

BCCA – Financial Accounting Question Paper Analysis

QUESTION NO	CHAPTER NAME	MARKS
2(a)	Depreciation (or) BRS	7
2(b)	Rectification of Errors (or) Capital & Revenue	7
3(a)	Consignment (or) Bills of Exchange	7
3(b)	Leasing (or) Hire Purchase	7
4	Single Entry	14
5	Partnership Accounting	14
6(a)	Branch Accounts	7
6(b)	Insurance Claims	7
7(a)	Accounting Standards	7
7(b)	Accounting Standards	7
8(a)	Partnership Accounting	5
8(b)	NPO, PBD & Standards	5
8(c)	Standards Theory	4

BCCA – Financial Accounting

Chapter Wise Categorization & Weightage

CHAPTER NAME	MCQS (MARKS)	DESCRIPTIVE (MARKS)	WEIGHTAGE (MARKS)
A Category (High Priority)			
Accounting Standards	0-4	19-24	19-28
Partnership Accounts	2-4	14-19	16-23
Single Entry & NPO	2-4	14-19	16-23
Insurance Claims	2-4	7	9-13
Hire Purchase & Leasing	0-2	7	7-9
A Category total			67-96
B Category (Moderate Priority)			
Consignment & Bills of Exchange	0-2	7	7-9
Rectification of Errors	0-2	7	7-9
BRS & Depreciation	0-2	7	7-9
Branch & Departmental	2-4	7	9-13
B Category total			30-38
C Category (Low Priority)			
Final Accounts	2-4	0-14	2-16
Joint Venture	0-2	0-7	0-9
Accounting Basics	4-6	-	4-6
C Category total			6-31

BASICS & DOUBLE ENTRY SYSTEM

- 1) In accounting, "goods" refer to:
 - A. Fixed assets purchased for use
 - B. Items bought for resale**
 - C. Stationery used in office
 - D. Machinery used in production
- 2) Amount invested by the proprietor in the business should be credited to-
 - A. Proprietor
 - B. Capital**
 - C. Drawings
 - D. Cash
- 3) 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
- 4) In accounting, drawings refer to:
 - A. Business expenses
 - B. Owner taking cash or goods from business for personal use**
 - C. Depreciation
 - D. Bank withdrawals
- 5) Which accounting concept requires that a business's financial records be separate from its owner's?
 - A. Matching Concept
 - B. Going Concern Concept
 - C. Business Entity Concept**
 - D. Dual Aspect Concept
- 6) Which of the following is a liability?
 - A. Cash
 - B. Accounts Payable**
 - C. Building
 - D. Inventory
- 7) A transaction without immediate cash settlement is known as
 - A. Cash Transaction;
 - B. Credit Transaction;**
 - C. Deferred Transaction;

- D. None of the above.
- 8) L liabilities represent proprietor's equity, i.e. all those amounts which are entitled to the proprietor
 - A. External;
 - B. Debenture;
 - C. Internal;**
 - D. None of the above.
- 9) Internal Liability represents.
 - A. Proprietor's Equity**
 - B. Loans from Banks
 - C. Debtors
 - D. None of the above
- 10) Outstanding expenses are:
 - A. Current Assets
 - B. Current Liabilities**
 - C. Fixed Assets
 - D. Incomes
- 11) Discount given in the Sales - Invoice itself is
 - A. Cash discount
 - B. Trade discount**
 - C. Rebate
 - D. Allowance
- 12) 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
- 13) The double entry system means:
 - A. Recording in two books
 - B. Entry for two aspects of every transaction**
 - C. Entering the same entry twice
 - D. Debiting all accounts
- 14) Who is known as the Father of the Double Entry System of Accounting?
 - A. Adam Smith
 - B. Luca Pacioli**
 - C. Robert Kiyosaki

- D. Benjamin Franklin
- 15) The terms "Debit" and "Credit" are derived from which language?
- A. Greek
 - B. English
 - C. Latin**
 - D. French
- 16) Interest received in advance account is a
- A. Nominal Account
 - B. Real Account
 - C. Artificial Personal Account
 - D. Representative Personal Account**
- 17) Chandu & Co.'s Account is a
- A. Real Account
 - B. Nominal Account
 - C. Representative Personal Account
 - D. Artificial Personal Accounts**
- 18) Which of the following is a nominal account?
- A. Bank Account
 - B. Rent Expense**
 - C. Machinery Account
 - D. Debtors Account
- 19) Which of the following is a real account?
- A. Rent Account
 - B. Salary Account
 - C. Machinery Account**
 - D. Commission Received Account
- 20) Outstanding salary account is
- A. Real account
 - B. Nominal account
 - C. Personal account**
 - D. None of the above
- 21) What is the rule for personal accounts?
- A. Debit what comes in, credit what goes out
 - B. Debit all expenses and losses, credit all incomes and gains
 - C. Debit the receiver, credit the giver**
 - D. Debit cash, credit capital
- 22) Accounts receivable normally has _balance.

- A. Debit.
 - B. Credit.
 - C. Unfavorable.
 - D. None of the above.
- 23) Expense Account will always have
- A. Debit balance
 - B. Credit balance
 - C. Nil
 - D. None of the above
- 24) All of the following have debit balance except
- A. Wages account
 - B. Debtors accounts
 - C. Bills payable account
 - D. Goodwill
- 25) 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
- 26) The following account has a credit balance
- A. Plant and Equipment A/c
 - B. Loans A/c
 - C. Purchase A/c
 - D. None of the above
- 27) The accounting equation is presented as:
- A. $Assets = Liabilities + Equity$
 - B. $Assets = Liabilities + [Capital + (Revenue - Expenses) - Drawings]$
 - C. $Assets + Expenses + Drawings = Liabilities + Capital + Revenue$
 - D. All of the above
- 28) Accounting is an:
- A. Social
 - B. Art
 - C. Physics
 - D. Chemistry
- 29) An obligation which may or may not materialize is a/an .
- A. Loss
 - B. Asset

- C. Contingent Liability
 - D. None of the above
- 30) Under which of the following heads is claims against a Company not acknowledged as debts shown?
- A. Unsecured Loan
 - B. Current Liability
 - C. Current Assets
 - D. Contingent Liability
- 31) 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
- 32) If an employee of the business files a legal suit on business, it is considered in the books as
- A. Legal Expense
 - B. Liability
 - C. Contingent Asset
 - D. Contingent Liability

JOURNAL

33) A journal is also known as:

- A. Ledger
- B. Final entry book
- C. Book of original entry
- D. Balance sheet

34) The term "Journal" is derived from which language?

- A. Latin
- B. French
- C. Greek
- D. German

35) The process of recording transactions in the journal is called:

- A. Posting
- B. Journalizing
- C. Ledgering
- D. Balancing

36) The format of a journal does not include:

- A. Date
- B. Ledger Folio
- C. Narration
- D. Trial Balance

37) Which type of entry involves more than one debit or credit?

- A. Opening entry
- B. Compound entry
- C. Closing entry
- D. Transfer entry

38) Journal entries are posted to:

- A. Cash Book
- B. Trial Balance
- C. Ledger
- D. Balance Sheet

39) The narration in a journal entry explains:

- A. The ledger balance
- B. The profit or loss
- C. The reason for the transaction

- D. The discount allowed
- 40) Journal entries are recorded in:
- A. Alphabetical order
 - B. Numerical order
 - C. Date-wise chronological order**
 - D. Random order
- 41) A journal entry that includes a debit and credit for the same amount is called a:
- A. Reverse entry
 - B. Simple entry**
 - C. Rectifying entry
 - D. Adjustment entry
- 42) When an asset is purchased on credit, the journal entry will include:
- A. Debit asset, credit cash
 - B. Debit asset, credit creditor**
 - C. Debit cash, credit asset
 - D. Debit creditor, credit asset
- 43) What is the correct narration for this entry: "Rent paid in cash"?
- A. Being rent paid by cheque
 - B. Being rent paid in advance
 - C. Being rent paid in cash**
 - D. Being rent received in cash
- 44) The account which is debited when salary is paid is:
- A. Cash Account
 - B. Salary Account**
 - C. Capital Account
 - D. Rent Account
- 45) The entry "Machinery A/c Dr. To Cash A/c" indicates:
- A. Credit purchase of machinery
 - B. Sale of machinery
 - C. Cash purchase of machinery**
 - D. Machinery returned
- 46) When goods are given away as charity, the journal entry is:
- A. Advertisement A/c Dr. To Purchases A/c**
 - B. Purchases A/c Dr. To Charity A/c
 - C. A/c Dr. To Sales A/c
 - D. Sales A/c Dr. To Charity A/c

47) Entry for withdrawal of goods by the owner for personal use is:

- A. Drawings A/c Dr. To Purchases A/c
- B. Purchases A/c Dr. To Drawings A/c
- C. Capital A/c Dr. To Sales A/c
- D. Drawings A/c Dr. To Sales A/c

48) Entry for receiving rent in advance is:

- A. Rent A/c Dr. To Cash A/c
- B. Cash A/c Dr. To Rent A/c
- C. Cash A/c Dr. To Rent Received in Advance A/c
- D. Rent Received in Advance A/c Dr. To Cash A/c

LEDGER

- 49) Ledger is also known as:
- A. Book of original entry
 - B. Book of final entry**
 - C. Book of cash transactions
 - D. Book of accounts
- 50) The word "Ledger" is derived from which language?
- A. Latin
 - B. French
 - C. Dutch**
 - D. German
- 51) Posting is the process of:
- A. Recording in journal
 - B. Recording in cash book
 - C. Transferring journal entries to ledger**
 - D. Preparing trial balance
- 52) A group of accounts is called:
- A. Journal
 - B. Ledger**
 - C. Trial Balance
 - D. Balance Sheet
- 53) The ledger account is divided into:
- A. Two parts - assets and liabilities
 - B. Two sides - debit and credit**
 - C. Three columns
 - D. Journal and balance
- 54) The left side of a ledger account is called:
- A. Credit side
 - B. Balance side
 - C. Debit side**
 - D. Asset side
- 55) Which document is used for posting to the ledger?
- A. Voucher
 - B. Invoice
 - C. Journal**

D. Balance Sheet

56) In the ledger, "To" is written on:

A. Both sides

B. Credit side

C. Debit side

D. None of the above

57) "By" is written on which side of the ledger?

A. Debit side

B. Credit side

C. Asset side

D. Expense side

58) The process of totaling both sides of a ledger account is called:

A. Posting

B. Casting

C. Closing

D. Balancing

59) The balance of a real account is usually:

A. Transferred to P&L

B. Closed at year-end

C. Carried forward to the next year

D. Ignored

60) The balance of a nominal account is transferred to:

A. Balance Sheet

B. Trading Account

C. Profit & Loss Account

D. Capital Account

61) Which account is affected when goods are sold for cash?

A. Sales A/c and Debtor's A/c

B. Cash A/c and Sales A/c

C. Sales A/c and Purchases A/c

D. Cash A/c and Purchases A/c

62) If cash is paid to creditors, which account is credited?

A. Creditor's A/c

B. Purchases A/c

C. Cash A/c

D. Sales A/c

63) If commission is received, which account is debited?

Financial Accounting

A. Commission A/c

B. Cash A/c

C. Bank A/c

D. Capital A/c

64) Ledger accounts are balanced to:

A. Post entries

B. Prepare journal

C. Check arithmetical accuracy

D. Prepare trial balance

65) A credit balance in the ledger usually represents:

A. Asset

B. Expense

C. Income or liability

D. Loss

SUBSIDIARY BOOKS

66) Subsidiary books are also known as:

- A. Final books
- B. Ledger books
- C. Books of original entry
- D. Books of analysis

67) Which of the following is not a subsidiary book?

- A. Sales Book
- B. Journal Proper
- C. Ledger
- D. Cash Book

68) Outward Invoice issued is a source document of

- A. Purchase Book
- B. Sales Book
- C. Return Inward Book
- D. Return Outward Book

69) _____ voucher denotes payment of cash.

- A. Cash Payment
- B. Cash Receipt
- C. Bank Payment
- D. All of the above

70) All credit sale of goods are recorded in

- A. Cash Book
- B. Purchase Book
- C. Sales Day Book
- D. Bills Receivable Book

71) If any transaction is not recorded in the primary books the same is recorded in

- A. Journal Proper
- B. Sales Day Book
- C. Cash Book
- D. None of the above

72) 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

73) Journal Proper is used to record:

- A. All credit transactions
- B. Opening and closing entries and other adjustments
- C. All cash payments
- D. All credit sales**

74) Purchase of a fixed asset on credit basis is recorded in

- A. Cash book
- B. Purchases book
- C. Journal proper**
- D. None of the above

75) Name the book in which, entries are recorded on the basis of debit notes issued.

- A. Sales book
- B. Purchase Book
- C. Sales Return Book
- D. Purchase Return Book**

76) 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

77) Which book records all types of receipts and payments of cash including bank transactions?

- A. Ledger
- B. Cash Book**
- C. Journal
- D. Sales Book

78) The book in which non-routine transactions like depreciation or bad debts written off are recorded is:

- A. Cash Book
- B. Journal Proper**
- C. Ledger
- D. Sales Book

79) A three-column cash book records:

- A. Only cash transactions
- B. Cash and discount
- C. Cash, bank, and discount**

D. Cash and bank only

80) Which book is maintained to record petty, day-to-day expenses?

A. Cash Book

B. Journal

C. Petty Cash Book

D. Sales Book

TRIAL BALANCE

- 81) Trial balance is a:
- A. Financial statement
 - B. Book of original entry
 - C. Statement of debit and credit balances**
 - D. Summary of cash transactions
- 82) Trial balance is prepared after:
- A. Journal entries
 - B. Posting to ledger
 - C. Balancing of ledger accounts
 - D. All of the above**
- 83) Which of the following purpose is served from the preparation of Trial Balance?
- A. To check the arithmetical accuracy of the recorded transactions
 - B. To ascertain the balance of any ledger account
 - C. To facilitate the preparation of final accounts promptly
 - D. All of the above.**
- 84) Trial balance is prepared:
- A. At the end of the month
 - B. Daily
 - C. At the end of the year
 - D. At the end of an accounting period**
- 85) Which of the following is not a feature of Trial Balance
- A. It is a list of debit and credit balances which are extracted from various ledger accounts;
 - B. It does not prove arithmetical accuracy which can be determined by audit;
 - C. It is not an account. It is only a statement of account;
 - D. All the transactions are primarily recorded in this book; hence it is the primary book of entry.**
- 86) A suspense account facilitates the preparation of ___ even when the ___ has not tallied.
- A. Ledgers; Trial balance
 - B. Financial statements; Trial Balance**
 - C. Trial balance; Financial statements
 - D. Journal; Trial balance
- 87) If total debits equal total credits in a trial balance, it indicates:
- A. No fraud

- B. Accuracy of transactions
- C. No errors in the books
- D. Arithmetical accuracy**

88) A trial balance includes:

- A. Only nominal accounts
- B. Only real accounts
- C. Only personal accounts
- D. All ledger account balances**

89) Trial balance does not include:

- A. Capital
- B. Drawings
- C. Sales**
- D. Net Profit**

90) The accountant of the firm M/s ABC is unable to tally the following trial balance.

S. No.	Account heads	Debit (₹)	Credit (₹)
1.	Sales		15,000
2.	Purchases	10,000	
3.	Miscellaneous expenses	2,500	
4.	Salaries		2,500
	Total	12,500	17,500

The above difference in trial balance is due to

- A. Wrong placing of sales account
- B. Wrong placing of salaries account**
- C. Wrong placing of miscellaneous expenses account
- D. Wrong placing of all accounts

91) If the trial balance does not agree, the difference is put in:

- A. Profit & Loss Account
- B. Trading Account
- C. Suspense Account**
- D. Balance Sheet

92) Which of these is not a method of preparing a trial balance?

- A. Total method
- B. Balance method
- C. Total and Balance method
- D. Schedule method**

ACCOUNTING PRINCIPLES, CONCEPTS AND CONVENTIONS

1. The Full form of GAAP is__
 - A. Generally Accepted Accounting Principles
 - B. Generally Accepted Accountancy Principles
 - C. Globally Accepted Accounting Principles
 - D. Global Accounting Accepted Principles
2. Fundamental accounting assumption is
 - A. Materiality
 - B. Business entity
 - C. Going concern
 - D. Dual aspect
3. Which of the following is not a Fundamental Accounting Assumption?
 - A. Going Concern
 - B. Consistency
 - C. Accrual
 - D. Materiality
4. The business is treated as distinct and separate from its owners based on the
 - A. Going concern concept
 - B. Conservatism concept
 - C. Matching concept
 - D. Business entity concept
5. Transactions between owner and business are recorded as per
 - A. Periodicity concept
 - B. Going concern concept
 - C. Prudence concept
 - D. Business Entity concept
6. Capital is shown on the liability side because of:
 - A. Business Entity Concept.
 - B. Conservatism Concept.
 - C. Accrual Concept.
 - D. Duality Concept.
7. Dual aspect concept in accounting results in the following equation:
 - A. Capital + Liability = Assets
 - B. Revenue = Expenses
 - C. Capital + Profit = Assets

- D. Total Assets = Total Liability
8. 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
9. 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**
10. The concept that business is assumed to exist for an indefinite period and is not established with the objective of closing down is referred to as
- A. Money Measurement concept
 - B. Going Concern concept**
 - C. Full Disclosure concept
 - D. Dual Aspect concept
11. Payment of ₹ 1,00,000 towards salaries and wages results in:
- A. Increase in equity by ₹ 1,00,000.
 - B. Decrease in equity by ₹ 1,00,000.
 - C. Decrease in equity by ₹ 1,00,000, if it does not include any advance payment of salaries and wages.**
 - D. None of the above.
12. Both total assets and owners' capital are increased by....
- A. Credit Purchase
 - B. Retained Earning**
 - C. Bank Loan
 - D. Drawings
13. X Ltd., purchased goods for ₹ 5 lakh and sold 9/10th of the value of goods for ₹ 6 lakh. Net expenses during the year were ₹ 25,000. The company reported its net profit as ₹ 75,000. Which of the following concept is violated by the company?
- A. Realization
 - B. Conservation
 - C. Matching**

- D. Accrual
14. A businessman purchased goods for ₹ 25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2020. The market value of the remaining goods was ₹ 4,00,000. He valued the closing stock at cost. He violated the concept of
- A. Money measurement
 - B. Conservatism**
 - C. Cost
 - D. Periodicity
15. Payment received from Debtor
- A. Decreases the Total Assets
 - B. Increases the Total Assets
 - C. Results in no change in the Total Assets**
 - D. Increases the Total Liabilities
16. _____ contains the transactions relating to goods that are returned by us to our creditors
- A. Return Inward;
 - B. Return Outward;**
 - C. Sales Daybook;
 - D. None of the above.
17. The basic principles of _____ concept is that business is assumed to exist for an indefinite period
- A. Going Concern;**
 - B. Business Entity;
 - C. Money Measurement;
 - D. None of the above.
18. The concept that business is assumed to exist for an indefinite period and is not established with the objective of closing down is referred to as
-
- A. Money Measurement concept
 - B. Going Concern concept**
 - C. Full Disclosure concept
 - D. Dual Aspect concept
19. Name the principle involved in the classification of Assets as Fixed and Current-
- A. Cost Principle
 - B. Going Concern Principle**
 - C. Matching Principle
 - D. Prudence Principle

20. If a concern proposes to discontinue its business from March 2023 and decides to dispose off all its assets within a period of 4 months, the Balance Sheet as on March 31, 2023 should indicate the assets at their
- A. Historical cost
 - B. Net realizable value**
 - C. Cost less depreciation
 - D. Cost price or market value, whichever is lower
21. RPC Ltd. follows the written down value method of depreciating machinery year after year by applying the principle of
- A. Comparability
 - B. Convenience
 - C. Consistency**
 - D. All of the above.
22. Exception to consistency principle is
- A. Cost Principle
 - B. Going Concern Principle
 - C. Matching Principle
 - D. Prudence Principle**
23. 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
24. A change in accounting policy is justified
- A. To comply with accounting standards
 - B. To ensure more appropriate presentation of the financial statement of the enterprise.
 - C. To comply with the law.
 - D. All of the above.**
25. Purchases book records:
- A. All cash purchases
 - B. All credit purchases
 - C. Credit purchases of goods in trade**
 - D. None of the above
26. Materiality Principle is an exception to the
- A. Consistency principle

- B. Full disclosure Principle
 - C. Accounting Period Assumption
 - D. Prudence Principle
27. The determination of expenses for an accounting period is based on the principle of
- A. Objectivity
 - B. Materiality
 - C. Matching
 - D. Entity
28. Which of the following is not a sub-field of accounting?
- A. Management accounting
 - B. Cost accounting
 - C. Financial accounting
 - D. Book-keeping
29. It is essential to standardize the accounting principles and policies in order to ensure
- A. Transparency
 - B. Consistency
 - C. Comparability
 - D. All of the above
30. State the case where the going concern concept is applied?
- A. When an enterprise was set up for a particular purpose, which has been achieved, or to be achieved shortly
 - B. When a receiver or liquidator has been appointed in case of as a company which is to be liquidated
 - C. Fixed assets are acquired for use in the business for earning revenues and are not meant for resale
 - D. When San enterprise is declared sick
31. A purchased a car for ₹ 5,00,000, making a down payment of ₹ 1,00,000 and signing a ₹ 4,00,000 bill payable due in 60 days. As a result of this transaction
- A. Total assets increased by ₹ 5,00,000.
 - B. Total liabilities increased by ₹ 4,00,000.
 - C. Total assets increased by ₹ 4,00,000.
 - D. Total assets increased by ₹ 4,00,000 with corresponding increase in liabilities by ₹ 4,00,000

CAPITAL AND REVENUE TRANSACTIONS

1. The basic consideration(s) in the distinction between capital and revenue expenditure is/ are
 - A. Nature of business
 - B. Effect on revenue generating capacity
 - C. Purpose of expenses
 - D. All of the above
2. The outflow of funds to acquire an asset that will benefit the business for more than one accounting period is referred to as
 - A. Miscellaneous Expenditure
 - B. Revenue Expenditure
 - C. Capital Expenditure
 - D. Deferred Revenue Expenditure
3. An amount spent for replacement of worn-out part of machine is
 - A. Capital Expenditure
 - B. Revenue Expenditure
 - C. Deferred Revenue
 - D. Capital Loss
4. Which of the following is a Revenue Expenditure?
 - A. Construction of Factory shed.
 - B. Sales Tax paid in connection with purchase of Office Equipment.
 - C. Legal Expenses in connection with defending a title to firm's property.
 - D. License fees.
5. Wages is classified as
 - A. Capital Expenditure
 - B. Revenue expenditure
 - C. Both (a) and (b)
 - D. None of the above
6. Wages paid on installation of Machinery is classified as
 - A. Capital Expenditure
 - B. Revenue expenditure
 - C. Both (a) and (b)
 - D. None of the above
7. A firm of builders spent ₹ 4,00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public. The expenditure incurred for development is:
 - A. Capital

