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# **P6 FINANCIAL ACCOUNTING**

**QUESTION BANK**





# FINANCIAL ACCOUNTING - INDEX

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# 1. ACCOUNTING FUNDAMENTALS

## ILLUSTRATIONS

### Illustration 1.

For the following transactions pass the journal entries and post them in Ledger:

|                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2023</b>                                                                                                                                                                                                                                                                                                       |
| April 1 - Mr. Vikas and Mrs. Vaibhavi who are husband and wife start consulting business by bringing in their personal cash of Rs.5,00,000 and Rs.2,50,000 respectively.                                                                                                                                          |
| April 10 - Bought office furniture of Rs.25,000 for cash.                                                                                                                                                                                                                                                         |
| April 11 - Opened a Current Account with Bank of BB by depositing Rs.1,00,000                                                                                                                                                                                                                                     |
| April 15 - Paid office rent of Rs.15,000 for the month by cheque.                                                                                                                                                                                                                                                 |
| April 20 - Bought a motor car for Rs.4,50,000 from Millenium Motors by making a down payment of Rs.50,000 by cheque and the balance by taking a loan from HH Bank.                                                                                                                                                |
| April 25 - Vikas and Vaibhavi carried out a consulting assignment for AA Pharmaceuticals and raised a bill for Rs.10,00,000 as consultancy fees. AA Pharmaceuticals have immediately settled Rs.2,50,000 by way of cheque and the balance will be paid after 30 days. The cheque received is deposited into bank. |
| April 30 - Salary of a receptionist at the rate Rs.5,000 per month and an officer at the rate Rs.10,000 per month the salary for the current month is payable to them.                                                                                                                                            |

**Solution:**

Books of Vikas and Vaibhavi

Dr.

Journal

Cr.

| Date     | Particulars                                                                                | L.F. | V.N. | (Rs.)    | (Rs.)     |
|----------|--------------------------------------------------------------------------------------------|------|------|----------|-----------|
| 2023     | Cash A/c..... Dr.                                                                          |      |      | 7,50,000 |           |
| April 1  | To Vikas's Capital A/c                                                                     |      |      |          | 5,00,000  |
|          | To Vaibhavi's Capital A/c                                                                  |      |      |          | 2,50,000  |
|          | (Being capital brought by the partner)                                                     |      |      |          |           |
| April 10 | Furniture A/c..... Dr.                                                                     |      |      | 25,000   |           |
|          | To Cash A/c                                                                                |      |      |          | 25,000    |
|          | (Being furniture purchased in cash)                                                        |      |      |          |           |
| April 11 | Bank of BB A/c..... Dr.                                                                    |      |      | 1,00,000 |           |
|          | To Cash A/c                                                                                |      |      |          | 1,00,000  |
|          | (Being current account opened with Bank of BB)                                             |      |      |          |           |
| April 15 | Rent A/c..... Dr.                                                                          |      |      | 15,000   |           |
|          | To Bank of BB A/c                                                                          |      |      |          | 15,000    |
|          | (Being Rent paid)                                                                          |      |      |          |           |
| April 20 | Motor Car A/c ..... Dr.                                                                    |      |      | 4,50,000 |           |
|          | To Bank of BB A/c                                                                          |      |      |          | 50,000    |
|          | To Loan from HH Bank A/c                                                                   |      |      |          | 4,00,000  |
|          | (Being car purchased from Millenium Motors by making a down payment and Loan arrangements) |      |      |          |           |
| April 25 | Bank of BB A/c..... Dr.                                                                    |      |      | 2,50,000 |           |
|          | AA Pharmaceuticals A/c..... Dr.                                                            |      |      | 7,50,000 |           |
|          | To Consultancy Fees A/c                                                                    |      |      |          | 10,00,000 |
|          | (Being amount received and revenue recognized for fees charged)                            |      |      |          |           |



|          |                                                                                                          |     |  |  |        |        |
|----------|----------------------------------------------------------------------------------------------------------|-----|--|--|--------|--------|
| April 30 | Salary A/c.....<br>To Salary Payable A/c<br>(Being the entry to record salary obligation for the month.) | Dr. |  |  | 15,000 | 15,000 |
|----------|----------------------------------------------------------------------------------------------------------|-----|--|--|--------|--------|

## Ledger

Dr.

## Cash Account

Cr.

| Date   | Particulars               | J.F. | (Rs.)    | Date    | Particulars       | J.F. | (Rs.)    |
|--------|---------------------------|------|----------|---------|-------------------|------|----------|
| 1.4.23 | To Vikas's Capital A/c    |      | 5,00,000 | 10.4.23 | By Furniture A/c  |      | 25,000   |
| 1.4.23 | To Vaibhavi's Capital A/c |      | 2,50,000 | 11.4.23 | By Bank of BB A/c |      | 1,00,000 |
|        |                           |      |          | 30.4.23 | By Bal c/d        |      | 6,25,000 |
|        |                           |      | 7,50,000 |         |                   |      | 7,50,000 |
| 1.5.23 | To Bal b/d                |      | 6,25,000 |         |                   |      |          |

Dr.

## Mr. Vikas's Capital Account

Cr.

| Date    | Particulars | J.F. | (Rs.)    | Date   | Particulars | J.F. | (Rs.)    |
|---------|-------------|------|----------|--------|-------------|------|----------|
| 30.4.23 | To Bal c/d  |      | 5,00,000 | 1.4.23 | By Cash A/c |      | 5,00,000 |
|         |             |      |          | 1.5.23 | By Bal b/d  |      | 5,00,000 |

Dr.

## Mrs. Vaibhavi's Capital Account

Cr.

| Date    | Particulars | J.F. | (Rs.)    | Date   | Particulars | J.F. | (Rs.)    |
|---------|-------------|------|----------|--------|-------------|------|----------|
| 30.4.23 | To Bal c/d  |      | 2,50,000 | 1.4.23 | By Cash A/c |      | 2,50,000 |
|         |             |      |          | 1.5.23 | By Bal b/d  |      | 2,50,000 |

Dr.

## Furniture Account

Cr.

| Date   | Particulars | J.F. | (Rs.)  | Date    | Particulars | J.F. | (Rs.)  |
|--------|-------------|------|--------|---------|-------------|------|--------|
| 1.4.23 | To Cash A/c |      | 25,000 | 30.4.23 | By Bal b/d  |      | 25,000 |
|        |             |      | 25,000 |         |             |      |        |
| 1.5.23 | To Bal b/d  |      |        |         |             |      |        |

Dr.

## Bank of BB Account

Cr.

| Date    | Particulars             | J.F. | (Rs.)    | Date    | Particulars      | J.F. | (Rs.)    |
|---------|-------------------------|------|----------|---------|------------------|------|----------|
| 11.4.23 | To Cash A/c             |      | 1,00,000 | 15.4.23 | By Rent A/c      |      | 15,000   |
| 25.4.23 | To Consultancy Fees A/c |      | 2,50,000 | 20.4.23 | By Motor Car A/c |      | 50,000   |
|         |                         |      |          | 30.4.23 | By Bal c/d       |      | 2,85,000 |
|         |                         |      | 3,50,000 |         |                  |      | 3,50,000 |
| 1.5.23  | To Bal b/d              |      | 2,85,000 |         |                  |      |          |

Dr.

## Rent Account

Cr.

| Date    | Particulars       | J.F. | (Rs.)  | Date    | Particulars | J.F. | (Rs.)  |
|---------|-------------------|------|--------|---------|-------------|------|--------|
| 15.4.23 | To Bank of BB A/c |      | 15,000 | 30.4.23 | By Bal c/d  |      | 15,000 |
| 1.5.23  | To Bal b/d        |      | 15,000 |         |             |      |        |

Dr.

## Motor Car Account

Cr.

| Date    | Particulars              | J.F. | (Rs.)    | Date    | Particulars | J.F. | (Rs.)    |
|---------|--------------------------|------|----------|---------|-------------|------|----------|
| 20.4.23 | To Bank of Baroda A/c    |      | 50,000   |         |             |      |          |
| "       | To Loan from HH Bank A/c |      | 4,00,000 | 30.4.23 | By Bal c/d  |      | 4,50,000 |
|         |                          |      | 4,50,000 |         |             |      |          |
| 1.5.23  | To Bal b/d               |      | 4,50,000 |         |             |      | 4,50,000 |



Dr.

Loan from HDFC Bank Account

Cr.

| Date    | Particulars | J.F. | (Rs.)    | Date    | Particulars      | J.F. | (Rs.)    |
|---------|-------------|------|----------|---------|------------------|------|----------|
| 30.4.23 | To Bal c/d  |      | 4,00,000 | 20.4.23 | By Motor Car A/c |      | 4,00,000 |
|         |             |      |          | 1.5.23  | By Bal b/d       |      | 4,00,000 |

Dr.

Avon Pharmaceuticals Account

Cr.

| Date    | Particulars             | J.F. | (Rs.)    | Date    | Particulars | J.F. | (Rs.)    |
|---------|-------------------------|------|----------|---------|-------------|------|----------|
| 25.4.23 | To Consultancy Fees A/c |      | 7,50,000 | 30.4.23 | By Bal c/d  |      | 7,50,000 |
|         | To Bal b/d              |      | 7,50,000 |         |             |      |          |

Dr.

Consultancy Fees Account

Cr.

| Date    | Particulars | J.F. | (Rs.)     | Date    | Particulars               | J.F. | (Rs.)     |
|---------|-------------|------|-----------|---------|---------------------------|------|-----------|
|         |             |      |           | 25.4.23 | By Bank of BB A/c         |      | 2,50,000  |
| 30.4.23 | To Bal c/d  |      | 10,00,000 | "       | By AA Pharmaceuticals A/c |      | 7,50,000  |
|         |             |      | 10,00,000 |         |                           |      | 10,00,000 |
|         |             |      |           | 1.5.23  | By Bal b/d                |      | 10,00,000 |

Dr.

