25,000 out of these debtors of ₹ 2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors.

- (i) Pass necessary adjustment entries for bad debts and its provision on 31st March, 2014.
- (ii) Prepare the necessary ledger accounts.
- (iii) Show the relevant items in the profit and loss account and Balance Sheet. **(3 + 3 + 2 = 8 marks)**

Answer:

(i) **In the books of**
Journal

| Date | Particulars | Debit (₹) | Credit (₹) |
|----------|---|--------------|---------------|
| 31.03.14 | Bad Debts A/c Dr. To Sundry Debtors A/c (Being Bad Debts) | 2,500 | 2,500 |
| 31.03.14 | Provision for Bad & Doubtful Debts A/c Dr. To Bad Debts A/c (Being Bad Debts during the year) | 12,000 | 12,000 |

| | | | | |
|----------|--|-----|--------|--------|
| 31.03.14 | 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 |
|----------|--|-----|--------|--------|

(ii) Ledger

Bad Debts Account

| Dr. | | | Cr. | | |
|----------|-----------------------|------------|----------|---|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.03.14 | To Balance b/d | 9,500 | 31.03.14 | By Provision for Bad & Doubtful Debts A/c | 12,000 |
| 31.03.14 | To Sundry Debtors A/c | 2,500 | | | |
| | | 12,000 | | | 12,000 |

Provision for Bad & Doubtful Debts Account

| Dr. | | | Cr. | | |
|----------|--|------------|----------|------------------------------|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.03.14 | To Bad Debts A/c | 12,000 | 01.04.13 | By Balance b/d | 13,000 |
| 31.03.14 | To Balance c/d [5% on (3,25,000 - 2,500)] | 16,125 | 31.03.14 | By Profit and Loss A/c (b/f) | 15,125 |
| | | 28,125 | | | 28,125 |

Sundry Debtors Account

| Dr. | | | Cr. | | |
|----------|----------------|------------|----------|------------------|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.03.14 | To Balance b/d | 3,25,000 | 31.03.14 | By Bad Debts A/c | 2,500 |
| | | | 31.03.14 | By Balance c/d | 3,22,500 |
| | | 3,25,000 | | | 3,25,000 |

(iii)

Profit and Loss Account
For the year ended 31st March, 2014

| Particulars | Amount (₹) |
|--|------------|
| To Provision for Bad & Doubtful Debts: | ₹ |
| New Provision | 16,125 |
| Add: Bad Debts (9,500 + 2,500) | 12,000 |
| | 28,125 |
| Less: Old Provision | 13,000 |
| | 15,125 |

Balance Sheet as on 31st March, 2014

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

— Space to write important points for revision —

2016 - June [1] {C} (d) Answer the following question.

(iii) The following details are abstracted from the record of VENELA LTD. for the year ended March 31, 2016.

| | |
|---------------------|-------------|
| Net Working Capital | ₹ 35,00,000 |
| Profit before Tax | ₹ 25,00,000 |
| The Current Ratio | 2.4:1 |

You are required to calculate the amount of Current Assets of Venela Ltd. for the year ended March 31, 2016. **(2 marks)**

Answer :

Net Working Capital

= Current Assets (C.A) - Current Liabilities (C.L) = ₹ 35,00,000

Or, C.A - C.L = ₹ 35,00,000 Equation (i)

$$\text{Again Current Ratio} = \frac{\text{C.A.}}{\text{C.L.}} = \frac{2.4}{1}$$

$$\therefore \text{C.A.} = 2.4 \text{C.L.}$$

$$\text{Or, C.A.} - 2.4 \text{C.L.} = 0 \dots\dots\dots \text{Equation (ii)}$$

After multiplying (i) with 2.4 we get

$$2.4 \text{C.A.} - 2.4 \text{C.A.} = ₹ 84,00,000 \dots\dots\dots \text{Equation (iii)}$$

$$\therefore [(iii) - (ii)] \text{ —}$$

$$2.4 \text{C.A.} - 2.4 \text{C.L.} = ₹ 84,00,000$$

$$\underline{\text{C.A.} - 2.4 \text{C.L.} = 0}$$

$$1.4 \text{C.A.} = ₹ 84,00,000$$

$$\text{C.A.} = ₹ 60,00,000$$

Hence, Current Assets of Venela Ltd. = ₹ 60,00,000

— Space to write important points for revision —

2016 - Dec [5] (b) M/S ADHUNA & CO. had a provision for Bad Debts of ₹ 13,000 against their book debts on 1st April, 2015. During the year ended 31st March, 2016, ₹ 8,500 proved irrecoverable and it was desired to maintain the provision for bad debts @5% on Debtors which stood at ₹ 3,90,000 before writing off Bad Debts.

Prepare the provision for Bad Debt Account for the year ended March 31, 2016. **(3 marks)**

Answer:

**M/S ADHUNA & CO.
Provision for Bad Debt Account**

| Dr. | | | Cr. | | |
|---------|--|--------|---------|--|--------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 31.3.16 | To Bad Debts A/c | 8,500 | 1.4.15 | By Balance b/d | 13,000 |
| 31.3.16 | To Balance c/d 5% of (3,90,000 – 8,500) | 19,075 | 31.3.16 | By Profit & Loss A/c (further provn. required) | 14,575 |
| | | 27,575 | | | 27,575 |

— Space to write important points for revision —

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2018 - June [2] (b) A company maintains its reserve for bad debts @ 5% and a reserve for discount on debtors @ 2%. You are given the following details:

| Particulars | 2016 | 2017 |
|--|--------|--------|
| Bad debts | 800 | 1,500 |
| Discount allowed | 1,200 | 500 |
| Sundry debtors (before providing all bad debts and discounts) | 60,000 | 42,000 |

On 01/01/2016, Reserve for bad debts and Reserve of discount on debtors had balance of ₹ 4,550 and ₹ 800 respectively.

Show Reserve for Bad Debts and Reserve for Discount on Debtors Account for the year 2016 and 2017. **(7 marks)**

Answer:

Reserve for Bad Debts Account

| Dr. | | | Cr. | | |
|-------------|------------------------------------|--------------|-------------|----------------------|--------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 31.12. 2016 | To Bad Debts A/c | 800 | 01.01. 2016 | By Balance b/d | 4,550 |
| 31.12. 2016 | To Profit & Loss A/c | 850 | | | |
| 31.12. 2016 | To Balance c/d (5% on ₹ 58,000) | 2,900 | | | |
| | | 4,550 | | | 4,550 |
| 31.12. 2017 | To Bad Debts A/c | 1,500 | 01.01. 2017 | By Balance b/d | 2,900 |
| 31.12. 2017 | To Balance c/d (5% on ₹ 40,000) | 2,000 | 31.12. 2017 | By Profit & Loss A/c | 600 |
| | | 3,500 | | | 3,500 |

Reserve for Discount on Debtors Account

| Dr. | | | Cr. | | |
|------------|--|--------------|------------|----------------------|--------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 31.12.2016 | To Discount A/c | 1,200 | 01.01.2016 | By Balance b/d | 800 |
| 31.12.2016 | To Balance c/d (2% on ₹ 58,000 - ₹ 2,900) | 1,102 | 31.12.2016 | By Profit & Loss A/c | 1,502 |
| | | 2,302 | | | 2,302 |
| 31.12.2017 | To Discount | 500 | 01.01.2017 | By Balance b/d | 1,102 |
| 31.12.2017 | To Balance c/d (2% on ₹ 40,000 - ₹ 2,000) | 760 | 31.12.2017 | By Profit & Loss A/c | 158 |
| | | 1,260 | | | 1,260 |

— Space to write important points for revision —

2019 - June [3] Following is the Trial Balance as on 31st March, 2019 of Bajrang Traders:

| Particulars | Debit (₹) | Credit (₹) |
|-------------------------|-----------|------------|
| Stock on 01.04.2018 | 1,35,000 | |
| Purchases and Sales | 28,50,000 | 46,25,000 |
| Returns | 35,000 | 22,500 |
| Carriage Inwards | 24,000 | |
| Carriage Outwards | 33,000 | |
| Wages | 1,25,000 | |
| Salaries | 3,52,000 | |
| Printing and Stationery | 6,500 | |
| Insurance Premium | 15,000 | |
| Repairs | 11,000 | |

| | | |
|------------------------------|------------------|------------------|
| Discounts Allowed | 30,500 | |
| Discounts Received | | 15,500 |
| Bad Debts | 28,000 | |
| Provision for Bad Debts | | 35,000 |
| Advertisement | 38,000 | |
| Interest on Investment | | 42,000 |
| Drawings | 2,10,000 | |
| Investment | 8,00,000 | |
| Furniture and Fixtures | 3,50,000 | |
| Office Equipments | 2,45,000 | |
| Land and Building | 15,00,000 | |
| Sundry Debtors and Creditors | 6,90,000 | 4,55,000 |
| Establishment Expenses | 35,000 | |
| Capital | | 31,05,000 |
| Cash at Bank | 7,24,000 | |
| Cash in Hand | 63,000 | |
| Total | 83,00,000 | 83,00,000 |

Additional Information:

- (i) Closing Stock of goods amounted to ₹ 1,85,000 and of stationery amounted to ₹ 1,500.
- (ii) Depreciation to be charged on Land and Building @ 10%; On Office Equipments @ 15%; and On Furniture and Fixtures @ 10%.
- (iii) Insurance Premium paid on 1st July, 2018 for one year.
- (iv) Write off further as bad debts ₹ 5,000 and maintain a provision for bad debts of 5% on debtors.
- (v) Provision made for discount on debtors @ 2%.
- (vi) Goods costing ₹ 12,500 used for given free samples to customers.

- (vii) Goods costing ₹ 25,000 were sent on approval basis to a customer for ₹ 40,000 on 26th March, 2019. This was recorded as actual sales but approval did not received till 31st March, 2019.
- (viii) Outstanding salaries were for one month.
- (ix) Investment made at 7.50% per annum on 1st May, 2018.

You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

(15 marks)

Answer:

**Books of Bajrang Traders
Trading and Profit and Loss Account
For the year ending 31st March, 2019**

| Dr. | Amount (₹) | Amount (₹) | Cr | Amount (₹) |
|----------------------|---------------|---------------|------------------------|---------------|
| To Opening Stock | | 1,35,000 | By Sales | 46,25,000 |
| | | | Less: Returns | 35,000 |
| | | | Less: Sent on Approval | 40,000 |
| | | | | 45,50,000 |
| To Purchases | 28,50,000 | | By Closing Stock | 1,85,000 |
| Less: Returns | 22,500 | | Add: Sent on Approval | <u>25,000</u> |
| Less: Free Samples | 12,500 | 28,15,000 | | 2,10,000 |
| To Wages | | 1,25,000 | | |
| To Carriage Inwards | | 24,000 | | |
| To Gross Profit c/d | | 16,61,000 | | |
| | | 47,60,000 | | 47,60,000 |
| | | | By Gross Profit b/d | 16,61,000 |
| To Carriage Outwards | | 33,000 | By Discount Received | 15,500 |
| To Salaries | 3,52,000 | | By Interest | 42,000 |
| Add: Outstanding | 32,000 | 3,84,000 | Add: Outstanding | <u>13,000</u> |
| | | | | 55,000 |

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| | | | | |
|----------------------------------|----------|------------------|--|------------------|
| To Printing & Stationery | 6,500 | | | |
| Less: Closing Stock | 1,500 | 5,000 | | |
| To Insurance Premium | 15,000 | | | |
| Less: Prepaid | 3,750 | 11,250 | | |
| To Repairs | | 11,000 | | |
| To Discount Allowed | | 30,500 | | |
| To Prov. for Discount on Debtors | | 12,255 | | |
| To Bad Debts | 28,000 | | | |
| Add: Further B.D | 5,000 | | | |
| Add: New Provision | 32,250 | | | |
| Less: Old Provision | (35,000) | 30,250 | | |
| To Advertisement | | 38,000 | | |
| To Establishment Exp. | | 35,000 | | |
| To Free Samples | | 12,500 | | |
| To Depreciation on | | | | |
| -Land & Building | 1,50,000 | | | |
| -Office Equipments | 36,750 | | | |
| - Furniture & Fixtures | 35,000 | 2,21,750 | | |
| To Net Profit | | 9,06,995 | | |
| | | 17,31,500 | | 17,31,500 |

Balance Sheet as on 31st March, 2019

| Liabilities | Amount (₹) | Assets | | Amount (₹) |
|---|-------------------------------------|--|-----------------------|------------------|
| Capital on 1.4.18: Add: Net Profit Less: Drawings | 31,05,000 9,06,995 (2,10,000) | Land & Building Less: Dep. | 15,00,000 1,50,000 | 13,50,000 |
| Capital on 31.3.19 | 38,01,995 | | | |
| Sundry Creditors | 4,55,000 | Furniture & Fixtures Less: Dep. | 3,50,000 35,000 | 3,15,000 |
| Outstanding Salaries | 32,000 | Office Equipments Less: Dep. | 2,45,000 36,750 | 2,08,250 |
| | | Investment | | 8,00,000 |
| | | Stock: Goods (1,85,000 + 25,000) Stationery | 2,10,000 1,5000 | 2,11,500 |
| | | Sundry Debtors(Trial Balance) Less: Goods on Approval | 6,90,000 40,000 | |
| | | Sundry Debtors Less: Further B. D. | 6,50,000 5,000 | |
| | | Net Sundry Debtors Less: Prov. for B.D. @ 5% | 6,45,000 32,250 | |
| | | Less: Prov. for Disc. @ 2%. | 6,12,750 12,255 | 6,00,495 |
| | | Earned Interest | | 13,000 |
| | | Prepaid Insurance Prem. | | 3,750 |
| | | Cash at Bank | | 7,24,000 |
| | | Cash in Hand | | 63,000 |
| | 42,88,995 | | | 42,88,995 |

Working Notes:

(i) Prepaid Insurance Premium from 1.4.19 to 30.6.19 = ₹ 15,000 × 3/12
= ₹ 3,750.

(ii) **Outstanding Interest on Investment:**

Total Interest (1.5.18 to 31.3.19) = ₹ 8,00,000 × 7.50% × 11/12
= ₹ 55,000

Outstanding = ₹ 55,000 – ₹ 42,000 = ₹ 13,000.

— Space to write important points for revision —

2019 - Dec [3] From the following Trial Balance of Bharat Tushar as on 31st March, 2019, you are required to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date, after making the necessary adjustment as mentioned hereunder:

| Particulars | Debit Balance (₹) | Credit Balance (₹) |
|---|----------------------|-----------------------|
| Capital and Drawings | 24,000 | 1,60,000 |
| Furniture and Fixtures | 8,000 | — |
| Plant and Machinery | 60,000 | — |
| Patents (ten years from 01.04.2018) | 40,000 | — |
| Opening Stock | 40,000 | — |
| Purchases and Sales | 1,70,000 | 2,64,000 |
| Salaries | 14,800 | — |
| Wages | 30,000 | — |
| Sundry Debtors and Creditors | 20,400 | 24,000 |
| Land | 28,350 | — |
| Loan from Shyam (at 6% from 01.10.2018) | — | 20,000 |
| Postage and Fax | 3,000 | — |

| | | |
|-----------------------|----------|----------|
| Rent, Rates and Taxes | 7,200 | — |
| Bad Debts | 800 | — |
| Discount | — | 1,200 |
| Carriage Inward | 400 | — |
| Interest on loan | 300 | — |
| Insurance | 1,600 | — |
| Travelling expenses | 1,000 | — |
| Sundry expenses | 600 | — |
| Cash and Bank | 33,750 | — |
| Bank Overdraft | — | 15,000 |
| Total | 4,84,200 | 4,84,200 |

Adjustments:

- Closing Stock is valued at ₹30,000.
- A new machine was installed on 1st April, 2018 for ₹3,000. No entry in this respect was passed in the books. Wages of ₹1,000 paid for installing the machine were debited to Wages Account.
- Of the Sundry Debtors, ₹200 are bad and are to be written off. You are required to maintain a Provision for Doubtful Debts @ 5% on Debtors and Provision for Discount on Debtors @ 2%.
- Goods costing ₹2,000 were given away as free samples for publicity.
- Depreciate Plant and Machinery at 20% per annum and Furniture and Fixture at 10% per annum.
- On 01.04.2018 Machinery of the value of ₹10,000 was destroyed by fire and the insurance claim settled at ₹8,000 was credited to Machinery Account.
- Goods for ₹1,200 were sent to a customer at a profit of 20% on cost on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

(15 marks)

Answer:

Trading and Profit and Loss Account
For the year ended 31st March, 2019

| Dr. | | | Cr. | | |
|------------------------------|----------|----------|--------------------------|----------|----------|
| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
| To Opening Stock | | 40,000 | By Sales | 2,64,000 | |
| To Purchases | 1,70,000 | | Less: Sent for approval. | 1,200 | 2,62,800 |
| Less: Free samples | 2,000 | 1,68,000 | By Closing stock | 30,000 | |
| To Carriage Inward | | 400 | Add: Sent for approval | 1,000 | 31,000 |
| To Wages | 30,000 | | | | |
| Less: Installation | 1,000 | 29,000 | | | |
| To Gross Profit c/d | | 56,400 | | | |
| | | 2,93,800 | | | 2,93,800 |
| To Rent, rates and taxes | | 7,200 | By Gross Profit b/d | | 56,400 |
| To Salaries | | 14,800 | By Discount received | | 1,200 |
| To Postage and fax | | 3,000 | | | |
| To Sundry expenses | | 600 | | | |
| To Traveling expense | | 1,000 | | | |
| To Interest on loan | 300 | | | | |
| Add: Accrued interest | 300 | 600 | | | |
| To Sales Promotion Exp. | | 2,000 | | | |
| To Insurance | | 1,600 | | | |
| To Loss of machinery by fire | | 2,000 | | | |

| | | | | |
|--------------------------------------|--------|--------|-------|--------|
| To Bad debts | 800 | | | |
| Add: Written off | 200 | | | |
| Add: Provision | 950 | 1,950 | | |
| To Provision for Discount on debtors | | | 361 | |
| To Depreciation: | | | | |
| Plant and machinery | 12,400 | | | |
| Furniture and fixtures | 800 | | | |
| Patents | 4,000 | 17,200 | | |
| To Net Profit t/f to Capital a/c | | | 5,289 | |
| | | 57,600 | | 57,600 |

Balance Sheet as at 31st March, 2019

| Liabilities | Amount (₹) | Amount (₹) | Assets | Amount (₹) | Amount (₹) |
|------------------------|------------|------------|---------------------------|--------------|------------|
| Capital Account: | | | Land | | 28,350 |
| Opening Balance | 1,60,000 | | Plant and machinery | 60,000 | |
| Add: Net Profit | 5,289 | | Add: Purchased | 3,000 | |
| Less: Drawings | 24,000 | 1,41,289 | Add: installation charges | 1,000 | |
| Loans from Shyam @ 6% | 20,000 | | Less: Loss by fire | <u>2,000</u> | |
| Add: Accrued interest | 300 | 20,300 | | 62,000 | |
| Sundry Creditors | | 24,000 | Less: Depreciation | 12,400 | 49,600 |
| Creditor for machinery | | 3,000 | Patents | 40,000 | |
| Bank Overdraft | | 15,000 | Less: Depreciation | 4,000 | 36,000 |
| | | | Furniture & Fixtures | 8,000 | |
| | | | Less: Depreciation | 800 | 7,200 |

3B






FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

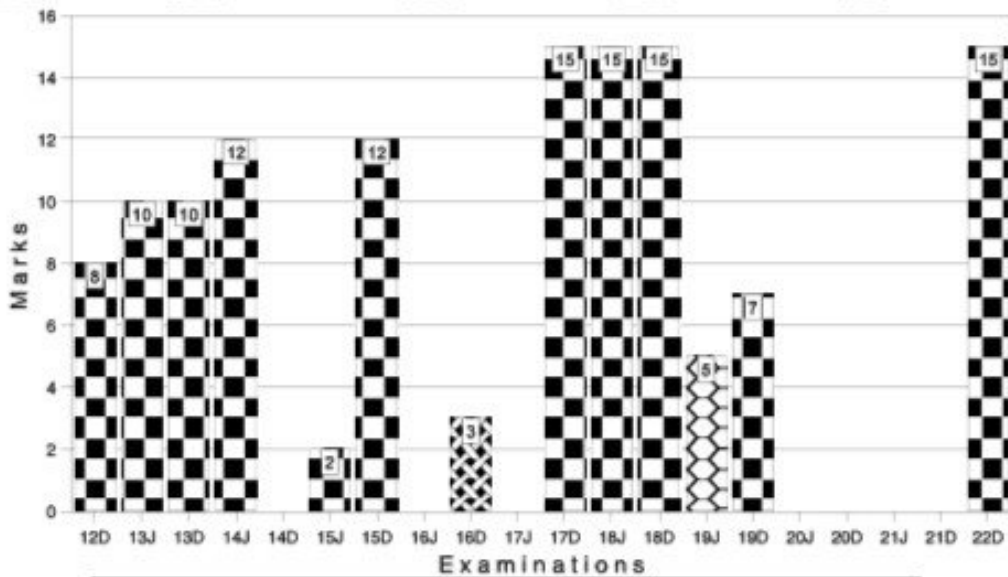
THIS CHAPTER INCLUDES

- Receipt & Payment Account
- Income & Expenditure Account
- Balance Sheet

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Receipt and Payment Account**

This is similar to cash book. Entries are made on cash basis and items pertaining to previous year or current year or subsequent years are also recorded. Receipts are shown on debit side and payments are shown on credit side. Capital as well as revenue items are entered in the R & P A/c.

Income and Expenditure Account

This is similar to the Profit and loss A/c and is prepared exactly based on same principles. As the name suggests only revenue items are recorded herein. Incomes are recorded on the credit side while the expenses on the debit side. Both incomes and expenses must be taken on the basis of accrual concept.

Balance Sheet

It is prepared as on the last day of the accounting period. It also has assets and liabilities and prepared based on accounting equation. But, there's no capital account. Instead there is a capital fund. The surplus or deficit from Income & Expenditure A/c is adjusted against this capital fund at the end of the year.

Capital Fund

It is also called "General Fund" or "Accumulated Fund." It is actually the Capital of a non-profit concern. It may be found out as the excess of assets over liabilities. Usually "Surplus" or "Deficit" during a period is added with or deducted from it.

Special Fund

It may be created out of special donation or subscription or out of a portion of the "Surplus".

Legacy received

It is to be directly added with Capital Fund after deduction of tax,(if any).
It is a kind of donation received according to the will made by a deceased person.

SHORT NOTES

2019 - June [8] Write short note on the following:

(c) Features of Income and Expenditure Account

(5 marks)

Answer:

Features of Income and Expenditure Account:

1. It follows Nominal Account.
2. All expenses of revenue nature for the particular period are debited to this Account on accrual basis.
3. Similarly all revenue incomes related to the particular period are credited to this account on accrual basis.
4. All Capital Incomes and Expenditures are excluded.
5. Only current year's incomes and expenses are recorded. Amounts related to other periods are deducted. Amounts outstanding for the current year are added.
6. Profit on Sale of Asset is credited. Loss on Sale of Asset is debited. Annual Depreciation on Assets is also debited.
7. If income is more than expenditure, it is called a Surplus, and is added with Capital or General Fund etc. in the Balance Sheet.
8. If expenditure is more than income, it is a deficit, and is deducted from Capital or General Fund etc. in the Balance Sheet.

— Space to write important points for revision —

DISTINGUISH BETWEEN

2016 - Dec [9] (b) Difference between Receipts & Payments Account and Income & Expenditure Account. **(3 marks)**

Answer:

Income and Expenditure Account and Receipts and Payments Account:

| | Income and Expenditure Account | Receipts and Payments Account |
|----|---|---|
| 1. | It is a Nominal Account. | It is a Real Account. |
| 2. | It is a summary of the working of the organization. | It is a summary of cash and bank transactions of the organization. |
| 3. | It is based on accrual system. | It is based on cash system. |
| 4. | It records expenses and losses on debit side and incomes and gains on credit side. | It records inflow of cash on debit side and outflow of cash on credit side. |
| 5. | It is a temporary account and has no opening and closing balance | It is a real account and starts with opening balance of cash and bank. |
| 6. | It is closed at the end of the year and balance figure of the account is transferred to capital fund. | It is balanced at the end of the year and the balance carried forward shows the cash and bank balance at the end of the period. |
| 7. | It records items of revenue nature only irrespective of their effect on flow of cash. | It records items both of capital and revenue nature provided they affect flow of cash. |
| 8. | It records transactions of current year only. | It records transactions of previous years, current year and subsequent years provided flow of cash is affected. |

— Space to write important points for revision —

PRACTICAL QUESTIONS

2012 - Dec [3] (a) Income and Expenditure Account and the Balance Sheet of Nav Bharat Club are as under:

Income and Expenditure Account for the year ending 31st March, 2012

| Expenditures | Amount (₹) | Incomes | Amount (₹) |
|--------------------------|---------------|---------------------------|---------------|
| To Upkeep of Ground | 21,000 | By Subscription | 56,640 |
| To Printing & Stationery | 2,800 | By Sale of old newspapers | 530 |
| To Salaries | 28,000 | By Lectures | 8,000 |
| To Depreciation: | | By Entrance Fee | 2,900 |
| Ground & | | By Misc. Incomes | 1,200 |
| Building | 9,000 | | |
| Furniture | <u>1,000</u> | | |
| To Repairs | 3,500 | | |
| To Surplus | <u>3,970</u> | | |
| | <u>69,270</u> | | <u>69,270</u> |

Balance Sheet as at 31st March, 2012

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-------------------------|-----------------|--------------------|-----------------|
| Capital Fund: | | Ground & Building | 1,43,200 |
| Opening Balance | 1,56,430 | Furniture | 9,000 |
| Add: Entrance Fee | 2,900 | Sports Prize Fund: | |
| Add: Surplus | <u>3,970</u> | Investment | 43,000 |
| Sports Prize Fund: | | Subscription | 2,600 |
| Opening Balance | 51,000 | Cash and Bank | <u>19,400</u> |
| Add: Interest | <u>4,500</u> | | 65,000 |
| | 55,500 | | |
| Less: Prizes | <u>6,500</u> | | |
| Outstanding Salary | 4,200 | | |
| Subscription in Advance | 700 | | |
| | <u>2,17,200</u> | | <u>2,17,200</u> |

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The following adjustments have been made in the above accounts:

- (i) Upkeep of ground ₹ 1,500 and printing and stationery ₹ 510 relating to 2010-2011 were paid in 2011-12.
- (ii) One-half of entrance fee has been capitalised.
- (iii) Subscription outstanding in 2010-11 was ₹ 3,100 and for 2011-12 ₹ 2,600.
- (iv) Subscription received in advance in 2010-11 was ₹ 1,100 and in 2011-12 for 2012-13 ₹ 700.
- (v) Outstanding salary on 31.3.2011 was ₹ 3,600.

Prepare Receipts and Payments Account for the year ended on 31st March, 2012. **(8 marks)**

Answer:

**Receipts & Payments A/c of Nav Bharat Club
for the year ended on 31.3.2012**

| Receipts | Amount (₹) | Payments | Amount (₹) |
|--|---------------|-----------------------------|---------------|
| To Balance b/d (B/F) | 5,840 | By Upkeep of ground | 21,000 |
| To Subscriptions (W.N.1) | 56,740 | + opening o/s | <u>1,500</u> |
| To Sale of old newspaper | 530 | By Printing & Stationery | 2,800 |
| To Lectures | 8,000 | + Opening o/s | <u>510</u> |
| To Entrance Fees 2,900 | | By Salaries | 28,000 |
| + Capitalized <u>2,900</u> | 5,800 | + Opening o/s | 3,600 |
| To Misc. Incomes | 1,200 | - Closing o/s | <u>4,200</u> |
| To Instalments on sports prize fund | 4,500 | By Repairs | 3,500 |
| | | By Sports prizes | 6,500 |
| | | By Balance c/d | 19,400 |
| | 82,610 | | 82,610 |

Working Note :

1. Amount of subscription received during the year 2011-2012:

| | |
|--|------------|
| Subscription credited in Income & Exp. A/c | 56,640 |
| Add: Outstanding in 2010-11 | 3,100 |
| Add: Advance received in 2011-12 for 12-13 | <u>700</u> |
| | 60,440 |

| | |
|-------------------------------------|--------------|
| Less: Received in advance (2010-11) | 1,100 |
| Less: Outstanding in 2011-12 | <u>2,600</u> |
| Amount Received during 2011-12 | 56,740 |

— Space to write important points for revision —

2013 - June [5] (a) Jodhpur Club furnishes you the Receipts and Payments Account for the year ended 31.03.2013:

| Receipts | ₹ | Payments | ₹ |
|-------------------------|----------|--|----------|
| Cash in hand (1.4.2012) | 40,000 | Salary | 20,000 |
| Cash at Bank (1.4.2012) | 1,00,000 | Repair expenses | 5,000 |
| Donations | 50,000 | Furnitures | 60,000 |
| Subscriptions | 1,20,000 | Investments | 60,000 |
| Entrance fee | 10,000 | Misc. expenses | 5,000 |
| Interest on investments | 1,000 | Insurance premium | 2,000 |
| Interest from banks | 4,000 | Billiards table and other sports items | 80,000 |
| Sale of old newspaper | 1,500 | Stationery expenses | 1,500 |
| Sale of drama tickets | 10,500 | Drama expenses | 5,000 |
| | | Cash in hand (31.03.2013) | 26,500 |
| | | Cash at Bank (31.03.2013) | 72,000 |
| | 3,37,000 | | 3,37,000 |

Additional information:

- Subscriptions in arrear for 2012 - 13 ₹ 9,000 and subscription in advance for the year 2013-14 ₹ 3,500.
- ₹ 400 was the insurance premium outstanding as on 31.03.2013.
- Miscellaneous expenses prepaid ₹ 900.
- 50% of donation is to be capitalized.
- Entrance fees to be treated as revenue income.
- 8% interest has accrued on investments for five months.

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- (vii) Billiards table and other sports equipments costing ₹ 3,00,000 were purchased in the financial year 2011-12 and of which ₹ 80,000 was not paid 31.03.2012. There is no charge for Depreciation to be considered.

You are required to prepare Income and Expenditure Account for the year ended 31.03.2013 and Balance sheet of the Club as at 31.03.2013.

(10 marks)

Answer:

Jodhpur Club**Income and Expenditure Account for the year ended 31.03.2013**

| Expenditure | ₹ | Income | ₹ |
|---------------------------|-----------------|--------------------------|-----------------|
| To Salary | 20,000 | By Subscription | 1,25,500 |
| To Repair expenses | 5,000 | (₹ 1,20,000 + 9,000 - | |
| To Misc. expenses | 4,100 | 3,500) | |
| (5,000-900)(less prepaid) | | By Donation @ 50% | 25,000 |
| To Insurance premium | 2,400 | By Entrance fee | 10,000 |
| (Incl. Outstanding) | | By Sale of old newspaper | 1,500 |
| To Stationery expenses | 1,500 | By Bank Interest | 4,000 |
| To Drama Expenses | 5,000 | By Interest on Invest- | 3,000 |
| To Excess of Income over | | ments (60,000 × 8% | |
| Expenditure | 1,41,500 | × 5/12)+1,000 | |
| | | By Sale of Drama tickets | 10,500 |
| | 1,79,500 | | 1,79,500 |

Balance Sheet as at 01.04.2012

| Liabilities | Amount | Assets | Amount |
|-----------------------------|-----------------|---------------------------|-----------------|
| | ₹ | | ₹ |
| Capital fund (bal. fig) | 3,60,000 | Cash in hand | 40,000 |
| Billiards table outstanding | 80,000 | Cash at Bank | 1,00,000 |
| | | Billiards table and other | 3,00,000 |
| | | Sports equipments | |
| | 4,40,000 | | 4,40,000 |

Balance Sheet as at 31.03.2013

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|-----------------------|-----------------|-----------------|---------------------------|--------------|-----------------|
| Capital fund | 3,60,000 | | Cash in hand | | 26,500 |
| Add: Donations | 25,000 | | Cash at Bank | | 72,000 |
| Excess of income over | | | Investments | 60,000 | |
| Expenditure | <u>1,41,500</u> | 5,26,500 | Accrued interest | <u>2,000</u> | 62,000 |
| Subscriber in advance | | 3,500 | Furniture | | 60,000 |
| Insurance premium | | 400 | Prepaid Misc. Exp. | | 900 |
| outstanding | | | Subscription arrear | | 9,000 |
| | | | Billiards table and other | | |
| | | | sports equipments | | 3,00,000 |
| | | 5,30,400 | | | 5,30,400 |

— Space to write important points for revision —

2013 - Dec [4] (a) The Income and Expenditure Account of Shooters Club for the year ended 31st March, 2013 is given below:

| | | | |
|--------------------------------------|---------------|-----------------|---------------|
| Expenditure | ₹ | Income | ₹ |
| To Salaries | 35,000 | By Subscription | 40,000 |
| To General expenses | 5,000 | By Donation | 10,500 |
| To Depreciation | 3,000 | | |
| To Excess of Income Over Expenditure | <u>7,500</u> | | |
| | <u>50,500</u> | | <u>50,500</u> |

Adjustments are made in respect of the following:

- Subscription for 2012 unpaid at 31.03.2012 ₹ 2,000 of which ₹ 1,800 was received in December 2012.
- Subscription received in advance as on 01.04.2012 was ₹ 500.
- Subscription received in advance as on 31.03.2013 is ₹ 400.
- Subscription for 2012-13 unpaid as on 31.03.2013 is ₹ 700.
- Sundry asset as on 01.04.2012 ₹ 26,000. Sundry asset as on 31.03.2013 after depreciation ₹ 27,000.

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(vi) Cash balance as on 01.04.2012 ₹ 1,600.

(vii) Capital fund as on 01.04.2012 ₹ 29,100.

Prepare:

(i) Receipts and Payments A/c for the year 2012-13.

(ii) Balance sheet as at 31.03.2013.

(10 marks)**Answer:****Shooters Club****Receipts & Payments Account for the year ended 31st March, 2013**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---------------------------------|---------------|---------------------|---------------|
| To Balance b/d | 1,600 | By Salaries | 35,000 |
| To Donations | 10,500 | By General expenses | 5,000 |
| To Subscription (cash received) | 41,000 | By Sundry Assets | 4,000 |
| | | By Balance c/d | 9,100 |
| | 53,100 | | 53,100 |

Subscription Account

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---------|---|---------------|---------|--|---------------|
| 1.4.12 | To Subscription Receivable A/c (Opening balance of receivable, i.e. outstanding as on 31.3.2012) | 2,000 | 1.4.12 | By Subscription Received in Advance A/c (Opening balance of received in advance as on 1.4.12) | 500 |
| 31.3.13 | To Income & Exp. A/c (figure taken from I & E A/c) | 40,000 | 31.3.13 | By Receipts & Payments A/c (cash received during the year) (balancing figure) | 41,000 |
| 31.3.13 | To Subscription Received in Advance A/c (closing balance of received in advance, as on 31.3.2013) | 400 | 31.3.13 | By Subscription Receivable A/c (closing balance of receivable as on 31.3.2013) [2011 - 12 = 200 2012 - 13 = 700] | 900 |
| | | 42,400 | | | 42,400 |

Sundry Assets Account

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|-------------------------|----------|-----------------|----------|
| To Balance b/d | 26,000 | By Depreciation | 3,000 |
| To Purchase (bal. fig.) | 4,000 | By Balance c/d | 27,000 |
| | 30,000 | | 30,000 |

Balance Sheet as at 31.03.2013

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|--|----------|--------------------------|----------|
| Capital fund | 29,100 | Sundry assets | 27,000 |
| Add: Excess of income over expenditure | 7,500 | Cash on hand | 9,100 |
| Subscription in advance 13-14 | 400 | Subscription due 2011-12 | 200 |
| | | 2012-13 | 700 |
| | 37,000 | | 37,000 |

— Space to write important points for revision —

2014 - June [1] {C} Answer the following questions (give workings):

- (iii) Following informations are obtained from the books of a club:
- Subscription received during the year ending 31st March, 2014 ₹ 2,56,000, out of which ₹ 8,000 was for the year 2014-15 and ₹ 11,000 for the year 2012-13.
 - Subscription was outstanding on 01.04.2013 ₹ 18,000 and on 31.03.2014 for 2013-14 ₹ 21,000. Calculate the amount of subscription to be credited to Income and Expenditure Account for the year ending 31.03.2014. **(2 marks)**

Answer:

Computation of the amount creditable to Income & Expenditure Account:

| | |
|--|----------|
| | ₹ |
| Subscription received during the year | 2,56,000 |
| Less: Subscription received in advance for 2014-15 | 8,000 |

| | |
|--|-----------------|
| Less: Subscription for 2012-13 | 11,000 |
| Add: O/s Subscription for 2013-14 | 21,000 |
| Subscription to be credited to Income & exp. A/c | <u>2,58,000</u> |

— Space to write important points for revision —

2014 - June [5] (a) A Town Club provides you information relating to assets and liabilities as on 01.01.14. Calculate (i) Receipts and Payment Account, (ii) Income and Expenditure Account for the year ended 31.12.2013 and (iii) a Balance Sheet as on date.

Cash in hand ₹ 4,000, subscription receivable ₹ 400, furniture ₹ 2,000, sport material ₹ 1,200, investments ₹ 5,000, buildings ₹ 10,000 and outstanding creditors for supplies ₹ 600. During the year 2013, the club did the following business.

(i) Subscription received including the arrears ₹ 6,000, (ii) subscription due ₹ 600, (iii) paid the outstanding creditors for supplies ₹ 600, (iv) subscriptions to newspapers ₹ 1,000, (v) sports materials purchased ₹ 2,000, (vi) sale of old newspapers ₹ 100, (vii) meeting expenses ₹ 900, (viii) lighting charges ₹ 800, (ix) Establishment salaries ₹ 2,000, (x) stock of sport materials at the end ₹ 1,000, (xi) Interest received on investments ₹ 150 (outstanding ₹ 50), (xii) borrowings ₹ 4,000, (xiii) purchased furniture (31-12-2013) ₹ 800, (xiv) expenditure on annual function ₹ 750 and (xv) donations received ₹ 3,600 (half to be capitalised). Provide depreciation at 5% on furniture and buildings. **(4+4+2= 10 marks)**

Answer:

Town Club

Receipts & Payments A/c for the year ending 31.12.2013

| Receipts | Amt. ₹ | Payments | Amt. ₹ |
|----------------------------|-------------------|----------------------------|-------------------|
| To Balance b/d | 4,000 | By Creditors for supplies | 600 |
| To Subscriptions | 6,000 | By Newspapers subscription | 1,000 |
| To Sale of old news papers | 100 | By Sports material | 2,000 |
| To Interest on investments | 150 | By Meeting expenses | 900 |
| To Borrowings | 4,000 | By Lighting charges | 800 |
| To Donations | 3,600 | By Establishment Salaries | 2,000 |
| | | By Furniture | 800 |

| | | |
|--------|--------------------------------|--------|
| | By Expenses on Annual Function | 750 |
| | By Balance c/d | 9,000 |
| 17,850 | | 17,850 |

Income of Expenditure A/c

| Expenditure | ₹ | Income | ₹ |
|--------------------------------|-------|----------------------------|-------|
| To Subscriptions to Newspapers | 1,000 | By Subscriptions Received | 6,000 |
| To Sports Material Consumed | | + O/s (C.Y) | 600 |
| Opening | 1,200 | -O/s (P.Y) | 400 |
| + Purchases | 2,000 | By Sale of old newspapers | 100 |
| - Closing | 1,000 | By Intt.(Regd. + Accrued) | 200 |
| To Meeting expenses | 2,200 | By Donations | 1,800 |
| To Lighting charges | 900 | | |
| To Establishment Salaries | 800 | | |
| To Expenses on Annual function | 2,000 | | |
| To Depreciation | 750 | | |
| Furniture | 100 | | |
| Buildings | 500 | | |
| To Surplus | 50 | | |
| | 8,300 | | 8,300 |

Opening B/S

| Liabilities | Amount | Assets | Amount |
|-------------------------------|--------|---------------------|--------|
| Capital fund (B/f) | 22,000 | Cash in hand | 4,000 |
| Sundry Creditors for supplies | 600 | Arrear Subscription | 400 |
| | | Furniture | 2,000 |
| | | Sports Material | 1,200 |
| | | Investments | 5,000 |
| | | Buildings | 10,000 |
| | 22,600 | | 22,600 |

B/S as at 31.12.2013

| | | | |
|--------------|---------------|------------------|---------------|
| Capital fund | 22,000 | Cash in hand | 9,000 |
| + surplus | <u>50</u> | O/s Subscription | 600 |
| | 22,050 | Furniture | 2,000 |
| Donation | 1,800 | + Add | 800 |
| Borrowings | 4,000 | - Dep | <u>100</u> |
| | | | 2,700 |
| | | Sports Material | 1,000 |
| | | Investment | 5,000 |
| | | + Accrued Intt. | <u>50</u> |
| | | | 5,050 |
| | | Buildings | 10,000 |
| | | - Dep | <u>500</u> |
| | | | 9,500 |
| | <u>27,850</u> | | <u>27,850</u> |

— Space to write important points for revision —

2015 - June [1] Answer the question:

(d) Compute the income from subscription for the year 2014 from the following particulars relating to TARUN CLUB:

| | 01.01.2014 | 31.12.2014 | |
|--|------------|------------|------------------|
| | ₹ | ₹ | |
| Outstanding subscription | 9,500 | 7,000 | |
| Advanced subscription | 2,800 | 5,200 | |
| Subscription received during the year 2014 | | | ₹ 1,45,000 |
| | | | (2 marks) |

Answer:

| | |
|---|-------------------|
| Subscription received during 2014 | = 1,45,000 |
| Add: O/s subscription as on 31.12.2014 | = 7,000 |
| Add: Advance subscription as on 01.01.2014 | = 2,800 |
| Less: O/s subscription as on 01.01.2014 | = 9,500 |
| Less: Advance subscription as on 31.12.2014 | = <u>5,200</u> |
| Income from subscription | = <u>1,40,100</u> |

— Space to write important points for revision —

2015 - Dec [3] Answer the question.

(a) The following is the Income and Expenditure Account of GREEN CITY CLUB for the year ended March 31, 2015. (Amount in ₹)

| | | | |
|--------------------------------------|------------------|-----------------------------------|------------------|
| To Salaries | 4,80,000 | By Subscriptions | 13,00,000 |
| To Rent | 1,20,000 | By Entrance Fees | 2,00,000 |
| To Printing & Stationery | 30,000 | By Contribution for Annual Dinner | 1,60,000 |
| To Travelling Expenses | 60,000 | By Profit on Annual Sports | 20,000 |
| To Annual Dinner Expenses | 1,40,000 | | |
| To Secretary's Honorarium | 1,20,000 | | |
| To General Expenses | 60,000 | | |
| To Interest and Bank Charges | 18,000 | | |
| To Audit Fees | 20,000 | | |
| To Books & Periodicals | 30,000 | | |
| To Depreciation | 25,000 | | |
| To Excess of Income over Expenditure | | | |
| | <u>5,77,000</u> | | <u>16,80,000</u> |
| | <u>16,80,000</u> | | <u>16,80,000</u> |

The Income and Expenditure Account has been prepared after the following adjustments:

| | |
|---|----------|
| | ₹ |
| Subscription Outstanding on 31.03.2014. | 1,20,000 |
| Subscription received in Advance on 31.03.2014. | 90,000 |
| Subscription Outstanding on 31.03.2015. | 80,000 |
| Subscription received in Advance on 31.03.2015. | 1,40,000 |

Salaries Outstanding at the beginning of the year and at the end of the year were ₹ 40,000 and ₹ 30,000 respectively.

Audit fees for the year (2014-15) has not been paid. Previous year's audit fee ₹ 15,000 was paid during the year.

The club's Assets on 31st March, 2014 were as follows:

| | |
|------------------|-----------|
| | ₹ |
| Freehold Land | 10,00,000 |
| Sport Equipments | 2,60,000 |

At the end of the year, after depreciation the equipments amounted to ₹ 2,70,000. Bank Loan of ₹ 1,00,000 as on 31st March, 2014 was still due at the end of the current year. On 31st March, 2015, Cash at Bank amounted to ₹ 6,97,000.

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You are required to prepare:

- (i) The Receipts and Payments Account for the year ended 31st March, 2015 and
(ii) Balance Sheet as on 31.03.2015 (5+4+1+2=12 marks)

Answer:

Green City Club**Receipts & Payments A/c for the year ended 31.3.2015**

| Receipts | ₹ | Payments | ₹ |
|--------------------------------------|------------------|--|------------------|
| To Bal. b/d (balancing figure) | 45,000 | By Salaries 4,80,000 + O/S at Beg. 40,000 | |
| To Subscription (W. N. - 2) | 13,90,000 | - O/S at End <u>30,000</u> | 4,90,000 |
| To Entrance fees | 2,00,000 | By Rent | 1,20,000 |
| To Contribution for annual dinner | 1,60,000 | By Printing & Stationery | 30,000 |
| To Profit an annual sports | 20,000 | By Travelling exp. | 60,000 |
| | | By Annual dinner exp. | 1,40,000 |
| | | By Secretary's honorarium | 1,20,000 |
| | | By General expenses | 60,000 |
| | | By Interest & bank charges | 18,000 |
| | | By Audit fees | 15,000 |
| | | By Sports equipment | 35,000 |
| | | By Books & periodicals | 30,000 |
| | | By Bal. c/d | 6,97,000 |
| | 18,15,000 | | 18,15,000 |

Balance Sheet as on 31.3.2015

| Liabilities | ₹ | Assets | ₹ |
|--|------------------|-------------------------|------------------|
| Capital 11,80,000 | | Freehold Land | 10,00,000 |
| + Surplus <u>5,77,000</u> | 17,57,000 | Sport Equipment | 2,70,000 |
| O/S Salary 30,000 | | Cash at Bank | 6,97,000 |
| O/S Audit Fees 20,000 | | O/S Subscription 80,000 | |
| Bank Loan 1,00,000 | | | |
| Subscription received in Adv. <u>140,000</u> | | | |
| | 20,47,000 | | 20,47,000 |

Working Notes:(1) **Balance Sheet as on 31.3.2014**

| Liabilities | ₹ | Assets | ₹ |
|---------------------------|------------------|------------------|------------------|
| Capital(b/f) | 11,80,000 | Freehold Land | 10,00,000 |
| Bank loan | 1,00,000 | Sports Equipment | 2,60,000 |
| Salaries outstanding | 40,000 | O/S Subscription | 1,20,000 |
| O/S Audit fees | 15,000 | Cash at Bank | 45,000 |
| Subs. received in advance | 90,000 | | |
| | 14,25,000 | | 14,25,000 |

(2) **Calculation of Subscription received:**

| | |
|---|------------------|
| Subscription as per Income & Expenditure A/c | 13,00,000 |
| Add: Subscription received in adv. 31.3.2015 | 1,40,000 |
| Add: O/S subscription as on 31.3.2014 | 1,20,000 |
| Less: Subscription received in adv. 31.3.2014 | 90,000 |
| Less: O/S subscription as on 31.3.2015 | 80,000 |
| | 13,90,000 |

Sports Equipment

| | | | |
|---------------|-----------------|-----------------|-----------------|
| To Bal. b/d | 2,60,000 | By Depreciation | 25,000 |
| To Bank (b/f) | 35,000 | By Bal. c/d | 2,70,000 |
| | 2,95,000 | | 2,95,000 |

— Space to write important points for revision —

2017 - Dec [2] The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2017:

Income and Expenditure Account for the year ended 31st March, 2017

| Expenditure | ₹ | Income | ₹ |
|--------------------|----------|-----------------|----------|
| To Salaries | 19,500 | By Subscription | 68,000 |
| To Rent | 4,500 | By Donation | 5,000 |
| To Printing | 750 | | |
| To Insurance | 500 | | |

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| | | | |
|--------------------------------------|---------------|--|---------------|
| To Audit Fees | 750 | | |
| To Games & Sports | 3,500 | | |
| To Subscriptions written off | 350 | | |
| To Miscellaneous Expenses | 14,500 | | |
| To Loss on sale of Furniture | 2,500 | | |
| To Depreciation : | | | |
| Sports Equipment | 6,000 | | |
| Furniture | 3,100 | | |
| To Excess of income over expenditure | 17,050 | | |
| | 73,000 | | 73,000 |

Additional information:

| | 31-03-2016 | 31-03-2017 |
|------------------------------------|------------|------------|
| | ₹ | ₹ |
| Subscription in arrears | 2,600 | 3,700 |
| Advance Subscriptions | 1,000 | 1,500 |
| Outstanding expenses: | | |
| Rent | 500 | 800 |
| Salaries | 1,200 | 350 |
| Audit Fee | 500 | 750 |
| Sports Equipment less depreciation | 25,000 | 24,000 |
| Furniture less depreciation | 30,000 | 27,900 |
| Prepaid Insurance | – | 150 |

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2016 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2017 cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2017. **(15 marks)**

Answer:

**Receipts and Payments Account
for the year ended 31.3.2017**

| Dr. | | Cr. | |
|--|---------------|--|---------------|
| Receipt | ₹ | Payments | ₹ |
| To Subscription A/c (W.N.1) | 67,050 | By Balance b/d (Bank overdraft) | 15,000 |
| To Donation A/c | 5,000 | By Salary | 19,500 |
| To Entrance Fees A/c | 4,000 | Add: Outstanding of last year | 1,200 |
| To Furniture A/c (Sale of furniture) (7,000 – 2,500) | 4,500 | Less: Outstanding of this year | (350) |
| | | By Rent | 4,500 |
| | | Add: Outstanding of last year | 500 |
| | | Less: Outstanding of this year | (800) |
| | | By Printing | 750 |
| | | By Insurance | 500 |
| | | Add: Prepaid in this year | 150 |
| | | By Audit Fees | 750 |
| | | Add: Outstanding of last year | 500 |
| | | Less: Outstanding of this year | (750) |
| | | By Games and Sports | 3,500 |
| | | By Miscellaneous Expenses | 14,500 |
| | | By Sports Equipment (Purchased) (W.N.2) | 5,000 |
| | | By Furniture (Purchased) (W.N.3) | 8,000 |
| | | By Balance c/d | |
| | | Cash | 850 |
| | | Bank (bal. fig.) | 7,250 |
| | 80,550 | | 80,550 |

Working Notes:**1. Calculation of subscription received during the year 2016-2017**

| Particulars | ₹ | ₹ |
|--|-------|---------------|
| Subscription as per Income and Expenditure A/c | | 68,000 |
| <i>Less:</i> Arrears of 2016-2017 | 3,700 | |
| Advance in 2015-2016 | 1,000 | (4,700) |
| | | 63,300 |
| <i>Add:</i> Arrears of 2015-2016 | 2,600 | |
| Advance for 2017-2018 | 1,500 | 4,100 |
| | | 67,400 |
| <i>Less:</i> Written off during 2016-2017 | | (350) |
| | | 67,050 |

2. Calculation of Sports Equipment purchased during 2016-2017**Sports Equipment Account**

| Dr. | | Cr. | |
|--|---------------|--|---------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 25,000 | By Income & Expenditure A/c (Depreciation) | 6,000 |
| To Receipts & Payments A/c (Purchases) (bal. fig.) | 5,000 | By Balance c/d | 24,000 |
| | 30,000 | | 30,000 |

3. Calculation of Furniture purchased during 2016-2017**Furniture Account**

| Dr. | | Cr. | |
|--|--------|--|-------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 30,000 | By Receipts & Payments A/c | 4,500 |
| To Receipts and Payments A/c (Purchases) (bal. fig.) | 8,000 | By Income and Expenditure A/c (Loss on sale) | 2,500 |

| | | |
|--|---|---------------|
| | By Income and Expenditure A/c (Depreciation) | 3,100 |
| | By Balance c/d | 27,900 |
| | 38,000 | 38,000 |

— Space to write important points for revision —

2018 - June [3] Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

| | ₹ |
|---|----------|
| Opening Cash Balance | 56,000 |
| Donation Received (including ₹ 50,000 for Building Fund.) | 1,55,000 |
| Payment to creditors for Medicines Supply | 2,10,000 |
| Salaries | 70,000 |
| Purchase of Medical Equipments | 1,05,000 |
| Medical Camp Collections | 87,500 |
| Subscription Received | 3,50,000 |
| Interest on Investments @ 9% p.a. | 63,000 |
| Honorarium to Doctors | 1,90,000 |
| Telephone Expenses | 6,000 |
| Medical Camp Expenses | 10,500 |
| Miscellaneous Expenses | 7,000 |

Additional Information:

| Sl. No. | | 01.04.2016 ₹ | 31.03.2017 ₹ |
|---------|----------------------------------|-----------------|-----------------|
| 1 | Subscription Due | 10,500 | 15,400 |
| 2 | Subscription Received in Advance | 8,400 | 4,900 |
| 3 | Stock of Medicine | 70,000 | 1,05,000 |

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| | | | |
|---|------------------------------|----------|----------|
| 4 | Medical Equipments | 1,47,000 | 2,14,200 |
| 5 | Building | 3,50,000 | 3,15,000 |
| 6 | Creditor for Medicine Supply | 63,000 | 91,000 |
| 7 | Investments | 7,00,000 | 7,00,000 |

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017. **(15 marks)**

Answer:

**Receipts and Payments Account of Radix Clinic
for the year ended 31.03.2017**

| Dr. | | Cr. | |
|-----------------------------|-----------------|---------------------------|-----------------|
| Receipts | ₹ | Payments | ₹ |
| To Cash in Hand (Opening) | 56,000 | By Medical Supply | 2,10,000 |
| To Subscription | 3,50,000 | By Honorarium to doctors | 1,90,000 |
| To Donation | 1,55,000 | By Salaries | 70,000 |
| To Interest on Investment | 63,000 | By Misc. expenses | 7,000 |
| To Medical Camp collections | 87,500 | By Purchase of equipment | 1,05,000 |
| | | By Telephone expenses | 6,000 |
| | | By Medical camp expenses | 10,500 |
| | | By Cash in Hand (Closing) | 1,13,000 |
| | 7,11,500 | | 7,11,500 |

**Income and Expenditure Account of Radix Clinic
for the year ended 31.03.2017**

| Dr. | | Cr. | |
|--------------------------|----------|----------------------------|----------|
| Expenditure | ₹ | Income | ₹ |
| To Medicine consumed | 2,03,000 | By Subscription | 3,58,400 |
| To Honorarium to doctors | 1,90,000 | By Donation | 1,05,000 |
| To Salaries | 70,000 | By Interest on investments | 63,000 |

| | | | |
|--|-----------------|----------------------------|-----------------|
| To Telephone expenses | 6,000 | By Profit on Medical camp: | |
| To Misc. expenses | 7,000 | Collections | 87,500 |
| To Depreciation on: | | Less: Expenses | (10,500) |
| Medical equipment | 37,800 | | 77,000 |
| Building | | | |
| (3,50,000 – 3,15,000) | 35,000 | | |
| | 72,800 | | |
| To Surplus-excess of Income over expenditure | 54,600 | | |
| | 6,03,400 | | 6,03,400 |

Balance Sheet of Radix Clinic as on 31st March, 2017

| Liability | ₹ | ₹ | Assets | ₹ | ₹ |
|----------------------------------|-----------|------------------|-------------------------|----------|------------------|
| Capital Fund: | | | Building | 3,50,000 | |
| Opening Balance | 12,62,100 | | Less: Depreciation | (35,000) | 3,15,000 |
| Add: Surplus | 54,600 | 13,16,700 | Medical Equipment | 1,47,000 | |
| Building Fund | | 50,000 | Add: Purchase | 1,05,000 | |
| Subscription received in advance | | 4,900 | | 2,52,000 | |
| Creditors for medicine supply | | 91,000 | Less: Depreciation | (37,800) | 2,14,200 |
| | | | Stock of Medicine | | 1,05,000 |
| | | | Investments | | 7,00,000 |
| | | | Subscription receivable | | 15,400 |
| | | | Cash in hand | | 1,13,000 |
| | | 14,62,600 | | | 14,62,600 |

Working Notes:

| | ₹ | ₹ |
|---|--------|------------|
| 1. Subscription for the year ended 31.03.2017 | | |
| Subscription received during the year | | 3,50,000 |
| <i>Less:</i> Subscription receivable on 01.04.2016 | 10,500 | |
| <i>Less:</i> Subscription received in advance on 31.03.2017 | 4,900 | (15,400) |
| | | 3,34,600 |
| <i>Add:</i> Subscription receivable on 31.03.2017 | 15,400 | |
| <i>Add:</i> Subscription received in advance on 01.04.2016 | 8,400 | 23,800 |
| | | 3,58,400 |
| 2. Purchase of medicine | | |
| Payment of medicine supply | | 2,10,000 |
| <i>Less:</i> Amount due for medicine supply 01.04.2016 | | (63,000) |
| | | 1,47,000 |
| <i>Add:</i> Amounts due for medicine supply on 31.03.2017 | | 91,000 |
| | | 2,38,000 |
| 3. Medicine Consumed | | |
| Stock of medicine on 01.04.2016 | | 70,000 |
| <i>Add:</i> Purchase of medicine during the year | | 2,38,000 |
| | | 3,08,000 |
| <i>Less:</i> Stock of medicine on 31.03.2017 | | (1,05,000) |
| | | 2,03,000 |
| 4. Depreciation on equipment | | |
| Value of equipment on 01.04.2016 | | 1,47,000 |
| <i>Add:</i> Purchase of equipment during the year | | 1,05,000 |
| | | 2,52,000 |
| <i>Less:</i> Value of equipment on 31.03.2017 | | (2,14,200) |
| Depreciation on equipment for the year | | 37,800 |

Balance Sheet of Radix Clinic as on 31st March, 2016

| Liability | ₹ | Assets | ₹ |
|----------------------------------|------------------|-------------------------|------------------|
| Capital Fund: (balancing Figure) | 12,62,100 | Building | 3,50,000 |
| Subscription received in advance | 8,400 | Medical Equipment | 1,47,000 |
| Creditors for medicine supply | 63,000 | Stock of Medicine | 70,000 |
| | | Investments | 7,00,000 |
| | | Subscription receivable | 10,500 |
| | | Cash in hand | 56,000 |
| | 13,33,500 | | 13,33,500 |

— Space to write important points for revision —

2018 - Dec [3] The following information provided by the Nav Yuvak Mandal, Delhi for the first year ended 31st March, 2018:

- (i) Donations received for building ₹ 25 Lakh.
- (ii) Other incomes and receipts were:

(₹ in '000)

| Particulars | Capital Income (₹) | Revenue Income (₹) | Actual Receipt (₹) |
|----------------------|---------------------------|---------------------------|---------------------------|
| Entrance fees | — | 251 | 251 |
| Life Membership fees | 105 | — | 105 |
| Subscription | — | 1,160 | 1,151 |
| Play Ground rent | — | 120 | 110 |
| Refreshment account | — | 115 | 115 |
| Sundry incomes | — | 62 | 49 |

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(iii) Expenditures and actual payments were: (₹ in '000)

| Particulars | Capital Expenditure (₹) | Revenue Expenditure (₹) | Actual Payment (₹) |
|----------------------------|-------------------------|-------------------------|--------------------|
| Land | 800 | – | 800 |
| Books | 236 | – | 202 |
| Furniture | 345 | – | 315 |
| Honorarium and salaries | – | 165 | 131 |
| Maintenance of play ground | – | 52 | 50 |
| Refreshment account | – | 79 | 79 |
| Insurance Premium | – | 12 | 15 |
| Sundry expenses | – | 70 | 65 |

Others:

Donation were utilized to the extent of ₹ 13 Lakh in construction of building, balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2017 for ₹ 10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2018. During the year 2017-18, Subscription received in advance ₹ 52,000 for the year 2018-19. Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2018.