- B. Revenue
 - C. Deferred Revenue
 - D. None of the above
8. 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.
9. 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
10. Which of the following is an example of Capital Expenditure?
- A. Inventory of raw materials, work-in-progress and finished goods;
 - B. Insurance premium;
 - C. Taxes and legal expenses;
 - D. None of the above.
11. Which of the following is/are revenue expenditure?
- A. Consumable Stores
 - B. Taxes and legal expenses
 - C. Rent of factory building
 - D. All of Above
12. 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
13. Amount spent on increasing the seating capacity in the cinema hall is a
- A. Capital expenditure
 - B. Deferred revenue expenditure
 - C. Revenue expenditure
 - D. None of the above
14. ₹ 2,500 spent on the overhaul of a machine purchased second-hand is
- A. Capital expenditure
 - B. Deferred revenue expenditure

- C. Revenue expenditure
 - D. None of the above
15. Depreciation of fixed assets is an example of _expenditure.
- A. Revenue
 - B. Deferred revenue
 - C. Capital
 - D. None of the above
16. A bad debt recovered during the year is a
- A. Capital expenditures
 - B. Revenue expenditures
 - C. Capital receipt
 - D. Revenue receipt
17. ₹ 5,000 was spent by Saroj for addition to machinery in order to increase the production capacity. The amount is-
- A. Revenue in nature
 - B. Deferred revenue in nature
 - C. Capital in nature
 - D. Liability in nature
18. Amount spent by a publisher for acquiring copyrights is a
- A. Capital expenditure
 - B. Deferred revenue expenditure
 - C. Revenue expenditure
 - D. None of the above
19. Mohan runs a restaurant. He renovates some of the old cabins to increase some space. The amount of ₹ 15,000 was incurred on renovation. The amount to be charged to profit and loss account is
- A. Nil.
 - B. ₹ 15,000.
 - C. ₹ 10,000.
 - D. None of the above
20. Amount received on sale of fixed asset is a
- A. Revenue receipt
 - B. Capital receipt
 - C. Both (a) and (b)
 - D. None of the above

BANK RECONCILIATION STATEMENT

1. Bank Reconciliation Statement is prepared by
 - A. The bank
 - B. The auditor
 - C. The Accountholder
 - D. All of the above
2. Bank Reconciliation Statement is-
 - A. Ledger Account
 - B. Part of Cash Book
 - C. A separate statement
 - D. A sub-division of Journal
3. Bank Reconciliation Statement is prepared to:
 - A. rectify the mistakes in pass book.
 - B. to rectify the mistakes in cash book.
 - C. to arrive at balance as per bank statement.
 - D. to find the reasons of differences in balance as per Cash Book and Bank Statement.
4. Bank statements are prepared by
 - A. Banks
 - B. Customers
 - C. Auditors
 - D. Any of the above
5. Favourable balance in bank statement is-
 - A. Credit Balance
 - B. Debit Balance
 - C. Bank Overdraft
 - D. Adjusted cash book balance
6. Overdraft balance in bank statement is-
 - A. Credit Balance
 - B. Debit Balance
 - C. Bank Overdraft
 - D. Adjusted cash book balance
7. Credit balance in the cash book means
 - A. Overdraft as per passbook
 - B. Favorable balance as per passbook

- C. Both (a) and (b).
D. None of the above.
8. A Cash deposit made by business appears on the bank statement in _____ Column
- A. Debit
B. Credit
C. Expenses
D. Liability
9. 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
10. The cash book showed an overdraft of ₹ 1,500, but the pass book made up to the same date showed that cheques of ₹ 100, ₹ 50 and ₹ 125 respectively had not been presented for payments; and the cheque of ₹ 400 paid into account had not been cleared. The balance as per the pass book will be
- A. ₹ 1,100
B. ₹ 2,175
C. ₹ 1,625
D. ₹ 1,375
11. The Bank Account of Mukesh was balanced on 31st March, 2024. It showed an overdraft of ₹ 91,000. It was observed that one cheque amounting ₹ 20,000 deposited but not collected by bank till 31st March. Bank charges of ₹ 500 were also charged by the bank during March but accounted in the book of Mukesh on April 4, 2024. The bank statement of Mukesh shows balance of-
- A. ₹ 70,500**
B. ₹ 69,500
C. ₹ 70,000
D. ₹ 50,000
12. Debit balance as per Cash Book of ABC Enterprises as on 31.3.2023 is ₹ 1,500. Cheques deposited but not cleared amounts to ₹100 and Cheques issued but not presented of ₹ 150. The bank allowed interest amounting ₹50 and collected dividend ₹ 50 on behalf of ABC Enterprises. Balance as per pass book should be

- A. ₹ 1,600
 - B. ₹ 1,450
 - C. ₹ 1,850
 - D. ₹ 1,650
13. When preparing a Bank Reconciliation Statement, if you start with a debit balance as per the Cash Book, then cheques issued but not presented within the period are
- A. Added
 - B. Deducted
 - C. Not required to be adjusted
 - D. None of the above
14. Under bank reconciliation statement, while adjusting the cash book
- A. All the errors and omissions in the cashbook are taken into consideration
 - B. All the errors and omissions in the passbook are taken into consideration
 - C. Delays in recording in the passbook due to difference in timing are taken into consideration
 - D. All of the above
15. A purchase of ₹ 1,870 by cheques has been wrongly posted in the cashbook as ₹ 1,780.
- This has the effect of
- A. Increasing the bank balance by ₹90
 - B. Decreasing the bank balance by ₹90
 - C. Increasing the bank balance by ₹180
 - D. Decreasing the bank balance by ₹180
16. In the bank reconciliation statement, when balance as per the cashbook is taken as the starting point, then direct deposits from the customer of ₹ 2,500 in the bank will be-
- A. Added
 - B. Subtracted
 - C. Ignored
 - D. None of the above
17. Debit balance as per Cash Book of Topsy Enterprise as on 31.3.2024 is ₹ 1,500. Cheques deposited but not cleared amounts to ₹ 100 and Cheques issued but not presented of ₹ 150. The bank allowed interest amounting ₹ 50 and collected dividend ₹ 50 on behalf of Topsy Enterprise. After reconciliation, balance as per pass book should be
- A. ₹ 1,600

- B. ₹ 1,450
C. ₹ 1,650
D. ₹ 1,850
18. There was difference in the bank column of cash book and passbook by ₹ 2,500. On scrutiny it was found that interest of ₹ 500 charged directly by the bank was not entered in the cash book. The same was adjusted in the cashbook before reconciliation statement. Now, in the bank reconciliation statement, this interest of ₹ 500 is to be-
- A. Added to the cash book balance.
B. Subtracted from the cash book balance.
C. Ignored while preparing bank reconciliation statement.
D. None of the above.
19. When balance as per cash book (debit balance) as on 31st March is the starting point, what will be the effect while preparing bank reconciliation statement when out of the cheques amounting to ₹ 5,000 deposited, cheques aggregating ₹ 1,500 were credited in March and cheques aggregating ₹ 2,000 credited in April and the rest have not been collected?
- A. Subtract ₹ 2,000.
B. Add ₹ 2,000.
C. Subtract ₹ 3,500.
D. Add ₹ 3,500.
20. A cheque returned by bank marked 'NSF' means
- A. Bank can't verify your identity
B. Check has been forged
C. Check can't be cashed being out of date
D. There is not sufficient fund in your account

BILLS OF EXCHANGE

1. 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
2. The person to whom bill is endorsed is known as.
 - A. Endorsee
 - B. Drawee
 - C. Drawer
 - D. None of the above
3. If the date of maturity of a bill is a holiday, then the bill will mature on:
 - A. Next working day
 - B. Preceding working day.
 - C. Holiday itself.
 - D. Other agreed day.
4. The date of maturity of bill is 10th October, 2009. The Government of India suddenly declared 10th October, 2009 as the holiday under the Negotiable Instruments Act, then the bill will mature on -
 - A. 9th October, 2009
 - B. 10th October, 2009.
 - C. 12th October, 2009.
 - D. 11th October, 2009.
5. 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
6. On 1st January, 2024, Vimal sold goods worth ₹20,000 to Renu and drew a bill on Renu for 3 months. Renu accepted the bill and returned it to Vimal who discounted the bill with bank on 4th February, 2024 @ 15% per annum. The discounting charges will be:
 - A. ₹ 3,000
 - B. ₹ 750
 - C. ₹ 500
 - D. None of the three.
7. Kuntal draws a bill on Shyam for ₹ 7,000. Kuntal endorsed it to Ram. Ram endorsed it to Rahim. The payee of the bill will be:
 - A. Kuntal
 - B. Ram

- C. Shyam
D. Rahim
8. 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
9. Making payment before due date of the bill is called-
- A. Endorsement of bill
B. Renewal of bill
C. Retirement of bill
D. Rediscounting of bill
10. X draws a bill on Y for ₹ 20,000 for 3 months on 01.01.2024. The bill is discounted with banker at a charge of ₹ 100. At maturity the bill return dishonoured. In the books of X, for dishonour, the bank account will be credited by
- A. ₹ 19,900
B. ₹ 20,000
C. ₹ 20,100
D. ₹ 19,800
11. A draws a bill on B for Rs 30,000. A wants to endorse it to C in settlement of Rs 35,000 at 2% discount with the help of B's acceptance and balance in cash. How much cash A will pay to B?
- A. ₹ 4,300
B. ₹ 4,000
C. ₹ 4,100
D. ₹ 5,000
12. Bobby sold goods worth ₹ 25,000 to Bonny. Bonny immediately accepted a bill on 1.11.09, payable after 2 months. Bobby discounted this bill @ 18% p.a. on 15.11.09. On the due date Bonny failed to discharge the bill. Later on Bonny became insolvent and 50 paise is recovered from Bonny's estate. How much amount of bad debt will be recorded in the books of Bobby?
- A. ₹ 12,500
B. ₹ 9,437
C. ₹ 11,687
D. ₹ 13,650
13. Ram's acceptance to Dinesh for Rs 8,000 renewed for 3 months on the condition that Rs 4,000 be paid in cash immediately and the remaining amount will carry interest @ 12% p.a. The amount of interest will be
- A. ₹ 120
B. ₹ 80
C. ₹ 90

- D. ₹ 160
14. A drew a bill on B for ₹ 50,000 for 3 months. Proceeds are to be shared equally. A got the bill discounted at 12% p.a. and remits required proceeds to B. The amount of such remittance will be
- A. ₹ 24,250
B. ₹ 25,000
C. ₹ 16,167
D. ₹ 32,333
15. Noting charges are paid at the time of ___ of a bill.
- A. Retirement
B. Renewal
C. Dishonor
D. None of the above
16. A bill of ₹ 12,000 was discounted by A with the banker for ₹ 11,880. At maturity, the bill returned dishonoured, noting charges ₹ 20. How much amount will the bank deduct from A's bank balance at the time of such dishonour?
- A. ₹ 12,000
B. ₹ 11,880
C. ₹ 12,020
D. ₹ 11,900
17. Our acceptance to Mr. A for ₹8,000 renewed for 3 months on the condition that ₹2,000 is paid in cash immediately and the bill for remaining balance to carry out interest at 18% p.a. The amount of the renewed bill of exchange will be
- A. ₹ 6,270
B. ₹ 8,270
C. ₹ 8,000
D. None of the three
18. Mohit, the acceptor of the bill has to honour a bill on 31st March 2010. Due to financial crisis, he is unable to pay the amount of bill of ₹ 20,000. Therefore, he approaches Rohit on 20th March 2010 for extension of bill for further 3 months. Rohit agrees to extend the credit period by drawing a new bill for ₹ 21,000 together with interest of ₹ 1,000 in cash. In this case, old bill of ₹ 20,000 will be considered as
- A. Discounted
B. Dishonoured
C. Cancelled
D. Retired
19. A draws a bill on B for ₹ 30,000 for mutual accommodation. A discounted that bill for ₹28,000 from bank and remitted ₹ 14,000 to B. On due date A will send to B-
- A. ₹ 14,000

B. ₹ 14,500

C. ₹ 15,000

D. ₹ 15,500

20. On 1st January 2024 Nisha draws a bill for ₹ 5,000 on Disha for 3 months for mutual accommodation. On the same day, Disha draws a bill for ₹ 6,000 on Nisha for 4 months. Both the bills were discounted with the bank for ₹ 4,850 and ₹ 5,700 respectively. 50% of the receipt was sent to the other party. First bill was met on its due date. On the maturity date of Nisha's acceptance, Disha will send-

A. ₹ 3,000

B. ₹ 2,850

C. ₹ 2,425

D. ₹ 2,500

ACCOUNTING FOR CONSIGNMENT

1. A proforma invoice is sent by
 - A. Consignee to Consignor
 - B. Consignor to Consignee**
 - C. Debtors to Consignee
 - D. Debtors to Consignor
2. Del credere commission is allowed to consignee
 - A. for making cash sales
 - B. for making credit sales
 - C. for making extra sales
 - D. for undertaking risk of bad debts**
3. 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
4. Which of the following statement is not true:
 - A. If del-credere commission is allowed, bad debt will not be recorded in the books of consignor
 - B. If del-credere commission is allowed, bad debt will be debited in consignment account**
 - C. Del-credere commission is allowed by consignor to consignee
 - D. Del-credere commission is generally given to promote credit sales
5. 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
6. The additional commission payable to the consignee for taking over additional responsibility of collecting money from customers is known as
 - A. Del-Credere Commission**
 - B. Ordinary Commission
 - C. Over - riding commission
 - D. None of the above
7. The owner of the consignment stock is
 - A. Consignor**
 - B. Consignee
 - C. Debtors
 - D. None

8. The unsold stock on consignment is valued at-
 - A. Original cost of the goods
 - B. Original cost + All expenses incurred by both Consigner and Consignee
 - C. Original cost + Non recurring expenses incurred by Consigner
 - D. Original cost + Non recurring expenses incurred by both Consigner and Consignee**
9. Consignment stock is recorded at
 - A. Cost Price
 - B. Net Realisable value
 - C. Selling Price
 - D. Lower of (a) and (b)**
10. In the books of consigner, the profit of consignment will be transferred to-
 - A. General Trading A/c
 - B. General P/L A/c**
 - C. Drawings A/c
 - D. None of the above
11. Goods costing ₹ 4,80,000 were sent on consignment basis. Goods are invoiced at 125% of the cost price. The invoice price and the loading will be:
 - A. ₹ 6,00,000 and ₹ 1,00,000.
 - B. ₹ 5,00,000 and ₹ 1,00,000.
 - C. ₹ 6,00,000 and ₹ 1,20,000.**
 - D. ₹ 5,00,000 and ₹ 1,20,000.
12. X sent out certain goods to Y of Delhi. 1/10 of the goods were lost in transit. Invoice value of goods lost ₹ 12,500. Invoice value of goods sent out on consignment will be:
 - A. ₹ 120,000
 - B. ₹ 125,000**
 - C. ₹ 140,000
 - D. ₹ 1,00,000
13. X of Kolkata sends out goods costing ₹ 3,00,000 to Y of Mumbai at cost + 25%. Consignor's expenses ₹ 5,000. 1/10th of the goods were lost in transit. Insurance claim received ₹ 3,000. The net loss on account of abnormal loss is
 - A. ₹ 27,500**
 - B. ₹ 25,500
 - C. ₹ 30,500
 - D. ₹ 27,000
14. P of Faridabad sent out goods costing ₹ 45,000 to Y of Delhi at cost + 33-1/3%. 1/10th of goods were lost in transit. 2/3rd of the goods received are sold at 20% above invoice price. The amount of sale value will be:
 - A. ₹ 54,000
 - B. ₹ 43,200**
 - C. ₹ 60,000
 - D. ₹ 36,000

15. X of Kolkata sends out goods costing ₹ 1,00,000 to consignee Y of Delhi. 3/5th of the goods were sold by consignee for ₹ 70,000. Commission 2% on sales plus 20% of gross sales less all commission exceeds cost price. The amount of Commission will be:
- ₹ 2,833
 - ₹ 2,900
 - ₹ 3,000
 - ₹ 2,800
16. Rahim of Kolkata sends out 1,000 boxes to Ram of Delhi costing ₹ 100 each at an Invoice Price of ₹ 120 each. Goods send out on consignment to be credited in general trading account will be:
- ₹ 1,00,000
 - ₹ 1,20,000
 - ₹ 20,000
 - None of the above
17. Deepak consigned 100 sets of TVs to Sudeep @ ₹10,000 each. 5 TVs were damaged in transit due to unavoidable reason whose price was adjusted in the remaining TVs. The new price of each TV will be
- ₹ 10,000
 - ₹ 10,200
 - ₹ 15,000
 - ₹ 10,526
18. Abnormal loss on consignment is credited to
- Profit and Loss account.
 - Consignee's account.
 - Consignment account.
 - None of the three.
19. C Ltd. recorded the following information as on March 31, 2010:
- | | |
|----------------------------|----------|
| Stock as on April 01, 2009 | 80,000 |
| Purchases | 1,60,000 |
| Sales | 2,00,000 |
- It is noticed that goods worth ₹ 30,000 were destroyed due to fire. Against this, the insurance company accepted a claim of ₹ 20,000. The company sells goods at cost plus 33-1/3 %. The value of closing inventory, after taking into account the above transactions is,
- ₹ 10,000
 - ₹ 30,000
 - ₹ 1,00,000
 - ₹ 60,000
20. _____ is unavoidable and should be spread over the entire consignment while valuing consignment stock.
- Abnormal loss

- B. Normal loss**
C. Extra-ordinary loss
D. None of the above
21. Sujal consigned goods costing ₹ 2,50,000 to Mridul on 1st January 2010 by incurring ₹ 20,000 on freight. Some goods were lost in transit. For remaining goods Mridul spend ₹15,000 to take the delivery including storage charges. During the quarter, Mridul sold $\frac{3}{4}$ of the goods received by him for ₹ 3,00,000 and charged commission @10% on it to Sujal. At the end of the quarter, Sujal asked the details of goods lost, sold, expenses commission and balance due to him alongwith the consignment stock from Mridul. As desired, Mridul sent the periodical detail statement commonly known as
- A. Account statement
B. Account sales
C. Statement of affairs
D. Summary statement
22. X of Kolkata sent out 2,000 boxes costing 100 each with the instruction that sales are to be made at cost + 45%. X draws a bill on Y for an amount equivalent to 60% of sales value. The amount of bill will be-
- A. ₹ 1,74,000**
B. ₹ 2,00,000
C. ₹ 2,90,000
D. ₹ 1,20,000
23. A consignee sold goods costing ₹ 50,000 at a profit of ₹ 10,000. Out of total sales, 30% was credit sale. As per the agreement the consignee will get 5% ordinary commission, 2% del-credere commission on credit sale and 3% over-riding commission on amount in excess of cost price. The amount of commission will be
- A. ₹ 3,360
B. ₹ 3,660
C. ₹ 4,500
D. ₹ 3,000
24. Expenses incurred by the consignor on sending the goods to the consignee is ₹1,000 for insurance, ₹ 1,500 on freight and ₹500 on packing the goods. While expenses incurred by the consignee on behalf of the consignment are ₹ 800 on octroi, ₹ 600 as godown charges and ₹ 1,200 as selling expenses. The amount to be excluded while calculating consignment stock will be:
- A. ₹ 2,600
B. ₹ 600
C. ₹ 1,200
D. ₹ 1,800
25. 1,000 Kg. of Mangoes were consigned to a wholesaler, the cost being ₹ 3 per kg. plus ₹ 400 freight. Loss of 15% of Mangoes is unavoidable. 750 kgs. were sold by the consignee. The remaining stock of 100 kg. will be valued at-

- A. ₹ 300.
- B. ₹ 500.
- C. ₹ 400.
- D. None of the above.