Salary Account

Cr.

| Date    | Particulars           | J.F. | (Rs.)  | Date    | Particulars | J.F. | (Rs.)  |
|---------|-----------------------|------|--------|---------|-------------|------|--------|
| 30.4.23 | To Salary Payable A/c |      | 15,000 | 30.4.23 | By Bal c/d  |      | 15,000 |
|         | To Bal b/d            |      | 15,000 |         |             |      |        |

Dr.

Salary Payable Account

Cr.

| Date    | Particulars | J.F. | (Rs.)  | Date    | Particulars   | J.F. | (Rs.)  |
|---------|-------------|------|--------|---------|---------------|------|--------|
| 30.4.23 | To Bal c/d  |      | 15,000 | 30.4.23 | By Salary A/c |      | 15,000 |
|         |             |      |        |         |               |      | 15,000 |
|         |             |      |        | 1.5.23  | By Bal b/d    |      |        |

**Illustration 2.**

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

|           |                                                                    |        |
|-----------|--------------------------------------------------------------------|--------|
| 1.3.2023  | Opening cash balance                                               | 20,000 |
|           | Bank balance in S.B.I                                              | 26,000 |
| 2.3.2023  | Purchase of printer in cash                                        | 12,000 |
| 5.3.2023  | Sold goods for cash.                                               | 34,000 |
| 7.3.2023  | Received from Hriday on account                                    | 32,000 |
| 8.3.2023  | A laptop purchase for the personal use of the proprietor by cheque | 22,000 |
| 10.3.2023 | Amount deposited into Bank                                         | 31,000 |
| 17.3.2023 | Mr. Sen settled his account against a gross claim of Rs.24 500.    | 24000  |
|           | Office rent paid by cheque                                         | 2,000  |
| 19.3.2023 | Cash withdrawn from bank for personal use                          | 3,400  |
|           | Receive from Mr. Ratul against his account of Rs.23000.            | 22,800 |
|           | Goods purchased on credit from Sneha                               | 24,000 |
| 24.3.2023 | Salaries paid to employees                                         | 12,000 |
|           | Cheque received from Sandeep and kept in cash box                  | 12,800 |
| 25.3.2023 | The cheque of Sandeep deposited in the bank account                |        |
|           | Bank charges shown in the bank statement                           | 300    |
|           | Interest received from the savings account of bank                 | 200    |
| 28.3.2023 | The cheque of Sandeep was returned dishonoured by the bank         |        |





Amount paid to Sneha in full settlement of her claim

23,700

Solution:

Books of Mr. Ratanlal

Dr.

Cash Book (Triple Column)

Cr.

| Date          | Particulars      | LF | Cash     | Bank   | Disc. | Date      | Particulars                          | LF | Cash     | Bank   | Disc. |
|---------------|------------------|----|----------|--------|-------|-----------|--------------------------------------|----|----------|--------|-------|
| 2023<br>Mar 1 | To Balance b/f   |    | 20,000   | 26,000 |       | Mar<br>2  | By Office Equipment A/c              |    | 12,000   |        |       |
| Mar 5         | To Sales A/c     |    | 34,000   |        |       | Mar<br>8  | By Drawings A/c                      |    |          | 22,000 |       |
| Mar 7         | To Hriday A/c    |    | 32,000   |        |       | Mar<br>10 | By Bank A/c                          |    | 31,000   |        |       |
| Mar<br>10     | To Cash A/c      |    |          | 31,000 |       | Mar<br>17 | By Rent A/c                          |    |          | 2,000  |       |
| Mar<br>17     | To Mr. Sen A/c   |    | 24,000   |        | 500   | Mar<br>19 | By Drawings A/c                      |    |          | 3,400  |       |
| Mar<br>19     | To Mr. Rahul A/c |    | 22,800   |        | 200   | Mar<br>24 | By Salaries A/c                      |    | 12,000   |        |       |
| Mar<br>25     | To Sandeep A/c   |    |          | 12,800 |       | Mar<br>25 | By Bank Charges A/c                  |    |          | 300    |       |
| Mar<br>25     | To Interest A/c  |    |          | 200    |       | Mar<br>28 | By Sandeep A/c (Dishonour of Cheque) |    |          | 12,800 |       |
|               |                  |    |          |        |       | Mar<br>28 | By Sneha A/c                         |    | 23,700   |        | 300   |
|               |                  |    |          |        |       | Mar<br>28 | By Balance c/f                       |    | 54,100   | 29,500 |       |
|               |                  |    | 1,32,800 | 70,000 |       |           |                                      |    | 1,32,800 | 70,000 |       |

Cheque received from Sandeep and kept in cash box - will not be added to the balance of Cash Column at all, the amount will be added to the balance of Bank Column on the date on which it was submitted to the bank.

Alternatively, in between this period, a temporary A/c namely Cheque in Hand A/c may be used to record the transactions. On the date of receipt of the cheque:

Cheque in Hand A/c... Dr.

To Sandeep A/c

On the date of deposit of the cheque:

Bank A/c... Dr.

To Cheque in Hand A/c

When the cheque will dishonour - the amount will get credited in the bank column of the cash book.

### Illustration 3.

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

|                |                                  |        |
|----------------|----------------------------------|--------|
| 2023<br>Jan. 1 | Received Cash for Petty Expenses | 20,000 |
| Jan. 2         | Paid Bus fare                    | 100    |
| Jan. 2         | Paid cartage                     | 500    |
| Jan. 3         | Paid for postage                 | 1000   |
| Jan. 3         | Paid wages for casual labourers. | 1200   |





|        |                            |      |
|--------|----------------------------|------|
| Jan. 4 | Paid for stationery.       | 800  |
| Jan. 4 | Paid auto charges          | 400  |
| Jan. 5 | Paid for repairs of chairs | 3000 |
| Jan. 5 | Paid Bus fare.             | 200  |
| Jan. 6 | Paid Conveyance charges    | 600  |
| Jan. 6 | Paid cartage.              | 600  |
| Jan. 6 | Paid for Stationery        | 400  |
| Jan. 6 | Refreshment to customers   | 1000 |

**Solution:**

In the Books of Ashutosh, Kolkata Petty Cash Book

| Receipts | Date        | V/N | Particulars                 | Total Payment (Rs.) | Conveyance (Rs.) | Cartage (Rs.) | Stationery (Rs.) | Postage (Rs.) | Wages (Rs.) | Sundries (Rs.) |
|----------|-------------|-----|-----------------------------|---------------------|------------------|---------------|------------------|---------------|-------------|----------------|
| 20,000   | 2023 Jan. 1 |     | To Cash A/c                 |                     |                  |               |                  |               |             |                |
|          | Jan. 2      |     | By Conveyance A/c           | 100                 | 100              |               |                  |               |             |                |
|          | Jan. 2      |     | By Cartage A/c              | 500                 |                  | 500           |                  |               |             |                |
|          | Jan. 3      |     | By Postage A/c              | 1,000               |                  |               |                  | 1,000         |             |                |
|          | Jan. 3      |     | By Wages A/c                | 1,200               |                  |               |                  |               | 1,200       |                |
|          | Jan. 4      |     | By Stationery A/c           | 800                 |                  |               | 800              |               |             |                |
|          | Jan. 4      |     | By Conveyance A/c           | 400                 | 400              |               |                  |               |             |                |
|          | Jan. 5      |     | By Repairs of Furniture A/c | 3,000               |                  |               |                  |               |             | 3,000          |
|          | Jan. 5      |     | By Conveyance A/c           | 200                 | 200              |               |                  |               |             |                |
|          | Jan. 6      |     | By Conveyance A/c           | 600                 | 600              |               |                  |               |             |                |
|          | Jan. 6      |     | By Cartage A/c              | 600                 |                  | 600           |                  |               |             |                |
|          | Jan. 6      |     | By Stationery A/c           | 400                 |                  |               | 400              |               |             |                |
|          | Jan. 6      |     | By General Expenses A/c     | 1,000               |                  |               |                  |               |             | 1,000          |
|          |             |     |                             | 9,800               | 1,300            | 1,100         | 1,200            | 1,000         | 1,200       | 4,000          |
|          | Jan. 6      |     | By Bal. c/d                 | 10,200              |                  |               |                  |               |             |                |
| 20,000   |             |     |                             | 20,000              |                  |               |                  |               |             |                |
| 10,200   | Jan. 7      |     | To bal B/d                  |                     |                  |               |                  |               |             |                |
| 9,800    | Jan. 7      |     | To Cash A/c                 |                     |                  |               |                  |               |             |                |

**Illustration 4.**

On comparing the Cash Book of Saksham with the Bank Pass Book for the year ended 31st March, 2023, following discrepancies were noticed:

- Out of Rs.82,000 paid in by cheques into the bank on 25th March, cheques amounting to Rs.30,000 were collected on 5th April.
- Out of cheques drawn amounting to Rs.31,200 on 28th March a cheque for Rs.10,000 was presented on 3rd April.
- A cheque for Rs.4,000 entered in Cash Book but omitted to be banked on 31st March.
- A cheque for Rs.2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 29th March.
- A bill receivable for Rs.2,080 previously discounted (discount Rs.80) with the bank had been dishonoured but advice was received on 3rd April.
- A bill for Rs.40,000 was retired/paid by the bank under a rebate of Rs.600 but the full amount



of the bill was credited in the bank column of the Cash Book.

- (g) A cheque of Rs.10,000 wrongly credited in the Pass Book on 29th March was reversed on 2nd April.
- (h) Bank had wrongly debited Rs.20,000 in the account on 31st March and reversed it on 10th April, 2023.
- (i) A cheque of Rs.800 drawn on the Savings Account has been shown as drawn on Current Account in Cash Book.

Prepare a Bank Reconciliation Statement as on 31st March, 2023, if the Balance as per Cash Book on 31st March was Rs.1,58,280.