(15 marks)

Answer:**Receipts & Payments Account for the year ending 31st March, 2018**

(₹ in 000)

| Receipts | Amount | Payments | Amount |
|-------------------------|--------|--------------|--------|
| To Donations | 2,500 | By Land | 800 |
| To Entrance fees | 251 | By Building | 1,300 |
| To Life Membership fees | 105 | By Books | 202 |
| To Subscription | 1,151 | By Furniture | 315 |

| | | | |
|------------------------|-------|-------------------------------|-------|
| To Play Ground rent | 110 | By Honorarium and salaries | 131 |
| To Refreshment account | 115 | By Maintenance of play ground | 50 |
| To Sundry incomes | 49 | By Refreshment account | 79 |
| | | By Insurance Premium | 15 |
| | | By Sundry expenses | 65 |
| | | By Govt. Securities | 1,050 |
| | | By Term Deposits | 150 |
| | | By Balance c/d | 124 |
| | 4,281 | | 4,281 |

(Income & Expenditure Account for the year ending 31st March, 2018

(₹ in 000)

| Expenditures | ₹ | Amount | Incomes | ₹ | Amount |
|--------------------------------|-----|----------|----------------------------------|-------|--------|
| To Honorarium and salaries | 131 | | By Subscription | 1,151 | |
| <i>Add:</i> Outstanding | 34 | 165 | <i>Less:</i> Received in Advance | 52 | |
| To Maintnc. of play ground | 50 | | | 1,099 | |
| <i>Add:</i> Outstanding | 2 | 52 | <i>Add:</i> Outstanding | 61 | 1,160 |
| To Insurance Premium | 15 | | By Entrance fees | | 251 |
| <i>Less:</i> Prepaid | 3 | 12 | By Play Ground rent | 110 | |
| To Sundry expenses | 65 | | <i>Add:</i> Outstanding | 10 | 120 |
| <i>Add:</i> Outstanding | 5 | 70 | By Profit on Refreshment | | 36 |
| To Depreciation | | | By Sundry incomes | 49 | |
| On Building-10% on ₹13 Lakh | | 130 | <i>Add:</i> Outstanding | 13 | 62 |
| On Furniture-10% on ₹ 3,45,000 | | 34.50 | By Interest on Govt. | | |
| On Books- 15% on ₹2,36,000 | | 35.40 | Securities(Accrued) | | 21 |
| To Surplus | | 1,151.10 | | | |
| | | 1,650 | | | 1,650 |

Balance Sheet as at 31st march, 2018

(₹ in 000)

| Liabilities | Amount | Assets | Amount |
|----------------------------------|----------|---------------------------------|---------|
| Capital Fund | | Land | 800 |
| Add: Life Membership fees 105 | | Building (₹ 13 Lakh- 1.3 Lakh) | 1,170 |
| Add: Surplus 1,151.10 | 1,256.10 | Books (₹ 2,36,000 - 35,400) | 200.6 |
| Donations for Building | 2,500 | Furniture (₹.3,45,000 - 34,500) | 310.5 |
| Creditors for Books | 34 | 8% Govt. Securities | 1,050 |
| Creditors for Furniture | 30 | Out. Int. on Govt. Securities | 21 |
| Outstanding Hon. and salaries | 34 | Outstanding Subscription | 61 |
| Outs. Maintenance of play ground | 2 | Prepaid Insurance Premium | 3 |
| Outstanding Sundry expenses | 5 | Play Ground rent- Outstanding | 10 |
| Subscription Received in Advance | 52 | Sundry incomes-Outstanding | 13 |
| | | Term Deposits | 150 |
| | | Cash and Bank | 124 |
| | 3,913.1 | | 3,913.1 |

Working Notes:

- (1) Donation received for building has been treated as capital item.
- (2) Amount of Term Deposit = Donations Received-(Cost of Building + 8% Govt. Securities)
₹ 25 Lakh - (13 Lakh + 10.50 Lakh) = ₹1,50,000
- (3) Profit on Refreshment = ₹ 1,15,000 - 79,000 = ₹ 36,000
- (4) Outstanding Subscription = ₹ 11,60,000 - (11,51,000-52,000) = ₹ 61,000
- (5) Accrued Interest on Govt. Securities: ₹ 10,50,000 × 8% × 3/12 = ₹ 21,000

— Space to write important points for revision —

2019 - Dec [2] (b) Calculate the amount of sports material to be transferred to Income and Expenditure Account of Kanan Bala Sports Club, Ludhiana, for the year ended 31st March, 2018:

| Particulars | (₹) |
|--|------------------|
| (i) Sports Material sold during the year (Book value ₹ 50,000) | 56,000 |
| (ii) Amount paid to creditors for sports material | 91,000 |
| (iii) Cash purchase of sports material | 40,000 |
| (iv) Stock of sports material as on 31.03.2017 | 50,000 |
| (v) Stock of sports material as on 31.03.2018 | 55,000 |
| (vi) Creditors for sports material as on 31.03.2017 | 37,000 |
| (vii) Creditors for sports material as on 31.03.2018 | 45,000 |
| | (7 marks) |

Answer:

Calculation of Sports Materials to be Debited to Income & Expenditure Account

| Particulars | Amount (₹) |
|---|-----------------|
| Payment made for Sports Materials | 91,000 |
| <i>Less: Creditor in the Beginning</i> | <i>(37,000)</i> |
| <i>Add: Creditors at the end</i> | <i>45,000</i> |
| | 99,000 |
| <i>Add: Cash Purchases of Sports Materials</i> | <i>40,000</i> |
| Total Purchase | 1,39,000 |
| <i>Less: Sports Materials sold during the year (Book Value)</i> | <i>(50,000)</i> |
| | 89,000 |
| <i>Add: Stock of Sports Materials in the beginning</i> | <i>50,000</i> |
| <i>Less: Stock of Sports Materials at the end</i> | <i>(55,000)</i> |
| Amount to be debited to Income & Expenditure A/c. | <u>84,000</u> |
| Amount to be credited to Income & Expenditure A/c. | |
| Profit on Sale of Sport Material | <u>6,000</u> |

2022 - Dec [6] The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2021:

Income and Expenditure Account for the year ended 31st March, 2021

| | ₹ | | ₹ |
|--------------------------------------|--------|-----------------|--------|
| To Salaries | 19,500 | By Subscription | 68,000 |
| To Rent | 4,500 | By Donation | 5,000 |
| To Printing | 750 | | |
| To Insurance | 500 | | |
| To Audit Fees | 750 | | |
| To Games & Sports | 3,500 | | |
| To Subscriptions written off | 350 | | |
| To Miscellaneous Expenses | 14,500 | | |
| To Loss on sale of furniture | 2,500 | | |
| To Depreciation: | | | |
| Sports Equipment | 6,000 | | |
| Furniture | 3,100 | | |
| To Excess of income over expenditure | 17,050 | | |
| | 73,000 | | 73,000 |

Additional information:

| | 31-3-2020 | 31-3-2021 |
|--------------------------|-----------|-----------|
| | ₹ | ₹ |
| Subscriptions in arrears | 2,600 | 3,700 |
| Advance Subscriptions | 1,000 | 1,500 |
| Outstanding Expenses: | | |
| Rent | 500 | 800 |
| Salaries | 1,200 | 350 |
| Audit Fee | 500 | 750 |

| | | |
|-----------------------------------|--------|--------|
| Sport Equipment less depreciation | 25,000 | 24,000 |
| Furniture less depreciation | 30,000 | 27,900 |
| Prepaid Insurance | — | 150 |

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2020, there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2021, Cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2021. (15 marks)

3C






FINANCIAL STATEMENTS FROM INCOMPLETE RECORDS

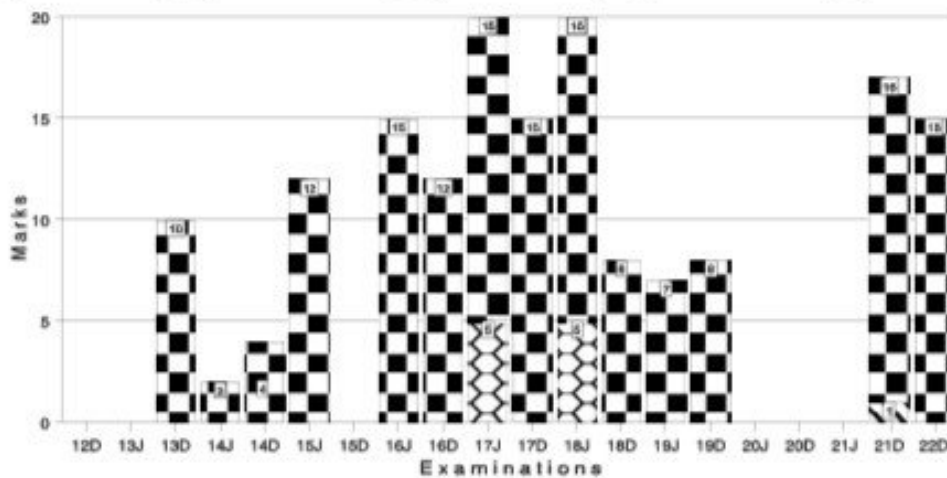
THIS CHAPTER INCLUDES

- Preparation of Accounts Under Single Entry System
- Conversion of Single Entry System into Double Entry System
- Difference between Single Entry and Double Entry System

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



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for registration and password see first page of this book.

CHAPTER AT A GLANCE**Preparation of Financial Statements From Incomplete Records**

Many times small business organizations do not maintain a comprehensive accounting system which is based on the double entry principle. The businessman is usually happy with the minimum information like the balances of cash and bank accounts and whether he has made a profit or loss. These people maintain rough or sketchy records that serve a limited purpose. Because, the principle of double entry is not followed, it is often referred to as a 'single entry system'.

Features of Single Entry System

- (a) Maintenance of books by a sole trader or partnership firm
- (b) Maintenance of cash book
- (c) Only personal accounts are kept
- (d) Collection of information from original documents
- (e) Lack of uniformity
- (f) Difficulty in preparation of final accounts

SHORT NOTES

2017 - June [8] Write short note on the following:

- (b) Weaknesses of Single Entry System

(5 marks)

Answer:

Weaknesses of single entry system:

- (a) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
- (b) Profit or loss can be found out only by estimates as Nominal Accounts are not maintained.

- (c) It is not possible to make a balance sheet in absence of Real Accounts.
- (d) It is very difficult to detect frauds or errors.
- (e) Valuation of assets and liabilities is not proper.
- (f) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
- (g) It is quite likely that the business and personal transactions of the proprietor get mixed.

— Space to write important points for revision —

2018 - June [8] Write short note on the following:

- (c) Features of Single Entry System.

(5 marks)

Answer:

Single Entry System has the following features:

- (a) **Maintenance of books by a sole trader or partnership firm:** The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.
- (b) **Maintenance of cash book:** In this system, it is very often to keep one cash book which mixes up business as well as private transactions.
- (c) **Only personal accounts are kept:** In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.
- (d) **Collection of information from original documents:** For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the end of the year the total of the invoices gives an idea of total credit sales of the business.
- (e) **Lack of uniformity:** It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.
- (f) **Difficulty in preparation of final accounts:** It is much difficult to prepare trading, profit and loss account and balance sheet due to the absence of nominal and real accounts in the ledger.

— Space to write important points for revision —

DESCRIPTIVE QUESTIONS

2021 - Dec [7] In the single entry system, which two methods are used to ascertain profit or loss? **(1 mark) [Sec. B - SAQ]**

Answer:

- (i) Statement of affairs method.
- (ii) Conversion method.

PRACTICAL QUESTIONS

2013 - Dec [8] (a) Mr. Dipankar a retail trader needs financial statements for the year ended 31.03.2013 for availing a bank loan. He gives you the following information regarding receipts and payments.

- (i) Cash deposited into the bank account ₹ 1,05,000.
- (ii) Dividend from companies deposited in bank account ₹ 5,000.
- (iii) Tuition fees of doctor paid by cheque ₹ 15,000.
- (iv) Rent for the year paid by cash ₹ 24,000.
- (v) Cash collections from debtors ₹ 5,50,000.
- (vi) Amounts paid to creditor ₹ 4,00,000 in cash and ₹ 1,00,000 by cheque.
- (vii) Salary and wages paid in cash ₹ 36,000.
- (viii) Office electricity paid by cheque ₹ 12,000.
- (ix) General expenses incurred in cash ₹ 18,000.
- (x) Drawings every month ₹ 6,000 by cash.

| (xi) Particulars | 31.03.2012 | 31.03.2013 |
|------------------|------------|------------|
| Stock | 3,20,000 | 4,40,000 |
| Bank | 55,000 | 38,000 |
| Cash | 10,000 | 12,000 |
| Debtors | 75,000 | 86,000 |
| Creditors | 48,000 | 70,000 |

Prepare his Trading & Profit and Loss Account for the year ended 31st March, 2013 and Balance Sheet as at 31.03.2013. **(10 marks)**

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Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Answer:

Cash and Bank A/c

| | Cash | Bank | | Cash | Bank |
|----------------|----------|----------|----------------------|----------|----------|
| To Balance b/d | 10,000 | 55,000 | By Bank | 1,05,000 | |
| To Cash | - | 1,05,000 | By Drawings | 72,000 | |
| To Dividend | | 5,000 | By Drawing | | 15,000 |
| To Debtors | | | (Tuition Fee) | | |
| To Sales | 5,50,000 | | By Rent | 24,000 | |
| (Cash Sales) | 1,07,000 | | By Creditors | 4,00,000 | 1,00,000 |
| | | | By Salary & Wages | 36,000 | |
| | | | By Electricity | | 12,000 |
| | | | By General Exp. | 18,000 | |
| | | | By Balance c/d | 12,000 | 38,000 |
| | 6,67,000 | 1,65,000 | | 6,67,000 | 1,65,000 |

Debtors A/c

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-------------------|------------|----------------|------------|
| To Balance b/d | 75,000 | By Cash A/c | 5,50,000 |
| To Sales (Credit) | 5,61,000 | By Balance c/d | 86,000 |
| | 6,36,000 | | 6,36,000 |

Creditor A/c

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|----------------|------------|--|------------|
| To Cash A/c | 4,00,000 | By Balance b/d | 48,000 |
| To Bank A/c | 1,00,000 | By Purchase A/c | 5,22,000 |
| To Balance c/d | 70,000 | (Credit) ² Balancing figure | |
| | 5,70,000 | | 5,70,000 |

Trading & Profit and Loss Account for the year ended 31st March, 2013

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|------------------|-----------|------------------|-----------|
| To Opening Stock | 3,20,000 | By Sales: Cash | 1,07,000 |
| To Purchases | 5,22,000 | Credit | 5,61,000 |
| To Gross Profit | 2,66,000 | By Closing Stock | 4,40,000 |
| | 11,08,000 | | 11,08,000 |

| | | | |
|-----------------------|----------|-----------------|----------|
| To Rent | 24,000 | By Gross Profit | 2,66,000 |
| To Salaries & Wages | 36,000 | By Dividend | 5,000 |
| To Office electricity | 12,000 | | |
| To General expenses | 18,000 | | |
| To Net Profit | 1,81,000 | | |
| | 2,71,000 | | 2,71,000 |

Balance Sheet as at 31.03.2012

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|-------------|----------|---------|----------|
| Capital | 4,12,000 | Stock | 3,20,000 |
| Creditors | 48,000 | Debtors | 75,000 |
| | | Bank | 55,000 |
| | | Cash | 10,000 |
| | 4,60,000 | | 4,60,000 |

Balance Sheet as at 31.03.2013

| Liabilities | ₹ | Assets | ₹ |
|-------------|-----------|---------|----------|
| Creditors | 70,000 | Stock | 4,40,000 |
| Capital | 5,06,000* | Debtors | 86,000 |
| | | Bank | 38,000 |
| | | Cash | 12,000 |
| | 5,76,000 | | 5,76,000 |

* ₹ 4,12,000 + ₹ 1,81,000 – ₹ 72,000 – ₹ 15,000

[Opening Capital + Net Profit – Drawings – Doctor Fees]

— Space to write important points for revision —

6.144

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

2014 - June [1] {C} Answer the following question (give working):

(viii) Calculate the average collection period from the following details by adopting 360 days an year.

| | | | |
|--------------------------|---------------|-----------------------------|------------|
| Average Inventory | – ₹ 10,80,000 | Gross Profit Ratio | – 10% |
| Debtors | – ₹ 6,90,000 | Credit sales to total sales | – 20% |
| Inventory Turnover ratio | 6 Times | 1 year | – 360 days |

(2 marks)**Answer:**

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$6 = \frac{\text{COGS}}{10,80,000}$$

$$\text{COGS} = 64,80,000$$

$$\text{GP ratio} = 10\%$$

$$\text{Hence, Sales} = \text{COGS} \times \frac{100}{90}$$

$$= 64,80,000 \times \frac{100}{90} = 72,00,000$$

$$\text{Credit sales} = 72,00,000 \times 20\% = 14,40,000$$

$$\text{Average collection Period} = \frac{\text{Average Debtors}}{\text{Credit Sales}} \times 360$$

$$= \frac{6,90,000}{14,40,000} \times 360 = 172.5 \text{ days}$$

 _____ Space to write important points for revision _____
2014 - Dec [4] Answer the question:

(b) Prepare Total Creditors Account for the year ended on 31.03.2013 from the data given below:

| | |
|----------------------------------|----------|
| | ₹ |
| Creditors Balance on 01.04.2012 | 38,000 |
| Credit Purchases during the year | 2,67,000 |
| Bills payable accepted | 62,000 |

| | |
|------------------------------|----------|
| Cash paid to Creditors | 1,37,000 |
| B/R endorsed to creditors | 16,000 |
| Endorsed B/R dishonoured | 3,000 |
| B/P dishonoured | 2,000 |
| Purchase returns | 11,000 |
| Discount received | 6,000 |
| Transfer from Debtors ledger | 7,000 |

(4 marks)

Answer:**Total Creditors A/c**

| Particulars | Amount | Particulars | Amount |
|----------------------|-----------------|----------------------------|-----------------|
| To B/P | 62,000 | By Balance b/d | 38,000 |
| To Cash | 1,37,000 | By Purchases | 2,67,000 |
| To B/R (endorsed) | 16,000 | By Total debtors A/c | 3,000 |
| To Purchase return | 11,000 | (endorsed B/R dishonoured) | |
| To Discount | 6,000 | By B/P | 2,000 |
| To Total debtors A/c | 7,000 | | |
| To Balance c/d | 71,000 | | |
| | 3,10,000 | | 3,10,000 |

— Space to write important points for revision —

2015 - June [3] (c) ANSHU keeps his books under single entry system. On 31st March, 2014 his Balance Sheet was as follows:

| Liabilities | ₹ | Assets | ₹ |
|----------------------|----------|------------------|----------|
| Capital | 4,50,000 | Fixed Assets | 2,25,000 |
| Creditors | 8,70,000 | Stock | 9,15,000 |
| Bills Payable | 1,87,500 | Debtors | 2,22,000 |
| Expenses Outstanding | 67,500 | Bills Receivable | 90,000 |

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| | | | |
|--|-----------|-------------------|-----------|
| | | Prepaid Insurance | 3,000 |
| | | Cash/Bank Balance | 1,20,000 |
| | 15,75,000 | | 15,75,000 |

- (i) Following is the summary of cash and bank transaction for the year ended 31st March, 2015:
Cash Sales ₹ 1,10,70,000; Collection from Debtors ₹ 22,65,000; Payments to Creditors ₹ 1,12,60,500; Paid for Bills Payable ₹ 12,22,500; Sundry Expenses Paid ₹ 9,31,050; Drawings for Domestic expenses by Mr. Anshu ₹ 3,60,000; Cash and Bank Balance as on 31-03-2015 ₹ 1,90,950.
- (ii) Following further details are furnished:
Gross Profit on Sales @ 10%; Bills Receivable from Debtors during the year ₹ 6,52,500; Discount Allowed to Debtors ₹ 54,000; Discount Received from Creditors ₹ 42,000; Bills Receivable Endorsed to Creditors ₹ 22,500; Annual Fire Insurance Premium paid (This is paid on 1st August every year) ₹ 9,000; Depreciation on Fixed Assets @ 10%.
- (iii) Balance as on 31-03-2015 are given below:
Stock in hand ₹ 9,75,000; Debtors ₹ 2,28,000; Bills Receivable ₹ 2,10,000; Outstanding Expenses ₹ 7,500; Bills payable ₹ 2,10,000.

You are required to prepare:

- (1) Trading and Profit and Loss Account for the year ended March 31, 2015; and
(2) Balance Sheet as on 31.03.2015. **(4 + 3 + 5 = 12 marks)**

Answer:

**Trading & Profit and Loss A/c of MR. ANSHU
for the year ended 31.03.2015**

| Dr. | | Cr. | | |
|----------------------|-------------|------------------|-------------|-------------|
| Particulars | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
| To Opening Stock | 9,15,000 | By Sales: | | |
| To Purchases (W.N.5) | 1,27,02,750 | Cash | 1,10,70,000 | |
| To Gross Profit | 14,04,750 | Credit (W.N. 2) | 29,77,500 | 1,40,47,500 |
| | | By Closing Stock | | 9,75,000 |
| | 1,50,22,500 | | | 1,50,22,500 |

| | | | |
|---------------------|------------------|----------------------|------------------|
| To Expenses (W.N.6) | 8,71,050 | By Gross Profit | 14,04,750 |
| To Discount Allowed | 54,000 | By Discount received | 42,000 |
| To Depreciation | 22,500 | | |
| To Net Profit | 4,99,200 | | |
| | 14,46,750 | | 14,46,750 |

**Balance Sheet of MR. ANSHU
as on 31st March, 2015**

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|----------------------|-------------|------------------|--------------------|-------------|------------------|
| Capital | 4,50,000 | | Fixed Assets | 2,25,000 | |
| Add: Net Profit | 4,99,200 | | Less: Depreciation | 22,500 | 2,02,500 |
| | 9,49,200 | | Stock | | 9,75,000 |
| Less: Drawings | 3,60,000 | 5,89,200 | Debtors | | 2,28,000 |
| Bills payable | | 2,10,000 | Bills receivable | | 2,10,000 |
| Creditors | | 10,02,750 | Prepaid insurance | | 3,000 |
| Outstanding expenses | | 7,500 | Cash at hand/bank | | 1,90,950 |
| | | 18,09,450 | | | 18,09,450 |

Working Notes:

(1) Bills Receivable Account

Dr.

Cr.

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|----------------|-----------------|-------------------------------|-----------------|
| To Balance b/d | 90,000 | By Cash (Balancing Figure) | 5,10,000 |
| To Debtors | 6,52,500 | By Creditors (Bills Endorsed) | 22,500 |
| | | By Balance c/d | 2,10,000 |
| | 7,42,500 | | 7,42,500 |

| | | | |
|---------------------|------------------|----------------------|------------------|
| To Expenses (W.N.6) | 8,71,050 | By Gross Profit | 14,04,750 |
| To Discount Allowed | 54,000 | By Discount received | 42,000 |
| To Depreciation | 22,500 | | |
| To Net Profit | 4,99,200 | | |
| | 14,46,750 | | 14,46,750 |

**Balance Sheet of MR. ANSHU
as on 31st March, 2015**

| Liabilities | Amount ₹ | Amount ₹ | Assets | Amount ₹ | Amount ₹ |
|----------------------|-------------|------------------|--------------------|-------------|------------------|
| Capital | 4,50,000 | | Fixed Assets | 2,25,000 | |
| Add: Net Profit | 4,99,200 | | Less: Depreciation | 22,500 | 2,02,500 |
| | 9,49,200 | | Stock | | 9,75,000 |
| Less: Drawings | 3,60,000 | 5,89,200 | Debtors | | 2,28,000 |
| Bills payable | | 2,10,000 | Bills receivable | | 2,10,000 |
| Creditors | | 10,02,750 | Prepaid insurance | | 3,000 |
| Outstanding expenses | | 7,500 | Cash at hand/bank | | 1,90,950 |
| | | 18,09,450 | | | 18,09,450 |

Working Notes:**(1) Bills Receivable Account**

Dr.

Cr.

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|----------------|-----------------|-------------------------------|-----------------|
| To Balance b/d | 90,000 | By Cash (Balancing Figure) | 5,10,000 |
| To Debtors | 6,52,500 | By Creditors (Bills Endorsed) | 22,500 |
| | | By Balance c/d | 2,10,000 |
| | 7,42,500 | | 7,42,500 |

(2) Debtors Account

Dr.

Cr.

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---------------------------------------|------------------|------------------------|------------------|
| To Balance b/d | 2,22,000 | By Cash/Bank | 22,65,000 |
| To Credit sales (Balancing Figure) | 29,77,500 | By Discount allowed | 54,000 |
| | | By Bills Receivable | 6,52,500 |
| | | By Balance c/d | 2,28,000 |
| | 31,99,500 | | 31,99,500 |

(3) Bills Payable Account

Dr.

Cr.

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|----------------|------------------|-------------------------------------|------------------|
| To Bank | 12,22,500 | By Balance b/d | 1,87,500 |
| To Balance c/d | 2,10,000 | By Creditors (Balance in figure) | 12,45,000 |
| | 14,32,500 | | 14,32,500 |

(4) Creditors Account

Dr.

Cr.

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|----------------------------|--------------------|----------------|--------------------|
| To Cash/Bank | 1,12,60,500 | By Balance b/d | 8,70,000 |
| To Discount | 42,000 | By Purchases | 1,27,02,750 |
| To B/R Endorsed | 22,500 | | |
| To B/P | 12,45,000 | | |
| To Balance c/d (Bal. Fig.) | 10,02,750 | | |
| | 1,35,72,750 | | 1,35,72,750 |

(5) Stock Account

| Dr. | | Cr. | |
|--------------------------|--------------------|--|--------------------|
| Particulars | Amount ₹ | Particulars | Amount ₹ |
| To Balance b/d | 9,15,000 | By Cost of Goods sold (₹1,40,47,500 x 90%) | 1,26,42,750 |
| To Purchases (Bal. Fig.) | 1,27,02,750 | By Balance c/d | 9,75,000 |
| | 1,36,17,750 | | 1,36,17,750 |

(6) Expenses for the year ended 31st March, 2015

| Particulars | Amount ₹ |
|---|-----------------|
| Expenses paid during the year | 9,31,050 |
| Add: Outstanding expenses as on 31.03.2015 | 7,500 |
| | <u>9,38,550</u> |
| Less: Outstanding expenses as on 01.04.2014 | 67,500 |
| | <u>8,71,050</u> |
| Add: Period Insurance as on 01.04.2014 | 3,000 |
| | <u>8,74,050</u> |
| Less: Prepaid Insurance as on 31.03.2015 (₹ 9,000 x 4/12) | 3,000 |
| Expenses shown in the P & L Account for the year ended 31.03.2015 | <u>8,71,050</u> |

— Space to write important points for revision —

2016 - June [6] The following is the Balance Sheet of MR. SILGARDO as on March 31, 2015.

| Liabilities | ₹ | Assets | ₹ |
|-----------------|----------|-----------|----------|
| Capital Account | 4,80,000 | Buildings | 3,25,000 |
| Loan | 1,50,000 | Furniture | 50,000 |
| Trade Creditors | 3,10,000 | Motor car | 90,000 |

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| | | | |
|--|----------|---------------|----------|
| | | Stock | 2,00,000 |
| | | Trade Debtors | 1,70,000 |
| | | Cash in hand | 20,000 |
| | | Cash at bank | 85,000 |
| | 9,40,000 | | 9,40,000 |

A fire occurred on the night of 31st March, 2016, in which all books and records were lost. The cashier had absconded with the available cash. MR. SILGARDO gives you the following information:

- His sales for the year ended March 31, 2016 were 20% higher than the previous years. He always sells his goods at cost plus 25%. 20% of the total sales for the year ended March 31, 2016 was for cash. There were no cash purchases.
- On April 1, 2015 the stock level was raised to ₹ 3,00,000 and the stock was maintained at this level throughout the year.
- Collection from Debtors amounted to ₹ 14 lakh of which ₹ 3.50 lakh was received in cash. Business expenses amounted to ₹ 2,00,000 of which ₹ 50,000 was outstanding on March 31, 2016 and ₹ 60,000 was paid by cheques.
- Analysis of the pass books revealed on the following:
Payment to creditors ₹ 13.75 lakh, Personal drawings ₹ 75,000. Cash deposited in bank ₹ 7.15 lakh.
Cash withdrawn from bank ₹ 1,20,000.
- Gross profit as per last year's audited accounts was ₹ 3,00,000.
- Provide depreciation on building and furniture at 5% and on motor car at 20%.
- The amount defalcated by the cashier may be treated as recoverable from him.

Required:

- Prepare Trading and Profit and Loss Account for the year ended March 31, 2016.
- Prepare Balance Sheet as on 31.03.2016.

(5 + 5 + (2 + 1 + 1 + 1) = 15 marks)

Answer :

(i) **MR. SILGARDO**
Trading and Profit and Loss Account for the year ended March 31, 2016
 Dr. Cr.

| Particulars | ₹ | Particulars | ₹ |
|--|-----------|----------------------------|-----------|
| To Opening Stock A/c | 2,00,000 | By Sales A/c (Note 4): | |
| To Purchase (Balancing figure) A/c | 15,40,000 | Credit (80%) 14,40,000 | |
| To Gross Profit c/d (20% of ₹ 18,00,000) | 3,60,000 | Cash (20%) <u>3,60,000</u> | 18,00,000 |
| | 21,00,000 | By Closing Stock | 3,00,000 |
| | | | 21,00,000 |
| To Business Expenses | 2,00,000 | By Gross Profit b/d | 3,60,000 |
| To Depreciation on: | | | |
| Building 16,250 | | | |
| Furniture 2,500 | | | |
| Motor car <u>18,000</u> | 36,750 | | |
| To Net Profit (transferred to capital) | 1,23,250 | | |
| | 3,60,000 | | 3,60,000 |

(ii) **MR. SILGARDO**
Balance Sheet as at March 31, 2016

| Liabilities | ₹ | Assets | ₹ |
|-------------------------------|-----------------|--------------------|---------------|
| Capital: Opening Balance | 4,80,000 | Buildings | 3,25,000 |
| Add: Net Profit | <u>1,23,250</u> | Less: Depreciation | <u>16,250</u> |
| | 6,03,250 | Furniture | 50,000 |
| Less: Drawings | <u>75,000</u> | Less: Depreciation | <u>2,500</u> |
| Loan | 1,50,000 | Motor Car | 90,000 |
| Trade Payables | 4,75,000 | Less: Depreciation | <u>18,000</u> |
| Outstanding business expenses | 50,000 | Stock-in-trade | 3,00,000 |
| | | Trade Receivables | 2,10,000 |

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| | | | |
|--|------------------|--|------------------|
| | | Cash at Bank | 2,20,000 |
| | | Amount due from employee (for deduction) | 45,000 |
| | 12,03,250 | | 12,03,250 |

Working notes:**(1)****Cash Book****Dr.****Cr.**

| Particulars | Cash | Bank | Particulars | Cash | Bank |
|----------------------|-----------------|------------------|----------------------|-----------------|------------------|
| To Balance b/d | 20,000 | 85,000 | By Business Expenses | 90,000 | 60,000 |
| To Sales (Note 4) | 3,60,000 | - | By Drawings | - | 75,000 |
| To Trade Receivables | 3,50,000 | 10,50,000 | By Trade payables | - | 13,75,000 |
| To Cash (C) | - | 7,15,000 | By Bank (C) | 7,15,000 | - |
| To Bank (C) | 1,20,000 | - | By Cash (C) | - | 1,20,000 |
| | | | By Balance c/d | *45,000 | 2,20,000 |
| | 8,50,000 | 18,50,000 | | 8,50,000 | 18,50,000 |

Recoverable from Cashier*(2)****Trade Receivables Account****Dr.****Cr.**

| Particulars | ₹ | Particulars | ₹ |
|-------------------|------------------|------------------------------|------------------|
| To Balance c/d | 1,70,000 | By Bank (14,00,000-3,50,000) | 10,50,000 |
| To Sales (Note 4) | 14,40,000 | By Cash | 3,50,000 |
| | | By Balance c/d | 2,10,000 |
| | 16,10,000 | | 16,10,000 |

(3) Trade Payables Account

| Dr. | | Cr. | |
|----------------|------------------|--------------------------|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Bank A/c | 13,75,000 | By Balance c/d | 3,10,000 |
| To Balance c/d | 4,75,000 | By Purchase A/c (Note 5) | 15,40,000 |
| | 18,50,000 | | 18,50,000 |

(4) Computation of Total Sales

| | ₹ |
|---|-----------|
| Last year's gross profit @20% on sales (cost + 25%) | 3,00,000 |
| Last year's sales (3,00,000 x 5) | 15,00,000 |
| Current year's sales (₹15,00,000 + 20%) | 18,00,000 |
| Gross Profit: 20% of Sales | 3,60,000 |
| Cash Sales: 20% of Total Sales | 3,60,000 |
| Credit Sales: 80% of Total Sales | 14,40,000 |

5. Calculation of Purchase:

$$\begin{aligned}
 & (\text{Sales} + \text{Closing Stock}) - (\text{Opening Stock} + \text{Gross Profit}) \\
 &= (18,00,000 + 3,00,000) - (2,00,000 + 20\% \text{ of } 18,00,000) \\
 &= (21,00,000 - 5,60,000) = ₹ 15,40,000.
 \end{aligned}$$

— Space to write important points for revision —

2016 - Dec [5] (a) M/S SHOANI a trader who maintained books under Single Entry System, approaches you with the following details:

| | 01.04.2015 | 31.03.2016 |
|-----------------------------|------------|------------|
| Assets and Liabilities: | ₹ | ₹ |
| Trade Creditors | 1,57,700 | 1,24,000 |
| Sundry Expenses Outstanding | 6,000 | 3,300 |
| Sundry Assets (Net) | 1,16,100 | 96,000 |
| Stock-in-Trade | 80,400 | 1,11,200 |

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| | | |
|---------------|----------|----------|
| Cash in hand | 29,600 | 12,000 |
| Cash at Bank | 40,000 | 69,200 |
| Trade Debtors | 1,65,300 | 1,78,700 |

(1) Details relating to transactions during the year ended March 31, 2016.

| | ₹ | | ₹ |
|---|----------|--|----------|
| Discount Credited to Trade Debtors | 15,000 | Cash purchases | 10,300 |
| Sales return | 14,500 | Cash expenses | 95,700 |
| Bad debts | 4,200 | Paid by cheque for machinery purchased | 3,900 |
| Discount allowed by trade creditors | 7,000 | Household expenses drawn from bank | 31,800 |
| Purchases returns | 4,000 | Cash paid into bank | 50,000 |
| Additional capital paid into bank | 85,000 | Cash drawn from bank | 92,400 |
| Realisation from Trade Debtors – paid into bank | 6,25,000 | Cheque issued to Trade Creditors | 6,02,700 |

(2) Depreciation was provided 20% of WDV on Sundry Assets for the year.

You are requested to prepare:

- Trading and Profit & Loss Account for the year ended March 31, 2016 and
- Balance Sheet as on that date. **(5+3+1+1+1+1=12 marks)**

Answer:

M/S SHOANI

**Trading and Profit and Loss Account
for the year ended 31st March, 2016**

| Dr. | | | Cr. | | |
|---------------------------|----------|----------|-----------------|----------|---|
| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
| To Opening Stock in trade | | 80,400 | By Cash Sales | 46,000 | |
| To Purchase (Note 1) | 5,90,300 | | By Credit Sales | 6,72,100 | |
| Less: Returns | 4,000 | 5,86,300 | Less: Return | 7,18,100 | |

| | | | | |
|------------------------------|----------|---------------------------|--------|----------|
| To Gross profit c/d | 1,48,100 | By Closing Stock | 14,500 | 7,03,600 |
| | | By Closing Stock in trade | | 1,11,200 |
| | 8,14,800 | | | 8,14,800 |
| To Sundry expenses (Note -2) | 93,000 | By Gross profit b/d | | 1,48,100 |
| To Discount allowed | 15,000 | | | |
| To Bad Debts | 4,200 | By Discount received | | 7,000 |
| To Depreciation | 24,000 | | | |
| To Net profit | 18,900 | | | |
| | 1,55,100 | | | 1,55,100 |

Balance Sheet as at 31st March, 2016

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|----------------------|----------|----------|----------------|---|----------|
| Capital: | | | Sundry Assets | | 96,000 |
| Opening balance | 2,67,700 | | Stock in trade | | 1,11,200 |
| New capital | 85,000 | | Trade Debtors | | 1,78,700 |
| Profit | 18,900 | | Cash in hand | | 12,000 |
| | 3,71,600 | | Cash at bank | | 69,200 |
| Less: Drawings | 31,800 | 3,39,800 | | | |
| Trade creditors | | 1,24,000 | | | |
| Outstanding expenses | | 3,300 | | | |
| | | 4,67,100 | | | 4,67,100 |

Working Notes:

- (1) Purchase = Credit 5,80,000+ Cash 10,300 = ₹ 5,90,300.
- (2) Sundry expenses = paid in cash ₹ 95,700 plus outstanding on 31.03.2016, ₹ 3,300 outstanding on 01.04.2015 ₹ 6,000 = ₹ 93,000.

(3)

Balance Sheet as on April 1st, 2015

| Liabilities | ₹ | Assets | ₹ |
|----------------------------|----------|--------------------------|----------|
| Trade Creditors | 1,57,700 | Sundry Assets | 1,16,100 |
| Outstanding expenses | 6,000 | Trade debtors | 80,400 |
| Capital (balancing figure) | 2,67,700 | Trade debtors | 1,65,300 |
| | | Cash in hand and at Bank | 69,600 |
| | 4,31,400 | | 4,31,400 |

(4)

Trade Debtors Account

| Dr. | | Cr. | |
|-----------------------------|----------|---------------------|----------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 1,65,300 | By Bank | 6,25,000 |
| To Sales (balancing figure) | 6,72,100 | By Return inward | 14,500 |
| | | By Discount allowed | 15,000 |
| | | By Bad debts | 4,200 |
| | | By Balance c/d | 1,78,700 |
| | 8,37,400 | | 8,37,400 |

(5)

Trade Creditors Account

| Dr. | | Cr. | |
|--------------------------|----------|------------------------|----------|
| Particulars | ₹ | Particulars | ₹ |
| To Bank A/c | 6,02,700 | By Balance b/d | 1,57,700 |
| To Discount Received A/c | 7,000 | By Purchases | 5,80,000 |
| To Returns Outward A/c | 4,000 | (balancing figure) A/c | |
| To Balance c/d | 1,24,000 | | |
| | 7,37,700 | | 7,37,700 |

(6)

Cash Account**Dr.****Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---------------------------------|----------|---------------------------------|----------|
| To Balance b/d | 29,600 | By Purchases A/c | 10,300 |
| To Bank (Cash withdrawn) A/c | 92,400 | By Sundry Expenses A/c | 95,700 |
| To Sales (Cash sales) | 46,000 | By Bank (Cash deposited) A/c | 50,000 |
| [balancing figure] | | By Balance c/d | 12,000 |
| | 1,68,000 | | 1,68,000 |

— Space to write important points for revision —

2017 - June [4] The statement of Affairs of Mr. M on Saturday, the 31st December 2015 was as follows:

| | ₹ | | ₹ |
|------------------------|--------|--------------|--------|
| Capital | 50,000 | Fixed Assets | 30,000 |
| Sundry Creditors | 10,000 | Stock | 10,000 |
| Liability for Expenses | 1,000 | Debtors | 15,000 |
| | | Bank | 5,000 |
| | | Cash | 1,000 |
| | 61,000 | | 61,000 |

Mr. M did not maintain his books on the Double Entry System. But he carefully follows the following system:

- Every week he draws ₹ 200.
- After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.
- No cash purchase is made and creditors are paid by cheques.
- Sales are at fixed price which include 20% profit on sales.
- Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.

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(f) Expenses other than sundries and other special drawings are made in cheques.

(g) All unpaid bills are kept in a file carefully.

The following are his bank transactions for 13 weeks :

| | ₹ | | ₹ |
|-------------------|--------|---------------------------------------|--------|
| Balance on Jan. 1 | 5,000 | Creditors paid | 40,000 |
| Cheques deposited | 2,000 | Rent paid | 600 |
| Cash deposited | 42,000 | Expenses (other than Sundry Expenses) | 3,000 |
| | | Balance on April 1 | 5,400 |
| | 49,000 | | 49,000 |

After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

(a) Stock on that day was valued at ₹ 4,000;

(b) Sundry Debtors amounted to ₹ 20,000 as per diary;

(c) Sundry Creditors were ₹ 8,000 as per unpaid bills file. Find out the amount of cash missing. **(15 marks)**

Answer:

Dr. Sundry Debtors Account Cr.

| Particulars | ₹ | Particulars | ₹ |
|---------------------------------------|--------|----------------|--------|
| To Balance b/f | 15,000 | By Bank | 2,000 |
| To Credit Sales (balancing figure) | 7,000 | By Balance c/f | 20,000 |
| | 22,000 | | 22,000 |

Dr. Sundry Creditors Account Cr.

| Particulars | ₹ | Particulars | ₹ |
|----------------|--------|---|--------|
| To Bank | 40,000 | By Balance b/f | 10,000 |
| To Balance c/f | 8,000 | By Credit Purchases (balancing figure) | 38,000 |
| | 48,000 | | 48,000 |

| Dr. | | Cash Account | | Cr. | |
|----------------|--------|-------------------------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/f | 1,000 | By Drawing: (13 × ₹ 200) | 2,600 | | |
| To Cash Sales | 48,000 | By Sundry Expenses: (13 × ₹ 100) | 1,300 | | |
| | | By Bank | 42,000 | | |
| | | By Balance being cash missing | 3,100 | | |
| | 49,000 | | 49,000 | | |

Note: Calculation of Cash Sales:

| | |
|---|----------|
| Opening Stock | ₹ 10,000 |
| Add: Purchases | 38,000 |
| | 48,000 |
| Less: Closing Stock Cost of goods sold | 4,000 |
| | 44,000 |
| Add : Gross Profit @ 20% on Sales i.e., 25% on cost | 11,000 |
| Total Sales | 55,000 |
| Less: Credit Sales | 7,000 |
| Cash Sales | 48,000 |

— Space to write important points for revision —

2017 - Dec [3] The following is the Balance Sheet of Chirag as on 31st March, 2015:

| Liabilities | ₹ | Assets | ₹ |
|-----------------|---------------|--------------|---------------|
| Capital Account | 48,000 | Building | 32,500 |
| Loan | 15,000 | Furniture | 5,000 |
| Creditor | 31,000 | Motor Car | 9,000 |
| | | Stock | 20,000 |
| | | Debtors | 17,000 |
| | | Cash in hand | 2,000 |
| | | Cash at Bank | 8,500 |
| | 94,000 | | 94,000 |

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A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.
- On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.
- Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.
- Gross Profit as per last year's audited accounts was ₹ 30,000.
- Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

(15 marks)

Answer:

**Trading and Profit and Loss Account
For the year ending on 31st March, 2016**

| Dr. | | | Cr. | |
|--------------------------------------|---|----------|------------------|----------|
| Particulars | ₹ | ₹ | Particulars | ₹ |
| To Opening Stock | | 20,000 | By Sales | 1,80,000 |
| To Purchase (bal. fig.) | | 1,54,000 | By Closing stock | 30,000 |
| To Gross Profit c/d (@ 20% on sales) | | 36,000 | | |
| | | 2,10,000 | | 2,10,000 |

| | | | | |
|--|-------|---------------|---------------------|---------------|
| To Sundry Business Expenses | | 20,000 | By Gross Profit b/d | 36,000 |
| To Depreciation on Building | 1,625 | | | |
| Furniture | 250 | | | |
| Motor | 1,800 | 3,675 | | |
| To Net Profit transferred to Capital A/c | | 12,325 | | |
| | | 36,000 | | 36,000 |

Balance Sheet as at 31st March, 2016

| Liability | ₹ | ₹ | Assets | ₹ | ₹ |
|----------------------|---------|-----------------|---|---------|-----------------|
| Capital Account: | | | Building | 32,500 | |
| Opening Balance | 48,000 | | Less: Depreciation | (1,625) | 30,875 |
| Add: Net Profit | 12,325 | | Furniture | 5,000 | |
| | 60,325 | | Less: Depreciation | (250) | 4,750 |
| Less: Drawings | (7,500) | 52,825 | Motor Car | 9,000 | |
| Loan | | 15,000 | Less: Depreciation | (1,800) | 7,200 |
| Sundry Creditors | | 47,500 | Stock in Trade | | 30,000 |
| Outstanding expenses | | 5,000 | Sundry Debtors | | 21,000 |
| | | | Cash at bank | | 22,000 |
| | | | Sundry Advances (Amount recoverable from cashier) | | 4,500 |
| | | 1,20,325 | | | 1,20,325 |

Working Notes:

(i) **Total Debtors Account**

| Dr. | | Cr. | |
|---|-----------------|------------------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 17,000 | By Bank (₹ 1,40,000 – ₹ 35,000) | 1,05,000 |
| To Sales (80% of ₹ 1,80,000) | 1,44,000 | By Cash A/c | 35,000 |
| To Gross Profit c/d (@ 20% on sales) | | By Balance c/d | 21,000 |
| | 1,61,000 | | 1,61,000 |

(ii) **Total Creditors Account**

| Dr. | | Cr. | |
|----------------|-----------------|----------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Bank | 1,37,500 | By Balance b/d | 31,000 |
| To Balance c/d | 47,500 | By Purchases | 1,54,000 |
| | 1,85,000 | | 1,85,000 |

(iii) **Cash Book**

| Dr. | | | Cr. | | |
|-------------------|---------------|-----------------|---------------------------|---------------|-----------------|
| Particulars | Cash (₹) | Bank (₹) | Particulars | Cash (₹) | Bank (₹) |
| To Balance b/d | 2,000 | 8,500 | By Business Expenses | 9,000 | 6,000 |
| To Sales | 36,000 | — | By Drawings | — | 7,500 |
| To Sundry Debtors | 35,000 | 1,05,000 | By Sundry Creditors | — | 1,37,500 |
| To Cash (Contra) | — | 71,500 | By Bank (Contra) | 71,500 | — |
| To Bank (Contra) | 12,000 | — | By Cash (Contra) | — | 12,000 |
| | | | By Defalcation(Bal. Fig.) | 4,500 | — |
| | | | By Balance c/d(Bal. Fig.) | — | 22,000 |
| | 85,000 | 1,85,000 | | 85,000 | 1,85,000 |

(iv) Last year's Total Sales = Gross Profit \times 100/20 = ₹ 30,000 \times 100/20
= ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000 + 20% of ₹ 1,50,000 = ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 \times 80% = ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹ 1,80,000 – ₹ 36,000
= ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= ₹ 1,44,000 + ₹ 30,000 – ₹ 20,000
= ₹ 1,54,000.

— Space to write important points for revision —

2018 - June [4] The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date:

(a) Assets and Liabilities as on :

| | 01.04.2016 ₹ | 31.03.2017 ₹ |
|-----------------------------|-----------------|-----------------|
| Furniture | 60,000 | 63,500 |
| Stock | 80,000 | 70,000 |
| Sundry Debtors | 1,60,000 | ? |
| Sundry Creditors | 1,10,000 | 1,50,000 |
| Prepaid Expenses | 6,000 | 7,000 |
| Outstanding Expenses | 20,000 | 18,000 |
| Cash in Hand & Bank Balance | 12,000 | 26,250 |

(b) Cash transaction during the year:

- (i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.
 - (ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.
 - (iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.
 - (iv) Payment of Freight inward of ₹ 30,000.
 - (v) Amount withdrawn for personal use ₹ 70,000.
 - (vi) Payment for office furniture ₹ 10,000.
 - (vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October, 2016 and payment made thereof.
 - (viii) Expenses including salaries paid ₹ 95,000.
 - (ix) Miscellaneous receipts of ₹ 5,000.
- (c)** Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonored.
- (d)** Goods costing ₹ 9,000 were used as advertising material.

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- (e) Goods are invariably sold to show a gross profit of 20% on sales.
 (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
 (g) Provide at 2% for doubtful debts on closing debtor. (15 marks)

Answer:

**Trading and Profit and Loss Account of ABC Enterprise
for the year ended 31st March, 2017**

| Dr. | | | Cr. | |
|---------------------------------|----------|-----------------|---------------------------|-----------------|
| Particulars | ₹ | ₹ | Particulars | ₹ |
| To Opening Inventory | | 80,000 | By Sales | 6,08,750 |
| To Purchases | 4,56,000 | | By Closing inventory | 70,000 |
| Less: For advertising | (9,000) | 4,47,000 | | |
| To Freight Inwards | | 30,000 | | |
| To Gross Profit c/d | | 1,21,750 | | |
| | | 6,78,750 | | 6,78,750 |
| To Sundry expenses | | 92,000 | By Gross Profit b/d | 1,21,750 |
| To Advertisement | | 9,000 | By Interest on Investment | 600 |
| To Discount Allowed - | | | (20,000 × 6/100 × ½) | |
| Debtors | 15,000 | | By Discount received | 8,000 |
| Bills Receivable | 1,250 | 16,250 | By Miscellaneous income | 5,000 |
| To Depreciation on furniture | | 6,500 | | |
| To Provision for doubtful debts | | 1,455 | | |
| To Net Profit | | 10,145 | | |
| | | 1,35,350 | | 1,35,350 |

Balance Sheet as on 31st March, 2017

| Liability | ₹ | ₹ | Assets | ₹ | ₹ |
|------------------------|----------|----------|---------------------------|---------|--------|
| Capital as on 01.04.16 | 1,88,000 | | Furniture (w.d.v.) | 60,000 | |
| Less: Drawings | (91,000) | | Additions during the year | 10,000 | |
| | 97,000 | | Less: Depreciation | (6,500) | 63,500 |
| Add: Net Profit | 10,145 | 1,07,145 | Investment | | 19,000 |
| Sundry creditors | | 1,50,000 | Interest accrued | | 600 |

| | | | |
|----------------------|-----------------|------------------------------------|-----------------|
| Outstanding expenses | 18,000 | Closing Inventory | 70,000 |
| | | Sundry debtors | 72,750 |
| | | Less: Provision for doubtful debts | <u>1,455</u> |
| | | | 71,295 |
| | | Bills receivable | 17,500 |
| | | Cash in hand and at Bank | 26,250 |
| | | Prepaid expenses | 7,000 |
| | 2,75,145 | | 2,75,145 |

Working Notes:**(1) Capital on 1st April, 2016****Balance Sheet as on 1st April, 2016**

| Liability | ₹ | Assets | ₹ |
|----------------------|-----------------|--------------------------|-----------------|
| Capital (Bal. Fig.) | 1,88,000 | Furniture (w.d.v.) | 60,000 |
| Creditors | 1,10,000 | Closing Inventory | 80,000 |
| Outstanding expenses | 20,000 | Sundry debtors | 1,60,000 |
| | | Cash in hand and at Bank | 12,000 |
| | | Prepaid expenses | 6,000 |
| | 3,18,000 | | 3,18,000 |

(2) Purchases made during the year

| Particulars | ₹ | Particulars | ₹ |
|--------------------------|-----------------|-------------------------------------|-----------------|
| To Cash & bank A/c | 3,92,000 | By Balance b/d | 1,10,000 |
| To Discount Received A/c | 8,000 | By Sundry Debtors | 4,000 |
| To Bills Receivable A/c | 20,000 | By Purchases A/c (Balancing figure) | 4,56,000 |
| To Balance c/d | 1,50,000 | | |
| | 5,70,000 | | 5,70,000 |

(3) Sales made during the year

| Particulars | ₹ | ₹ |
|---------------------------------|----------|-----------------|
| Opening Inventory | | 80,000 |
| Purchases | 4,56,000 | |
| Less: For advertising | (9,000) | 4,47,000 |
| Freight Inwards | | 30,000 |
| | | 5,57,000 |
| Less: Closing Inventory | | (70,000) |
| Cost of Goods Sold | | 4,87,000 |
| Add: Gross profit (25% on cost) | | 1,21,750 |
| | | 6,08,750 |

(4) Debtors on 31st March, 2017

Sundry Debtors Account

| Dr. | | Cr. | |
|-------------------------|-----------------|----------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 1,60,000 | By Cash and Bank A/c | 5,85,000 |
| To Sales A/c | 6,08,750 | By Discount Allowed A/c | 15,000 |
| To Sundry Creditors A/c | | By Bills Receivable A/c | 1,00,000 |
| (Bill Dishonoured) | 4,000 | By Balance c/d (Bal. Fig.) | 72,750 |
| | 7,72,750 | | 7,72,750 |

(5) Additional drawings by proprietors of ABC Enterprises

Cash and Bank Account

| Dr. | | Cr. | |
|-----------------------------|----------|------------------------|----------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance A/c | 12,000 | By Freight Inwards A/c | 30,000 |
| To Sundry Debtors A/c | 5,85,000 | By Furniture A/c | 10,000 |
| To Bills Receivable A/c | 61,250 | By Investment A/c | 19,000 |
| To Miscellaneous Income A/c | 5,000 | By Expenses A/c | 95,000 |
| | | By Creditors A/c | 3,92,000 |
| | | By Drawings | |
| | | [₹ 70,000+₹ 21,000] | 91,000 |

| | | | |
|--|-----------------|-----------------------|-----------------|
| | | [Additional Drawings] | |
| | | By Balance c/d | 26,250 |
| | 6,63,250 | | 6,63,250 |

(6) Amount of expenses debited to Profit and Loss Account
Sundry Expenses Account

| Dr. | | Cr. | |
|--|-----------------|--|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Prepaid Expenses A/c (on 01.04.16) | 6,000 | By Outstanding Expenses A/c (on 01.04.16) | 20,000 |
| To Bank A/c | 95,000 | By Profit and Loss A/c (Bal. Figure) | 92,000 |
| To Outstanding Expenses/c (on 31.03.17) | 18,000 | By Prepaid Expenses A/c (on 31.03.17) | 7,000 |
| | 1,19,000 | | 1,19,000 |

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

| Dr. | | Cr. | |
|----------------|-----------------|-------------------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Debtors A/c | 1,00,000 | By Creditors A/c | 20,000 |
| | | By Bank A/c | 61,250 |
| | | By Discount on Bills Receivable A/c | 1,250 |
| | | By Balance c/d (Balancing Figure) | 17,500 |
| | 1,00,000 | | 1,00,000 |

Note: All sales and purchases are assumed to be on credit basis.