ACCOUNTING FOR JOINT VENTURE

1. The parties to joint venture is called
 - A. **Co-venturers**
 - B. Partners
 - C. Principal & Agent
 - D. Friends
2. If any stock is taken by a co-venturer, it will be treated as
 - A. **an income of the joint venture.**
 - B. an expense of the joint venture.
 - C. to be ignored from joint venture.
 - D. it will be treated in the personal books of the co-venturer.
3. Capital Accounts of the co-venturers are of the nature of
 - A. **Personal Account**
 - B. Nominal Account
 - C. Real Account
 - D. None of the above
4. Which of the following is/ are the basic features of a Joint Venture
 - A. The profit or loss on joint venture is shared between the co-venturers in the agreed ratio
 - B. The co-venturers may or may not contribute initial capital
 - C. The JV is dissolved once the purpose of the business is over
 - D. **All of the above**
5. Joint venture account is a
 - A. Personal account.
 - B. Real account.
 - C. **Nominal account.**
 - D. None of the three.
6. Peeru and Simu 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
7. Memorandum Joint Venture Account is prepared when
 - A. the separate set of books is maintained for Joint Venture.
 - B. each Co-venturer keeps records of all transactions.
 - C. **each Co-venturer keeps records of their own transactions only.**
 - D. All of the above cases
8. Memorandum Joint Venture Account is prepared .
 - A. for determining the amount due to co-venturer

- B. for determining the amount due from co-venturer
C. for ascertaining the profit/ loss on venture
D. None of the above
9. If a venturer draws a bill on his co-venturer and if the drawer discounts the bill with same sets of books maintained, the discounting charges will be borne by
- A. The drawer of the bill
B. The drawee of the bill
C. The discounting charges will be recorded in memorandum account
D. The discounting charges will be borne by bank
10. 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
11. A and V enter into a joint venture to sell a consignment of biscuits sharing profits and losses equally. A provided biscuits from stock ₹ 10,000. He paid expenses amounting to ₹ 1,000. V incurred further expenses on carriage ₹ 1,000. He receive cash for sales ₹ 15,000. He also took over goods to the value of ₹ 2,000. The profit on joint venture will be-
- A. ₹ 3,000
B. ₹ 5,000
C. ₹ 6,000
D. ₹ 3,500
12. Ram and Shyam enter into a joint venture. Both of them deposited ₹65,000 and ₹32,500 respectively into a joint venture. Goods were purchased for ₹75,000 and expenses amounting ₹10,950 were incurred. Goods sold for ₹90,000 and goods unsold were taken over by Ram at an agreed value of ₹2,700. The profit on joint venture is:
- A. ₹ 17,700
B. ₹ 4,500
C. ₹ 4,050
D. ₹ 6,750
13. A and B enter into a joint venture for purchase and sale of Type-writer. A purchased Typewriter costing ₹ 1,00,000. Repairing expenses ₹ 10,000, printing expenses ₹ 10,000. B sold it at 20% margin on selling price. The sales value will be:
- A. ₹ 1,25,000

- B. ₹ 1,50,000
 C. ₹ 1,00,000
 D. ₹ 1,40,000
14. A and B enter into a joint venture to underwrite the shares of K Ltd. @ 5% underwriting commission. K Ltd. make an equity issue of 1,00,000 equity shares of ₹ 10 each. 80% of the issue are subscribed by the party. The profit sharing ratio between A and B is 3:2. The balance shares not subscribed by the public, purchased by A and B in profit sharing ratio. How many shares to be purchased by A?
- A. 80,000 shares
 B. 72,000 shares
C. 12,000 shares
 D. 8,000 shares
15. A and B entered into a Joint Venture. A purchased goods costing ₹ 2,00,000, B sold $\frac{4}{5}$ th of the same for ₹ 2,50,000. Balance goods were taken over by B at cost less 20%. If same set of books is maintained, find out profit on venture
- A. ₹ 82,000**
 B. ₹ 90,000
 C. ₹ 50,000
 D. Nil.
16. If unsold goods costing ₹ 20,000 is taken over by Venturer at ₹ 15,000, the Joint Venture A/c will be credited by:
- A. ₹ 20,000
B. ₹ 15,000
 C. ₹ 5,000
 D. Nil
17. In a joint venture between A and B, A purchased goods costing ₹ 42,500. B sold goods costing ₹ 40,000 at ₹ 50,000. Balance goods were taken over by A at same gross profit percentage as in case of sale. The amount of goods taken over by A will be:
- A. ₹ 3,125**
 B. ₹ 2,500
 C. ₹ 3,000
 D. None of the above
18. Memorandum Joint venture account is a
- A. Personal account
 B. Real account
C. Nominal account
 D. None of the above
19. Generally, when the size of the venture is, the co-venturers keep separate set of books of account for the joint venture.
- A. Small
 B. Medium

C. Large

D. All of the above

20. In a Joint venture between A and B, A, on purchase of goods, spend ₹2,000 on freight, ₹1,000 as godown rent, and also raised a loan from bank of ₹50,000 at 18% p.a. repayable after 1 month. B spend ₹ 5,000 as selling expenses and he also raised a loan from bank of ₹1,50,000 at 18% repayable after 2 months. The total expenses of Joint venture other than purchases will be

A. ₹ 8,000

B. ₹ 8,250

C. ₹ 5,250

D. ₹ 13,250

21. Ram in a joint venture with Shyam purchased goods costing ₹ 20,000 and sends to Shyam for sale incurring ₹1,000 on freight. Shyam took the delivery and paid ₹ 500 as carriage. He sold the goods costing ₹ 18,000 for ₹ 25,000 and kept the remaining goods at cost price. Sharing equal profits of the venture, amount to be paid by Shyam to Ram will be:

A. ₹ 25,000

B. ₹ 22,250

C. ₹ 23,750

D. ₹ 24,500

ACCOUNTING FOR DEPRECIATION

1. Depreciation is a process of:
 - A. apportionment
 - B. valuation
 - C. allocation**
 - D. appropriation
2. Which of the following asset generally assumed not to depreciate
 - A. Machinery
 - B. Land**
 - C. Building
 - D. Both (b) and (c)
3. Depreciation charges are
 - A. Cash Expenses
 - B. Financial Expenses
 - C. Non-cash Expense**
 - D. Non-operating Expense
4. Under straight line method, depreciation is calculated on
 - A. Written down value.
 - B. Scrap value.
 - C. Original cost.**
 - D. None of the three.
5. _____ is especially suited to mines, oil wells, quarries, sandpits and similar assets of awasting character.
 - A. Depletion**
 - B. Depreciation
 - C. Amortization
 - D. Dilapidation
6. The cost of a Fixed Assets of a business has to be written off over its-
 - A. Natural Life
 - B. Accounting Life
 - C. Physical Life
 - D. Estimated Economic Life**
7. The estimated value of depreciable asset after its useful life is called
 - A. Actual Value
 - B. Book Value

- C. Disposal/ Residual Value
D. Current Value
8. Carriage charges paid for a new plant purchased if debited to carriage account would affect
- A. Plant account.
B. Carriage account.
C. Plant and carriage accounts.
D. None of the three.
9. The expired portion of capital expenditure is shown in the financial statements as
- A. As an income.
B. As an expense.
C. As an asset.
D. As a liability.
10. Depreciation starts on a machine from the date:
- A. It is purchased
B. It is put to use
C. It is installed
D. Any of the above
11. Sukku Limited purchased a machine on 1st July, 2023 for ₹ 8,90,000 and freight and transit insurance premium paid ₹ 25,000 and ₹ 15,000 respectively. Installation expenses were ₹ 40,000 and salvage value after 5 years will be ₹ 50,000. Under straightline method for the year ended 31st March, 2024 the amount of depreciation will be
- A. ₹ 1,35,750
B. ₹ 1,81,000
C. ₹ 1,84,000
D. ₹ 1,38,000
12. A second-hand car is purchased for ₹10,000, the amount of ₹ 1,000 is spent on its repairs, ₹ 500 is incurred to get the car registered in owner's name and ₹ 1,200 is paid as dealer's commission. The amount debited to car account will be
- A. ₹ 10,000
B. ₹ 10,500
C. ₹ 11,500
D. ₹ 12,700
13. Which of the following is / are the characteristic/s of depreciation

- A. It is a charge against profit.
 - B. It indicates diminution in service potential.
 - C. It is an estimated loss of the value of an asset. It is not an actual loss.
 - D. All of the above.**
14. Provision for depreciation Account is created by debiting to
- A. Machinery Account
 - B. Profit & Loss Account**
 - C. Profit & Loss Appropriation Account
 - D. None of these
15. 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**
16. Which of the following term is most suitable for writing off Patent?
- A. Depletion
 - B. Amortization**
 - C. Depreciation
 - D. All of the above
17. Purchase Cost of machinery ₹ 7,20,000; Carriage inwards ₹ 15,000; Transit insurance ₹ 8,000; Installation Charges ₹ 25,000; Workshop Rent ₹25,000; Salvage value ₹ 50,000 and estimated working life 8 years. On the basis of straight-line method, the amount of depreciation for third year will be
- A. ₹ 96,000
 - B. ₹ 89,750**
 - C. ₹ 88,750
 - D. ₹ 91,875
18. Mr. A purchased a machinery costing ₹ 1,00,000 on 1st October, 2023. Transportation and installation charges were incurred amounting ₹ 10,000 and ₹ 4,000 respectively. Market value of the machine was estimated at 1,20,000 on 31st March 2024. While finalising the annual accounts, A values the machinery at ₹ 1,20,000 in his books. Which of the following concepts was violated by A?
- A. Cost concept**
 - B. Matching concept
 - C. Realisation concept
 - D. Periodicity concept.

19. In the books of D Ltd. the machinery account shows a debit balance of ₹ 60,000 as on April 1, 2023. The machinery was sold on September 30, 2024 for ₹ 30,000. The company charges depreciation @ 20% p.a. on diminishing balance method. Profit / Loss on sale of the Machinery will be
- A. ₹ 13,200 profit
 - B. ₹ 13,200 loss**
 - C. ₹ 6,800 profit
 - D. ₹ 6,800 loss
20. An old furniture was purchased for ₹ 10,000; it was repaired for ₹ 100. The repairs account should be debited by
- A. ₹ 10,000
 - B. ₹ 10,100**
 - C. ₹ 100
 - D. Nil

BAD DEBT AND PROVISIONS

1. Provision for bad and doubtful debts is created in anticipation of actual bad debts on the basis of:
 - A. Business Entity Concept;
 - B. Conservatism Concept;
 - C. Accrual Concept;
 - D. Full Disclosure Concept.
2. Provision for bad debts is
 - A. Real Account
 - B. Nominal account
 - C. Personal account
 - D. None of the above
3. The determination of the amount of provision for doubtful debts is an accounting-
 - A. Policy.
 - B. Estimate.
 - C. Parameter.
 - D. None of the above
4. The debts which are not bad is known as
 - A. Good debt
 - B. Bad Debt
 - C. Doubtful Debt
 - D. None of the above
5. Bad debts Recovered ₹1,000. It will be
 - A. Credited to Bad debts A/c
 - B. Credited to debtor's personal A/c
 - C. Debited to creditor's personal A/c
 - D. Credited to bad debts recovered A/c
6. Bad debts Recovered ₹750. It will be
 - A. Credited to Bad debts A/c
 - B. Credited to debtor's personal A/c
 - C. Debited to creditor's personal A/c
 - D. Credited to bad debts recovered A/c
7. Suresh's Trial balance provides you the following information:
Bad debts ₹10,000
Provision for doubtful debts ₹15,000

- Suresh wants to make a provision of ₹ 20,000 at the end of the year. The amount debited to the Profit & Loss Account is
- A. ₹ 45,000
 - B. ₹ 5,000
 - C. ₹ 15,000**
 - D. None of the above
8. Opening and Closing balance of debtors are ₹ 30,000 & ₹40,000 respectively, Cash collected from debtors ₹ 2,40,000. Discount allowed is ₹15,000 for prompt payment. Bad Debts ₹ 10,000. The total goods sold on credit are .
- A. ₹ 2,55,000
 - B. ₹ 2,45,000
 - C. ₹ 2,95,000
 - D. ₹ 2,75,000**
9. 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
10. Gauri paid ₹ 1,000 towards a debt of ₹ 1,050, which was written off as bad debt in the previous year. Gauri's account should be credited with
- A. ₹ 1,000
 - B. ₹ 1,050
 - C. ₹ 50
 - D. None of the three**
11. Sundry debtors of M/s Santosh amounts to ₹ 25,000 and bad debts ₹3,000. M/s Santosh provides for Doubtful debts @ 2% and for discount @ 1%. The amount of net debtors to be shown in the Balance Sheet will be
- A. ₹ 21,560
 - B. ₹ 22,000
 - C. ₹ 21,780
 - D. ₹ 21,344

RECTIFICATION OF ERRORS

- Errors are ___ mistakes
 - Intentional.
 - Unintentional.**
 - Undetected.
 - None of the three.
- It is easy to detect ___ than to _____.
 - Frauds, Errors
 - Mistakes, Errors
 - Errors, Frauds.**
 - Errors, Mistakes.
- Which of the following errors is not disclosed by a Trial Balance?
 - Errors of Omission
 - Errors of Commission
 - Compensating Errors
 - All of the above**
- Which of the following cannot be detected by Trial Balance?
 - Errors of Omission;
 - Errors of Principal;
 - Errors of Mis posting;
 - All of the above.**
- Which of the following errors are not revealed by the Trial Balance:
 - Compensating errors**
 - Errors of commission
 - Wrong balancing of an account
 - Wrong totalling of an account
- Rectification of Errors are first entered in -
 - Journal Proper**
 - Subsidiary Books
 - Trial Balance
 - Ledger
- Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of
 - Omission
 - Commission
 - Principle**
 - Mis-posting
- A goods of the value ₹ 1,000 was returned by Debtor was taken into stock but no entry was made in the books. It is -
 - Error of commission
 - Error of omission**

- C. Error of Principle
D. Not an error
9. Salaries paid ₹ 4,500 is shown on credit side of Trial Balance. The debit side of Trial Balance will be -
A. Short by ₹ 4,500
B. Excess by ₹ 4,500
C. Short by ₹ 9,000
D. Excess by ₹ 9,000
10. If a purchase return of ₹84 has been wrongly posted to the debit of the sales return account, but had been correctly entered in the suppliers account, the total of the trial balance would show
A. the credit side to be ₹ 84 more than debit side
B. the debit side to be ₹ 84 more than credit side
C. the credit side to be ₹ 168 more than debit side
D. the debit side to be ₹ 168 more than credit side
11. If a sales return of ₹ 1,500 has been wrongly posted to the credit of the purchase returns account, but has been correctly entered in the debtors' account, the total of the
A. trial balance would show the debit side to be ₹3,000 more than the credit
B. trial balance would show the credit side to be ₹ 3,000 more than the debit
C. the debit side of the trial balance will be ₹1,500 more than the credit side
D. the credit side of the trial balance will be ₹1,500 more than the debit side
12. Which of the following errors will affect the trial balance?
A. Repairs to building wrongly debited to Building A/c
B. Total of Purchase Journal cast short by ₹ 1,000.
C. Freight paid on new machinery debited to Freight A/c
D. None of the three.
13. Following errors have been rectified at the end of the year:
i. The return inward book was undercast by ₹ 150.
ii. The return outward book was overcast by ₹ 1,000.
iii. A payment of ₹1,500 on account of salaries has been posted twice in the salaries account although entered correctly in the cashbook.
The above errors if rectified, will give correct trial balance. Before rectification, balance of suspense account was
A. ₹ 150 (Dr.)
B. ₹ 1,150 (Dr.)
C. ₹ 350 (Cr.)
D. ₹ 1,500 (Cr.)
14. ₹ 1,000 paid as rent to Krishna, the landlord, was debited to Krishna's personal account. This error will -
A. Affect the trial balance
B. Not affect the trial balance

- C. Affect the suspense account
D. None of the above.
15. Which of the following error is an error of omission?
A. Sale of ₹ 5,000 was written in the purchases journal.
B. Wages paid to Shyam has been debited to his account.
C. The total of the sales journal has not been posted to the sales account.
D. None of the above
16. An amount of ₹ 6,000 due from Anshul, which had been written off as a bad debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Anshul. The rectification entry will be
A. Anshul's A/c Dr. ₹ 6,000, To Suspense A/c ₹6,000.
B. Suspense A/c Dr. ₹ 6,000, To Bad debts recovered A/c ₹ 6,000.
C. Anshul's A/c Dr. ₹ 6,000, To Bad debts recovered A/c ₹ 6,000.
D. No rectification entry required.
17. After preparing the trial balance the accountant finds that the total of the debit side is short by ₹ 1,000. This difference will be-
A. Credited to suspense account.
B. Debited to suspense account.
C. Adjusted to any of the debit balance account.
D. Adjusted to any of the credit balance account.
18. A sale of ₹ 100 to A recorded in the Purchase Book would affect:
A. Sales Account
B. Purchases Returns Account
C. Sales Account, Purchases Account & A Account.
D. None of the above.
19. Goods purchased pass through sales book. Effect of this rectification will be-
A. Increase the gross profit
B. Decrease the gross profit
C. Have no effect on Gross Profit
D. Increase the net profit
20. Bad debt recovered credited to Debtors Account. Effect of this rectification will be-
A. Increase the gross profit
B. Have no effect on Gross Profit
C. Increase the net profit
D. Both (b) and (c)

FINAL ACCOUNT OF SOLE TRADES

- Arrangement of balance sheet in a proper way is known as
A. Marshalling of Balance Sheet
B. Formatting of Balance Sheet
C. Finalization of Balance Sheet
D. Grouping of Balance Sheet
- When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
A. ₹ 50,000
B. ₹ 44,000
C. ₹ 46,000
D. None of the above
- At the end of the year 2023-24, Prepaid Insurance Premium ₹7,500 appeared in the Trial Balance, it will be shown
A. only in Profit & Loss Account.
B. only in Balance Sheet.
C. both in Profit & Loss Account and in Balance Sheet.
D. not in Both in Profit & Loss Account and in Balance Sheet.
- Pre-paid insurance premium should be classified as a:
A. Current asset.
B. Fictitious asset.
C. Non-current asset.
D. None of the above.
- Drawings is shown in the Balance Sheet as-
A. As an addition to the Capital Account
B. A deduction from the Capital Account
C. Part of Current Liabilities
D. Part of Current Assets
- Which of the following relationships is/are false?
A. Net Profit = Gross Profit - Administration and Other expenses
B. Net Profit = Gross Profit + Administration expenses and Other expenses
C. Opening Stock + Purchases - Closing Stock = Cost of Sales
D. Both (b) and (c) above
- Which of the following is not part of financial statements?
A. Trading and Profit & Loss Account
B. Balance Sheet

C. Fund Flow Statement

D. Notes to Accounts

8. Which of the following is not part of financial statements?

A. Trading and Profit & Loss Account

B. Balance Sheet

C. Trial balance

D. Cash Flow Statement

9. While finalizing the current year's profit, the company realized that there was an error in the valuation of closing stock of the previous year. In the previous year, closing stock was valued more by ₹ 50,000. As a result

A. Previous year's profit is overstated and current year's profit is also overstated

B. Previous year's profit is understated and current year's profit is overstated

C. Previous year's profit is understated and current year's profit is also understated

D. Previous year's profit is overstated and current year's profit is understated

10. What would be the cost of Purchase from the following details-Opening Stock ₹ 4,000

Sales	₹ 45,000
Direct Expenses	₹ 5,000
Indirect Expenses	₹ 6,000
Closing Stock	₹ 2,000
Gross Profit	₹ 5,000

A. ₹ 28,000

B. ₹ 33,000

C. ₹ 32,000

D. ₹ 27,000

11. Following information is given

	Amount (₹)
Opening Stock	2,13,000
Purchase	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

12.

Sales : ₹ 45,000

Opening Stock : ₹ 18,000

Purchases : ₹ 30,000

Cost of Goods Sold : ₹ 27,000

Trading Expenses : ₹ 12,000

Net Profit is-

A. ₹ 6,000

B. ₹ 18,000

C. ₹ 12,000

D. None of the above

13. When Sales = ₹ 3,60,000, Purchase = ₹ 3,20,000, Opening Stock = ₹ 68,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be

A. ₹ 1,00,000

B. ₹ 44,000

C. ₹ 46,000

D. None of the above

14. The beginnings inventory of the current year is overstated by ₹ 5,000 and closing inventory is overstated by ₹ 12,000. These errors will cause the net income for the current year by

A. ₹ 17,000 (overstated)

B. ₹ 12,000 (understated)

C. ₹ 7,000 (overstated)

D. ₹ 7,000 (understated)

15. Net realizable value is -

A. Estimated selling price

B. Estimated Cost Price plus Marketing cost

C. Estimated Selling price less cost incurred in order to make sale.

D. Estimated Selling price plus cost incurred in order to make sale.

16. _____ is equal to estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

A. Net Realizable value

B. Cost of Conversion

C. Cost of Purchase

D. None of the above

17. The General Manager is entitled to a commission of 10% on net profit after charging the commission of Works Manager. The Works Manager is entitled to a commission of 5% on the net profits after charging the commission of General Manager. The profit before charging any commission is ₹ 7,500. The commission of the Work Manager to the nearest rupee will be:
- A. ₹ 321
 - B. ₹ 333
 - C. ₹ 337
 - D. ₹ 326
18. 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
19. _____ are investments which are held beyond the current period as to sale or disposal.
- A. Non-current Investments
 - B. Current Investments
 - C. Current Liabilities
 - D. None of the above
20. Repairs and Maintenance of Delivery Vans is
- A. Selling and Distribution Expenses
 - B. Indirect Expenses
 - C. Administration Expenses
 - D. Both (a) & (b)
21. Rent paid on 1st October, 2022 for the year to 30th September, 2023 was ₹ 1,200 and rent paid on 1st October, 2023 for the year to 30th September, 2024 was ₹ 1,600. Rent payable, as shown in the profit and loss account for the year ended 31st December 2023, would be:
- A. ₹ 1,200
 - B. ₹ 1,600
 - C. ₹ 1,300
 - D. ₹ 1,500
22. Mohan purchased goods for ₹ 15,00,000 and sold 4/5th of the goods amounting ₹ 18,00,000 and paid expenses amounting ₹ 2,70,000 during the year, 2023. He paid ₹ 5,000 for an electricity bill of Dec. 2022 and advance

salaries amounting ₹ 15,000 was paid for the month of Jan. 2024. He counted net profit as ₹ 3,50,000. The net profit calculated by him is correct according to

- A. Entity concept
 - B. Periodicity concept
 - C. Matching concept**
 - D. Conservatism concept
23. When adjusted purchase is shown on the debit column of the trial balance then
- A. Both opening stock and closing stock do not appear in the trial balance
 - B. Closing stock is shown in the trial balance and not the opening stock
 - C. Opening stock is shown in the trial balance and not the closing stock
 - D. Both opening and closing stock appear in the trial balance**
24. Income tax paid by the sole-proprietor from business bank account is debited to
- A. Income tax account
 - B. Bank account
 - C. Capital account**
 - D. Not to be shown in the business books
25. When opening stock is overstated, net income for the accounting period will be
- A. Overstated
 - B. Not be affected
 - C. Understated**
 - D. None of the above
26. The total cost of goods available for sale with a company during the current year is ₹12,00,000 and the total sales during the period are ₹13,00,000. If the gross profit margin of the company is 33-1/3% on cost, the closing inventory during the current year is
- A. ₹ 4,00,000
 - B. ₹ 3,00,000
 - C. ₹ 2,25,000**
 - D. ₹ 2,60,000
27. On 31st March 2009, Suraj has to pay to M/s Chandra ₹7,000 on account of credit purchase from the later. He paid ₹1,800 on 30th June 2009 after availing a cash discount of 10%. On 30th September 2009, he paid ₹ 2,850 after availing 5% cash discount. On account of final settlement, the amount to be paid by Suraj without any discount will be

- A. ₹ 2,350
- B. ₹ 2,000
- C. ₹ 2,200
- D. ₹ 2,150

28. Mr. A, the owner of M/s Apex Ltd. withdrew some goods from the business for his personal use. The accountant of the firm recorded this transaction on the basis of selling price of goods. He justifies his contention on the basis that business and the proprietor are two different entities as per business entity concept and therefore drawings should be charged at the same price on which the goods are sold to the outside customers.

However, Mr. A emphasizes that he should be charged with only the cost price of the goods withdrawn by him. At which price, the drawings should be recorded?

- A. Fair value.
- B. Selling price.
- C. Cost price.
- D. None of the three.

29. Bank overdraft as per trial balance is ₹ 1,60,000. Bank has allowed the customer to overdraw 80% of the hypothecated value of the stock. Hypothecation of stock has been done by the bank at 80% of the original closing stock value. The amount of closing stock is:

- A. ₹ 2,00,000.
- B. ₹ 2,50,000.
- C. ₹ 1,02,400.
- D. ₹ 1,28,000.

30. Salary has been paid for 11 months from April 2023 to February, 2024 amounting ₹ 22,000. The amount of outstanding salary shown in the balance sheet will be-

- A. ₹ 1833
- B. ₹ 2,000
- C. ₹ 1,000
- D. None of the above

31. Capital introduced by Mr. A on 01.04.2023 ₹ 3,00,000; further capital introduced during the year was ₹ 50,000 in the mid of the year. Mr. A withdrew ₹ 2,000 per month and the profit earned during the year was ₹ 20,000. Capital as on 31.03.2024 will be-

- A. ₹ 3,94,000

- B. ₹ 3,46,000
C. ₹ 2,94,000
D. None of the three
32. Atul purchased goods costing ₹ 50,000 at an invoice price, which is 50% above cost. On invoice price he enjoyed 15% trade discount and ₹ 3,750 cash discount on cash payment of goods in lump sum at the time of purchase. The purchase price to be recorded in the books before cash discount will be
- A. ₹ 75,000.
B. ₹ 60,000.
C. ₹ 63,750.
D. ₹ 50,000.
33. Mr. Mohan started a cloth business by investing ₹ 50,000, bought merchandise worth ₹ 50,000. He sold merchandise for ₹ 60,000. Customers paid him ₹ 50,000 cash and assured him to pay ₹ 10,000 shortly. The amount of revenue earned by him is
- A. ₹ 50,000.
B. ₹ 60,000.
C. ₹ 1,00,000.
D. ₹ 70,000.
34. Ganesh takes a salary ₹ 10,000 per month. He withdrew goods worth ₹ 2,500 for personal use and got salary ₹ 9,500 in cash. The excess payment of ₹ 2,000 will be debited to-
- A. Sales account.
B. Goods account.
C. Salary account.
D. Salary in advance account.