**Solution:**

Bank Reconciliation Statement as on 31st March 2023

| Particulars                                                               | (Rs.)  | (Rs.)    |
|---------------------------------------------------------------------------|--------|----------|
| Balance as per Cash Book (Dr.)                                            |        | 1,58,280 |
| Add:                                                                      |        |          |
| (b) Cheques issued on 28th March but not yet presented for payment        | 10,000 |          |
| (d) A cheque deposited into bank but not recorded in Cash Book            | 2,400  |          |
| (f) Rebate on bill not entered in Cash Book (Note)                        | 600    |          |
| (g) Cheque wrongly credited by bank                                       | 10,000 |          |
| (i) Cheque drawn on Savings Bank A/c but wrongly recorded in Current A/c  | 800    | 23,800   |
|                                                                           |        | 1,82,080 |
| Less:                                                                     |        |          |
| (a) Cheques deposited on 25th March but not yet collected till 31st March | 30,000 |          |
| (c) A cheque entered in Cash Book but not yet banked                      | 4,000  |          |
| (e) Discounted Bills Receivable dishonoured but not recorded in Cash Book | 2,080  |          |
| (h) Amount Wrongly debited by the Bank                                    | 20,000 | 56,080   |
| Balance as per Bank Pass Book (Cr.)                                       |        | 1,26,000 |

If the same question is solved through amended Cash Book, then all the transactions will be divided into two parts i.e. items to be shown in the cash book and items to be shown in Reconciliation statement. Given below Reconciliation after amending cash book.

Amended Cash Book (Bank column only)

| Dr.            |                                            |        | as on 31.3.2022 |                                                     |        | Cr. |  |  |
|----------------|--------------------------------------------|--------|-----------------|-----------------------------------------------------|--------|-----|--|--|
| Date           | Particulars                                | (Rs.)  | Date            | Particulars                                         | (Rs.)  |     |  |  |
| 2023<br>Mar 31 | To balance b/d                             | 158280 | 2023<br>Mar 31  | Discounted B/R dishonored not recorded in cash book | 2080   |     |  |  |
|                | Cheque deposited not recorded              | 2400   |                 |                                                     |        |     |  |  |
|                | Rebate not entered in cash book            | 600    |                 |                                                     |        |     |  |  |
|                | Cheque drawn recorded in different account | 800    |                 |                                                     |        |     |  |  |
|                |                                            |        |                 | Balance c/d                                         | 160000 |     |  |  |
|                |                                            | 162080 |                 |                                                     | 162080 |     |  |  |

Bank Reconciliation Statement as on 31st March 2022

| Particulars                    | (Rs.)  | (Rs.)  |
|--------------------------------|--------|--------|
| Balance as per Cash Book (Dr.) |        | 160000 |
| Add:                           | 10,000 |        |



|                                                                                 |        |        |
|---------------------------------------------------------------------------------|--------|--------|
| (b) Cheques issued on 28th March but not yet presented for payment              |        |        |
| (g) Cheque wrongly credited by bank                                             | 10,000 |        |
| Less: (a) Cheques deposited on 25th March but not yet collected till 31st March | 30,000 |        |
| (c) A cheque entered in Cash Book but not yet banked                            | 4,000  |        |
| (h) Amount Wrongly debited by the Bank                                          | 20,000 |        |
| Balance as per Bank Pass Book (Cr.)                                             |        | 126000 |

**Illustration 5.**

On 31st January, 2023, Sethi's cash book showed a bank overdraft of Rs.2,50,000. On comparing with the pass book, the following differences were noted.

- (a) Cash and cheques amounting to Rs.26,800 were sent to the bank on 27th January, but cheques worth 4600 were credited on 2nd February and one cheque for 900 was returned by them as dishonoured on 4th February.
- (b) During the month of January, Sethi issued cheques worth Rs.33,400 to his creditors. Out of these, cheques worth 27,400 were presented for payment on 5th February.
- (c) According to Sethi's standing orders, the bankers have made the following payments during the month of January:
  - i. Life insurance premium Rs.3,840
  - ii. Television license fee Rs.2,400
- (d) Sethi's bankers have collected Rs.3,000 as dividend on his shares.
- (e) Interest charged by the bank Rs.2,500
- (f) A bill receivable of Rs.2,000 discounted with the bank in December, 2022, was dishonoured on 31st January, 2023. You are required to:
  - (i) Ascertain the amended cash book balance as on 31st January, 2023
  - (ii) Prepare a Bank Reconciliation Statement from the amended cash book as on 31st January 2023

**Solution:**

In the Books of Sethi

Dr.

Cash Book (Bank column only)

Cr.

| Date            | Particulars           | (Rs.)    | Date            | Particulars                                | (Rs.)    |
|-----------------|-----------------------|----------|-----------------|--------------------------------------------|----------|
| 2023<br>Jan- 31 | To Dividend on shares | 3,000    | 2023<br>Jan- 31 | By Balance b/f                             | 2,50,000 |
|                 | To Bal c/d            | 2,57,740 |                 | By Drawings<br>(Rs.3840 + Rs.2400)         | 6,240    |
|                 |                       |          |                 | By Interest                                | 2500     |
|                 |                       |          |                 | By Debtors- discounted bill<br>dishonoured | 2000     |
|                 |                       | 2,60,740 |                 |                                            | 2,60,740 |
|                 |                       |          | 2022<br>Feb:1   | By Bal b/d                                 | 2,57,740 |

Bank Reconciliation Statement as on 31.01.2023

| Particulars                                                          | (Rs.) | (Rs.)    |
|----------------------------------------------------------------------|-------|----------|
| Bank balance as per Cash Book (overdrawn)                            |       | 2,57,740 |
| Add: Cheques deposited but not credited in the Pass Book (4600+ 900) |       | 5,500    |
|                                                                      |       | 2,65,240 |



|                                                    |  |          |
|----------------------------------------------------|--|----------|
| Less: Cheques issued but not presented for payment |  | 27,400   |
| Bank balance as per Pass Book (overdrawn)          |  | 2,35,840 |

**Illustration 6.**

From the following ledger account balances, prepare a Trial Balance of Mr. Sen for the year ended 31st March, 2023.

Capital Rs.80,000 ; Sales Rs.10,00,000; Adjusted Purchase Rs.8,00,000; Current A/c(Cr) Rs.10,000; Petty Cash Rs.10,000; Sales Ledger Balance Rs.1,20,000; Purchase Ledger Balance Rs.60,000; Salaries Rs.24,000; Carriage Inwards Rs.4,000; Carriage Outward Rs.6,000; Discount Allowed Rs.10,000; Building Rs.80,000; Outstanding Expenses Rs.10,000; Prepaid Insurance Rs.2,000 ; Depreciation Rs.4,000 ; Cash at Bank Rs.80,000 ; Loan A/c (Cr) Rs.66,000; Profit & Loss A/c(Cr) Rs.20,000; Bad Debts Recovered Rs.2,000 ; Stock at 31.03.2022 Rs.1,20,000; Interest Received Rs.10,000; Accrued Interest 4,000; Investment 20,000; Provision for Bad Debts (01.04.2021) Rs.6,000 ; General Reserve Rs.20,000.

**Solution:**

**Trial Balance of Mr. Sen  
as on 31st March, 2023**

| Dr.                  |           | Cr.                     |           |
|----------------------|-----------|-------------------------|-----------|
| Heads of Accounts    | (Rs.)     | Heads of Accounts       | (Rs.)     |
| Adjusted Purchase    | 8,00,000  | Capital                 | 80,000    |
| Petty Cash           | 10,000    | Sales                   | 10,00,000 |
| Sales Ledger Balance | 1,20,000  | Current A/c             | 10,000    |
| Salaries             | 24,000    | Purchase Ledger Balance | 60,000    |
| Carriage Inward      | 4,000     | Outstanding Expenses    | 10,000    |
| Discount Allowed     | 10,000    | Loan A/c                | 66,000    |
| Building             | 80,000    | Profit & Loss A/c (Cr.) | 20,000    |
| Prepaid Insurance    | 2,000     | Bad Debts Recovered     | 2,000     |
| Depreciation         | 4,000     | Interest Received       | 10,000    |
| Cash at Bank         | 80,000    | Provision for Bad debts | 6,000     |
| Stock (31.03.2022)   | 1,20,000  | General Reserve         | 20,000    |
| Accrued Interest     | 4,000     |                         |           |
| Investment           | 20,000    |                         |           |
| Carriage outward     | 6,000     |                         |           |
|                      | 12,84,000 |                         | 12,84,000 |

Note: Closing Stock will appear in Trial Balance since there is adjusted purchase. Adjusted purchase = Opening Stock + Purchase - Closing Stock.

It may be noted that if only adjusted purchase is considered then the matching concept is affected. Hence, to satisfy the matching concept, closing stock is also considered in Trial Balance.

**Illustration 7.**

The given trial balance of MM Bakery for the quarter January to March, 2023 has been prepared by an intern.

| Ledger Accounts    | Dr. (Rs.) | Cr. (Rs.) |
|--------------------|-----------|-----------|
| Cost of Goods Sold | 7,50,000  |           |
| Closing Stock      |           | 1,20,000  |



|                  |           |           |
|------------------|-----------|-----------|
| Sundry Debtors   |           | 1,80,000  |
| Sundry Creditors |           | 90,000    |
| Fixed assets     | 1,50,000  |           |
| Opening Stock    | 1,80,000  |           |
| Expenses         |           | 60,000    |
| Sales            |           | 9,00,000  |
| Capital          | 2,70,000  |           |
|                  | 13,50,000 | 13,50,000 |

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

**Solution:**

The Trial Balance drafted by the intern has tallied, but it has some errors. The correct Trial Balance is redrafted and presented hereunder:

**Redrafted Trial Balance of MM bakery as on 31.03.2023**

| Sl. No. | Ledger Accounts                  | Dr. (Rs.) | Cr. (Rs.) | Remarks   |
|---------|----------------------------------|-----------|-----------|-----------|
| 1       | Cost of Goods Sold.              | 7,50,000  |           | Expense   |
| 2       | Closing Stock                    | 1,20,000  |           | Asset     |
| 3       | Sundry Debtors.                  | 1,80,000  |           | Asset     |
| 4       | Sundry Creditors                 |           | 90,000    | Liability |
| 5       | Fixed assets                     | 1,50,000  |           | Asset     |
| 6       | Wages, Salaries & other expenses | 60,000    |           | Expenses  |
| 7       | Sales                            |           | 9,00,000  | Income    |
| 8       | Capital                          |           | 2,70,000  | Equity    |
|         |                                  | 12,60,000 | 12,60,000 |           |

**Illustration 8.**

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

Compute the amount of depreciations to be charged and the rate of depreciations under SLM method.