— Space to write important points for revision —

2018 - Dec [2] (b) Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date:

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| Particulars | 31 st March, 2017 (₹) | 31 st March, 2018 (₹) |
|-------------------------|----------------------------------|----------------------------------|
| Furniture | 1,00,000 | 1,20,000 |
| Stock of Goods-in-Trade | 60,000 | 20,000 |
| Sundry Debtors | 1,20,000 | 1,40,000 |
| Prepaid Expenses | — | 4,000 |
| Sundry Creditors | 40,000 | ? |
| Unpaid Expenses | 12,000 | 20,000 |
| Cash | 22,000 | 6,000 |

Receipts and Payments during the year were as follows:

| Particulars | ₹ |
|-----------------------|----------|
| Receipts from Debtors | 4,20,000 |
| Paid to Creditors | 2,00,000 |
| Transportation | 40,000 |
| Drawings | 1,20,000 |
| Sundry Expenses | 1,40,000 |
| Furniture Purchased | 20,000 |

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors. **(8 marks)**

Answer:

Ram Prakash
Trading and Profit and Loss Account
for the year ended 31st March, 2018

| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
|------------------|---|----------|---------------|----------|---|
| To Opening Stock | | 60,000 | By Sales: | | |
| To Purchases | | 2,30,000 | Credit (WN 1) | 4,40,000 | |

| | | | | | |
|--|---------------|-----------------|---------------------|--------|-----------------|
| To Transportation | | 40,000 | Cash (WN 3) | 84,000 | 5,24,000 |
| To Gross Profit c/d | | 2,14,000 | By Closing Stock | | 20,000 |
| | | <u>5,44,000</u> | | | <u>5,44,000</u> |
| To Sundry Exp. | 1,40,000 | | By Gross Profit b/d | | 2,14,000 |
| Less: Unpaid exp. For 2017 | <u>12,000</u> | | | | |
| | 1,28,000 | | | | |
| Less: Prepaid Exp. 2019 | <u>4,000</u> | | | | |
| | 1,24,000 | | | | |
| Add: Unpaid Exp. For 2018 | <u>20,000</u> | 1,44,000 | | | |
| To Provision for Doubtful debts. | | 14,000 | | | |
| To Net Profit transferred to Capital A/c | | 56,000 | | | |
| | | 2,14,000 | | | 2,14,000 |

Balance Sheet as at 31st March, 2018

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|------------------|-----------------|----------|------------------------------------|---------------|----------|
| Creditors (WN 2) | | 70,000 | Cash and balance | | 6,000 |
| Unpaid Expenses | | 20,000 | Debtors | 1,40,000 | |
| Capital (WN 4) | 2,50,000 | | Less: Provision for Doubtful Debts | <u>14,000</u> | 1,26,000 |
| Add: Net Profit | <u>56,000</u> | | Closing Stock | | 20,000 |
| | 3,06,000 | | Prepaid Expenses | | 4,000 |
| Less: Drawing | <u>1,20,000</u> | 1,86,000 | Furniture | 1,00,000 | |
| | | | Add: Additions | 20,000 | 1,20,000 |
| | | 2,76,000 | | | 2,76,000 |

Working Notes:

1. Calculation of Credit Sales:

Total Debtors Account

| Particulars | ₹ | Particulars | ₹ |
|-----------------------------|----------|------------------|----------|
| To balance b/d | 1,20,000 | By Cash/Bank A/c | 4,20,000 |
| To Sales A/c – credit (b/f) | 4,40,000 | By Balance c/d | 1,40,000 |
| | 5,60,000 | | 5,60,000 |

2. Calculation of Closing Creditors Balance:**Total Creditors Account**

| Particulars | ₹ | Particulars | ₹ |
|----------------------|----------|------------------------------------|----------|
| To Cash/Bank A/c | 2,00,000 | By Balance c/d | 40,000 |
| To Balance c/d (b/f) | 70,000 | By Purchase A/c (Credit Purchases) | 2,30,000 |
| | 2,70,000 | | 2,70,000 |

3. Calculation of Cash Sales:**Cash Book**

| Particulars | ₹ | Particulars | ₹ |
|----------------------|----------|------------------------|----------|
| To Balance b/d | 22,000 | By Total creditors A/c | 2,00,000 |
| To Total Debtors A/c | 4,20,000 | By Drawings A/c | 1,20,000 |
| To Sales A/c (b/f) | 84,000 | By Sundry Exp. A/c | 1,40,000 |
| | | By Transportation A/c | 40,000 |
| | | By Furniture A/c | 20,000 |
| | | By Balance c/d | 6,000 |
| | 5,26,000 | | 5,26,000 |

4. Calculation of Opening Capital:**Statement of Affairs as at 31st March, 2017**

| Particulars | ₹ | Particulars | ₹ |
|-----------------|----------|---------------|----------|
| Creditors | 40,000 | Furniture A/c | 1,00,000 |
| Unpaid Expenses | 12,000 | Stock | 60,000 |
| Capital (B/F) | 2,50,000 | Debtors | 1,20,000 |
| | | Cash in hand | 22,000 |
| | 3,02,000 | | 3,02,000 |

— Space to write important points for revision —

2019 - June [2] (b) Mr. Kanan is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Kanan for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

| | |
|---|--------------------|
| On 31 st March, 2018 | |
| Sundry Assets | ₹ 16,65,000 |
| Liabilities | ₹ 4,13,000 |
| On 31 st March, 2019 | |
| Sundry Assets | ₹ 28,40,000 |
| Liabilities | ₹ 5,80,000 |
| Mr. Kanan's drawings for the year 2018-19 | ₹ 32,000 per month |
| Income declared to the Income Tax Officer | ₹ 9,12,000 |

During the year 2018-19, one life insurance policy of Mr. Kanan was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working. **(7 marks)**

Answer:

Determination of Capital balance of Mr. Kanan on 31.3.2018 and on 31.3.2019

| | 31.3.2018 | 31.3.2019 |
|-------------------|-----------|-----------|
| | ₹ | ₹ |
| Assets | 16,65,000 | 28,40,000 |
| Less: Liabilities | 4,13,000 | 5,80,000 |
| Capital | 12,52,000 | 22,60,000 |

Determination of Profit by applying the method of the capital comparison.

| | |
|---------------------------------|-----------|
| | ₹ |
| Capital Balance as on 31.3.2019 | 22,60,000 |

| | |
|--|-------------|
| Less: Fresh capital introduces(matured life insurance policy amount) | (50,000) |
| | 22,10,000 |
| Add: Drawings (₹ 32,000 ×12) | 3,84,000 |
| | 25,94,000 |
| Less: Capital Balance as on 1.4.2018 | (12,52,000) |
| Profit | 13,42,000 |
| Income declared | 9,12,000 |
| Suppressed Income | 4,30,000 |

The Income Tax Officer's contention that Mr. Kanan has not declared his true income is correct. Mr. Kanan's true income is in excess of the disclosed income by ₹ 4,30,000.

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

— Space to write important points for revision —

2019 - Dec [2] (a) A retail trader had not kept proper books of account. From the details given below you are required to prepare the Profit and Loss Account for the year ended 31st March, 2018.

| | 1 st April, 2017 (₹) | 31 st March, 2018 (₹) |
|-----------------------|---------------------------------|----------------------------------|
| Stock-in-Trade | 16,700 | 18,100 |
| Sundry Creditors | 15,400 | 19,200 |
| Sundry Debtors | 11,200 | 10,600 |
| Cash in Hand | 250 | 1,400 |
| Bank Overdraft | 19,200 | Nil |
| Bills Receivable | 16,000 | 5,000 |
| Fixtures and Fittings | 1,500 | 1,500 |
| Motor Van | 1,900 | Nil |
| Bank Balance | Nil | 2,900 |

Drawings during the year amounted to ₹2,400. Depreciate Fixtures and Fittings by 10%. ₹600 is irrecoverable from Debtors. Provide 5% for Doubtful Debts and ₹200 in respect of Bills Receivable. **(8 marks)**

Answer:

Statement of Affairs as at 1st April 2017

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|----------------------------|---------------|---------------------|---------------|
| Sundry Creditors | 15,400 | Cash in Hand | 250 |
| Bank Overdraft | 19,200 | Sundry Debtors | 11,200 |
| Capital (Balancing Figure) | 12,950 | Bills Receivable | 16,000 |
| | | Stock-in-trade | 16,700 |
| | | Fixtures & Fittings | 1,500 |
| | | Motor Van | 1,900 |
| | 47,550 | | 47,550 |

Statement of Affairs (Before Adjustments) as at 31st March 2018

| Liabilities | Amount (₹) | Asset | Amount (₹) |
|----------------------------|---------------|---------------------|---------------|
| Sundry Creditors | 19,200 | Cash in Hand | 1,400 |
| Capital (Balancing Figure) | 20,300 | Cash at Bank | 2,900 |
| | | Sundry Debtors | 10,600 |
| | | Bills Receivable | 5,000 |
| | | Stock - in- trade | 18,100 |
| | | Fixtures & Fittings | 1,500 |
| | 39,500 | | 39,500 |

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Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Statement of Profit or Loss for the year ended 31st March 2018

| Particulars | Amount (₹) |
|---|------------|
| Capital on 31 st March 2018 | 20,300 |
| Add: Drawings during the year | 2,400 |
| | 22,700 |
| Less: Capital on 1 st April 2017 | (12,950) |
| Gross Profit made during the year | 9,750 |

Profit & Loss Account for the year ended 31st March 2018

| Dr. | | Cr. | |
|--|------------|-----------------|------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) |
| To Depreciation on Fixture & Fittings | 150 | By Gross Profit | 9,750 |
| To Bad Debts | 600 | | |
| To Provision for Doubtful Debts | 500 | | |
| To Provision for Bills Receivable | 200 | | |
| To Net Profit transferred to Capital A/c | 8,300 | | |
| | 9,750 | | 9,750 |

— Space to write important points for revision —

2021 - Dec [1] Calculate:

- (i) Gross profit. (ii) Cost of goods sold and (iii) Closing stock from the following particulars.

Opening stock ₹20,000

Cash sales ₹60,000

Credit sales ₹40,000

Purchase ₹70,000

Rate of gross profit on cost $33\frac{1}{3}\%$ (4 marks) [Sec. C - Two LAQ]

Answer:

Gross Profit = ₹25,000

Cost of Goods Sold = ₹75,000

Closing Stock = ₹15,000

Total Sales = 60,000 + 40,000 = 1,00,000

Sales – COGS = GP

Also COGS × 33.33% = GP

Sales – COGS = COGS × 33.33%

Sales = COGS + 0.33 COGS

Sales = 1.33 COGS.

$$\text{COGS} = \frac{\text{Sales}}{1.33} = \frac{1,00,000}{1.333} = 75,000$$

GP = 1,00,000 – 75,000 = 25,000

Op. St + Purchase – Closing Stock = COGS

20,000 + 70,000 – CI Stock = 75,000

CI Stock = 15,000

— Space to write important points for revision —

2021 - Dec [1] Alpana enterprises maintain their books of accounts under a single entry system. The balance sheet on 31st March, 2018 was a follows:

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|----------------------|-------------|------------------------------|-------------|
| Capital A/C | 6,75,000 | Furniture's and fixtures | 1,50,000 |
| Trade creditors | 7,57,500 | Stock | 9,15,000 |
| Outstanding expenses | 67,500 | Trade debtor | 3,12,000 |
| | | Prepaid insurance | 3,000 |
| | | Cash in hand and at the Bank | 1,20,000 |
| | = 15,00,000 | | = 15,00,000 |

The following was a summary of cash and bank book for the year ended 31st March, 2019

| Receipts | Amount (₹) | Payment | Amount (₹) |
|---|-------------|----------------------------|-------------|
| Cash in hand and at the bank on 1 st April, 2018 | 1,20,000 | Payment to trade creditors | 1,24,83,000 |
| Cash Sales | 1,10,70,000 | Sundry expenses paid | 9,31,050 |

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| | | | |
|----------------------------|-------------|--|-------------|
| Received from trade debtor | 27,75,000 | Drawings | 3,60,000 |
| | | Cash in hand and at the bank on 31 st March, 2019 | 1,90,950 |
| | 1,39,65,000 | | 1,39,65,000 |

Additional information:

- (a) Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively (For the years ended 31st March, 2019)
- (b) Annual fire insurance premium ₹ 9,000 was paid every year on 1st August for the renewal of the policy.
- (c) Furniture and fixture were subject to depreciation @ 15% P.a. on diminishing balance method.
- (d) The following are the balances as on 31st March, 2019.
 Stock: ₹9,75,000
 Trade Debtors ₹3,43,000
 Outstanding expenses. ₹55,200
- (e) Gross profit ratio of 10% on sales is maintained throughout the year. From the above particulars. Find out.
- (i) Amount of credit sales. **(1 mark)**
- (ii) Amount of credit purchase. **(2 marks)**
- (iii) Amount of closing balance of creditors as on 31-03-19 **(2 marks)**
- (iv) Amount of gross profit for the year ended 31-03-19 **(1 mark)**
- (v) Amount of Sundry expenses to be charged to the profit and loss account for the year ended 31-03-19 **(4 marks)**
- (vi) Amount of net profit for the year ended 31-03-19 **(1 mark)**
- (vii) Amount of closing capital as on 31-03-19. **(1 mark)**

[Sec. D - Case Study Question]**Answer:**

| | | |
|------------------------------------|---|--------------|
| (i) Credit Sale | - | ₹28,60,000 |
| (ii) Credit Purchase | - | ₹1,25,97,000 |
| (iii) Closing balance of Creditors | - | ₹8,29,000 |

| | | |
|----------------------------------|---|------------|
| (iv) Gross Profit | - | ₹13,93,000 |
| (v) Sundry Expenses | - | ₹9,18,750 |
| (vi) Net Profit | - | ₹4,40,250 |
| (vii) Closing Capital (31-03-19) | - | ₹7,55,250 |

— Space to write important points for revision —

2022 - Dec [3] Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

| Balances | 31.03.2018 | 31.03.2019 |
|---|------------|------------|
| Land and Building | 5,00,000 | 5,00,000 |
| Plant and Machinery | 2,20,000 | 3,30,000 |
| Office equipment | 1,05,000 | 85,000 |
| Debtors (before charging for Bad debts) | ? | 2,25,000 |
| Creditors for purchases | 95,000 | ? |
| Creditors for office expenses | 20,000 | 15,000 |
| Stock | ? | 65,000 |
| Long term loan from SBI @ 12% | 1,60,000 | 1,00,000 |
| Bank | 25,000 | ? |

| Other Information | In ₹ |
|---|----------|
| Collection from debtors | 9,25,000 |
| Payment to creditors for purchases | 5,25,000 |
| Payment of office expenses (excluding interest on loan) | 42,000 |
| Salary paid | 32,000 |
| Selling expenses | 15,000 |
| Cash sales | 2,50,000 |

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| | |
|---|----------|
| Credit sales (80% of total sales) | |
| Credit purchases | 5,40,000 |
| Cash purchases (40% of total purchases) | |
| GP Margin at cost plus 25% | |
| Discount Allowed | 5,500 |
| Discount Received | 4,500 |
| Bad debts (2% of closing debtors) | |
| Depreciation to be provided as follows: | |
| Land and Building | 5% |
| Plant and Machinery | 10% |
| Office Equipment | 15% |

Other adjustments:

- (i) On 01.10.18 they sold machine having Book Value ₹ 40,000 (as on 31.03.2018) at a loss of ₹ 15,000. New machine was purchased on 01.01.2019.
 - (ii) Office equipment was sold at its Book Value on 01.04.2018.
 - (iii) Loan was partly repaid on 31.03.19 together with interest for the year.
- You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019. **(15 marks)**

— Space to write important points for revision —

4






PARTNERSHIP ACCOUNTING

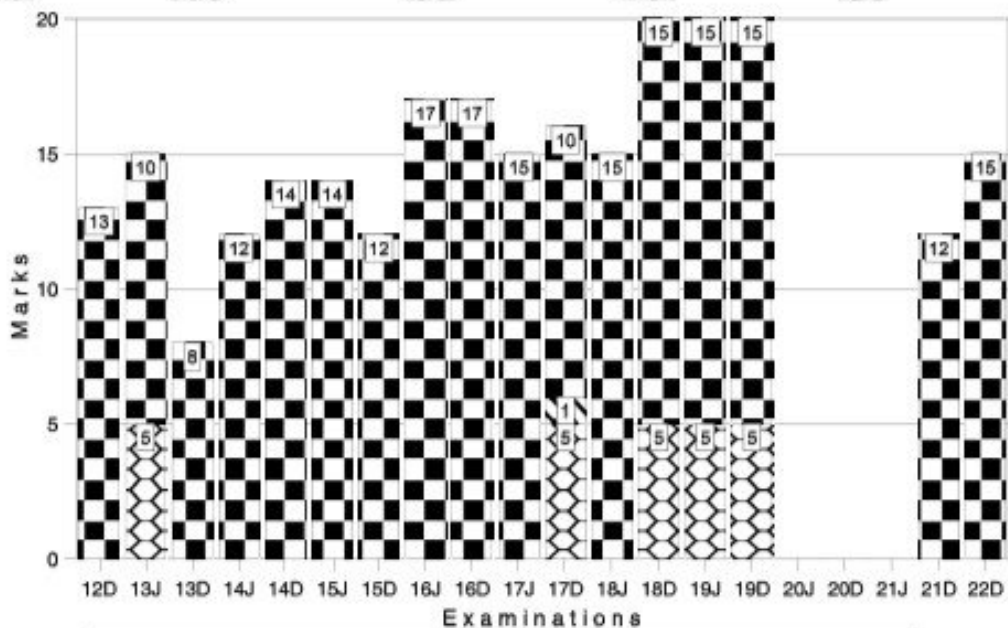
THIS CHAPTER INCLUDES

- | | |
|---|--|
| <ul style="list-style-type: none"> • Appropriation of Profits • Admission • Retirement • Death • Insolvency of a Partner | <ul style="list-style-type: none"> • Dissolution • Amalgamation • Conversion and Sale of a Partnership Firm |
|---|--|

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



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CHAPTER AT A GLANCE**Admission of Partner**

Partners of a continuing business may, by common consent, decide to admit a new partner for additional capital, technical skill or managerial efficiency.

Valuation of Inherent or Non-Purchased Goodwill

1. Average Profits Methods
2. Super Profits Method
3. Capitalization of Profits Methods
4. Annuity Method

Retirement of Partner

A Partner may leave the firm by taking retirement. Normally the retirement takes place by consent of all the partners and/ or by other mode of communication by the intended partner to all other partners.

Death of Partner

If a partner dies, the partnership is usually dissolved. But if the surviving partners desire so, they may purchase the share of the deceased partner and carry on the business. In that case they have to decide (1) the total amount payable to the legal representative or executor of the deceased partner and (2) the mode of such payment.

Dissolution of a Partnership Firm

Whenever a reconstitution takes place within a Partnership in the form of admission, retirement or death of a Partner, the existing partnership is dissolved. The Partnership firm, may however, continue, if the remaining partners desire so. But if the partnership firm is discontinued for any reason, that is called Dissolution of the firm.

Insolvency of a Partner

If a partner becomes insolvent and fails to pay his debit balance of Capital A/c either wholly or in part, the unrecoverable portion is a loss to be borne by the solvent partners.

Decision in Garner vs. Murray Case

Unless otherwise agreed, the decision in Garner vs. Murray requires:

- (i) That the solvent partners should bring in cash equal to their respective shares of the loss on realization;
- (ii) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

SHORT NOTES

2013 - June [8] Write short note:

(e) Guaranteed Partnership.

(5 marks)

Answer:

In a partnership, there may be special agreement by virtue of which partner may get the guarantee of earning a minimum amount of profit. The guarantee may be given by one partner in particular or by the firm. It is given generally to encourage a junior partner or any sincere clerk of the business inducted to the benefits of partnership.

Guarantee given by the partner:

- (i) The appropriation of profit should be made in the general course by applying the existing profit sharing ratio.
- (ii) The minimum amount guaranteed is to be decided.
- (iii) In case the guaranteed amount (ii) is more, the excess should be deducted from the share of profit of the partner giving guarantee and calculated under (i) above.

The same amount should be added with the original share of profit of the partner to whom the guarantee has been given.

— Space to write important points for revision —

2016 - Nov [7] (d) Write short notes on Designated Partner in a Limited Liability Partnership and what are their liabilities.

(4 marks) [CA Inter Gr. II]

Answer:

Designated Partners:

As per Sec. 7 of the LLP Act, every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

Provided that in case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

Explanation:

Subject to the purpose of this Section the term "resident in India means a person who has stayed in India for a period of not less 182 days during the immediately preceding one year. Subject to the provisions of sub-section (1).

1. If the incorporation document:
 - (a) Specifies who are to be designated partners, such person shall be designated partners on incorporation; or
 - (b) States that each of the partners from time to time of limited liability partnership is to be designated partner, every such partner shall be a designated partner.
2. Any partner may become a designated partner by and in accordance with the limited liability partnership agreement and a partner may cease to be a designated partner in accordance with limited liability partnership agreement.
3. An individual shall not become a designated partner in any limited liability partnership unless he has given his prior consent to act as such to the limited liability partnership in such form and manner as may be prescribed.
4. Every limited liability partnership shall file with the registrar the particulars of every individual who has given his consent to act as designated partner in such form and manner as may be prescribed within thirty days of his appointment.

5. An individual eligible to be a designated partner shall satisfy such conditions and requirements as may be prescribed.

Liabilities of Designated Partners:

As per Sec. 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be:

- (a) responsible for the doing of all acts, matters and things as are required to be done by the LLP in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provision of this act and as may be specified in the limited liability partnership agreement; and
- (b) liable to all parties imposed on the limited liability partnership for any contravention of those provisions.

— Space to write important points for revision —

2017 - Dec [8] Write short notes on the following:

- (d) Criticism of the decision of *Garner vs. Murray*. **(5 marks)**

Answer:

Criticism of the decision of *Garner vs. Murray*

The following criticism may be advocated against the decisions laid down in *Garner vs. Murray* principle:

- (i) If any solvent partner has a debit balance in capital account, he must not bear the deficiency of the insolvent partner;
- (ii) This principle does not apply if there are only two partners;
- (iii) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on realisation which is immaterial and useless; and
- (iv) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per *Garner vs. Murray* decision, bear less amount of deficiency of the insolvent partner than the other solvent partner who possess less private assets but contributes more capital to the firm. This is not justified.

— Space to write important points for revision —

2018 - May [4] (b) Write short notes on extent of liability of LLP and its Partners. **(5 marks) [CA Inter Gr. II]**

Answer:

- Under **Sec. 27(3) of the LLP Act, 2008** an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. **The limitations of liability of an LLP and its partners are as follows:**
- The liabilities of an LLP shall be met out of the properties of an LLP:
- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
 - The partner does not have the authority to act on behalf of the LLP in doing a particular acts, and
 - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP.
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

— Space to write important points for revision —

2018 - Dec [8] Write short note on the following:

- (i) Applicability and Non-Applicability of Garner vs. Murray Rule

(5 marks)

Answer:

In the case of dissolution of a partnership firm due to insolvency, Garner vs Murray rule is applicable at the time of any partner becoming insolvent. It requires—

1. That the solvent partners should bear the loss arising due to insolvency of a partner in their capital ratio after making adjustments for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc., to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital. In case of fixed capital no such adjustments are required.
2. That the solvent partners should bring in cash equal to their respective shares of the loss on realization.

Non-Applicability: This rule is not applicable when:

1. The solvent partner has a debit balance in the capital account.
2. Only one partner is solvent.
3. All partners are insolvent.
4. The partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions given in the deed would prevail.

— Space to write important points for revision —

2019 - June [8] Write short note on the following:

(d) Maximum Possible Loss Method

(5 marks)

Answer:

Maximum Possible Loss Method:

Steps:

- (1) Prepare a statement showing distribution of cash
- (2) Pay off the external Liabilities
- (3) After all the payment is made for the external liabilities, the partners will be paid off.

| | |
|------------------------------------|-----|
| Total Due of Partners | xxx |
| Less: : Net/Balance of Realisation | (x) |
| Maximum Loss | xxx |
- (4) The maximum loss shall be shared amongst the partners in their profit sharing ratio, as if, there will be no further realisation.
- (5) If any of the partner capitals, after step (4) is negative, that partner shall be treated like an insolvent partner.
- (6) The deficiency of the insolvent partner as per step (5) shall be shared by the other solvent partners (i.e. those partners who has positive capital balances) in their capital contribution ratio as per *Garner vs. Murray* Rule.
- (7) Repeat the steps (3) to (6) till final realisation.

— Space to write important points for revision —

2019 - Dec [8] Write short notes on the following:

(c) Applicability of Section 37 of the Indian Partnership Act, 1932

(5 marks)

Answer:**Applicability of Section 37 of the Indian Partnership Act 1932:**

In case of retirement, the retiring partner or in case of death, the executor of the deceased partner, if the dues are not settled, then such retired partner or the executor is entitled to the following:

Maximum of : Interest @ 6% p.a. on the amount due to them (i.e. if the amount is unsettled, like, rate of interest on loan to be allowed to the retired partner or the executor is not mentioned)

Or

The share of profit earned for the amount due to the partner

Conditions:

- The surviving partners/continuing partners continue to carry on the business of the firm.
- The business is carried on without any final settlement of accounts between the continuing partners and the outgoing partners or his estate.
- There is no contract to the contrary of the options contained in Section 37 i.e. share in the profits or interest @ 6% p.a. on the unsettled capital.

DISTINGUISH BETWEEN

2016 - May [7] (a) Answer the following:

What are the distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP)?

(4 marks) [CA Inter Gr. II]

Answer:**Distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP):**

| S No. | Basis of Difference | Partnership | LLP |
|-------|-----------------------|-------------------------------|---|
| 1. | Applicable Law | Indian Partnership Act, 1932. | Limited Liability Partnerships Act, 2008. |
| 2. | Formation | Formed by an Agreement. | Formed by Law. |
| 3. | Registration | Optional. | Compulsory with ROC. |

| | | | |
|----|---------------------------------------|--|--|
| 4. | Body Corporate | Not a body corporate. | A Body Corporate after registration with ROC, it becomes a body corporate. |
| 5. | Separate Legal Identity | It has no separate legal identity. | All body corporate are said to have a separate legal identity. |
| 6. | Perpetual Succession | No perpetual succession. | It has perpetual succession. |
| 7. | Number of Partners | Minimum 2 and Maximum 100. | Minimum 2 but no Maximum limit. |
| 8. | Liability of Partners/ Members | Liability of the partners is unlimited. Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets. | Liability of the partners is limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner. |
| 9. | Principal Agent Relationship | Partners are the agents of the firm and of each other i.e. Mutual agency. | Partners are agents of the firm only and not of other partners. No Mutual agency. |

Space to write important points for revision

DESCRIPTIVE QUESTIONS

2015 - May [7] (e) Answer the following:

Under what circumstances, an LLP can be wound up by the Tribunal.

(4 marks each) [CA Inter Gr. II]

Answer:

Circumstances when an LLP can be wound up by the tribunal:

- The partnership shall be dissolved if there is unlawful object of the firm.
- The partnership firm shall be dissolved when all the partners become insolvent.
- The partnership firm is dissolved by order of court.

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- If there is any criminal law or case on the firm, the firm shall be dissolved.
- If partnership is under loss on continuous basis then firm shall be dissolved by the tribunal.
- If partnership violates any rule of partnership Act then court may give order for dissolution.

— Space to write important points for revision —

2017 - Nov [7] (c) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

(4 marks) [CA Inter Gr. II]

Answer:

1. Nature of LLP:

| Point | LLP |
|---------------------------------------|---|
| Governing law | The Limited Liability Partnership Act, 2008 |
| Registration | Registration with registrar of LLP mandatory. |
| Name | Name should contain limited liability partnership as suffix. |
| Creation | Created by law |
| Separate entity | Separate legal entity under LLP Act, 2008. |
| Perpetual succession | LLP has perpetual succession, and partners may come and go. |
| Legal proceedings | A LLP is a legal entity can sue and be sued. |
| Annual filing of forms | Annual statement of Accounts and Solvency & Annual return to be filed with registrar every year. |
| Digital signature for partners | As e-forms are filled electronically at least one designated partner should have digital signature. |
| Agency Relationship | Partners act as agents of LLP and not of the other partners. |

| | |
|------------------------------|--|
| Liability of Partners | Limited, to the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by partner. |
|------------------------------|--|

2. Designated partners:

Sec. 7 of LLP Act deals with designated partners, and Sec. 8 deals with liabilities of Designated partners, given below:

- (a) Every LLP shall at least 2 designated partners (DPs).
- (b) DPs shall be individuals only.

(Note: If all partners of LLP are bodies corporate, or one or more partners are individuals or bodies corporate, at least 2 individuals who are partners of such LLP or Nominees of such bodies corporate, shall act as designated partners).

- (c) At least 1 DP should be resident in India.

(Note: Resident means a person who has stayed in India \geq 182 days during. The immediately preceding 1 year).

- (d) An individual can become a DP in any LLP, only if he has given his consent to act as such, to the LLP.

— Space to write important points for revision —

2017 - Dec [4] (c) (i) Why is goodwill considered to be an intangible asset and not a fictitious asset? **(1 mark)**

Answer:

Goodwill is not a fictitious asset because it has a realisable value. It is an intangible asset because it cannot be seen and touched.

— Space to write important points for revision —

2020 - Nov [6] (a) Answer the following:

Under what circumstances an LLP can be wound up by the tribunal?

(5 marks) [CA Inter Gr. II]

Answer:

An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;

- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

— Space to write important points for revision —

2022 - May [4] (b) Explain the nature of a Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership and what are their liabilities? **(5 marks) [CA Inter Gr. II]**

Answer:

Nature of Limited Liability Partnership:

- A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated Partners:

- Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be resident in India. In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

Liabilities of designated partners:

- As per section 8 of the LLP Act, unless expressly provided otherwise in this Act, a designated partner should be:
 - (a) Responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of the provisions of this Act including filing of any document, return, statement.
 - (b) Liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

PRACTICAL QUESTIONS

2012 - Dec [4] (a) Ashok & Bala who were in partnership sharing 7/12 and 5/12 respectively admitted Chand as a partner giving him 1/5th share from 01.04.2011. The new profit sharing ratio is 7 : 5 : 3. Chand brought ₹ 96,000 towards goodwill to be shared by Ashok & Bala in their sacrificing ratio. The amount so brought was however credited to Chand's capital account by mistake:

The Trial Balance of the firm as on 31st March, 2012 is given below:

| | Dr. (₹) | Cr. (₹) |
|---------------------|-----------|-----------|
| Ashok's capital | | 3,36,000 |
| Bala's capital | | 2,40,000 |
| Chand's capital | | 2,24,000 |
| Sundry Creditors | | 48,000 |
| Current year profit | | 2,20,000 |
| Other Assets | | |
| Ashok's drawing | 7,70,000 | |
| Bala's drawing | 1,45,600 | |
| Chand's drawing | 1,04,000 | |
| Cash in hand | 20,400 | |
| | 28,000 | |
| Total: | 10,68,000 | 10,68,000 |

Interest on drawings is to be ignored but interest on capital is to be charged at 5% per annum which was not made so far. Prepare new Balance Sheet as at 31.03.2012 giving effect to above adjustments/omissions.

(8 marks)

Answer :

W.N. (1)

Calculation of sacrificing ratio

| Particulars | Old ratio - New ratio |
|-------------|---|
| Ashok | $\frac{7}{12} - \frac{7}{15} = \frac{105 - 84}{180} = \frac{21}{180}$ |

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| | |
|------|--|
| Bala | $\frac{5}{12} - \frac{5}{15} = \frac{75 - 60}{180} = \frac{15}{180}$ |
| | ∴ Sacrificing ratio is 21:15 or 7:5 |

W.N. (2) Calculation of Partners closing capital

| Particulars | Ashok ₹ | Bala ₹ | Chand ₹ |
|--------------------------------|------------|-----------|------------|
| Capital as per Trial Balance | 3,36,000 | 2,40,000 | 2,24,000 |
| Goodwill adjustment (7:5) | 56,000 | 40,000 | (96,000) |
| W.N. (1) | 3,92,000 | 2,80,000 | 1,28,000 |
| Interest on Capital @ 5% | 19,600 | 14,000 | 6,400 |
| | 4,11,600 | 2,94,000 | 1,34,400 |
| Share of Profit | | | |
| Profit 2,20,000 | | | |
| Less: Instt. on capital 40,000 | | | |
| 1,80,000 (7:5:3) | 84,000 | 60,000 | 36,000 |
| | 4,95,600 | 3,54,000 | 1,70,400 |
| Less: Drawings as given in T/B | 1,45,600 | 1,04,000 | 20,400 |
| | 3,50,000 | 2,50,000 | 1,50,000 |

Balance Sheet of Reconstituted firm as on 31.03.2012

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|------------------|----------|--------------|----------|
| Capital A/c: | | Other Assets | 7,70,000 |
| Ashok | 3,50,000 | Cash in hand | 28,000 |
| Bala | 2,50,000 | | |
| Chand | 1,50,000 | | |
| Sundry creditors | 48,000 | | |
| | 7,98,000 | | 7,98,000 |

2012 - Dec [4] (b) Sachin & Ganguly are partners of a firm SG & Co. From the following information calculate the value of goodwill by super profit method and capitalization method:

- (i) Average capital employed in the business ₹ 5,00,000.
- (ii) Net trading profit of the firm for the last three years ₹ 1,50,000; ₹ 1,70,000 and ₹ 1,90,000.
- (iii) Rate of return expected from capital having regard to risk involved @ 15 % per annum.
- (iv) Goodwill to be valued at 2 years' purchase. **(5 marks)**

Answer:

Calculation of Goodwill

(i) **Super Profit Method**

$$\begin{aligned} \text{Goodwill} &= \text{Super Profit} \times \text{No. of years of purchase} \\ &= 95,000/- \times 2 = 1,90,000/- \\ \text{Super Profit} &= \text{Average Profit} - \text{Normal Profit} \\ &= 1,70,000 - (5,00,000 \times 15\%) = 95,000 \\ \text{Average Profit} &= \frac{1,50,000 + 1,70,000 + 1,90,000}{3} = 1,70,000 \end{aligned}$$

(ii) **Capitalization Method**

$$\begin{aligned} \text{Goodwill} &= \text{Value of Business} - \text{Avg. Capital Employed} \\ &= \left(\frac{1,70,000}{15\%} \right) - 5,00,000 \\ &= 11,33,333 - 5,00,000 = 6,33,333/- \end{aligned}$$

— Space to write important points for revision —

2013 - June [2] (c) Ram, Rahim and Robert are partners in a firm sharing profits and losses in the proportion of 3 : 3 : 2. Their Balance Sheet as on 31.03.2013 was as follows:

| Liabilities | | ₹ | Assets | | ₹ |
|------------------|-----------------|----------|-------------------|--|----------|
| Partners Capital | | | Bank | | 55,000 |
| Accounts: | | | Stock | | 69,000 |
| Ram | 75,000 | | Investments | | 6,000 |
| Rahim | 75,000 | | Debtors | | 70,000 |
| Robert | <u>1,00,000</u> | 2,50,000 | Land and Building | | 1,25,000 |
| | | | Goodwill | | 25,000 |

Partners Current

Account:

| | | | |
|------------------|---------------|-----------------|-----------------|
| Ram | 15,000 | | |
| Rahim | 25,000 | | |
| Robert | <u>12,500</u> | 52,500 | |
| Sundry creditors | | 47,500 | |
| | | <u>3,50,000</u> | <u>3,50,000</u> |

They decided to dissolve the firm on 01.04.2013. They report the result of realization as follows:

| | | |
|--------------------|--------|------------------------|
| Land and Buildings | 90,000 | — realized in cash |
| Debtors | 60,000 | — realized in cash |
| Investments | 5,500 | — taken over by Ram |
| Stock | 75,500 | — taken over by Rahim |
| Goodwill | 18,000 | — taken over by Robert |

The realization expenses amounted to ₹ 2,000. Close the Accounts of the firm. (5 marks)

Answer:**Realisation Accounts**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---------------------|-----------------|---------------------------------------|-----------------|
| To Stock | 69,000 | By Sundry Creditors | 47,500 |
| To Investments | 6,000 | By Bank (assets realized) | 1,50,000 |
| To Debtors | 70,000 | By Ram's Capital A/c (investments) | 5,500 |
| To Land & Buildings | 1,25,000 | By Rahim's Capital A/c (Stock) | 75,500 |
| To Goodwill | 25,000 | By Robert's Capital A/c (Goodwill) | 18,000 |
| To Bank (Expenses) | 2,000 | By Loss transferred to current A/c: | |
| To Bank (Creditors) | 47,500 | Ram | 18,000 |
| | | Rahim | 18,000 |
| | | Robert | <u>12,000</u> |
| | <u>3,44,500</u> | | <u>48,000</u> |
| | | | <u>3,44,500</u> |

Current Accounts

| | Ram | Rahim | Robert | | Ram | Rahim | Robert |
|--------------------|--------|--------|--------|----------------|--------|--------|--------|
| To Realisation A/c | 5,500 | 75,500 | 18,000 | By Balance b/d | 15,000 | 25,000 | 12,500 |
| To Realisation A/c | 18,000 | 18,000 | 12,000 | By Capital A/c | 8,500 | 68,500 | 17,500 |
| | 23,500 | 93,500 | 30,000 | | 23,500 | 93,500 | 30,000 |

Capital Accounts

| | Ram | Rahim | Robert | | Ram | Rahim | Robert |
|-------------------------|--------|--------|----------|----------------|--------|--------|----------|
| To Current A/c | 8,500 | 68,500 | 17,500 | By Balance c/d | 75,000 | 75,000 | 1,00,000 |
| To Bank A/c (bal. Fig.) | 66,500 | 6,500 | 82,500 | | | | |
| | 75,000 | 75,000 | 1,00,000 | | 75,000 | 75,000 | 1,00,000 |

Bank Accounts

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|-------------------------------------|-------------|--------------------------------|-------------|
| To Balance b/d | 55,000 | By Realisation A/c (expenses) | 2,000 |
| To Realisation (Assets realized) | 1,50,000 | By Realisation A/c (Creditors) | 47,500 |
| | | By Ram's Capital A/c | 66,500 |
| | | By Rahim's Capital A/c | 6,500 |
| | | By Robert's Capital A/c | 82,500 |
| | 2,05,000 | | 2,05,000 |

— Space to write important points for revision —

2013 - June [4] (b) A, B and C started a partnership firm on 1.1.2012. A introduced ₹ 10,000 on 1.1.2012 and further introduced ₹ 4,000 on 1.7.2012. B introduced ₹ 25,000 at first on 1.1.2012 but withdraw ₹ 5,000 from the business on 31.9.2012. C introduced ₹ 15,000 at the beginning on 1.1.2012, increased it by ₹ 5,000 on 1.4.2012 and reduced it to ₹ 10,000 on 1.11.2012. During the year 2012 they made a net profit of ₹ 75,500. The partners decided to provide interest on their capitals at 10% p.a. and to divide the balance of profit in their effective capital contribution ratio. Prepare the Profit and Loss Appropriation Account for the year ended 31.12.2012. **(5 marks)**

Answer:

Calculation of effective capital contribution: (fig in ₹)

| | | |
|-------------------------|---|-----------------|
| A - 10,000 for 6 months | = | 60,000 |
| 14,000 for 6 months | = | <u>84,000</u> |
| | | <u>1,44,000</u> |
| B - 25,000 for 9 months | = | 2,25,000 |
| 20,000 for 3 months | = | <u>60,000</u> |
| | | <u>2,85,000</u> |
| C - 15,000 for 3 months | = | 45,000 |
| 20,000 for 7 months | = | 1,40,000 |
| 10,000 for 2 months | = | <u>20,000</u> |
| | | <u>2,05,000</u> |

Profit sharing ratio = Effective Capital Ratio – 144:285:205

Interest on Capital

A – 1,44,000 x 10/100 x 1/12 = 1,200

B – 2,85,000 x 10/100 x 1/12 = 2,375

C – 2,05,000 x 10/100 x 1/12 = 1,708

Profit and Loss Appropriation Account for the year ended 31.12.2012

Dr.

Cr.

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|--------------------------|---------------|----------------------|---------------|
| To Interest on Capital | | By Profit & Loss A/c | 75,500 |
| A – 1,200 | | (Net Profit) | |
| B – 2,375 | | | |
| C - <u>1,708</u> | 5,283 | | |
| To Share of Profits: | | | |
| A – 70,217 x 144 / 634 = | 15,948 | | |
| B – 70,217 x 285 / 634 = | 31,565 | | |
| C – 70,217 x 205 / 634 = | 22,704 | | |
| | 75,500 | | 75,500 |

Space to write important points for revision

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

(viii) P, Q and R are three partners sharing profit and loss equally. Their respective capitals as on 01.04.2012 were P—₹ 80,000, Q—₹ 60,000 and R—₹ 50,000.

They mutually agreed on the following points as per the partnership deed:

- Interest on capital to be allowed @ 5%.
- P to receive a salary of ₹ 500 per month.
- Q to receive a commission @ 4% on net profit after charging such commission.
- After charging all other items, 10% of the net profit to be transferred to General Reserve.

The firm made profit of ₹ 66,720 during the financial year 2012-13. What will be the Net Divisible Profit available to each partner?

(2 marks)

Answer:

Calculation of Net Divisible Profit available to each of the partners

| | |
|--|----------|
| Profit and Loss Account (given) | ₹ 66,720 |
| Less: Interest on Capital | |
| P ₹ 4,000 | |
| Q ₹ 3,000 | |
| R ₹ 2,500 | ₹ 9,500 |
| Less: Salaries P (₹ 500 x 12) | ₹ 6,000 |
| Less: Commission payable to Q | |
| 4 / 104 x (66,720 – 15,500) | ₹ 1,970 |
| General Reserve transfer | |
| (₹ 51,220 – ₹ 1,970) x 10% | ₹ 4,925 |
| Net Divisible Profit available to all the partners equally | ₹ 44,325 |

Net Divisible profit available to each of the partner will amount to = ₹ 44,325/3 = ₹ 14,775

— Space to write important points for revision —

2013 - Dec [4] (b) Kapil, Manoj and Chetan are partners sharing profits and losses in the ratio of 2 : 2 : 1. On 1st January, 2010, they took out a joint life policy of ₹ 2,00,000. Annual premium of ₹ 10,000 was payable on 1st January each year. Last premium was paid on 1st January, 2013. Manoj died on 1st March, 2013, and policy money was received on 31st March, 2013. The surrender value of policy as on 31st March each year were as follows:

2010 : Nil

2011 : ₹ 2,000

2012 : ₹ 5,000

Show Joint Life Policy accounts as on 31st March each year assuming that:

- The premium is charged to profit and loss account every year.
- The premium is debited to joint life policy account and the balance of the joint life policy account is adjusted every year to its surrender value.

(6 marks)

Answer:

- In this case, premium paid is charged to Profit & Loss account every year. So nothing will appear in the joint life policy account of 2010, 2011 and 2012. However in 2013, the joint life policy account will appear as follows.

Joint Life Policy A/c

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|----------|---|----------|----------|------------------------------------|----------|
| 31.03.13 | To Partner's Capital A/c (Kapil ₹ 80,000 Manoj ₹ 80,000 Chetan ₹ 40,000) | 2,00,000 | 31.03.13 | By Bank (Policy money received) | 2,00,000 |
| | | 2,00,000 | | | 2,00,000 |

(ii)

Joint Life Policy A/c

| | | | | | |
|----------|------------------------|--------|----------|------------|--------|
| 01.1.10 | To Bank A/c Premium | 10,000 | 31.03.10 | By P&L A/c | 10,000 |
| | | 10,000 | | | 10,000 |
| 01.01.11 | To Bank A/c Premium | 10,000 | 31.03.11 | By P&L A/c | 8,000 |

| | | | | | |
|----------|--|-----------------|----------|--|-----------------|
| | | | 31.03.11 | By Balance c/d | 2,000 |
| | | 10,000 | | | 10,000 |
| 01.04.11 | To Balance b/d | 2,000 | 31.03.11 | By P&L A/c | 7,000 |
| 01.01.12 | To Bank A/c Premium | 10,000 | 31.03.12 | By Balance c/d | 5,000 |
| | | 12,000 | | | 12,000 |
| 01.04.12 | To Balance b/d | 5,000 | | | |
| 01.01.13 | To Bank A/c Premium | 10,000 | 31.03.13 | By Bank A/c (policy money received) | 2,00,000 |
| 31.03.13 | To Partner's Capital A/c (Kapil 74,000 Manoj 74,000 Chetan 37,000) | 1,85,000 | | | |
| | | 2,00,000 | | | 2,00,000 |

Space to write important points for revision

2014 - June [1] {C} Answer the following question (give workings):

- (i) Babbu and Dabbu are partners, sharing profit or loss in the ratio 3:2. They admit Kachari for $\frac{1}{6}$ th share of profits in the firms of which she takes $\frac{2}{3}$ rd from Babbu and $\frac{1}{3}$ rd from Dabbu. Find the new profit sharing ratio. **(2 marks)**

Answer:

$$\text{Share surrendered by Babbu} = \frac{1}{6} \times \frac{2}{3} = \frac{2}{18}$$

$$\text{Share surrendered by Dabbu} = \frac{1}{6} \times \frac{1}{3} = \frac{1}{18}$$

New Ratio:

$$\text{Babbu} = \frac{3}{5} - \frac{2}{18} = \frac{44}{90}$$

$$\text{Dabbu} = \frac{2}{5} - \frac{1}{18} = \frac{31}{90}$$

$$\text{Kachari} = \frac{1}{6} \times \frac{15}{15} = \frac{15}{90}$$

$$\text{NPSR} = 44:31:15$$

— Space to write important points for revision —

2014 - June [4] (a) The Balance Sheet of A, B and C who are sharing profits in proportion to their capital stood as follows on March 31st, 2012:

| Liabilities | | ₹ | Assets | | ₹ |
|-------------------|---------------|-----------------|---------------------|------------|-----------------|
| Capital Accounts: | | | Land and Buildings | | 50,000 |
| A | 40,000 | | Plant and Machinery | | 17,000 |
| B | 30,000 | | Stock | | 16,000 |
| C | <u>20,000</u> | 90,000 | Debtors | 10,000 | |
| Creditors | | 13,800 | Less: Provision | <u>200</u> | 9,800 |
| | | | Cash at Bank | | 11,000 |
| | | <u>1,03,800</u> | | | <u>1,03,800</u> |

B retired on the above date and the following was agreed upon:

- The stock be depreciated by 6%.
- That the provision for doubtful debts be brought up to 5% on Debtors.
- That the Land and Buildings be appreciated by 20%.
- That a provision for ₹ 1,540 be made in respect of outstanding legal charges.

Memorandum Revaluation Account

| Dr. | | Cr. | |
|---|-------------|--|-------------|
| Particulars | Amount ₹ | Particulars | Amount ₹ |
| To Under valuation of Stock | 960 | By Overvaluation of Land and Building | 10,000 |
| To Provision for Bad Debts (₹ 500 - ₹ 200) | 300 | | |
| To Provision for legal changes | 1,540 | | |
| To Profit on Rev: | | | |
| A 3,200 | | | |
| B 2,400 | | | |
| C <u>1,600</u> | 7,200 | | |
| | 10,000 | | 10,000 |
| To Reversal of items | | By Reversal of items: | |
| To Over valuation of Land and Building | 10,000 | By Undervaluation of Stock | 960 |
| | | By Provision for Bad Debts | 300 |
| | | By Provision for legal changes | 1,540 |
| | | By Capital A/c Profit to be written-back | |
| | | A-5/8 = 4,500 | |
| | | C-3/8 = <u>2,700</u> | 7,200 |
| | 10,000 | | 10,000 |

∴ B's share of goodwill = ₹ 21,600 x 3/9
= ₹ 7,200

The entry being:

| Particulars | Debit (₹) | Credit (₹) |
|---|--------------|---------------|
| A's Capital A/c | Dr. 3,900 | |
| C's Capital A/c | Dr. 3,300 | |
| To B's Capital A/c (Being gaining ratio) | | 7,200 |

Capital Account

| Dr. | | | | Cr. | | | |
|---------------------|---------|--------|--------|--|--------|--------|--------|
| Particulars | A (₹) | B (₹) | C (₹) | Particulars | A (₹) | B (₹) | C (₹) |
| To Memo. Reval. A/c | 4,500 | — | 2,700 | By Balance b/d | 40,000 | 30,000 | 20,000 |
| To B's Capital A/c | 3,900 | — | 3,300 | By Revaluation A/c – Profit | 3,200 | 2,400 | 1,600 |
| To B's Loan A/c | — | 39,600 | — | By A's Capital A/c By B's Capital A/c | — | 3,900 | — |
| To Balance c/d | 35,000* | — | 21,000 | By Bank A/c (Balance Fig.) | 200 | — | 5,400 |
| | 43,400 | 39,600 | 27,000 | | 43,400 | 39,600 | 27,000 |

* Total Capital = ₹ 56,000 in 5 : 3, i.e., A ₹ 35,000; C ₹ 21,000.

— Space to write important points for revision —

2014 - Dec [1] Answer the following question (Give workings):

- (c) Gunnu and Chinu are partners. They are entitled for 9% interest on their capital contributions. The firm allowed ₹ 54,000 towards interest on capital to partners. Calculate the capital contribution of each partner if interest on Gunnu's capital is ₹ 13,500 more than the interest on Chinu's capital. **(2 marks)**

Answer:

Let Chinu's capital be x.

$$\begin{aligned}
 \therefore \text{Interest on Chinu's capital} &= 0.09x \\
 \text{And interest on Gunnu's capital} &= 0.09x + 13,500 \\
 \rightarrow 0.09x + 0.09x + 13,500 &= 54,000 \\
 0.18x &= 40,500 \\
 x &= 2,25,000 \\
 \text{Interest on Gunnu's capital} &= (0.09 \times 2,25,000) + 13,500 \\
 &= 33,750 \\
 \therefore \text{Gunnu's capital} &= 3,75,000 \\
 \text{And Chinu's capital (x)} &= 2,25,000
 \end{aligned}$$

— Space to write important points for revision —

2014 - Dec [3] Answer the question:

- (b) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for the total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2011 is given below:

| Receipts | ₹ | Payments | ₹ |
|-------------------------|----------|----------------------------|----------|
| Cash in hand | 10,800 | Salaries | 22,000 |
| Receipts from Customers | 2,70,000 | Rent | 4,400 |
| Cash Sales | 32,000 | Advertising | 1,800 |
| | | Printing | 1,600 |
| | | General Expenses | 19,100 |
| | | Payment to Trade Creditors | 2,24,000 |
| | | Doll's Drawings | 4,000 |
| | | Cash in hand | 35,900 |
| | 3,12,800 | | 3,12,800 |

Following balances are available from their books as on 30th June, 2010 and 30th June, 2011.

| | As on 30-6-2010 | As on 30-6-2011 |
|------------------|-----------------|-----------------|
| | ₹ | ₹ |
| Stock in Trade | 44,000 | 50,000 |
| Sundry Debtors | ? | 70,000 |
| Sundry Creditors | 46,800 | 37,000 |
| Furniture | 6,000 | ? |

Other Information:

- (i) Discount allowed, ₹ 2,800.
- (ii) Discount earned, ₹ 2,400.
- (iii) Outstanding Printing, ₹ 500.
- (iv) Capital of Doll as on 30th June, 2010 was ₹ 4,000 more than Capital of Dolly.
- (v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll and Dolly:

- (i) The Trading and Profit and Loss Account for the year ended 30th June, 2011 and
- (ii) The Balance Sheet as on the date. **(12 marks)**

Answer:

**In the books of Doll and Dolly
Trading & Profit & Loss A/c for the year ended 30.6.2011**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|------------------------|---------------|------------------------|---------------|
| To Opening Stock | 44,000 | By Sales | |
| To Purchases | 2,16,600 | Cash 32,000 | |
| To Gross Profit | 70,200 | Credit <u>2,48,800</u> | 2,80,800 |
| | | By Closing Stock | 50,000 |
| | 3,30,800 | | 3,30,800 |
| To Salaries | 22,000 | By Gross Profit | 70,200 |
| To Rent | 4,400 | By Discount earned | 2,400 |
| To Advertising | 1,800 | | |
| To Printing 1,600 | | | |
| + O/S <u>500</u> | 2,100 | | |
| To General expenses | 19,100 | | |
| To Depreciation | 600 | | |
| To Discount allowed | 2,800 | | |
| To Net profit | 19,800 | | |
| | 72,600 | | 72,600 |

Balance Sheet as on 30.6.11

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|----------------------------------|---------------|---------------------------|---------------|
| Capital | | Furniture 6,000 | |
| Doll 56,000 | | - Depreciation <u>600</u> | 5,400 |
| + Net Profit 9,900 | | Debtors | 70,000 |

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| | | | | |
|--------------|--------------|-----------------|---------------|-----------------|
| - Drawings | <u>4,000</u> | 61,900 | Closing Stock | 50,000 |
| Dolly | 52,000 | | Cash in hand | 35,900 |
| + Net Profit | <u>9,900</u> | 61,900 | | |
| Creditors | | 37,000 | | |
| O/s Printing | | 500 | | |
| | | <u>1,61,300</u> | | <u>1,61,300</u> |

Balance Sheet as on 30.6.2010

W.N.

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|-------------|-----------------|---------------|-----------------|
| Capital | | Furniture | 6,000 |
| Doll | 56,000 | Closing stock | 44,000 |
| Dolly | <u>52,000</u> | Debtors | 94,000 |
| Creditors | | Cash in hand | 10,800 |
| | <u>1,54,800</u> | | <u>1,54,800</u> |

Debtors A/c

| | | | |
|----------------------|-----------------|---------------------|-----------------|
| To Balance b/d (b/f) | 94,000 | By Discount allowed | 2,800 |
| To Sales | 2,48,800 | By Cash | 2,70,000 |
| | | By Balance c/d | 70,000 |
| | <u>3,42,800</u> | | <u>3,42,800</u> |

Creditors A/c

| | | | |
|--------------------|-----------------|-------------------|-----------------|
| To Discount earned | 2,400 | By Balance b/d | 46,800 |
| To Cash | 2,24,000 | By Purchase (b/f) | 2,16,600 |
| To Balance c/d | 37,000 | | |
| | <u>2,63,400</u> | | <u>2,63,400</u> |

G.P. on sales = 25%

∴ G.P. on cost = 33.33%

Cost = Opening stock + Purchase - Closing stock

= 2,10,600

G.P. = 70,200

———— Space to write important points for revision —————

2015 - June [1] Answer the question:

- (e) X, Y and Z are partners in the ratio of 3 : 2 : 1. W is admitted with $\frac{1}{6}$ th share in future profits. Z would retain his original shares. Find out the new profit sharing ratios of the partners. **(2 marks)**

Answer:

$$\text{X's New share} = \frac{3}{6} - \left(\frac{1}{6} \times \frac{3}{5}\right) = \frac{12}{30}$$

$$\text{Y's New share} = \frac{2}{6} - \left(\frac{1}{6} \times \frac{2}{5}\right) = \frac{8}{30}$$

$$\text{Z's share} = \frac{1}{6}$$

$$\text{W's share} = \frac{1}{6}$$

$$\text{Therefore, NPSR} = \text{X:Y:Z:W} = 12:8:5:5$$

— Space to write important points for revision —

2015 - June [3] (b) A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2015 was as follows:

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|-------------|-------------|-------------------------|-------------|
| A's Capital | 1,60,000 | Building | 4,00,000 |
| C's Capital | 1,00,000 | Machinery | 4,00,000 |
| A's Loan | 2,00,000 | Furniture and Fixtures | 1,60,000 |
| Creditors | 10,00,000 | Stock | 1,60,000 |
| | | Book Debts | 2,00,000 |
| | | Cash at Bank | 10,000 |
| | | B's Capital (Overdrawn) | 1,30,000 |
| | 14,60,000 | | 14,60,000 |

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:

Book debts: 45% less; Building: ₹ 1,60,000; Stock : ₹ 1,00,000; Machinery: ₹ 2,00,000; and Furnitures and fixtures; ₹ 40,000. Realization expenses were ₹ 10,000.

| | | |
|--------------|----------|--|
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|--------------|----------|--|

| Partner | Private Assets ₹ | Private Liabilities ₹ |
|---------|---------------------|--------------------------|
| A | 2,50,000 | 2,50,000 |
| B | 2,00,000 | 1,80,000 |
| C | 2,30,000 | 2,50,000 |

You are required to prepare:

- (i) Realisation Account,
- (ii) Bank Account,
- (iii) Creditors Account,
- (iv) Partner's Capital Account, and
- (v) Deficiency Account.

(4 + 2 + 1 + 3 + 2 = 12 marks)

Answer:

| Dissolution Realisation A/c | | | |
|--|-----------|-------------------------|-----------|
| Dr. | | | Cr. |
| Particulars | Amt. (₹) | Particulars | Amt. (₹) |
| To Building | 4,00,000 | By Bank | |
| To Machinery | 4,00,000 | Book debts 1,10,000 | |
| To Furniture | 1,60,000 | Building 1,60,000 | |
| To Stock | 1,60,000 | Stock 1,00,000 | |
| To Book debts | 2,00,000 | Machinery 2,00,000 | |
| To Bank - realisation | | Furniture <u>40,000</u> | 6,10,000 |
| exp. | 10,000 | By Realisation loss | 7,20,000 |
| | 13,30,000 | | 13,30,000 |

Bank A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|--|-------------|------------------|-------------|
| To Balance b/d | 10,000 | By Realisation | 10,000 |
| To Realisation A/c | 6,10,000 | By Creditors A/c | 6,30,000 |
| To B's Cap A/c | 20,000 | (B.F) | |
| (Excess of b's estate only his liability) | | | |
| | 6,40,000 | | 6,40,000 |

Creditors A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|--------------------------|-----------|-------------|-----------|
| To Bank | 6,30,000 | By Bal. b/d | 10,00,000 |
| To Deficiency A/c (B.F.) | 3,70,000 | | |
| | 10,00,000 | | 10,00,000 |

Partners Capital A/c

| Particulars | A ₹ | B ₹ | C ₹ | Particulars | A ₹ | B ₹ | C ₹ |
|----------------------------|----------|----------|----------|-------------------|----------|----------|----------|
| To Bal. b/d | | 1,30,000 | | By Bal. b/d | 1,60,000 | | 1,00,000 |
| To Realisation | | | | By A's Loan A/c | 2,00,000 | | |
| loss | 2,40,000 | 2,40,000 | 2,40,000 | By Bank A/c | | 20,000 | |
| (7,20,000 in 1 : 1 : 1) | | | | By Deficiency A/c | | 3,50,000 | 1,40,000 |
| To Deficiency | 1,20,000 | | | | | | |
| | 3,60,000 | 3,70,000 | 2,40,000 | | 3,60,000 | 3,70,000 | 2,40,000 |

Deficiency A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|----------------|-------------|----------------|-------------|
| To B's Cap A/c | 3,50,000 | By Creditor | 3,70,000 |
| To C's Cap A/c | 1,40,000 | By A's Cap A/c | 1,20,000 |
| | 4,90,000 | | 4,90,000 |

— Space to write important points for revision —

2015 - Dec [3] (c) A, B and C have been in business partnership for some years, Sharing Profit in the proportions of 4:3:3.