NON-PROFIT ORGANISATION

1. The Receipts and Payments Account generally begins with
 - A. Credit Balance
 - B. Debit Balance**
 - C. Both Debit and Credit Balance
 - D. None of the above
2. Income and Expenditure Account is a
 - A. Nominal Account**
 - B. Real Account
 - C. Personal Account
 - D. Artificial Personal Account
3. Receipts and Payments account is a
 - A. Nominal Account
 - B. Real Account**
 - C. Personal Account
 - D. Artificial Personal Account
4. Which of the following is/are feature/features of Income and Expenditure Account?
 - A. It follows Nominal Account
 - B. All Capital incomes and expenditures are excluded
 - C. Profit on sale of asset is credited
 - D. All of the above**
5. Income statement of a Charitable Institution is known as
 - A. Statement of profit and loss
 - B. Receipts and Payments Account
 - C. Income and Expenditure Account**
 - D. Profit and Loss Account
6. _____ is similar to the Profit and loss A/c
 - A. Income and Expenditure A/c**
 - B. Receipts and Payments A/c
 - C. Balance Sheet
 - D. None of the Above
7. Which of the following items is shown in the Income and Expenditure Account?
 - A. Only items of capital nature
 - B. Only items of revenue nature which are received during the year

- C. Only items of revenue nature pertaining to the period of accounts
D. Both the items of capital and revenue nature
8. 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
9. Scholarship granted to students out of specific funds provided by Government will be debited to-
A. Income and Expenditure Account
B. Receipts and payments Account
C. Funds granted for Scholarship account
D. None of the above
10. Salary debited to Income and Expenditure Account for the year was ₹ 48,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹ 6,000 and ₹ 7,500 respectively. The amount of Salary to be shown in Receipts and Payments Account will be:
A. ₹ 48,000
B. ₹ 40,500
C. ₹ 54,000
D. ₹ 46,500
11. Income & Expenditure A/c shows subscriptions ₹10,000; Subscriptions accrued in the beginning of the year and at the end of the year were ₹1,000 and ₹1,500 respectively. The figure of subscription received appear in receipts and payments account will be:
A. ₹9,500
B. ₹10,000
C. ₹10,500
D. ₹12,000
12. 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

13. During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were ₹ 12,000 and ₹ 15,000 respectively. The amount of salary paid shown in Receipt and Payments Account would be-
- ₹ 84,000
 - ₹ 81,000
 - ₹ 93,000**
 - None of the above
14. In the case of non-profit organization donations received by the organization are reflected in
- Income and Expenditure Account
 - Capital Account
 - Receipts and Payments Account**
 - None of the above
15. Which of the following item does not match with receipts and payments account?
- It is a summarized cash book
 - Transactions are recorded in it on cash basis
 - It records revenue transactions only**
 - It serves the purpose of a real account
16. Receipts and Payments Account records
- Only revenue nature receipts
 - Only capital nature receipts and payment
 - Only revenue nature receipts and payments
 - Both the revenue and capital nature receipts and payments**
17. A profit on the sale of furniture of a club will be taken to:
- Cash account
 - Receipts and payments account
 - Income and expenditure account**
 - None of the above

18. The Income and expenditure Account and the Receipts and Payments Account of a Local Club at the end of a particular year show the following amounts:

	As per Income Expenditure A/c (₹)	As per Receipts and Payments A/c (₹)
Printing Charges	7,500	6,900
Rent Paid	12,000	11,000

When there were no outstanding of Rent and Printing charges at the beginning of

that year, the difference of ₹ 1,600 will be shown in the Balance Sheet at the end of the year as:

- A. Asset
- B. Liabilities**
- C. Ignored
- D. Capital Fund

19. 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 31st March, 2018 (₹)	On 31st 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

20. What will be the effect of Depreciation on Machinery in Receipt and Payment Account?

- A. Shown in Debit Side of Receipt and Payment Account
- B. Shown in Credit Side of Receipt and Payment Account
- C. No effect on Receipt and Payment Account**
- D. None of the above

INCOMPLETE RECORDS

1. Accounts generally held under single entry system by-
 - A. Company
 - B. Sole Trader**
 - C. Society
 - D. Government
2. When closing capital is more than opening capital, it denotes-
 - A. Profit
 - B. Loss
 - C. No Profit no loss
 - D. Profit, if there is no introduction of fresh capital**
3. From the following details estimate the capital as on 31.03.2017. Capital as on 01.04.2016 - ₹4,10,000. Drawings ₹40,000, Profit during the year ₹ 50,000
 - A. ₹ 4,10,000
 - B. ₹ 4,50,000
 - C. ₹ 4,20,000**
 - D. ₹ 4,00,000
4. A and B purchased a piece of land for ₹ 30,000 and sold it for ₹60,000 in 2023. Originally A had contributed ₹ 12,000 and B ₹ 8,000. The profit on venture will be-
 - A. ₹ 30,000**
 - B. ₹ 20,000
 - C. ₹ 60,000
 - D. Nil
5. 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
6. Nidhi started her business with capital of ₹45,000 on 1st January, 2023. Interest on drawings ₹5,000 and interest on capital ₹2,000 were appearing in the Profit and Loss A/c for the year ended 31st December, 2023. Nidhi withdrew ₹14,000 during the year and profit earned during the year amounted to ₹15,000. Her capital on 31st December, 2023 is-
 - A. ₹ 67,000
 - B. ₹ 47,000
 - C. ₹ 45,000
 - D. ₹ 43,000**

7. Capital introduced in the beginning by Shyam ₹ 3,00,000; further capital introduced during the year ₹ 2,00,000; Drawing ₹ 1,500 per month and closing capital is ₹ 4,50,000. The amount of profit or loss for the year is:
- A. Loss of ₹ 32,000.
 - B. Loss of ₹ 50,000.
 - C. Profit of ₹ 32,000.
 - D. Information is insufficient for any comment.
8. Opening capital is ascertained by preparing
- A. Total Debtors Account
 - B. Total Creditors Account
 - C. Cash Account
 - D. Opening Statement of Affairs
9. Credit purchase can be ascertained by preparing-
- A. Debtors Account
 - B. Creditors Account
 - C. Any of above
 - D. None of the above
10. Credit Sale can be ascertained by preparing-
- A. Debtors Account
 - B. Creditors Account
 - C. Any of above
 - D. None of the above

INSURANCE CLAIM

1. A business takes a..... insurance policy to cover the claims for loss of stocks and loss of profit.
 - A. Life insurance
 - B. Car insurance
 - C. Fire**
 - D. health insurance
2. _____ clause is applicable in case of under insurance
 - A. Normal
 - B. Average**
 - C. Actual
 - D. Standard
3. The stock which is rescued from fire is-
 - A. Scrap
 - B. Salvage**
 - C. Defective
 - D. Short goods
4. 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**
5. Gross profit can be calculated as
 - A. Net profit + Insured standing charges.**
 - B. Net profit - Insured standing charges.
 - C. Net profit + standing charges.
 - D. Net Profit - Standing Charges
6. The value of stock on the date of fire can be ascertained by preparation of a..... Account
 - A. Trading
 - B. Profit and Loss
 - C. Memorandum Trading**
 - D. Memorandum Profit and Loss
7. The Memorandum trading account is prepared for the period from-
 - A. 1st January to 31st December
 - B. 1st April to 31st March
 - C. Opening date of accounting year to the date of fire**
 - D. Opening date of accounting year to closing date of accounting year
8. The difference between standard turnover and actual turnover during indemnity period is called-
 - A. Actual sales

- B. Short Sales
 - C. Total Sales
 - D. None of the above
9. Stock of goods destroyed by fire is ₹ 4,00,000 and stock salvaged ₹ 30,000, value of policy is ₹ 3,00,000. The amount of claim if there is an average clause will be-
- A. ₹ 3,00,000
 - B. ₹ 3,70,000
 - C. ₹ 2,77,500
 - D. ₹ 4,00,000
10. Prakash sells goods at 25% on sales. His sales were ₹10,20,000 during the year. However, he sold damaged goods for ₹20,000 costing ₹30,000. This sale is included in ₹10,20,000. The amount of gross profit is-
- A. ₹ 1,90,000
 - B. ₹ 2,50,000
 - C. ₹ 2,40,000
 - D. ₹ 2,00,000

HIRE PURCHASE AND INSTALMENT SALE TRANSACTION

- In the hire purchase system interest charged by vendor is calculated on the basis of
 - Outstanding Cash Price**
 - Hire Purchase Price
 - Instalment amount
 - None of the above
- In Hire Purchase system cash price plus interest is known as
 - Capital value of asset
 - Book value of asset
 - Hire purchase price of asset**
 - Hire purchase charges
- Excess of hire purchase price over cash price is known as
 - Installment
 - Cash down payment
 - Interest**
 - Capital value of asset
- In case of Hire-Purchase the total sum payable by the hire-purchaser as per terms in order to complete the transactions is
 - Net Cash Price
 - Net Hire-Purchase Charges
 - Hire-Purchase Price**
 - Cash Price Instalment.
- When an asset is acquired on the hire purchase system, the asset account is debited with ___ of the assets in the books of the hire purchaser.
 - Hire purchase price
 - Cash Price**
 - Instalment Price
 - None of the above
- Shiva purchased a laptop on hire-purchase system. As per terms, he is required to pay ₹7,500 down, ₹ 10,000 at the end of first year, ₹ 7,500 at the end of second year, and ₹12,500 at the end of third year. Interest is charged at 12% per annum. The interest payable with the installment at the end of second year will be
 - ₹ 900
 - ₹ 1,999**
 - ₹ 804
 - ₹ 1,760
- KCS purchased a machine from JPS on hire purchase system, whose cash price was ₹8,64,000. ₹ 2,16,000 being paid on delivery and balance in three

- annual instalments of ₹2,88,000 each. The amount of interest included in first installment would be
- A. ₹ 72,000
 - B. ₹ 57,600
 - C. ₹ 1,08,000**
 - D. ₹ 36,000
8. Arti Ltd. purchased a machine on hire purchase system for a cash price ₹ 5,00,000 to be paid as ₹ 78,700 cash down and the balance by three equal annual installments of ₹ 2,00,000 each. If interest is charged @ 20% per annum then amount of interest payable in second installment will be
- A. ₹ 1,00,000
 - B. ₹ 61,112**
 - C. ₹ 33,328
 - D. ₹ 84,260
9. Which of the following is not a step under Partial Repossession?
- A. Calculate Book value of Goods Repossessed
 - B. Calculate Agreed Value of Goods Repossessed
 - C. Loss on default = Book Value + Agreed Value**
 - D. None of the above
10. The substance of the transactions gets preference over legal position. The transactions and events recorded in the books of account and presented in the financial statements, should be governed by the substance of such transactions and not merely by their legal form as per the concept of-
- A. Faithful representation.
 - B. Substance over form.**
 - C. Neutrality.
 - D. Fair disclosure.

BRANCH ACCOUNTING

1. Independent Branch meant when separate account are maintained by:
 - A. Head Office.
 - B. Branch**
 - C. Both
 - D. None of these
2. Branches not keeping full system of accounting is called ____
 - A. Dependent Branch**
 - B. Independent Branch
 - C. Simple Branches
 - D. None of the above
3. The account for the dependent branches is maintained only in the books of
 - A. Branch
 - B. Head office**
 - C. Both
 - D. None of the above
4. Goods are sent to the Branch at cost plus 25%. The loading on invoice price is
 - A. 20%**
 - B. 25%
 - C. 30%
 - D. None of the above
5. For Sales Return at Branch, in case of dependent branches, entry to be passed in HO books,
 - A. Debit Branch Debtors A/c, Credit Branch Stock A/c.
 - B. Debit Branch Stock A/c, Credit Branch Debtors A/c.**
 - C. Debit Sales A/c, Credit Branch Debtors A/c.
 - D. Debit Sales A/c, Credit Branch Stock A/c.
6. Which one is/ are the method/s of Accounting for Branches
 - A. Final Accounts Method;
 - B. Debtors Method and
 - C. Stock and Debtors Method.
 - D. All of the above**
7. Which account is used for transactions concerned with head office supplying resources to the branch?

- A. Capital account
 - B. Current account
 - C. Branch account**
 - D. Joint venture account
8. The system in which profit and loss made by the branch is determined by preparing branch trading and profit and loss account at cost price-
- A. Stock and debtors Method
 - B. Final Account Method**
 - C. Debtors Method
 - D. All of the above
9. Cost of goods returned by branch will have the following effect
- A. Goods Sent to Branch account will be debited
 - B. Branch Stock Account will be credited
 - C. Both a and b**
 - D. Either a or b
10. Under Branch accounting Debtors System, closing balance of liabilities are recorded in-
- A. Credit Side
 - B. Debit Side**
 - C. Any of the above
 - D. None of the above

DEPARTMENTAL ACCOUNTING

- Bad debts are apportioned among departments in the proportion of
 - Sales of each department**
 - Number of units sold by each department
 - Cost of sales of each department
 - None of the above
- Canteen expenses are apportioned among departments in the proportion of
 - Departmental floor space
 - Departmental direct wages
 - Departmental sales
 - Departmental No. of employees**
- Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then the amount of stock reserve on closing stock will be
 - ₹ 6,000
 - ₹ 4,500**
 - ₹ 9,000
 - None of the above
- The goods are transferred from Department X to Department Y at selling price which includes a profit of 25% on cost. Stock valued at ₹65,000 in Department Y, then amount of unrealized profit will be
 - ₹ 16,250
 - ₹ 13,000**
 - ₹ 21,667
 - None of the above
- 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
 - debited to Profit & Loss Account by ₹ 11,250.
 - debited to Profit & Loss Account by ₹ 2,625.**
 - debited to Profit & Loss Account by ₹ 3,000.
 - debited to Profit & Loss Account by ₹ 900.
- If Department A transfers goods to Department B at a price of 50% above cost, what will be the amount of stock reserve on unsold stock worth ₹9,000 of Department B?
 - 3,000.**
 - 4,500.
 - 1,500.

- D. 6,000
7. Which of the following expenses may not be proportioned amongst the departments using any suitable basis:
- A. Carriage Inward
 - B. Profit on Sale of Investments**
 - C. Labor welfare expenses
 - D. Sales Promotion
8. Depreciation on assets is apportioned among various departments on basis of
- A. Value of assets of each department.**
 - B. Number of Assets of each Department
 - C. Purchases of each department.
 - D. Sales of each department.

ACCOUNTING FOR PARTNERSHIP

- Total assets of a firm is ₹ 1,20,000, outside liability amounted to ₹ 60,000, and total capital contributed by the partners would be
 - ₹ 60,000
 - ₹ 40,000
 - ₹ 1,00,00
 - ₹ 20,000
- In a written agreement amongst the partners, interest @ 5% p.a. is to be provided on loan. The interest given by a partner to the firm will be at an interest at the rate of
 - 5%
 - 6%
 - 8%
 - 10%
- If a fixed amount is withdrawn on the first day of every month of calendar year by a partner in partnership firm, then for what period the interest on the total amount of drawings will be calculated?
 - 4.5 months
 - 5.5 months
 - 6.5 months
 - 7.5 months
- Mr. X is a partner in a firm. He withdraws ₹200 at the end of each month. If rate of interest on drawings is @ 5% p.a., the interest on drawings is
 - ₹ 65
 - ₹ 55
 - ₹ 60
 - ₹ 50
- In the absence of any provision in the partnership agreement, profits and losses are shared
 - In the ratio of capitals
 - Equally
 - In the ratio of loans given by them to the partnership firm
 - None of the above
- 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?
 - ₹ 5,000 and ₹ 3,000
 - ₹ 3,000 and ₹ 1,800
 - No interest will be paid to the partners
 - None of the above
- Interest on capital will be paid to the partners if provided for in the agreement

but only from

- A. Profits of the year
 - B. Reserves
 - C. Accumulated Profits
 - D. Goodwill
8. X, Y and Z are partners in a firm. At the time of division of profit for the year there was dispute between the partners. Profits before interest on partner's loan was ₹ 6,000 and Y determined interest @ 24% p.a. on his loan of ₹ 80,000. There was no agreement on this point. Calculate the amount payable to X, Y and Z respectively.
- A. ₹ 2,000 to each partner
 - B. Loss of ₹ 4,400 for X and Z & Y will take home ₹ 14,800
 - C. ₹ 400 for X, ₹ 5,200 for Y and ₹ 400 for Z
 - D. ₹ 2,400 to each partner
9. Fluctuating capital account is credited with-
- A. Interest on capital.
 - B. Profits of the year.
 - C. Salaries or remuneration of the partners
 - D. All of the above.
10. The profits of last three years are ₹ 42,000; ₹ 39,000 and ₹ 45,000. Capital employed is ₹ 4,00,000 and normal rate of return is 10%. The amount of goodwill calculated on the basis of super profit method for three years of purchase will be:
- A. ₹ 2,000.
 - B. ₹ 4,000.
 - C. ₹ 6,000.
 - D. ₹ 8,000.
11. A firm employs ₹ 2,00,000 as Capital and the normal rate of return is 10%. If the firm makes an average profit of ₹ 30,000 per year, the value of Goodwill by considering it as the purchase of 3 years super profit will be:
- A. ₹ 25,000
 - B. ₹ 20,000
 - C. ₹ 30,000
 - D. None of the above
12. R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2024. It was decided to value the goodwill on the basis of three year's purchase of last five years average profits. If the profits are ₹ 29,600; ₹ 28,700; ₹ 28,900; ₹ 24,000 and ₹ 26,800. D's share of goodwill will be-
- A. ₹ 20,700
 - B. ₹ 27,600
 - C. ₹ 82,800
 - D. ₹ 27,000
13. A and B are partners with the capital ₹ 50,000 and ₹ 40,000 respectively.

They share profits and losses equally. C is admitted on bringing ₹ 50,000 as capital only and nothing was brought against goodwill. Goodwill valued as ₹ 35,000 which was adjusted through the Capital accounts of the partners. What will be the value of goodwill in the books after the admission of C?

- A. ₹ 55,000
 - B. NIL**
 - C. ₹ 20,000
 - D. ₹ 15,000
14. A and B are partners with capitals of ₹ 10,000 and ₹ 20,000 respectively and sharing profits equally. They admitted C as their third partner with one-fourth profits of the firm on the payment of ₹ 12,000. The amount of hidden goodwill is-
- A. ₹ 6,000**
 - B. ₹ 10,000
 - C. ₹ 8,000
 - D. None of the above
15. Find the goodwill of the firm using capitalization method from the following information: Total Capital Employed in the firm ₹ 8,00,000. Reasonable Rate of Return 15%. Profits for the year ₹ 12,00,000
- A. ₹ 82,00,000
 - B. ₹ 12,00,000
 - C. ₹ 72,00,000**
 - D. ₹ 42,00,000
16. Sushila's business disclosed the following profits for the last two years:
 2008: ₹ 40,000 (including an abnormal gain of ₹5,000)
 2009: ₹ 50,000 (After charging an abnormal loss of ₹10,000)
 The value of goodwill on the basis of one year purchase of the average profit of last two years is-
- A. ₹45,000
 - B. ₹37,500
 - C. ₹47,500**
 - D. None of the three
17. A firm earns profit of ₹1,10,000. The normal rate of return in a similar type of business is 10%. The value of total assets (excluding goodwill) and total outside liabilities are ₹11,00,000 and ₹1,00,000 respectively. The value of goodwill by Capitalization method is-
- A. ₹ 1,00,000**
 - B. ₹ 10,00,000
 - C. Nil
 - D. None of the above
18. A, B & C are equal partners. They wanted to change the profit-sharing ratio into 4:3:2. The goodwill was valued as ₹ 90,000. The effected accounts will be

- A. C's capital account debit and A's capital account credit with ₹ 10,000.
 - B. B's capital account debit and A's capital account credit with ₹ 10,000.
 - C. C's capital account debit and B's capital account credit with ₹ 10,000.
 - D. A's capital account debit and C's capital account credit with ₹ 10,000.**
19. X and Y share profits and losses in the ratio of 2:1. They take Z as a partner and the new profit-sharing ratio becomes 3:2:1. Z brings ₹4,500 as premium for goodwill. The full value of goodwill will be:
- A. ₹ 4,500.
 - B. ₹ 18,000.
 - C. ₹ 27,000.**
 - D. ₹ 24,000.
20. Premium for goodwill is always distributed among the old partners in
- A. Gaining ratio
 - B. Old ratio
 - C. Sacrificing ratio**
 - D. New ratio
21. X and Y were partners, sharing profit/losses as 3:2. They admit Z as a new partner, giving him $\frac{1}{5}$ th share of future profits. What should be the new profit-sharing ratio?
- A. 12:8:5**
 - B. 3:2:1
 - C. 8:12:5
 - D. 5:8:12
22. Generally, sacrifice ratio is concerned with the situation of
- A. Admission of a new partner**
 - B. Retirement of a partner
 - C. Dissolution of firm
 - D. Conversion of firm into company
23. A and B are partners sharing profits in the ratio 1:2. C is admitted and the new profit-sharing ratio is 1:2:3. Sacrificing ratio is
- A. 1:3
 - B. 2:1
 - C. 3:1
 - D. 1:2**
24. When a new partner is admitted, unless otherwise agreed, the profit sharing ratio between the existing partners will
- A. Reduce
 - B. Increase
 - C. Remain same**

- D. None of the above
25. Profit or loss on revaluation is shared among the partners in ratio.
- A. Old Profit Sharing
 - B. New Profit Sharing
 - C. Capital
 - D. Equal
26. General reserve at the time of admission of a new partner is transferred to
- A. Profit and Loss adjustment Account
 - B. Old partners' capital accounts
 - C. Revaluation account
 - D. Memorandum revaluation account
27. If goodwill account is raised by the partners at the time of admission of a new partner, it will be written off in
- A. Old Profit-sharing ratio
 - B. New profit-sharing ratio
 - C. Sacrificing ratio
 - D. Capital ratio
28. The outgoing partner is compensated for parting with the firm's future profits in favour of remaining partners. The remaining partners contribute to such a compensation amount in
- A. Gaining Ratio
 - B. Capital Ratio
 - C. Sacrificing Ratio
 - D. Profit Sharing Ratio
29. The retiring partner becomes entitled to get back which of the following?
- A. Balance of his capital and current account at the time of retirement.
 - B. Share of goodwill, undistributed profit or loss, reserves and profit or loss on revaluation of assets and liabilities
 - C. Salary, commission, interest on capital, if any and all other dues till the date of retirement
 - D. All the above
30. A, B and C are partners, sharing profits in the ratio 2:2:1. On the retiring of B, goodwill was valued as ₹ 30,000. Contribution of A and C to compensate B will be-
- A. ₹ 20,000 and ₹ 10,000 respectively
 - B. ₹ 8,000 and ₹ 4,000 respectively
 - C. They will not contribute anything
 - D. Information is insufficient for any comment