**Solution:**

| Machine No | Cost of Machine (Rs.) | Expenses incurred at the time of purchase to be capitalize (Rs.) | Total Cost of Asset = (b+c) (Rs.) | Estimated Residual Value (Rs.) | Expected Useful Life in years | Depreciation = (d-e)/f (Rs.) | Rate of Depreciation under SLM = (g/d)×100 |
|------------|-----------------------|------------------------------------------------------------------|-----------------------------------|--------------------------------|-------------------------------|------------------------------|--------------------------------------------|
| a          | b                     | c                                                                | d                                 | e                              | f                             | g                            | h                                          |
| 1          | 90,000                | 10,000                                                           | 1,00,000                          | 20,000                         | 8                             | 10,000                       | 10%                                        |
| 2          | 24,000                | 7,000                                                            | 31,000                            | 3,100                          | 6                             | 4,650                        | 15%                                        |





|   |          |        |          |        |   |        |     |
|---|----------|--------|----------|--------|---|--------|-----|
| 3 | 1,05,000 | 20,000 | 1,25,000 | 12,500 | 3 | 22,500 | 30% |
| 4 | 2,50,000 | 30,000 | 2,80,000 | 56,000 | 5 | 22,400 | 16% |

**Illustration 9.**

A machine is purchased for Rs.7,00,000. Expenses incurred on its cartage and installation Rs.3,00,000. Calculate the amount of depreciation @ 20% p.a. according to Straight Line Method for the first year ending on 31st March, 2023 if this machine is purchased on:

- (a) 1st April, 2022
- (b) 1st July, 2022
- (c) 1st October, 2022
- (d) 1st January, 2023

**Solution:**

Here, Total Cost of Asset = Purchased Price + Cost of Cartage and Installation

= Rs.7,00,000 + Rs.3,00,000 = Rs.10,00,000

Amount of Depreciation:

= Total Cost of Asset × Rate of Depreciation ×  $\frac{\text{Period from the date of purchase to date of closing accounts}}{12}$

(a) The machine was purchased on 1st April, 2022:

Amount of Depreciation = Rs.10,00,000 × 20% × 12 / 12 = Rs.2,00,000

(b) 1st July, 2022

Amount of Depreciation = Rs.10,00,000 × 20% × 9 / 12 = Rs.1,50,000

(c) 1st October, 2022

Amount of Depreciation = Rs.10,00,000 × 20% × 6 / 12 = 1,00,000

(d) 1st January, 2023

Amount of Depreciation = Rs.10,00,000 × 20% × 3 / 12 = 50,000

**Illustration 10.**

On 1.1.2021 a machine was purchased for Rs.1,00,000 and Rs.50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, calculate amount of depreciation upto 31.12.2023.

**Solution:**

| Year | Opening Book Value (Rs.) | Rate | Depreciation (Rs.) | Closing Book Value (Rs.) |
|------|--------------------------|------|--------------------|--------------------------|
| 2021 | 1,50,000                 | 10%  | 15,000             | 1,35,000                 |
| 2022 | 1,35,000                 | 10%  | 13,500             | 1,21,500                 |
| 2023 | 1,21,500                 | 10%  | 12,150             | 1,09,350                 |

Note: Cost of the machine (i.e. Opening Book Value for the year 2021)

= Cost of Purchase + Cost of Installation

= Rs.1,00,000 + Rs.50,000 = Rs.1,50,000

Sum of the Units Method:

Depreciation for the period —

Production during the year / Estimated Total Production

**Illustration 11.**

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

Production pattern is as follows:



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

Compute the amount of depreciation for each year applying Sum of the Units Method.

Solution:

| Year | Computation                                       | Depreciation (Rs.) |
|------|---------------------------------------------------|--------------------|
| 1-2  | $20,000 / 2,00,000 \times (60,00,000 - 4,00,000)$ | 5,60,000           |
| 3-6  | $15,000 / 2,00,000 \times (60,00,000 - 4,00,000)$ | 4,20,000           |
| 7-10 | $25,000 / 2,00,000 \times (60,00,000 - 4,00,000)$ | 7,00,000           |

#### Illustration 12.

On 1.1.2021 machinery was purchased for Rs.80,000. On 01.07.2022 additions were made to the amount of Rs.40,000. On 31.3.2023, machinery purchased on 1.7.2022, costing Rs.12,000 was sold for Rs.11,000 and on 30.06.2023 machinery purchased on 01.01.2021 costing Rs.32,000 was sold for Rs.26,700. On 1.10.2023, additions were made to the amount of Rs.20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method.

Show the Machinery Accounts for three years from 2021-2023. (year ended 31st December)

Solution:

#### Statement of Depreciation.

| Date       | Particulars    | Machines - I Cost<br>= Rs.80,000 |        | Machines - II Cost =<br>Rs.40,000 |        | Machines - III<br>Cost = Rs.20,000 | Total<br>Depreciation |
|------------|----------------|----------------------------------|--------|-----------------------------------|--------|------------------------------------|-----------------------|
|            |                | (Rs.)                            | (Rs.)  | (Rs.)                             | (Rs.)  | (Rs.)                              | (Rs.)                 |
| 01.01.2021 | Book Value     | 48,000                           | 32,000 |                                   |        |                                    |                       |
| 31.12.2021 | Depreciation   | 4,800                            | 3,200  |                                   |        |                                    | 8,000                 |
| 01.01.2022 | W.D.V.         | 43,200                           | 28,800 |                                   |        |                                    |                       |
| 01.07.2022 | Purchase       |                                  |        | 28,000                            | 12,000 |                                    |                       |
| 31.12.2022 | Depreciation   | 4,320                            | 2,880  | 1,400                             | 600    |                                    | 9,200                 |
| 01.01.2023 | W.D.V.         | 38,880                           | 25,920 | 26,600                            | 11,400 |                                    |                       |
| 31.03.2023 | Depreciation   |                                  |        |                                   | 285    |                                    | 285                   |
|            | W.D.V.         |                                  |        |                                   | 11,115 |                                    |                       |
|            | Sold For       |                                  |        |                                   | 11,000 |                                    |                       |
|            | Loss on sale   |                                  |        |                                   | 115    |                                    |                       |
| 30.06.2023 | Depreciation   |                                  | 1,296  |                                   |        |                                    | 1,296                 |
|            | W.D.V.         |                                  | 24,624 |                                   |        |                                    |                       |
|            | Sold For       |                                  | 26,700 |                                   |        |                                    |                       |
|            | Profit on Sale |                                  | 2,076  |                                   |        |                                    |                       |
| 01.10.2023 | Purchase       |                                  |        |                                   |        | 20,000                             |                       |
| 31.12.2023 | Depreciation   | 3,888                            |        | 2,660                             |        | 500                                | 7,048                 |
| 01.01.2024 | W.D.V.         | 34,992                           |        | 23,940                            |        | 19,500                             |                       |

Dr.

#### Machinery Account

Cr.

| Date     | Particulars | (Rs.)  | Date     | Particulars         | (Rs.) |
|----------|-------------|--------|----------|---------------------|-------|
| 01.01.21 | To Bank A/c | 80,000 | 31.12.21 | By Depreciation A/c | 8,000 |





|          |                              |          |          |                            |          |
|----------|------------------------------|----------|----------|----------------------------|----------|
|          |                              |          |          | „ Balance c/d              | 72,000   |
|          |                              | 80,000   |          |                            | 80,000   |
| 01.01.22 | To Balance b/d               | 72,000   | 31.12.22 | By Depreciation A/c        | 9,200    |
| 01.07.22 | " Bank A/c                   | 40,000   |          | „ Balance c/d              | 1,02,800 |
|          |                              | 1,12,000 |          |                            | 1,12,000 |
| 01.01.23 | To Balance b/d               | 1,02,800 | 31.3.23  | By Bank (Sale) A/c         | 11,000   |
| 30.06.23 | " P & L A/c (Profit on Sale) | 2,076    |          | „ Depreciation A/c         | 285      |
|          | " Bank A/c                   | 20,000   | 30.6.23  | „ P & L A/c (Loss on Sale) | 115      |
|          |                              |          |          | „ Bank A/c (Sale)          | 26,700   |
|          |                              |          | 31.12.23 | „ Depreciation A/c         | 1,296    |
|          |                              |          |          | „ Depreciation A/c         | 7,048    |
|          |                              |          |          | „ Balance c/d              | 78,432   |
|          |                              | 1,24,876 |          |                            | 1,24,876 |