The balances in the books of the firm as on 31st March, 2015 subject to final Adjustment, were as under:

| | (Amount in ₹) | |
|--|---------------|-----------|
| | Dr. | Cr. |
| Capital Account - A | | 3,00,000 |
| Capital Account - B | | 1,50,000 |
| Capital Account - C | | 1,80,000 |
| Profit for the year before charging interest | | 3,12,000 |
| Land and Buildings | 2,40,000 | |
| Furniture and Fixtures | 45,000 | |
| Stock | 3,75,000 | |
| Debtors | 60,000 | |
| Bank | 1,20,000 | |
| Creditors | | 90,000 |
| Partner's Drawings - A | 48,000 | |
| Partner's Drawings - B | 72,000 | |
| Partner's Drawings - C | 72,000 | |
| Total | 10,32,000 | 10,32,000 |

C died on 30.09.2014. The Partnership deed provided that:

- (1) Interest was to be credited on Capital accounts of partners at 10% P.A. on the balance at the beginning of the year.
- (2) On the death of a Partner:
 - (i) Goodwill was to be valued at three years' purchase of average Annual Profits of three years up to the date of death, after deducting interest on Capital Employed at 8% P.A. and a fair remuneration for each of the partners;
 - (ii) Fixed Assets were to be valued by an independent valuer and all other assets and liabilities to be taken at Book Value.

- (3) Wherever necessary, profit or loss should be apportioned on a time basis.
- (4) The amount due to the deceased partner's Sole Heir was to receive interest @ 12% P.A. from the date of death until paid.

It was ascertained that:

- (a) Profits for three years, before charging partners' interest were: 2011-12 – ₹ 3,36,000, 2012-13 – ₹ 3,78,000 and 2013-14 – ₹ 3,60,000 respectively.
- (b) The independent valuation at the date of death revealed : Land and Buildings – ₹ 3,00,000 and Furniture and Fixtures – ₹ 30,000.
- (c) A fair remuneration for each of the Partners would be ₹ 75,000 P.A. and that the Capital employed in business to be taken as ₹ 7,80,000 throughout.

It was agreed among the Partners that:

- (i) Goodwill was not to be shown as an asset of the firm as on 31.03.2015. Therefore, adjustment for goodwill was to be made in Capital Accounts.
- (ii) A and B would share equally from the date of death of C.
- (iii) Depreciation on revised value of assets would be ignored.

You are required to prepare:

- (i) Revaluation Account
- (ii) Partners' Capital Accounts
- (iii) Partners' Current Accounts
- (iv) C's Heir Account
- (v) Balance Sheet as on 31.03.2015 (1+2+1+1+4+3=12 marks)

Answer:

(i) **In the Books of ABC firm**
Revaluation Account

| Dr. | | Cr. | |
|---|---------------|--------------------------|---------------|
| Particulars | ₹ | Particulars | ₹ |
| To Furniture and Fixture A/c | 15,000 | By Land and Building A/c | 60,000 |
| To Partners' Capital A/cs (A - ₹ 18,000, B - ₹ 13,500, C - ₹ 13,500) | 45,000 | | |
| | 60,000 | | 60,000 |

(ii)

Partners' Capital Accounts**Dr.****Cr.**

| Particulars | A (₹) | B (₹) | C (₹) | Particulars | A (₹) | B (₹) | C (₹) |
|----------------------------------|-----------------|-----------------|-----------------|--------------------------------|-----------------|-----------------|-----------------|
| To C's Capital A/c - Goodwill | 19,980 | 39,960 | - | By Balance b/d | 3,00,000 | 1,50,000 | 1,80,000 |
| To C's Current A/c - Transfer | - | - | 25,650 | By Revaluation A/c | 18,000 | 13,500 | 13,500 |
| To C's Heir A/c | - | - | 2,27,790 | By A's Capital A/c Goodwill | - | - | 19,980 |
| To Balance c/d | 2,98,020 | 1,23,540 | - | By A's Capital A/c Goodwill | - | - | 39,960 |
| | 3,18,000 | 1,63,500 | 2,53,440 | | 3,18,000 | 1,63,500 | 2,53,440 |

(iii)

Partners' Current Accounts**Dr.****Cr.**

| Particulars | A (₹) | B (₹) | C (₹) | Particulars | A (₹) | B (₹) | C (₹) |
|-------------------|-----------------|-----------------|---------------|---|-----------------|-----------------|---------------|
| To Balance b/d | 48,000 | 72,000 | 72,000 | By P/L Appropriation A/c (Interest on Capital A/c) | 30,000 | 15,000 | 9,000 |
| To Balance c/d | 91,716 | 40,266 | | By P/L Appropriation A/c | 1,09,716 | 97,266 | 37,350 |
| | | | | By Capital A/c - (Transfer) | -- | -- | 25,650 |
| | 1,39,716 | 1,12,266 | 72,000 | | 1,39,716 | 1,12,266 | 72,000 |

(iv)

C's Heir Account

| Dr. | | Cr. | |
|----------------|-----------------|--------------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance c/d | 2,41,458 | By C's Capital A/c | 2,27,790 |
| | | By Profit & Loss Appropriation | 13,668 |
| | 2,41,458 | | 2,41,458 |

(v) **Balance Sheet as on 31st March, 2015**

| Liabilities | ₹ | Assets | ₹ |
|---------------------|-----------------|------------------------|-----------------|
| Capital Account - A | 2,98,020 | Land and Buildings | 3,00,000 |
| Capital Account - B | 1,23,540 | Furniture and Fixtures | 30,000 |
| Current Account - A | 91,716 | Stock | 3,75,000 |
| Current Account - B | 40,266 | Debtors | 60,000 |
| C's Heir Account | 2,41,458 | Bank | 1,20,000 |
| Creditors | 90,000 | | |
| | 8,85,000 | | 8,85,000 |

Working Note:

(1) Adjustment in Regard to Goodwill

| Particulars | ₹ |
|---|-----------|
| Aggregate profits for three years upto date of death (30.09.2014) are as follows: | |
| Profit for the year ended 30 th Sept. 2012: ($\frac{1}{2}$ of ₹ 3,36,000 + $\frac{1}{2}$ of ₹ 3,78,000) | 3,57,000 |
| Profit for the year ended 30 th Sept. 13: ($\frac{1}{2}$ of ₹ 3,78,000 + $\frac{1}{2}$ of ₹ 3,60,000) | 3,69,000 |
| Profit for the year ended 30 th Sept. 14: ($\frac{1}{2}$ of ₹ 3,60,000 + $\frac{1}{2}$ of ₹ 3,12,000) | 3,36,000 |
| Total profits for three years | 10,62,000 |
| Average profits (₹10,62,000 ÷ 3) | 3,54,000 |

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| | | |
|---|----------|----------|
| Less: Interest on capital employed (8% on ₹ 7,80,000) | 62,400 | |
| Fair remuneration to partners | 2,25,000 | 2,87,400 |
| Adjusted average profit for goodwill | | 66,600 |
| Goodwill is the purchase of 3 year's profit = $3 \times ₹ 66,600$ | | 1,99,800 |

| Partners | A (₹) | B (₹) | C (₹) |
|--|------------|------------|------------|
| Right of goodwill before death (4:3:3) | 79,920 | 59,940 | 59,940 |
| Right of goodwill after death (1:1) | 99,900 | 99,900 | – |
| Gain (+)/Sacrifice(-) | (+) 19,980 | (+) 39,960 | (-) 59,940 |

(2) Profit & Loss Appropriation Account

| Dr. | | | Cr. | | |
|---------------------------------------|----------------------------|----------------------------|--|----------------------------|----------------------------|
| Particulars | 01.04.14 to 30.09.14 | 01.10.14 to 31.03.15 | Particulars | 01.04.14 to 30.09.14 | 01.10.14 to 31.03.15 |
| To Partners' Current A/c | | | By Profit & Loss A/c (Apportioned on time basis) | 1,56,000 | 1,56,000 |
| Interest on Capital A/c - A | 15,000 | 15,000 | | | |
| Interest on Capital A/c - B | 7,500 | 7,500 | | | |
| Interest on Capital A/c - C | 9,000 | – | | | |
| To Interest on hire C's A/c (-12%) | – | 13,668 | | | |
| Partners' Current A/cs - A | 49,800 | 59,916 | | | |
| Partners' Current A/cs - B | 37,350 | 59,916 | | | |
| Partners' Current A/cs - C | 37,350 | – | | | |
| | 1,56,000 | 1,56,000 | | 1,56,000 | 1,56,000 |

— Space to write important points for revision —

2016 - June [1] {C} (d) Answer the following question.

- (i) S and N are partners sharing Profit/(Loss) in the ratio of 5:3. They admit J into partnership for $\frac{3}{10}$ th in the Profit/(Loss) in which J acquired $\frac{1}{5}$ th share from S and $\frac{1}{10}$ th share from N respectively.

Calculate the new Profit/Loss sharing ratios of the partners.

(2 marks)

Answer :

$$S's \text{ new share} = \left(\frac{5}{8} - \frac{1}{5} \right) = \frac{25 - 8}{40} = \frac{17}{40}$$

$$N's \text{ new share} = \left(\frac{3}{8} - \frac{1}{10} \right) = \frac{15 - 4}{40} = \frac{11}{40}$$

$$J's \text{ share} = \frac{3}{10} = \frac{12}{40}$$

Hence New profit/loss sharing ratios of the partners = 17:11:12

— Space to write important points for revision —

2016 - June [2] A, B and C are in partnership sharing Profits and Losses in the ratio 3:2:1 respectively. The Balance Sheet of the Partnership firm as on 31st March, 2016 is as under:

| Capital & Liabilities | | ₹ | Assets | | ₹ |
|-----------------------|----------|----------|------------------|--|----------|
| Capital Accounts | | | Premises | | 1,80,000 |
| A | 1,70,000 | | Plant | | 74,000 |
| B | 1,30,000 | | Vehicles | | 30,000 |
| C | 70,000 | 3,70,000 | Fixtures | | 4,000 |
| Current Accounts | | | Current Accounts | | |
| A | 7,428 | | B | | 5,018 |
| C | 9,356 | 16,784 | | | |

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| | | | |
|----------------|----------|--------------|----------|
| Loan-C | 56,000 | Stock | 1,24,758 |
| Creditors | 38,072 | Debtors | 69,960 |
| Bank Overdraft | 8,400 | Cash in hand | 1,520 |
| | 4,89,256 | | 4,89,256 |

C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters agreed:

- (i) Assets revalued as : Premises- ₹ 2,40,000, Plant- ₹ 70,000 Stock - ₹ 1,08,358.
- (ii) A provision of ₹ 6,000 is created against debtors.
- (iii) Goodwill is to be recorded in the books on the day C retires at ₹ 84,000.
The partners in the new firm do not wish to maintain a Goodwill Account so that amount is to be written-off against the New Partners' Capital Accounts.
- (iv) A and B are to share profit in the same ratio as before, and D is to have the same share of profits as B.
- (v) C is to take a car at its book value of ₹ 7,800 in part payment, and the balance of all he is owed by the firm in cash except ₹ 40,000 which he is willing to leave as a Loan Account.
- (vi) The partners in the new firm are to start on an equal footing so far as Capital and Current Accounts are concerned. D is to contribute cash to bring his Capital and Current Accounts to the same amount as the original partner from the old firm who has the lower investment in the business. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.
- (vii) Revaluation profit or loss is to be adjusted in the Partners' Current Account.

You are required to prepare:

- (a) Revaluation Account
- (b) Partners' Capital Accounts

- (c) Partners' Current Accounts
- (d) C's Loan Account
- (e) Bank Account
- (f) Balance Sheet of the New Firm as at 01.04.2016.

(3+2+2+1+2+5=15 marks)

Answer :

(a) **In the books of the firm (ABC)
Revaluation Account**

| Dr. | | | Cr. | | |
|-------------|-------------------------------------|---------------|-------------|--------------------|---------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 31.03.16 | To Plant A/c | 4,000 | 31.03.16 | By Premises A/c | 60,000 |
| | To Stock A/c | 16,400 | | | |
| | To Provision for doubtful debts A/c | 6,000 | | | |
| | To Partner's Current A/c s | | | | |
| | A- ₹ 16,800 | | | | |
| | B- ₹ 11,200 | | | | |
| | C- ₹ 5,600 | 33,600 | | | |
| | | 60,000 | | | 60,000 |

Please see Next Page

(b)

Partner's Capital Accounts**Dr.****(Amount in ₹)Cr.**

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|
| To Goodwill A/c | 36,000 | 24,000 | — | 24,000 | By Balance b/d | 1,70,000 | 1,30,000 | 70,000 | — |
| To C. Loan A/c | — | — | 84,000 | — | By Goodwill A/c | 42,000 | 28,000 | 14,000 | — |
| To Bank A/c | 42,000 | — | — | — | By Bank A/c | — | — | — | 1,58,000 |
| To Balance c/d | 1,34,000 | 1,34,000 | — | 1,34,000 | | | | | |
| | 2,12,000 | 1,58,000 | 84,000 | 1,58,000 | | 2,12,000 | 1,58,000 | 84,000 | 1,58,000 |

(c)

Partners' Current Accounts**Dr.****(Amount in ₹)Cr.**

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|----------------|---------------|---------------|---------------|--------------|--------------------|---------------|---------------|---------------|--------------|
| To Balance b/d | — | 5,018 | — | — | By Balance b/d | 7,428 | — | 9,356 | — |
| To C. Loan A/c | — | — | 14,956 | — | By Revaluation A/c | 16,800 | 11,200 | 5,600 | — |
| To Bank A/c | 18,046 | — | — | — | By Bank A/c | — | — | — | 6,182 |
| To Balance c/d | 6,182 | 6,182 | — | 6,182 | | | | | |
| | 24,228 | 11,200 | 14,956 | 6,182 | | 24,228 | 11,200 | 14,956 | 6,182 |

(d) **C's-Loan Account** (Amount in ₹) Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|----------|-----------------------------------|-----------------|----------|------------------|-----------------|
| 31.03.16 | To Vehicles A/c | 7,800 | 31.03.16 | By Balance b/d | 56,000 |
| | To Bank A/c (balancing figure) | 1,07,156 | | By C-Capital A/c | 84,000 |
| | To Balance c/d | 40,000 | | By C-Current A/c | 14,956 |
| | | 1,54,956 | | | 1,54,956 |

(e) **Bank Account** (Amount in ₹) Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|----------|------------------|-----------------|----------|------------------|-----------------|
| 31.03.16 | To D Capital A/c | 1,58,000 | 31.03.16 | By Balance b/d | 8,400 |
| | To D Current A/c | 6,182 | | By C's-Loan A/c | 1,07,156 |
| | To Balance c/d | 11,420 | | By A-Capital A/c | 42,000 |
| | | 1,75,602 | | By C-Current A/c | 18,046 |
| | | | | | 1,75,602 |

(f) **Balance Sheet of the new firm as on 01.04.2016**

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|--------------------------|-----------------|-----------------|-----------------|
| Capital Accounts: | | Premises | 2,40,000 |
| A-₹ 1,34,000 | | Plant | 70,000 |
| B-₹ 1,34,000 | | Vehicles | 22,200 |
| D-₹ 1,34,000 | 4,02,000 | Fixtures | 4,000 |
| Current Accounts: | | Stock | 1,08,358 |
| A-₹ 6,182 | | Debtors | 69,960 |
| B-₹ 6,182 | | Less: Provision | |
| D-₹ 6,182 | 18,546 | for bad debts | 6,000 |
| C- Loan Account: | 40,000 | Cash | 1,520 |
| Creditors | 38,072 | | |
| Bank Overdraft | 11,420 | | |
| | 5,10,038 | | 5,10,038 |

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2016 - Dec [1] {C} (d) Answer the following question (Give workings):

- (iv) P and R are currently partners in a firm sharing Profit/Loss in the ratio of 4:3. A new partner D is admitted and after his admission new Profit/Loss sharing ratio between P, R and D becomes 5:3:2.
What will be the sacrifice ratio of P and R after admission of D?

(2 marks)**Answer:****Calculation of sacrificing ratio of P&R after D's admission:**

| | | | |
|-----------|----|----|---|
| Partners | P | R | D |
| Old Ratio | 4: | 3: | – |
| New Ratio | 5: | 3: | 2 |

$$P = \frac{4}{7} - \frac{5}{10} = \frac{(40-35)}{70} = \frac{5}{70}$$

$$R = \frac{3}{7} - \frac{3}{10} = \frac{(30-21)}{70} = \frac{9}{70}$$

Sacrificing ratio of P&R = 5:9.

_____ Space to write important points for revision _____

2016 - Dec [4] P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4 : 1 : 2 : 3.

The following is their Balance Sheet as on 31st March, 2016:

| LIABILITIES | ₹ | ₹ | ASSETS | ₹ | ₹ |
|-------------------|-----------------|-----------|-------------------------------|----------|----------|
| Capital Accounts: | | | Premises | | 2,80,000 |
| P | 7,00,000 | | Furnitures | | 30,000 |
| T | <u>3,00,000</u> | 10,00,000 | Stock-in-Trade | | 2,00,000 |
| Trade Creditors | | 3,00,000 | Trade Debtors | 3,50,000 | |
| | | | Less: Provision for Bad Debts | 50,000 | 3,00,000 |
| | | | Cash at Bank | | 1,40,000 |

| | | | | |
|--|-----------|-------------------|----------|-----------|
| | | Capital Accounts: | | |
| | | Q | 2,00,000 | |
| | | R | 1,50,000 | 3,50,000 |
| | 13,00,000 | | | 13,00,000 |

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:

- P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
- T is to take over the stock in Trade at 95% of the value; and
- R is to discharge Trade Creditors.
- The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
- The expenses of realisation come to ₹ 30,000.
- Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:

- Realisation Account
- Bank/Cash Account
- Capital Accounts of the Partners.

(5+4+5+1=15 marks)

Answer:

**In the books of P, Q, R & T
Realisation Account**

| Dr. | | | Cr. | | |
|---------|--|----------|---------|--|----------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 2016 | To Trade debtors A/c | 3,50,000 | 2016 | By Provision for Bad debts A/c | 50,000 |
| April 1 | To Stock in Trade A/c | 2,00,000 | April 1 | By Trade Creditor A/c | 3,00,000 |
| | To Premises A/c | 2,80,000 | | By P's Capital A/c (Trade Debtors taken over) | 2,80,000 |
| | To Furniture A/c | 30,000 | | By T's Capital A/c (Stock-in-trade taken over) | 1,90,000 |
| | To R's Capital A/c (Trade credit discharged) | 3,00,000 | | | |
| | To Bank/Cash (Expenses) | 30,000 | | | |

| | | |
|-------|---|---|
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|-------|---|---|

| | | | | |
|--|--|-----------|---|-----------|
| | | | By Bank A/c (Assets realised) | 3,00,000 |
| | | | By Partners Capital A/cs (P: ₹ 28,000: Q: ₹ 7,000 R: ₹ 14,000: T: ₹ 21,000) | 70,000 |
| | | 11,90,000 | | 11,90,000 |

Bank/Cash Account

| Dr. | | | Cr. | | |
|---------|----------------------------|----------|---------|----------------------------------|----------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 2016 | To Balance b/d | 1,40,000 | 2016 | By Realisation A/c (expenses) | 30,000 |
| April 1 | To Realization A/c | 3,00,000 | April 1 | By Partners Capital A/cs | |
| | To Partner's Capital A/cs: | | | P: | 2,90,430 |
| | P: | 28,000 | | R: | 1,50,000 |
| | Q: | 21,900 | | T: | 54,470 |
| | R: | 14,000 | | | |
| | T: | 21,000 | | | |
| | | 5,24,900 | | | 5,24,900 |

Partners' Capital Accounts (Amount in ₹)

| Dr. | | | | | | | | | Cr. |
|------------------------------|----------|----------|----------|----------|--------------------|----------|----------|----------|----------|
| Particulars | P | Q | R | T | Particulars | P | Q | R | T |
| To Balance b/d | — | 2,00,000 | 1,50,000 | — | By Balance b/d | 7,00,000 | | — | 3,00,000 |
| To Realisation A/c | 2,80,000 | — | — | 1,90,000 | By Realisation A/c | — | — | 3,00,000 | — |
| To Realisation A/c (Loss) | 28,000 | 7,000 | 14,000 | 21,000 | By Bank/Cash A/c | 28,000 | — | 14,000 | 21,000 |
| To Capital A/c (WN-2) | 1,29,570 | — | — | 55,530 | By Bank/Cash (W-I) | — | 21,900 | — | — |
| To Bank/ Cash A/c | 2,90,430 | — | 1,50,000 | 54,470 | By P's Capital A/c | — | 1,29,570 | — | — |
| | | | | | By T's Capital A/c | — | 55,530 | — | — |
| | 7,28,000 | 2,07,000 | 3,14,000 | 3,21,000 | | 7,28,000 | 2,07,000 | 3,14,000 | 3,21,000 |

Working Notes:

- (1) Solvent partners should bring in cash to make good the loss on realization.
- (2) Q's deficiency of ₹ 1,85,100 (₹ 2,07,000 – ₹ 21,900) should be shared by P and T in the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.
- (3) The amount realised from the estate of Q is ₹ 21,900.

— Space to write important points for revision —

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2017 - June [6] P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2017 on which date Balance Sheet of the firm is as follows.

| | | ₹ | | | ₹ |
|-------------------|---|----------|---------------------|--|----------|
| Capital accounts: | P | 1,20,000 | Cash | | 36,000 |
| | Q | 85,000 | Debtors | | 74,000 |
| | R | 75,000 | Stock | | 60,000 |
| Creditors | | 85,000 | Plant and Machinery | | 1,20,000 |
| | | | Land and Building | | 75,000 |
| | | 3,65,000 | | | 3,65,000 |

Value of goodwill was agreed as ₹ 93,000. Land and building increased in value, it being agreed at ₹ 1,05,600, plant and machinery was revalued at ₹ 1,00,500 and it was agreed to provide 6% in respect of debtors. Prepare revaluation account, capital accounts and balance sheet.

(5 + 5 + 5 = 15 marks)

Answer:**Revaluation A/c**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|--------------------------------|------------|------------------------|------------|
| To Plant & Machinery A/c | 19,500 | By Land & Building A/c | 30,600 |
| To Provision for bad debts A/c | 4,440 | | |
| To Capital A/c (Profit) | | | |
| P | 2,220 | | |
| Q | 2,220 | | |
| R | 2,220 | | |
| | 6,660 | | |
| | 30,600 | | 30,600 |

Capital A/c

| Particulars | P (₹) | Q (₹) | R (₹) | Particulars | P (₹) | Q (₹) | R (₹) |
|-------------|----------|----------|----------|--------------------|----------|----------|----------|
| To bad c/d | 1,53,220 | 1,18,220 | — | By bal b/d | 1,20,000 | 85,000 | 75,000 |
| To Loan A/c | — | — | 1,08,220 | By Revaluation A/c | 2,220 | 2,220 | 2,220 |
| | | | | By Goodwill A/c | 31,000 | 31,000 | 31,000 |
| | 1,53,220 | 1,18,220 | 1,08,220 | | 1,53,220 | 1,18,220 | 1,08,220 |

Balance Sheet

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-------------------|-----------------|-------------------|-----------------|
| Capital Accounts: | | Cash | 36,000 |
| P | 1,53,220 | Debtors | 74,000 |
| Q | 1,18,220 | Less: Provision | <u>4,440</u> |
| Loan Account : R | 1,08,220 | Stock | 60,000 |
| Creditors | 85,000 | Plant & Machinery | 1,00,500 |
| | | Land & Building | 1,05,600 |
| | | Goodwill | 93,000 |
| | 4,64,660 | | 4,64,660 |

Space to write important points for revision

2017 - Dec [4] (c) (ii) The Balance Sheet of a Partnership Firm had an Investment Fluctuation Reserve of ₹ 10,000. A new partner is admitted. Value of Investment is ₹ 60,000 against its book value of ₹ 70,000. What amount of the Investment Fluctuation Reserve will be distributed among partners?

- (iii) When does the Capital Account of a partner not show a debit balance in spite of regular losses incurred by the firm?
- (iv) At the time of dissolution of Partnership Firm realisation expenses amounted to ₹ 3,000 paid by Nisha, a partner who was to bear these expenses. What entry is required in the Books of the firm?

(1 mark each)

Answer:

- (ii) Nil. There is no excess amount in the Investment Fluctuation Reserve Account as the fall in the value of the investment is equal to the reserve.

- (iii) When partners maintain Fixed Capital Account, all adjustments including share of profit or loss is shown in their Current Account. Hence, the Capital Account of the partners will not be disturbed and this will not show a debit balance in spite of regular losses.
- (iv) No entry is required as the expenses are to be borne by the partners.
- Space to write important points for revision —

2017 - Dec [5] (a) Snehal, Suchita and Sindhu were partners sharing profits and losses in the ratio of 3:2:1. The firm was dissolved on 31.03.2015. After transfer of assets and liabilities to Realisation A/c, the following transactions took place.

Give journal entries in the books on dissolution of the firm.

- Suchita's Loan to the firm ₹ 30,000 was settled at ₹ 28,500.
- A creditor for ₹ 50,000, took over Machinery of Book value ₹ 40,000 at ₹ 35,000. The balance was settled in Cash.
- Workmen Compensation Reserve - ₹ 40,000. A liability equal to 60% of the Reserve was settled.
- Sindhu was to receive 5% of the value of assets realised as remuneration for completing the dissolution work and was to bear realization expenses. Realisation expenses were ₹ 5,500 that was paid by Sindhu. Assets realised ₹ 60,000.
- The Balance Sheet disclosed a footnote, contingent liability for ₹ 5,000 in respect of a bill discounted. The bill was received from Megha. On the date of dissolution Megha was declared insolvent and was not able to pay the amount due. The bill had to be met by the firm.
- Loss on realization amounted to ₹ 24,000. **(7 marks)**

Answer:

In the books of Snehal, Suchita and Sindhu Journal

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|---|------|---------|-----------------|
| (a) | Suchita's Loan A/c To Bank A/c To Realisation A/c (Being settlement of partner's loan) | Dr. | 30,000 | 28,500 1,500 |

| | | | | |
|-----|---|-------------------|--------------------------|-----------------------------------|
| (b) | Realisation A/c To Bank A/c (Being settlement of creditor's liability) | Dr. | 15,000 | 15,000 |
| (c) | Workmen Compensation Reserve A/c Dr. To Realisation A/c To Snehal's Capital A/c To Suchita's Capital A/c To Sindhu's Capital A/c (Being WCR transferred) | | 40,000 | 24,000 8,000 5,333 2,667 |
| | Realisation A/c To Bank A/c (Being liability against Workmen Compensation paid) | Dr. | 24,000 | 24,000 |
| (d) | Realisation A/c To Sindhu's Capital A/c (Being remuneration payable to Sindhu) | Dr. | 3,000 | 3,000 |
| (e) | Realisation A/c To Bank A/c (Being amount paid for the bill) | Dr. | 5,000 | 5,000 |
| (f) | Snehal's Capital A/c Suchita's Capital A/c Sindhu's Capital A/c To Realisation A/c (Being loss on realisation transferred) | Dr. Dr. Dr. | 12,000 8,000 4,000 | 24,000 |

— Space to write important points for revision —

2018 - June [6] A and B were partners of a firm sharing profits and losses in the ratio 2 : 1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

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| Liabilities | Amount ₹ | Assets | Amount ₹ |
|-------------------|-----------|---------------------|-----------|
| Capital Accounts: | | Plant and Machinery | 5,00,000 |
| A | 8,00,000 | Building | 9,00,000 |
| B | 4,00,000 | Sundry Debtors | 2,50,000 |
| Reserves | 5,25,000 | Stock | 3,00,000 |
| Sundry Creditors | 2,75,000 | Cash | 1,50,000 |
| Bills Payable | 1,00,000 | | |
| | 21,00,000 | | 21,00,000 |

They agreed to admit P and Q into the partnership on the following terms:

- (i) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits' of the last 3 years. The relevant figures are:
 - Year ended 31.03.2014 - Profit ₹ 37,000
 - Year ended 31.03.2015 - Profit ₹ 40,000
 - Year ended 31.03.2016 - Profit ₹ 45,000
- (ii) The value of the stock and Plant & Machinery were to be reduced by 10%.
- (iii) Building was to be valued at ₹ 10,11,000.
- (iv) There was an unrecorded liability of ₹ 10,000.
- (v) A, B, P & Q agreed to share profits and losses in the ratio 3 : 2 : 1 : 1.
- (vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.
- (vii) P and Q were to bring capitals equal to their shares of Profit considering B's capital as base after all adjustments.

You are required to prepare:

- (1) Memorandum Revaluation Account,
- (2) Partner's Capital Accounts and
- (3) The Balance Sheet of the newly constructed firm.

(15 marks)

Answer:

Memorandum Revaluation Account

| Dr. | | Cr. | |
|--|-----------------|--|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Stock | 30,000 | By Building | 1,11,000 |
| To Plant & machinery | 50,000 | | |
| To Unrecorded liability | 10,000 | | |
| To Profit transferred to Partners' Capital A/c (in old ratio) A = 14,000 B = 7,000 | 21,000 | | |
| | 1,11,000 | | 1,11,000 |
| To Building | 1,11,000 | By Stock | 30,000 |
| | | By Plant & Machinery | 50,000 |
| | | By Unrecorded liability | 10,000 |
| | | By Loss transferred to Partners' Capital A/cs (in new ratio) A = 9,000 B = 6,000 P = 3,000 Q = 3,000 | 21,000 |
| | 1,11,000 | | 1,11,000 |

Partner's Capital Accounts

| Dr. | | | | | Cr. | | | | |
|-------------------------------|------------------|-----------------|-----------------|-----------------|-------------------------------|------------------|-----------------|-----------------|-----------------|
| Particulars | A | B | P | Q | Particulars | A | B | P | Q |
| To Memorandum Revaluation A/c | 9,000 | 6,000 | 3,000 | 3,000 | By Balance b/d | 8,00,000 | 4,00,000 | — | — |
| To Reserves A/c | 2,25,000 | 1,50,000 | 75,000 | 75,000 | By Memorandum Revaluation A/c | 14,000 | 7,000 | — | — |
| To A & B (W.N.2) | — | — | 12,000 | 12,000 | By Reserves A/c | 3,50,000 | 1,75,000 | — | — |
| To Balance c/d (Refer W.N.3) | 9,50,000 | 4,30,000 | 2,15,000 | 2,15,000 | By P & Q (W.N.2) | 20,000 | 4,000 | — | — |
| | | | | | By Cash (Bal. Fig.) | — | — | 3,05,000 | 3,05,000 |
| | 11,84,000 | 5,86,000 | 3,05,000 | 3,05,000 | | 11,84,000 | 5,86,000 | 3,05,000 | 3,05,000 |

Balance Sheet of newly reconstituted firm as on 31.03.2017

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|--------------------------|------------------|-------------------------------------|------------------|
| Capital Accounts: | | Plant and Machinery | 5,00,000 |
| A – 9,50,000 | | Building | 9,00,000 |
| B – 4,30,000 | | Sundry Debtors | 2,50,000 |
| P – 2,15,000 | | Stock | 3,00,000 |
| Q – 2,15,000 | 18,10,000 | Cash (1,50,000+3,05,000 + 3,05,000) | 7,60,000 |
| Reserves | 5,25,000 | | |
| Sundry Creditors | 2,75,000 | | |
| Bills Payable | 1,00,000 | | |
| | 27,10,000 | | 27,10,000 |

Working Notes:**1. Calculation of Goodwill****Weighted Average Profit:**

| Year | Profit (₹) | Weight | Weighted Profit (₹) |
|------|------------|----------|---------------------|
| 2014 | 37,000 | 1 | 37,000 |
| 2015 | 40,000 | 2 | 80,000 |
| 2016 | 45,000 | <u>3</u> | 1,35,000 |
| | | 6 | 2,52,000 |

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

2. (a) Profit sacrificing Ratio

| Particulars | Old Shares | New Shares | Share Sacrificed | Share Gained |
|-------------|------------|------------|------------------|--------------|
| A | 2/3 | 3/7 | 5/21 | — |
| B | 1/3 | 2/7 | 1/21 | — |
| P | — | 1/7 | — | 1/7 |
| Q | — | 1/7 | — | 1/7 |

(b) Adjustment for Goodwill

| Partners | Goodwill as per old ratio | Goodwill as per new ratio | Effect | |
|----------|---------------------------|---------------------------|---------------|---------------|
| A | 56,000 | 36,000 | + 20,000 | — |
| B | 28,000 | 24,000 | + 4,000 | — |
| P | — | 12,000 | — | 12,000 |
| Q | — | 12,000 | — | 12,000 |
| | 84,000 | 84,000 | 24,000 | 24,000 |

Journal Entry

| Particulars | Amount (₹) | Amount (₹) |
|--------------------|------------|------------|
| P's Capital A/c | Dr. 12,000 | |
| Q's Capital A/c | Dr. 12,000 | |
| To A's Capital A/c | | 20,000 |
| To B's Capital A/c | | 4,000 |

3. Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is ₹ 4,30,000. Total capital of firm will be = $4,30,000 \times \frac{7}{2} = 15,05,000$
 Hence, P's and Q's closing capital should be ₹ 2,15,000 ($15,05,000 \times \frac{1}{7}$) each i.e. at par with B (as per new profit and loss sharing ratio)

— Space to write important points for revision —

2018 - Dec [4] A, B and C are partners in a firm sharing profits and losses as 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 was as follows:
(₹ in Lakh)

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-----------------------|------------|---------------------|------------|
| Partners' Capital A/c | | Land and Building | 210 |
| A | 145 | Plant and Machinery | 255 |
| B | 110 | Stock | 125 |
| C | 75 | Debtors | 95 |
| General Reserve | 165 | Bills Receivable | 25 |
| Partners' Loan : | | Cash in Hand | 3 |
| A | 30 | Cash at Bank | 37 |
| B | 20 | | |
| Sundry Creditors | 205 | | |
| | 750 | | 750 |

B died on 1st August, 2018. His account is to be settled under the following terms:

- (i) Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were : 2014-15 ₹ 135 Lakh, 2015-16 ₹ 145 Lakh, 2016-17 ₹ 131 Lakh and 2017-18 ₹ 165 Lakh.
- (ii) Land and Building will be valued at ₹ 250 Lakh and Plant and Machinery will be valued at ₹ 240 Lakh.
- (iii) For the purpose of calculating B's share in the profits of 01.04.2018 to 31.07.2018, the profits for the year 2017-18 will be taken as base.
- (iv) Interest on Partners' Loan will be calculated @ 6% per annum.
- (v) A sum of ₹ 50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1st December, 2018 together with interest @ 10% per annum.

You are required to pass necessary journal entries to record the above transactions and amount payable to B's Executor's Account.

(15 marks)

Answer:

Journal

(₹ in lakh)

| Date | Particulars | L.F. | Debit (₹) | Credit (₹) |
|---------|---|------|-----------|------------------------|
| 1.08.18 | Land & Building A/c Dr. To Revaluation A/c (For increase in the value of land and building) | | 40 | 40 |
| 1.08.18 | Revaluation A/c Dr. To Plant & Machinery A/c (For decrease in the value of Plant & Machinery) | | 15 | 15 |
| 1.08.18 | Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For profit on revaluation) | | 25 | 12.5 8.333 4.167 |
| 1.08.18 | General Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For transfer of general reserve) | | 165 | 82.5 55 27.5 |
| 1.08.18 | A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (For the adjustment of goodwill) | | 10836 | 144 |
| 1.08.18 | Profit & Loss Suspense A/c Dr. To B's Capital A/c (For the adjustment of profit from 1.4.18 to 1.8.18) | | 18.333 | 18.333 |
| 1.08.18 | B's Loan A/c Dr. To B's Capital A/c (Balance transferred) | | 20 | 20 |

| | | | | |
|---------|--|-----|---------|---------|
| 1.08.18 | Interest on B's Loan A/c To B's Capital A/c (Interest on B's Loan from 1.04.18 to 1.08.18 credited to B's Capital A/c) | Dr. | 0.4 | 0.4 |
| 1.08.18 | B's Capital A/c To B's Executor's A/c (Being balance of B's Capital A/c transferred to his Executor's A/c = ₹ 110 + 8.333 + 55 + 144 + 18.333 + 20 + 0.40) | Dr. | 356.066 | 356.066 |
| 1.08.18 | B's Executor's A/c To Bank A/c (Amount paid) | Dr. | 50 | 50 |
| 1.12.18 | Interest A/c To B's Executor's A/c (For interest due) | Dr. | 10.202 | 10.202 |
| 1.12.18 | B's Executor's A/c To Bank A/c (Amount due to B's Executor including interest, paid) | Dr. | 316.268 | 316.268 |

**Ledger
B's Executor's Account**

(₹ in lakh)

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---------|-------------|---------------|---------|-----------------|---------------|
| 1.08.18 | To Bank A/c | 50 | 1.08.18 | By Capital A/c | 356.066 |
| 1.12.18 | To Bank A/c | 316.268 | 1.12.18 | By Interest A/c | 10.202 |
| | | 366.268 | | | 366.268 |

Working Notes:

(1) Calculation of Share of B in Goodwill:

Average of past four years profits = (₹ 135 Lakh + ₹ 145 Lakh + ₹ 131 Lakh + ₹ 165 Lakh)/4 = ₹ 144 Lakh

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Value of Firm's Goodwill = ₹ 144 Lakh × 3 = ₹ 432 Lakh

B's Share in Goodwill = ₹ 432 Lakh × 2/6 = ₹ 144 Lakh, which will be credited to B's Capital A/c and Debited to A's Capital A/c & C's Capital A/c in the ratio of 3:1

- (2) B's Share in profit from 01.04.18 to 1.8.18 = (₹ 165 × 4/12) × 2/6 = ₹ 18.333 Lakh
- (3) Interest on B's Loan from 01.04.18 to 1.8.18 = ₹ 20 Lakh × 6% × 4/12 = ₹ 40,000
- (4) Interest to B's Executor from 1.08.18 to 1.12.18 = ₹ 356.066 Lakh – ₹ 50 Lakh = ₹ 306.066 × 10% × 4/12 = ₹ 10.2022 Lakh

— Space to write important points for revision —

2019 - June [4] A, B and C were partners in a firm sharing profits & losses in the ratio of 3 : 1 : 1 agreed upon dissolution of their partnership. They each decide to take over certain assets and liabilities and continue business separately.

**Balance Sheet
as on date of dissolution**

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|-------------|--------------|---------------|--|--|---------------|
| Creditors | | 6,000 | Cash at Bank | | 3,200 |
| Loan | | 1,500 | Sundry Assets | | 17,000 |
| Capitals: | | | Debtors | | 24,200 |
| A | 27,500 | | Less: Bad Debts provision <u>1,200</u> | | 23,000 |
| B | 10,000 | | Stock | | 7,800 |
| C | <u>7,000</u> | 44,500 | Furniture | | 1,000 |
| | | 52,000 | | | 52,000 |

It is agreed as follows:

- (i) Goodwill is to be ignored.
- (ii) A is to take over all the Fixtures at ₹ 800; Debtors amounting to ₹ 20,000 at ₹ 17,200. The creditors of ₹ 6,000 to be assumed by A at that figure.

- (iii) B is to take over all the stocks at ₹ 7,000 and certain of the sundry assets at ₹ 7,200 (being book value less 10%).
- (iv) C takes over the remaining sundry assets at 90% of book values less ₹ 100 allowances and assumes responsibility for the discharge of the loan, together with accruing interest of ₹ 30 which has not been recorded in the books of the firm.
- (v) The expenses of dissolution were ₹ 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realisation Account, partners' Capital Accounts and Bank Account.

(15 marks)

Answer:

**In the books of A, B and C
Realisation Account**

| Dr. | | | Cr. | | |
|----------------------|---------------|---------------|----------------------------------|---------------|---------------|
| Particulars | Amount (₹) | Amount (₹) | Particulars | Amount (₹) | Amount (₹) |
| To Sundry Assets: | | | By Provision for bad debts | | 1,200 |
| Sundry Assets | 17,000 | | Capital Account A: | | |
| Debtors | 24,200 | | Fixtures | 800 | |
| Stock | 7,800 | | Debtors | 17,200 | 18,000 |
| Fixtures | 1,000 | 50,000 | B: Stock | 7,000 | |
| To Bank – Expenses | | 270 | Sundry Assets | 7,200 | 14,200 |
| To Capital Account | | | C: Sundry Assets | | 8,000 |
| C – Interest on loan | | 30 | By Bank: Collection from Debtors | | 2,100 |
| | | | By Loss on realization: | | |
| | | | A (3/5) | 4,080 | |
| | | | B (1/5) | 1,360 | |
| | | | C (1/5) | 1,360 | 6,800 |
| | | 50,300 | | | 50,300 |

Capital Account

| Dr. | | | | Cr. | | | |
|----------------------------|---------------|---------------|--------------|-------------------------|---------------|---------------|--------------|
| Particulars | A (₹) | B (₹) | C (₹) | Particulars | A (₹) | B (₹) | C (₹) |
| To Dissolution | 18,000 | 14,200 | 8,000 | By Balance b/d | 27,500 | 10,000 | 7,000 |
| Assets taken | | | | By Creditors | 6,000 | --- | --- |
| To Dissolution A/c Loss | 4,080 | 1,360 | 1,360 | By Loan (with interest) | --- | --- | 1,530 |
| To Bank – Final payment | 11,420 | --- | --- | By Bank | | | |
| | | | | By Final Receipts | --- | 5,560 | 830 |
| | 33,500 | 15,560 | 9,360 | | 33,500 | 15,560 | 9,360 |

Bank Account

| Dr. | | Cr. | |
|-------------------------|---------------|--------------------|---------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) |
| To Balance b/d | 3,200 | By Dissolution A/c | |
| To Dissolution A/c | | Expenses | 270 |
| Collection from Debtors | 2,100 | By Capital A/c | |
| To Capital A/c | | A | 11,420 |
| B 5,560 | | | |
| C 830 | 6,390 | | |
| | 11,690 | | 11,690 |

Working Notes:**1. Realization of Sundry Assets:**

| | |
|-------------------------------------|--------|
| | ₹ |
| Sundry Assets (Book Value) | 17,000 |
| Less: Taken by B [7,200 × (100/90)] | 8,000 |
| Remaining at book value | 9,000 |

Taken by C: 90% of Book Value

i.e., $(9,000 \times (90/100)) = 8,100 - 100 \text{ for allowance} = 8,000$

2. **Collection from Debtors:**

| | ₹ |
|--------------------------------|--------|
| Debtors (Book Value) | 24,200 |
| Less: Taken by (Book Value) | 20,000 |
| Remaining at 50% i.e., ₹ 2,100 | 4,200 |

— Space to write important points for revision —

2019 - Dec [4] The Balance Sheet of X and Y who shares profits and losses in the ratio of 3 : 2, at 31st March, 2019 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|-----------------------------|----------|-------------------------------|----------|
| Creditors | 36,000 | Cash at Bank | 20,000 |
| Workmen's Compensation Fund | 24,000 | Debtors 1,30,000 | |
| Employees' Provident Fund | 20,000 | Less: Provision <u>10,000</u> | 1,20,000 |
| General Reserve | 40,000 | Stock | 60,000 |
| X's Capital | 1,68,000 | Investments | 1,00,000 |
| Y's Capital | 1,12,000 | Patents | 20,000 |
| | | Goodwill | 80,000 |
| | 4,00,000 | | 4,00,000 |

They decided to admit Z on that date for 1/4th share on the following terms:

- (a) New Profit sharing ratio will be 6 : 9 : 5. Z is to bring in capital equal to 1/4th of the total capital of the new firm.
- (b) Goodwill of the firm is to be valued at 4 years, purchase of the average super profits of the last three years. Average profits of the last three years are ₹70,000, while the normal profits that can be earned with the capital employed are ₹30,000. No Goodwill is to appear in the books. Z brings in ₹ 24,000 cash out of his share of Goodwill.
- (c) Patents to be written down to ₹3,000 and Stock is undervalued by ₹2,000. 20% of General Reserve to be transferred to Provision for Doubtful Debts. ₹ 9,000 included in Sundry Creditors be written back as no longer payable.

- (d) Out of the amount of insurance which was debited entirely to P & L A/c, ₹10,000 be carried forward as an Unexpired Insurance. Unaccounted Accrued Income of ₹2,000 to be provided for. A debtor whose dues of ₹10,000 were written off as Bad Debts paid 80% in full settlement. A claim of ₹ 6,000 on account of workmen's compensation to be provided for.
- (e) The market value of investments was ₹ 90,000. Half of the investments were to be taken over by old partners in their old profit sharing ratio. Prepare Revaluation Account, Capital Accounts of the Partners and the Balance Sheet of new firm. **(15 marks)**

Answer:

Revaluation Account

| Dr. | | Cr. | |
|-------------------------------------|---------------|-----------------------------|---------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) |
| To Patents | 17,000 | By Sundry Creditors | 9,000 |
| To Investments | 10,000 | By Prepaid Insurance | 10,000 |
| To Profit on Revaluation t/f to: | | By Bad Debts Re- covered | 8,000 |
| X's Capital A/c | 2,400 | By Stock | 2,000 |
| Y's Capital A/c | 1,600 | By Accrued Income | 2,000 |
| | 31,000 | | 31,000 |

Partners Capital Accounts

| Dr. | | | | Cr. | | | |
|-----------------------|----------|--------|--------|--|----------|----------|--------|
| Particulars | X (₹) | Y (₹) | Z (₹) | Particulars | X (₹) | Y (₹) | Z (₹) |
| To Goodwill A/c | 48,000 | 32,000 | - | By Balance b/d | 1,68,000 | 1,12,000 | - |
| To Investments A/c | 27,000 | 18,000 | - | By General Reserve A/c | 19,200 | 12,800 | - |
| To X's Capital A/c | - | 8,000 | 40,000 | By Revaluation A/c | 2,400 | 1,600 | - |
| To Balance c/d | 1,73,400 | 75,600 | 83,000 | By Workmen's Com. | 10,800 | 7,200 | - |
| | | | | By Bank A/c (Premium for Goodwill) | - | - | 24,000 |

| | | | | | | | |
|--|----------|----------|----------|--------------------|----------|----------|----------|
| | | | | By Z's Current A/c | | | 16,000 |
| | | | | By Y's Capital A/c | 8,000 | - | - |
| | | | | By Z's Capital A/c | 40,000 | | |
| | | | | By Bank A/c | - | - | 83,000 |
| | 2,48,400 | 1,33,600 | 1,23,000 | | 2,48,400 | 1,33,600 | 1,23,000 |

Balance Sheet of New Firm as at 31st March, 2019

| Dr. | | Cr. | |
|------------------------------|-----------------|-------------------|-----------------|
| Liabilities | Amounts (₹) | Assets | Amount (₹) |
| Creditors | 27,000 | Cash at Bank | 1,35,000 |
| Employees' Provident Fund | 20,000 | Debtors | 1,30,000 |
| Workmen's Compensation Claim | 6,000 | Less: Provision | <u>18,000</u> |
| X's Capital A/c | 1,73,400 | Stock | 62,000 |
| Y's Capital A/c | 75,600 | Investments | 45,000 |
| Z's Capital A/c | 83,000 | Patents | 3,000 |
| | | Prepaid Insurance | 10,000 |
| | | Accrued Income | 2,000 |
| | | Z's Current A/c | 16,000 |
| | 3,85,000 | | 3,85,000 |

Working Notes:

1. X's sacrifice = $3/5 - 6/20 = 6/20$, Y's gain = $2/5 - 9/20 = (1/20)$
2. Firm's Goodwill = Super Profits $\times 4 = (\text{₹ } 70,000 - \text{₹ } 30,000) \times 4 = \text{₹ } 1,60,000$

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3. Z's Share of Goodwill = ₹ 1,60,000 × 1/4 = ₹ 40,000
 4. Y's Share of Goodwill = ₹ 1,60,000 × 1/20 = ₹8,000
 5. Z's New Capital = (₹ 1,73,400 + ₹ 75,600) × 1/3 = ₹ 83,000

Cash at Bank Account

| Dr. | | Cr. | |
|-------------------------|----------------|----------------|---------------|
| Particulars | Amounts (₹) | Particulars | Amount (₹) |
| To Balance b/d | 20,000 | By Balance c/d | 1,35,000 |
| To Z's Capital A/c | 83,000 | | |
| To Bad Debts Recovered | 8,000 | | |
| To Premium for Goodwill | 24,000 | | |
| | 1,35,000 | | 1,35,000 |

— Space to write important points for revision —

2021 - Dec [10] X and Y were Partners sharing profit/losses as 3:2. They admit Z as a new partner, giving him 1/5th share of future profits. What should be the new profit sharing ratio? **(1 mark) [Sec. B SAQ]**

Answer:

12:8:5

— Space to write important points for revision —

2021 - Dec [3] The partners of a firm distributed the profits for the year ended 31/3/2021. ₹90,000 in the ratio of 3:2:1 without providing for the following adjustments.

- A and B were entitled to a salary of ₹1,500 each per annum.
- B was entitled to a Commission of ₹4,500.
- B&C had guaranteed a minimum profit of ₹35,000 P.a to A.
- Profits were to be shared in the ratio of 3:3:2

Pass the necessary journal entries for the above adjustments in the Books of the Firm. **(6 marks) [Sec. C - Two LAQ]**

Answer:**Journal Entry**

| | Dr. | Cr. |
|--|--------|--------|
| A's Capital A/c | Dr. | |
| To B' s Capital A/c | ₹8,500 | ₹4,500 |
| To C' s Capital A/c | | ₹4,000 |
| (Being adjustments made for omissions) | | |

2021 - Dec [2] X & Y are partners. They decided to dissolve their firm. Pass necessary entries assuming that various assets and external liabilities have been transferred to the Realisation account.

- (i) X's loan(partner) was appearing on the liability side of the balance sheet at ₹30,000.He accepted an unrecorded asset of ₹50,000 in full settlement of his account.
- (ii) Runa, a creditor, to whom ₹ 30,000 were due to be paid, accepted an unrecorded computer of ₹ 20,000 at a discount of 10%, and the balance was paid to him in cash.
- (iii) Suman, an unrecorded creditor of ₹ 45,000, accepted an unrecorded motor car of ₹ 30,000 at 35,000, and the balance was paid to him in cash.
- (iv) There was a contingent liability in respect of bills discounted but not matured ₹ 30,000.
- (v) Furniture of ₹15,000 and goodwill of ₹20,000 were appearing in the balance sheet but no other information was provided regarding these two items.

(5 marks) [Sec. C - Five LAQ]**Answer :**

- (i) Debit X's loan account and credit realisation account by ₹30,000
- (ii) Debit realisation account and credit bank account by ₹12,000
- (iii) Debit realisation account and credit bank account by ₹10,000
- (iv) No entry.
- (v) No entry.

— Space to write important points for revision —

2022 - Dec [4] P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-----------------|------------|-------------|------------|
| Capitals: | | Building | 1,90,000 |
| P | 1,50,000 | Stock | 1,30,000 |
| Q | 1,50,000 | Investments | 50,000 |
| R | — | Debtors | 70,000 |
| S | 60,000 | Cash | 30,000 |
| General reserve | 40,000 | R | 40,000 |
| Trade creditors | 80,000 | | |
| Bills payable | 30,000 | | |
| | 5,10,000 | | 5,10,000 |

Following information is given to you:

- (i) A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.
- (ii) Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- (iii) A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.
- (iv) The other assets realized as follows:
 - Building : 110% of book value
 - Stock : ₹ 1,20,000
 - Investments : The rest of investments were sold at a profit of ₹ 7,000
 - Debtors : The rest of the debtors were realized at a discount of 10%.
- (v) The bills payable were settled at a discount of ₹ 500.

5

LEASE ACCOUNTING

This Chapter Includes

- | | |
|---|---|
| <ul style="list-style-type: none">• AS-19• Lease• Finance Lease | <ul style="list-style-type: none">• Operating Lease• Sale and Leaseback transactions |
|---|---|

CHAPTER AT A GLANCE

Lease

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

Operating Lease

An operating lease is a lease other than a finance lease.

Fair Value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Economic Life

Economic life is either: (a) the period over which an asset is expected to be economically usable by one or more users; or (b) the number of production or similar units expected to be obtained from the asset by one or more users.

Useful Life

Useful life of a leased asset is either: (a) the period over which the leased asset is expected to be used by the lessee; or (b) the number of production or similar units expected to be obtained from the use of the asset by the lessee.

Residual value

Residual value of a leased asset is the estimated fair value of the asset at the end of the lease term.

Gross Investment in the Lease

Gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.

Net Investment

Net investment in the lease is the gross investment in the lease less unearned finance income.

Contingent Rent

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).

Leases are classified into two types:**Finance Lease**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. Title may or may not eventually be transferred.

Operating Lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership.

Sale and Leaseback Transactions

A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The lease payments and the sale price are usually interdependent as they are negotiated as a package.

SHORT NOTES

2017 - Dec [5] Write short note:

(a) Operating Lease and Finance Lease (4 marks) [CMA Inter Gr. II]

Answer:

Operating Lease and Finance Lease

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An operating lease is a lease other than a finance lease.

As per AS 19, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

— Space to write important points for revision —

2019 - June [5] Write short note:

(d) Finance Lease (4 marks) [CMA Inter Gr. II]

Answer:

Finance Lease:

It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the Lessee by the Lessor but not the legal ownership. In following situations, the lease transactions are called Finance Lease.

- (i) The lessee will get the ownership of leased asset at the end of the lease term.
- (ii) The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- (iii) The lease term covers the major part of the life of asset.
- (iv) At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- (v) The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

— Space to write important points for revision —

DESCRIPTIVE QUESTIONS

2014 - June [1] {C} Answer the following:

- (b) State the types of lease to which AS-19 are not applicable.

(2 marks) [CMA Inter Gr. II]

Answer:

The Accounting Standard AS-19 is not applicable to the following types of Lease:

- (i) Lease agreement to explore natural resources such as oil, gas, timber, metal and other material rights;
- (ii) Licensing agreements for motion picture film, video recording, Plays, manuscripts, patents and other rights;
- (iii) Lease agreement to use land.

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - Dec [2] (b) Kovid Limited has taken a Machinery on Lease from Krishna Limited.

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The following information are provided by Kovid Limited:

| | |
|----------------------------------|--|
| Lease Term | 5 years |
| Fair value at inception of Lease | ₹ 20 Lakhs |
| Lease Rent | ₹ 5 Lakhs per annum payable at the end of the year |
| Expected Residual value | ₹ 3 Lakhs |
| Guaranteed Residual value | ₹ 2 Lakhs |
| Implicit Interest rate | 15.5% per annum |

You are required to prepare Lease Rent Account and Lease Liability Account in the Books of Kovid Limited. (The present value of Re. 1 at Discount rate of 15.5% are 0.8658, 0.7496, 0.6490, 0.5619 and 0.4865 for year 1 to year 5 respectively.)

(8 marks) [CMA Inter Gr. II]

Answer:

(b) Present value of minimum lease payment:

| Year | MLP (₹) | Discount factor @ 15.5% | PV (₹) |
|------|------------------------|-------------------------|------------------|
| 1 | 5,00,000 | 0.8658 | 4,32,900 |
| 2 | 5,00,000 | 0.7496 | 3,74,800 |
| 3 | 5,00,000 | 0.6490 | 3,24,500 |
| 4 | 5,00,000 | 0.5619 | 2,80,950 |
| 5 | 7,00,000 | 0.4865 | 3,40,550 |
| | [including ₹ 2,00,000] | | |
| | <u>27,00,000</u> | | <u>17,53,700</u> |

Present value of minimum lease payment (₹ 17,53,700) is less than fair value at the inception of lease (₹ 20,00,000) so the leased asset and liability should be recognized at ₹ 17,53,700.