31. As per Section 37 of the Indian Partnership Act, 1932, the executors would be entitled at their choice to the interest calculated from the date of death till the date of payment on the final amount due to the dead partner at _percent per annum.
- A. 7
 - B. 4
 - C. 6**
 - D. 12
32. A, B and C are Partners sharing profits in the ratio of 2:3:1. A retires and his share is taken by B and C equally, what will be the gaining ratio?
- A. 2:3
 - B. 1:1**
 - C. 2:1
 - D. 1:2
33. If a partner dies which of the following amount becomes payable?
- A. His share of undistributed profit/loss.
 - B. His share of goodwill.
 - C. His share of Joint Life Policy, if any.
 - D. All the above**
34. On what basis deceased partner's share of profit till his death is computed?
- A. Time basis
 - B. Turnover
 - C. (a) or (b) above**
 - D. None
35. At the time of death of a partner, firm gets _from the insurance company against the Joint Life Policy taken jointly for all the partners
- A. Policy Amount**
 - B. Surrender Value
 - C. Policy amount or surrender value whichever is higher
 - D. Policy amount or surrender value whichever is lower
36. Realization 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
37. 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
38. ___ A/c is used for the reassessment of the assets and liabilities.
- A. General Reserve
 - B. Profit & Loss
 - C. Revaluation**
 - D. Both (b) & (c)
39. Realization account is a
- A. Representative personal account
 - B. Artificial personal account
 - C. Real account
 - D. Nominal account**
40. The solvent partners must share the deficiency of an insolvent partner:
- A. In the profit-sharing ratio
 - B. In the capital ratio**
 - C. In the gaining ratio
 - D. None of the above

ACCOUNTING STANDARDS

AS-1

1. As per AS - 1, which of the following is not a Fundamental Accounting Assumptions?
 - A. Conservatism
 - B. Going Concern
 - C. Consistency
 - D. Accrual
2. 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
3. Which one is the correct Fundamental accounting assumptions as per AS 1?
 - A. Going Concern, Matching and Consistency
 - B. Money Measurement, Going Concern and Prudence
 - C. Accounting Period, Going Concern and Entity Concept
 - D. Going Concern, Consistency and Accruals
4. Which of the following is not a major consideration in selection and application of accounting policies?
 - A. Prudence
 - B. Comparability
 - C. Materiality
 - D. Substance over form
5. Adoption of different accounting policies by different companies operating in the same industry affects which of the qualitative characteristics the most?
 - A. Comparability
 - B. Relevance
 - C. Faithful representation
 - D. Reliability

AS 10

6. A Company purchased a Machine costing ₹ 15 Lakh for its production process. It paid Freight ₹ 25,000, Cartage ₹ 2,000 and installation charges ₹ 18,000. The Company spent an additional amount of ₹ 40,000 for testing and preparing the Machine for use. As per AS-10, the amount that should be recorded as the cost of Machine would be:

- A. ₹ 15,45,000
 - B. ₹ 15,25,000
 - C. ₹ 15,85,000**
 - D. ₹ 15,65,000
7. MGS Co. purchased a machine costing ₹ 1,25,000 for its manufacturing operations and paid shipping costs of ₹ 30,000. MGS spent an additional ₹ 12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?
- A. ₹ 1,25,000
 - B. ₹ 1,55,000
 - C. ₹ 1,67,000**
 - D. ₹ 42,000
8. Which of the following is/are example/s of costs that are not related to an item of property, plant and equipment?
- A. costs of opening a new facility or business
 - B. costs of conducting business in a new location or with a new class of customer
 - C. administration and other general overhead costs
 - D. All of the above**
9. Bearer plant is a plant that
- A. is used in the production or supply of agricultural produce**
 - B. a living animal
 - C. are held for use in the production or supply of goods or services
 - D. None of the above
10. AS-10 is not applicable on
- A. Biological assets related to agricultural activity
 - B. Produce on bearer plants
 - C. Wasting assets
 - D. All of the above**
11. In the case of downward revaluation of an asset, which is for the first time revalued, account is debited.
- A. Fixed Asset
 - B. Revaluation Reserve
 - C. Profit & Loss account**
 - D. General Reserve

AS-11

12. The Accounting Standard on 'the Effect of Changes in foreign exchange rates' is
- A. AS -11**
 - B. AS -15
 - C. AS -18

- D. None of these
13. The Foreign Currency receivables as per books of accounts 10,000\$ USD= ₹80, ₹8,00,000 accounted on 09-Feb-2023. On 31-Mar-2023, The USD= INR 82 then what is the amount of Foreign Currency Receivables to be reported on 31-Mar-2023 balance sheet as Assets-
- A. ₹ 2,000
 - B. (₹ 2,000)
 - C. ₹ 8,20,000
 - D. ₹ 80,000
14. Which of the following items should be converted to closing rate for the purposes of financial reporting?
- A. Items of Property, Plant and Equipment
 - B. Inventory
 - C. Trade Payables, Trade Receivables and Foreign Currency Borrowings
 - D. All of the above
15. If asset of an integral foreign operation is carried at cost, cost and depreciation of tangible fixed asset is translated at
- A. Average exchange rate
 - B. Closing exchange rate
 - C. Exchange rate at the date of purchase of asset
 - D. Opening exchange rate

AS-12

16. When we can recognize government grant in books of account
- A. Conditions for receipt of grant should be fulfilled
 - B. Grants are certain to be received
 - C. Any of above
 - D. Both (a) and (b)
17. Grant received in respect of depreciable assets can be
- A. Reduced from cost of the asset
 - B. Credited to deferred grant account
 - C. Any of above
 - D. Both (a) and (b)
18. X Ltd. has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd has a policy to recognise the grant as a deduction from the cost of the asset. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of annual depreciation to be charged as an expense in Profit and Loss Statement will be:
- A. ₹ 10 crore
 - B. ₹ 6 crore

C. ₹ 2 crore

D. ₹ 8 crore

19. Land received as grant should-

A. not be recorded in books of account

B. recorded at Actual purchase price of land

C. nominal value

D. any of the above

AS-16

20. AS -16 Deals with

A. Accounting of Inventory Cost

B. Accounting for transactions in Foreign Currencies

C. Accounting for Depreciation

D. Accounting for Borrowing Costs

21. As per AS 16, all the following are qualifying assets except

A. Manufacturing plants and Power generation facilities

B. Inventories that require substantial period of time

C. Assets those are ready for sale.

D. None of the above

22. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:

• 15th May, 2021: Loan interest relating to the project starts to be incurred

• 2nd June, 2021: Technical site planning commences

• 19th June, 2021: Expenditure on the project started to be incurred

• 18th July, 2021: Construction work commences

Identify the commencement date for Capitalisation under AS 16.

A. 15th May, 2021.

B. 19th June, 2021.

C. 18th July, 2021.

D. 2nd June, 2021.

23. Borrowing cost incurred during abnormal period should be

A. Transferred to Profit and Loss A/c

B. Capitalized

C. Any of the above

D. None of the above

AS-19

24. Accounting Standard for lease is

A. AS 17

B. AS 9

- C. AS 19
D. AS 15
25. The person who undertakes an agreement, conveys to another person the right to use in return for rent, an asset for an agreed period of time-
- A. Lessor
B. Lessee
C. Both
D. None of the above
26. The estimated value of the asset at the end of the lease term is known as
- A. Residual value
B. Invoice value
C. Dual value
D. Market value
27. Which lease transfer substantially all the risk and rewards incident to ownership of an asset?
- A. Operating Lease
B. Finance Lease
C. Both of the above
D. None of the above
28. Operating lease is a .
- A. Revocable contract
B. Non revocable contract
C. Operating contract
D. None of the above
29. In which types of lease expenses like maintenance, repair, and taxes are born by the lessor?
- A. Operating lease
B. Financial lease
C. Both
D. None of the above
30. Short-term lease which is often cancellable is known as
- A. Finance Lease
B. Net Lease
C. Operating Lease
D. Leverage Lease
31. A lease which is generally not cancellable and covers full economic life of the asset is known as:
- A. Sale and leaseback
B. Operating Lease
C. Finance Lease
D. Economic Lease
32. One difference between Operating and Financial lease is:
- A. There is often an option to buy in operating lease

- B. There is often a call option in financial lease.
- C. An operating lease is generally cancellable by lessee**
- D. A financial lease is generally cancellable by lease.

AS-22

33. The effect of timing difference is called as
- A. Current Tax
 - B. Deferred Tax**
 - C. Minimum Tax
 - D. None of the above
34. Accounting Standard 22 is related to-
- A. Accounting for Taxes on Income**
 - B. Borrowing Costs
 - C. Accounting for Government Grants
 - D. Property, Plant and Equipment
35. As per AS 22 on 'Accounting for Taxes on Income', tax expense is:
- A. Current tax + deferred tax charged to profit and loss account
 - B. Current tax-deferred tax credited to profit and loss account
 - C. Either (a) or (b)**
 - D. Deferred tax charged to profit and loss account
36. For the year ended 31.03.2024 accounting income of DNP Ltd. is ₹ 30 lakhs. However, its Taxable income was ₹ 20 lakhs only due to timing difference. Tax rate is 30%. The Deferred tax liability will be
- A. ₹ 10 Lakhs
 - B. ₹ 3 Lakhs**
 - C. ₹ 9 Lakhs
 - D. ₹ 6 Lakhs

DEPRECIATION

Question 1

June - 2024

S & Co. purchased a machine for ₹ 1,00,000 on 1.1.2019. Another machine costing ₹ 1,50,000 was purchased on 1.7.2020. On 31.12.2021, the machine purchased on 1.1.2019 was sold for ₹ 50,000. The company provides depreciation at 15% on Straight Line Method. The company closes its accounts on 31st December every year. Prepare - (i) Machinery A/c, (ii) Machinery Disposal A/c and (iii) Provision for Depreciation A/c.

Solution

S & Co.

Dr.			Machinery Account			Cr.		
Date	Particulars	(₹)	Date	Particulars	(₹)			
01.01.19	To, Bank A/c	1,00,000	31.12.19	By, Balance c/d	1,00,000			
		1,00,000			1,00,000			
01.01.20	To, Balance b/d	1,00,000						
01.07.20	To, Bank A/c	1,50,000	31.12.20	By, Balance c/d	2,50,000			
		2,50,000			2,50,000			
01.01.21	To, Balance b/d	2,50,000	31.12.21	By, Machinery Disposal A/c	1,00,000			
			31.12.21	By, Balance c/d	1,50,000			
		2,50,000			2,50,000			
01.01.22	To, Balance b/d	1,50,000						

Dr. Provision for Depreciation Account

Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)			
31.12.19	To, Balance c/d	15,000	31.12.19	By, Depreciation A/c	15,000			
		15,000			15,000			
31.12.20	To, Balance c/d	41,250	01.01.20	By, Balance b/d	15,000			
			31.12.20	By, Depreciation A/c (₹ 15,000 + ₹ 11,250)	26,250			
		41,250			41,250			
31.12.21	To, Machinery Disposal A/c	30,000	01.01.21	By, Balance b/d	41,250			
31.12.21	To, Balance c/d	33,750	31.12.21	By, Depreciation A/c	22,500			

		63,750			63,750
			01.01.22	By, Balance b/d	33,750

Dr. **Machinery Disposal Account**

Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
31.12.21	To, Machinery A/c	1,00,000	31.12.21	By, Provision for Depreciation	30,000
				A/c By, Depreciation A/c	15,000
				By, Bank A/c	50,000
				By, Profit & Loss A/c(Loss on Sale)	5,000
		1,00,000			1,00,000

Working Notes:

- Depreciation for the machine purchased on 1.7.2020
 For the year 2020 (used for 6 months) = ₹ 1,50,000 × 15% × 6/12 = ₹ 11,250
 For the year 2021 (used for full year) = ₹ 1,50,000 × 15% = ₹ 22,500
- Depreciation for the machine purchased on 1.1.2019
 Depreciation = ₹ 1,00,000 × 15% = ₹ 15,000
 So, Depreciation for 2 years = ₹ 15,000 × 2 = ₹ 30,000

Question 2

On 1.1.2019 machinery was purchased for ₹ 80,000. On 01.07.2020 additions were made to the amount of ₹ 40,000. On 31.3.2021, machinery purchased on 1.7.2020, costing ₹ 12,000 was sold for ₹ 11,000 and on 30.06.2021 machinery purchased on 01.01.2019 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2021, additions were made to the amount of ₹ 20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method.

Show the Machinery Accounts for three years from 2019-2021. (year ended 31st December)

Solution:

Statement of Depreciation.

Date	Particulars	Machines - I Cost = ₹ 80,000		Machines - II Cost = ₹ 40,000		Machines - III Cost = ₹ 20,000	Total Depreciation
		(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
01.01.2019	Book Value	48,000	32,000				
31.12.2019	Depreciat	4,800	3,200				8,000

	ion						
01.01.2020	W.D.V.	43,200	28,800				
01.07.2020	Purchase			28,000	12,000		
31.12.2020	Depreciat ion	4,320	2,880	1,400	600		9,200
01.01.2021	W.D.V.	38,880	25,920	26,600	11,400		
31.03.2021	Depreciat ion				285		285
	W.D.V.				11,115		
	Sold For				11,000		
	Loss on sale				115		
30.06.2021	Depreciat ion		1,296				1,296
	W.D.V.		24,624				
	Sold For		26,700				
	Profit on Sale		2,076				
01.10.2021	Purchase					20,000	
31.12.2021	Depreciat ion	3,888		2,660		500	7,048
01.01.2022	W.D.V.	34,992		23,940		19,500	

Dr.

Machinery Account

Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
01.01.19	To, Bank A/c	80,000	31.12.19	By, Depreciation A/c	8,000
				.. Balance c/d	72,000
		80,000			80,000
01.01.20	To, Balance b/d	72,000	31.12.20	By, Depreciation A/c	9,200
01.07.20	" Bank A/c	40,000		.. Balance c/d	1,02,800
		1,12,000			1,12,000
01.01.21	To, Balance b/d	1,02,800	31.3.21	By, Bank (Sale) A/c	11,000
30.06.21	" P & L A/c (Profit on Sale)	2,076		.. Depreciation A/c	285
	" Bank A/c	20,000	30.6.21	.. P & L A/c (Loss on Sale)	115
				.. Bank A/c (Sale)	26,700
			31.12.21	.. Depreciation A/c	1,296
				.. Depreciation A/c	7,048

				.. Balance c/d	78,432
		1,24,876			1,24,876

TRIAL BALANCE

Question 1

Dec - 2023

From the following details, prepare an Adjusted Trial Balance as 'at 31-3-23,

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

Notes:

- (i) Salaries and wages due to be paid ₹ 2,000 and ₹ 1,000 respectively.
- (ii) Insurance was paid to the extent of ₹ 300 advance.
- (iii) A sum of ₹ 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.
- (iv) Sundry expenses include ₹ 2,000 spent for the personal purpose of the proprietor.
- (v) Sales for the period include ₹ 500 worth of goods (cost price) taken by the proprietor for personal consumption. He has also taken goods worth ₹ 1,000 (cost price) for personal consumption which has not been recorded in the books.
- (vi) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%
- (vii) Closing Stock ₹ 20,000

Solution

Trial Balance as at 31.3.23

Particulars	Dr.	Cr.
	D	D
Purchases	43500	
Carriage inward	1000	
Wages	7000	

Salaries	12000	
Rent Rates and taxes	1800	
Insurance	1200	
Interest Paid	1000	
Sales		94500
Cash and Bank	21500	
Bills Payable		5800
Sundry creditors		35000
Plant and machinery	9000	
Buildings	4750	
Furniture	2700	
Bills receivable	10000	
Sundry Debtors	39000	
Capital		66000
Sundry expenses	3000	
Opening stock	21000	
Outstanding salaries		2000
Outstanding wages		1000
Drawings	3500	
Prepaid Insurance	300	
Bad-Debts	2450	
Provision for bad debts		1950
Depreciation	1550	
Closing stock	20000	
Total	<u>206250</u>	<u>206250</u>

RECTIFICATION OF ERRORS

Question 1

June - 2024

The Trial Balance of Rajesh Brothers on 31st March, 2023 did not agree. To close the books, the accountant placed the difference for T 26,700 (Dr) to Suspense Account for necessary adjustment in the next period. On 25th April, 2023 the following errors, arising in 2022-23 were detected.

- (i) ₹ 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.
- (ii) Credit Sale of ₹ 6,550 was posted to the credit of the customer's account as ₹ 5,650.
- (iii) Machine purchased on 1st October, 2022 for ₹ 50,000 in cash was posted to the Purchase Account in the ledger. Rate of Depreciation was applicable on machine 15% per annum.

- (iv) Sales book was overcast by ₹ 10,000 in February 2023.
Give Journal entries to rectify the errors and prepare Suspense Account.

Solution

JOURNAL OF RAJESH BROTHERS

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

(All Journal entries to be supported by appropriate narration)

Suspense A/c

Date	Particulars	Amount (D)	Date	Particulars	Amount (D)
01.04.23	To Balance b/d	26,700	25.04.23	By P & L Adjustment A/c	4,500
			25.04.23	By Customer's A/c	12,200
			25.04.23	By P & L Adjustment A/c	10,000
		26,700			26,700

Question 2

On going through the Trial balance of Ball Bearings Co. Ltd. You find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

1. The totals of debit side of "Expenses Account" have been cast in excess by ₹50.
2. The "Sales Account" has been totaled in short by ₹100.
3. One item of purchase of ₹25 has been posted from the day book to ledger as ₹250.
4. The sale return of ₹100 from a party has not been posted to that account through the Party's account has been credited.

5. A cheque of ₹500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.
6. A credit sale of ₹50 has been credited to the Sales and also to the Trade receivables Account.
 - i. Pass necessary journal entries for correcting the above;
 - ii. Show how they affect the Profits; and
 - iii. Prepare the "Suspense Account" as it would appear in the ledger.

Solution:

Journal Entries

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Suspense A/c Dr. To Expenses A/c (Being the mistake in totaling of Expenses A/c, rectified)		50	50
Suspense A/c Dr. To Sales A/c (Being the mistake in totaling of Sales A/c, rectified)		100	100
Suspense A/c Dr. To Purchase A/c (Being the mistake in posting from Day Book to Ledger rectified)		225	225
Sales Returns A/c Dr. To Suspense A/c (Being the sales return from a party not posted to "Sales Returns" now rectified)		100	100
Trade Payable A/c Dr. To Purchases A/c (Being the payments made to supplier wrongly posted to purchases now rectified)		500	500
Trade Receivables A/c Dr. To Suspense A/c (Being the sales wrongly credited to Customer's Account now rectified)		100	100

Dr.		Suspense Account		Cr	
Particulars	(₹)	Particulars	(₹)		

To Expenses A/c	50	By Difference in Trial balance	150
To Sales A/c	100	By Trade payables	225
To Balance c/d	425	By Sales Returns A/c	100
		By Trade Receivables	100
	575		575
		By Balance b/d	425

Question 3

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.

Solution

Profit & Loss A/c		Balance Sheet	
(i)	Profit was overstated by ₹ 2,000.	(i)	Capital was also overstated by ₹ 2,000 & outstanding Liability was understated by 2,000.
(ii)	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	(ii)	Capital was understated by ₹ 1,000
(iii)	Net Profit was overstated by ₹ 4,000.	(iii)	Machinery was overstated by ₹ 4,000 & so the Capital A/c was also overstated by ₹ 4,000.
(iv)	No effect on Net Profit.	(iv)	No effect in Balance Sheet.
(v)	Gross Profit and Net Profit were overstated by ₹ 1,000.	(v)	Capital Was overstated by ₹ 1,000.
(vi)	Gross Profit & Net Profit were overstated by, ₹ 5,000.	(vi)	Capital & Sundry Debtors were overstated by ₹ 5,000.

CAPITAL & REVENUE TRANSACTIONS

Question 1

Dec 24

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

- Expenses incurred in connection with obtaining a license for starting the factory were ₹10,000.
- ₹ 1,000 paid for removal of stock to a new site.
- Rings and Pistons of an engine were changed at a cost of ₹5,000 to get full efficiency.
- ₹ 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.
- ₹10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.
- A factory shed was constructed at a cost of ₹1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials.
- A pair of bullocks of ₹50,000 was killed by lightning.

Solution

- Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.
- Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.

3. Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
4. Revenue Expenditure.
5. Revenue Expenditure. [As per As-26]
6. Both are Capital Expenditure
7. Capital loss. Live stock is a fixed asset.

Question 2

Dec 24

Answer the following question:

1. Profit is earned on sale of fixed asset. What should be the accounting treatment of this profit?
2. Why is the full cost of an asset not treated as an expense in the year of its purchase?
3. Do you think that the convention of conservatism results creation of secret reserves?
4. Goods worth 1,00,000 were burnt by fire and a claim of 70,000 has been accepted by the insurance company. How will it be recorded in the final account?
5. State with the reasons whether the following statement is true or false.

The provision for the discount on Debtors is calculated after deducting the provision for doubtful debts from debtors.

Solution

1. It's a capital profit. Hence it should be transferred to the Capital Reserve.
2. The cost of the asset is spread over its useful life and only the current year's depreciation is treated as expense because of the going concern concept.
3. It is due to the convention of conservatisms, profit and loss Account discloses lower profits in comparison to the actual profit and balance sheet will disclose understatement of Assets and overstatement of liabilities. These two effects result in creation of a secret reserve.
4. ₹100,000 will be deducted from Purchases in Trading Account, ₹30,000 will be shown on the Debit side of the profit and loss account and ₹70,000 will be shown on the asset side of Balance Sheet.
5. True. Discount will be allowed only to those Debtors who will make Prompt payment. Hence provision for discount is calculated on good Debtors arrived at after deducting the provision for doubtful debt.

Question 3

Classify the following items as capital or revenue expenditure:

- (i) **An extension of railway tracks in the factory area;**
- (ii) **Wages paid to machine operators;**
- (iii) **Installation costs of new production machine;**
- (iv) **Materials for extension to foremen's offices in the factory;**

- (v) Rent paid for the factory;
- (vi) Payment for computer time to operate a new stores control system,
- (vii) Wages paid to own employees for building the foremen's offices. Give reasons for your classification.

Solution:

- (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.
- (ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.
- (iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
- (iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
- (v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit the Company only during the current period.
- (vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditure because it has been incurred to carry on the normal business.

Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period

BANK RECONCILIATION STATEMENT

Question 1

Dec - 2023

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

- (i) Cheques issued ₹ 1,500 had been entered in the Cash Book but had been presented into Bank ₹ 1,000.
- (ii) Dividend amounting to ₹ 150 had been directly deposited into bank.
- (iii) Bank had credited interest on Bank Deposit of ₹ 170 but the same had been debited in the Cash Book on 6th October, 2023.
- (iv) Bank charge of ₹ 50 shown in the bank statement but the same had not been entered in the Cash Book.
- (v) A cheque is issued to N.K. Chatterjee for ₹ 50 was replaced when out of date. It was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unrepresented cheques shown above.
- (vi) The receipt side of the Cash Book had been overcast by ₹ 20.
- (vii) A cheque for ₹ 20 had been entered as a receipt in the Cash Book instead of as a payment.
- (viii) A cheque drawn for ₹ 8 had been incorrectly entered in the Cash Book as ₹ 88.