**Illustration 13.**

S & Co. purchased a machine for Rs.1,00,000 on 1.1.2021. Another machine costing Rs.1,50,000 was purchased on 1.7.2022. On 31.12.2023, the machine purchased on 1.1.2021 was sold for Rs.50,000. The company provides depreciation at 15% on Straight Line Method. The company closes its accounts on 31st December every year. 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    | (Rs.)    | Date              | Particulars               | (Rs.)    |     |  |  |
| 01.01.21 | To Bank A/c    | 1,00,000 | 31.12.21          | By Balance c/d            | 1,00,000 |     |  |  |
|          |                | 1,00,000 |                   |                           | 1,00,000 |     |  |  |
|          |                |          |                   |                           |          |     |  |  |
| 01.01.22 | To Balance b/d | 1,00,000 |                   |                           |          |     |  |  |
| 01.07.22 | To Bank A/c    | 1,50,000 | 31.12.22          | By Balance c/d            | 2,50,000 |     |  |  |
|          |                | 2,50,000 |                   |                           | 2,50,000 |     |  |  |
|          |                |          |                   |                           |          |     |  |  |
| 01.01.23 | To Balance b/d | 2,50,000 | 31.12.23          | By Machinery Disposal A/c | 1,00,000 |     |  |  |
|          |                |          | 31.12.23          | By Balance c/d            | 1,50,000 |     |  |  |
|          |                | 2,50,000 |                   |                           | 2,50,000 |     |  |  |
|          |                |          |                   |                           |          |     |  |  |
| 01.01.24 | To Balance b/d | 1,50,000 |                   |                           |          |     |  |  |

| Dr.      |                |        | Provision for Depreciation Account |                         |        | Cr. |
|----------|----------------|--------|------------------------------------|-------------------------|--------|-----|
| Date     | Particulars    | (Rs.)  | Date                               | Particulars             | (Rs.)  |     |
| 31.12.21 | To Balance c/d | 15,000 | 31.12.21                           | By Depreciation A/c     | 15,000 |     |
|          |                | 15,000 |                                    |                         | 15,000 |     |
| 31.12.22 | To Balance c/d | 41,250 | 01.01.22                           | By Balance b/d          | 15,000 |     |
|          |                |        | 31.12.22                           | By Depreciation A/c     | 26,250 |     |
|          |                |        |                                    | (Rs.15,000 + Rs.11,250) |        |     |



|          |                           |        |          |                     |        |
|----------|---------------------------|--------|----------|---------------------|--------|
| 31.12.21 | To Machinery Disposal A/c | 41,250 | 01.01.23 | By Balance b/d      | 41,250 |
| 31.12.23 | To Balance c/d            | 30,000 | 31.12.23 | By Depreciation A/c | 41,250 |
|          |                           | 33,750 |          |                     | 22,500 |
|          |                           | 63,750 | 01.01.24 | By Balance b/d      | 63,750 |
|          |                           |        |          |                     | 33,750 |

| Dr.      |                  |          | Cr.      |                                    |          |
|----------|------------------|----------|----------|------------------------------------|----------|
| Date     | Particulars      | (Rs.)    | Date     | Particulars                        | (Rs.)    |
| 31.12.23 | To Machinery A/c | 1,00,000 | 31.12.23 | By Provision for Depreciation A/c  | 30,000   |
|          |                  |          |          | By Depreciation A/c                | 15,000   |
|          |                  |          |          | By Bank A/c                        | 50,000   |
|          |                  |          |          | By Profit & Loss A/c(Loss on Sale) | 5,000    |
|          |                  | 1,00,000 |          |                                    | 1,00,000 |

Working Notes:

- Depreciation for the machine purchased on 1.7.2022  
For the year 2022 (used for 6 months) =  $\text{Rs.}1,50,000 \times 15\% \times 6/12 = \text{Rs.}11,250$  For the year 2023 (used for full year) =  $\text{Rs.}1,50,000 \times 15\% = \text{Rs.}22,500$
- Depreciation for the machine purchased on 1.1.2021 Depreciation =  $\text{Rs.}1,00,000 \times 15\% = \text{Rs.}15,000$   
So, Depreciation for 2 years =  $\text{Rs.}15,000 \times 2 = \text{Rs.}30,000$

#### Illustration 14.

On 1st April, 2021, Som Ltd. purchased a machine for Rs.66,000 and spent Rs.5,000 on shipping and forwarding charges, Rs.7,000 as import duty, Rs.1,000 for carriage and installation, Rs.500 as brokerage and Rs.500 for an iron pad. It was estimated that the machine will have a scrap value of Rs.5,000 at the end of its useful life which is 15 years. On 1st January, 2022 repairs and renewals of Rs.3,000 were carried out. On 1st October, 2023 this machine was sold for Rs.50,000. Prepare Machinery Account for the 3 years, assuming year ends as 31st March.

Solution:

In the books of Som Ltd.

| Dr.      |                         |        | Cr.      |                             |        |
|----------|-------------------------|--------|----------|-----------------------------|--------|
| Date     | Particulars             | (Rs.)  | Date     | Particulars                 | (Rs.)  |
| 01.04.21 | To Bank A/c To Bank A/c | 66,000 | 31.03.22 | By Depreciation A/c By      | 5,000  |
|          |                         | 14,000 |          | Balance c/d                 | 75,000 |
|          |                         | 80,000 |          |                             | 80,000 |
| 01.04.22 | To Balance b/d          | 75,000 | 31.03.23 | By Depreciation A/c By      | 5,000  |
|          |                         |        |          | Balance c/d                 | 70,000 |
|          |                         | 75,000 |          |                             | 75,000 |
| 01.04.23 | To Balance b/d          | 70,000 | 01.10.23 | By Depreciation A/c By      | 2,500  |
|          |                         |        |          | Bank A/c (sale)             | 50,000 |
|          |                         |        |          | By Profit & Loss A/c (Loss) | 17,500 |
|          |                         | 70,000 |          |                             | 70,000 |

Working Note:

- Total Cost =  $\text{Rs.}66,000 + \text{Rs.}5,000 + \text{Rs.}7,000 + \text{Rs.}1,000 + \text{Rs.}500 + \text{Rs.}500 = \text{Rs.}80,000$   
Depreciation =  $\text{Total Cost} - \text{Scrap Value} / \text{Expected life} = 80,000 - 5,000 / 15 = \text{Rs.}5,000$   
The amount spent on repairs and renewals on 1st January, 2022 is of revenue nature and hence, does not form part of the cost of asset.

**Illustration 15.**

M/s Adhuna & Co. had a provision for bad debts of Rs.13,000 against their book debts on 1st April, 2022. During the year ended 31st March, 2023, Rs.8,500 proved irrecoverable and it was desired to maintain the provision for bad debts @ 5% on Debtors which stood at Rs.3,90,000 before writing off Bad Debts.

Prepare the provision for Bad Debt Account for the year ended March 31, 2023.

**Solution:**

## Books of M/s Adhuna &amp; Co.

| Dr. Provision for Bad Debt Account |                          |        | Cr.      |                           |        |
|------------------------------------|--------------------------|--------|----------|---------------------------|--------|
| Date                               | Particulars              | (Rs.)  | Date     | Particulars               | (Rs.)  |
| 31.03.23                           | To Bad Debts A/c         | 8,500  | 01.04.22 | By Balance b/d            | 13,000 |
| 31.03.23                           | To Balance c/d           | 19,075 | 31.03.23 | By Profit & Loss A/c      | 14,575 |
|                                    | 5% of (3,90,000 - 8,500) |        |          | (Balancing figure)        |        |
|                                    |                          | 27,575 |          | (Further provn. required) |        |
|                                    |                          |        |          |                           | 27,575 |

**Illustration 16.**

On 1st April, 2022 the balance of provision for bad and doubtful debts was Rs.13,000. The bad debts during the year 2022-23 were Rs.9,500. The sundry debtors as on 31st March, 2023 stood at Rs.3,25,000 out of these debtors of Rs.2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors. You are required to:

- Pass necessary adjustment entries for bad debts and its provision on 31st March, 2023.
- Prepare the necessary ledger accounts.
- Show the relevant items in the Profit & Loss Account and Balance Sheet.

**Solution:**

- (i) In the books of .....

## Journal

| Date     | Particulars                                                                                                                              | Debit<br>(Rs.) | Credit<br>(Rs.) |
|----------|------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
| 31.03.23 | Bad Debts A/c Dr.<br>To Sundry Debtors A/c<br>(Being Bad Debts)                                                                          | 2,500          | 2,500           |
| 31.03.23 | Provision for Bad & Doubtful Debts A/c Dr.<br>To Bad Debts A/c (2500 + 9500)<br>(Being Bad Debts during the year)                        | 12,000         | 12,000          |
| 31.03.23 | Profit and Loss A/c Dr.<br>To Provision for Bad & Doubtful Debts A/c<br>(Being Provision for Bad Debts transferred to Profit & Loss A/c) | 15,125         | 15,125          |

- (ii) **Ledger Accounts**

| Dr. Bad Debts Account |                       |        | Cr.      |                                           |        |
|-----------------------|-----------------------|--------|----------|-------------------------------------------|--------|
| Date                  | Particulars           | (Rs.)  | Date     | Particulars                               | (Rs.)  |
| 31.03.23              | To Balance b/d        | 9,500  | 31.03.23 | By Provision for Bad & Doubtful Debts A/c | 12,000 |
| 31.03.23              | To Sundry Debtors A/c | 2,500  |          |                                           |        |
|                       |                       | 12,000 |          |                                           | 12,000 |



| Dr. Provision for Bad & Doubtful Debts Account |                                           |        | Cr.      |                                |        |
|------------------------------------------------|-------------------------------------------|--------|----------|--------------------------------|--------|
| Date                                           | Particulars                               | (Rs.)  | Date     | Particulars                    | (Rs.)  |
| 31.03.23                                       | To Bad Debts A/c                          | 12,000 | 01.04.22 | By Balance b/d                 | 13,000 |
| 31.03.23                                       | To Balance c/d [5% on (3,25,000 - 2,500)] | 16,125 | 31.03.23 | By Profit and Loss A/c (b/fig) | 15,125 |
|                                                |                                           | 28,125 |          |                                | 28,125 |

| Dr. Sundry Debtors Account (includes) |                |          | Cr.      |                  |          |
|---------------------------------------|----------------|----------|----------|------------------|----------|
| Date                                  | Particulars    | (Rs.)    | Date     | Particulars      | (Rs.)    |
| 31.03.23                              | To Balance b/d | 3,25,000 | 31.03.23 | By Bad Debts A/c | 2,500    |
|                                       |                | 3,25,000 | 31.03.23 | By Balance c/d   | 3,22,500 |
|                                       |                |          |          |                  | 3,25,000 |

(iii) Profit and Loss Account for the year ended 31st March, 2023 (includes)

| Particulars                            | (Rs.)  | (Rs.)  |
|----------------------------------------|--------|--------|
| To Provision for Bad & Doubtful Debts: |        |        |
| Provision as on 31.3.2023              | 16,125 |        |
| Add: Bad Debts (9,500 + 2,500)         | 12,000 |        |
|                                        | 28,125 |        |
| Less: Provision as on 1.4.2022         | 13,000 | 15,125 |

Balance Sheet as on 31st March, 2022 (includes)

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

Illustration 17.