Apportionment of finance lease

| Year | Liability (₹) | Rate of Interest 15.5% | | Principal Amount of reduction (₹) |
|------|---------------|------------------------|--------------------|-----------------------------------|
| | | MLP (₹) | Finance Charge (₹) | |
| 0 | 17,53,700 | – | – | – |
| 1 | 15,25,524 | 5,00,000 | 2,71,824 | 2,28,176 |
| 2 | 12,61,980 | 5,00,000 | 2,36,456 | 2,63,544 |
| 3 | 9,57,587 | 5,00,000 | 1,95,607 | 3,04,393 |
| 4 | 6,06,013 | 5,00,000 | 1,48,426 | 3,51,574 |
| 5 | – | 7,00,000 | 93,932 | 6,06,068 |

**Books of Kovid Limited
Lease Rent Account**

| Year | Particulars | Amount (₹) | Particulars | Amount (₹) |
|----------------------|-------------|------------|------------------------|------------|
| 1 st Year | To Bank A/c | 5,00,000 | By Finance Charges A/c | 2,71,824 |
| | | | By Lease Liability A/c | 2,28,176 |
| | | 5,00,000 | | 5,00,000 |
| 2 nd Year | To Bank A/c | 5,00,000 | By Finance Charges A/c | 2,36,456 |
| | | | By Lease Liability A/c | 2,63,544 |
| | | 5,00,000 | | 5,00,000 |
| 3 rd Year | To Bank A/c | 5,00,000 | By Finance Charges A/c | 1,95,607 |
| | | | By Lease Liability A/c | 3,04,393 |
| | | 5,00,000 | | 5,00,000 |
| 4 th Year | To Bank A/c | 5,00,000 | By Finance Charges A/c | 1,48,426 |
| | | | By Lease Liability A/c | 3,51,574 |
| | | 5,00,000 | | 5,00,000 |
| 5 th Year | To Bank A/c | 7,00,000 | By Finance Charges A/c | 93,932 |
| | | | By Lease Liability A/c | 6,06,068 |
| | | 7,00,000 | | 7,00,000 |

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| Lease Liability Account (less or A/c) | | | | |
|---------------------------------------|-------------------|------------------|----------------|------------------|
| Year | Particulars | Amount (₹) | Particulars | Amount (₹) |
| 1 st Year | To Lease Rent A/c | 2,28,176 | By PPE A/c | 17,53,700 |
| | To Balance c/d | 15,25,524 | | |
| | | <u>17,53,700</u> | | <u>17,53,700</u> |
| 2 nd Year | To Lease Rent A/c | 2,63,544 | By Balance b/d | 15,25,524 |
| | To Balance c/d | 12,61,980 | | |
| | | <u>15,25,524</u> | | <u>15,25,524</u> |
| 3 rd Year | To Lease Rent A/c | 3,04,393 | By Balance b/d | 12,61,980 |
| | To Balance c/d | 9,57,587 | | |
| | | <u>12,61,980</u> | | <u>12,61,980</u> |
| 4 th Year | To Lease Rent A/c | 3,51,574 | By Balance b/d | 9,57,587 |
| | To Balance c/d | 6,06,013 | | |
| | | <u>9,57,587</u> | | <u>9,57,587</u> |
| 5 th Year | To Lease Rent A/c | 6,06,013 | By Balance b/d | 6,06,013 |
| | | 60,60,013 | | |
| | | <u>60,60,013</u> | | <u>60,60,013</u> |

— Space to write important points for revision —

2015 - June [2] Answer the question:

(a) Makkhu Limited leased a machine to Gunu Limited on the following terms:

- | | |
|--------------------------------|--------------|
| (i) Fair value of the machine | ₹ 72 lakhs |
| (ii) Lease term | 5 years |
| (iii) Lease rental per annum | ₹ 12 lakhs |
| (iv) Guaranteed residual value | ₹ 2.40 lakhs |
| (v) Expected residual value | ₹ 4.50 lakhs |
| (vi) Internal rate of return | 15% |

Discounted rates at 15% for ₹ 1, 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

Ascertain Unearned Finance Income. **(8 marks) [CMA Inter Gr. II]**

Answer:

As per AS-19 on leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payment under the finance lease from the stand point of the lessor, and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

where:**(a) Gross investments in the lease is the aggregate of:**

- (i) minimum lease payments from the stand point of the lessor and
- (ii) any unguaranteed residual value accruing to the lessor.

$$\begin{aligned}
 \text{Gross investment} &= \text{Minimum Lease Payments} + \text{Unguaranteed Residual Value} \\
 &= \text{Total lease rent} + \text{Guaranteed Residual Value (GRV)} + \text{Unguaranteed Residual Value (URV)} \\
 &= (12,00,000 \times 5) + 2,40,000 + 2,10,000 \\
 &= 64,50,000 \text{ (a)}
 \end{aligned}$$

(b) Table showing present value of (1) Minimum Lease Payments (MLPs) and Unguaranteed Residual Value (URV):

| Year | MLP inclusive of URV (₹) | Internal Return of Return (discount factor @ 15%) | Present Value |
|-------|--------------------------|---|---------------|
| 1 | 12,00,000 | 0.8696 | 10,43,520 |
| 2 | 12,00,000 | 0.7561 | 09,07,320 |
| 3 | 12,00,000 | 0.6575 | 7,89,000 |
| 4 | 12,00,000 | 0.5718 | 6,86,160 |
| 5 | 12,00,000 | 0.4972 | 5,96,640 |
| | 2,40,000 (GRV) | 0.4972 | 1,19,328 |
| | 62,40,000 | | 41,41,968 (i) |
| | 2,10,000 (URV) | 0.4972 | 1,04,412 (ii) |
| Total | 64,50,000 | (i) + (ii) | 42,46,380 (b) |

$$\begin{aligned}
 \text{Unearned finance income} &= \text{(a)} - \text{(b)} \\
 &= 64,50,000 - 42,46,380 \\
 &= 22,03,620
 \end{aligned}$$

2015 - Dec [2] Answer the question:

(c) Classify the following into either Operating or Financial Lease (briefly give your reasoning):

1. Lessee has option to purchase the asset at lower than fair value, at the end of lease term. It is certain that the lessee will exercise the option.
2. Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of lease term.
3. Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.
4. Present value of minimum lease payment = X. Fair value of the asset = Y.

(8 marks) [CMA Inter Gr. II]

Answer:

1. Finance lease if it becomes certain at the inception of lease itself that the option will be exercised by the lease that also at a price which is lower than its expected fair value.
2. Finance lease, since a substantial portion of the life of the asset is covered by lease term.
3. Finance lease since the asset is procured only for the use of lessee.
4. Finance lease since at the beginning of the lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset. Where X is minimum lease rental and Y is initial fair value.

— Space to write important points for revision —

2016 - June [4] (b) X Ltd. has leased equipment over its useful life that costs ₹ 7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that:

- (i) The estimated unguaranteed residual value would be ₹ 1 lakh only.
- (ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.
- (iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income P.V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively. **(6 marks) [CMA Inter Gr. II]**

Answer:

Calculation of lease rental:

- Cost of Assets
- = Present value of lease rental + Present value of residual valued
- $7,46,55,100 = 2.486x + .751 \times 1,00,000$
- $7,46,55,100 - 75,100 = 2.486x$
- $\frac{7,45,80,000}{2.486} = x$
- $x = 3,00,00,000$

Calculation of Unearned Financial Income:

- Gross investment — Net investment
- $[(3,00,00,000 \times 3) + 1,00,000] - 7,46,55,100$
- $9,01,00,000 - 7,46,55,100$
- $1,54,44,900$

— Space to write important points for revision —

2017 - June [2] (b) M Ltd. sold machinery having WDV of ₹ 200 Lakhs to N Ltd. for ₹ 250 Lakhs and the same machinery was leased back by N Ltd. to M Ltd. The lease back is an operating lease. Comment on the accounting treatment as per AS 19 in the following circumstances:

- (i) Fair value is ₹ 230 Lakhs and sale price is ₹ 250 Lakhs
- (ii) Fair value is ₹ 175 Lakhs and sale price is ₹ 195 Lakhs

(4 marks) [CMA Inter Gr. II]

Answer:

- (i) Profit of ₹ 30 Lakhs (230 Lakhs - 200 Lakhs) to be immediately recognised in its books and balance profit of ₹ 20 Lakhs (250 Lakhs - 230 Lakhs) is to be amortised/deferred over lease period.
- (ii) Loss of ₹ 25 Lakhs (200 Lakhs - 175 Lakhs) to be immediately recognised by M Ltd. in its books and profit of ₹ 20 Lakhs (195 Lakhs - 175 Lakhs) should be amortised/deferred over lease period.

— Space to write important points for revision —

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2019 - June [2] (b) A Ltd. has taken the assets on lease from X Ltd. The following information is given below:

Lease Term = 3 years

Fair value at inception of lease = ₹ 14,00,000

Lease Rent = ₹ 6,00,000 p.a. at the end of each year

Guaranteed Residual Value = ₹ 44,000

Implicit Interest Rate = 15% p.a.

Calculate the value of the asset to be considered by A Ltd. and the interest (finance charges) in each year.

Present value of ₹ 1.00 at 15% is given below.

| Year | 1 | 2 | 3 |
|------------|-------|-------|-------|
| PVIF (15%) | 0.869 | 0.756 | 0.657 |

(5 marks) [CMA Inter Gr. II]

Answer:

Calculation of Present value of Minimum Lease Payments:

| Year (end) | MLP (₹) | PVIF at 15% | Present Value (₹) |
|------------|---------------------------|-------------|-------------------|
| 1 | 6,00,000 | 0.869 | 5,21,400 |
| 2 | 6,00,000 | 0.756 | 4,53,600 |
| 3 | 6,44,000(6,00,000+44,000) | 0.657 | 4,23,108 |
| | | | 13,98,108 |

Value of the asset will be the lower of fair value at the inception of lease and present value of MLP plus residual value. Therefore, the value of the asset will be ₹ 13,98,108.

Calculation for Interest (Finance Charge)

| Year | Balance Due | Interest @ 15% of Balance Due | Repayment of Capital (₹ 6,00,000 - Interest) | Closing Balance |
|------|-------------|-------------------------------|--|--------------------------|
| -1 | (2) ₹ | (3) ₹ | (4) ₹ | (5) = (2)-(4) ₹ |
| 1 | 13,98,108 | 2,09,716 | 3,90,284 | 10,07,824 |
| 2 | 10,07,824 | 1,51,174 | 4,48,826 | 5,58,998 |
| 3 | 5,58,998 | 83,850 | 5,16,150 | 42,848* (Residual Value) |

(Alternative Calculation)

| Year | Liability (₹) | MLP (₹) | Finance Charge (₹) | Principle Amt. of reduction (₹) |
|------|---------------|----------|--------------------|---------------------------------|
| 1 | 13,98,108 | — | — | — |
| 2 | 10,07,824 | 6,00,000 | 2,09,716 | 3,90,284 |
| 3 | 5,58,998 | 6,00,000 | 1,51,174 | 4,48,826 |
| 4 | — | 6,44,000 | 83,850 | 5,60,150 |

Note: The difference between this figure and the guaranteed residual value (as per the problem) is due to approximation.

— Space to write important points for revision —

2021 - Dec [1] L Ltd. leased a machine to T Ltd. on the following terms:

| Sr. No. | Particulars | (₹ in Lakhs) |
|---------|---------------------------|--------------|
| (i) | Fair Value of the machine | 72 |
| (ii) | Lease Term | 5 Years |
| (iii) | Lease rental per annum | 12 |
| (iv) | Guaranteed residual value | 2.4 |
| (v) | Expected residual value | 4.5 |
| (vi) | Internal Rate of return | 15% |

Discounted rates @ 15% for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

From the above calculate

- (i) Gross investment in the lease
- (ii) Unearned Finance Income.

(6 marks) [Sec. C - One LAQ] [CMA Inter Gr. II]

Answer:

Please refer 2015 - June [2] (a) on page no. 252

— Space to write important points for revision —

6A






BRANCH ACCOUNTING

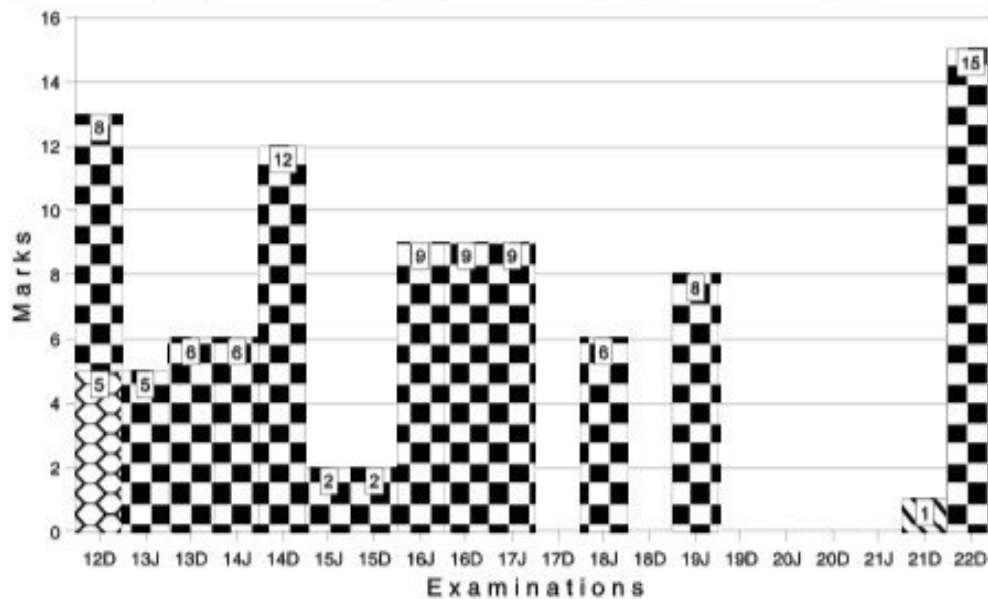
This Chapter Includes

- Branch Accounts
- Methods
- Dependent and Independent Branches
- Foreign Branches

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective  Short Notes  Distinguish  Descriptive  Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Branch**

A Branch is a subordinate division of an office.

Section 2(14) of the Companies Act, 2013 defines a Branch Office as-

- Any establishment described as a Branch by the Company.

Dependent Branches

Dependent branches are branches in respect of which the whole of the accounting records are kept at Head Office only.

Independent Branches

Independent branches are branches which maintain independent accounting records.

Foreign Branches

Foreign branches are located in a foreign country (i.e. in a country other than in which the company is incorporated and registered).

Debtors Method

This method is usually adopted when the branch is of small size. Under this method, the head office maintains separate Branch Account for each branch. Its purpose is to ascertain profit or loss made by each branch.

Stock and Debtors Method

When there are large number of transactions, this method is particularly adopted by the H.O. to make efficient control over the branches.

SHORT NOTES

2012 - Dec [8] Write short note on:

(e) Classification of Branches for Branch accounting purpose. **(5 marks)**

Answer :

Branches are classified as two way, (i) Inland Branch, (ii) Foreign Branch

(i) **Inland Branches:**

(a) **Dependent Branches:** Branches in respect of which the whole of the accounting records are kept at head office.

(b) **Independent Branches:** As the name indicates such branches maintain independent accounting records.

(ii) **Foreign Branches:** Branches which are located in a foreign country other than in which the company is incorporated they maintain independent and complete record of business.

Methods of accounting are:

(i) Final Accounts method

(a) At wholesale price

(b) At Cost Price/At Invoice Price

(ii) Debtors method;

(iii) Stock and Debtors method; and

(iv) Cash Basis System.

— Space to write important points for revision —

DESCRIPTIVE QUESTIONS

2021 - Dec [9] Define branch as per section 2(14) of the Companies Act, 2013. **(1 mark) [Sec. B - SAQ]**

Answer:

Any establishment described as a branch by the company.

PRACTICAL QUESTIONS

2012 - Dec [2] (a) Priya Sales Corporation of Jaipur has a Branch at Kota to which goods are sent @ $33\frac{1}{3}\%$ above cost. The Branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the Branch has to remit all cash received into the Head Office Bank Account at Kota.

Following further details are given for the year ended 31st March, 2012:

| | (₹) |
|--|-----------|
| Goods sent to Branch at invoice price | 18,00,000 |
| Goods returned by Branch at invoice price | 20,000 |
| Stock at Branch on 1.4.2011 (at invoice price) | 2,40,000 |
| Branch Debtors on 1.4.2011 | 2,15,000 |
| Sales during the year: Cash | 5,80,000 |
| Credit | 11,40,000 |
| Cash received from Branch debtors | 10,45,000 |
| Discount allowed to by Branch to debtors | 14,800 |
| Bad debts | 9,200 |
| Sales return at Kota Branch | 25,000 |
| Salaries and wages at Branch | 1,80,000 |
| Rent, Rates and Taxes at Branch | 42,000 |
| Sundry expenses at Branch | 15,000 |
| Stock at Branch on 31.3.2012 at invoice price | 3,60,000 |

You are required to show Branch Stock Account, Branch Adjustment Account, Branch Expenses Account, Branch Debtors Account, Branch Goods sent to Branch Account and Branch Profit & Loss Account in the books of the Head Office. **(8 marks)**

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Answer:

In the books of Priya Sales Corporation, Jaipur

Branch Stock A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|-----------|--------------------------------------|-----------|
| To Balance b/d | 2,40,000 | By Goods sent to branch A/c (Return) | 20,000 |
| To Goods sent to branch A/c | 18,00,000 | By Cash A/c (Cash Sales) | 5,80,000 |
| To Branch Debtors A/c (Returns) | 25,000 | By Branch Debtors A/c (Credit Sale) | 11,40,000 |
| To Branch Adjustment A/c (Excess of sales over invoice price) | 35,000 | By Balance c/d | 3,60,000 |
| | 21,00,000 | | 21,00,000 |

Branch Debtors A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---------------------|-----------|------------------------------------|-----------|
| To Balance b/d | 2,15,000 | By Cash A/c | 10,45,000 |
| To Branch Stock A/c | 11,40,000 | By Branch P/L A/c (14,800 + 9,200) | 24,000 |
| | | By Branch Stock A/c | 25,000 |
| | | By Balance c/d | 2,61,000 |
| | 13,55,000 | | 13,55,000 |

Branch Adjustment A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|--|----------|---|----------|
| To Branch P/ L A/c | 4,50,000 | By Stock Reserve A/c | 60,000 |
| To Stock Reserve (Closing Stock - 25% on 3,60,000) | 90,000 | $\left(2,40,000 \times \frac{33.333}{133.333}\right)$ | |
| | | By Goods sent to branch (18,00,000 – 20,000) x 25% | 4,45,000 |
| | | By Branch Stock A/c | 35,000 |
| | 5,40,000 | | 5,40,000 |

Branch Expenses A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|-----------------------|-------------|--------------------|-------------|
| To Cash A/c: | | By Branch P/ L A/c | 2,37,000 |
| Salary and wages | 1,80,000 | (Transfer) | |
| Rent, Rates and Taxes | 42,000 | | |
| Sundry expenses | 15,000 | | |
| | 2,37,000 | | 2,37,000 |

Branch P and L A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|--|-------------|----------------------|-------------|
| To Branch Expenses A/c | 2,37,000 | By Branch Adjustment | 4,50,000 |
| To Branch Debtors A/c (Discout & Bad debts) | 24,000 | A/c [Gross Profit] | |
| To P and L A/c [Net Profit] | 1,89,000 | | |
| | 4,50,000 | | 4,50,000 |

Goods Sent to Branch A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|------------------------------|-------------|---------------------|-------------|
| To Branch Stock A/c (Return) | 20,000 | By Branch Stock A/c | 18,00,000 |
| To Branch Adj. A/c | 4,45,000 | | |
| To Trading A/c (B/F) | 13,35,000 | | |
| | 18,00,000 | | 18,00,000 |

— Space to write important points for revision —

2013 - June [2] (b) A Company with its Head Office at Kolkata has a Branch at Chennai. The Branch receives all goods from Head Office who remits cash for all expenses. Total Sales by Branch for year ended 31.03.2012 amounted to ₹ 6,50,000 out of which 75% on Credit. Other details for Chennai Branch were as under:

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| | 01.04.2011 | 31.03.2012 |
|------------|------------|------------|
| Stock | 4,000 | 30,000 |
| Debtor | 45,000 | 30,000 |
| Petty Cash | 250 | — |

Petty Cash sent by Head Office ₹ 3,000 but ₹ 2,500 is spent for Petty Expenses. The Expenses of ₹ 45,000 are actually spent by Branch. All sales are made by the Branch at Cost plus 25%.

You are required to prepare the Chennai Branch A/c in the Books of Head Office for the year ended 31.03.2012. **(5 marks)**

Answer:

**In the Books of Head Office
Chennai Branch Account**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|--------------------------------|-------------|---------------------------|-------------|
| To Balance b/d | | By Bank A/c | |
| Stock – 4,000 | | Cash Sales – 1,62,500 | |
| Debtors – 45,000 | | Collection from Debtors – | |
| Petty Cash - 250 | 49,250 | <u>5,02,500</u> | 6,65,000 |
| To Goods Sent to Branch | 5,46,000 | | |
| To Bank A/c | | By Balance c/d | |
| Expenses – 45,000 | | Stock – 30,000 | |
| Petty Cash sent – <u>3,000</u> | 48,000 | Debtors – 30,000 | |
| To General P/L A/c | 82,500 | Petty Cash - <u>750</u> | 60,750 |
| | 7,25,750 | | 7,25,750 |

Working Notes:

1. Petty Cash Account

| | | | |
|-----------------------------|-------|-------------------|-------|
| To Balance b/d | 250 | By Petty Expenses | 2,500 |
| To Bank – Cash sent by H.O. | 3,000 | By Balance c/d | 750 |
| | 3,250 | | 3,250 |

2. Memorandum Debtors Account

| | | | |
|----------------------------------|----------|-----------------------------|----------|
| To Balance b/d | 45,000 | By Bank A/c (Collection) | 5,02,500 |
| To Credit Sales (6,50,000) × 75% | 4,87,500 | By Balance c/d | 30,000 |
| | 5,32,500 | | 5,32,500 |

3. Calculation of Cost of Goods Sent:

(a) Cost of Goods Sold = $6,50,000 \times 100/125 = 5,20,000$

(b) Cost of Goods Sold = Opening Stock + Cost of Goods Sent - Closing Stock

$5,20,000 = 4,000 + \text{Cost of Goods sent} - 30,000$

Hence, Cost of Goods sent = 5,46,000

— Space to write important points for revision —

2013 - Dec [5] (b) Prepare a Branch Account in the books of Head Office from the following particulars for the year ended 31st March, 2013, assuming that H.O. sold goods at cost plus 25%.

| Particulars | ₹ | Particulars | ₹ |
|----------------------------|----------|-------------------------|----------|
| Stock on 01.04.2012* | 2,72,500 | Bad debts | 2,000 |
| Debtors on 01.04.2012 | 15,000 | Allowances to customers | 1,000 |
| Petty cash on 01.04.2012 | 1,000 | Return inward | 1,000 |
| Goods sent to Branch | 3,60,000 | Rates & Taxes | 5,000 |
| Goods returned to H.O. | 25,000 | Salaries | 18,000 |
| Cash sales | 54,000 | Misc. Expenses | 4,000 |
| Cash received from debtors | 2,30,000 | Stock on 31.03.2013* | 3,15,000 |
| | | Debtors on 31.03.2013 | 74,000 |
| | | Petty cash (31.03.2013) | 5,000 |

*Both opening and closing stock at invoice price.

(6 marks)

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Answer:

In the books of H.O.
Branch Account

Dr.

Cr.

| Particulars | Amount ₹ | Amount ₹ | Particulars | Amount ₹ | Amount ₹ |
|--------------------------|-------------|-------------|------------------|-------------|-------------|
| To Balance b/d | | | By Stock reserve | | 54,500 |
| Stock | 2,72,500 | | By Bank A/c | | |
| Debtors | 15,000 | | Cash Sales | 54,000 | |
| Petty cash | 1,000 | 2,88,500 | By Cash received | | |
| To Goods sent to branch | | 3,60,000 | from debtors | 2,30,000 | 2,84,000 |
| To Bank A/c: | | | By Goods sent to | | |
| Rates & Taxes | 5,000 | | Branch (Return | | |
| Salaries | 18,000 | | To. H.O.) | | 25,000 |
| Misc. Expenses | 4,000 | 27,000 | By Goods sent to | | |
| To Goods sent to branch | | 5,000 | Branch (loading) | | 72,000 |
| (loading on returns) | | | By Balance c/d | | |
| To Closing stock reserve | | 63,000 | Stock | 3,15,000 | |
| (3,15,000 x 1/5) | | | Debtors | 74,000 | |
| To General P&L A/c | | 86,000 | Petty cash | 5,000 | 3,94,000 |
| | | 8,29,500 | | | 8,29,500 |

— Space to write important points for revision —

2014 - June [5] (b) Prepare Branch account in the books of the Head Office and also debtors account from the following information given below: for the year 2013

The Unique Shoe Stores has an old branch at Kanpur. Goods are invoiced at the branch at 25% profit on cost price. The branch has been instructed to send all cash daily to the Head Office. All expenses are paid by the Head Office except petty expenses which are met by the Branch Manager.

| | |
|--|--------|
| | ₹ |
| Stock on 01.01.2013 (invoice price) | 15,000 |
| Sundry debtors on 01.01.2013 | 9,000 |
| Cash in hand on 01.01.2013 | 400 |
| Office furniture on 01.01.2013 | 1,200 |
| Goods supplied by the Head Office (invoice price) for year | 80,000 |

| | |
|---|------------------|
| Goods returned to Head Office for year | 1,000 |
| Goods returned by debtors at the end of year | 480 |
| Debtors at the end of year | 8,220 |
| Cash sales for year | 50,000 |
| Credit sales for year | 30,000 |
| Discount allowed for year | 300 |
| Expenses paid by Head Office: for year | ₹ |
| Rent | 1,200 |
| Salary | 2,400 |
| Stationery | <u>300</u> 3,900 |
| Petty expenses paid by Branch Manager during year | 280 |
| Stock on 31.12.2013 | 14,000 |
| Provide depreciation on furniture at 10% per year | |

(4+2=6 marks)

Answer:

**In the Books of Unique Shoe Stores
Branch Account**

| Dr. | | Cr. | |
|-----------------------------|-----------------|------------------------------------|-----------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) |
| To Branch Stock A/c | 15,000 | By Cash (remittances) | |
| To Branch debtors | 9,000 | Cash sales | 50,000 |
| To Branch Cash in hand | 400 | Cash from debtors | <u>30,000</u> |
| To Branch office furniture | 1,200 | By Branch Stock | 14,000 |
| To Goods sent to branch A/c | 80,000 | By Branch debtors | 8,220 |
| Less: Return to H.O. | <u>1,000</u> | By Branch furniture | 1,080 |
| | 79,000 | By Stock reserve | 3,000 |
| To Bank : | | By Goods sent to branch A/c | 15,800 |
| Rent | 1,200 | By Branch cash in hand (400 - 280) | 120 |
| Salary | 2,400 | | |
| Stationery | <u>300</u> | | |
| | 3,900 | | |
| To Stock reserve | 2,800 | | |
| To General P& L A/c | 10,920 | | |
| | <u>1,22,220</u> | | <u>1,22,220</u> |

Debtor Account

| Dr. | | Cr. | |
|---------------------|------------|---------------------|------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) |
| To Balance b/d | 9,000 | By Sales return A/c | 480 |
| To Credit sales A/c | 30,000 | By Cash A/c (b.f.) | 30,000 |
| | | By Discount A/c | 300 |
| | | By Balance c/d | 8,220 |
| | 39,000 | | 39,000 |

— Space to write important points for revision —

2014 - Dec [3] Answer the question:

- (c) TUSHAR Ltd. with its Head Office in Delhi invoices goods to its Branches at Mumbai and Kolkata at 20% less than the catalogue price which is cost plus 50% with instructions that cash sales are to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payments. Provision is to be made for discount to be allowed to debtors, at year end on the basis of year's trend of prompt payments. All branch expenses are paid by the Head Office and all branch collections are remitted daily to Head Office.
1. Opening Stock at Branch at its cost ₹ 12,000.
 2. Opening Branch Debtors ₹ 10,000.
 3. Goods Sent to branch (at cost to H.O.) ₹ 1,10,000.
 4. Goods received by Branch till close of the year ₹ 1,27,000.
 5. Transfer from Kolkata branch to Mumbai branch at catalogue price ₹ 75,000.
 6. Transfer to Kolkata branch from Mumbai branch at catalogue price ₹ 30,000.
 7. Goods purchased by Mumbai branch from local suppliers (cost) ₹ 30,000
Closing stock in hand at branch out of local purchases (cost) ₹ 6,000.
 8. Cash Sales ₹ 74,800.
 9. Credit Sales ₹ 1,45,000.
 10. Goods returned by Credit Customers to branch ₹ 30,000.
 11. Goods returned by Credit Customers directly to H.O. ₹ 15,000.
 12. Goods returned by Branch to H.O. ₹ 24,000.

13. Cash remitted by Credit Customers directly to Branch ₹ 45,635.
14. Cash remitted by Credit Customers directly to H.O. ₹ 40,000.
15. Discount Allowed to Debtors ₹ 13,365.
16. Loss of Goods by fire (at invoice price) ₹ 3,000 against which 80% of cost was recovered from the insurance Company.
17. Loss of goods at Branch through normal pilferage (at catalogue price) ₹ 3,000.
18. Branch Expenses : Paid ₹ 9,000, Outstanding ₹ 741.
19. Branch Manager is entitled to a commission @ 6% of net profits after charging such commission.

Required:

Prepare Mumbai Branch Stock Account, Mumbai Branch adjustment A/c, Mumbai Branch Expenses A/c and Mumbai Branch Profit & Loss A/c and Mumbai Branch Debtors A/c under Stock & Debtors Method.

(12 marks)

Answer:

| Dr. | | Mumbai Branch Stock A/c | | Cr. | |
|--|-------------|--|-------------|-----|--|
| Particulars | Amount ₹ | Particulars | Amount ₹ | | |
| To Balance b/d | 12,000 | By Goods sent to Branch A/c | 24,000 | | |
| To Goods sent to Branch A/c [₹ 1,10,000 + 20%] | 1,32,000 | By Goods sent to Branch A/c [₹ 30,000 × 120/150] | | | |
| To Goods sent to Branch A/c [₹ 75,000 × 120/150] | 60,000 | By Branch Cash A/c (Cash Sales) | 74,800 | | |
| To Branch Debtors A/c (Returns) | 30,000 | By Branch Debtors A/c (Credit Sales) | 1,45,000 | | |
| To Branch Debtors A/c (Returns) | 15,000 | By Goods sent to Branch A/c (Returns) | 24,000 | | |
| To Branch Cash A/c [local purchases] | 30,000 | By Goods sent to Branch A/c (Returns) [₹ 15,000 × 120/150] | 12,000 | | |
| To Branch Adjustment A/c [Load on local purchases] | 6,000 | By Branch Adjustment A/c (Load) | 500 | | |
| To Branch Adjustment A/c [(Excess of catalogue price of Net Credit Sales over invoice price) (₹ 1,45,000 - ₹ 30,000 - 15,000) × 30/150] | 20,000 | By Branch Profit and Loss A/c (Stock destroyed by fire) | 2,500 | | |
| | | By Branch Adjustment A/c [Invoice Price of Normal Loss] [₹ 3,000 × 120/150] | 2,400 | | |

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| | | |
|--|---|-----------------|
| | By Balance c/d: | |
| | Stock out of local purchases | 7,200 |
| | Stock in transit from H.O. [₹ 1,32,000 - ₹ 1,27,000] | 5,000 |
| | Stock in hand from H.O. (B.f.) | 7,600 |
| | | 3,05,000 |

| Dr. | | Mumbai Branch Debtors A/c | | Cr. | |
|------------------------|-----------------|---------------------------|--|-----|-----------------|
| To Balance b/d | 10,000 | By Branch stock | | | 30,000 |
| To Branch Stock (Sale) | 1,45,000 | By Branch stock | | | 15,000 |
| | | By Branch cash | | | 45,635 |
| | | By Branch cash | | | 40,000 |
| | | By Discount | | | 13,365 |
| | | By Balance c/d (b.f.) | | | 11,000 |
| | 1,55,000 | | | | 1,55,000 |

| Dr. | | Mumbai Branch Adjustment A/c | | Cr. | |
|--|---------------|---|--|-----|---------------|
| To Stock reserve (19,800 × 20/120) | 3,300 | By Stock reserve (12,000 × 20/120) | | | 2,000 |
| To Branch stock (Load on abnormal loss) | 500 | By Branch stock (Load on local purchase) | | | 6,000 |
| To Branch stock (Normal loss) | 2,400 | By Branch stock (Apparent surplus) | | | 20,000 |
| To Branch P/L (Gross profit) | 43,800 | By Goods sent to branch (load on net goods sent) (1,32,000 + 60,000 - 24,000 - 24,000 - 12,000) × 20/120 | | | 22,000 |
| | 50,000 | | | | 50,000 |

| Dr. | | Mumbai Branch Expenses A/c | | Cr. | |
|----------------|---------------|----------------------------|--|-----|---------------|
| To Discount | 13,365 | By Branch P/L | | | 23,106 |
| To Branch cash | 9,741 | | | | |
| | 23,106 | | | | 23,106 |

| Dr. | | Mumbai Branch Profit & Loss A/c | | Cr. | |
|----------------------------------|--------|---------------------------------|--|--------|--------|
| To Branch expenses | 23,106 | By Branch adjustment | | 43,800 | |
| To Branch stock (abnormal loss) | 2,500 | By Insurance claim | | 2,000 | |
| To Provision for discount (W.N.) | 1,485 | | | | |
| To Manager's Commission | 1,059 | | | | |
| To General P/L | 17,650 | | | | |
| | 45,800 | | | | 45,800 |

Calculation of provision for discount

| | | |
|---|---|------------------------------------|
| Prompt paying debtors during year | = | $\frac{13,365}{15\%}$ |
| | = | 89,100 |
| Total debtors who made payment during the year | = | 45,635 + 40,000 + 13,365 |
| | = | 99,000 |
| Proportion of prompt payers | = | $\frac{89,100}{99,000} \times 100$ |
| | = | 90% |
| Likely prompt paying debtors in closing debtors | = | 11,000 × 90% |
| | = | 9,900 |
| Provision for discount | = | 9,900 × 15% |
| | = | 1,485 |

— Space to write important points for revision —

2015 - June [1] Answer the question:

- (g) From the information of AMBA LTD. received from its branch - AB, calculate the invoice price of goods sent to branch and Profit included thereon.

| | | |
|--|---|------------------|
| Goods received from H.O. (AMBA LTD.) | — | ₹ 1,00,000 |
| Goods in transit from H.O. | — | ₹ 50,000 |
| Goods are invoiced to branch at cost plus 25%. | | (2 marks) |

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Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Answer:**Branch Accounts**

| | |
|---------------------------------------|---------------|
| Goods "received" from HO | 1,00,000 |
| + Goods in transit | <u>50,000</u> |
| Invoice Price of Goods Sent to Branch | 1,50,000 |

Profit = Cost + 25 %

∴ 1/5 on Invoice Price

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

— Space to write important points for revision —

2015 - Dec [1] Answer the following question (Give workings):

- (c) TULSIAN LTD. with its Head Office in Delhi invoices goods to its Branch at Mumbai at 20% less than the catalogue price which is cost plus 50% with instructions that cash sales are to be made at invoice price and credit sales at catalogue price.

| | |
|---|------------|
| Opening Stock at Branch at its cost | ₹ 12,000 |
| Goods sent to Branch (at cost to H.O.) | ₹ 1,40,000 |
| Goods received by Branch till close of the year | ₹ 1,38,000 |
| Cash Sales | ₹ 46,000 |
| Credit Sales | ₹ 1,00,000 |
| Stock lost by fire (at cost) | ₹ 2,500 |

Required:

Calculate the amount of Closing Stock at Branch-Mumbai. **(2 marks)****Answer:**

| | |
|---|---------------|
| Opening stock (IP) | 12,000 |
| + Goods received by branch | 1,38,000 |
| Less: sales - cash sales | (46,000) |
| credit sales (1,00,000 - 20%) | (80,000) |
| Less: stock lost by fire $\frac{(2500 \times 150)}{100} - 20\%$ | (3,000) |
| Closing Stock at Branch in hand | 21,000 |
| Closing stock in Transit | <u>30,000</u> |
| Total Branch Stock (at in voice price) | <u>51,000</u> |

— Space to write important points for revision —

2016 - June [8] (a) LINKEN LTD., with a Head Office in Kolkata, sends goods to its Madras branch at cost plus 25 per cent. The following particulars are available in respect of the Branch for the year ended 31st March, 2016.

| | ₹ |
|--|-----------|
| Opening Stock at Branch at cost to Branch | 4,00,000 |
| Goods sent to Branch at invoice price | 60,00,000 |
| Loss-in-transit at invoice price | 75,000 |
| Pilferage at invoice price | 30,000 |
| Sales | 60,95,000 |
| Expenses | 3,00,000 |
| Closing Stock at Branch at cost to Branch | 2,00,000 |
| Recovered from Insurance company against lost-in-transit | 50,000 |

You are required to prepare:

- (i) Branch Stock Account
- (ii) Branch Adjustment Account
- (iii) Branch Profit & Loss Account in the book of Linken Ltd.

(5 + 2 + 2 = 9 marks)

Answer :

- (i) **Linken Ltd.**
Branch Stock Account for the year ended March 31, 2016

| Dr. | | Cr. | |
|-----------------------------|-----------|--|-----------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 4,00,000 | By Branch Cash/Debtors (Sales) | 60,95,000 |
| To Goods sent to Branch A/c | 60,00,000 | By Branch Adjustment A/c (loading – loss in transit) | 15,000 |
| | | By Branch Adj. A/c (Pilferage loading) | 6,000 |
| | | By P&L Account (Loss in transit) | 60,000 |

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| | | |
|------------------|-------------------------------|------------------|
| | By P&L Account (Pilferage) | 24,000 |
| | By Balance c/d | 2,00,000 |
| 64,00,000 | | 64,00,000 |

(ii) **Branch Stock Adjustment Account
for the year ended March 31, 2016**

| Dr. | | Cr. | |
|--|-----------|--|-----------|
| Particulars | ₹ | Particulars | ₹ |
| To Branch Stock A/c (Loss in transit) | 15,000 | By Balance b/d | 80,000 |
| To Branch Stock A/c (Pilferage) | 6,000 | By Goods sent to Branch A/c (Loading on @ 20% on ₹ 60,00,000) | 12,00,000 |
| To Branch P&L A/c | 12,19,000 | | |
| To Balance c/d (loading on closing Stock) | 40,000 | | |
| 12,80,000 | | 12,80,000 | |

(iii) **Branch Profit & Loss Account for the year ended 31st March, 2016**

| Dr. | | Cr. | |
|--|----------|---|-----------|
| Particulars | ₹ | Particulars | ₹ |
| To Expenses A/c | 3,00,000 | By Branch Adj. A/c (Gross Profit) | 12,19,000 |
| To Branch Stock A/c (Loss in transit) | 60,000 | By Branch Cash A/c (Insurance claim) | 50,000 |
| To Branch Stock A/c (Pilferage) | 24,000 | | |
| To General P&L A/c (Profit Transferred) | 8,85,000 | | |
| 12,69,000 | | 12,69,000 | |

Working Notes:

| | |
|---|---------------|
| | ₹ |
| 1. Loss in transit (at invoice price) | 75,000 |
| Less: Loading adjusted in Branch adjustment A/c | <u>15,000</u> |
| Cost of loss in transit | 60,000 |

| | |
|--|---------------|
| <i>Less:</i> Amount received from insurance co. | <u>50,000</u> |
| Net Loss in transit | <u>10,000</u> |
| 2. Loss on Account of pilferage: | |
| Invoice price of pilferage | 30,000 |
| <i>Less:</i> Loading adjusted in Br. Adj. A/c | <u>6,000</u> |
| Cost of Loss due to pilferage charged to P&L | <u>24,000</u> |
| — Space to write important points for revision — | |

2016 - Dec [6] (a) M/S YAYATI LTD. having its principal place of business at BENGALURU has a branch at New Delhi. The company sends goods to its branch at cost plus $33\frac{1}{3}\%$ which is the selling price. The following information is given in respect of the branch for the year ended 31st March, 2016.

| | ₹ |
|---|-----------|
| Goods sent to Branch (invoice value) | 24,00,000 |
| Stock at Branch (01.04.2015) at selling price | 1,20,000 |
| Cash Sales | 9,00,000 |
| Returns from Customers | 30,000 |
| Branch Expenses paid for cash | 2,67,500 |
| Branch Debtors' Balance (01.04.2015) | 1,50,000 |
| Discounts allowed | 5,000 |
| Bad Debts | 7,500 |
| Stock at Branch (31.03.2016) at selling price | 2,40,000 |
| Branch Debtor's Balance (31.03.2016) | 1,82,500 |
| Collections from Debtors | 13,50,000 |
| Branch Debtors' Cheques returned dishonoured | 25,000 |

You are required to prepare:

- (i) Branch Stock Account
- (ii) Branch Debtors Account and
- (iii) Branch Adjustment Account to reveal the profit of the Branch for the year ended March 31, 2016. **(3+2+4=9 marks)**

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Answer:

Book of YAYATI LTD. (H.O.)**Branch Stock Account**

| Dr. | | Cr. | |
|---|------------------|---|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d (Opening stock) | 1,20,000 | By (Cash Sales) A/c | 9,00,000 |
| To Goods sent to Branch A/c | 24,00,000 | By Branch Debtors A/c (Credit Sales) | 14,00,000 |
| To Branch Debtors A/c (Returns inward) | 30,000 | By Branch Adjustment A/c | |
| | | Spoilage: Loss 7,500 | |
| | | Loading <u>2,500</u> | 10,000 |
| | | (Balancing figure) | |
| | | By Balance c/d (Closing stock) | 2,40,000 |
| | 25,50,000 | | 25,50,000 |

Branch Debtors Account

| Dr. | | Cr. | |
|--|------------------|-------------------------------------|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance (Opening b/d) | 1,50,000 | By Branch Stock A/c | 30,000 |
| To Bank (Dishonour of Cheque) | 25,000 | By Bank-Collections from Debtors | 13,50,000 |
| To Branch Stock A/c (balancing figure-credit sales) | 14,00,000 | By Branch Expenses: | |
| | | Bad debts 7,500 | |
| | | Discount Allowed <u>5,000</u> | 12,500 |
| | | By Balance (Closing) c/d | 1,82,500 |
| | 15,75,000 | | 15,75,000 |

Branch Adjustment Account

| Dr. | | Cr. | |
|--|-----------------|---|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Stock Reserve A/c (on closing stock) | 60,000 | By Stock Reserve A/c (On opening stock) | 30,000 |
| To Branch Stock A/c (Spoilage-loading) | 2,500 | By Goods sent to branch A/c (Loading) | 6,00,000 |
| To Gross Profit c/d | 5,67,500 | | |
| | 6,30,000 | | 6,30,000 |
| To Branch Expenses: | | By Gross Profit b/d | 5,67,500 |
| Discount & Bad Debts | 12,500 | | |
| Cash Expenses | 2,67,500 | | |
| To Branch Stock A/c : Loss: Spoilage | 7,500 | | |
| To Net profit | 2,80,000 | | |
| | 5,67,500 | | 5,67,500 |

— Space to write important points for revision —

2017 - June [7] (a) Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2017 assuming that H.O. supplied goods at cost plus 25%.

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|------------------------------|---------------|-------------------------|---------------|
| Stock on 1.4.2016 (I.P.) | 12,500 | Bad Debts | 2,000 |
| Debtors | 5,000 | Allowances to customers | 1,000 |
| Petty Cash | 1,000 | Returns Inwards | 1,000 |
| Goods sent to branch (I.P.) | 40,000 | Cheques sent to Branch | |
| Goods return to H.O. (I. P.) | 5,000 | for expenses: | |
| Cash Sales | 12,000 | Rates & Taxes | 3,000 |

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| | | | |
|----------------------------|--------|-------------------------------|--------|
| Cash received from debtors | 30,000 | Salaries | 8,000 |
| | | Misc. Exps. | 1,000 |
| | | Stock on 31.03.2017 (I.P.) | 15,000 |
| | | Debtors | 4,000 |
| | | Petty Cash | 1,000 |

(9 marks)

Answer:

In the books of H.O.

Branch Account

| Particulars | Amt. (₹) | Amt. (₹) | Particulars | Amt. (₹) | Amt. (₹) |
|---|-------------|-------------|--------------------------------------|-------------|-------------|
| To Balance b/d | | | By Stock Reserve (Loading) | | 2,500 |
| Stock | 12,500 | | .. Bank A/c: | | |
| Debtors | 5,000 | | Cash Sales | 12,000 | |
| Petty Cash | 1,000 | 18,500 | .. Cash Received from Debtors | 30,000 | 42,000 |
| .. Goods sent to branch | | 40,000 | .. Goods sent to branch | | 5,000 |
| .. Bank A/c: | | | (Return to H.O.) | | |
| Rates & Taxes | 3,000 | | .. Goods sent to branch (Loading) | | 8,000 |
| Salaries | 8,000 | | By Balance c/d | | |
| Misc. Expenses | 1,000 | 12,000 | Stock | 15,000 | |
| .. Goods sent to branch (Loading on returns) | | 1,000 | Debtors | 4,000 | |
| .. Closing Stock Re- serve (₹ 15,000 × $\frac{1}{5}$) | | 3,000 | Petty Cash | 1,000 | 20,000 |
| .. General Profit & Loss A/c | | 3,000 | | | |
| | | 77,500 | | | 77,500 |

Note: Here loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ₹ 15,000 × $\frac{1}{5}$ = ₹ 2,500 and so on.

— Space to write important points for revision —

2018 - June [7] (b) X Ltd. has its H.O. in Delhi and a branch in Mumbai. H.O. supplied goods to its branch at cost plus $33\frac{1}{3}\%$. From the particulars given below prepare a Branch Trading Account for the year ended 31st March 2018 in the books of H.O.:

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-----------------------------|------------|-------------------------------|------------|
| Opening Stock (I.P.) | 40,000 | Sales: | |
| Goods sent to Branch (I.P.) | 2,50,000 | Cash | 1,00,000 |
| Return to H.O. (I.P.) | 10,000 | Credit | 3,00,000 |
| | | Discount allowed to customers | 10,000 |
| | | Closing Stock (I.P.) | 60,000 |

It is estimated that 2% of the goods received are lost through natural wastage. **(6 marks)**

Answer:

**In the books of H.O.
Trading Account
for the year ended 31st March, 2018**

| Dr. | | | Cr. | | |
|---|----------|----------|--|----------|----------|
| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
| To Opening Stock | 40,000 | | By Sales: | | |
| Less: Loading | 10,000 | 30,000 | Cash | 1,00,000 | |
| To Goods Sent to Branch | 2,50,000 | | Credit | 3,00,000 | 4,00,000 |
| Less: Returns to H.O. | 10,000 | | By Closing Stock | 60,000 | |
| | 2,40,000 | | Less: Loading | 15,000 | 45,000 |
| Less: Loading $\left(\frac{1}{4} \times 2,40,000\right)$ $\left[\frac{1}{3} \text{ On CP} = \frac{1}{4} \text{ On SP}\right]$ | 60,000 | 1,80,000 | $\left(\frac{1}{4} \times 60,000\right)$ | | |
| To Gross Profit c/d | | 2,35,000 | | | |
| | | 4,45,000 | | | 4,45,000 |

Answer:

**Books of Rukmani Stores (H.O.)
Jaipur Branch Stock Account**

| Dr. | | | Cr. | | |
|---------|--|------------------|---------|--|------------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 1.4.18 | To Balance b/d | | 1.4.18 | By Balance b/d | |
| | Branch Stock A/c | 4,50,000 | | Stock Reserve | 75,000 |
| | Branch Debtors A/c | 3,60,000 | | (Loading on Opening Stock) | |
| | Branch Furniture A/c | 1,20,000 | | | |
| 1.4.18 | To Good Sent to Branch A/c | 32,10,000 | 1.4.18 | By Good Sent to Branch A/c (Loading on Goods Sent) | 5,35,000 |
| 31.3.19 | To Good Sent to Branch A/c (Loading on Goods Returned) | 14,000 | 31.3.19 | By Good Sent to Branch A/c (Goods Returned) | 84,000 |
| 31.3.19 | To Bank A/c | | 31.3.19 | By Bank A/c (Remittance from Branch) | 32,00,000 |
| | Rent 1,25,000 | | | | |
| | Salary 1,80,000 | 3,05,000 | | | |
| 31.3.19 | To P&L A/c (balancing figure) | 3,71,100 | 31.3.19 | By Balance c/d | 5,10,000 |
| 31.3.19 | To balance c/d | | | Branch Stock A/c: | |
| | Stock Reserve (Loading on Closing Stock) | 85,000 | | Branch Debtors A/c | 4,31,600 |
| | Provision for Discount | 42,500 | | Branch Furniture A/c | 1,08,000 |
| | | | | Branch Cash A/c | 14,000 |
| | | 49,57,600 | | | 49,57,600 |

Notes on Jaipur Branch A/c:

- (1) Since in Question, Invoice Price is given therefore, Jaipur Branch Stock A/c should be prepared at Invoice Price.
- (2) In this case Debtor method of Branch Accounting is used therefore, petty expenses of ₹ 11,000 incurred by Branch itself would not be shown at the debit of Jaipur Branch A/c. These petty expenses are already adjusted in closing balance of Branch cash of ₹ 14,000.

- (3) On similar logic we have correctly not shown Bad Debts and Discount relating to Jaipur Branch A/c to the debit of Jaipur Branch A/c since these Bad Debts and Discount are already adjusted in closing balance of Branch Debtors.

Good Sent to Branch Account

| Dr. | | | Cr. | | |
|---------|---|------------------|---------|---|------------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 1.4.18 | To Jaipur Branch (Loading on Goods Sent) | 5,35,000 | 1.4.18 | By Jaipur Branch A/c (Goods Sent) | 32,10,000 |
| 31.3.19 | To Jaipur Branch A/c (Goods Returned) | 84,000 | 31.3.19 | By Jaipur Branch A/c (Loading on Goods Returned) | 14,000 |
| 31.3.19 | To Trading A/c | 26,05,000 | | | |
| | | 32,24,000 | | | 32,24,000 |

Note on Good Sent to Branch A/c: Since in Question, Invoice Price is given therefore, Good Sent to Branch A/c should be prepared at Invoice Price.

Notes :

- (i) Furniture at on 31.03.2019 = ₹ 1,20,000 × 90% = ₹ 1,08,000.
- (ii) Cash Balance at Branch on 31.03.2019 = ₹ 13,60,000 (Cash Sales) + ₹ 18,65,000 (Collection from Debtors) – ₹ 32,00,000 (Remittances from Branch) – ₹ 11,000 (Petty Exp. Paid by Branch) = ₹ 14,000.
- (iii) Closing Branch Debtors:

Memorandum Branch Debtors Account

| Dr. | | | Cr. | | |
|---------|-------------------|------------|---------|--------------------------|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 1.4.18 | To Balance b/d | 3,60,000 | 31.3.19 | By Return to Branch A/c | 12,600 |
| 31.3.19 | To Sales (Credit) | 21,50,000 | 31.3.19 | By Bank A/c (Collection) | 18,65,000 |

| | | | | | |
|--|--|------------------|---------|-------------------------|------------------|
| | | | 31.3.19 | By Discount Allowed A/c | 1,85,000 |
| | | | 31.3.19 | By Bad Debts A/c | 15,800 |
| | | | 31.3.19 | By Balance c/d | 4,31,600 |
| | | 25,10,000 | | | 25,10,000 |

— Space to write important points for revision —

2022 - Dec [2] From the following particulars relating to Pune Branch for the year ending December 31, 2018, prepare Branch Account in the books of Head Office:

| | | ₹ |
|---|-------|----------|
| Stock at Branch on January 1, 2018 | | 10,000 |
| Branch Debtors on January 1, 2018 | | 4,000 |
| Branch Debtors on December 31, 2018 | | 4,900 |
| Petty cash at branch on January 1, 2018 | | 500 |
| Furniture at branch on January 1, 2018 | | 2,000 |
| Prepaid fire insurance premium on January 1, 2018 | | 150 |
| Salaries outstanding at branch on January 1, 2018 | | 100 |
| Goods sent to Branch during the year | | 80,000 |
| Cash Sales during the year | | 1,30,000 |
| Credit Sales during the year | | 40,000 |
| Cash received from debtors | | 35,000 |
| Cash paid by the Branch debtors directly to the Head Office | | 2,000 |
| Discount allowed to debtors | | 100 |
| Cash sent to Branch for Expenses: | | |
| Rent | 2,000 | |

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| | | |
|--|------------|-------|
| Salaries | 2,400 | |
| Petty Cash | 1,000 | |
| Annual Insurance up to March 31, 2019 | <u>600</u> | 6,000 |
| Goods returned by the Branch | | 1,000 |
| Goods returned by the debtors | | 2,000 |
| Stock on December 31, 2018 | | 5,000 |
| Petty Cash spent by Branch | | 850 |
| Provide depreciation on furniture 10% p.a. | | |

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

(15 marks)






6B DEPARTMENTAL ACCOUNTING

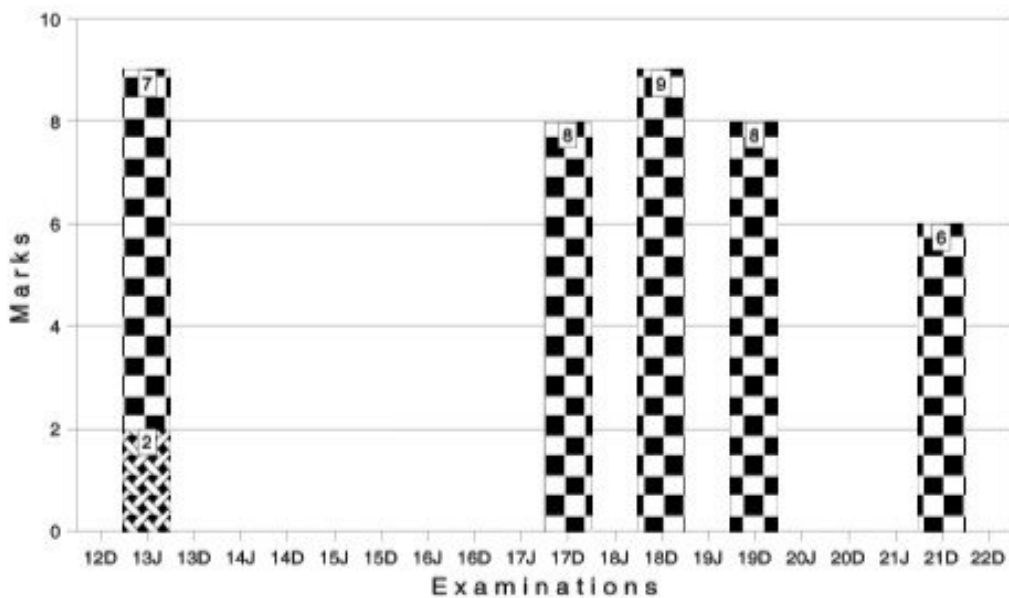
THIS CHAPTER INCLUDES

- Apportionment of Expenses
- Inter-Departmental Transfer
- Departmental Trading A/c
- Departmental P/L A/c

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



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CHAPTER AT A GLANCE

Departmental Accounts

Departmental Accounts helps in identifying the performance of each department. Each department is considered to be an Activity Centre. It is a tool which helps management in decision-making.

Advantage

Departmentation offers the following advantages:

- (a) Proper Allocation
- (b) Control
- (c) Proper absorption

Inter Departmental Transfer

Transfer made by one department to another may be recorded either:

- At Cost Price; and
- At Invoice Price i.e., Market Based Price.

DISTINGUISH BETWEEN

2013 - June [6] (a) Distinguish between Branch and Departmental Accounting. **(2 marks)**

Answer:

The difference between Branch and Departmental are listed below:-

| Departmental | Branch |
|---|---|
| 1. Departmental always in Inland | 1. It is either Inland or Foreign. |
| 2. All departments of a Business remain generally under one roof. | 2. Branch of a concern is established at different place in the same town or at different town. |

| | |
|---|---|
| 3. Departments are made to increase the efficiency of the Business. | 3. Branch is opened to increase the Sale. |
|---|---|

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - June [6] (c) Surya Co. Ltd. has three departments. It made purchases during the financial year 2012-13 as below

Dept. A = 2,000 units
 Dept. B = 4,000 units
 Dept. C = 4,800 units } at a total cost of ₹ 2,00,000

Stock as on 01.04.2012

Dept. A = 240 units
 Dept. B = 160 units
 Dept. C = 304 units

Sales made were

Dept. A 2040 units at ₹ 20 each
 Dept. B 3840 units at ₹ 22.50 each
 Dept. C 4992 units at ₹ 25 each

The rate of gross profit is uniform for all the departments. Assume the unit price of opening stock and purchase unit cost are uniform.

Prepare Departmental Trading Account.

(7 marks)

Answer:

Surya Co. Ltd.

Departmental Trading Account for the year ended 31.03.2013

| Particulars | Dept. A ₹ | Dept. B ₹ | Dept. C ₹ | Particulars | Dept. A ₹ | Dept. B ₹ | Dept. C ₹ |
|----------------------------|--------------|--------------|--------------|------------------|--------------|--------------|--------------|
| To Op. Stock @ 80% of cost | 3,840 | 2,880 | 6,080 | By Sales | 40,800 | 86,400 | 1,24,800 |
| To Purchases | 32,000 | 72,000 | 96,000 | By Closing Stock | 3,200 | 5,760 | 2,240 |
| To Gross profit @ 20% | 8,160 | 17,280 | 24,960 | | | | |
| | 44,000 | 92,160 | 1,27,040 | | 44,000 | 92,160 | 1,27,040 |

Working Notes:

1. Cost of each unit of the different departments. Since, the rate of G.P. is uniform for all products. Assuming if all goods purchased was sold then the gross profit would be:

Total sales

$$\begin{aligned} A &= 2,000 \times ₹ 20 &= & 40,000 \\ B &= 4,000 \times ₹ 22.50 &= & 90,000 \\ C &= 4,800 \times ₹ 25 &= & \underline{1,20,000} \end{aligned} \quad \begin{array}{r} \\ \\ 2,50,000 \end{array}$$

$$\begin{array}{r} \text{Less: Total Cost Price of purchases} \\ \text{Expected Gross Profit} \end{array} \quad \begin{array}{r} \underline{2,00,000} \\ \underline{50,000} \end{array}$$

$$\text{Ratio of G.P.} = 50,000/2,50,000 \times 100 = 20\%$$

Cost Price Per Unit

$$\begin{aligned} A &= 20 - 20 \times 20\% = 16 \\ B &= 22.50 - 22.50 \times 20\% = 18 \\ C &= 25 - 25 \times 20\% = 20 \end{aligned}$$

Purchase Price Per Unit

$$\begin{aligned} A &= 2,000 \times 16 = 32,000 \\ B &= 4,000 \times 18 = 72,000 \\ C &= 4,800 \times 20 = 96,000 \end{aligned}$$

2. **Opening Stock**

$$\begin{aligned} A &= 240 \times 16 = 3,840 \\ B &= 160 \times 18 = 2,880 \\ C &= 304 \times 20 = 6,080 \end{aligned}$$

3. **Closing Stock**

| Particulars | A | B | C |
|------------------------|--------------|--------------|--------------|
| Opening Stock (Units) | 240 | 160 | 304 |
| Add: Purchase (Units) | 2,000 | 4,000 | 4,800 |
| | 2,240 | 4,160 | 5,104 |
| Less: Sales (Units) | 2,040 | 3,840 | 4,992 |
| Closing Stock | 200 | 320 | 112 |
| Value of Closing Stock | 200×16=3,200 | 320×18=5,760 | 112×20=2,240 |

4. Sales:A: $2,040 \times ₹ 20 = 40,800$ B: $3,840 \times ₹ 22.50 = 86,400$ C: $4,992 \times ₹ 25 = 1,24,800$

— Space to write important points for revision —

2017 - Dec [5] (b) The following details are available in respect of a business for a year.

| Department | Opening Stock | Purchase | Sales |
|------------|---------------|-------------|-----------------------------|
| X | 120 units | 1,000 units | 1,020 units at ₹ 20.00 each |
| Y | 80 units | 2,000 units | 1,920 units at ₹ 22.50 each |
| Z | 152 units | 2,400 units | 2,496 units at ₹ 25.00 each |

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year. **(8 marks)**

Answer:**1. Computation of Closing Stock Quantity****(in units)**

| Particulars | X | Y | Z |
|------------------|---------|---------|---------|
| Opening Stock | 120 | 80 | 152 |
| Add: Purchase | 1,000 | 2,000 | 2,400 |
| Less: Units Sold | (1,020) | (1,920) | (2,496) |
| Closing Stock | 100 | 160 | 56 |

2. Computation of Gross Profit Ratio:

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under.