You are required to prepare—

- (I) Adjusted Cash Book; and
- (II) Bank Reconciliation Statement as on 30.9.2023.

Solution

(I) **In the books of Sachin Chatterjee**
Cash Book (Bank Column)

Dr.			Cr.		
Date	Particulars	D	Date	Particulars	D
30.9.23	To Dividend A/c	150	30.9.23	By Balance b/d	400
	To Bank Interest A/c	170		By Bank charges	50
	To Error A/c	80		By Over casting error By	20
	To Balance c/d	110		Party A/c	40
		510			510

(II) **Bank Reconciliation Statement as on 30.9.23**

Particulars	D	D

Overdraft balance as per Amended Cash Book		<u>110</u>
Less: Cheque issued but not presented	500	
Less: Cancelled cheque issued Balance as per Pass Book	<u>50</u>	<u>550</u>
		<u>440</u>

Question 2

Dec 24

On comparing the Cash Book of Shivam with the Bank Pass Book for the year ended 31st March, 2024, following discrepancies were noticed:

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

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

Solution

Bank Reconciliation Statement as on 31st March 2024

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book (Debit)		1,82,500
Add:-		
(i) Cheques issued on 28th March but not yet presented for payment	8,000	
(ii) A cheque wrongly credited by bank	<u>20,000</u>	28,000
		2,10,500
Less :-		
(i) Cheques deposited on 25th March but not yet collected till 31st March	25,000	
(ii) A cheque entered in Cash Book but not yet banked	4,000	
(iii) Discounted Bills Receivable dishonoured but not recorded in Cash Book	18,000	
(iv) Amount wrongly debited by bank	<u>15,000</u>	62,000
Balance as per Pass Book (Credit)		<u>1,48,500</u>

Question 3

On 31st January, 2022, Sethi's cash book showed a bank overdraft of ₹ 2,50,000. On comparing with the pass book, the following differences were noted.

- (a) Cash and cheques amounting to ₹ 26,800 were sent to the bank on 27th January, but cheques worth 4600 were credited on 2nd February and one cheque for 900 was returned by them as dishonoured on 4th February.
- (b) During the month of January, Sethi issued cheques worth ₹ 33,400 to his creditors. Out of these, cheques worth 27,400 were presented for payment on 5th February.
- (c) According to Sethi's standing orders, the bankers have made the following payments during the month of January:
 - i. Life insurance premium ₹ 3,840
 - ii. Television license fee ₹ 2,400
- (d) Sethi's bankers have collected ₹ 3,000 as dividend on his shares.
- (e) Interest charged by the bank ₹ 2,500
- (f) A bill receivable of ₹ 2,000 discounted with the bank in December, 2021, was dishonoured on 31st January, 2022.

You are required to:

- (i) Ascertain the amended cash book balance as on 31st January, 2022
- (ii) Prepare a Bank Reconciliation Statement from the amended cash book as on 31st January 2022

Solution:

In the Books of Sethi

Dr. Cash Book (Bank column only) Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2022 Jan 31	To, Dividend on shares	3,000	2022 Jan- 31	By, Balance b/f	2,50,000
	To Bal c/d	2,57,740		By, Drawings (₹ 3840 + ₹ 2400)	6,240
				By, Interest	2500
				By, Debtors- discounted bill dishonored	2000
		2,60,740			2,60,740
			2022 Feb:1	By, Bal b/d	2,57,740

Bank Reconciliation Statement as on 31.01.2022

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

BILLS OF EXCHANGE

Question 1

Dec - 2023

On 1st July, 2023, G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September, 2023 J purchased goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H.

On 1st October, 2023 H purchased goods worth ₹ 1,00,000 from G. H paid the amount due to G by cheque. Give the necessary Journal entries in the books of H.

Solution

In the books of H Journal

Date	Particulars		Dr.	Cr.
			D	D
1.7.2023	G's A/c	Dr.	80000	80000
	To Bills payable A/c			
1.9.2023	J's A/c	Dr.	90000	90000
	To sales A/c (Sales made to J)			
	Bills receivable A/c	Dr.	80000	
	Bank A/c	Dr.	9000	
	Discount A/c	Dr.	1000	90000
	To J's A/c			
	Bills payable A/c	Dr.	80000	80000
	To Bills receivable A/c			
10.1.2023	Purchased A/c	Dr.	100000	100000
	To G's A/c			
	G's A/c	Dr.	20000	20000
	To bank A/c			

Question 2

Dec 24

Indra drew upon Chandra a bill for ₹90,000 on April 1, 2024 for 3 months, for mutual accommodation. Chandra accepted the same immediately on receipt. On April 4, Indra got it discounted at 6% p.a. and remitted 1/3rd of the proceeds to Chandra. At maturity. Indra was not able to send the required sums and asked Chandra to receive a 2 months Promissory Note for ₹60,900 which Chandra did. Chandra got the Note discounted for ₹60,000 and met his acceptance. Indra became insolvent just before his Promissory Note was due for payment. Only 25% was received from his estate. You are required to pass journal entries in the books of Indra.

Solution

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
1.4.2024	Bills Receivables A/c To Chandra A/c	Dr.	90,000	90,000
4.4.2024	Bank A/c Discount on Bills A/c To Bills Receivables A/c	Dr. Dr.	88,650 1,350	90,000
4.4.2024	Chandra A/c To Bank A/c To Discount on Bill A/c	Dr.	30,000	29,550 450
4.7.2024	Interest A/c To Chandra A/c	Dr.	900	900
4.7.2024	Chandra A/c. To Bills Payable A/c	Dr.	60,900	60,900
7.9.2024	Bills Payable A/c To Chandra A/c	Dr.	60,900	60,900
7.9.2024	Chandra A/c To Bank A/c To Deficiency A/c	Dr.	60,900	15,225 45,675

Note: Entries to be supported by Narration.

Question 3

X draws a bill for ₹ 1,200 and Y accepts the same for mutual accommodation in the ratio of 4:2. X discounts the bill for ₹ 1,110 and remits 1/3rd of the proceeds to B. Before the due date, Y draws another bill for ₹ 1,800 on X in order to provide funds to meet the first bill. The second bill is discounted for ₹ 1,740 by Y and a sum of ₹ 360 is remitted to X after meeting the first bill. The second bill is duly met. Show journal

entries in the books of both X and Y.

Solution:

In the books of X Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c To, Y A/c (Being on 1st bill drawn on Y for mutual accommodation)	Dr.	1,200	1,200
	Bank A/c Discount on Bills A/c To, Bills Receivable A/c (Being the bill discounted with the banker for 1110)	Dr. Dr.	1,110 90	1,200
	Y A/c (₹ 1,200 × 1/3) To, Bank A/c To, Discount on Bills A/c (₹ 90 × 1/3) (Being 1/3rd of the proceeds remitted to Y - the loss on discount shared proportionately)	Dr.	400	370 30
	Y A/c To, Bills Payable A/c (Being the bill drawn on X by Y)	Dr.	1,800	1,800
	Bank A/c Discount on Bills A/c To, Y A/c (₹ 1,200 × 1/3) (Being the net amount remitted to X by Y)	Dr. Dr.	360 40	400
	Bank A/c To, Y A/c (Being the balance amount of the 2nd bill remitted by Y)	Dr.	600	600
	Bills Payable A/c (₹1800 - ₹1,200) To, Bank A/c (Being the 2nd bill honoured at maturity)	Dr.	1,800	1,800

In the books of Y Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	X A/c To, Bills Payable A/c (Being a bill drawn on Y by X for mutual accommodation)	Dr.	1,200	1,200
	Bank A/c Discount on Bills A/c To, X A/c	Dr. Dr.	370 30	400

	(Being 1/3rd of the proceed received and the loss on discount shared proportionately)			
	Bills Receivable A/c To, X A/c (Being the bill drawn on X)	Dr.	1,800	1,800
	Bank A/c Discount on Bills A/c (Bal. fig.) To, Bills Receivable A/c (Being the bill discounted with the banker for ₹1,740)	Dr. Dr.	1,740 60	1,800
	X A/c To, Bank A/c To, Discount on Bills A/c (Being 1/3rd of the proceeds remitted to X - the loss on discount shared proportionately)	Dr.	400	360 40
	Bills Payable A/c To, Bank A/c (Being the 1st bill honored at maturity)	Dr.	1,200	1,200
	X A/c To, Bank A/c (Being the balance amount of the 2nd bill remitted to X)	Dr.	600	600

Note: Before the due date of the 1st bill, X was to remit ₹ 800 to Y to enable him to honor the bill. But X was not in a position to remit the required amount. He accepted a bill of ₹ 1800 drawn by Y. Y discounted the bill for ₹1,740 and remitted to X ₹ 360 after adjusting ₹ 800 in respect of the 1st bill. Therefore, X enjoyed ₹ (360+800) ₹ 1,160 out of ₹ 1,740. X's share of discount will be: ₹ 60/1,740 × ₹ 1,160 = ₹ 40

CONSIGNMENT

Question 1

June - 2024

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

You are required to show the Consignment Account, Jatin's Account and Loss in Transit account in the book of Kush.

Solution

Books of Kush Consignment Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Goods Sent on Consignment A/c	96,00,000	By Jatin	1,12,70,000
To Bank A/c (Freight & Insurance)	96,000	By Loss in Transit A/c	2,42,400
To Jatin - Clearance Exp.	31,200	By Consignment Stock a/c	12,16,000
To Jatin - Selling Exp	5,10,000		
To Jatin - (Commission)	6,90,125		
To Profit & Loss A/c	18,01,075		
	1,27,28,400		1,27,28,400

Jatin's Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Consignment A/c	1,12,70,000	By Consignment A/c - Clearance	31,200
		By Consignment A/c - Selling Exp	5,10,000
		By Consignment A/c - Commission	6,90,125
		By Bank A/c	1,00,38,675
	1,12,70,000		1,12,70,000

Loss In Transit Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Consignment A/c	2,42,400	By Bank - Insurance Claim	1,85,000
		By Profit & Loss A/c	57,400
	2,42,400		2,42,400

Alternatively:

In the Book of Kush Consignment Account

Dr		Cr	
Particulars	(D)	Particulars	(D)
To, Goods Sent on Consignment A/c	1,20,00,000	By, Goods sent on Consignment A/c	24,00,000
To, Bank A/c			

- Freight and Insurance	96,000		
To, Jatin A/c		By, Jatin A/c	1,12,70,000
Clearing Exp. To, Jatin A/c	31,200	By, Loss in Transit A/c (10 Machines)	
Selling Exp.	5,10,000		2,42,400
To, Jatin A/c	6,90,125	By, Consignment Stock A/c	15,16,000
To, Stock Reserve A/c	3,00,000		
To, P/L A/c	18,01,075		
	1,54,28,400		1,54,28,400

Question 2

Veemal of Delhi sends a consignment of wall clocks to Anand of Kolkata and charges proforma invoice price so as to show a profit of 25% on cost. The agent received commission @ 5% on all sales plus 3% del credere commission on credit sales made by him. Stock of goods with the agent at the beginning of the year: 40 clocks at proforma invoice price ₹ 25,000. During the year ended 31st December 2011, Veemal had the following transactions with Anand:

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

Solution:

Books of Veemal

Dr.		Cr.	
Consignment to Kolkata Account			
Particulars	(₹)	Particulars	(₹)
To, Consignment Stock A/c [Unsold stock]	25,000	By, Stock Reserve A/c	5,000

To, Goods sent on Consignment A/c [sent at IP]		1,25,000	[Load on opening stock : 25,000 × 25/125]	
To, Bank A/c [Expenses incurred]			By, Anand A/c [Sale: ₹ 53,750 + ₹ 70,000]	1,23,750
- Railway charges & Insurance		3,500		
To, Anand A/c [Expenses paid by consignee]			By, Goods Sent on Consignment A/c	25,000
- Selling expenses	6,250		[load on goods sent: ₹ 1,25,000 × 25/125]	
- Discount Allowed	2,500	8,750	By, Goods Damaged-in-Transit A/c	19,275
To, Anand A/c [Commission due]			[WN: 1] By, Consignment Stock A/c [WN: 1]	19,275
- Ordinary Commission [1,23,750 × 5%]	6,188			
- Del credere Commission [70,000 × 3%]	2,100	8,288		
To, Goods Damaged-in-Transit A/c [Load - WN: 1]		3,750		
To, Stock Reserve A/c [Load on unsold stock - WN: 1]		3,750		
To, P/L A/c [Profit on consignment transferred]		14,262		
		1,92,300		1,92,300

Dr. Anand Account

Cr.

Particulars	(₹)	Particulars	(₹)
To, Consignment A/c [Sales]	1,23,750	By, Bank A/c [Advance]	37,500
To, Goods Damaged-in-Transit A/c [Insurance claim received]	6,750	By, Consignment A/c [Expenses incurred]	8,750
To, Goods Damaged-in-Transit A/c [Sale of damaged goods]	5,750	By, Consignment A/c [Commission due]	8,288
		By, Goods Damaged-in-Transit A/c [Commission on sale of damaged goods]	288

		By, Bank A/c [Final remittance - B/Fig.]	51,250
	1,36,250		1,36,250

Dr. **Goods Damaged-in-Transit Account**

Cr.

Particulars	(₹)	Particulars	(₹)
To, Consignment A/c [Goods damaged]	19,275	By, Consignment A/c [Load on goods damaged]	3,750
To, Anand A/c	288	By, Anand A/c [Insurance claim received]	6,750
[Commission on sale of damaged goods - ₹ 5,750 × 5%]		By, Anand A/c [Sale of damaged goods]	5,750 3,313
	19,563	By, P/L A/c [Net loss - B/Fig.]	
			19,563

Workings Note:

1. Value of Goods Damaged in Transit & Unsold Stock

	Units	(₹)
IP of goods sent	200	1,25,000
Add: Consignor's expenses [being, Railway charges & Insurance]	-	3,500
Less: Goods Damaged-in-Transit [1,28,500 × 30/200]	200	1,28,500
Load on Goods Damaged-in-Transit: Total load × 30/200 = ₹ 1,25,000 × 30/200 = ₹ 3,750	30	19,275
□ Value of goods received by consignee	170	1,09,225
Unsold Stock = [40 + 200 - 30 - (80 + 100)] = 30 units		
∴ Value of unsold stock of 30 units		₹ 1,09,225 × $\frac{30}{170}$ = ₹ 19,275
Load on unsold stock: Total load × 30/200 = ₹ 1,25,000 × 30/200 = ₹ 3,750		

HIRE PURCHASE

Question 1

June - 2024

Mr. Rana purchases a car on Hire Purchase system on 01.01.2021. The Total cash price of the car is ₹4,50,000 payable ₹90,000 down and three instalments of ₹ 1,70,000, ₹ 1,50,000 and ₹1,08,460 payable at the end of 1st, 2nd and 3rd respectively. Interest is charged at 10% p.a.

You are required to calculate interest paid with each instalment.

Solution

Interest paid with each instalment

Year	Opening Balance of Cash Price	Instalment	Payment towards Cash Price	Payment towards Interest	Closing Balance of Cash Price
	D	D	D	D	D
01.01.21	4,50,000	90,000	90,000	0	3,60,000
31.12.21	3,60,000	1,70,000	1,34,000	36,000	2,26,000
31.12.22	2,26,000	1,50,000	1,27,400	22,600	98,600
31.12.23	98,600	1,08,460	98,600	9,860	0

Question 2

Dec 24

On 1st April, 2021, Aarvi Limited purchased a machine on hire purchase system, whose cash price was ₹12,00,000. The hire purchase price of the machine was ₹15,00,000. ₹3,00,000 was payable immediately and the balance was to be paid in three equal annual instalments. The books are closed on 31st March each year. The company charge depreciation @ 15% per annum on the reducing balance basis.

Calculate interest included in each instalment and prepare Machinery Account for three years in the books of Aarvi Limited.

Solution

Interest included in each Instalment

Instalment	Interest (₹)
First	1,50,000
Second	1,00,000
Third	50,000
Total	3,00,000

In the Books of Aarvi Ltd Machinery Account

Dr.

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.21	To Hire Vendor	12,00,000	31.3.22	By Depreciation A/c	1,80,000
				By Balance c/d	10,20,000

		12,00,000			12,00,000
1.4.22	To Balance b/d	10,20,000	31.3.23	By Depreciation A/c	1,53,000
				By Balance c/d	8,67,000
		10,20,000			10,20,000
1.4.23	To Balance b/d	8,67,000	31.3.24	By Depreciation A/c	1,30,050
				By Balance c/d	7,36,950
		8,67,000			8,67,000

Illustration 3

June 2018

X purchased a T.V on hire-purchase system. As per terms he is required to pay ₹ 3000 down, ₹ 4000 at the end of first year, ₹ 3000 at the end of second year, and ₹ 5000 at end of third year. Interest is charged at 12% p.a. You are required to calculate total cash price of T.V and interest paid with each installment.

Solution:

Calculation of Cash Price	Installment (₹)	Analysis of Installments	
		Interest (₹)	Cash Price(₹)
3rd Installment	5,000		
(-) Interest (12/112 × 5,000)	536		
	4,464	536	4,464
Balance of Cash Price	3,000		
(+) 2nd Installment	7,464		
(-) Interest (12/112 × 7,464)	800	800	2,200
Balance of Cash Price	6,664		
(+) 1st Installment	4,000		
	10,664		
(-) Interest (12/112 × 10,664)	1,143		
Balance of Cash Price		1,143	2,857
(+) Down Payment	9,521		
Total Cash Price	3,000	- 2,479	3,000
	12,521		12,521

Illustration 3

June 2017, 2021 & 2023

X & Co. purchased a Motor car on April 1, 2019 on hire-purchase paying ₹ 60,000 cash down and balance in four annual installments of ₹ 55,000, ₹ 50,000, ₹ 45000 and ₹ 40,000 each installment comprising equal amount of cash price at the end of each accounting period. You are required to calculate total cash price and amount of interest in each installment.

Solution:

Hire-purchase Price	(₹)
Down Payment	60,000
1st installment	55,000
2nd installment	50,000
3rd installment	45,000
4th installment	40,000
Total	<u>2,50,000</u>

As each installment comprises equal amount of cash price the differences in installment amounts are due to interest amount only. Assuming X is the amount of Cash Price in each installment and I is the amount of interest.

Thus for the installments, starting from last installment, we have the following equations:

$$\begin{aligned}
 & \text{(i) } X + I = 40,000 \\
 & \text{(ii) } X + 2I = 45,000 \\
 & \text{(iii) } X + 3I = 50,000 \\
 & \text{(iv) } X + 4I = 55,000
 \end{aligned}$$

Subtracting any preceding equation from the following equation we get $I = ₹ 5,000$ and by substituting the value of I in any equation we get $X = ₹ 35,000$.

The hire-purchase price is divided into cash price and interest parts as under :

Particulars	Cash Price (₹)	Interest (₹)	Installment (₹)
Down Payment	60,000	-	60,000
First installment	35,000	20,000	55,000
Second installment	35,000	15,000	50,000
Third installment	35,000	10,000	45,000
Fourth installment	35,000	5,000	40,000
Total	2,00,000	50,000	250,000
Total Cash Price	2,00,000		
Hire Purchase Price	2,50,000		
Total Interest	50,000		

Situation - IV: When reference to annuity table rate of interest and installments are given but total cash price is not given

In such questions the reference to annuity table gives the present value of the annuity for a number of years at a certain rate of interest. This present worth is equal to total cash price. Therefore, with the help of annuity tables the total cash price of the total installments given can be calculated and then question can be solved by the first method.

LEASING

Question 1

Dec - 2023

Lease Ltd. has initiated a lease for four years in respect of a vehicle costing ₹ 20,00,000 with expected useful life of 5 years. The asset would revert to the company under the lease agreement. The other information available in respect of lease agreement is:

- (i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹ 2,50,000.
- (ii) The implicit rate of interest is 10%.
- (iii) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hand of Lease Ltd.

(I) The annual lease payment.

(II) The unearned finance income.

Note:

- (i) PV of residual value for 4th year @ 10% is 0.683.
- (ii) PV factor for 4 years @ 10% is 3.16987.

Solution

(I) The annual lease payment = ₹ 577074

(II) The Unearned Finance Income = ₹ 558296

PROVISION FOR BAD DEBTS

Question 1

June - 2024

On 31st December, 2022, Sundry Debtors and provision for doubtful debts are ₹ 50,000 and ₹5,000 respectively. During the year 2023, ₹ 3,000 are bad and written off on 30-09-2023. An amount of ₹ 400 was received on account of a Debt which was written off as bad debt last year on 31-12-2023. The debtors left was verified and it was found that Sundry Debtors on 31st December 2023 stood in the books were ₹40,000 out of which a customer Mr. X who owed ₹800 was to be written off as Bad.

Prepare Bad Debt A/c., Provision for Doubtful Debt A/c, if the same % should be maintained for provision for doubtful debts as it was on 31-12-2022. Show also Profit & Loss Account (abstract) for the year ended 31-12-2023 and Balance Sheet (abstract) as on that date.

Solution

In the Book of _____ **Bad Debt Account**

Date	Particulars	Amount (D)	Date	Particulars	Amount (D)
30.09.23	To Sundry Debtors	3,000	31.12.23	By Provision for Doubtful	3,800

31.12.23	To X's A/c	800		Debt A/c	
		3,800			3,800

Provision for Doubtful Debts A/c

Date	Particulars	Amount (D)	Date	Particulars	Amount (D)
31.12.23	To Bad Debts	3,800	01.01.23	By Balance b/d	5,000
31.12.23	To Balance c/d	3,920	31.12.23	By Profit & Loss A/c	2,720
		7,720			7,720

Profit & Loss A/c (Extract)

For the year ended 31-12-2023

Particulars	Amount (D)	Particulars	Amount (D)
To Bad Debts	3,800	By Bad Debts Recovery A/c	400
		By Provision for Bad Debts - Existing	5,000
		Less Provision required	<u>3,920</u>
			1,080

Balance Sheet (Extract)

As at 31-12-2023

Liabilities	Amount (D)	Assets	Amount (D)	Amount (D)
		Sundry Debtors	40,000	
		Less Bad Debts	800	
			39,200	
		Less Provision for bad Debts	<u>3,920</u>	35,280

SINGLE ENTRY

Question 1

June - 2024

Sohan is a small trader and does not maintain his books on double entry system. The details of his business are available as follows:

Particulars	01.04.2022 (₹)	31.03.2023 (₹)
Cash in Hand	-	1,000
Bank Balance	74,000 (Cr)	40,000 (Dr)
Sundry debtors	5,30,000	8,80,000
Sundry Creditors	1,50,000	1,95,000
Stock	1,70,000	1,90,000
Investments	1,20,000	1,35,000
Plant	2,00,000	2,00,000
Furniture	14,000	14,000

Sohan had withdrawn ₹ 3 lakh during the year, and he introduced fresh capital of ₹ 65,000 on 1st October, 2022. A provision to 5% on Sundry debtors is necessary. Write off depreciation on plant at the rate of 15% per annum and on furniture at the rate of 10% per annum. Interest on opening capital to be allowed at the rate of 10% per annum. The manager is entitled for a commission at the rate of 10% on the net profit after charging such commission.