A company maintains its provision for bad debts @ 5% and a provision for discount on debtors @ 2%. You are given the following details: (in '000s)

| Particulars                                                   | 2022 (Rs.) | 2023 (Rs.) |
|---------------------------------------------------------------|------------|------------|
| Bad debts                                                     | 800        | 1,500      |
| Discount allowed                                              | 1,200      | 500        |
| Sundry debtors (before providing all bad debts and discounts) | 60,000     | 42,000     |

On 01.01.2022, Provision for bad debts and Provision of discount on debtors had balance of Rs.4,550 and Rs.800 respectively.

Show Provision for Bad Debts and Provision for Discount on Debtors Account for the year 2022 and 2023.

Solution:

In the Books of .....

| Dr. Provision for Bad Debts A/c |                      |         | Cr.<br>(in '000s) |                |         |
|---------------------------------|----------------------|---------|-------------------|----------------|---------|
| Date                            | Particulars          | Rs.'000 | Date              | Particulars    | Rs.'000 |
| 31.12.22                        | To Bad Debts A/c     | 800     | 01.01.22          | By Balance b/d | 4,550   |
| 31.12.22                        | To Profit & Loss A/c | 850     |                   |                |         |
| 31.12.22                        | To Balance c/d       | 2,900   |                   |                |         |



|          |                   |       |          |                      |       |
|----------|-------------------|-------|----------|----------------------|-------|
|          | 5% of (Rs.58,000) |       |          |                      |       |
|          |                   | 4,550 |          |                      | 4,550 |
| 31.12.23 | To Bad Debts A/c  | 1,500 | 01.01.23 | By Balance b/d       | 2,900 |
| 31.12.23 | To Balance c/d    | 2,000 | 31.12.23 | By Profit & Loss A/c | 600   |
|          | 5% of (Rs.40,000) |       |          |                      |       |
|          |                   | 3,500 |          |                      | 3,500 |

Dr. **Provision for Discount on Debtors Account** Cr.  
(in '000s)

| Date     | Particulars                                      | Rs.'000 | Date     | Particulars          | Rs.'000 |
|----------|--------------------------------------------------|---------|----------|----------------------|---------|
| 31.12.22 | To Discount A/c                                  | 1,200   | 01.01.22 | By Balance b/d       | 800     |
| 31.12.22 | To Balance c/d<br>[2% on (Rs.58,000 - Rs.2,900)] | 1,102   | 31.12.22 | By Profit & Loss A/c | 1,502   |
|          |                                                  | 2,302   |          |                      | 2,302   |
| 31.12.23 | To Discount                                      | 500     | 01.01.23 | By Balance b/d       | 1,102   |
| 31.12.23 | To Balance c/d<br>[2% on (Rs.40,000 - Rs.2,000)] | 760     | 31.12.23 | By Profit & Loss A/c | 158     |
|          |                                                  | 1,260   |          |                      | 1,260   |

#### Illustration 18.

On 31.12.2022, Sundry Debtors and Provision for Doubtful Debts are Rs.50,000 and Rs.5,000 respectively. During the year 2023, Rs.3,000 are bad and written off on 30.9.2023, an amount of Rs.400 was received on account of a debt which was written off as bad last year. On 31.12.2023, the debtors ledger was verified and it was found that sundry debtors stood in the books were Rs.40,000 out of which a customer Mr. X who owed Rs.800 was to be written off as bad.

Prepare Bad Debt A/c and Provision for Doubtful A/c assuming that same percentage should be maintained for provision for Doubtful debt as it was on 31.12.2022.

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

**Solution:**

In the Books of .....

Dr. **Bad Debt Account** Cr.

| Date     | Particulars           | (Rs.) | Date    | Particulars                   | (Rs.) |
|----------|-----------------------|-------|---------|-------------------------------|-------|
| 2023     |                       |       | 2023    | By Provision for Bad Debt A/c | 3,800 |
| Sept. 30 | To Sundry Debtors A/c | 3,000 | Dec. 31 |                               |       |
| Dec. 31  | To X A/c.             | 800   |         |                               |       |
|          |                       | 3,800 |         |                               | 3,800 |

Dr. **Provision for Doubtful Debt Account** Cr.

| Date    | Particulars                                               | (Rs.) | Date    | Particulars                                         | (Rs.) |
|---------|-----------------------------------------------------------|-------|---------|-----------------------------------------------------|-------|
| 2023    | To Bad Debt A/c                                           | 3,800 | 2023    | By Balance b/d                                      | 5,000 |
| Dec. 31 | Balance c/d<br>[10% on Rs.39,200<br>(Rs.40,000 - Rs.800)] | 3,920 | Dec. 31 | " Profit & Loss A/c<br>(for the provision required) | 2,720 |
|         |                                                           | 7,720 |         |                                                     | 7,720 |





## Profit &amp; Loss Account (Extract)

Dr.

For the year ended 31.12.2023

Cr.

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

## Balance Sheet (Extract) as at 31.12.2023 (includes)

| Liabilities | (Rs.) | Assets                        | (Rs.)  | (Rs.)  |
|-------------|-------|-------------------------------|--------|--------|
|             |       | Sundry Debtors                | 40,000 |        |
|             |       | Less: Bad Debts               | 800    |        |
|             |       |                               | 39,200 | 35,280 |
|             |       | Less: Provision for Bad Debts | 3,920  |        |

Working Notes:

Calculation of Rate of Provision for bad debts —  $(5,000/50,000 \times 100) = 10\%$ 

## Illustration 19.

Rectify the following errors assuming that the errors were detected (a) Before the Preparation of Trial Balance; (b) After the preparation of Trial Balance and (c) After the preparation of Final Accounts.

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

Solution:

In the Books of .....

Journal (without narration)

| Date  | Before preparation of Trial Balance            | After preparation of Trial Balance              | After preparation of Final Accounts                   |
|-------|------------------------------------------------|-------------------------------------------------|-------------------------------------------------------|
| (i)   | Plant A/c Dr. 10,000<br>To Purchase A/c 10,000 | Plant A/c Dr. 10,000<br>To Purchase A/c. 10,000 | Plant A/c Dr. 10,000<br>To P&L Adjustment A/c 10,000  |
| (ii)  | Sales account will be credited with Rs.1,000   | Suspense A/c Dr. 1,000<br>To Sales A/c 1,000    | Suspense A/c Dr. 1,000<br>To P&L Adjustment A/c 1,000 |
| (iii) | X Account will be debited when Rs.900          | X A/c Dr. 900<br>To Suspense A/c 900            | X A/c Dr. 900<br>To Suspense A/c 900                  |
| (iv)  | Purchase A/c Dr. 3,000<br>To T A/c 3,000       | Purchase A/c Dr. 3,000<br>To T A/c 3,000        | P&L Adjustment A/c Dr. 3,000<br>To T's A/c. 3,000     |
| (v)   | Salary A/c Dr. 3,000<br>To Wages A/c 3,000     | Salary A/c Dr. 3,000<br>To wages A/c 3,000      |                                                       |

## Illustration 20.

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

- (a) Goods brought from Narayan for Rs.5,000 were posted to the credit of Narayan's A/c as Rs.5,500
- (b) An item of Rs.750 entered in Purchase Returns Book was posted to the credit of Pandey to whom the goods had been returned.





- (c) Sundry items of furniture sold for Rs.26,000 were entered in the sales book.
- (d) Discount of Rs.300 from creditors had been duly entered in creditor's A/c but was not posted to discount A/c. Pass necessary journal entries to rectify these errors. Also show the Suspense A/c.

**Solution:**

- (a) Goods bought from Narayan are posted to credit of his A/c as Rs.5,500 instead of Rs.5,000. Here, it is correct to credit Narayan's A/c. But the mistake is extra credit of Rs.500. This is one sided error, as posting to purchases A/c is correctly made. So the rectification entry will affect the suspense A/c. This needs to be reversed by the rectification entry:

Narayan's A/c Dr. 500

To Suspense A/c 500

- (b) Goods bought from Pandey were returned back to him. It should have appeared on the debit side of his A/c. For rectifying we will need to debit his A/c with double the amount i.e. Rs.1500 (Rs.750 to cancel the wrong credit and another Rs.750 to give effect for correct debit) and the effect will go to Suspense A/c. The correction entry is:

Pandey A/c Dr. 1,500

To Suspense A/c 1,500

- (c) Sale of furniture was recorded in sales book. What's wrong here? Remember that sales book records sale of goods only and nothing else. Sale of furniture will appear in either cash book (if sold for cash) or journal proper (if sold on credit). Hence, wrong credit to Sales A/c must be removed and credit should be given to Furniture A/c. It's important to note that this rectification entry will not affect the Suspense A/c. The correction entry is:

Sales A/c Dr. 26,000

To Furniture A/c 26,000

- (d) The discount received from creditor is not entered in discount A/c but was correctly recorded in creditors' A/c. This is one sided error and will therefore be routed through suspense for correction. A discount is received; it must be credited being an income.