Assuming all purchases are sold, the sale proceeds would be

| | | |
|---------------------------------------|------------------------|----------------------|
| Department X | 1,000 Units @ ₹ 20.00 | 20,000 |
| Department Y | 2,000 Units @ ₹ 22.50 | 45,000 |
| Department Z | 2,400 Units @ ₹ 25.00 | 60,000 |
| Total Sale Value of Purchase Quantity | 125,000 | |
| Less : Cost of Purchase | 1,00,000 | |
| Gross Profit Amount | 25,000 | |
| Gross profit Ratio | $25,000 \div 1,25,000$ | 20% of Selling Price |

3. Computation of Profit and Cost for each article

| Department | Selling Price | Profit at 1/5 of SP | Cost = Sales – Profit |
|--------------|---------------|-----------------------|-----------------------|
| Department X | ₹ 20.00 | 1/5 of ₹ 20.00 = 4.00 | ₹ 16.00 |
| Department Y | ₹ 22.50 | 1/5 of ₹ 22.50 = 4.50 | ₹ 18.00 |
| Department Z | ₹ 25.00 | 1/5 of ₹ 25.00 = 5.00 | ₹ 20.00 |

4. Departmental Trading Account for the year ended.....

| Dr. | | | | | Cr. | | | | |
|-----------------|---------------|---------------|---------------|-----------------|--------------|---------------|---------------|---------------|-----------------|
| Particulars | X (₹) | Y (₹) | Z (₹) | Total (₹) | Particulars | X (₹) | Y (₹) | Z (₹) | Total (₹) |
| To Op. stock | 1,920 | 1,440 | 3,040 | 6,400 | By Sales | 20,400 | 43,200 | 62,400 | 1,26,000 |
| To Purchase | 16,000 | 36,000 | 48,000 | 1,00,000 | By Cl. stock | 1,600 | 2,880 | 1,120 | 5,600 |
| To Gross Profit | 4,080 | 8,640 | 12,480 | 25,200 | | | | | |
| | 22,000 | 46,080 | 63,520 | 1,31,600 | | 22,000 | 46,080 | 63,520 | 1,31,600 |

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

— Space to write important points for revision —

2018 - Dec [5] (a) The following information provided by the Shobha Departmental Store for the year ended 31st March, 2018:

| Department | Purchase (units) | Sales | Closing Stock (units) |
|------------|------------------|-----------------------------|-----------------------|
| X | 2500 | 2550 units @ ₹ 160 per unit | 250 |
| Y | 5000 | 4800 units @ ₹ 180 per unit | 400 |
| Z | 6000 | 6240 units @ ₹ 200 per unit | 140 |

The total value of purchases is ₹ 15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31st March, 2018. **(9 marks)**

Answer:

(i) **Computation of Opening Stock Quantity (units):**

| Particulars | Dept. X | Dept. Y | Dept. Z |
|---------------------------|---------|---------|---------|
| Sales- units | 2550 | 4800 | 6240 |
| Add: Closing Stock- units | 250 | 400 | 140 |
| | 2800 | 5200 | 6380 |
| Less: Purchases-units | 2500 | 5000 | 6000 |
| Opening Stock- units | 300 | 200 | 380 |

(ii) **Computation of Gross Profit Ratio:**

| | ₹ |
|---|-----------|
| Sales value of Total purchase Quantity: | |
| Department – X = ₹ 160 × 2,500 | 4,00,000 |
| Department – Y = ₹ 180 × 5,000 | 9,00,000 |
| Department – Z = ₹.200 × 6,000 | 12,00,000 |
| Sale value of total purchase Quantity | 25,00,000 |
| Less: total purchase price | 15,00,000 |
| Gross profit | 10,00,000 |
| Rate of gross profit = (₹10 lakh/25 lakh) × 100 = 40% | |

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(iii) **Computation of Cost per unit for each Department**

| Particulars | Dept. X (₹) | Dept. Y (₹) | Dept. Z (₹) |
|------------------------|-------------|-------------|-------------|
| Selling Price per unit | 160 | 180 | 200 |
| Less: G. P. @ 40% | 64 | 72 | 80 |
| Cost per unit | 96 | 108 | 120 |

(iv) **Departmental Trading Account for the year ended 31st March, 2018**

| Particulars | Dept. X (₹) | Dept. Y (₹) | Dept. Z (₹) | Particulars | Dept. X (₹) | Dept. Y (₹) | Dept. Z (₹) |
|--------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|
| To op. Stock | 28,800 | 21,600 | 45,600 | By Sales | 4,08,000 | 8,64,000 | 12,48,000 |
| To purchases | 2,40,000 | 5,40,000 | 7,20,000 | By Clo. Stock | 24,000 | 43,200 | 16,800 |
| To G. P. | 1,63,200 | 3,45,600 | 4,99,200 | | | | |
| | 4,32,000 | 9,07,200 | 12,64,800 | | 4,32,000 | 9,07,200 | 12,64,800 |

— Space to write important points for revision —

2019 - Dec [5] (a) A firm has two departments-Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018:

| | Sawmill (₹) | Furniture (₹) |
|--|-------------|---------------|
| Opening Stock on 1 st January, 2018 | 1,50,000 | 25,000 |
| Sales | 12,00,000 | 2,00,000 |
| Purchases | 10,00,000 | 7,500 |
| Supply to Furniture Department | 1,50,000 | — |
| Selling expenses | 10,000 | 3,000 |
| Wages | 30,000 | 10,000 |
| Closing Stock on 31 st December, 2018 | 1,00,000 | 30,000 |

The value of stocks in the Furniture Department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15% on sales in 2017. General expenses of the business as a whole came to ₹55,000. The firm adopts FIFO method for assigning costs to inventories.

(8 marks)

Answer:

Departmental Trading and Profit and Loss Account

| Dr. | | | Cr. | | |
|---------------------------|-------------|---------------|-------------------------------------|-------------|---------------|
| Particulars | Sawmill (₹) | Furniture (₹) | Particulars | Sawmill (₹) | Furniture (₹) |
| To Opening stock | 1,50,000 | 25,000 | By Sales | 12,00,000 | 2,00,000 |
| To Purchase | 10,00,000 | 7,500 | By Transfer to furniture department | 1,50,000 | |
| To Wages | 30,000 | 10,000 | By Closing stock | 1,00,000 | 30,000 |
| To Transfer from saw mill | | 1,50,000 | | | |
| To Gross profit | 2,70,000 | 37,500 | | | |
| | 14,50,000 | 2,30,000 | | 14,50,000 | 2,30,000 |
| To Selling expenses | 10,000 | 3,000 | By Gross Profit | 2,70,000 | 37,500 |
| To Net Profit | 2,60,000 | 34,500 | | | |
| | 2,70,000 | 37,500 | | 2,70,000 | 37,500 |

General Profit & Loss Account

| Dr. | | Cr. | |
|---------------------------|------------|-----------------------------------|------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) |
| To General Expenses | 55,000 | By Net Profit from | |
| To Stock reserve (WN - 2) | 4,500 | Saw Mil | 2,60,000 |
| To Net Profit | 2,37,813 | Furniture | 34,500 |
| | | By Stock reserve (opening WN - 1) | 2,813 |
| | 2,97,313 | | 2,97,313 |

Working Notes:

1. Calculation of Stock Reserve (opening)
 $25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$
2. Calculation of closing stock reserve
 Gross profit Rate of saw mill of 2018
 $2,70,000 / (12,00,000 + 1,50,000) \times 100 = 20\%$
 $30,000 \times 75\% \times 20\% = ₹ 4,500$

— Space to write important points for revision —

| | | |
|-------|---|---|
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|-------|---|---|

2021 - Dec [2] X Ltd. has three department , A, B and C from the particulars given below compute:

- (i) The values of stock as on 31st December 2020, and
- (ii) The departmental result showing the actual amount of gross profit.

| | A ₹ | B ₹ | C ₹ |
|--------------------------------------|----------|----------|-------------------|
| Stock (on 1.1.2020) | 24,000 | 30,000 | 12,000 |
| Purchases | 1,46,000 | 1,24,000 | 48,000 |
| Actual Sales | 1,72,500 | 1,59,400 | 74,600 |
| Gross Profit on normal selling price | 20% | 25% | $33\frac{1}{3}\%$ |

During the year ended 31st December 2020, certain items were sold at discount, and these discounts were reflected in the value of sales shown above. The items sold at discount were:

| | A ₹ | B ₹ | C ₹ |
|-----------------------|--------|--------|--------|
| Sales at normal price | 10,000 | 3,000 | 1,000 |
| Sales at actual price | 7,500 | 2,400 | 600 |

(6 marks) [Sec. C - Four LAQ]

Answer:

| Calculation of Departmental Result Deptt. | | A | B | C |
|---|---|--------|--------|--------|
| Gross Profit | ₹ | 32,500 | 39,400 | 24,600 |
| Value of Stock (31/12/2020) | ₹ | 2,500 | 600 | 400 |






7 INSURANCE CLAIM FOR LOSS OF STOCK AND LOSS OF PROFIT

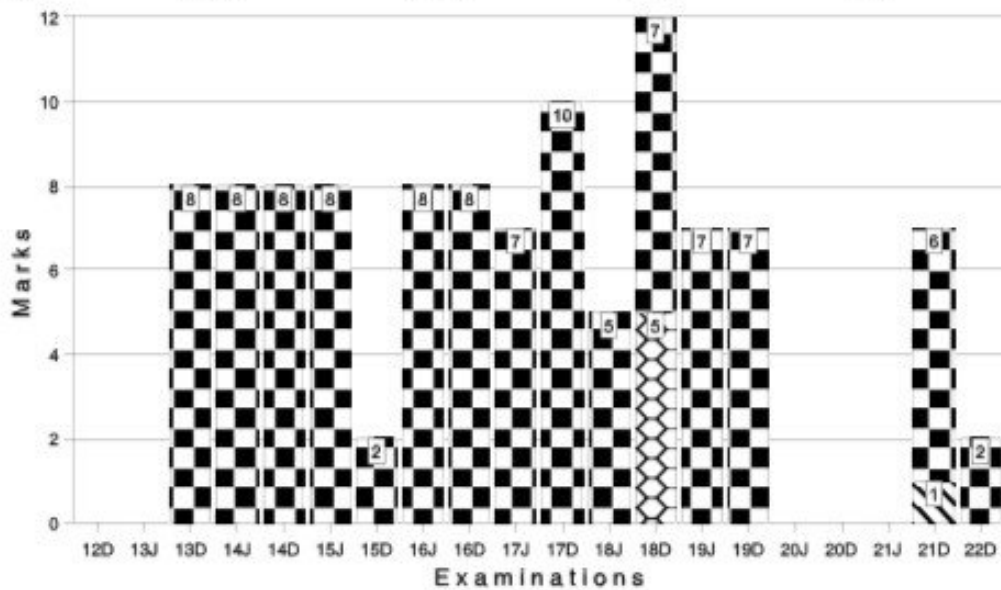
THIS CHAPTER INCLUDES

- Loss of Stock
- Average Clause
- Loss of Profit
- Calculation of Claim

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



For detailed analysis Login at www.scanneradda.com for registration and password see first page of this book.

CHAPTER AT A GLANCE**Insurance Claims**

The business pays insurance premium yearly or quarterly or as per agreement. If any accidental loss occurs, the business has to compute the amount of loss and file a claim for compensation to the Insurance Company.

Loss of Stock

As stocks constitute a considerable portion of the working capital of any business and specially for trading concerns, any loss of stock directly affects the solvency of the business. A business has to cover this risk adequately. If stock records and stock are destroyed, it becomes difficult to ascertain the amount of stock lost. When the loss suddenly occurs, up-to-date value of stock does not become available.

Average Clause

It is a clause contained in a fire insurance policy. It encourages full insurance and discourages under-insurance. The insured person also has to bear a portion of loss himself in case the value of-stock lost is more than the value of the policy.

Elimination of Abnormal/ Defective Items

Goods which cannot fetch the usual rate of gross profit are considered as unusual or abnormal items.

Loss of Profit

A fire may create a consequential loss to a business over and above the instantaneous damage of stock. It disrupts normal activities for some time during which the business has to go on paying standing charges like rent, salaries etc. without any effective return. It also causes a loss of profits which the business could have earned if normality was not disturbed by the accident.

SHORT NOTES

2018 - Dec [8] Write short note on the following:

- (ii) Consequential Loss Policy.

(5 marks)

Answer:

Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc.

If loss of profits consequent to the event or mis-happening (Fire, flood, theft etc.) is also insured, the policy is known as loss of profit or consequential loss policy.

The Loss of Profit Policy normally covers the following items:

- (i) Loss of net profit
- (ii) Standing charges.
- (iii) Any increased cost of working e.g., renting of temporary premises.

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DESCRIPTIVE QUESTIONS

2021 - Dec [16] Under loss of profit insurance, what is meant by gross profit?

(1 mark) [Sec. B - SAQ]

Answer:

Gross profit means net profit plus insured standing charges.

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

- (iv) A fire damaged the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decide the quantum of claim to be lodged with the insurance company. **(2 marks)**

Answer:

| | |
|---------------------|--------------|
| Loss of Stock | = ₹ 1,10,000 |
| Less: Stock salvage | = ₹ 40,000 |
| Net Loss | = ₹ 70,000 |

Applying average clause,

$$\begin{aligned} \text{Amount of claim} &= \text{Amount of policy} \times \text{Net loss} / \text{Actual loss of stock} \\ &= ₹ 50,000 \times 70,000 / 1,10,000 \\ &= ₹ 31,818 \end{aligned}$$

— Space to write important points for revision —

2013 - Dec [8] (b) Due to flood, business of Mr. Singh was dislocated from 01.04.2013 to 31.08.2013 (5 months). From the following details, calculate the amount of claim to be lodged in respect of loss of profit policy.

| Particulars | ₹ |
|--|--------------|
| Policy amount | 1,25,000 |
| Turnover from 01.04.2013 to 31.08.2013 | 2,40,000 |
| Standing charges from 01.04.2013 to 31.08.2013 | 60,000 |
| Turnover during 01.04.2012 to 31.03.2013 | 12,00,000 |
| Gross profit ratio | 10% on sales |
| Standing charges for the year 2012-13 | 84,000 |

The turnover for the year 2013-14 was anticipated to increase by 10% over the turnover of the preceding year. **(6 marks)**

Answer:

| Particulars | ₹ |
|--|----------|
| Standard turnover per month (2012—13) | 1,00,000 |
| Add: Increase anticipated plus 10% | 10,000 |
| Expected turnover per month | 1,10,000 |
| Standard turnover for the period of dislocation [1,10,000 x 5] | 5,50,000 |
| Less: Actual turnover for the period of dislocation | 2,40,000 |
| Short sales | 3,10,000 |
| Gross profit on short sales @ 10% | 31,000 |
| Add: Increased cost of working actual | |
| Standard charges for the period of dislocation (7,000 x 5 = 35,000) | |
| Actual standing charges incurred during the period of dislocation ₹ 60,000 | |
| Increase in cost of working during period of dislocation ₹ 60,000 - ₹ 35,000 | 25,000 |
| Claim to be lodged | 56,000 |

Note:

- In absence of any information regarding Insured standing charges, Uninsured standing charges, Net profit etc. increase in cost of working during the period of dislocation is determined in this manner.*
- Since the Annual Turnover is not mentioned the Average Clause is not applied.*

— Space to write important points for revision —

2014 - June [7] (a) From the following information, calculate a consequential loss claim:

- Financial year ends on 31st March.
- Fire occurs on December 1 following.
- Period of disruption : December 1 to March 31.
- Period of indemnity : 6 months.
- Net profit for previous financial year ₹ 15,00,000
- Insured standing charges ₹ 25,00,000
- Uninsured standing charges ₹ 4,00,000
- Increase in the cost of working ₹ 3,20,000
- Saving in insured standing charges ₹ 1,00,000

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- (x) Reduced turnover avoided through increased cost of workings: ₹ 8,00,000
 (xi) 'Special circumstances clause' stipulated :
 (a) Increase in turnover (standard and annual) : 20%
 (b) Increase in rate of gross profit : 5%
 (xii) Turnover for the four months 31st July 30th Nov. 31st March ending
- | | | | |
|-------------|-----------|-------------|-----------|
| I Year (₹) | 40,00,000 | 90,00,000 | 70,00,000 |
| II Year (₹) | 60,00,000 | 1,10,00,000 | 20,00,000 |
- (xiii) Sum insured : ₹ 50,00,000. **(8 marks)**

Answer:**Computation of Short Sales:**

| Particulars | Amount (₹) |
|---|------------|
| Sales during the same period in last year | 70,00,000 |
| Add: 20% increase stipulated | 14,00,000 |
| Adjusted Sales | 84,00,000 |
| Less: Actual sales during disruption period | 20,00,000 |
| Amount of Short Sale | 64,00,000 |

Computation of G.P.(Agreed):

Rate of Gross Profit (G.P.) for Proceeding accounting year:

$$\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Sales for the preceding accounting year}} \times 100 = \frac{15,00,000 + 25,00,000}{40,00,000 + 90,00,000 + 70,00,000} \times 100$$

$$= \frac{40,00,000}{2,00,00,000} \times 100 = 20\%$$

$$\therefore \text{Agreed Rate of G.P.} = 20\% + 5\% = 25\%$$

Loss of profit on Short Sales = 25% of ₹ 64,00,000 i.e. ₹ 16,00,000.

| Particulars | Amount (₹) |
|--|-------------|
| Annual Turnover [12 months immediately preceding the date of fire] | 2,40,00,000 |
| Add: 20% Increase | 48,00,000 |

| | |
|--|-------------|
| Adjusted Annual Sales | 2,88,00,000 |
| G.P. on Adjusted Annual Sales or Insurable Amount ₹ 2,88,00,000 x 25% | 72,00,000 |

Computation of Additional Expenses to be considered:

| Particulars | Amount (₹) |
|--|------------|
| (a) Actual expense incurred | 3,20,000 |
| (b) G.P. on reduced turnover avoided ₹ 8,00,000 x 25% i.e. ₹ 2,00,000 | 2,00,000 |
| (c) Increase in cost of working x $\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}}$ i.e. ₹ 3,20,000 x $\frac{(15,00,000 + 25,00,000)}{(15,00,000 + 29,00,000)}$ i.e. ₹ 2,90,909 | 2,90,909 |
| Hence, least of (a), (b) and (c) i.e. ₹ 2,00,000 will be considered | |

Computation of Claim:

| Particulars | Amount (₹) |
|---|------------|
| Loss of profit on short sales | 16,00,000 |
| Add: Additional Expenses allowed | 2,00,000 |
| Less: Savings in insured charges | 1,00,000 |
| | 17,00,000 |
| Insurance Claim = $\frac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total Consequential Loss}$ i. e. $\frac{₹50,00,000}{₹72,00,000} \times ₹17,00,000 =$ | 11,80,556 |

— Space to write important points for revision —

2014 - Dec [6] (b) There was a serious fire in the premises of M/s Fortunate on 1st September, 2011. Their business activities were interrupted until 31st December, 2011, when normal trading conditions were re-established. M/s Fortunate are insured under the loss of profit policy for ₹ 42,000 the period of indemnity being six months.

You are able to ascertain the following information:

- (i) The net profit for the year ended 31st December, 2010 was ₹ 20,000
- (ii) The annual insurable standing charges amounted to ₹ 30,000 of which ₹ 2,000 were not included in the definition of insured standing charge under the policy.
- (iii) The additional cost of working in order to mitigate the damage caused by the fire amounted to ₹ 600, and, but for this expenditure, the business would have had to shut down.
- (iv) The saving in insured charges in consequence of the fire amounted to ₹ 1,500.
- (v) The turnover for the period of four month ended April 30, August 31 and December 31, for each of the years 2010 and 2011 was as under:

| | ₹ | ₹ | ₹ |
|------|--------|--------|--------|
| 2010 | 65,000 | 80,000 | 95,000 |
| 2011 | 70,000 | 80,000 | 15,000 |

You are required to compute the relevant claim under the terms of the loss of profits policy. **(8 marks)**

Answer:

Calculation of short sales:

| | |
|---|---------------|
| Standard turnover: Sales from September 1, 2010 to Dec. 31, 2010 | ₹ 95,000 |
| <i>Less:</i> Sales during disruption period (1-9-2011 to 31-12-2011) | <u>15,000</u> |
| Short Sales | <u>80,000</u> |

Calculation of Rate of Gross Profit:

$$\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Sales of the last accounting year}} \times 100$$

$$\frac{(\text{₹}20,000 + \text{₹}28,000)}{[\text{₹}65,000 + \text{₹}80,000 + \text{₹}95,000 \text{ (i.e., Sales for 2010)}]} \times 100$$

$$= \frac{48,000}{\text{₹}2,40,000} \times 100 = 20\%$$

Calculation of Amount of Claim for Loss of Profit:

| | |
|---|---------------|
| | ₹ |
| Loss of Profit on short sales of ₹ 80,000 @ 20% | 16,000 |
| Add: Increased cost of working: | |
| $\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}} \times \text{Increased cost of working}$ | |
| $\frac{₹20,000 + ₹28,000}{₹20,000 + ₹30,000} \times ₹600$ | <u>576</u> |
| | 16,576 |
| Less: Saving in insured charges as a result of fire | <u>1,500</u> |
| | <u>15,076</u> |

Gross Claim

Application of Average Clause:

Sum Insured /Gross Profit on 12 months (Sales preceding the date of fire)
×Gross claim

= ₹ 42,000/20% of ₹ 2,45,000 (1)×15,076 = ₹ 12,922

Therefore, claim for loss of profit to be lodged is ₹ 12,922

— Space to write important points for revision —

2015 - June [6] Answer the question:

(b) On 15th December, 2014 the premises of NAGAR LTD. were destroyed by fire, but sufficient records were saved from which the following particulars were ascertained:

| | |
|--|-----------|
| | ₹ |
| Stock at cost on 1 st April, 2013 | 2,20,500 |
| Stock at cost on 31 st March, 2014 | 2,38,800 |
| Purchases less returns, year ended 31 st March, 2014 | 11,94,000 |
| Sales less returns, year ended 31 st March, 2014 | 14,61,000 |
| Purchases less returns, 1 st April, 2014 to 15 th December, 2014 | 10,15,000 |
| Sales less returns, 1 st April, 2014 to 15 th December, 2014 | 11,62,000 |

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In valuing stock for Balance Sheet as at 31st March, 2014 ₹ 6,900 had been written off for certain stock which was a poor selling line, having cost of ₹ 20,700. A portion of these goods were sold in June, 2014 at a loss of ₹ 750 on the original cost of ₹ 10,350. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged was ₹ 17,500. The stock was insured for ₹ 2,50,000.

Required:

Calculate the amount of claim to be lodged with the Insurance company for Loss of Stock. **(8 marks)**

Answer:

**Trading A/c
for the year ended 31.3.2014**

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|--------------|-----------|----------|-----------|---------------|-----------|----------|-----------|
| Op. Stock | 2,20,500 | - | 2,20,500 | Sales | 14,61,000 | - | 14,61,000 |
| Purchase | 11,73,300 | 20,700 | 11,94,000 | Closing Stock | 2,25,000 | 20,700 | 2,45,700 |
| Gross Profit | 2,92,200 | - | 2,92,200 | | - | | |
| | 16,86,000 | 20,700 | 17,06,700 | | 16,86,000 | 20,700 | 17,06,700 |

$$\begin{aligned} \text{G.P. ratio} &= \frac{2,92,200}{14,61,000} \times 100 \\ &= 20\% \end{aligned}$$

Memorandum Trading A/c
From 1.4.14 to 15.12.14

Dr.

Cr.

| Particulars | Normal Items (₹) | Abnormal Items (₹) | Total (₹) | Particulars | Normal Items (₹) | Abnormal Items (₹) | Total (₹) |
|--------------------------------------|------------------|--------------------|------------------|------------------------|------------------|--------------------|------------------|
| To Opening Stock | 2,25,000 | 20,700 | 2,45,700 | By Sales | 11,52,400 | 9,600 | 11,62,000 |
| To Purchases | 10,15,000 | - | 10,15,000 | By Loss | --- | 750 | 750 |
| To Gross Profit (20% of ₹ 11,52,400) | 2,30,480 | | 2,30,480 | By Closing Stock (b/f) | 3,18,080 | 10,350 | 3,28,430 |
| | 14,70,480 | 20,700 | 14,91,180 | | 14,70,480 | 20,700 | 14,91,180 |

Account of Loss of Stock:

| | |
|--------------------------------|----------|
| Value of Stock on date of fire | 3,28,430 |
| Less: Stock Salvaged | 17,500 |
| Loss of Stock by fire | 3,10,930 |

Since the value of the stock is more than the insurance policy.
Average clause should be applied.

Application of Average Clause:

$$\begin{aligned} \text{Claim} &= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{stock on day of fire}} \\ &= 3,10,930 \times \frac{2,50,000}{3,28,430} \\ &= 2,36,679 \end{aligned}$$

_____ Space to write important points for revision _____

2015 - Dec [1] Answer the following question (Give workings):

- (h) The godown of KODIAC LTD. was engulfed in fire on 31st May, 2015 as a result of which a part of stock burnt to ashes. The stock was covered by Fire Policy for ₹ 2,00,000 subject to Average Clause. The records of the company revealed the following particulars.

Actual Value of Stock as on 31.05.2015 : ₹ 4,00,000

The Value of Salvaged Stock : ₹ 90,000

You are required to ascertain the amount of claim to be lodged with the Insurance Company. **(2 marks)**

Answer:

Claim to be lodged =

$$\begin{aligned} &\text{loss of stock} \times \frac{\text{Policy amount}}{\text{Average stock}} \\ &= 4,00,000 - 90,000 \times \frac{2,00,000}{4,00,000} \\ &= 1,55,000 \end{aligned}$$

_____ Space to write important points for revision _____

2016 - June [4] (b) A fire occurred in the premises of BRIGHT LTD. on 1st August 2015. The company had a loss of profit policy for ₹ 6.00 lakhs which was subject to average clause. Sale from 1st August 2014 to 31st July 2015 were ₹ 50 lakhs and from 1st August 2014 to 30th Nov. 2014 being ₹ 15 lakh. During the indemnity period which lasted four months sales amounted to only ₹ 2,00,000. The company made up its accounts on 31st March. The Profit and Loss Account for the year ended 31st March 2015 is given below:

| Profit & Loss Account for the year ended 31 st March, 2015 | | | |
|---|-----------|---------------|-----------|
| Particulars | | Particulars | |
| Opening Stock | 5,00,000 | Sales | 47,50,000 |
| Purchases | 30,00,000 | Closing Stock | 2,50,000 |
| Manufacturing Expenses | 3,35,000 | | |
| Variable Selling Expenses | 4,52,500 | | |
| Fixed Expenses | 3,62,500 | | |
| Net Profit | 3,50,000 | | |
| | 50,00,000 | | 50,00,000 |

Comparing the sales of first four months of year 2015-16 those of year 2014-15, it was found that sales were 20% higher in the year 2015-16.

You are required to compute the amount of claim to be lodged with the Insurance Company under the Loss of Profit Policy. (4 + 2 + 2 = 8 marks)

Answer :

BRIGHT LTD.

Computation of short Sales:

| | |
|---|--------------------|
| Sales from 1 st August 2014 to 30 th Nov 2014 | ₹ 15,00,000 |
| Add: 20% increase observed in year 2015-16 over year 2014-15 | <u>₹ 3,00,000</u> |
| | ₹ 18,00,000 |
| Less: Sales from 1 st August 2015 to 30 th Nov 2015 | <u>₹ 2,00,000</u> |
| Short Sales: | ₹ 16,00,000 |

Gross Profit Ratio:

$$= \frac{(\text{Net Profit (2014 - 15)} + \text{Insured Standard Charges (2014 - 15)})}{\text{Sales for the year 2014 - 15}} \times 100$$

$$\frac{3,50,000 + 3,62,500}{47,50,000} \times 100 \text{ or, } \frac{7,12,500}{47,50,000} \times 100 = 15\%$$

$$\text{Loss of profit on short Sales} = 15\% \text{ on } ₹ 16,00,000 = ₹ 2,40,000.$$

6.308**Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

Application of Average Clause:

| | |
|--|--|
| | ₹ |
| Annual Turnover: Sales for 12 months to 31 st July 2015 | 50,00,000 |
| Add: 20% increase in the current year | <u>10,00,000</u> |
| | 60,00,000 |
| Actual insurable value (60,00,000 x 15%) | 9,00,000 |
| Amount of policy | 6,00,000 |
| Amount of Claim = $\frac{\text{Loss Suffered} \times \text{Sum Insured}}{\text{Actual Insurable Value}}$ | |
| | $= \frac{2,40,000 \times 6,00,000}{9,00,000} = ₹ 1,60,000$ |

_____ Space to write important points for revision _____

2016 - Dec [3] (b) The factory premises of AURISHI LTD. were engulfed in the fire on August 16, 2016, as a result of which a major part of stock burnt to ashes.

The stock was covered by policy for ₹ 90,000, subject to Average Clause. The records at the office of the company revealed the following information:

| | |
|---|----------|
| | ₹ |
| Stock on 1 st April, 2015 | 1,15,200 |
| Purchases during the year ended 31 st March, 2016 | 4,80,000 |
| Sales during the year ended 31 st March, 2016 | 6,07,800 |
| Closing stock on 31 st March, 2016 | 95,400 |
| Purchases from 1 st April, 2016 to August 16, 2016 | 1,62,000 |
| Sales from 1 st April, 2016 to August 16, 2016 | 1,84,200 |

An item of stock purchased in 2014 at a cost of ₹ 30,000 was valued at ₹ 18,000 on 31st March, 2015, due to obsolescence. Half of this stock was sold in July, 2015 for ₹ 7,800; the remaining was valued at ₹ 7,200 on 31st March, 2016. One-fourth of the original stock was sold in June, 2016, for ₹ 4,200.

Salvaged stock was valued at ₹ 36,000.

You are required to compute the amount of claim to be lodged with Insurance Company for Loss of Stock. **(3 + 3 + 2 = 8 marks)**

Answer:

AURISHI LTD.
Trading Account for the year
ended 31st March, 2016

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|------------------------|----------|----------|----------|---------------------------------|----------|----------|----------|
| | (₹) | (₹) | (₹) | | (₹) | (₹) | (₹) |
| To Stock (Op. at cost) | 97,200 | 30,000 | 1,27,200 | By Sales | 6,00,000 | 7,800 | 6,07,800 |
| To Purchase | 4,80,000 | | 4,80,000 | By Profit & Loss Account (loss) | | 7,200 | 7,200 |
| To Gross profit | 1,11,000 | | 1,11,000 | By Stock (at cost) | 88,200 | 15,000 | 1,03,200 |
| | 6,88,200 | 30,000 | 7,18,200 | | 6,88,200 | 30,000 | 7,18,200 |

Gross profit to Sales Ratio = $(1,11,000/6,00,000) \times 100 = 18.50\%$.

Memorandum Trading Account upto 16th August, 2016

Dr.

Cr.

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|--|----------|----------|----------|---------------------------------|----------|----------|----------|
| | (₹) | (₹) | (₹) | | (₹) | (₹) | (₹) |
| To Stock (at cost) | 88,200 | 15,000 | 1,03,200 | By Sales | 1,80,000 | 4,200 | 1,84,200 |
| To Purchase | 1,62,000 | | 1,62,000 | By Profit & Loss Account (loss) | | 6,300 | 6,300 |
| To Gross profit 18.5% on sales of normal goods | 33,300 | | 33,300 | By Stock (Balancing figure) | 1,03,500 | 4,500 | 1,08,000 |
| | 2,83,500 | 15,000 | 2,98,500 | | 2,83,500 | 15,000 | 2,98,500 |

| Value of stock on 16 th August, 2016 | ₹ | ₹ |
|---|----------|----------|
| Normal | 1,03,500 | |
| Abnormal (adjusted price) | 4,500 | 1,08,000 |
| Less: Stock Salvaged | | 36,000 |
| Stock destroyed by fire | | 72,000 |

Since there is an average clause in the policy, the **claim will be:**

(Amount of the policy/stock on the date of fire) × stock destroyed by fire
 = ₹ 72,000 × (90,000/1,08,000) = ₹ **60,000**.

6.310**Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

Note: As an item of stock as on 31st March, 2015 was valued below cost, it was an abnormal item. It is shown under abnormal stock column at its original cost i.e., ₹ 30,000. The normal items have been separated to arrive at the normal rate of gross profit.

Assume: Ratio of G.P. was uniform throughout.

— Space to write important points for revision —

2017 - June [5] (b) Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trade provides you the following additional information:

| | ₹ |
|---|-----------|
| Cost of stock on 1 st April, 2015 | 3,55,250 |
| Cost of stock on 31 st March, 2016 | 3,95,050 |
| Purchases during the year ended 31 st March, 2016 | 28,39,800 |
| Purchases from 1 st April, 2016 to the date of fire | 16,55,350 |
| Cost of goods distributed as samples for advertising from 1 st April, 2016 to the date of fire | 20,500 |
| Cost of goods withdrawn by trader for personal use from 1 st April, 2016 to the date of fire | 1,000 |
| Sales for the year ended 31 st March, 2016 | 40,00,000 |
| Sales from 1 st April, 2016 to the date of fire | 22,68,000 |

The insurance company also admitted fire fighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. **(7 marks)**

Answer:

Trading A/c for the year ending 31.3.2016

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|------------------|------------|------------------|------------|
| To Opening Stock | 3,55,250 | By Sales | 40,00,000 |
| To Purchase | 28,39,800 | By Closing Stock | 3,95,050 |
| To GP | 12,00,000 | | |
| | 43,95,050 | | 43,95,050 |

$$\text{Rate of GP on Sales} = \frac{12,00,000}{40,00,000} \times 100 = 30\%$$

Trading A/c for 1.4.2016 to 29.8.2016

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|----------------------------------|------------|------------------|------------|
| To Opening Stock | 3,95,050 | By Sales | 22,68,000 |
| To Purchase 16,55,350 | | By Closing Stock | 4,41,300 |
| Less: Sample distribution 20,500 | | (Bal. figure) | |
| Less: Drawings 1,000 | 16,33,850 | | |
| To GP (30% of Sales) | 6,80,400 | | |
| | 27,09,300 | | 27,09,300 |

Statement of Insurance Claim

| Particulars | ₹ |
|----------------------------------|----------|
| Value of stock destroyed by fire | 44,1,300 |
| Less: Salvaged Stock | 54,000 |
| Add: Fire Fighting Expenses | 2,350 |
| Insurance Claim | 3,89,650 |

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

— Space to write important points for revision —

2017 - Dec [7] (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2013. Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2013-2014 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

- In July, 2014, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.
- The rate of gross profit is constant.

X Ltd. had taken an insurance policy of ₹ 5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company. **(10 marks)**

Answer:

Memorandum Trading Account
from 1st April, 2014 to 22nd January, 2015:

| Dr. | | | Cr. | |
|---|---------------|------------------|---|------------------|
| Particulars | Amount (₹) | Amount (₹) | Particulars | Amount (₹) |
| To Opening Stock | | 13,27,200 | By Sales | 49,17,000 |
| To Purchases | 34,82,700 | | By Stock on 22 nd January, 2015 – | 7,76,300 |
| Less: Cost of goods used for advertising | (1,00,000) | 33,82,700 | Balancing figure | |
| To Gross Profit | | 9,83,400 | | |
| 20% of sales (Working Note) | | | | |
| | | 56,93,300 | | 56,93,300 |

Stock in hand on date of fire = ₹ 7,76,300.

Computation of claim for loss of stock

| Particulars | Amount (₹) |
|---|------------|
| Stock on the date of fire i.e. on 22 nd January, 2015 | 7,76,300 |
| As the value of goods salvaged was negligible, therefore Loss of stock | 7,76,300 |

As policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹ 5,50,000 should be lodged by X Ltd. to the insurance company.

Working Note:**Trading Account for the year ended on 31st March, 2014**

| Particulars | ₹ | Particulars | ₹ |
|------------------|------------------|------------------|------------------|
| To Opening Stock | 9,62,200 | By Sales | 52,00,000 |
| To Purchases | 45,25,000 | By Closing Stock | 13,27,200 |
| To Gross Profit | 10,40,000 | | |
| | 65,27,200 | | 65,27,200 |

Rate of gross profit to sales = $10,40,000/52,00,000 \times 100 = 20\%$.

— Space to write important points for revision —

2018 - June [5] (b) On 15th December, 2017, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of Stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available:

- Stock at the close of account on 31st March, 2017 was valued at ₹ 9,40,000.
- Purchases from 01.04.2017 to 15-12-2017 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

(5 marks)

Answer:

Memorandum Trading Account for the period 01.04.2017 – 15.12.2017

| Dr. | | Cr. | |
|-----------------------|------------------|--------------------|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Opening Stock | 9,40,000 | By Sales | 20,25,000 |
| To Purchases | 13,20,000 | By Closing stock | 6,40,000 |
| To Gross Profit @ 20% | 4,05,000 | (Balancing Figure) | |
| | 26,65,000 | | 26,65,000 |

Statement of Claim

| Particulars | ₹ |
|---|----------|
| Estimated value of Stock as at date of fire | 6,40,000 |
| Less: Value of Salvaged Stock | 1,40,000 |
| Estimated Value of Stock lost by Fire | 5,00,000 |

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of Claim} = \frac{\text{Amount of policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\text{Amount of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = ₹ 3,12,500.$$

— Space to write important points for revision —

2018 - Dec [6] (a) CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around ₹ 3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

| | ₹ |
|------------------------------|-----------|
| Total variable expenses | 24,00,000 |
| Fixed expenses: | |
| Salaries | 3,30,000 |
| Rent, Rates and Taxes | 30,000 |
| Travelling expenses | 50,000 |
| Postage, Telegram, Telephone | 60,000 |
| Director's fees | 10,000 |
| Audit fees | 20,000 |
| Miscellaneous income | 70,000 |
| Net Profit | 4,20,000 |

Determine the amount of policy to be taken for the current year. (7 marks)

Answer:

| Particulars | ₹ |
|---|-----------|
| Gross profit on the basis of last year's sales | 8,50,000 |
| Add: 20% for increase of turnover | 1,70,000 |
| | 10,20,000 |
| Add: Increased standing charges (interest on overdraft) | 45,000 |
| Policy to be taken for current year | 10,65,000 |

Working Notes:

1. Profit and Loss Account for the previous year

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|----------------------|---------------|-----------------|---------------|
| To variable expenses | 24,00,000 | By Sales | 32,50,000 |
| To Fixed expenses | 5,00,000 | By Misc. income | 70,000 |
| To Net profit | 4,20,000 | | |
| | 33,20,000 | | 33,20,000 |

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2. Gross profit of the previous year

| Particulars | (₹) |
|-------------------------|-----------|
| Sales | 32,50,000 |
| Less: Variable Expenses | 24,00,000 |
| | 8,50,000 |

— Space to write important points for revision —

2019 - June [6] (a) On 31st January, 2019 the premises of Toli Textiles Limited were destroyed by fire. The records of the company revealed the following particulars:

| | ₹ |
|---|-----------|
| Stock on 01.04.2017 | 11,35,000 |
| Stock on 31.03.2018 | 12,64,100 |
| Purchase Less returns, during the year ended 31 st March, 2018 | 65,45,000 |
| Sales Less returns, during the year ended 31 st March, 2018 | 91,00,000 |
| Purchase Less return, from 01.04.2018 to 31.01.2019 | 56,64,000 |
| Sales Less returns, from 01.04.2018 to 31.01.2019 | 78,24,000 |

In valuing stock on 31st March, 2018 ₹ 45,900 had been written off out of certain stock which was of a poor selling line, having cost ₹ 1,37,700. A portion of these goods were sold in October, 2018 at a loss ₹ 11,080 on the original cost of ₹ 55,080. The remaining stock of this goods on the date of fire was to be valued at 80% of its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged from fire was ₹ 1,23,800.

You are required to compute the amount of claim to be lodged for loss of stock. The stock was insured for ₹ 12,50,000. **(7 marks)**

Answer:

| Trading Account | | | | |
|--|--------------------|----------------------------|-----------|--------------------|
| for the year ending 31st March, 2018 | | | | |
| Dr. | ₹ | Particulars | ₹ | Cr. |
| To Opening Stock | 11,35,000 | By Sales Less: Returns | | 91,00,000 |
| To Purchases Less Returns | 65,45,000 | By Closing Stock as valued | 12,64,100 | |
| To Gross Profit | 27,30,000 | Add: Amount Written off | 45,900 | 13,10,000 |
| | 1,04,10,000 | | | 1,04,10,000 |

Rate of Gross Profit = ₹ 27,30,000 / ₹ 91,00,000 = 30%

| Memorandum Trading Account | | | | | | | |
|--|------------------|--------------------|------------------|---------------------|------------------|--------------------|------------------|
| From 1st April, 2018 to 31st January, 2019 | | | | | | | |
| Dr. | Normal Items (₹) | Abnormal Items (₹) | Total (₹) | Particulars | Normal Items (₹) | Abnormal Items (₹) | Total (₹) |
| To Opening Stock | 11,72,300 | 1,37,700 | 13,10,000 | By Sales | 77,80,000 | 44,000 | 78,24,000 |
| To Purchases | 56,64,000 | --- | 56,64,000 | By Loss on Sales | --- | 11,080 | 11,080 |
| to Gross Profit (30% on Normal Sales) | 23,34,000 | --- | 23,34,000 | By Est. Stock (b/f) | 13,90,300 | 82,620 | 14,72,920 |
| | 91,70,300 | 1,37,700 | 93,08,000 | | 91,70,300 | 1,37,700 | 93,08,000 |

Working Notes:

- (i) Stock on 1.4.18.
Abnormal Items ₹ 1,37,700; and Normal Items = ₹ 13,10,000 - ₹ 1,37,700 = ₹ 11,72,300
- (ii) Sale of Abnormal Items = ₹ 55,080 - ₹ 11,080 = ₹ 44,000
- (iii) Sale of Normal Items = ₹ 78,24,000 - ₹ 44,000 = ₹ 77,80,000.

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Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Loss of Stock

| | ₹ |
|--|-----------|
| Stock on the date of fire : Normal Items | 13,90,300 |
| Value of Abnormal Items (82,620 × 80%) | 66,096 |
| Value of Stock | 14,56,396 |
| Less: Stock Salvaged | 1,23,800 |
| Loss of Stock | 13,32,596 |

Amount of Claim applying Average Clause:

Amount of Claim = (Insured Amount/ Value of Stock at the date of Fire) ×

Loss of Stock = (₹ 12,50,000/₹ 14,56,396) × ₹ 13,32,596 = ₹ 11,43,745

— Space to write important points for revision —

2019 - Dec [5] (b) On 02.06.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the record saved:

| | ₹ |
|---|----------|
| Stock at cost on 01.04.2018 | 1,35,000 |
| Stock at 90% of cost on 31.03.2019 | 1,62,000 |
| Purchases for the year ended 31.03.2019 | 6,45,000 |
| Sales for the year ended 31.03.2019 | 9,00,000 |
| Purchases from 01.04.2019 to 02.06.2019 | 2,25,000 |
| Sales from 01.04.2019 to 02.06.2019 | 4,80,000 |

Sales up to 02.06.2019 includes ₹ 75,000 (invoice price) being the goods not dispatched to the customers.

Purchases up to 02.06.2019 includes a machinery acquired for ₹15,000.

Purchases up to 02.06.2019 does not include goods worth ₹30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹1,20,000 and it is subject to average clause.

Ascertain the amount of claim for loss of stock.

(7 marks)

Answer:

In the Book of Mr. Black
Trading Account for the year ended 31.03.2019

| Dr. | Amount (₹) | Cr. | Amount (₹) |
|------------------|------------|--------------------------------|------------|
| To Opening Stock | 1,35,000 | By Sales | 9,00,000 |
| To Purchase | 6,45,000 | By Closing Stock at Cost | 1,80,000 |
| To Gross Profit | 3,00,000 | (1,62,000 × $\frac{100}{90}$) | |
| | 10,80,000 | | 10,80,000 |

Memorandum Trading Account
for the period from 01.04.2019 to 02.06.2019

| Dr. | Amount (₹) | Amount (₹) | Cr. | Amount (₹) | Amount (₹) |
|--|------------|------------|-------------------------------------|------------|------------|
| To Opening Stock (at cost) | | 1,80,000 | By Sales | 4,80,000 | |
| To Purchase | 2,25,000 | | Less: Goods not dispatched | 75,000 | 4,05,000 |
| Add: Goods received but invoice not received | 30,000 | | By Closing Stock (Balancing Figure) | | 1,50,000 |
| | 2,55,000 | | | | |
| Less: Machinery | 15,000 | 2,40,000 | | | |
| To Gross Profit (Refer W.N.) | | 1,35,000 | | | |
| | | 5,55,000 | | | 5,55,000 |

Calculation of Insurance Claim:

Claim subject to average

$$\text{clause} = \frac{\text{Actual Loss of Stock}}{(\text{Value of Stock on the date of fire} \times \text{Amount of policy})}$$

$$= 1,20,000 \times \left(\frac{1,50,000}{1,50,000} \right) = ₹ 1,20,000$$

Working Notes:

$$\text{G.P. Ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = ₹ 4,05,000 \times 33 \frac{1}{3} \% = ₹ 1,35,000.$$

— Space to write important points for revision —

2021 - Dec [2] A fire engulfed the premises of a business of M/s Pritam on the morning of 1st July, 2020. The building equipment and stock were destroyed and the salvage recorded the following:

Building: ₹4,000

Equipment : ₹2500

Stock : ₹20,000

The following other information was obtained from the records saved from the period from 1st January, to 30th June, 2020.

Sales ₹11,50,000

Sales returns ₹40,000

Purchases ₹9,50,000

Purchases returns ₹12,500

Cartage inward ₹17,500

Wages ₹7,500

Stock in hand on 31st December, 2019 ₹1,50,000

Building valued on 31st December, 2019 ₹3,75,000

Equipment valued on 31st December, 2019 ₹75,000

Depreciation provided till 31st December, 2019 on:

- Building ₹1,25,000
- Equipment ₹22,500

No depreciation has been provided after December 31st, 2019. The latest rate of depreciation is 5% P.a. on building and 15% P.a. on equipment by straight line method. Normally business makes a profit of 25% on net sales. You are required to computed as on 30-06-2020

- (i) Amount of gross profit.
- (ii) Amount of closing stock.
- (iii) Amount of stock destroyed by fire.
- (iv) Statement of claim
 - (a) Stock
 - (b) Building
 - (c) Equipment.

(6 marks) [Sec. C - Three LAQ]

Answer:

Gross Profit – ₹2,77,500

Closing Stock – ₹2,80,000

Stock destroyed by Fire - ₹2,80,000

Statement of claim

| | |
|--------------|-----------|
| Stock - | ₹2,60,000 |
| Building - | ₹2,36,625 |
| Equipments - | ₹44,375 |
| Total | ₹5,41,000 |

Net Sales = 11,50,000 – 40,000

= 11,10,000

GP = 11,10,000 × 25%

= 2,77,500

COGS = 11,10,000 – 2,77,500

= 8,32,500

op st + Purchase + Direct expenses – Cl. Stock = COGS

1,50,000 + 9,50,000 – 12,500 + 17,500 + 7,500 Cl Stock = 8,32,500

Cl Stock = 2,80,000

Claim of stock = 2,80,000 – 20,000 = 2,60,000

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Depreciation on

$$(a) \text{ Building } \frac{3,75,000 \times 5\%}{2} = \frac{18,750}{2}$$

$$= 9,375$$

$$\text{Claim} = 3,75,000 - 1,25,000 - 9,375 - 4,000$$

$$= 2,36,625$$

$$(b) \text{ Depreciation on Equipment } \frac{75,000 \times 15\%}{2} = 5,625$$

$$\text{Claim} = 7,500 - 22,500 - 5,625 - 2,500$$

$$= 44,375$$

2022 - Dec [5] (b) (i) Entity A carried plant and machinery in its books at ₹ 2,00,000 which were destroyed in a fire. These machines were insured 'New for Old' and were replaced by the insurance company with new machines of fair value ₹ 20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same.

(2 marks)

8






HIRE PURCHASE AND INSTALLMENT SALE TRANSACTIONS

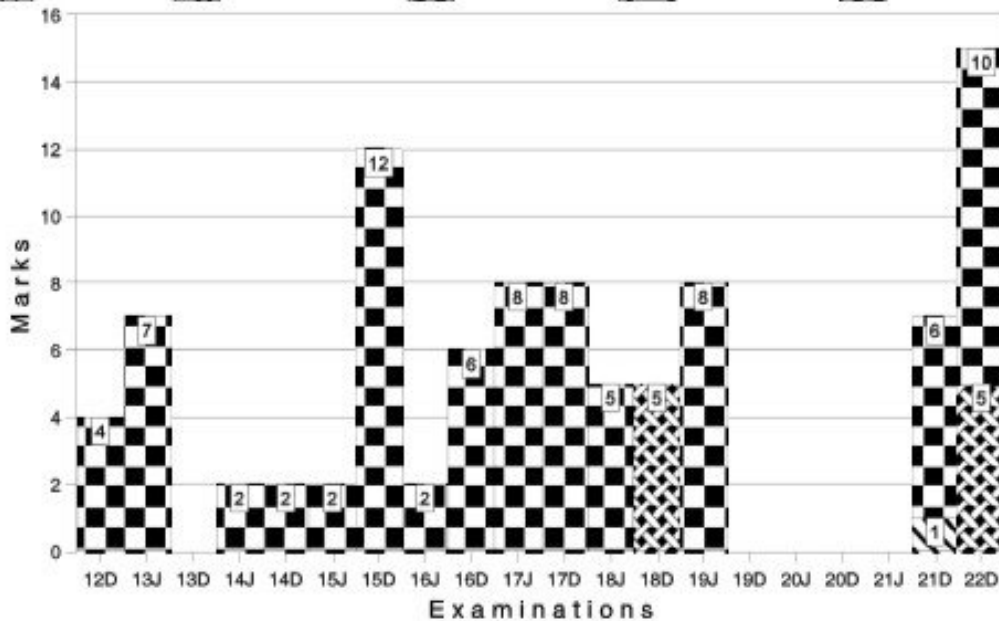
THIS CHAPTER INCLUDES

- | | |
|---|---|
| <ul style="list-style-type: none"> • Hire Purchase System • Methods | <ul style="list-style-type: none"> • Default and Repossession • Installment Purchase System |
|---|---|

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



For detailed analysis Login at www.scanneradda.com
for registration and password see first page of this book.

CHAPTER AT A GLANCE**Hire-purchase System**

Under this system the purchaser (Hirer) pays the entire amount in staggered way viz. monthly, quarterly or yearly with some interest. Possession of goods is delivered to a hirer but the title to the goods (Ownership) are transferred only when the agreed sum (Hire Purchase price) is paid by the hirer. Such hirer has a right to terminate the agreement at any time before the property so passes.

Default and Repossession

If a hire purchaser fails to pay any instalment on the stipulated date, the hire purchaser is said to be at default. In case of default by the hire purchaser, the hire vendor may repossess the goods. Repossession means taking back the possession of goods by the hire vendor. Subject to agreement, the repossession may be either complete or partial.

Meaning of Complete or Full Repossession

In case of complete or full repossession the hire vendor takes back the possession of all the goods.

Partial Repossession

In case of partial repossession, the hire vendor takes back the possession of a part of the goods.

DISTINGUISH BETWEEN

2018 - Dec [8] (iii) Distinction between Hire Purchase Agreement and Instalment Purchase Agreement **(5 marks)**

Answer:

Hire Purchase Agreement differs from Installment purchase Agreement in the following respects:

| Basis of Distinction | Hire Purchase Agreement | Installment Purchase Agreement |
|---|---|--|
| 1. Act governing | It is governed by Hire Purchase Act 1972. | It is governed by the Sale of Goods Act 1930. |
| 2. Nature of Contract | It is an agreement of hiring. | It is an agreement of sale. |
| 3. Passing of Title (ownership) | The title to goods passes on last payment. | The title to goods passes immediately as in the case of usual sale. |
| 4. Right to Return goods | The hirer may return goods without further payment, except for accrued installment. | Unless seller defaults, goods are not returnable. |
| 5. Seller's right to repossess | The seller may take possession of the goods if hirer is in default. | The seller can sue for price if the buyer is in default. He cannot take possession of the goods. |
| 6. Right to Dispose off | Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor. | The buyer may dispose of the goods and give good title to the bonafide purchaser. |
| 7. Responsibility for Risk of Loss | The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred. | The buyer is responsible for risk of loss of goods because of the ownership has transferred. |

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| | | |
|---|---|---|
| 8. Name of Parties involved | The parties involved are called Hirer and Hire vendor. | The parties involved are called buyer and seller. |
| 9. Relationship between parties involved | The relationship between hirer and hire vendor is that of Bailee and Bailor. | The relationship between the buyer and seller is that of a debtor and creditor till last installment is paid. |
| 10. Component other than Cash Price | Component other than Cash Price included in Installment is called Hire charges. | Component other than Cash price included in Installment is called Interest. |
| 11. Method of Accounting | <ol style="list-style-type: none"> 1. Sales Method for goods of substantial sales values 2. Stock Methods for Goods of small sales values | Interest Suspense Method. |

— Space to write important points for revision —

2022 - Dec [8] (c) Distinguish between Hire-Purchase and Instalment Purchase. **(5 marks)**

DESCRIPTIVE QUESTIONS

2021 - Dec [1] State when the title of goods are transferred to the hirer? **(1 mark) [Sec. B - SAQ]**

Answer:

Title of goods are transferred only when the agreed sum (Higher purchase price) is paid by the hirer)

PRACTICAL QUESTIONS

2012 - Dec [3] (b) Chinu sells goods on hire purchase at cost plus 60 percent. Prepare Hire Purchase Trading Account from the following information for the year ending 31st March, 2012:

| | | ₹ |
|-----------|--|------------------|
| 1.4.2011 | Stock with customers at hire purchase price | 96,000 |
| 31.3.2012 | Sale of hire purchase goods during the year at hire purchase price | 5,68,000 |
| 31.3.2012 | Cash received from hire purchase customers | 2,65,000 |
| 31.3.2012 | Stock with customers' at hire purchase price | 3,64,000 |
| | | (4 marks) |

Answer :

**H.P. Trading A/c of Chinu
for the year ending on 31.3.2012**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|--------|---|-------------|---------|--|-------------|
| 1.4.11 | To Balance b/d Opening Intt. not due at cost $\left(96,000 \times \frac{100}{160}\right)$ | 60,000 | 31.3.12 | By Cash A/c | 2,65,000 |
| | Opening Intt. due but not received | NIL | 31.3.12 | By Balance c/d (Stock with customer) Closing Intt. not due at cost $\left(3,64,000 \times \frac{100}{160}\right)$ | 2,27,500 |

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|---------|---|---|---------|---------------------------------------|----------|
| 31.3.12 | To Cost of goods sold on H.P. $\left(5,68,000 \times \frac{100}{160} \right)$ | 3,55,000 | 31.3.12 | By Closing Intt. due but not received | 35,000 |
| 31.3.12 | To Profit & Loss A/c (B/F) | 1,12,500 | | | |
| | | 5,27,500 | | | 5,27,500 |

W.N.1 Mem. H.P. Debtors A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|------------------------|-------------|----------------|--------------|
| To Balance b/d | NIL | By Cash A/c | 2,65,000 |
| To H.P. Stock W.N. (2) | 3,00,000 | By Balance c/d | 35,000 (b/f) |
| | 3,00,000 | | 3,00,000 |

W.N. (2) Mem. H.P. Stock A/c

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|-----------------------|-------------|---------------------|-------------|
| To Balance b/d | 96,000 | By H.P. Debtors A/c | 3,00,000 |
| To Goods Sold on H.P. | 5,68,000 | By Balance c/d | 3,64,000 |
| | 6,64,000 | | 6,64,000 |

— Space to write important points for revision —

2013 - June [3] (b) On 1st April, 2010 Guru purchased a machinery for cash price of ₹ 5,06,872 on hire purchase system from Machinery Mart. Payment to be made ₹ 1,50,000 down and the balance by four equal annual instalments. Interest is charged @ 15% per annum. Guru depreciates machinery at 20% per annum on written down value method. Guru paid down payment and first two instalments but could not pay the remaining instalments. On 31st March, 2013 the Machinery Mart took possession of machinery.