You are required to ascertain Sohan's profit or loss for the year ended 31st March 2023.

Solution

Statement Showing Profit or Loss for the year ended 31st March 2023

Particulars	Amount (₹)
Capital at the end of the year as per Statement of Affairs	11,89,600
Add: Drawings During the year 2022-23	3,00,000
Less: Fresh Capital introduced on 01.10.2022	(65,000)
Adjusted Capital	14,24,600
Less: Capital At the beginning of the year as per Statement of Affairs	(8,10,000)
Profit before charging interest and capital and Manager's Commission	6,14,600
Less: Interest on Capital	(81,000)
Profit before charging manager's commission	5,33,600
Less: Manager's Commission	(48,509)
Net Profit	4,85,091

Question 2

Dec - 2023

Rajesh does not maintain proper books of account. From the following particulars prepare the Trading and Profit and Loss Account for the year ended 31st March, 2023 and the Balance Sheet as on that date:

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)
Debtors	90,000	1,25,000
Stock	49,000	66,000
Furniture	5,000	7,500
Creditors	30,000	22,500

Summary of other transactions is as follows:

Particulars	₹
Cash collected from Debtors	3,04,000
Cash paid to Creditors	2,20,000
Salaries	60,000
Rent	7,500
Office Expenses	9,000
Drawings	15,000
Additional Capital introduced	10,000
Cash Sales	7,500
Cash Purchases	25,000
Discount Received	3,500
Discount Allowed	1,500
Returns Inward	5,000
Returns Outward	4,000
Bad Debt	1,000

He had ₹ 25,000 as Cash Balance in the beginning of the year.

Solution

Trading and Profit and Loss Account For The Year ended 31st March 2023

Dr.

Cr.

Particulars	D	Particulars	D
To Opening Stock	49,000	By Sales	3,49,000
To Purchase	2,41,000	By Closing Stock	66,000
To Gross Profit c/d	1,25,000		
To Salaries To Rent	4,15,000	By Gross Profit b/d By	4,15,000
To Office Expenses	60,000	Discount received	1,25,000
	7,500		3,500
To Discount allowed	9,000		
To Bad Debts	1,500		
To Net Profit	1,000		
	49,500		
	<u>1,28,500</u>		<u>1,28,500</u>

Balance Sheet As at 31st March 2023

<u>Liabilities</u>	<u>D</u>	<u>Assets</u>	<u>D</u>
Capital	183,500	Cash	10,000
Creditors	25,000	Debtors	1,25,000
		Stock	66,000
		Furniture	7,500
	<u>208,500</u>		<u>208,500</u>

Question 3

Dec 24

Rahul does not maintain a proper books of account. However, he maintains a record of his bank transactions and is also to give the following information from which you are requested to prepare his final accounts for the year 2023-24.

Particulars	31.03.2023	31.03.2024
Debtors	₹1,02,500	?
Creditors	?	₹46,000
Stock	₹50,000	₹62,500
Bank Balance	?	₹50,000
	₹7,500	₹9,000

Details of Bank transactions are as follows:

Particulars	Amount in ₹
Received from Debtors	3,40,000
Additional capital introduced	5,000
Sale of Fixed Assets (book value ₹2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal Drawings	25,000
Purchase of Fixed Assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹2,60 000.

Solution

In the Books of Rahul

Trading Account and Profit and Loss Account for the year ended 31.3.2024

Dr

Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	50,000	By Sales	325,000
To Purchases	272,500	By Closing Stock	62,500
To Gross Profit c/d	65,000		

			3,87,500
	3,87,500		
To Expenses	49,250	By Gross Profit b/d	65,000
To Depreciation on Fixed Asset	1,000		
To Loss on Fixed Asset	750		
To Net Profit c/d	14,000		
	65,000		65,000

Balance Sheet of Rahul as on 31.03.2024

Particulars		Amount (₹)	Particulars		Amount (₹)
Capital Account :			Fixed Assets		9,000
Opening Balance	169,000		Stock		62,500
Add: Capital introduced	5,000		Debtors		87,500
Add: Net Profit	<u>14,000</u>		Bank		50,000
	188,000				
Less: Drawing	<u>25,000</u>	163,000			
Creditors		46,000			
		209,000			209,000

NPO

Illustration 1

On 31st March 2021, a club had subscription in arrears of ₹ 28,000 and in advance ₹ 4,000. During the year ended 31st March 2022, the club received subscription of ₹ 2,08,000 of which ₹ 12,500 was related to 2022-23. On 31st March, 2021, there were 5 members who had not paid subscription for 2022 @ ₹ 1,600 per person. Prepare the Subscription Account for the year 2021-22.

Solution:

Dr.		Subscription Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To, Balance b/d (arrears)	28,000	By, Balance b/d (advance)	4,000		
To, I & E A/c (income for 2021-22) [B/fig]	1,79,500	By, R & P A/c (received)	2,08,000		
To, Balance c/d (advance)	12,500	By, Balance c/d (arrears- ₹1600 × 5)	8,000		
	2,20,000				2,20,000

Illustration 2

June 2014, 2015

The City Sports Club of Surat had received in 2021-2022 ₹ 50,000 towards subscription.

Subscription for 2020- 21 unpaid on 1.4.2021 were ₹ 5,000.

Subscriptions paid in advance on 31.3.2021 were ₹ 1,250 and the same on 31.3.2022 was ₹ 1,000. Subscriptions for 2021- 2022 unpaid on 31.3.2022 were ₹ 2,250.

Show a statement showing the amount of subscriptions that would appear in Income and Expenditure Account of the club for the year ended 31.03.2022.

Solution:

Particulars	(₹)
Subscriptions received during the year 2021-2022	50,000
Add : Subscription outstanding on 31.3.2022	2,250
	52,250
Less : Subscription outstanding on 1.4.21	5,000
	47,250
Add : Subscription paid in advance on 31.3.2021	1,250
	48,500
Less : Subscription received in advance on 31.3.2022	1,000
Subscription for 2021-2022	47,500

Question 3

Following is the summary of Receipts and Payments of RR Clinic for the year ended 31st March, 2022:

	(₹)
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 Miscellaneous Expenses	10,500 7,000

Additional Information:

Sl.		01.04.2021 (₹)	31.03.2022 (₹)
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
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	315,000
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, 2022 and the Balance Sheet as on 31st March, 2022.

Solution:

Receipts and Payments Account of RR Clinic for the year ended 31.03.2022

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 RR Clinic

Dr. for the year ended 31.03.2022 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 <u>10,500</u>	77,000
Medical Equipment 37,800			
Building <u>35,000</u>			
	72,800		
(3,50,000 - 3,15,000)			

To, Surplus-excess of Income over Expenditure	54,600		
	6,03,400		6,03,400

Balance Sheet of RR Clinic as on 31st March, 2022

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital Fund:			Building	<u>3,50,000</u>	
Opening Balance	12,62,100		Less: Depreciation	(35,000)	3,15,000
Add: Surplus	<u>54,600</u>	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	Add: Purchase	<u>1,05,000</u>	
Subscription Received		4,900		2,52,000	
in Advance			Less: Depreciation	<u>(37,800)</u>	2,14,200
Creditors for Medicine		91,000			
Supply			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

		(₹)	(₹)
1	Subscription for the year ended 31.03.2022		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 01.04.2021	10,500	.
	Less: Subscription received in advance on 31.03.2022	4,900	(15,400)
	Add: Subscription receivable on 31.03.2022	15,400	3,34,600
	Add: Subscription received in advance on 01.04.2021	8,400	23,800
	Subscription for the year 2021-22		3,58,400
2.	Purchase of Medicine		
	Payment of Medicine Supply		2,10,000
	Less: Amount due for Medicine Supply 01.04.2021		(63,000)

			1,47,000
	Add: Amount due for Medicine Supply on 31.03.2022		91,000
	Purchase of Medicine during 2021-22		2,38,000
3.	Medicine Consumed		
	Stock of Medicine on 01.04.2021		70,000
	Add: Purchase of Medicine during the year		2,38,000
			3,08,000
	Less: Stock of Medicine on 31 03.2022		(1,05,000)
	Medicines Consumed		2,03,000
4	Depreciation on Equipment		
	Value of Equipment on 01.04.2021		1,47,000
	Add: Purchase of Equipment during the year		1,05,000
			2,52,000
	Less: Value of Equipment on 31.03.2022		(2,14,200)
	Depreciation on Equipment for the year		37,800

Balance Sheet of RR Clinic as on 31st March, 2021

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

BRANCH ACCOUNTING

Question 1

June - 2024

The Ranu stores of Jaipur has a retail branch at Kota. The goods are invoiced to the branch at selling price which is obtained by adding 50% on cost price. All expenses are paid by head office. The particular are as follows:

Particulars	₹
Balance as on 1st April, 2022	1,20,000
-Stock at Invoice price	43,200
-Debtors	18,00,000
Goods Sent to Branch (Invoice Price)	24,000
Goods returned by Branch (Invoice Price)	72,000
Cash Sales	16,32,000
Goods returned by Debtors	12,000
Cash received from Debtors	15,60,000
Discount allowed to Debtors	12,000
Bad Debt	2,400
Branch Expenses paid by Head Office : Rent	19,200
: Salaries	1,01,000
: Misc Expenses	6,000
Balance as on 31st March, 2023	
-Stock at Invoice Price	1,99,200
-Debtors	88,800

You are required to prepare Branch Stock account, Branch Debtors Account. Goods sent to Branch Account, Branch Expenses Account, Branch Adjustment Account, Branch Stock Reserve Account and in the books of Head Office.

Solution

Books of Ranu Stores (Head Office) Branch Stock Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Balance b/d	1,20,000	By Goods Sent to Branch (Returns)	24,000
To Goods Sent to Branch A/c	18,00,000	By Bank/ Cash A/c	72,000
To Branch Debtors A/c (Returns)	12,000	By Branch Debtors A/c	16,32,000
		By Branch Adjustment A/c (Short)	4,800
		By Balance c/d	1,99,200
	19,32,000		19,32,000

Branch Debtors Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Balance b/d	43,200	By Branch Stock A/c	12,000
To Branch Stock A/c	16,32,000	By Bank/ Cash A/c	15,60,000
		By Branch Expenses A/c - discount	12,000
		By Branch Expenses A/c - bad debt	2,400
		By Balance c/d	88,800
	16,75,200		16,75,200

Goods Sent to Branch Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Stock A/c	24,000	By Branch Stock A/c	18,00,000
To Branch Adjustment A/c	5,92,000		
To Trading A/c	11,84,000		
	18,00,000		18,00,000

Branch Expenses Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Debtors A/c (Discount)	12,000	By Branch Adjustment A/c	1,40,600
To Branch Debtors A/c (Bad debts)	2,400		
To Bank / Cash A/c	1,26,200		
	1,40,600		1,40,600

Branch Adjustment Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Expenses A/c	1,40,600	By Stock Reserve A/c (open)	40,000
To Branch Stock A/c (Shortage)	4,800	By Goods Sent to Branch A/c	5,92,000
To Stock Reserve A/c (Closing)	66,400		
To Profit and Loss A/c	4,20,200		
	6,32,000		6,32,000

Branch Stock Reserve Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Adjustment A/c	40,000	By Balance b/d	40,000
To Balance c/d	66,400	By Branch Adjustment A/c	66,400
	1,06,400		1,06,400

Question 2

Dec 24

Adhiraj Ltd., Noida, started a branch in Surat on April 1, 2023 to which goods were sent at 20% above cost. The branch makes both credit and cash sales. It is the policy to meet branch expenses from branch cash, and remit the balance money to Head Office (H.O.). The branch does not maintain double entry books of accounts, and necessary accounts relating to the branch are maintained by the H.O.

Particulars	₹	Particulars	₹
Cost of goods sent to Noida Branch	50,000	Cash remitted to H.O.	43,000
Goods received by branch till March 31 (at IP)	54,000	Cash in hand at branch at the end of the year	2,000
Credit sales for the year	58,000	Cash remitted by H.O. to brunch during the year	3,000
Closing Debtors	20,800	Closing stock at branch at IP	6,000
Bad debts	200	Expenses incurred at branch	12,000

Show the Surat Branch Account in the books of the Noida H.O. to determine the profit and loss of the branch for the year ended March 31, 2024.

Solution

Books of Adhiraj Ltd. (Noida H.O.) Surat Branch A/c

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods Sent to Branch A/c	60,000	By Goods Sent to Branch A/c	10,000
To Bank A/c	3,000	- Loading	
To Goods-in-Transit A/c	1,000	By Goods-in-Transit A/c	6,000
- Loading			
To Stock Reserve	1,000	By Bank A/c	43,000
		- [Remittance from Branch]	
To General Profit & Loss A/c [Branch NP transferred]	22,800	By Balance c/f:	
		- Branch Debtors	20,800
		- Branch Cash	2,000

		- Branch Stock	6,000
	87,800		87,800

Illustration 3

Dec 2023

Blue Ltd has a retail branch at Mumbai. Goods are sold at 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Pune H.O. to Mumbai Branch at wholesale price. From the following particulars ascertain the profit made at H.O. and Branch for the year ended on 31.3.2019.[Fig. in ₹]:

Particulars	H.O	Branch	Particulars	H.O	Branch
Stock on 1.4.2018	7,00,000	-	Sales	42,84,000	14,40,000
Purchases	42,00,000	-	Stock on	16,80,000	2,52,000
Goods sent to Branch (at IP)	15,12,000	-	31.3.2019		

Sales at H.O are made only on wholesale basis and that at Branch only to consumers.

Solution:

Problem

Note:

Blue Ltd. (H.O.)
Trading and Profit & Loss account for the year ended
31.3.2019

Dr.

Cr.

Particulars	H.O (₹)	Branch (₹)	Particulars	H.O (₹)	Branch (₹)
To, Opening Stock	7,00,000	-	By, Sales	42,84,000	14,40,000
To, Purchase	42,00,000	-	By, Goods Sent to Branch	15,12,000	-
To, Goods Received from H.O	-	15,12,000	By, Closing Stock	16,80,000	2,52,000
To, Gross Profit c/d	25,76,000	1,80,000			
	74,76,000	16,92,000		74,76,000	16,92,000
To, Stock Reserve [WN:2]	72,000	-	By, Gross Profit b/d	25,76,000	1,80,000
To, Net Profit	25,04,000	1,80,000			
	25,76,000	1,80,000		25,76,000	1,80,000

Working Notes:

1. Relationship Between Cost Price (CP), Selling Price (SP) and Wholesale Price (WP)

Let CP be ₹100. Thereof SP = ₹ (100+60) = ₹160; and WP = (100+40) = 140

2. Unrealised profit in Unsold stock

Unrealized profit on closing stock of branch = ₹ (2,52,000×40/140) = ₹ 72,000

INSURANCE CLAIMS

Question 1

June - 2024

From following details, calculate consequential loss claim:

- Date of fire: Sept. 1
- Indemnity period: 6 months
- Period of disruption September 1 to February 1
- Sum insured ₹ 1,08,900
- Sales were ₹ 6,00,000 for preceding financial year ended 31st march.
- Net profit for preceding financial year ₹ 36,000 plus insured standing charges ₹ 72,000
- Rate of gross profit 18%
- Turnover during disruption period ₹ 67,500
- Annual turnover for 12 months immediately preceding the date of fire ₹ 6,6,0000
- Standard turnover i.e. for corresponding months in the year preceding the date of fire ₹ 2,25,000
- Increase in the cost of working capital ₹ 12,000 with a saving of insured standing charges ₹ 4,500 during the disruption period;
- Reduced turnover avoided through increase in working capital ₹ 30,000
- A special clause stipulated:
 - ⊙ Increase in rate of GP by 2%
 - ⊙ Increase in turnover (standard and annual) 10%

Solution

$$GP \text{ rate} = 18\% + 2\% = 20\%$$

Short sale = standard turnover - actual turnover for indemnity period.

$$= (\text{₹ } 2,25,000 \times 110\%) - \text{₹ } 67,500 = \text{₹ } 1,80,000$$

$GP\ Lost = Short\ sale \times GP\ rate$ $= ₹ 1,80,000 \times 20\% = ₹ 36,000$	
Admissible additional expenses for insurance claim Least of the following: (₹)	
i. Actual additional exp.	12,000
ii. Sales due to additional expenses $\times GP\ rate$ (₹ 30,000 \times 20%)	6,000
iii. Actual additional expenses $\times \frac{Net\ Profit + Insured\ standing\ charges}{Net\ Profit + All\ standing\ charges}$	
$₹ (12000 \times \frac{36,000 + 72,000}{[3,60,000 + (72,000 + 6,000)])}$	11,368
Admissible additional expenses	6000
Gross claim = GP lost + admissible expenses for insurance claim - saving in standing charges = ₹ (36,000 + 6,000 - 4,500) = ₹ 37,500	
Insurable value = adjusted annual turnover $\times GP\ rate$ $= (₹ 6,60,000 \times 110\%) \times 20\% = ₹ 1,45,200$	
<u>Policy Value</u>	<u>₹1,08,900</u>
Net Claim = Insurable Value \times Gross claim = ₹1,45,200 \times ₹ 37,500 = ₹ 28,125	

Question 2 **Dec 24**

On 10th December, 2024 a fire occurred in the premises of Chandu. All stock except to the extent of ₹28,800 were destroyed. Chandu values the stock at cost less 10 per cent. Stock was insured for ₹1,00,000. From the following information, ascertain the amount of claim to be lodged by Chandu:

Particulars	₹
Stock on 1st April, 2023	1,44,000
Purchases less returns during 2023-24	5,60,000
Sales less returns during 2023-24	8,00,000
Stock on 31st March, 2024	90,000
Purchases less returns from 1st April, 2024 to date of fire	5,84,000
Sales less returns from 1st April, 2024 to date of fire	6,40,000

Solution

Trading Account for the year ending 31st March, 2024

	Amount (₹)		Amount (₹)
To Opening Stock	1,60,000	By Sales less Returns	8,00,000
To Purchases less Returns	5,60,000	By Closing Stock	1,00,000
To Gross Profit	1,80,000		
	9,00,000		9,00,000

Rate of Gross Profit = $(180,000/800,000) \times 100 = 22.5\%$

Memorandum Trading Account
for the period from 1st April, 2024 to 10th December, 2024

	Amount (₹)		Amount (₹)
To Opening Stock	1,00,000	By Sales less Returns	6,40,000
To Purchases less Returns	5,84,000	By Closing Stock	1,88,000
To Gross Profit	1,44,000	(Balancing figure)	
	8,28,000		8,28,000

Loss on Stock destroyed by fire = $(188,000 - 28,800) = ₹ 1,59,200$

Amount of Claim: = ₹ 84,681.

Question 2

Dec 24

On 1.4.2021, godown of Y Ltd. was destroyed by fire. The records of the company revealed the following

particulars:	(₹)
Stock on 1.1.2021	75,000
Stock on 31.12.2021	80,000
Purchases during 2021	3,10,000
Sales during 2021	4,00,000
Purchase from 1.1.2022 to the date of fire	75,000
Sales from 1.1.2022 to the date of fire	1,00,000

In valuing Closing Stock of 2021, ₹ 5,000 was written off whose cost was ₹ 4,800. Part of this stock was sold in 2022 at a loss of ₹ 400, at ₹ 2,400. Stock salvaged was ₹ 5,000. The godown and the cost of which was fully insured.

Indicate from above amount of claim to be made against the insurance company.

Solution:

(a) For ascertaining the rate of Gross Profit

In the books of Y Ltd.

Dr. **Trading Account for the year ended 31.12.2021** Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To, Opening Stock		75,000	By, Sales		4,00,000
" Purchases	3,10,000		" Closing Stock	80,000	

Less: Purchase of Abnormal items of goods	4,800	3,05,200	Add: Loss on value of abnormal items	200	80,200
" Gross Profit (bal. fig.)		1,00,000	(₹ 5,000 - ₹ 4,800)		
		4,80,200			4,80,200

Percentage of Gross Profit on sales = $\frac{₹1,00,000}{₹4,00,000} \times 100$
 = **25%**

**Memorandum Trading Account
for the period ended 31st March, 2022**

Particulars	(₹)	Particulars	(₹)	(₹)
To, Opening Stock	80,200	By, Sales	1,00,000	
" Purchases	75,000	Less: Sale of abnormal Stock	2,000	98,000
" Gross Profit (@25% on ₹ 98,000)	24,500	(₹ 2,400 - ₹ 400)		
		" Closing Stock (bal. fig.)		81,700
	1,79,700			1,79,700

Alternative approach in a combined form

Trading Account

Dr. for the year ended 31st December, 2022 Cr.

Particulars	Normal Items	Abnormal Items	Total	Particulars	Normal Items	Abnormal Items	Total
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Opening Stock	75,000	---	75,000	By Sales	4,00,000	---	4,00,000
„ Purchase	3,05,200	4,800	3,10,000	„ Closing Stock	80,200	(-) 200	80,000
„ Gross Profit @25% on sales	1,00,000	---	1,00,000	„ Gross Loss	---	5,000	5,000
	4,80,200	4,800	4,85,000		4,80,200	4,800	4,85,000

Memorandum Trading Account for 3 months ending 31st March, 2022

Particulars	Normal Items	Abnormal Items	Total	Particulars	Normal Items	Abnormal Items	Total
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Opening Stock	80,200	(-) 200	80,000	By Sales	98,000	2,000	1,00,000
„ Purchase				„ Closing Stock (bal. fig)	81,700	2,400	84,100
„ Gross Profit	75,000	---	75,000				
	24,500	4,600	29,100				
	1,79,700	4,400	1,84,100		1,79,700	4,400	1,84,100

1. 50% of ₹ 4,800 i.e., remaining abnormal stocks are valued at cost.

Amount of Claim	(₹)
Value of Stock at the date of fire	84,100
Less: Stock Salvaged	5,000
	<u>79,100</u>

PARTNERSHIP ACCOUNTING

Problem 1

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:

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 The Balance Sheet of the newly constructed firm.

Solution:

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/cs (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	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 1,42,000

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	20,000
To A's Capital A/c		4,000
To B's Capital A/c		

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 × 7/2 = 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 ($15,05,000 \times 1/7$) each i.e. atpar with B (as per new profit and loss sharing ratio) .