Suspense A/c Dr. 300

To Discount received A/c 300

Let us now see how suspense A/c will Look like. Excess credit of Rs.1,700 in Trial Balance will be shown on the debit side of suspense A/c. This will bring in total debit equal to total credit.

| Dr   |                      |       |              | Suspense Account |             |       |              | Cr |  |
|------|----------------------|-------|--------------|------------------|-------------|-------|--------------|----|--|
| Date | Particulars          | J. F. | Amount (Rs.) | Date             | Particulars | J. F. | Amount (Rs.) |    |  |
|      | To Balance b/d       |       | 1,700        |                  | By Narayan  |       | 500          |    |  |
|      | To Discount received |       | 300          |                  | By Pandey   |       | 1,500        |    |  |
|      |                      |       | 2,000        |                  |             |       | 2,000        |    |  |

Please observe that after correcting passing all rectification entries, the Suspense A/c tallies automatically.

**Illustration 21.**

Pass necessary journal entries to rectify the following errors:

- (a) An amount of Rs.200 withdrawn by owner for personal use was debited to trade expenses.
- (b) Purchase of goods of Rs.300 from Nathan was wrongly entered in sales book.
- (c) A credit sale of Rs.100 to Santhanam was wrongly passed through purchase book.



- (d) Rs.150 received from Malhotra was credited to Mehrotra.  
 (e) Rs.375 paid as salary to cashier Dhawan was debited to his personal A/c.  
 (f) A bill of Rs.2,750 for extension of building was debited to building repairs A/c.  
 (g) Goods of Rs.500 returned by Akashdeep were taken into stock, but returns were not recorded.  
 (h) Old furniture sold for Rs.200 to Sethi was recorded in sales book.  
 (i) The period end total of sales book was under cast by Rs.100.  
 (j) Amount of Rs.80 received as interest was credited to commission.

**Solution:**

| Sl. No. | Type of Entry       | Particulars                           | Debit (Rs.) | Credit (Rs.) |
|---------|---------------------|---------------------------------------|-------------|--------------|
| a.      | Wrong Entry         | Trade Expenses<br>To Cash             | 200         | 200          |
|         | Correct entry       | Drawings<br>To cash                   | 200         | 200          |
|         | Rectification entry | Drawings<br>To Trade Expenses         | 200         | 200          |
| b.      | Wrong Entry         | Nathan<br>To Sales                    | 300         | 300          |
|         | Correct entry       | Purchases<br>To Nathan                | 300         | 300          |
|         | Rectification entry | Purchases<br>Sales<br>To Nathan       | 300<br>300  | 600          |
| c.      | Wrong Entry         | Purchases<br>To Santhanam             | 100         | 100          |
|         | Correct entry       | Santhanam<br>To Sales                 | 100         | 100          |
|         | Rectification entry | Santhanam<br>To Sales<br>To Purchases | 200         | 100<br>100   |
| d.      | Wrong Entry         | Cash<br>To Mehrotra                   | 150         | 150          |
|         | Correct entry       | Cash<br>To Mehrotra                   | 150         | 150          |
|         | Rectification entry | Mehrotra<br>To Malhotra               | 150         | 150          |
| e.      | Wrong Entry         | Dhawan<br>To cash                     | 375         | 375          |
|         | Correct entry       | Salary<br>To cash                     | 375         | 375          |
|         | Rectification entry | Salary<br>To Dhawan                   | 375         | 375          |
| f.      | Wrong Entry         | Building Repairs<br>To Cash           | 2,750       | 2,750        |
|         | Correct entry       | Buildings<br>To Cash                  | 2,750       | 2,750        |



|    |                     |                                  |       |       |
|----|---------------------|----------------------------------|-------|-------|
|    | Rectification entry | Buildings<br>To Building Repairs | 2,750 | 2,750 |
| g. | Wrong Entry         | No entry passed                  |       |       |
|    | Correct entry       | Sales Returns<br>To Akashdeep    | 500   | 500   |
|    | Rectification entry | Sales Returns<br>To Asashdeep    | 500   | 500   |
| h. | Wrong Entry         | Sethi<br>To Sales                | 200   | 200   |
|    | Correct entry       | Sethi<br>To Furniture            | 200   | 200   |
|    | Rectification entry | Sales<br>To Furniture            | 200   | 200   |
| i. | Wrong Entry         | No entry passed                  |       |       |
|    | Correct entry       | Suspense<br>To Sales             | 100   | 100   |
|    | Rectification entry | Suspense<br>To Sales             | 100   | 100   |
| j. | Wrong Entry         | Cash<br>To Commission            | 80    | 80    |
|    | Correct entry       | Cash<br>To Interest              | 80    | 80    |
|    | Rectification entry | Commission<br>To Interest        | 80    | 80    |

#### Effect of Errors on Profit or Loss

Some errors may affect the profit or loss for the period while other won't. How to find it out? Remember, the P&L A/c reflects items of incomes, gains, expenses and losses. All these accounts are nominal accounts. When an error occurs which affects a nominal account, it will affect profit or loss otherwise not. So, errors that affect real and personal accounts will not affect profit or loss.

#### Illustration 22.

The books of accounts of A Co. Ltd. for the year ending 31.3.2023 were closed with a difference of Rs.21,510 in books carried forward. The following errors were detected subsequently:

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

Pass rectification entries in the next year.

Prepare suspense account and state effect of the errors in determination of net profit of last year.



Solution:

In the Books of A Co. Ltd.

## Journal

| Date                   | Particulars                                                                                                                                 | L/F | Dr.<br>Amount<br>(Rs.) | Cr.<br>Amount<br>(Rs.) |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----|------------------------|------------------------|
| (a)<br>2023<br>April 1 | Suspense A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Returns outward book was under cast now rectified).                                 |     | 100                    | 100                    |
| (b)                    | Suspense A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Discount received was not recorded, now rectified).                                 |     | 1,500                  | 1,500                  |
| (c)                    | Office Furniture A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Office furniture purchased wrongly debited to Purchase A/c, now rectified.) |     | 6,000                  | 6,000                  |
| (d)                    | Debtors' A/c Dr.<br>To Suspense A/c<br>(Debtors account was posted Rs.670 in place of Rs.760, now rectified.)                               |     | 90                     | 90                     |
| (e)                    | Suspense A/c Dr.<br>To Profit & Loss Adjustment A/c<br>(Sales account was under casted, now rectified)                                      |     | 10,000                 | 10,000                 |
| (f)                    | Profit & Loss Adjustment A/c Dr.<br>To Closing Stock A/c<br>(Closing Stock was overcastted, now rectified.)                                 |     | 10,000                 | 10,000                 |

| Dr.   |                                 |                 | Suspense Account |                                | Cr.             |
|-------|---------------------------------|-----------------|------------------|--------------------------------|-----------------|
| Date  | Particulars                     | Amount<br>(Rs.) | Date             | Particulars                    | Amount<br>(Rs.) |
| 2023  | To Profit & Loss Adjustment A/c | 100             | 2023             | By Difference in Trial Balance | 21,510          |
| April | To Profit & Loss Adjustment A/c | 1,500           | April            | By Debtors A/c.                | 90              |
| 1     | To Profit & Loss Adjustment A/c | 10,000          | 1                |                                |                 |
|       | To Profit & Loss Adjustment A/c | 10,000          |                  |                                |                 |
|       |                                 | 21,600          |                  |                                | 21,600          |

## Effect on Profit

| Item          | Increase (+)<br>(Rs.) | Decrease (-)<br>(Rs.) |
|---------------|-----------------------|-----------------------|
| (a).....      | ---                   | 100                   |
| (b).....      | ---                   | 1,500                 |
| (c).....      | ---                   | 6,000                 |
| (d) No effect | ---                   | ---                   |
| (e).....      | ---                   | 10,000                |
| (f).....      | 10,000                | ---                   |



|                             |        |        |
|-----------------------------|--------|--------|
|                             | 10,000 | 17,600 |
| Profit will be decreased by | 7,600  | ---    |
|                             | 17,600 | 17,600 |

**Illustration 23.**

The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.

- (a) No adjustment entry was passed for an amount of Rs.2,000 relating to outstanding rent.
- (b) Purchase book was overcast by Rs.1,000.
- (c) Rs.4,000 depreciation of Machinery has been omitted to be recorded in the book.
- (d) Rs.600 paid for purchase of stationary has been debited to Purchase A/c.
- (e) Sales books was overcast by Rs.1,000.
- (f) Rs.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:**

Effects of the errors in profit and loss A/c and Balance Sheet

| Profit & Loss A/c.                                                   | Balance Sheet                                                                                  |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| (a) Profit was overstated by Rs.2,000                                | (a) Capital was also overstated by Rs.2,000 & outstanding Liability was understated by 2,000.  |
| (b) Gross profit was under stated by Rs.1,000 & also the Net Profit. | (b) Capital was understated by Rs.1,000.                                                       |
| (c) Net Profit was overstated by Rs.4,000.                           | (c) Machinery was overstated by Rs.4,000 & so the Capital A/c was also overstated by Rs.4,000. |
| (d) No effect on Net Profit.                                         | (d) No effect in Balance Sheet.                                                                |
| (e) Gross Profit and Net Profit were overstated by Rs.1,000.         | (e) Capital was overstated by Rs.1,000.                                                        |
| (f) Gross Profit & Net Profit were overstated by Rs.5,000.           | (f) Capital & Sundry Debtors were overstated by Rs.5,000.                                      |

**Adjusting Entry:** Adjusting Entries are passed in the journal to bring into the books of accounts certain unrecorded items like closing stock, depreciation on fixed assets, etc. These are needed at the time of preparing the final accounts.

E.g. Depreciation A/c Dr.

To Fixed Assets A/c





## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 7M)

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

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

Answer:

## 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> | <u>28,000</u> |
| Total Additions                                                             |               | 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> | <u>62,000</u> |
| Balance as per Pass Book (Credit)                                           |               | 1,48,500      |

Question 2.