You are required to prepare Machinery Account and Machinery Mart Account in the books of Guru. **(7 marks)**

Answer:

Since the problem is silent regarding the amount of equal instalment, it is assumed that the balance of cash price will be paid equally along with the interest on the amount outstanding.

Calculation of Interest

| Opening Cash Price | Installment | Interest | Payment of Principle | Closing Cash Price |
|--------------------|-------------|---------------------------------|----------------------|--------------------|
| 5,06,872 | 1,50,000 | — | 1,50,000 | 3,56,872 |
| 3,56,872 | 1,42,749 | $3,56,872 \times 15\% = 53,531$ | 89,218 | 2,67,654 |
| 2,67,654 | 1,29,366 | $2,67,654 \times 15\% = 40,148$ | 89,218 | 1,78,436 |
| 1,78,436 | 1,15,972 | $1,78,436 \times 15\% = 26,754$ | 89,218 | 89,218 |
| 89,218 | 1,02,601 | $89,218 \times 15\% = 13,383$ | 89,218 | — |

**In the Book of Guru
Machinery Account**

| Dr. | | | Cr. | | |
|------------|-----------------------|-----------------|------------|--|-----------------|
| Date | Particulars | Amt.(₹) | Date | Particulars | Amt.(₹) |
| 01.04.2010 | To Machinery Mart A/c | 5,06,872 | 31.03.2011 | By Depreciation A/c (5,06,872 x 20%) | 1,01,374 |
| | | | | By Balance c/d | 4,05,498 |
| | | 5,06,872 | | | 5,06,872 |
| 01.04.2011 | To Balance b/d | 4,05,498 | 31.03.2011 | By Depreciation A/c (4,05,498 x 20%) | 81,100 |
| | | | | By Balance c/d | 3,24,398 |
| | | 4,05,498 | | | 4,05,498 |
| 01.04.2012 | To Balance b/d | 3,24,398 | 31.03.2011 | By Depreciation A/c (3,24,398 x 20%) | 64,880 |
| | | | | By Machinery Mart A/c (Machinery Re-Possess) | 89,218 |
| | | | | By Balance c/d | 1,70,300 |
| | | 3,24,398 | | | 3,24,398 |

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Machinery Mart Account

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|------------|--|-----------------|------------|------------------|-----------------|
| 01.04.2010 | To Bank A/c | 1,50,000 | 01.04.2010 | By Machinery A/c | 5,06,872 |
| 31.03.2011 | To Bank A/c | 1,42,749 | 31.03.2011 | By Interest A/c | 53,531 |
| 31.03.2011 | To Balance c/d | 2,67,654 | | | |
| | | 5,60,403 | | | 5,60,403 |
| 31.03.2012 | To Bank A/c | 1,29,366 | 01.04.2011 | By Balance b/d | 2,67,654 |
| 31.03.2012 | To Balance c/d | 1,78,436 | 31.03.2012 | By Interest A/c | 40,148 |
| | | 3,07,802 | | | 3,07,802 |
| 31.03.2013 | To Machinery A/c | 89,218 | 01.04.2012 | By Balance b/d | 1,78,436 |
| 31.03.2013 | To Balance c/d (Installment Overdue) | 1,15,972 | 31.03.2013 | By Interest A/c | 26,754 |
| | | 2,05,190 | | | 2,05,190 |

— Space to write important points for revision —

2014 - June [1] {C} Answer the following question (give workings):

- (x) ₹ 30,000 is the annual instalment to be paid for three years (given present value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232).

Ascertain the cash price in cash of Hire Purchase. **(2 marks)**

Answer:

$$\begin{aligned}
 \text{Cost price} &= 30,000 \times \text{PVAF} (5\%, 3 \text{ years}) \\
 &= 30,000 \times 2.7232 \\
 &= 81,696
 \end{aligned}$$

— Space to write important points for revision —

2014 - Dec [1] Answer the following question (Give workings):

- (b) Madhu purchased a machinery on hire purchase basis on 1st April, 2014. ₹ 75,000 was paid immediately and the remaining amount was to be paid in three annual instalments of ₹ 1,00,000 each. Interest rate is 15% per annum. Calculate the cash price. **(2 marks)**

Answer:

Calculation of cash price of Machine

Balance of cash price at the time of III installment

$$= 1,00,000 - [1,00,000 \times (15/115)] = 1,00,000 - 13,043 = 86,957$$

Balance of cash price at the time of II installment

$$= (1,00,000 + 86,957) - [1,86,957 \times (15/115)]$$

$$= 1,86,957 - 24,386 = 1,62,571$$

Balance of cash price at the time of I installment

$$= (1,00,000 + 1,62,571) - [2,62,571 \times (15/115)]$$

$$= 2,62,571 - 34,248 = 2,28,323$$

Hence, Total cash price = 2,28,323 + down payment 75,000 = ₹ 3,03,323

— Space to write important points for revision —

2015 - June [1] Answer the question:

- (c) GOPI purchased a plant on hire purchase system from GOPAL on 01.04.2015. The hire purchase rate was settled at ₹ 72,000, payable at ₹ 22,000 on 01.04.2015 and ₹ 25,000 at the end of two successive years. Interest was charged @ 5% P.A. [Given PVI FA (at 5%, 2 years) = 1.8594]

Ascertain the cash price of the plant.

(2 marks)

Answer:

Amount of Interest

Present value

$$₹ 1 \quad ₹ 1.8594$$

$$₹ 25,000 \quad ₹ 25,000 \times 1.8594/1 = ₹ 46,485$$

$$\text{Cash Price} = ₹ 46,485 + ₹ 22,000 \text{ (down)} = ₹ 68,485.$$

— Space to write important points for revision —

2015 - Dec [3] (b) The hire purchase department of RAVERA ELECTRO sells LCD TV Sets and Refrigerators.

This department was newly started on 1st April, 2014. The relevant information is as follows:

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| Particulars | (Amount in ₹) | |
|-----------------------|---------------|--------------|
| | LCD TV | Refrigerator |
| Cost | 48,600 | 20,000 |
| Cash Price | 56,700 | 24,000 |
| Cash down Payment | 8,100 | 4,000 |
| Monthly Instalments | 5,400 | 2,000 |
| Number of Instalments | 10 | 12 |

During the year ended March 31, 2015, 100 LCD TV Sets and 120 Refrigerators were sold on hire purchase (HP) basis. Two LCD TV Sets on which 3 instalments only could be collected and 4 Refrigerators on which 5 instalments had been collected were repossessed. These were valued at ₹ 95,000 and after reconditioning at a cost of ₹ 10,000 were sold outright for ₹ 1,30,000. Other instalments collected and those due (customer still paying) were respectively as follows:

| | |
|---------------|-------------|
| LCD TV Sets | 270 and 20 |
| Refrigerators | 400 and 30. |

Required:

Prepare necessary Ledger Accounts on 'Stocks and Debtors System' to record the above transactions and to reveal the profit of RAVERA ELECTRO. (2+1+2+1+2+4=12 marks)

Answer:

RAVERA ELECTRO
Hire Purchase Stock Account

| Dr. | | Cr. | |
|-----------------------|------------------|---|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Goods sold on H.P. | 95,70,000 | By H.P. Debtors A/c | 37,88,400 |
| | | By Goods repossessed A/c (Installments not due on repossessed goods) | 1,31,600 |
| | | By Balance c/d (Installment not yet due) | 56,50,000 |
| | 95,70,000 | | 95,70,000 |

Hire Purchase Debtors Account

| Dr. | | Cr. | |
|----------------------------|------------------|----------------|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Hire Purchase Stock A/c | 37,88,400 | By Bank A/c | 36,20,400 |
| | | By Balance c/d | 1,68,000 |
| | 37,88,400 | | 37,88,400 |

Goods Repossessed Account

| Dr. | | Cr. | |
|--|-----------------|---------------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Hire Purchase Stock A/c | 1,31,600 | By Hire Purchase Adjustment A/c | 36,600 |
| | | By Balance c/d | 95,000 |
| | 1,31,600 | | 1,31,600 |
| To Balance b/d | 95,000 | By Bank (Sales) | 1,30,000 |
| To Bank (Expenses) | 10,000 | | |
| To Hire Purchase Adjustment A/c (Profit) | 25,000 | | |
| | 1,30,000 | | 1,30,000 |

Goods Sold on Hire Purchase Account

| Dr. | | Cr. | |
|-------------------------------------|------------------|----------------------------|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Hire Purchase Adj. A/c (Loading) | 23,10,000 | By Hire Purchase Stock A/c | 95,70,000 |
| To Purchases A/c | 72,60,000 | | |
| | 95,70,000 | | 95,70,000 |

Hire Purchase Adjustment Account

| Dr. | | Cr. | |
|---------------------------------|------------------|--|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Goods Repossessed A/c (Loss) | 36,600 | By Goods sold on Hire Purchase A/c (Loading) | 23,10,000 |
| To Stock Reserve A/c | 13,59,714 | By Goods Repossessed A/c (Profit on sale) | 25,000 |
| To Profit | 9,38,686 | | |
| | 23,35,000 | | 23,35,000 |

Working Note:

- (i) Hire Purchase price is ₹ 62,100 for each LCD TV set and ₹ 28,000 for each refrigerator:

Total cost and sales on this basis are as follows:

| | H.P. Price (₹) | Cost (₹) |
|---------------------|------------------|------------------|
| LCD TV Sets (100) | 62,10,000 | 48,60,000 |
| Refrigerators (120) | 33,60,000 | 24,00,000 |
| | 95,70,000 | 72,60,000 |

- (ii) **Total Collection:**

| Particulars | LCD TV Sets (₹) | Refrigerators (₹) |
|---------------------------------------|----------------------------|---------------------------|
| Cash collected on down payment | (8100 × 100) 8,10,000 | (4,000 × 120) 4,80,000 |
| Installments collected | (5,400 × 270) 14,58,000 | (2,000 × 400) 8,00,000 |
| Amount collected on repossessed goods | (3 × 2 × 5,400) 32,400 | (2,000 × 5 × 4) 40,000 |
| Total collection | 23,00,400 | 13,20,000 |
| Installments dues not collected | (20 × 5,400) 1,08,000 | (30 × 2,000) 60,000 |
| H.P. Debtors A/c | 24,08,400 | 13,80,000 |
| Total (24,08,400 + 13,80,000) | | 37,88,400 |

(iii) **Installments not yet due:**

| | |
|---|------------|
| LCD TV sets: Total installments on 98 set (98 × 10) | 980 |
| Installments collected and due (270 + 20) | (290) |
| | 690 |

(A) Amount of 690 installments @ ₹ 5,400 each ₹ 37,26,000

Refrigerators:

| | |
|--|------------|
| Total installments on 116 refrigerators [116 × 12] | 1,392 |
| Less: Installments collected and due (400 + 30) | 430 |
| | 962 |

(B)

| Particulars | ₹ |
|---|------------------|
| Amount of 962 installments @ ₹ 2,000 each | 19,24,000 |

Total amount (A+B) ₹ 56,50,000(iv) **Stock Reserve:**

| |
|---|
| Stock Reserve = $\frac{\text{H.P. Price} - \text{Cost Price}}{\text{H.P. Price}} \times \text{Amount of Instalments not yet due}$ |
| LCD TV sets = $\frac{13,500}{62,100} \times 37,26,000 = ₹ 8,10,000$ |
| Refrigerators = $\frac{8,000}{28,000} \times ₹ 19,24,000 = ₹ 5,49,714$ |
| Total = 13,59,714 |

(v) **Installment not due on repossessed goods:**

| Particulars | ₹ |
|--|-----------------|
| 2 LCD TV sets 7 installments on each @ ₹ 5,400 | 75,600 |
| 4 Refrigerators 7 installments on each @ ₹ 2,000 | 56,000 |
| | 1,31,600 |

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(vi) Installments due but not collected:

| Particulars | ₹ |
|------------------------------|-----------------|
| LCD TV sets (20 × ₹ 5,400) | 1,08,000 |
| Refrigerators (30 × ₹ 2,000) | 60,000 |
| | 1,68,000 |

— Space to write important points for revision —

2016 - June [1] {C} (d) Answer the following question.

- (iv) MS SOHALI purchased a LCD TV on hire purchase system from MENZ ENTERPRISE on 01.03.2016. The hire purchase rate was settled at ₹ 1,20,000, payable at ₹ 45,000 on 01.03.2016 and ₹ 25,000 at the end of three successive years. Interest was charged @ 6% P.A. [Given PVIFA(at 6%, 3 years) = 2.6730.]

Compute the Cash Price of LCD-TV.

(2 marks)**Answer :**

$$\begin{aligned} \text{Cash Price} &= ₹ 45,000 \text{ (down payment)} + (₹ 25,000 \times 2.6730) \\ &= ₹ 45,000 + ₹ 66,825 = ₹ 1,11,825 \end{aligned}$$

— Space to write important points for revision —

2016 - Dec [6] (b) POORVI STORES LTD., sells goods on hire purchase at Cost plus 25%.

The following information is provided for the year ended March 31,2016.

| | | |
|----------|---|-----------|
| 2015 | | ₹ |
| April 1 | Stock with hire purchase customers at hire purchase price | 5,00,000 |
| April 1 | Stock at shop | 1,12,500 |
| April 1 | Instalments overdue | 30,000 |
| 2016 | | |
| March 31 | Cash received from HP customers during the year | 14,75,000 |
| March 31 | Purchases for the year | 12,50,000 |
| March 31 | Instalments overdue | 55,000 |

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| | | |
|----------|---|----------|
| March 31 | Stock at shop | 62,500 |
| March 31 | Stock with hire purchase customers at hire purchase price | 6,25,000 |

You are required to prepare Hire Purchase Trading Account for the year ended March 31, 2016. **(5+1=6 marks)**

Answer:

POORVI STORES LTD.

Hire Purchase Trading Account for the year end March 31, 2016

| Dr. | | | Cr. | | |
|----------------|---|------------------|--------|---|------------------|
| 2016 | Particulars | ₹ | 2016 | Particulars | ₹ |
| April 1 | To Balance b/d (Stock with HP customers of cost price) (5,00,000) × (100/125) | 4,00,000 | Mar 31 | By Cash Received from H.P. Customers | 14,75,000 |
| April 1 | To Installment overdue (HP Debtors A/c) | 30,000 | Mar 31 | By Installment overdue (H.P. Debtors A/c) | 55,000 |
| 2016 Mar 31 | To Cost of Goods sold on hire purchase [see note (i)] | 13,00,000 | Mar 31 | By Balance c/d [(Stock with H.P. customers at cost price (6,25,000 × 100/125))] | 5,00,000 |
| Mar 31 | To Profit & Loss A/c (profit) | 3,00,000 | | | |
| | | 20,30,000 | | | 20,30,000 |

Working Notes:

(1) Calculation the cost price of goods sold on hire:

Stock at Shop Account

| Dr. | | Cr. | |
|----------------|------------------|--|------------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 1,12,500 | By Cost of Goods sold on hire purchase | 13,00,000 |
| To Purchases | 12,50,000 | (Balancing figure) | |
| | | By Balance c/d | 62,500 |
| | 13,62,500 | | 13,62,500 |

HP Debtors Account

| Dr. | | Cr. | |
|------------------------|------------------|----------------|------------------|
| Particulars | ₹ | Particulars | ₹ |
| Ti Balance b/d | 30,000 | By Cash A/c | 14,75,000 |
| To HP Stock A/c (B.F.) | 15,00,000 | By Balance c/d | 55,000 |
| | 15,30,000 | | 15,30,000 |

— Space to write important points for revision —

2017 - June [5] (a) Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year. **(8 marks)**

Answer:

| | | |
|--|--------------------------------|-----------------|
| Cash Price | = 15,00,000 | |
| Hire Purchase Price | = (15,00,000 × 20%) + 4,20,000 | |
| | + 3,90,000 + 3,60,000 | |
| | + 3,30,000 = 18,00,000 | |
| Total Interest | = 18,00,000 – 15,00,000 | |
| | = 3,00,000 | |
| Hire Purchase Price | | 18,00,000 |
| Less: Down Payment | | <u>3,00,000</u> |
| (a) Hire Purchase Price O/s at start of year one | | 15,00,000 |
| Less: 1 st Instalment | | <u>4,20,000</u> |
| (b) Hire Purchase Price O/s at start of year two | | 10,80,000 |
| Less: 2 nd Instalment | | <u>3,90,000</u> |
| (c) Hire Purchase Price O/s at start of year three | | 6,90,000 |
| Less: 3 rd Instalment | | <u>3,60,000</u> |
| (d) Hire Purchase Price O/s at start of year four | | 3,30,000 |
| Less: 4 th Instalment | | <u>3,30,000</u> |
| | | <u>Nil</u> |

Ratio of (a) : (b) : (c) : (d) = 1500 : 1080 : 690 : 330
 = 50 : 36 : 23 : 11

Interest included in instalment of :

1. 1st year = $3,00,000 \times \frac{50}{120} = 1,25,000$
2. 2nd year = $3,00,000 \times \frac{36}{120} = 90,000$
3. 3rd year = $3,00,000 \times \frac{23}{120} = 57,500$
4. 4th year = $3,00,000 \times \frac{11}{120} = 27,500$

— Space to write important points for revision —

2017 - Dec [6] (a) On 1st April, 2012, X Ltd. sells a Truck on hire purchase basis to X Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual installments of ₹ 4,40,000 each payable on 31st March, 2013, 2014 and 2015. The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for X Transporters & Co.

Calculations may be made to the nearest rupee.

(8 marks)

Answer:

$$\text{Ratio of interest and amount due} = \frac{\text{Rate of Interest}}{100 + \text{Rate of Interest}} = \frac{10}{100} = \frac{1}{11}$$

There is no interest element in the down payment as it is paid on the date of the transaction. Installments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last installment to first installment as follows:

Calculation of Interest and Cash Price:

| No. of installments | Amount due at the time of installment ₹ | Interest | Cumulative cash price ₹ |
|---------------------|--|-------------------------------------|----------------------------|
| [1] | [2] | [3] | [2 - 3] = [4] |
| 3 rd | 4,40,000 | 1/11 of ₹ 4,40,000 = ₹ 40,000 | 4,00,000 |
| 2 nd | 8,40,000 | 1/11 of ₹ 8,40,000 = ₹ 76,364 | 7,63,636 |
| 1 st | 12,03,636 | 1/11 of ₹ 12,03,636 = ₹ 1,09,421 | 10,94,215 |

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) = ₹ 15,74,215.

— Space to write important points for revision —

2018 - June [5] (a) (i) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), Prepare Hire-Purchase Trading Account for the year ending, March 31, 2017:

| | ₹ |
|---|----------|
| April 01, 2016 goods with customers (Instalments not yet due) | 80,000 |
| Goods sold on Hire-purchase during the year | 4,00,000 |
| Cash received during the year from customers | 3,00,000 |
| Instalments due but not yet received at the end of the year, customers paying | 10,000 |

(5 marks)

Answer:

Hire-purchase Trading Account
(On the basis of Hire-Purchase Price)
for the year ending 31st March, 2017

| Dr. | ₹ | Cr. | ₹ |
|---|----------|--|----------|
| Particulars | | Particulars | |
| To Balance b/d H.P. Stock as on 01.04.2016 | 80,000 | By Bank A/c | 3,00,000 |
| | | By Goods sold on hire purchase A/c (Loading)(1/5 th of 4,00,000) | 80,000 |
| To Goods sold on hire purchase A/c | 4,00,000 | By Stock Reserve (Opening) (1/5 th of 80,000) | 16,000 |
| To Stock reserve (Closing) (1/5 th of 1,70,000) | 34,000 | By Balance c/d: H.P. Debtors (Installment due) | 10,000 |
| To Profit & Loss A/c | 62,000 | H.P. Stock as on 31.03.2017 (Working Note) | 1,70,000 |
| | 5,76,000 | | 5,76,000 |

Working Note:

H.P. Stock on 31.03.2017

| Particulars | ₹ | ₹ |
|---|----------|------------|
| Stock with customers (Installment not due) on 01.04.2016 | | 80,000 |
| Goods sold on hire purchase during the year | | 4,00,000 |
| | | 4,80,000 |
| Less: Cash received during the year | 3,00,000 | |
| Installments due but not received | 10,000 | (3,10,000) |
| H.P. Stock on 31.03.2017 | | 1,70,000 |

— Space to write important points for revision —

2019 - June [6] (b) The following particulars relate to hire purchase transactions:

- (i) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.
- (ii) The hire purchaser charged depreciation @ 20% on diminishing balance method.

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- (iii) Two cars were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.
- (iv) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

- (I) Agreed value of two cars taken back by the hire vendor.
 (II) Book value of car left with the hire purchaser.
 (III) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
 (IV) Profit or loss of cars repossessed, when sold by the hire vendor.

(8 marks)

Answer:

| | Particulars | ₹ |
|-------|---|----------|
| (i) | Price of two cars = ₹ 2,00,000 × 2 | 4,00,000 |
| | Less: Depreciation for the first year @ 30% | 1,20,000 |
| | | 2,80,000 |
| | Less: Depreciation for the second year = ₹ 2,80,000 × (30/100) | 84,000 |
| | Agreed value of two cars taken back by the hire vendor | 1,96,000 |
| (ii) | Cash purchase price of one car | 2,00,000 |
| | Less: Depreciation on ₹ 2,00,000 @ 20% for the first year | 40,000 |
| | Written down value at the end of first year | 1,60,000 |
| | Less: Depreciation on ₹ 1,60,000 @ 20% for the second year | 32,000 |
| | Book value of car left with the hire purchaser | 1,28,000 |
| (iii) | Book value of one car as calculated in working note (ii) above | 1,28,000 |
| | Book value of Two cars = ₹ 1,28,000 × 2 | 2,56,000 |
| | Value at which the two cars were taken back, calculated in working note (i) above | 1,96,000 |
| | Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 = | ₹ 60,000 |

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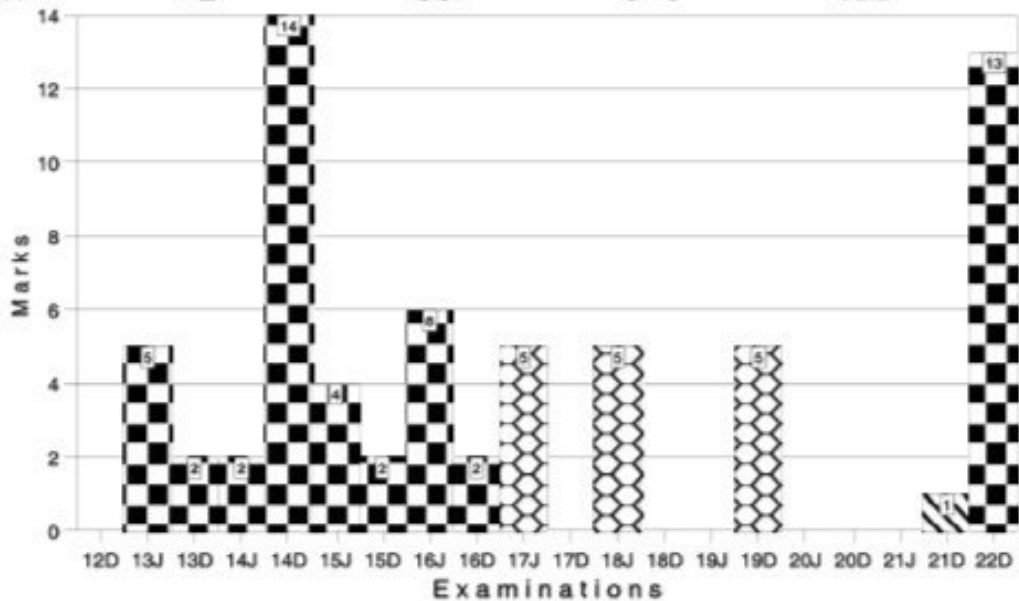
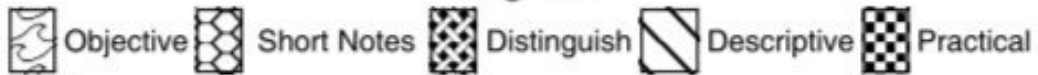
ACCOUNTING STANDARDS

THIS CHAPTER INCLUDES

- | | |
|---|--|
| <ul style="list-style-type: none"> • GAAP • Accounting Standards • Convergence to Indian Accounting Standards (Ind AS) | AS - 1, AS - 10, AS - 11, AS - 12, AS - 16, AS - 22. |
|---|--|

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



For detailed analysis Login at www.scanneradda.com for registration and password see first page of this book.

CHAPTER AT A GLANCE

Generally Accepted Accounting Principles (GAAP) is a collection of commonly followed accounting rules and standards meant for accounting of transactions and ultimately their reporting.

Accounting Standards (AS)

Accounting Standards are written policy documents which discuss the aspects of recognition, measurement and treatment of specific accounting transactions, along with the presentation and disclosure thereof in the financial statements of an entity.

Fundamental Accounting Assumptions

- (a) Going Concern
- (b) Consistency
- (c) Accrual

Factors governing the selection and application of accounting policies are:

Prudence
Substance over form
Materiality
AS1

Changes in Accounting Policies

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in the later period should be disclosed. In the case of a change in accounting policies, having material effect in the current period, the amount by which any item in the financial statements, is affected by such change should also be disclosed to the extent as ascertainable, otherwise the fact that the effect is not (wholly or partially) ascertainable, should be disclosed.

Property Plant and Equipment (AS -10)

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - (b) are expected to be used during more than a period of twelve months.
- Recoverable amount is the higher of an asset's net selling price and its value in use.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an enterprise ; or
- (b) the number of production or similar units expected to be obtained from the asset by an enterprise.

Cost Model

After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

The depreciation charge for each period should be recognised in the Statement of Profit and Loss unless it is included in the carrying amount of another asset.

The Effects of Changes in Foreign Exchange Rate (AS 11)**Foreign Currency Transactions****Meaning:**

A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise either:

- (a) buys or sells goods or services whose price is denominated in a foreign currency;
- (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency;
- (c) becomes a party to an unperformed forward exchange contract; or
- (d) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

Integral foreign operations

A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations.

Non-integral foreign operations

A non-integral foreign operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

Accounting for Government Grants (AS 12)

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.

Methods of accounting for Government Grants**Capital approach**

Under this approach, a grant is treated as part of shareholders' funds. This approach is followed because many government grants are in the nature of promoters' contribution

Income approach

Under this approach, a grant is considered to be an item of income over one or more periods. This approach is followed when the government grants are not gratuitous in nature. The enterprise earns them through compliance with their conditions and meeting the envisaged obligations.

Non-monetary Government Grants

Government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are to be recorded at a nominal value.

Presentation of Grants Related to Specific Fixed Assets**First method**

The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation. Where the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.

Second method

Grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

Refund of Government Grants

Government grants sometimes become refundable because certain conditions do not get fulfilled. A government grant that becomes refundable is treated as an extraordinary item (and treated accordingly as per AS 5).

Borrowing Costs (AS 16)

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

Qualifying Asset

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Inclusions in Borrowing Costs

Borrowing costs may include:

- (a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- (b) amortisation of discounts or premiums relating to borrowings;
- (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- (d) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
- (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Capitalisation of Borrowing Costs**1. Specific Borrowing:**

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

2. General borrowing:

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset.

Accounting for Taxes on Income (AS 22)

Accounting income (loss) is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income tax expense or adding income tax saving.

Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.

Tax expense (tax saving) is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.

Current tax is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.

Deferred tax is the tax effect of timing differences.

Timing differences are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

Permanent differences are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently.

Timing differences arise because the period in which some items of revenue and expenses are included in taxable income do not coincide with the period in which such items of revenue and expenses are included or considered in arriving at accounting income.

Recognition

Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period. Taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same period as the revenue and expenses to which they relate. Such matching may result into timing differences.

SHORT NOTES

2017 - June [5] Write short note:

(a) Recognition of Govt. grants related to specific fixed assets (PPE).

(4 marks) [CMA Inter Gr. II]

Answer:

Recognition of Govt. grants related to specific fixed assets (PPE):

Grants received specifically for fixed asset(PPE) is disclosed in the financial statement either

- (i) by way of deduction from the gross block of the asset concerned, thus grant is recognized in Profit and Loss Account through reduced depreciation (in case of funding of specific asset Cost entirely, the asset should be stated at a nominal value in Balance Sheet); or
- (ii) the grant treated as deferred revenue income and charged off on a systematic and rational basis over the useful life of the asset, until appropriated disclosed as —Deferred Govt. grant under Reserves and Surplus in the Balance Sheet (grants relating to depreciable assets should be credited to Capital Reserve and suitably credited to Profit and Loss Account to offset the cost charged to income).

— Space to write important points for revision —

2017 - June [8] Write short note on the following:

(c) Advantages of Accounting Standard

(5 marks)

Answer:

Following are the Advantages of setting up Accounting Standards:

1. Standards reduce to a reasonable extent or eliminate altogether confusing variation in the Accounting Treatment used to prepare the Financial Statements.
2. There are certain areas where important information is not required by law to be disclosed. Standard may call for Disclosure that is beyond that is required by law.
3. It facilitates comparison of Financial Statement of different Companies at different places.

— Space to write important points for revision —

2018 - June [8] Write short note on the following:

(d) Bearer Plant.

(5 marks)

Answer:

Bearer plant is a plant that:

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than a period of twelve months; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:

- (i) plants cultivated to be harvested as agricultural produce;
- (ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales;
- (iii) annual crops.

— Space to write important points for revision —

2019 - Dec [8] Write short notes on the following:

(b) Objective and necessity for providing Depreciation

(5 marks)

Answer:**Objective and Necessity for Providing Depreciation:**

Eric Kohler defined depreciation as "the lost usefulness, expired utility, the diminution in service yield." Its measurement and charging are necessary for cost recovery. It is treated as a part of the expired cost for an asset. For determination of revenue, that part or cost should be matched against revenue. The objects or necessities of charging depreciation are as given below:

- (i) **Correct calculation of cost of production:** Depreciation is an allocated cost of a fixed asset. It is to be calculated and charged correctly against the revenue of an accounting period. It must be correctly included within the cost of production.
- (ii) **Correct calculation of profits:** Costs incurred for earning revenues must be charged properly for correct calculation of profits. The consumed cost of assets (depreciation) has to be provided for correct matching of revenues with expenses.
- (iii) **Correct disclosure of fixed assets at reasonable value:** Unless depreciation is charged, the depreciable asset cannot be correctly valued and presented in the Balance Sheet. Depreciation is charged so that the Balance Sheet exhibits a true and fair view of the affairs of the business.
- (iv) **Provision of replacement cost:** Depreciation is a non-cash expense. But net profit, is calculated after charging it. Through annual depreciation cash resources are saved and accumulated to provide replacement cost at the end of the useful life of an asset.
- (v) **Maintenance of capital:** A significant portion of capital has to be invested for purchasing fixed assets. The values of such assets are gradually reduced due to their regular use and passage of time. Depreciation on the assets is treated as an expired cost and it is matched against revenue. It is charged against profits. If it is not charged the profits will remain inflated. This will cause capital erosion.

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- (vi) **Compliance with technical and legal requirements:** Depreciation has to be charged to comply with the relevant provisions of the Companies Act and Income Tax Act.

— Space to write important points for revision —

2021 - Dec [5] Write short notes on Borrowing Cost as per AS-16.

(3 marks) [Sec. C - Six LAQ] [CMA Inter Gr. II]

Answer:

Borrowing Cost as per AS-16:

Borrowing costs are interests and other costs incurred by an enterprise in connection with the borrowing of funds. The standard is applied in accounting for borrowing costs which include:

1. Interest and commitment charges on bank borrowing and other short term borrowings;
2. Amortization of discounts/premium relating to borrowings;
3. Amortization of ancillary cost incurred in connection with arrangement of borrowings;
4. Finance charges for assets acquired under finance lease or other similar arrangement
5. Exchange difference in foreign currency borrowing to the extent it relates to interest element

— Space to write important points for revision —

DESCRIPTIVE QUESTIONS

2013 - Dec [1] {C} Answer the following:

- (a) State the disclosure requirements under AS-12.

(2 marks) [CMA Inter Gr. II]

Answer:

Disclosure under AS-12:

- (a) The accounting policy adopted for Government Grants including, method of presentation in the financial statement.

- (b) The nature and extent of Govt. grants recognized in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

_____ Space to write important points for revision _____

2013 - Dec [2] (a) (i) What are the disclosure requirements for an enterprise as per AS-11? **(4 marks) [CMA Inter Gr. II]**

Answer:

Disclosure under AS -11:

An enterprise should disclose:

- (i) The amount of exchange difference included in the net profit or loss for the period.
- (ii) The amount of exchange difference adjusted in the carrying amount of fixed assets (PPE) during the accounting period.
- (iii) The amount of exchange difference in respect of forward contracts to be recognized in the profit/loss for one or more subsequent accounting period.
- (iv) Foreign currency risk management policy.

_____ Space to write important points for revision _____

2015 - Dec [2] Answer the question:

- (a) (i) What are disclosure requirements under AS-11?

(4 marks) [CMA Inter Gr. II]

Answer:

Disclosure under AS -11: An enterprise should disclose:

- (a) The amount of exchange difference included in the net profit or loss for the period.
- (b) The amount of exchange difference adjusted in the carrying amount of fixed assets (PPE) during the accounting period.
- (c) The amount of exchange difference in respect of forward contracts to be recognized in the profit/ loss for one or more subsequent accounting period.
- (d) Foreign currency risk management policy.

_____ Space to write important points for revision _____

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2021 - Dec [13] What is a biological asset as per (AS-10)?

(1 mark) [Sec. B - SAQ]

Answer:

Biological assets is a living animal or plant.

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - June [4] (c) On 31st December, 2011 two machines which were purchased on 1.10.2008 costing ₹ 50,000 and ₹ 20,000 respectively had to be discarded and replaced by two new machines costing ₹ 50,000 and ₹ 25,000 respectively.

One of the discarded Machine was sold for ₹ 20,000 and other for ₹ 10,000. The balance of Machinery Account on April 1, 2011 was ₹ 3,00,000 against which the depreciation provision stood at ₹ 1,50,000. Depreciation was provided @ 10% on Reducing Balance Method.

Prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account. **(5 marks)**

Answer:**Machinery Account**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|----------|----------------|---------------|------------|----------------|---------------|
| 1-4-2011 | To Balance b/d | 3,00,000 | 31-12-2011 | By Machine | 50,000 |
| | To Bank A/c | 75,000 | 31-03-2012 | Disposal A/c | |
| | | | | By Balance c/d | 3,25,000 |
| | | 3,75,000 | | | 3,75,000 |

Provision for Depreciation Account

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|-----------|---|---------------|-----------|----------------|---------------|
| 1-4-2011 | To Machine Disposal A/c (16,135 + 4,040) | 20,175 | 1-4-2011 | By Balance b/d | 1,50,000 |
| 31-3-2012 | To Balance c/d | 1,41,314 | 31-3-2013 | By P/L A/c | 11,489 |
| | | 1,61,489 | | | 1,61,489 |

Machine Disposal Account

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|----------|----------------|---------------|------------|---|---------------|
| 1-4-2011 | To Machine A/c | 70,000 | 31-12-2011 | By Provision for Depreciation A/c | 16,135 |
| | | | | By Provision for Depreciation (on two Machine for 9 months) | 4,040 |
| | | | | By Bank A/c | 30,000 |
| | | | | By P/L A/c (balancing figure) | 19,825 |
| | | 70,000 | | | 70,000 |

Working Note:**1. Calculation of Depreciation of Two Discarded Machine till 1.4.2012**

| | Machine 1 | Machine 2 | Total |
|---|-----------|-----------|--------|
| Value of Machine as on 1-10-2008 | 50,000 | 20,000 | 70,000 |
| Less: Depreciation for 08-09 @ 10% (from 01.10.2008 to 31.03.2009) | 2,500 | 1,000 | 3,500 |
| | 47,500 | 19,000 | 66,500 |
| Less: Depreciation for 09-10 @ 10% | 4,750 | 1,900 | 6,650 |
| | 42,750 | 17,100 | 59,850 |
| Less: Depreciation for 10-11 @ 10% | 4,275 | 1,710 | 5,985 |
| | 38,475 | 15,390 | 53,865 |

Hence, Provision for Depreciation on Machine Disposal = 3,500 + 6,650 + 5,985 = 16,135

Working Note: 2 Depreciation on Discarded Machine:

| | |
|---|--------|
| Book value of Machine as on 01.04.2011 | 53,865 |
| Less: Depreciation @ 10 % for 9 months (till 31.12.2011) (53,865 x 10% x 9/12) | 4,040 |
| Value of Discarded Machine as on selling date | 49,825 |

Working Note: 3 Depreciation of Machine in Use:

| | |
|--|----------|
| Value of Machine on 01.04.2011 | 3,00,000 |
| Less: Cost of Discarded Machine | 70,000 |
| | 2,30,000 |
| Less: Provision for Depreciation on 1.4.2011 | 1,50,000 |
| Less: Depreciation on Discarded Machine 1.4.11 | 16,135 |
| | 1,33,865 |
| | 96,135 |
| Depreciation @ 10 % on ₹ 96,135 | 9,614 |
| Add: Depreciation for 3 months on 75,000 @ 10% | 1,875 |
| Total Depreciation | 11,489 |

— Space to write important points for revision —

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

- (vii) On 01.01.2010, M/s. Johnson and Co. Ltd. purchased machinery for ₹ 1,00,000. Subsequently, ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2012.

(2 marks)

Answer:

| Year | ₹ | Rate | Depreciation | ₹ |
|------|----------|------|--------------|----------|
| 2010 | 1,50,000 | 10% | 15,000 | 1,35,000 |
| 2011 | 1,35,000 | 10% | 13,500 | 1,21,500 |
| 2012 | 1,21,500 | 10% | 12,150 | 1,09,350 |

₹ 1,09,350

— Space to write important points for revision —

2013 - Dec [1] Answer the following:

(c) From the following information for Rishab Ltd. for the year ended 31.03.2013, calculate the deferred tax asset/liability as per AS-22.

| | |
|--|-------------|
| Accounting Profit | ₹ 10,00,000 |
| Book Profit as per MAT (Minimum Alternate Tax) | ₹ 9,00,000 |
| Profit as per Income Tax Act | ₹ 1,00,000 |
| Tax Rate | 30% |
| MAT Rate | 10% |

(5 × 2 = 10 marks) [CMA Final Gr. IV]

Answer:

| | | |
|----------------------------------|-------------------------|--------------|
| (c) Tax as per accounting profit | $10,00,000 \times 30\%$ | = ₹ 3,00,000 |
| Tax as per income tax profit | $1,00,000 \times 30\%$ | = ₹ 30,000 |
| Tax as per MAT | $9,00,000 \times 10\%$ | = ₹ 90,000 |

Tax Expense = Current Tax + Deferred Tax

Therefore Deferred Tax Liability as on 31. 3.2013 = ₹ 3,00,000 – ₹ 30,000
= ₹ 2,70,000

Amount of Tax to be debited in Profit and Loss A/c for the year 31.3.2013:

= Current Tax + Deferred Amount of Tax liability + Excess of MAT over current tax
= 30,000 + 2,70,000 + (90,000 – 30,000) = ₹ 3,60,000

Alternative answer for second part of the answer

Amount of tax to be debited in Profit and Loss A/c for the year 31.3.2013
= Current Tax (MAT) + Deferred Tax = 90,000 + 2,70,000 = 3,60,000
Both the options can be considered favourably.

— Space to write important points for revision —

2013 - Dec [2] (a) (ii) The following details are provided by an Import House:

| Particulars | Exchange rate 1 Us Dollar = |
|--|--------------------------------|
| Goods purchased on 24 th August, 2012 Us Dollar 2,00,000 | ₹ 47.10 |
| Exchange rate on 31 st March, 2013 | ₹ 54.20 |

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Exchange rate on date of actual payment on 25th May, 2013 ₹ 56.30

Calculate gain or loss for the financial years 2012-13 and 2013-14 and its accounting treatment. **(4 marks) [CMA Inter Gr. II]**

Answer:

(a) (ii) As per AS-11, all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore, goods purchased on 24th August, 2012 and corresponding creditor would be recorded at ₹ 47.10.

$$= 2,00,000 \times 47.10 = ₹ 94,20,000$$

As per AS-11, at the balance sheet date all monetary items should be reported using the closing rate. Therefore, the creditors of US \$ 2,00,000 outstanding on 31st March, 2013 will be reported as:

$$= 2,00,000 \times 54.20 = ₹ 1,08,40,000$$

Exchange loss ₹ 14,20,000 (1,08,40,000 - 94,20,000) should be debited in profit and loss account for 2012-13.

As per AS-11, exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss thereof:

$$= 2,00,000 \times 56.30 = 1,12,60,000 - 1,08,40,000 = ₹ 4,20,000$$

₹ 4,20,000 should be debited to profit or loss for the year 2013-14.

— Space to write important points for revision —

2014 - June [1] {C} Answer the following question (give workings):

(ix)

| | |
|--|----------------------|
| Cost of Machine | ₹ 1,30,000 |
| Residual value | Nil |
| Useful life | 10 years |
| Method of Depreciation in use | Straight Line Method |
| After 8 years, the machine was revalued to | ₹ 80,000 |

Compute Depreciation as per AS-10.

(2 marks)

Answer:**Computation of Depreciation as per AS- 10**

| | Particulars | Amount (₹) |
|---|---|------------|
| A | Original Cost | 1,30,000 |
| B | Less: Aggregate Depreciation up to 8 years (₹ 1,30,000 - Nil) x 8/10 | 1,04,000 |
| C | Existing unamortized Depreciation Amount (A - B) | 26,000 |
| D | Add: Profit on Revaluation (80,000 - 26,000) | 54,000 |
| E | Revised unamortized depreciable amount (C + D) | 80,000 |
| F | Depreciation for 9 th year (₹ 80,000/ 2) | 40,000 |

— Space to write important points for revision —

2014 - June [2] (a) (i) Jayakrishna Mills Ltd., runs a modern wheat flour mill. The CFO has prepared the draft accounts, duly considering the mandatory accounting standards. Following note appears: "The company purchased on 15.6.2013, a special purpose machinery for ₹ 75 lakhs. It received a State Government grant for 10% of the price. The machine has an effective life of 10 years".

What is the proper method of accounting treatment for the above?

(4 marks) [CMA Inter Gr. II]

- (ii) Springlily Ltd. borrowed US \$ 6,00,000 on 31.12.2013 which will be repaid (settled) as on 30.6.2014. The company prepares its financial statements ending on 31.3.2014.

Rate of exchange between reporting currency (Rupee) and foreign currency (US \$) on different dates are as under:

| | |
|------------|-------------------|
| 31.12.2013 | 1 US \$ = ₹ 64.00 |
| 31.03.2014 | 1 US \$ = ₹ 64.50 |
| 30.06.2014 | 1 US \$ = ₹ 64.75 |

State the aspects to be noted while preparing the financial statements due to the applicable AS. How should the difference in exchange rates be treated?

(4 marks) [CMA Inter Gr. II]

Answer:

- (i) AS-12 prescribes two methods in accounting treatment of Government grants for specific fixed assets(PPE).

Method I: Government grants related to depreciable fixed assets (PPE) to be treated as deferred income which is to be recognized in the Profit and Loss Account in proportion in which depreciation on those assets is charged over the useful life of the asset.

The deferred income pending its apportionment to Profit and Loss Account to be disclosed in the balance sheet separately with a suitable description, e.g. Deferred Government Grants, to be shown after "Reserves & Surplus" but before "Secured Loans".

Method II: Grants received specifically for Fixed Asset(PPE) may be disclosed in the financial statement by way of deduction from the gross block of the asset concerned, thus grant is recognised in P/L Account through reduced depreciation.

In this case machinery will be recognised at ₹ 67.5 lakhs i.e. after deduction of ₹7.5 lakhs Govt. Grants and depreciation will be calculated on that ₹ 67.5 lakhs.

Answer:

- (ii) As per AS-11, all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore, amount borrowed on 31.12.2013 and corresponding lender would be recorded at ₹ 64.00

$$= 6,00,000 \times 64.00 = 3,84,00,000$$

As per AS-11, at the balance sheet date all monetary items should be reported using the closing rate. Therefore, the lenders of US \$ 6,00,000 outstanding on 31.3.14 will be reported as:

$$= 6,00,000 \times 64.50 = 3,87,00,000.$$

Exchange loss ₹ 3,00,000 = (3,87,00,000– 3,84,00,000) should be debited in profit and loss account for 2013-14.

As per AS-11, exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss thereof:

$$6,00,000 \times 64.75 = 3,88,50,000 - 3,87,00,000 = ₹ 1,50,000 \text{ should be debited to profit or loss for the year 2014-15.}$$

— Space to write important points for revision —

2014 - Dec [1] Answer the following questions (Give workings):

- (a) A machine costing ₹ 13,75,000 is depreciated on straight line basis assuming 8 years working life and zero residual value. After third year machine's remaining useful life was reassessed at 7 years. Calculate the amount of depreciation charged for 4th year. **(2 marks)**

Answer:

(a) WDV of Machinery at the end of 3rd year

$$= 13,75,000 - 3 \left(\frac{13,75,000 - 0}{8} \right)$$

$$= 8,59,375$$

Depreciation for 4th year

$$= \left(\frac{8,59,375 - 0}{7} \right)$$

$$= 1,22,768$$

— Space to write important points for revision —

2014 - Dec [1] Answer the questions:

- (b) During the year 2013-14, Purvi Limited received a grant from the Government of India amounting to ₹ 35 lakh towards purchase of a piece of land for ₹ 140 lakh.

You are required to show the accounting treatment of the above transaction in the books of Purvi Limited, as per AS-12.

(2 marks) [CMA Inter Gr. II]

Answer:

As per AS-12, accounting for Government Grants related to non-depreciable assets should be credited to capital reserve.

Thus, in the Books of Purvi Limited:

| | | (₹ In Lakhs) | |
|--------------------------------|-----|--------------|-----|
| Accounting entries: | | ₹ | ₹ |
| (i) On Purchase of Land | | | |
| Land A/c | Dr. | 140 | |
| To Bank A/c | | | 140 |
| (ii) On receipt of Govt. Grant | | | |
| Bank A/c | Dr. | 35 | |
| To Capital Reserve A/c | | | 35 |

2014 - Dec [3] Answer the question:

(a) A company writes off depreciation at 10% p.a. on the diminishing balance. On 1st January, 2011 the machinery account showed a balance of ₹ 1,49,000. It was discovered in 2011 that:

- (i) A heavy repairs effected to plant and machinery account (completed on 30th June, 2009), were debited to the machinery. The amount was ₹ 15,000; and
- (ii) A machine cost ₹ 6,000 was entered in the purchases on 1st October 2009. The expenses on installation, ₹ 400 were debited to General Expenses Account. Necessary corrections were to be made in 2011. On 30th June 2011, a machine which had cost ₹ 20,000 on 1st January, 2009 was disposed of for ₹ 15,000 and a machine costing ₹ 30,000 was installed on the same date, the expenses on installing the same being ₹ 500.

Show Machinery Account for the year ended 31st December, 2011.

Please show your working in detail.

(12 marks)

Answer:

Machinery A/c

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|--------|--|----------|---------|--|----------|
| 2011 | | | 2011 | | |
| Jan 1 | To Balance b/d | 1,49,000 | Jan 1 | By Profit & Loss A/c | 12,825 |
| Jan 1 | To Profit & Loss A/c (Machinery purchase on 1-10-2009) (1) | 5,616 | June 30 | By Bank | 15,000 |
| | | | June 30 | By Depreciation for ½ year on the machine sold (3) | 810 |
| Jan 30 | To Bank | 30,500 | June 30 | By Profit & Loss A/c (Loss on sale of Machinery) (4) | 390 |
| | | | Dec 31 | By Depreciation A/c (5) | 14,084 |
| | | | | By Balance c/d | 1,42,007 |
| | | 1,85,116 | | | 1,85,116 |

Working Note:

₹

| | |
|--|---------------|
| 1. Machinery purchased on 1-10-2009 (₹ 6,000 + ₹ 400 Installation Expenses) | 6,400 |
| Less: Depreciation for 3 months | <u>160</u> |
| | 6,240 |
| | <u>624</u> |
| Less: Depreciation for 2010 | 5,616 |
| Amount debited to Machinery A/c and Credited to P&L A/c | 15,000 |
| 2. Machine Account wrongly debited for repairs on 30-6-2009 | <u>750</u> |
| Less: Depreciation for 6 months | 14,250 |
| | <u>1,425</u> |
| Less: Depreciation for 2010 | 12,825 |
| Amount credited to Machinery A/c and debited to P&L A/c | 20,000 |
| 3. Book value of Machinery on 1-1-2009 | <u>2,000</u> |
| Less: Depreciation for 2009 | 18,000 |
| | <u>1,800</u> |
| Less: Depreciation for 2010 | 16,200 |
| Value on 1-1-2011 | <u>810</u> |
| Depreciation for 6 months | 15,390 |
| 4. Book value of machine on 30-6-2011 | <u>15,000</u> |
| Less: Sale price | 390 |
| Loss on sale of machinery | |
| 5. Depreciation: | 12,559 |
| 10% on ₹ 1,25,591 | |
| (i.e., ₹ 1,49,000 + ₹ 5,616 - ₹ 12,825 - ₹ 16,200) | <u>1,525</u> |
| 10% on ₹ 30,500 for ½ year | 14,084 |

If any student takes heavy repairs as capital, the alternative answer will be:

| Dr. | | Machinery Account | | | Cr. |
|-------|----------------|-------------------|---------|-------------|--------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 2011 | | | 2011 | | |
| Jan 1 | To Balance b/d | 1,49,000 | June 30 | By Bank A/c | 30,000 |

6.366

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

| | | | | | |
|--------|---|-----------------|---------|--|-----------------|
| Jan 1 | To Profit & Loss A/c (machinery purchased) | 5,616 | June 30 | By Depreciation for ½ year on the machine sold | 810 |
| Jan 30 | To Bank | 30,500 | June 30 | By Profit & Loss A/c (Loss on sale of machinery) | 390 |
| | | | Dec 31 | By Depreciation A/c | 15,367 |
| | | | | By Balance c/d | 1,38,549 |
| | | 1,85,116 | | | 1,85,116 |

Calculation of Depreciation:

$$₹ (1,49,000 + 5,616 - 16,200) \times 10\% = 13,842$$

$$₹ 10\% \text{ on } 30,500 \text{ for } \frac{1}{2} \text{ year} = \underline{1,525}$$

$$\underline{15,367}$$

Note: As per AS - 10 an item of property, plant and equipment should be recognised as an asset if and only if it is probable that future economic benefits associated with the item will flow to the enterprise and cost of the item can be measured reliably.

— Space to write important points for revision —

2015 - June [1] Answer the questions:

- (e) Rukmani Limited purchased a plant for US \$ 2,50,000 on 1st March, 2015, payable after three months. Company entered into a forward contract for three months @ ₹ 54.10 per dollar. Exchange rate per dollar on 1st March, 2015 was ₹ 53.74. Compute amount of profit or loss on forward contract as per AS-11. How will you recognise the same in the books of the company? **(2 marks) [CMA Inter Gr. II]**

Answer:

$$\begin{aligned} \text{Forward Premium} &= (54.10 - 53.74) \times 2,50,000 \\ &= ₹ 90,000 \end{aligned}$$

As per AS- 11 this should be expended over the tenor of contract i.e. three months (01.03.2015 to 31.05.2015).

— Space to write important points for revision —

2015 - June [2] Answer the question:

- (b) (ii) Patta Ltd. purchased a piece of Land for ₹ 25,00,000 for which it received a grant from the State Government amounting to ₹ 6,00,000.

How will you treat Government grant in the accounts as per AS-12? Also pass the necessary journal entries of the above in the books of the company.

(3 marks) [CMA Inter Gr. II]

Answer:

Grant related to non depreciable Fixed Assets (PPE). (AS-12) Grant is shown as deduction from the gross value of assets in arriving at its book value when grant is equal to the cost of asset, the asset should be shown in the balance sheet at nominal value.

Journal Entries in the books of Patta Limited

| | | | | |
|----|---|-----|-----------|-----------|
| I | At the time of Purchase of Land Land A/c To Bank A/c (Being Land purchased for ₹ 25,00,000) | Dr. | 25,00,000 | 25,00,000 |
| II | At the time of Receiving of Govt. Grant Bank A/c To Land A/c (Being Grant received from State Govt.) | Dr. | 6,00,000 | 6,00,000 |

— Space to write important points for revision —

2015 - June [2] Answer the question:

- (c) JIMIRA LTD. bought a Machine on 30.09.2014 at a price of ₹ 248 Lakh after charging 6% Sales Tax and giving a trade discount of 1.3% on the quoted price. Transport charges and installation charges were 0.30% and 0.75% respectively on the quoted price. To meet machine purchase a loan of ₹ 240 Lakh was taken from the bank on which interest at 12% P.A. was to be paid. Expenditure incurred on trial run was materials,

Answer:

(a) As per AS -12 "Accounting for Government Grants," when Government Grant is received for a specific purpose, it should be utilized for the same. So, the Grant received for setting up a manufacturing unit is not available for distribution of dividend.

In the case, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value. The treatment of both the elements in the treatment of the grant is incorrect as per AS -12.

— Space to write important points for revision —

2015 - Dec [1] (a) M/s. Eagle Ltd. gives you the following information as on 31.03.2015:

- (i) The Company has charged depreciation of ₹ 6,45,600 in its books of accounts, while as per income-tax computation, the depreciation available to the company is ₹ 7,64,100.
- (ii) The expense of ₹ 6,85,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.
- (iii) The Company has debited share issue expenses of ₹ 5,46,400, which will be available for deduction under the Income-tax Act for the next year.
- (iv) The Company has made provision for doubtful debts for ₹ 45,600 during the year.
- (v) The Company has made donation of ₹ 3,00,000, which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

You are required to compute the deferred tax assets and deferred tax liability as on 31.03.2015. The tax rate applicable is 30%.

(5 marks) [CMA Final Gr. IV]

6.370

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Answer:**Statement showing Calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)**

| Particulars | Amount of difference (₹) | Nature of difference | DTA @30% (₹) | DTL @ 30% (₹) |
|--|-----------------------------|----------------------|-----------------|---------------------|
| (i) Excess allowable depreciation as per income tax law | 1,18,500 | Timing | - | 35,550 |
| (ii) Disallowed expenses as per income tax | 6,85,500 | Permanent | - | - |
| (iii) Shares issue expenses charged in books but to be allowed as deduction in income tax from next year | 5,46,400 | Timing | 1,63,920 | - |
| (iv) Provision for doubtful debts-disallowed as per income tax law | 45,600 | Permanent | - | - |
| (v) Donation debited to P&L Account, but disallowed as per income tax | 1,50,000 | Permanent | - | - |
| Total | | | 1,63,920 | 35,550 |

— Space to write important points for revision —

2015 - Dec [1] Answer the following questions (Give workings):

(b) On April 1, 2014 ZOOM LTD. purchased a Machine for ₹ 5,50,000 and spent ₹ 30,000 on its installation, ₹ 5,000 for freight and cartage and ₹ 10,000 for Insurance Charges.

The expected life of the Machine is 5 years, at the end of which the estimated scrap value will be ₹ 46,000.

Calculate the amount of Annual Depreciation under Straight Line Method (SLM). **(2 marks)**

Answer:**(b) Cost of Machinery.**

| | |
|------------------------|-----------------|
| Purchase price | 5,50,000 |
| + Installation charges | 30,000 |
| + Freight & cartage | <u>5,000</u> |
| | <u>5,85,000</u> |

$$\begin{aligned} \text{Depreciation} &= \frac{\text{cost} - \text{scrap value}}{\text{useful life}} \\ &= \frac{5,85,000 - 46,000}{5} \\ &= 1,07,800. \end{aligned}$$

— Space to write important points for revision —

2016 - Dec [1] (C) Answer the following:

(c) From the following details of Zebra Ltd., calculate the deferred tax asset/liability as per AS-22 and the amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

| Particulars | ₹ |
|------------------------------|-----------|
| Accounting profit | 15,00,000 |
| Book profit as per MAT | 13,50,000 |
| Profit as per Income-tax Act | 2,00,000 |
| Tax rate | 30% |
| MAT rate | 7.50% |

(5 marks) [CMA Final Gr. IV]**Answer:****(c)**

| | | |
|--------------------------------------|--------------------------|--------------|
| Tax expense as per accounting profit | $15,00,000 \times 30\%$ | = ₹ 4,50,000 |
| Tax as per Income tax profit | $2,00,000 \times 30\%$ | = ₹ 60,000 |
| Tax as per MAT | $13,50,000 \times 7.5\%$ | = ₹ 1,01,250 |

6.372**Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

| | | |
|--|-------------------|--------------|
| Deferred tax liability as on 31-03-2016 (Tax expense – Current tax) | 4,50,000 – 60,000 | = ₹ 3,90,000 |
|--|-------------------|--------------|

Amount of tax to be debited in the Profit & Loss A/c under different heads for the year ended 31-03-2016.

| | |
|--------------------------------|------------|
| Current tax | ₹ 60,000 |
| Deferred tax liability | ₹ 3,90,000 |
| Excess of MAT over current tax | ₹ 41,250 |
| Total | ₹ 4,91,250 |

— Space to write important points for revision —

2016 - Dec [1] Answer the following questions:

(c) The following information relate to ZOOM Ltd.

Imported Raw materials on 25.02.2015 for US \$ 10,000;

Exchange Rate on 25.02.2015 ₹ 60 per US \$;

Exchange Rate on 31.03.2015 ₹ 60.50 per US \$;

Date of Actual payment for import: 15.06.2015;

Exchange Rate on 15.06.2015 ₹ 61 per US \$;

Calculate the (Loss)/Gain for the financial year 2015-16 (as per AS-11).