Question 2

June - 2024

X, Y and Z were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm's Balance Sheet on 31st March, 2023 was as follows:

Liabilities	Amount in (₹)	Assets		Amount in (₹)
Creditors	4,25,000	Cash in Hand		17,000
Bills Payable	1,35,000	Cash at Bank		2,48,000
General	5,10,000	Debtors	8,70,000	
Reserve		Less : Provision for Bad	30,000	8,40,000
Capital A/c	9,70,000	debt		
X	7,40,000	Bills Receivable		1,65,000
Y	3,80,000	Stock in trade		3,15,000
Z		Investments		3,75,000
		(Market Value ₹ 4,10,000)		4,20,000
		Furniture		7,80,000
		Land & Building		
	31,60,000			31,60,000

Y retired on 1st April, 2023 and it was agreed that he should be paid all his dues in full on that date. For this purpose, goodwill was to be calculated on the basis of 4 years' purchase of super profit method.

Other information's are given below:

- (i) Average capital employed in the business ₹ 26,10,000.
- (ii) Net trading profit of the firm for past 3 years 6,30,000; ₹ 5,40,000; X 6,75,000.
- (iii) Rate of interest expected from capital having regard to the risk involved —10%.
- (iv) Fair Remuneration to the partners for their services — ₹ 1,20,000 per annum.
- (v) Stock and furniture to be depreciated by 10%.
- (vi) A provision of 5% on debtors to be created for doubtful debts and a provision for liability of ₹ 18,000 to be created against bill discounted.
- (vii) The value of land and building is appreciated by ₹ 2,35,000 and investment is to be taken at its market value.
- (viii) Due to revaluation, the value of assets and liability are not to be altered.
- (ix) In order to meet Y's obligation, X and Z bring in additional capital of ₹, 3,50,000 and ₹ 7,20,000 respectively.
- (x) The Profit or Loss sharing ratio of X and Y in new firm will be 5 : 3.

You are required to:-

- (a) Calculate value of goodwill and show its treatment.

- (b) Calculate profit or loss on revaluation of Assets and Liabilities and show its adjustment among the partners.
- (c) Show the balances of Partners' Capital account after Y's retirement.
- (d) Prepare firm's balance sheet after retirement of Y.

Solution

- (a) Value of goodwill = D 9,36,00

Treatment of Goodwill		Dr.	Cr.
		₹	₹
X's Capital A/c	Dr	1,17,000	
Z's Capital A/c	Dr	1,95,000	
To Y's Capital A/c			3,12,000

- (b) Profit on revaluation of asset and liability = D 1,65,000

Adjustment of Profit on Revaluation among the Partners:

	Total (₹)	X (₹)	Y (₹)	Z (₹)
Profit credited to all partners (3:2:1)	1,65,000	82,500	55,000	27,500
Reverse debited to X and Z (5:3)	(1,65,000)	(1,03,125)	0	(61,875)
Net adjustment		20,625 (Dr)	55,000 (Cr)	34,375 (Dr)

- (c) Balance of partners' capital accounts after Y's retirement

	X (₹)	Z (₹)
Partners' capital after Y's retirement	11,18,625	7,64,375

- (d) Firm's Balance Sheet after retirement of Y

Liabilities	Amount (D)	Assets	Amount (D)
Capital A/cs		Land & Building	7,80,000
X	11,18,625	Furniture	4,20,000
Z	7,64,375	Stock in trade.	3,15,000
General Reserve	5,10,000	Investments	3,75,000
Creditors	4,25,000	Debtors	8,70,000
Bills Payable	1,35,000	Less: Prov for Bad debt	<u>30,000</u>
		Bills Receivable	1,65,000
		Cash at Bank	41,000
		Cash in Hand	17,000
	29,53,000		29,53,000

Question 3

June - 2024

What do you mean by piecemeal distribution? Explain it.

Solution

Piecemeal distribution

Till now, the decision was based on the implicit assumption that all assets were realised, and settlement was done on the same date. In fact, on the dissolution of partnership assets are sometimes realised gradually over a period. In such a case, it may be agreeing that the different parties are to be paid in order of preference as and when assets are realised without unnecessary waiting for the final realization of all the assets.

The Order of payment will be as follows:

1. Realisation expenses
2. For provision for expenses that are to be made
3. Preferential Creditor say Income Tax, or any payment made to the government
4. Secured creditor up to the amount realised from the disposal of assets by which they are secured and for the balance, if any, to be paid to unsecured creditor.
5. Unsecured creditor- In proportion to the amount of debts, if more than one creditor
6. Partners' Loan - if there is more than one partner - in that case, in proportion to the amount of loan.
7. Partners' Capital - the order of payment may be made by any one of the following two methods.
 - a) Surplus Capital Method / Proportionate Capital Method / Highest relative Capital Method
 - b) Maximum possible loss method.

Question 4

Dec - 2023

A and B were carrying on business as equal partners. The firm's Balance Sheet as on 31st December, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets :	
A	1,38,000	Leasehold Building	80,000
B	1,52,000	Plant and Machinery	1,80,000
Bank Loan	40,000	Furniture	20,000
Current Liabilities :		Current Assets :	
Sundry Creditors	70,000	Stock	60,000
Bills Payable	10,000	Book Debts	68,000
		Cash at Bank	2,000
	4,10,000		4,10,000

The business was carried on till 30th June, 2023. The partners withdrew in equal amounts half the amount of profits made during the period of six months (from January to June, 2023) after charging depreciation on

Leasehold Building — 10% per annum
 Plant and Machinery — 10% per annum
 Furniture — 10% per annum

Meanwhile Sundry Creditors were reduced by ₹ 15,000. Bills Payable by ₹ 2,500 and Bank Loan by ₹ 20,000. On 30th June stock was valued at ₹ 7,09,000, Book Debts were ₹ 75,000 and Cash at Bank was ₹ 2,500. On 30th June, 2023 the firm sold the business to a limited company for ₹ 4,00,000 payable in Equity Shares of ₹ 10 each.

The partners decided to take shares in the profit-sharing ratio, any difference to be settled in cash. You are required to prepare :

- (I) Statement of Net Assets as on 30th June, 2023;
- (II) Statement of Profit earned during the period six months ended on 30.6.2023;
- (III) Realisation Account;
- (IV) Capital Accounts of the partners.

Solution

(I) Net Asset as on 30th June, 2023 = D 9,70,000

(II) Net Profit earned during the period from 1/1/2023 to 30/6/2023 = D 13,60,000 (III)

(III) **Realisation Account**

Dr.		Cr.	
To Plant and Machinery	1,71,000	By Bank Loan	20,000
To Leasehold Building	76,000	By Sundry Creditors By	55,000
To Furniture	19,000	Bills Payables	7,500
To Stock	7,09,000	ByLtd. Company By	4,00,000
To Sundry debtors	75,000	Loss on Realisation	
To Cash at Bank	2,500	A"s Capital 2,85,000	
		B"s Capital <u>2,85,000</u>	5,70,000
	<u>10,52,500</u>		<u>10,52,500</u>

Partner's Capital Account

	Dr.			Cr.	
	A(D)	B(D)		A(D)	B(D)
To Loss on Realisation	2,85,000	2,85,000	By Balance C/d	1,38,000	1,52,000
To Drawings	3,40,000	3,40,000	By Add/Less Cash brought in by B to Pay to A to settle the difference	(+) 7,000	(-) 7,000
To Equity Shares in Ltd.Co.	2,00,000	2,00,000	By Net Profit for the Period		
				6,80,000	6,80,000
	<u>8,25,000</u>	<u>8,25,000</u>		<u>8,25,000</u>	<u>8,25,000</u>

Question 5

Dec 24

Raylink Ltd. agreed to purchase the business of a firm consisting of two brothers, A. Ray and S. Ray as on March 31, 2024. The Balance Sheet of the firm on that date was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Leasehold Premises	1,17,500
A. Ray	1,90,000	Plant & Machinery	70,000
S. Ray	1,45,000	Furniture & Fixtures	17,500
General Reserve	75,000	Stock-in-Trade	1,55,000
Creditors	1,00,000	Debtors	1,37,500
		Cash	12,500
	5,10,000		5,10,000

The company agreed to takeover the liabilities and all the assets, with the exception of cash, the agreed purchase price being ₹4,50,000 to be satisfied as to 1/4th in cash and 3/4th by issue of fully paid equity shares of ₹10 each at an agreed value of ₹12.50 per share.

The company made the following revaluations of the assets taken over when bringing them to books:

Leasehold Premises	₹1,55,000	Stock-in-Trade	₹1,45,000
Plant & Machinery	₹62,500	Debtors	₹12,500
Furniture & Fixtures	₹1,25,000		

You are required to:

1. Pass the necessary journal entries to record the acquisition of the business in the books of the company; and
2. Prepare the post-acquisition Balance Sheet of Raylink Ltd.

Solution

1.

Books of Raylink Ltd.

Journal Entries.		Dr.	Cr.
Date	Particulars	Amount (₹)	Amount (₹)
2024	Leasehold Premises A/c	Dr. 1,55,000	
Mar. 31	Plant & Machinery A/c	Dr. 62,500	
	Furniture & Fixtures A/c	Dr. 12,500	
	Stock-in-Trade A/c	Dr. 1,45,000	
	Debtors A/c	Dr.	
	To Business Purchase A/c	1,25,000	
			5,00,000
	Business Purchase A/c	Dr. 1,00,000	
	To Creditors A/c		1,00,000
	Business Purchase A/c	Dr. 4,00,000	
	Goodwill A/c	Dr. 50,000	

	To M/s A. Ray & S. Ray A/c			4,50,000
	M/s A. Ray & S. Ray A/c	Dr.	4,50,000	
	To Bank A/c			1,12,500
	To Equity Share Capital A/c			2,70,000
	To Securities Premium A/c			67,500

Note: Entries to be supported by Narration.

2.

Raylink Ltd.

Balance Sheet as at March 31, 2024

Particulars	Note No.	Amount (₹)
I. EQUITY & LIABILITIES		
1. Shareholders' Funds:		
(a) Share Capital: 27,000 Equity Shares of ₹10 each		2,70,000
(b) Reserves and Surplus: Securities Premium		67,500
2. Non-current liabilities		Nil
3. Current liabilities:		
(a) Short-term borrowings: Bank Overdraft		1,12,500
(b) Trade payables: Creditors		1,00,000
Total		5,50,000
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible assets	1	2,30,000
(ii) Intangible asset: Goodwill		50,000
2. Current Assets		
(a) Inventories: Stock-in-Trade		1,45,000
(b) Trade receivables: Debtors		1,25,000
Total		5,50,000

Notes to Accounts:

Date	Particulars	Amount (₹)
1	Tangible assets: Leasehold Premises	1,55,000
	Plant & Machinery	62,500
	Furniture & Fixtures	12,500
		2,30,000

Question 6

Dec 24

Give entries for the following transactions:

1. Realisation expenses 8000 were paid by Rana a partner.

2. Realisation expenses 10,000 paid by the firm on behalf of the Dhana (a partner), he has to bear the realisation expenses while 60%
3. Realisation expenses 20,000, out of which 60% to be borne by Mana (a partner) and remaining by the firm.
4. Realisation expenses 10,000 to be borne by Kana, a partner, but paid by Dhana, another partner.

Solution

Date	Particulars	Debit (₹)	Credit (₹)
1.	Realization A/C Dr. To Rana's Capital	8,000	8,000
2.	Dhana's Capital. To Bank A/C Dr.	10,000	10,000
3.	Realization Expenses A/C Dr. Mona's capital Dr. To Bank A/C	8,000 12,000	20,000
4.	Kana's Capital. Dr. To Dhana's Capital	10,000	10,000

Note: Entries to be supported by Narration.

ACCOUNTING STANDARDS

Question 1

June - 2024

Rukamani Ltd. had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of ₹ 60 crores during the accounting year ended on 31st March, 2023. The draft results for the year prepared on the hitherto followed accounting policies and presented for perusal of the board of directors, showed a deficit of ₹ 15 crores. The board in consultation with the Managing Director decided on the following :

- (i) Value year-end inventory at works cost (₹ 75 crores) instead of the hitherto followed method of valuation of inventory at prime cost (₹ 45 crores).
- (ii) Not to provide for "after sale expenses" during the warranty period. Till the last year, provision at 2% of sale used to be made under the concept of "matching of cost against revenue" and actual expenses used to be charged against the provision. The Board now decided to account for the expenses as and when actually incurred. Sales during the year ₹ 900 crores.
- (iii) Provide for permanent fall in the value of investments, on which fall had taken place over the past 5 years, the provision being ₹ 15 crores.

As Chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2022-2023.

Solution

As per AS 1 any change in the accounting policies which has a material effect in the current period or which is reasonable expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statement is affected by such change should also be disclosed to the extent ascertainable. Where such amount is ascertainable, wholly or in part the fact should be indicated. Accordingly, the note of accounting should properly disclose in the change and its effect.

Notes to accounts

- (i) During the year inventory has been valued at factory cost against the practise of valuing it at prime cost as was the practise till last year. This has been done to take cognizance of the more capital-intensive method of production because of heavy capital expenditure during the year. As a result the year-end inventory has been valued at D 75 Crores, in place of D 45 crores, thereby the profit for the year is increased by D 30 crores i.e. D 75 crores - D 45 crores
- (ii) So far, the company has been providing 2% of sales for meeting after selling expenditure during the warranty period. The improved method of production the probability of defect occurring in the product has been reduced considerably. Hence the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change the profit for the year is increased by rupees 18 crores i.e. 2% of rupees 900 crore then would have been the case if the old policy were to be continue.
- (iii) The company has decided to provide D 15 crore for the permanent fall in the value of investment which has taken place over the period of past five years the provision so made has reduced the profit disclosed in the accounts by D 15 crore.

Question 2**June - 2024**

'What is the objective of Accounting Standard 10? As per AS 10 which are included in bearer plant and which are not?

Solution**Objective of Accounting Standard (AS) 10**

The objective of the standard is to prescribe the accounting treatment for property, plant and equipment. So that user of the financial statements can discern information about investment made by an enterprise in its property, plant and equipment and the change in such investment the principal issue in the accounting for property, plant and equipment are the recognition of the assets the determination of their carrying amount and the depreciation charges and impairment losses to be recognised in relation to them.

Bearer Plant is a plant that.

- (a) Is used in the production or supply of agricultural produce:
- (b) Is expected to be a produce for more than a period of 12 months; and

- (c) Has a remote likelihood of being sold as agricultural produce except for incidental scrap sale?

The following are not bearer plants:

- (i) Plant cultivated to be harvested as a agricultural produce;
- (ii) Plant 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 a incidental scrap sale;
- (iii) Annual crops: When bearer plant are no longer used to bear produce they might be cut down and sold as a scrap. Once an item of property, plant and equipment qualifies for recognition as an asset it will be initially measured at cost.

Question 3

June - 2024

State the provisions of Accounting Standard 12, relating to presentation of Government Grants in Financial Statements.

Solution

As per AS 12 Provisions relating to presentation of Government Grants in Financial Statements' are as under:

1. Presentation of Grant Related to Specific Fixed Assets:
The primary condition of government grants related to specific fixed asset is that an enterprise qualifying for them should purchase construct or otherwise acquire such assets. Other condition may also be attached restricting the type or location of the assets or the period during which they are to be acquired or held.
2. Two methods of presentation of Grants (or the appropriate portions of grants) related to specific fixed assets are regarded as acceptable alternatives:
 - i. First method: The grant is shown as 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 assets the asset is shown in the balance sheet at a nominal value.
 - ii. Second method: Grants related to depreciable assets are credited as deferred income which is recognised in the profit and loss statement on systematic and rational basis over the useful life of asset. Such allocation to income is usually made over the period and in the proportions in which depreciation on related asset is charged.
3. Grants related to non-depreciable assets are credited to capital reserve as there is usually no charge to income in respect of such assets, however if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to profit and loss account.

4. Presentation of Grants related to Revenue: Grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as Other Income. Alternatively, they are deducted in reporting the related expenses.
5. Presentation of Grants of the nature of Promoters' contribution: Where the Government grants are of the nature of promoter's contribution, and no payment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor consider as deferred income

Question 4

Dec - 2023

ABC Ltd. is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd.?

Solution

Paragraph 7 of AS 10 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

measure for recognition, i.e., what constitutes an item of property, plant and Further, paragraph 9 provides that the standard does not prescribe the unit of equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 17, inter alia, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition

necessary for it to be capable of operating in the manner intended by management. In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 45 and 47 of AS 10, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of these assets should not exceed that of the asset to which it relates. Presentation These assets should be presented within the class of asset to which they relate.

Question 5

Dec - 2023

ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

- (i) ₹20 lakh received for immediate start-up of business without any condition.
- (ii) ₹50 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
 - (I) That drugs should be available to the public at 20% cheaper from current market price; and
 - (II) The drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].
- (iii) Two acres of land received for set up of plant.
- (iv) ₹2 lakh received for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

Solution

ABC Ltd. should recognise the grants in the following manner:

- As per para 6.4 of AS 12, in certain circumstances, a government grant is awarded

for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific expenditure. Such grants may be confined to an individual enterprise and may not be available to a whole class of enterprises. These circumstances may warrant taking the grant

To income in the period in which the enterprise qualifies to receive it, as an Prior Period Items and Changes in Accounting Policies). Therefore, 20 lakhs has been received for immediate start-up of business. This should be recognised in the statement of Profit and Loss immediately as there are no conditions attached to the grant.

- As per para 9.1, grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, they are deducted in reporting the related expense. 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant.
- As per para 7.1, 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 recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.
- The standard provides the option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per para 8.3 and 8.4 of the standard. Under the 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 charge. Accordingly, the grant of 2 lakhs is deducted from the cost of the machinery. Machinery will be recognised in the books at Rs.10 lakhs - Rs.2 lakhs = 8 lakhs and depreciation will be charged on it as follows:

Rs. 8 lakhs/5 years = 1.60 lakhs per year.

Under the 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 depreciation on related assets is charged. Income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

Rs.2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this cases, 40,000 [2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

Question 6

Dec - 2023

Explain the following accounting conventions:

- (i) Full Disclosure
- (ii) Consistency
- (iii) Materiality
- (iv) Conservatism

Solution

- (i) According to the Convention of Full Disclosure, all significant information relating to the economic affairs of the entity should be reported in the financial statements in an understandable manner.
- (ii) According to the Convention of Consistency, accounting practices once selected and adopted should be consistently applied year after year.
- (iii) According to the Convention of Materiality, a transaction should be reported in the financial statements on the basis of its materiality. An item is material if it can influence the decision of the user.
- (iv) According to the Convention of Conservatism, anticipated losses should be accounted for while anticipated incomes should not be accounted.

Question 7

Dec - 2023

Explain the methods/criteria for the selection and application of Accounting Policies.

Solution

Factors governing the selection and application of accounting policies are:

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 receivables, number of warranty claims that may occur. Prudence means making of estimates, which is required under conditions of uncertainty.

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. Like in hire purchaser if the assets are purchased on hire purchase by the hire purchaser the assets are shown in the books of hire purchaser in spite of the fact that the hire purchaser is not the legal owner of the assets purchased. Under the purchase the purchaser, becomes the owner only on the payment of last instalment. Therefore the legal form the transaction is ignored and the transaction is accounted as per as substance.

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.

- a) As to the disclosure of all material items, individually or in aggregate in the context of fair presentation of financial statements as a whole if its omission or misstatement

could influence the economic or financial decision of the user relying upon the financial statements.

- b) Depends on the size of the items or errors judged in the particular circumstances of its omissions or misstatements.
- c) Is a cut-off point rather than being a primary qualitative characteristic which information must have.
- d) This is a matter of judgment, varies from one entity to another and over one period to another.

Question 8

Dec 24

1. In the context of AS 11, what do you mean by 'Integral Foreign Operation'? State how the following items of integral foreign operation should be translated:
 - a) Salaries & Wages;
 - b) Depreciation on Furniture; and
 - c) Machineries carried at fair value.
2. While clarifying the scope of AS-22 (Accounting for Taxes on Income), explain the meaning of the following terms related to it.
 - a) Accounting income (loss)
 - b) Taxable income (tax loss)
 - c) Tax expense (tax saving)

Solution

1. **Integral foreign operation:** A foreign operation which is carried as if it were extensions of the reporting enterprise's activities like dependent branch, sales depot, foreign arm which produces raw materials and transfers it to head office (reporting enterprise) or foreign operation raises finance to help the reporting enterprise. (AS11)

Translation of items of financial statements of integral foreign operation:

- a) Salaries & Wages: They should be translated using the actual rate prevailing on the date of transaction; however, average rate may also be applied.
 - b) Depreciation on Furniture: It should be translated using the exchange rate which existed on the date of purchase of the furniture.
 - c) Machineries carried at fair value: It, being a tangible fixed asset, which is carried at fair value, is to be translated using the exchange rate which existed as on the date of the valuation.
2.
 - a) 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.
 - b) 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.

- c) 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.

Question 9

Dec 24

1. As per AS-12, explain the treatment of the following:
 - a) A firm acquired a fixed asset for ₹ 850 lakhs on which the Government grant received was 40%.
 - b) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant ₹ 900 lakhs, subsidy received ₹ 250 lakhs.
 - c) ₹ 225 lakhs received from the local authority for providing medical facilities to the employees.
2. List out comparative provisions between AS 11 and IND AS 21.

Solution

1.
 - a) The total cost of the fixed asset is ₹850 lakhs and the grant are 40% i.e., ₹340 lakhs. In the balance sheet, the asset will be shown at the net amount (₹850 lakhs - ₹340 lakhs) i.e., ₹510 lakhs only. This will be depreciated over the life of the asset.
 - b) In this case, the subsidy received for setting up a plant in the notified region, should be treated as a capital subsidy. The amount of subsidy i.e., ₹250 lakhs be added to the Capital Reserves and the plant should be shown at ₹900 lakhs.
 - c) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to Profit and Loss Account on a systematic basis.
- 2.

Comparative Provision between AS 11 and Ind AS 21

Ind AS 21	IND AS 11
<ul style="list-style-type: none"> • Forward Exchange contracts are not covered. • Accounting of foreign operations is based on a functional currency approach. • No specific guidance provided • Presentation currency could be different from the local currency. 	<ul style="list-style-type: none"> • Forward exchange contracts are included within its scope. • Accounting for foreign operations is based on an integral and non- integral approach. • Options to recognize exchange differences arising on translation of certain long-term monetary items over the period is available. • No such specifications provided.

Question 10

Dec 24

Briefly explain merits of IND AS.

Solution

Merits of Ind-AS:

1. **Suitable for Indian Conditions:** They have been framed in such a way that they are most suitable for Indian conditions.
2. **Clear Guidelines for Financial Reporting** Ind-AS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by Ind-AS, Assets, Liabilities and Equity are clearly defined.
3. **Uniformity in Financial Reporting:** The adoption of Ind-AS brings uniformity, comparability and transparency in financial statements. It improves the standard and quality of financial reporting.
4. **Helpful to Investors:** Investors require high quality, relevant, reliable, transparent and comparable information in financial statements to make economic decisions. The use of Ind-AS meets their requirements.

Difficult to Commit Fraud and Manipulate the Accounts: There are tough and rigid rules for the preparation and presentation of financial statements under Ind-AS and it is extremely difficult to manipulate the accounts