(e) ATIMA LTD. purchased a fixed asset (PPE) for ₹ 45 Lakh on 05.04.2015. The company received a grant from the Government of West Bengal during the year amounting to ₹ 18 Lakh.

Show the accounting treatment of the above if it is non-depreciable asset as per AS-12. **(2 marks each) [CMA Inter Gr. II]**

Answer:

(c) As per AS-11 outstanding liability for creditors as on 31.03.2015 will be reported $(10,000 \times 60.50) = ₹ 6,05,000$. Hence (loss) /Gain for the year 2015-16 will be $10,000 \times (61 - 60.50) = ₹ 5,000$

(e) As per AS-12 accounting for Government Grants related to non-depreciable assets should be credited to Capital Reserve.

6.374

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

| Date | Rate |
|------------|-------|
| 10.02.2017 | 65.40 |
| 31.03.2017 | 66.00 |
| 30.06.2017 | 65.80 |

Calculate the exchange loss/gain the reporting date and on the settlement date and comment on their treatment as per AS 11.

(3 marks) [CMA Inter Gr. II]

Answer:

As per AS 11, transactions such as purchase, sales etc. are to be recorded in the books of accounts at the exchange rate prevailing on the date of transaction. Any exchange gain/ loss arising subsequently is to be transferred to Income Statement.

| | |
|---|--|
| Value of the goods sold | = \$ 50000 |
| Exchange rate on the date of transaction | = ₹ 65.40/\$ |
| So sales to be recorded in the books = 50000×65.40 | = ₹ 3,270,000 |
| Exchange rate on the date of reporting (31.03.17) | = ₹ 66.00/\$ |
| Value of the receivables on 31.03.17 = 5000 × 66 | = ₹ 3,300,000 |
| Exchange gain on 31.03.2017 = (33,00,000 – 32,70,000) | = ₹ 30,000, to be credited to P/L A/c. |
| Exchange rate on the date of settlement (30.06.17) | = ₹ 65.80/\$ |
| Exchange loss on 30.06.17 = 50000×(66.00 – 65.80) | = ₹ 10,000 to be debited to P/L A/c. |

— Space to write important points for revision —

2017 - Dec [3] (a) Sanwar Ltd. made a loss of ₹ 50 Lakhs for the year ending 31st March, 2015. For the year ending 31st March, 2016 and 31st March, 2017 it made profits of ₹ 25 Lakhs and ₹ 32 Lakhs respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 30%. By the end of the 31.03.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending on

31st March, 2016 and 2017 for tax purposes. Prepare a statement showing Profit and Loss before Tax and after Tax for the years ending 31st March, 2015, 2016 and 2017.

(8 marks) [CMA Final Gr. IV]

Answer:

| Particulars | 2014-15 | 2015-16 | 2016-17 |
|--|---------------------|-------------|-------------|
| (a) Accounting Profit / Loss | (50,00,000) | 25,00,000 | 32,00,000 |
| (b) Income Tax Profit before adjustment | (50,00,000) | 25,00,000 | 32,00,000 |
| (c) Less: Set off of Brought Forward Losses | - | (25,00,000) | (25,00,000) |
| (d) Loss Carried Forward to Subsequent Years | (50,00,000) | (25,00,000) | - |
| (e) Income Tax Profit = (b) – (c) | NIL | NIL | 7,00,000 |
| (f) Difference between Accounting and Taxable Profit (e – a) | 50,00,000 | (25,00,000) | (25,00,000) |
| (g) Income Difference classified into: | | | |
| 1. Permanent Diff. | NIL | NIL | NIL |
| 2. Timing Diff. – Originating | (50,00,000) | NA | NA |
| 3. Timing Diff. – Reversing | NA | (25,00,000) | (25,00,000) |
| (h) Current Tax = (e) × 30% | - | - | 2,10,000 |
| (i) Deferred tax | (50,00,000 | - | |
| - DTA / (DTL) originating during the year | × 30%) 15,00,000 | | |
| - (DTA) / DTL reversing during the year | - | (7,50,000) | (7,50,000) |
| | | (25,00,000 | (25,00,000 |
| | | ×30%) | ×30%) |
| (j) Tax Expense = Current Tax + Deferred Tax | (15,00,000) | 7,50,000 | 9,60,000 |
| (k) Book Profit after Tax = (a – j) | (35,00,000) | 1,750,000 | 22,40,000 |

— Space to write important points for revision —

6.376

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

2018 - June [2] (b) M/s. Ayush Ltd. began construction of a new building on 1st January, 2017. It obtained ₹ 3,00,000 lakh special loan to finance the construction of the building on 1st January, 2017 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were:

| Amount | Rate of Interest |
|-------------|------------------|
| ₹ 6,00,000 | 11% p.a. |
| ₹ 11,00,000 | 13% p.a. |

The expenditure that were made on the building project were as follows:

| | Amount (₹) |
|----------------|------------|
| January, 2017 | 3,00,000 |
| April, 2017 | 3,50,000 |
| July, 2017 | 5,50,000 |
| December, 2017 | 1,50,000 |

Building was completed on 31st December, 2017. Following the principles prescribed in AS 16 on 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing in respect of the building. **(6 marks) [CMA Inter Gr. II]**

Answer:

(i) **Computation of average accumulated expenses:**

| | ₹ |
|----------------------|----------|
| ₹ 3,00,000 X 12 / 12 | 3,00,000 |
| ₹ 3,50,000 X 9 / 12 | 2,62,500 |
| ₹ 5,50,000 X 6 / 12 | 2,75,000 |
| ₹ 1,50,000 X 1 / 12 | 12,500 |
| ₹ 13,50,000 | 8,50,000 |

- (ii) Calculation of average interest rate other than for specific borrowings:

| Amount of loan (₹) | Rate of interest | Amount of interest (₹) |
|-----------------------------------|---|------------------------|
| 6,00,000 | 11 % | = 66,000 |
| 11,00,000 | 13% | =1,43,000 |
| 17,00,000 | | 2,09,000 |
| Weighted average rate of interest | $\frac{2,09,000}{17,00,000} \times 100$ | = 12.29% |
| | | |

- (iii) Interest amount to be capitalized:

| Particulars | ₹ |
|---|------------|
| Specific borrowings (₹ 3,00,000 × 12%) | = 36,000 |
| Non-specific borrowings [₹ 5,50,000 (₹ 8,50,000 - ₹ 3,00,000) × 12.29%] | = 67,595 |
| Amount of interest to be capitalized | = 1,03,595 |

- (iv) Computation of actual interest costs incurred during the year:

| Particulars | Amount (₹) |
|-------------------|-----------------|
| ₹ 3,00,000 × 12% | 36,000 |
| ₹ 6,00,000 × 11% | 66,000 |
| ₹ 11,00,000 × 13% | 1,43,000 |
| | 2,45,000 |

Amount to be capitalized is ₹ 13,50,000 + ₹ 1,03,595 i.e. ₹ 14,53,595 which is not more than ₹ 2,45,000.

6.378

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

(v)

Journal Entry

| Date | Particulars | Dr. (₹) | Cr.(₹) |
|------------|--|-----------|-----------|
| 31.12.2017 | Building Account (13,50,000 +1,03,595) Dr. To Bank Account (Being amount of cost of building and borrowing cost thereon capitalized) | 14,53,595 | 14,53,595 |

— Space to write important points for revision —

2018 - June [3] (a) From the given information, you are required to compute the Deferred Tax Assets and Deferred Tax Liability for Ramanujam Limited as on 31st March, 2018. The tax rate applicable is 35%.

- (i) The Company has charged Depreciation of ₹ 7,42,900 in its Books of Accounts while as per Income Tax computation, the Depreciation available to the Company is ₹ 8,65,400.
- (ii) The Company has made Provision for Doubtful Debts for ₹ 54,300 during the year.
- (iii) The Company has debited Share Issue Expenses of ₹ 6,23,500 which will be available for deduction under the Income Tax Act from the next year.
- (iv) The expenses of ₹ 7,84,500 has been charged to Profit and Loss Account which are disallowed under the Income Tax Act.
- (v) The Company has made Donation of ₹ 2,00,000 which has been debited to Profit and Loss Account and only 50% thereof will be allowed as deduction as per Income Tax Law.

(8 marks) [CMA Final Gr. IV]

Answer:

COMPUTATION OF DTA / DTL (₹)

| Description | Adj | Net Amt Diff. | Nature of | Treatment | DTA/DTL at 35% |
|--------------------------------|-----|---------------|-----------|-----------|----------------|
| Profit before Tax as per Books | | XXX | | | |

| | | | | | |
|---|------------|------------|-----------|---|----------|
| Add: Depreciation as per Books | 7,42,900 | | Timing | Difference Originating in the current year. So, Create DTL. | (42,875) |
| Less: Depreciation as per IT | (8,65,400) | (1,22,500) | Permanent | Ignored | NA |
| Add: Provision disallowed in IT | | (54,300) | Timing | Difference originating in the current year. So, Create DTA. | 2,18,225 |
| Add: Share Issue Exp. Disallowed u/s 35D | | 6,23,500 | Permanent | Ignored | NA |
| Add: Expense Disallowed under IT (assumed to be permanent diff) | | 7,84,500 | | | |
| Add: Donation (50% of 2 Lakhs) | | 1,00,000 | Permanent | Ignored | NA |
| Total Income | | XXX | | | |

— Space to write important points for revision —

2019 - Dec [2] (b) K Ltd. purchased goods from a US Company for US \$ 50000 on 10.02.2019 and settled the due on 30.06.2019. K Ltd. closes the books of accounts on 31st March.

Exchange rates were as follows:

| Date | Rate |
|------------|------|
| 10.02.2019 | 47.4 |
| 31.03.2019 | 46 |
| 30.06.2019 | 47.8 |

Calculate the exchange loss / gain on the reporting date and on the settlement date and comment on their treatment as per AS 11.

(4 marks) [CMA Inter Gr. II]

6.380**Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)****Answer:**

As per AS 11, transactions such as purchase, sales etc. are to be recorded in the books of accounts at the exchange rate prevailing on the date of transaction. Any exchange gain/ loss arising subsequently is to be transferred to Income Statement.

Value of the goods purchased = \$ 50,000

Exchange rate on the date of transaction = ₹ 47.40/\$

So, purchase to be recorded in the books = $50,000 \times 47.40 = ₹ 23,70,000$

Exchange rate on the date of reporting (31.03.19) = ₹ 46.00/\$

Value of the payables on 31.03.19 = $50,000 \times 46 = ₹ 23,00,000$

Exchange gain on 31.03.2019 = $₹(23,70,000 - 23,00,000) = ₹ 70,000$, to be credited to P/L A/C.

Exchange rate on the date of settlement (30.06.19) = ₹ 47.80/\$

Exchange loss on 30.06.19 = $50,000 \times (47.80 - 46.00) = ₹ 90,000$ to be debited to P/L A/c.

— Space to write important points for revision —

2021 - Dec [2] Total borrowing and interest cost for the year ending on 31.03.2020 are given below:

| Borrowing | Date of Borrowing | Amount(₹) | Interest (₹) |
|---------------|-------------------|-------------|--------------|
| 8% Term Loan | 1.4.2019 | 20,00,000 | 1,60,000 |
| 8% Bank Loan | 1.7.2019 | 60,00,000 | 3,60,000 |
| 6% Debentures | 1.10.2019 | 40,00,000 | 1,20,000 |
| | | 1,20,00,000 | 640,000 |

Qualifying assets in which these funds are utilized are:

| Particulars | Amount (₹) | Period |
|--------------|------------|-----------|
| Factory Shed | 20,00,000 | 12 months |
| Plant A | 14,00,000 | 8 months |
| Plant B | 9,00,000 | 6 months |

From the above information calculate

- (i) Capitalization rate
- (ii) Total Interest Cost to be capitalized.

(6 marks) [Sec. C - One LAQ] [CMA Inter Gr. II]

Answer:

(i) Calculation of Capitalization Rate

| Date of Borrowing | Amount Borrowed | Rate of Interest | Month for which loan is outstanding | Product | Total Interest $b \times c \times d / 12$ |
|-------------------|-----------------|------------------|-------------------------------------|--------------|---|
| a | b | c | d | e = b × d | F = b × c × d / 12 |
| 1.4.2019 | 20,00,000 | 8% | 12 | 2,40,00,000 | 1,60,000 |
| 1.7.2019 | 60,00,000 | 8% | 9 | 5,40,00,000 | 3,60,000 |
| 1.10.2019 | 40,00,000 | 6% | 6 | 2,40,00,000 | 1,20,000 |
| | | | | 10,20,00,000 | 6,40,000 |

$$\text{Average amount outstanding} = \frac{10,20,00,000}{12} = 85,00,000$$

$$\begin{aligned} \text{Capitalisation Rate} &= \frac{640,000}{85,00,000} \times 100 \\ &= 7.5\% \text{ Approx.} \end{aligned}$$

(ii) Total interest cost to be capitalised

| Particulars | Expenditure incurred | Month | Product |
|--------------|----------------------|-------|-------------|
| a | b | c | d = (bxc) |
| Factory Shed | 20,00,000 | 12 | 2,40,00,000 |
| Plant A | 14,00,000 | 8 | 1,12,00,000 |
| Plant B | 9,00,000 | 6 | 54,00,000 |
| | | | 4,06,00,000 |

$$\begin{aligned} \text{Average amount of Assets during a period} \\ &= \frac{4,06,00,000}{12} = 33,83,333 \end{aligned}$$

$$\begin{aligned} \text{Interest to be capitalized} &= \text{Average amount of Asset} \times \text{Capitalization Rate} \\ &= 33,83,333 \times 0.075 \\ &= ₹ 2,53,750 \end{aligned}$$

_____ Space to write important points for revision _____

2021 - Dec [1] M Ltd. sold goods to a US Company for US \$1,00,000 on 10.01.2021 and realized the due on 30.06.2021. Y Ltd. closes the books of accounts on 31st March every year. Exchange rates were as follows:

| Date | Rate (₹) |
|------------|----------|
| 10.01.2021 | 69.2 |
| 31.03.2021 | 76.1 |
| 30.06.2021 | 74.3 |

- (i) Calculate the exchange loss/gain on the reporting date.
- (ii) Calculate the exchange loss/gain on the settlement date.

(4 marks) [Sec. C - Three LAQ] [CMA Inter Gr. II]

Answer:

- (i) **Calculation of exchange gain on the reporting date (31.3.2021)**

Value of the goods sold = \$ 1,00,000

Exchange rate on the date of transaction = ₹ 69.20 \$

So sales to be reported in the books = 1,00,000 × 69.20

= ₹ 69,20,000

Exchange rate on the date of reporting (31.3.2021) — ₹ 76.10\$

Value of the receivable on 31.3.2021 = 1,00,000 × 76.10

= ₹ 76,10,000

Exchange gain on 31.3.2021 = 76,10,000 – 69,20,000

= ₹ 6,90,000

- (ii) **Calculation of loss on settlement date (30.6.2021)**

Exchange rate on date on the date of settlement = ₹ 74.30\$

Exchange loss on 30.6.2021 = 1,00,000 × (76.10 – 74.30)

= ₹ 1,80,000

— Space to write important points for revision —

2022 - Dec [5] (a) State your views with reasons whether the following statements are in line with the provisions of AS-1.

- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

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OBJECTIVE QUESTIONS

2012 - Dec [1] {C} (a) From the four alternative answers given against each of the following cases, indicate the correct answer:

- (ii) Realisation account is opened at the time of
 - (A) Admission of a new partner
 - (B) Retirement of a partner
 - (C) Dissolution of the Firm
 - (D) In all the above situations
- (iii) In the hire purchase system interest charged by vendor is calculated on the basis of
 - (A) Outstanding Cash Price
 - (B) Hire Purchase Price
 - (C) Instalment amount
 - (D) None of the above
- (iv) Bad debts are apportioned among departments in the proportion of
 - (A) Sales of each department
 - (B) Number of units sold by each department
 - (C) Cost of sales of each department
 - (D) None of the above
- (v) The following account has a credit balance
 - (A) Plant and Equipment A/c
 - (B) Purchase Returns A/c
 - (C) Purchase A/c
 - (D) None of the above
- (vii) The amortisation of amount of software commences from the date when it is
 - (A) Available for use
 - (B) Put to use
 - (C) Developed upto 75%
 - (D) None of the above
- (ix) When prior period expenditure is paid subsequently and for which no provision was made earlier, the accounting entry would be
 - (A) Debit expenditure
 - (B) Debit prior period expenditure
 - (C) Debit deferred revenue expenditure
 - (D) None of the above
- (x) In the case of non-profit organisation donations received by the organisation are reflected in
 - (A) Income and Expenditure Account
 - (B) Capital Account

- (C) Receipts and Payments Account
(D) None of the above **(1 × 7 = 7 marks)**
- (b)** State whether the following statement is TRUE (T) or FALSE (F):
(v) Liquid assets plus stock in trade is called current assets. **(1 mark)**
- (c)** Fill up the blanks in the following sentences using appropriate word from the alternatives indicated:
(iii) Errors in principle _____ affect tallying Balance Sheet (does/does not).
(iv) In case of instalment sale ownership passes at the time of _____ (sale/payment of last instalment). **(1 × 2 = 2 marks)**

Answer :

- (a)(ii) (C) Dissolution of the firm:** At the time of Admission/ Retirement of a partner, revaluation account is opened but at the time of dissolution of a firm, realisation a/c is opened.
- (iii) (A) Outstanding cash price:** In the hire purchase system H.P. price = Cash Price + Interest. In this system, interest will be calculated every time on outstanding principle amount i.e. cash price. Therefore option (B) is not correct. Option (C) is also not correct because instalment amount includes both Principle and Interest.
- (iv) (A) Sales of each department:** Bad debt is treated as selling and distribution expenses, therefore it will be apportioned on the basis of sales of each department. It is related to value only therefore option (B) and (C) is not correct.
- (v) (B) Purchase returns A/c:** At the time of purchase return, following journal entry is passed- creditors A/c _____ Dr.
To purchase return A/c
Therefore option (B) is Correct. Options (A) and (C) are incorrect since these accounts will be debited not credited.
- (vii) (A) Available for use:** As per AS 26 "Intangible Assets" amortisation of softwares should start when the asset is available for use and not put to use.

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- (ix) (B) **Debit prior period expenditure:** Example Rent paid in April 2013 ₹ 1,00,000 includes 60,000 for the month of March 2013. The Journal entry will be:-

| | | | |
|-------------------------------------|-----|--------|-------------------|
| Rent A/c | Dr. | 40,000 | |
| Prior period expenses A/c (Rent) | Dr. | 60,000 | |
| | | | To cash/ Bank A/c |
| | | | 1,00,000 |

Therefore option (B) is correct

- (x) (C) **Receipts and Payments A/c:** In case of receipt of donation, the following entry will be passed

| | | |
|---------------|-----|---------------------|
| Cash/Bank A/c | Dr. | |
| | | To capital fund A/c |

Therefore option (C) is correct.

- (b) (v) **True:** Current assets = Liquid assets + stock in trade
Liquid assets = Cash in hand + Bank balance + Debtors + B/R.

Answer:

- (c) (iii) Does not
(iv) Sale

— Space to write important points for revision —

2013 - June [1] {C} (a) From the four alternatives given against each of the following cases, indicate the correct answer: (just state a, b, c or d)

- (i) At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of
- | | |
|------------------|-----------------------|
| (a) Realisation | (b) Accrual |
| (c) Conservatism | (d) None of the above |
- (ii) Contingent Liability would appear
- | | |
|--------------------------------|-----------------------|
| (a) On the liability side | (b) On the asset side |
| (c) As a note in Balance Sheet | (d) None of the above |
- (iii) The effect of timing difference is called as
- | | |
|-----------------|-----------------------|
| (a) Current Tax | (b) Deferred Tax |
| (c) Minimum Tax | (d) None of the above |

(1 x 3 = 3 marks)

- (b) State whether the following statements are TRUE (T) or FALSE (F):
- (i) Sinking fund method of depreciation takes into account the cost of an asset as well as interest also thereon at given rate .
 - (ii) Purchase of a technical know-how is revenue expenditure.
 - (iii) Transactions are recorded on accrual basis in the 'Income and Expenditure Account'.
 - (iv) When the goods are returned by Branch, goods sent to Branch account will be debited in the books of Head Office.

(1 x 4 = 4 marks)

- (c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated:

- (iii) Revenue nature receipts and payments which relates to a particular accounting period are shown in the _____ account (Receipts and Payments/ Income and Expenditure).

(2 marks)

- (e) In the following cases, one out of four answers is correct. Indicate the correct answer (=1 mark) and give brief workings in support of your answer (=1 mark):

- (ii) A and B are partners sharing profit/loss in the ratio of 3 : 2. They admit C into partnership for $\frac{1}{6}$ share in the profit which he acquired equally from the old partners. The new profit sharing ratio will be
 (a) 3 : 2 : 1 (b) 1 : 1 : 1 (c) 31 : 19 : 10 (d) 14 : 6 : 4

(2 marks)

Answer:

(a)

| | | |
|-------|---|---|
| (i) | b | When business procures goods or services with the agreement that the payment will be made at a future date. An obligation to pay for goods or services is created upon the procurement thereof. |
| (ii) | c | |
| (iii) | b | Current tax is the amount of income tax determined to be payable or recoverable in respect of the taxable income (tax loss) for a period. According to Section 115JB of Income Tax Act, 1961 , the payable on the total income as computed under |

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the Income Tax Act in respect of any previous year cannot be less than 18.5% of the Book Profit. Deferred tax is the timing difference between accounting income & taxable income.

(b)

| | | |
|-------|-------|---|
| (i) | True | |
| (ii) | False | If technical knowhow is one time investment then it is assets. On the other hand, pay for technical knowhow in the nature of payment for consultancy it is purely an expense. |
| (iii) | True | |
| (iv) | True | |

(c) (iii) Income & Expenditure

(e)

$$(ii) \quad (c) \quad 31:19:10; \quad A's \text{ new share} = \frac{3}{5} - \frac{1}{6} \times \frac{1}{2} = \frac{3}{5} - \frac{1}{12} = \frac{36 - 5}{60} = \frac{31}{60}$$

$$B's \text{ new share} = \frac{2}{5} - \frac{1}{6} \times \frac{1}{2} = \frac{2}{5} - \frac{1}{12} = \frac{24 - 5}{60} = \frac{19}{60}$$

$$C's \text{ new share} = \frac{1}{6} \text{ or } \frac{10}{60}$$

Hence, new ratio = 31:19:10

— Space to write important points for revision —

2016 - June [1] {C} Answer the following questions:

- (a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.)
- (i) Expenditures in respect of certain types of assets whose usefulness does not expires in the year of their occurrence but generally expires in the near future are called
- (A) Revenue Expenditure
 (B) Capital Expenditure
 (C) Deferred Revenue Expenditure
 (D) None of the above
- (ii) The main objective of average clause contained in a fire insurance policy is to
- (A) Encourage full Insurance
 (B) Discourage full Insurance

- (C) Encourage under Insurance
(D) Encourage full Insurance and Discourage under Insurance
- (iv) AS-10 is applicable to which one of the following assets?
(A) Goodwill (B) Live Stock
(C) Plantation (D) Property, Plant and Equipment
(1 × 3 = 3 marks)
- (c) State whether the following statements given below are TRUE or FALSE:
- (i) Income and Expenditure Account is prepared by adopting accrual principle of Accounting.
(ii) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.
(iii) The cost of developing software for a company engaged in software business is revenue expenditure. **(1 × 3 = 3 marks)**

Answer :

- (a) (i) (C)
(ii) (D)
(iv) (D)
- (c) (i) True
(ii) True
(iii) False

_____ Space to write important points for revision _____

2016 - Dec [1] {C} Answer the following questions:

- (a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.):
- (i) Any change in the accounting policy relating to inventories which has a material effect in the current or later periods should be disclosed. This is in accordance with the accounting principle of:
(A) Going Concern (B) Conservatism
(C) Consistency (D) Disclosure
- (ii) Depreciation is a process of
(A) Apportionment (B) Valuation
(C) Allocation (D) None of the above

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- (iv) An amount spent in connection with obtaining a License for starting the factory is
- (A) Revenue Expenditure (B) Capital Expenditure
(C) Pre-paid Expenditure (D) None of the above

(1 × 3 = 3 marks)

- (c) State whether the following statements given below are TRUE or FALSE:
- (i) In the case of consignment sales, revenue is to be recognised on sale of goods to a third party.
- (v) Retiring a bill under rebate means payment of the bill before due date.

(1 × 2 = 2 marks)

Answer :

- (a) (i) (C)
(ii) (C)
(iii) (A)
(iv) (B)
- (c) (i) True
(v) True

— Space to write important points for revision —

2017 - June [1] Answer the following questions:

- (a) Choose the most appropriate one from given four alternatives:
- (ii) Receipts and Payments account is a
- (a) Nominal Account (b) Real Account
(c) Personal Account (d) Artificial Personal Account
- (iii) A resource owned by the business with purpose of using it for generating future profit, is known as
- (a) Capital (b) Asset
(c) Liability (d) Surplus
- (iv) Outward Invoice issued is a source document of
- (a) Purchase Book (b) Sales Book
(c) Return Inward Book (d) Return Outward Book
- (v) Which of the following is of capital nature?
- (a) Commission on purchases (b) Cost of repairs
(c) Rent of factory (d) Wages paid for installation of machinery

- (vi) If any stock is taken by a co-venturer, it will be treated as
- an income of the joint venture.
 - an expense of the joint venture.
 - to be ignored from joint venture.
 - it will be treated in the personal books of the co-venturer.
- (vii) Contingent liability would appear
- on the liability side of the Balance Sheet.
 - on the assets side of the Balance Sheet.
 - do not shown in the books of accounts.
 - as a note in Balance Sheet.
- (viii) Income statement of a Charitable Institution is known as
- Statement of profit and loss
 - Receipts and Payments Account
 - Income and Expenditure Account
 - Profit and Loss Account
- (ix) Which of the following account is mainly prepared at the time of dissolution of the firm
- | | |
|---------------------|--------------------------------|
| (a) Revaluation A/c | (b) Goodwill A/c |
| (c) Realization A/c | (d) Memorandum Revaluation A/c |
- (x) Advertisement expenses are apportioned among departments in the proportion of
- sales of each department
 - purchases of each department
 - no. of units sold by each department
 - cost of sales of each department
- (1 × 9 = 9 marks)**
- (c) State whether the following statements given below are true or false:
- One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.
 - Expenses incurred by branch out of petty cash balance are debited to branch account by the head office.
 - In absence of partnership deed the profit or loss should be distributed among partners in their capital ratio. **(1 × 3 = 3 marks)**
- (d) Fill in the blanks:
- The _____ discount is never entered in the books of accounts.
 - A bill of exchange drawn on 12th April, 2017 for four months, the date of maturity will be _____.

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- (iii) The parties of joint venture is called _____.
- (iv) Outstanding subscription is shown in the _____ side of Balance Sheet. **(1 x 4 = 4 marks)**

Answer:

- (a) (ii) (b)
(iii) (b)
(iv) (b)
(v) (d)
(vi) (a)
(vii) (d)
(viii) (c)
(ix) (c)
(x) (a)
- (c) (i) True
(iv) False
(v) False.
- (d) (i) trade
(ii) 14.08.2017
(iii) co-venturers
(iv) assets

_____ Space to write important points for revision _____

2017 - Dec [1] Answer the Following Questions:

- (a) Choose the most appropriate one from given four alternatives:
- (i) If an employee of the business files a legal suit on business, it is considered in the books as a
- (a) Legal Expense (b) Liability
(c) Contingent Asset (d) Contingent Liability
- (ii) At the end of the accounting year the capital expenditures are shown in the
- (a) assets side of the Balance Sheet.
(b) liabilities side of the Balance Sheet.
(c) debit side of the Profit and Loss A/c.
(d) credit side of the Profit and Loss A/c.

- (iii) Which of the following is not a method of charging depreciation?
(a) Sinking Fund Method (b) Sum of years Digit Method
(c) Working hours Method (d) Asset's Life-cycle Method
- (iv) If average inventory is ₹ 1,25,000 and closing inventory is ₹ 10,000 less than opening inventory then the value of closing inventory will be
(a) ₹ 1,35,000 (b) ₹ 1,15,000
(c) ₹ 1,30,000 (d) ₹ 1,20,000
- (v) The Accommodation bill is drawn
(a) to finance actual purchase or sale of goods.
(b) to facilitate trade transmission.
(c) when both parties are in need of funds.
(d) None of the above
- (viii) Accounting standard in India are issued by
(a) Government of India
(b) Reserve Bank of India
(c) The Institute of Chartered Accountants of India
(d) The Institute of Accounting Standard of India
- (ix) As on 31st March, 2017 debtors; and additional bad debts are ₹ 8,00,000 and ₹ 10,000 respectively. If the provision for bad debts is made at 5% on debtors then amount of such provision will be
(a) ₹ 40,000 (b) ₹ 50,000
(c) ₹ 39,500 (d) ₹ 40,500
- (x) Income and Expenditure Account is a
(a) Nominal Account (b) Real Account
(c) Personal Account (d) Artificial Personal Account
- (1 × 8 = 8 marks)**
- (c) State whether the following statements given below are 'True' or 'False':
- (i) Memorandum joint venture account is prepared to find out amount due from co-venture.
- (ii) Receipts and Payments Account is prepared by adopting cash principle of accounting.
- (iv) Bad debts recovered is credited to debtor's personal account.
- (v) New-partner pays premium for goodwill, which will be shared by old partners in their new profit sharing ratio. **(1 × 4 = marks)**

(d) Fill in the blanks:

- (i) The _____ discount is not recorded in the books of accounts.
- (ii) Profit or Loss on revaluation is shared among the partners in _____ Ratio.
- (iii) At the time of goods sent to consignee, the proforma invoice is prepared by _____.
- (iv) Memorandum revaluation account is prepared when the _____ of assets and liabilities are not altered.
- (v) Realisation account is opened at the time of _____ of firm.

(1 × 5 = 5 marks)

Answer:

- (a) (i) (d)
 (ii) (a)
 (iii) (d)
 (iv) (d)
 (v) (c)
 (viii) (c)
 (ix) (c)
 (x) (a)
- (c) (i) False
 (ii) True
 (iv) False
 (v) False
- (d) (i) Trade
 (ii) Old profit sharing
 (iii) Consignor
 (iv) Book value
 (v) Dissolution of the firm

2018 - June [1] Answer the Following Questions:

- (a) Choose the most appropriate one from the given following alternatives:
- (i) Which of the following is not a Qualitative Characteristics of Financial Statement?

| | |
|--------------------|-----------------------|
| (a) Cost Principle | (b) Understandability |
| (c) Relevance | (d) Reliability |
 - (ii) Name the book in which, entries are recorded on the basis of credit notes issued.

- (a) Sales Book
 - (b) Purchase Book
 - (c) Sales Return Book
 - (d) Purchase Return Book
- (iii) Exception to consistency principle is
- (a) Cost Principle
 - (b) Going Concern Principle
 - (c) Matching Principle
 - (d) Prudence Principle
- (iv) Interest charged by vendor in Hire Purchase System, is calculated on the basis of
- (a) Outstanding hire purchase price
 - (b) Outstanding cash price
 - (c) Instalment amount
 - (d) Cost price of the asset
- (v) The balance in consignment account shows
- (a) Amount receivable from consignee
 - (b) Amount payable to consignee
 - (c) Profit/loss on consignment
 - (d) Closing stock with consignee
- (vi) Provision for bad debts is
- (a) Real Account
 - (b) Nominal account
 - (c) Personal account
 - (d) None of the above
- (vii) The business is treated as distinct and separate from its owners on the basis of the
- (a) Going concern concept
 - (b) Conservatism concept
 - (c) Matching concept
 - (d) Business entity concept
- (viii) Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is
- (a) Prior- period item
 - (b) Extra - ordinary item
 - (c) Ordinary item requiring separate disclosure
 - (d) Contingent item
- (ix) Discount given in the Sales - Invoice itself is
- (a) Cash discount
 - (b) Trade discount
 - (c) Rebate
 - (d) Allowance

- (x) Canteen expenses are apportioned among departments in the proportion of
- (a) Departmental floor space
 - (b) Departmental direct wages
 - (c) Departmental sales
 - (d) Departmental No. of employees **(1 × 10 = 10 marks)**
- (c) State whether the following statements given below are True or False:
- (i) Receipt & Payment Account only records the revenue nature of receipts and expenses.
 - (ii) Sales Book records both cash and credit sales.
 - (iii) Normal loss of goods sent on consignment is shown in Consignment Account.
 - (iv) In case of trading concern, cost of good sold and cost of sales are same.
 - (v) In Proprietorship business, Income-tax payable is shown as a liability in Balance Sheet. **(1 × 5 = 5 marks)**
- (d) Fill in the blanks:
- (i) The Bank A/c is a _____ Account.
 - (ii) Assets are classified as non-current asset and current assets as per _____ Principle.
 - (iii) _____ Amount is the higher of asset's net selling price and its value in use. **(1 × 3 = 3 marks)**

Answer:

- (a) (i) (a)
(ii) (c)
(iii) (d)
(iv) (b)
(v) (c)
(vi) (c)
(vii) (d)
(viii) (c)
(ix) (b)
(x) (d)
- (c) (i) False
(ii) False

- (iii) False
- (iv) False
- (v) False
- (d) (i) Personal
- (ii) Going – Concern
- (iii) Recoverable / Fair Value

— Space to write important points for revision —

2018 - Dec [1] Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives:
 - (i) Both cash and credit transactions are recorded, on the basis of
 - (a) Accounting Period Concept
 - (b) Going Concern Concept
 - (c) Business Entity Concept
 - (d) Accrual Concept
 - (ii) Which of the following book is both a journal and a ledger?
 - (a) Cash Book
 - (b) Sales Day Book
 - (c) Bills Receivable Book
 - (d) Journal Proper
 - (iii) Interest received in advance account is a
 - (a) Nominal Account
 - (b) Real Account
 - (c) Artificial Personal Account
 - (d) Representative Personal Account
 - (iv) Shiva draws a bill on Sanat on 25th October, 2018 for 90 days, the maturity date of the bill will be
 - (a) 27th January, 2019
 - (b) 26th January, 2019
 - (c) 25th January, 2019
 - (d) 28th January, 2019
 - (v) Peeru and Simu are entered in the business of buy and sale of food grain for a period of one year and sharing the profit in the ratio of 3:2, this agreement is a
 - (a) Partnership
 - (b) Consignment
 - (c) Joint-venture
 - (d) Lease
 - (vi) At the end of the year 2017-18, Prepaid Insurance Premium ₹ 7,500 was appeared in the Trial Balance, it will be shown

- (iv) Reserve for Discount on Creditors has a credit balance.
- (v) A promissory note can be made payable to the bearer.

(1 × 4 = 4 marks)

Answer:

- (a) (i) (d)
 - (ii) (a)
 - (iii) (d)
 - (iv) (c)
 - (v) (c)
 - (vi) (b)
 - (vii) (c)
 - (ix) (a)
 - (x) (c)
- (c) (i) To Balance b/f
 - (ii) Allocation Valuation
 - (iii) Net Realisable Value
 - (iv) Agent and Principal
 - (v) Co-owners
- (d) (ii) False
 - (iii) True
 - (iv) False
 - (v) False

— Space to write important points for revision —

2019 - June [1] Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives:
 - (i) Which of the following is a resource owned by the business with the purpose of using it for generating future profits?
 - (a) Loan from Bank
 - (b) Owner's Capital
 - (c) Trade Mark
 - (d) All of the above
 - (ii) Chandu & Co.'s Account is a
 - (a) Real Account
 - (b) Nominal Account
 - (c) Representative Personal Account
 - (d) Artificial Personal Accounts

- (iii) Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of
- (a) Omission (b) Commission
(c) Principle (d) Misposting
- (iv) Which of the following term is most suitable for writing off Patent?
- (a) Depletion (b) Amortization
(c) Depreciation (d) All of the above
- (v) Memorandum Joint Venture Account is prepared when
- (a) the separate set of books is maintained for Joint Venture.
(b) the each Co-venturer keeps records of all transactions.
(c) the each Co-venturer keeps records of their own transactions only.
(d) All of the above cases
- (vi) Which of the following commission is allowed by the consignor to the consignee to encourage the consignee for putting-up hard work in introducing new product in the market?
- (a) Del-credere Commission (b) Over-riding Commission
(c) Hard work Commission (d) Ordinary Commission
- (vii) If Ram's acceptance which was endorsed by us in favour of Saleem is dishonoured, then the amount will be debited in our books to
- (a) Saleem (b) Ram
(c) Bills Receivable Account (d) None of the above
- (viii) In case of a Club, the excess of expenditure over income is called as
- (a) Surplus (b) Deficit
(c) Capital Fund (d) Investment in Fixed Assets
- (ix) A Charitable Institution has 250 members with a annual subscription of ₹ 5,000 each. The subscription received during 2018-19 were ₹ 11,25,000, which include ₹ 65,000 and ₹ 25,000 for the years of 2017-18 and 2019-20 respectively. Amount of outstanding subscription for the 2018-19 will be
- (a) ₹ 90,000 (b) ₹ 1,25,000
(c) ₹ 2,15,000 (d) ₹ 1,90,000

- (x) The following are details of closing stock items in Aarvi Limited:

| Items | Historical Cost (₹ in Lakh) | Net Realisable Value (₹ in Lakh) |
|-------|--------------------------------|-------------------------------------|
| A | 30 | 27 |
| B | 15 | 18 |
| C | 35 | 35 |
| D | 40 | 45 |

The value of Closing Stock will be

- (a) ₹ 120 Lakh (b) ₹ 125 Lakh
(c) ₹ 117 Lakh (d) ₹ 128 Lakh (1 × 10 = 10 marks)

- (b) Match the following in Column-I with the appropriate in Column-II:

| | Column-I | | Column-II |
|-----|------------------------------------|-----|------------------------|
| (1) | Highest Relative Capital Method | (A) | Departmental Accounts |
| (2) | Basis of Apportionment of Expenses | (B) | Insurance Claim |
| (3) | Partial Repossession | (C) | Piecemeal Distribution |
| (4) | Indemnity Period | (D) | Hire Purchase |

(1 × 4 = 4 marks)

- (c) State whether the following statements are *True* or *False*.

- (i) All these items of revenue nature which received during the period of accounts, are only shown in the Income and Expenditure Account.
(ii) When the capitalization of profits method is used then the value of goodwill on the basis of future maintainable profits is more than that of on the basis of super profits.
(v) In the Stock and Debtors Method of accounting, balance of Branch Stock Account shows either Gross Profit or Gross Loss.

(1 × 3 = 3 marks)

- (d) Fill in the blanks:

- (i) Net Worth is excess of _____ over _____.
(ii) The Sales ₹ 180 Lakh, Purchases ₹ 129 Lakh and Opening Stock ₹ 33 Lakh. If the rate of Gross Profit is 50% on cost, then the value of closing stock will be _____.

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- (iii) In case of Loss of Profit Policy, Gross Profit is the sum of Net Profit plus _____ Standing Charges.
- (iv) Interest to be allowed @ 0.75 per cent per month on Partners Capital of ₹ 60 Lakh; Manager's Commission @ 5 per cent of Net Profit before charging such commission. If the Net Profit before charging interest on capital and manager's commission amounted to ₹ 14.85 Lakh, then manager's commission will be _____.
- (v) A machinery was purchased on Hire Purchase System. Its cash price was ₹ 5,20,000 which was payable in annual instalments of ₹ 1,80,000 each including interest @ 15 per cent per annum. The amount of interest included in 2nd instalment would be _____.

(1 × 5 = 5 marks)**Answer:**

- (a) (i) (c)
(ii) (d)
(iii) (c)
(iv) (b)
(v) (c)
(vi) (b)
(vii) (b)
(viii) (b)
(ix) (c)
(x) (c)

(b)

| | Column-I | | Column-II |
|-------|------------------------------------|-----|------------------------|
| (i) | Highest Relative Capital Method | (C) | Piecemeal Distribution |
| (ii) | Basis of Apportionment of Expenses | (A) | Departmental Accounts |
| (iii) | Partial Repossession | (D) | Hire Purchase |
| (iv) | Indemnity Period | (B) | Insurance Claim |

- (c) (i) False
(ii) False
(iii) False

- (iv) True
- (v) True.
- (d) (i) Total assets, total liabilities
- (ii) ₹ 42 Lakh
- (iii) Insured
- (iv) ₹ 47,250
- (v) ₹ 62,700.

2019 - Dec [1] Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives:
 - (i) When stock is valued at cost in one accounting period and at lower of cost and Net realizable value in another accounting period
 - (a) Prudence Principle conflicts with Consistency Principle.
 - (b) Matching Principle conflicts with Consistency Principle.
 - (c) Consistency Principle conflicts with Accounting Period Assumption.
 - (d) None of the above
 - (ii) Materiality Principle is an exception to the
 - (a) Consistency Principle
 - (b) Full Disclosure Principle
 - (c) Accounting Period Assumption
 - (d) Prudence Principle
 - (iii) In a Cash Book Debit balance of ₹112 brought forward as credit balance of ₹121, while preparing a Bank Reconciliation Statement taking the balance as per Cash Book as the starting point:
 - (a) ₹ 112 to be added
 - (b) ₹ 121 to be added
 - (c) ₹ 233 to be added
 - (d) ₹ 112 to be subtracted
 - (iv) _____ represents a potential obligation that could be created depending on the outcome of an event.
 - (a) Internal Liability
 - (b) Current Liability
 - (c) Contingent Liability
 - (d) Non-current Liability
 - (v) Opening Debtors, Collection from Debtors and Discount Allowed were ₹3,15,000; ₹18,30,000 and ₹35,000 respectively. If the closing debtors were 20% of credit sales of the period then closing debtors and credit sales would be

- (a) ₹ 3,51,667 and ₹ 17,58,333 (b) ₹ 3,63,333 and ₹ 18,16,667
 (c) ₹ 3,87,500 and ₹ 19,37,500 (d) ₹ 3,10,000 and ₹ 15,50,000

(vi) Following information is given:

| | ₹ |
|-------------------|-----------|
| Opening Stock | 2,13,000 |
| Purchases | 16,55,000 |
| Sales | 21,32,000 |
| Carriage Inwards | 32,500 |
| Carriage Outwards | 38,600 |
| Return Inwards | 38,000 |

If the rate of gross profit is 25% on cost then value of closing stock will be

- (a) ₹ 2,57,800 (b) ₹ 1,94,900
 (c) ₹ 2,25,300 (d) ₹ 3,30,000

- (vii) Provision for Doubtful Debt on 1st April, 2018 was ₹21,500. During the year 2018-19 the Bad-debt and Recovery of Bad-debt were ₹10,500 and ₹2,100 respectively. The Sundry Debtors on 31st March, 2019 were ₹2,25,000. Provision is to be made @ 5% on Debtors. If on 31st March, 2019, there was additional Bad-debt of ₹2,500 then Provision for doubtful-debt will be
 (a) debited to Profit & Loss Account by ₹ 11,250.
 (b) debited to Profit & Loss Account by ₹ 2,625.
 (c) debited to Profit & Loss Account by ₹ 3,000.
 (d) debited to Profit & Loss Account by ₹ 900.

- (viii) A and B enter into a joint venture sharing profit and losses in the ratio of 3:2. A purchased goods costing ₹2,00,000. B sold 95% goods for ₹2,50,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at ₹1,50,000. What is A's share of profit?
 (a) ₹ 15,300 (b) ₹ 21,300
 (c) ₹ 18,900 (d) None of the above

- (ix) Subscription of ₹6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2019. Additional information is as below:

| | On 31 st March, 2018 (₹) | On 31 st March, 2019 (₹) |
|----------------------------------|--|--|
| Subscription Outstanding | 55,000 | 72,000 |
| Subscription Received in Advance | 31,000 | 37,000 |

The amount of subscription received during the year 2018-19 would be

- (a) ₹6,36,000 (b) ₹6,02,000
 (c) ₹6,14,000 (d) ₹6,48,000
- (x) X and Y are partners with the capital of ₹50,000 and ₹30,000 respectively. Interest Payable on Capital is 10% p.a. If the profits earned by the firm is ₹4,800, what will be the Interest on Capital for X and Y?
- (a) ₹5,000 and ₹3,000
 (b) ₹3,000 and ₹1,800
 (c) No interest will be paid to the partners
 (d) None of the above

(1×10=10 marks)

- (b) Match the following:

| Column A | | Column B | |
|----------|--------------------|----------|------------------|
| (i) | Endorsement | (A) | AS 10 |
| (ii) | Amortisation | (B) | Depreciation |
| (iii) | Average Clause | (C) | Bills Receivable |
| (v) | Recoverable Amount | (D) | Insurance Claim |

(1×4 = 4 marks)

- (c) State with reason whether the following statements are 'True' or 'False' (No Marks shall be awarded without valid reason):
- (i) Prudence is a concept to recognise all losses and not profits.
 (ii) Revenues are matched with expenses in accordance with the matching principle.

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- (iii) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.
- (iv) Net Profit is reflected in higher cash balances and net loss is reflected in lower net worth.
- (v) If Partnership Deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.a. **(1×5 = 5 marks)**

(d) Fill in the blanks:

- (i) _____ method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- (ii) Reserve for Discount on Creditors has a _____ balance.
- (iii) _____ can be made payable to the bearer.
- (iv) The gain from sale of capital assets need not be added to revenue to ascertain the _____ of a business.
- (v) _____ property may be the subject matter of consignment. **(1×5 = 5 marks)**

Answer:

- (a)** (i) (a)
- (ii) (b)
- (iii) (c)
- (iv) (c)
- (v) (c)
- (vi) (c)
- (vii) (b)
- (viii) (b)
- (ix) (c)
- (x) (b)

(b)

| | Column – A | | Column – B |
|-------|--------------------|-----|-------------------|
| (i) | Endorsement | (C) | Bills Receivable |
| (ii) | Amortisation | (B) | Depreciation |
| (iii) | Average Clause | (D) | insurance Claim |
| (v) | Recoverable Amount | (A) | AS 10 |

- (c)** (i) **False:** Prudence is a concept to recognise all unrealised losses and not profits.

- (ii) **False:** Expenses are matched with revenues in accordance with the matching principle. Concept of matching requires accrual and periodicity concepts as accrued revenues are matched with accrued expenses of a definite accounting period.
 - (iii) **False:** Depreciation is a non-cash, operating expense which is to be provided for whether there are profits or losses.
 - (iv) **False:** Net profit may not be reflected in higher cash balance because of credit transactions. On the other hand, cash may increase due to fresh loan or fresh capital. Net Worth may also be reduced by withdrawal by the proprietor/partners. So lower net worth may not necessarily reflect net loss.
 - (v) **False:** The Partnership Act 1932, has not prescribed any Rate of Interest on Loan by firm to Partner.
- (d)** (i) Reducing balance
(ii) Debit
(iii) Bills Receivable
(iv) Operating Profit or Loss
(v) Movable

— Space to write important points for revision —

2021 - Dec [1] In hire purchase system, cash price plus interest is known as _____.

- (1) Hire purchase charges.
- (2) Capital value of asset.
- (3) Hire purchase price of assets.
- (4) Book value of asset.

Answer:

- (3)** Hire purchase price of assets.

2021 - Dec [2] Depreciation is calculated from the date of-

- (1) Assets put to use.
- (2) Purchase of assets.
- (3) Assets installed.
- (4) Receipts of assets at business premises.

Answer:

(1) Assets put to use.

2021- Dec [3] Debit balance in the cash book is equivalent to:

- (1) Overdraft as per cash book.
- (2) None of these.
- (3) Credit balance as per Passbook.
- (4) Overdraft as per Passbook.

Answer:

(3) Credit balance as per Passbook.

2021 - Dec [4] Main elements of the accounting equation are:

- (1) Cash, stock and debtors.
- (2) Bank balance, Investments and bills receivable.
- (3) Assets, liabilities and capital.
- (4) Capital, creditors and bills payable.

Answer:

(3) Assets, liabilities and capital.

2021 - Dec [5] A Bill of Exchange cannot be:

- (1) Endorsed.
- (2) Crossed.
- (3) None of these.
- (4) Accepted.

Answer:

(2) Crossed.

2021 - Dec [6] Spent amount on unsuccessful promotion policy is:

- (1) Capital expenditure.
- (2) Expenses.
- (3) Revenue expenditure.
- (4) Deferred revenue expenditure.

Answer:

(1) Capital expenditure.

2021 - Dec [7] Convention of Conservatism takes into account:

- (1) All future profits and not losses.
- (2) Neither profits nor losses of the future.
- (3) All future losses and not profits.
- (4) All future profits and losses.

Answer:

- (3) All future losses and not profits.

2021 - Dec [8] Balance Sheet is prepared with the balances of which of the following?

- (1) All balances in the Ledger.
- (2) Balances of real accounts.
- (3) Balances of personal accounts.
- (4) Balances of personal and real accounts.

Answer:

- (4) Balances of personal and real accounts.

2021 - Dec [9] Which of these terms/concepts are not relevant to a joint venture?

- (1) Co venturers.
- (2) Temporary partnership.
- (3) Principal and agent relationship.
- (4) Sharing profit and loss of joint ventures.

Answer:

- (3) Principal and agent relationship.

2021 - Dec [11] Sold goods worth list price of ₹ 8,000 at 10% trade discount and 2% cash discount. 25% received at the time of transaction only. The amount posted to the discount account will be:

- (1) ₹144 on credit side.
- (2) ₹36 on debit side.
- (3) ₹144 on debit side.
- (4) ₹40 on credit side.

Answer:

- (2) ₹36 on debit side

2021 - Dec [13] Bills payable honoured during the year, will be debited to.

- (1) None of these.
- (2) Creditors account.
- (3) Bills payable account.
- (4) Cash account.

Answer:

- (3) Bills payable account.

2021 - Dec [14] Which of the following is not an essential feature of a partnership firm?

- (1) Mutual agency.
- (2) Existence of business.
- (3) Association of two or more people.
- (4) Compulsory registration.

Answer:

- (4) Compulsory registration.

2021 - Dec [15] Sacrificing ratio is:

- (1) New Profit sharing ratio - old profit sharing ratio.
- (2) Equal to old profit sharing ratio.
- (3) Equal.
- (4) Old profit sharing ratio - new profit sharing ratio.

Answer:

- (4) Old profit sharing ratio - new profit sharing ratio.

2021 - Dec [16] Which of the following statements is not correct?

- (1) Bad debts can be less than the amount of provision for doubtful debts.
- (2) Bad debts can be more than the amount of provision for doubtful debts.
- (3) Provision for doubtful debts account is the amount payable to debtors.
- (4) Provision for doubtful debts is shown in the balance sheet.

Answer:

- (3) Provision for doubtful debts account is the amount payable to debtors.

2021 - Dec [17] Errors are:

- (1) Frauds.
- (2) Undetected mistake.

- (3) Intentional mistake.
- (4) Unintentional mistake.

Answer:

- (4) Unintentional mistake.

2021 - Dec [18] Choose the correct statement.

- (1) Financial statements need not take into consideration any statutory requirement.
- (2) Only credit transactions are recorded in books of accounts.
- (3) Financial statements prepared by two different accountants will always show identical results.
- (4) Financial accounts, of an enterprise, are treated as evidence in the Court of Law.

Answer:

- (4) Financial accounts, of an enterprise, are treated as evidence in the Court of Law.

2021 - Dec [20] Which of these is/are one of the methods of stock taking?

- (1) Periodic inventory
- (2) Perpetual inventory.
- (3) Both.
- (4) None

Answer:

- (3) Both. **(1 × 17 = 17 marks) [Sec. A MCQ]**

— Space to write important points for revision —

2021 - Dec [3] State your views in line with provision of AS-1 and give reasons for your answer in respect of the following:

- (i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- (ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

- (iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- (iv) Any change in accounting policy which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- (v) There is no single list of accounting policies which are applicable to all circumstances. **(5 marks) [Sec. C Five LAQ]**

Answer:

- (i) **False:** As per AS1 "disclosure of accounting policies", Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed Disclosure is necessary if they are not followed.
- (ii) **False:** As per AS1 if the fundamental accounting assumptions, VIZ going concern, consistency and accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) **True:** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of a financial statement and they should be disclosed at one place.
- (iv) **False:** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) **True:** As per AS1, There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

2022 - Dec [1] Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives:
- (i) Select the correct statement:
 - (a) Keeping systematic recording of business transaction is not the function of Financial Accounting.
 - (b) Accounting is concerned with monetary transactions.
 - (c) Accounting is concerned with past as well as future events.
 - (d) Business and Businessmen are the same identity from accounting point of view.
 - (ii) Going concern concept is not followed:
 - (a) by Bank
 - (b) by Cooperative Societies
 - (c) Joint Venture Accounting
 - (d) Depreciation Accounting
 - (iii) Rectification of which type of errors requires opening of Suspense Account
 - (a) Errors of Principle
 - (b) Complete Omission
 - (c) Partial Omission
 - (d) Errors of Commission
 - (iv) A buyer returning goods on the ground of poor quality sent a note along with the goods stating that no payment would be made in respect of goods returned, the return note is called:
 - (a) Debit note
 - (b) Credit note
 - (c) Refund note
 - (d) Return note
 - (v) Which of these expenses is/are not included in valuation of abnormal loss?
 - (a) Godown Rent
 - (b) Freight and Insurance incurred by Consignor
 - (c) Transit Insurance incurred by Consignee
 - (d) Loading and Unloading expenses incurred by Consignor
 - (vi) Goods sold by other co-venturer is debited to:
 - (a) Joint Venture Account
 - (b) Other Co-venturer's Personal Account
 - (c) Joint Bank Account
 - (d) None of the above

- (vii) Sale is recognised as revenue:
- when the contract for sale is entered into.
 - at the point of sale or performance of service.
 - after the expiry of credit period allowed to Debtors.
 - after the money collected from the customers.

A and B are partners sharing profits and losses in the ratio of 3 : 2. They admitted C with effect from 1st April, 2021. New profit sharing ratio is agreed at 4 : 3 : 3. An extract of their Balance Sheet as at 31st March, 2021 is as follows:

| Liabilities | ₹ | Assets | ₹ |
|------------------------------|--------|--------|---|
| Workmen Compensation Reserve | 90,000 | | |

Based on the above information you are required to answer the following questions:

- (viii) If there is no other information in respect of Workmen Compensation Reserve:
- Cr. A's Capital A/c with ₹ 60,000 and B's Capital A/c with ₹ 30,000.
 - Cr. A's Capital A/c with ₹ 54,000 and B's Capital A/c with ₹ 36,000.
 - Dr. A's Capital A/c with ₹ 54,000 and B's Capital A/c with ₹ 36,000.
 - Cr. A's Capital A/c with ₹ 36,000 and B's Capital A/c with ₹ 27,000 and C's Capital A/c with ₹ 27,000.
- (ix) If a claim for Workmen Compensation is estimated at ₹ 60,000 :
- Cr. A's Capital A/c with ₹ 20,000 and B's Capital A/c with ₹ 10,000.
 - Dr. A's Capital A/c with ₹ 18,000 and B's Capital A/c with ₹ 12,000.
 - Cr. A's Capital A/c with ₹ 18,000 and B's Capital A/c with ₹ 12,000.
 - Cr. A's Capital A/c with ₹ 12,000 and B's Capital A/c with ₹ 9,000 and C's Capital A/c with ₹ 9,000.

- (x) If a claim for Workmen Compensation is estimated at ₹ 1,50,000:
- Dr. C's Capital with ₹ 60,000
 - Dr. C's Capital A/c with ₹ 18,000
 - Dr. Workmen Compensation Reserve A/c with ₹ 90,000 and Revaluation A/c with ₹ 60,000
 - Dr. Revaluation A/c with ₹ 60,000

(1 × 10 = 10 marks)

— Space to write important points for revision —

2022 - Dec [1] (b) Match the following in Column-A with appropriate in Column-B:

| Column A | | Column B | |
|----------|------------------------------|----------|--|
| (i) | Application Softwares | (A) | is not an Operating Software. |
| (ii) | MS Word | (B) | cannot operate without Operating Software. |
| (iii) | Printer | (C) | is not an input device. |
| (iv) | Monitor | (D) | transaction to be entered once. |
| (v) | Accounting Software requires | (E) | is an output device. |

(1 × 5 = 5 marks)

2022 - Dec [1] (c) Fill in the blanks:

- Sale of goods to Rana for cash is debited to _____.
- A bill of ₹ 10,000 is renewed. The drawee pays ₹ 3,000 as part payment. The amount of interest charged is ₹ 200. The value of new bill is ₹ _____.
- Net sales for the year ended 31st March, 2022 is ₹ 9,00,000. If Gross Profit is 25% on cost, Cost of Goods sold will be ₹ _____.
- Opening Capital is ₹ 1,50,000, Closing Capital ₹ 2,75,000. Drawing ₹ 25,000, Further Capital introduced ₹ 45,000. Gross Profit is ₹ _____.
- Accounting information system processes the data and transforms it into _____.

(1 × 5 = 5 marks)

6.416**Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)****2022 - Dec [1]** (d) State whether the following statements are True or False:

- (i) Debit means an increase in Liability.
 - (ii) Cash Memo is a source voucher for purchaser of goods on Credit.
 - (iii) Balance of Petty Cash is an expense.
 - (iv) Provision for doubtful debts is debited to the Bad Debts Account.
 - (v) Capital Receipts and Revenue Receipts need not to be distinguished to determine net profit.
- (1 × 5 = 5 marks)**

Table Showing Marks of Compulsory Questions

| Year | 16 J | 16 D | 17 J | 17 D | 18 J | 18 D | 19 J | 19 D | 21 D | 22 D |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Objective | 6 | 5 | | | | | | | | |
| Total | 6 | 5 | | | | | | | | |