(Dec 23 7M)

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

- I. Expenses incurred in connection with obtaining a license for starting the factory were Rs.10,000.
- II. Rs.1,000 paid for removal of stock to a new site.
- III. Rings and Pistons of an engine were changed at a cost of 8 5,000 to get full efficiency.
- IV. Rs 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.
- V. 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.





**VI. A factory shed was constructed at a cost of Rs.1,00,000. A sum of Rs.5,000 had been incurred for the construction of the temporary huts for storing building materials.**

**VII. A pair of bullocks of z 50,000 was killed by lightning**

**Answer:**

- i. Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.
- ii. 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.
- iii. 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.
- iv. Revenue Expenditure.
- v. Revenue Expenditure. [As per As-26]
- vi. Both are Capital Expenditure
- vii. Capital loss. Live stock is a fixed asset.

**Question 3.**

**(Dec 23 5M)**

**Answer the following question:**

**I. Profit is earned on sale of fixed asset. What should be the accounting treatment of this profit?**

**II. Why is the full cost of an asset not treated as an expense in the year of its purchase?**

**III. Do you think that the convention of conservatism results creation of secret reserves?**

**IV. Goods worth? 1,00,000 were burnt by fire and a claim of 370,000 has been accepted by the insurance company. How will it be recorded in the final account?**

**V. 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**

**Answer:**

- i. It's a capital profit. Hence it should be transferred to the Capital Reserve.
- ii. 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.
- iii. 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.
- iv. Rs.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 770,000 will be shown on the asset side of Balance Sheet.
- v. 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 4.**

**(Jun 24 7M)**

**On 31st March, 2023 in the Trial Balance of Singhanian Brothers, balance of the Machinery Account appears as Rs.19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at Rs.4,50,000 was disposed of on 30th November, 2022 in exchange of new machinery costing Rs.3,50,000.**



You are required to calculate:

- (i) Total depreciation to be charged in the Profit and Loss Account
- (ii) Profit or loss on exchange of machine
- (iii) Book value of machinery in Balance Sheet as on 31.03.2023

**Answer:**

- (i) Total depreciation to be charged in the Profit and Loss Account

|                                                                             |               |
|-----------------------------------------------------------------------------|---------------|
| Depreciation on Machinery Sold $[450000 \times 15\% \times 8/12]$           | 45000         |
| Depreciation on Remaining balance of asset $[1980000 - 450000 \times 15\%]$ | 229500        |
| Depreciation on new machinery $[350000 \times 15\% \times 4/12]$            | 17500         |
| <b>Total</b>                                                                | <b>292000</b> |

- (ii) Profit or loss on exchange of machine = Rs.55,000

- Book value of disposed machinery at the time of exchange: ₹4,05,000
- Value credited (new machine cost): ₹3,50,000
- Loss on exchange: ₹55,000

- (iii) Book value of machinery in Balance Sheet as on 31.03.2023 = 16,33,000

|                                   |                |
|-----------------------------------|----------------|
| Opening balance of machinery      | 1980000        |
| Less: Machinery Sold              | (450000)       |
| Add: Machinery Acquired           | 350000         |
| Less: Depreciation (229500+17500) | 247000         |
| <b>Book Value of Machinery</b>    | <b>1633000</b> |

**Question 5.**

(Jun 24 7M)

The Trial Balance of Rajesh Brothers on 31st March, 2023 did not agree. In order to close the books, the accountant placed the difference for 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.

- (1) Rs 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.
- (2) Credit Sale of Rs.6,550 was posted to the credit of the customer's account as Rs 5,650.
- (3) Machine purchased on 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.
- (4) Sales book was overcast by Rs.10,000 in February 2023.

Give Journal entries to rectify the errors and prepare Suspense Account

**Answer:**

| Date     | Particulars             |    | Dr. (₹) | Cr. (₹) |
|----------|-------------------------|----|---------|---------|
| 25.04.23 | P & L Adjustment A/c    | Dr | 4,500   |         |
|          | To Suspense A/c         | Dr |         | 4,500   |
| 25.04.23 | Customer's A/c          | Dr | 12,200  |         |
|          | To Suspense A/c         | Dr |         | 12,200  |
| 25.04.23 | Machinery A/c           | Dr | 46,250  |         |
|          | To P & L Adjustment A/c | Dr |         | 46,250  |
| 25.04.23 | P & L Adjustment A/c    | Dr | 10,000  |         |



|          |                      |    |        |        |
|----------|----------------------|----|--------|--------|
|          | To Suspense A/c      | Dr |        | 10,000 |
| 25.04.23 | P & L Adjustment A/c | Dr | 31,750 |        |
|          | To Capital A/c       | Dr |        | 31,750 |

(All Journal entries to be supported by appropriate narration)

#### Suspense A/c

| Date     | Particulars             | Amount | Date     | Particulars             | Amount |
|----------|-------------------------|--------|----------|-------------------------|--------|
| 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 |
| 25.04.23 | By P & L Adjustment A/c | 10,000 |          |                         | 26,700 |

#### Question 6.

(Jun 24 5M)

On 31st December, 2022, Sundry Debtors and provision for doubtful debts are Rs.50,000 and Rs.5,000 respectively. During the year 2023, Rs.3,000 are bad and written off on 30-09-2023. An amount of Rs.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 Rs.40,000 out of which a customer Mr. X who owed Rs.800 was to be written off as Bad.

Prepare Bad Debt A/c., Provision for Doubtful Debt A/c, assuming that 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.

Answer:

In the Book of \_\_\_\_\_

#### Bad Debt Account

| Date     | Particulars       | Amount (₹) | Date     | Particulars                        | Amount (₹) |
|----------|-------------------|------------|----------|------------------------------------|------------|
| 30.09.23 | To Sundry Debtors | 3,000      | 31.12.23 | By Provision for Doubtful Debt A/c | 3,800      |
| 31.12.23 | To X's A/c        | 800        |          |                                    | 3,800      |
| Total    |                   | 3,800      |          |                                    | 3,800      |

#### Provision for Doubtful Debts A/c

| Date     | Particulars    | Amount (₹) | Date     | Particulars          | Amount (₹) |
|----------|----------------|------------|----------|----------------------|------------|
| 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      |
| Total    |                | 7,720      |          |                      | 7,720      |

#### Profit & Loss A/c (Extract) For the year ended 31-12-2023

| Particulars  | Amount (₹) | Particulars                                 | Amount (₹) |
|--------------|------------|---------------------------------------------|------------|
| To Bad Debts | 3,800      | By Bad Debts Recovery A/c                   | 400        |
|              |            | By Provision for Bad Debts - Existing 5,000 |            |



## Balance Sheet (Extract)

| Liabilities | Amount (₹) | Assets                       | Amount (₹) | Amount (₹) |
|-------------|------------|------------------------------|------------|------------|
|             |            | Sundry Debtors               | 40,000     |            |
|             |            | Less Bad Debts               | (800)      |            |
|             |            |                              | 39,200     |            |
|             |            | Less Provision for Bad Debts | (3,920)    |            |
|             |            |                              |            | 35,280     |

## Question 7.

(Dec 23 11M)

Rectify the following errors by passing Journal entries:

- 1) Preeti was paid cash ₹ 2,800 but Jyoti was debited by Rs.2,000
- 2) Goods costing 10,000 were purchased for various members of the staff and the cost was included in 'Purchases'. A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries Account.
- 3) Wages amounting to Rs.7,000 for machinery erection were debited to the Wages Account.
- 4) Machinery written off by 1,000 has not been posted to the Depreciation Account.
- 5) Goods purchased for 1,000 for the proprietor's use were debited to the Purchases Account
- 6) Goods purchased for 5,000 were posted as Rs.500 to the Purchases Account.
- 7) Goods purchased for Rs.200 were posted as Rs.2,000 to the Purchases Account.
- 8) Rs.1,000 received from Preeti was debited to her account.
- 9) The balance in the account of Mr. Rahim Rs 1,000 has been written off as bad but no account has been debited

Answer:

| Date | Particulars      | L.F | Dr. (₹) | Cr. (₹) |
|------|------------------|-----|---------|---------|
| i    | Preeti           |     | 2,800   |         |
|      | To Jyoti         |     |         | 2,000   |
|      | To Suspense A/C  |     |         | 800     |
| ii   | Salaries A/C     |     | 10,000  |         |
|      | To Purchases A/C |     |         | 10,000  |
| iii  | Machinery A/C    |     | 7,000   |         |
|      | To Wages A/C     |     |         | 7,000   |
| iv   | Depreciation A/C |     | 1,000   |         |
|      | To Suspense A/C  |     |         | 1,000   |
| v    | Drawing A/C      |     | 1,000   |         |
|      | To Purchases A/C |     |         | 1,000   |
| vi   | Purchases A/C    |     | 4,500   |         |
|      | To Suspense A/C  |     |         | 4,500   |
| vii  | Suspense A/C     |     | 1,800   |         |
|      | To Purchases A/C |     |         | 1,800   |
| viii | Suspense A/C     |     | 2,000   |         |
|      | To Preeti        |     |         | 2,000   |



|    |                 |  |       |       |
|----|-----------------|--|-------|-------|
| ix | Bad Debts A/C   |  | 1,000 |       |
|    | To Suspense A/C |  |       | 1,000 |

**Question 8.****(Dec 23 4 M)**

Hariharan had started a new mid-sized business. He being new to accounting sought advice from a cost accountant on maintenance of accounts. He was advised that he should follow Double Entry System of Accounting maintaining accounts on accrual basis. Some of his friends advised him to maintain accounts on Cash Basis of Accounting. He decided to follow the advice of the cost accountant. You have to appraise, judge and justify whether the decision of Shri Hariharan is correct

**Answer:**

The decision of Hariharan to maintain accounts on the Double Entry System of Accounting following the Accrual Concept is correct because when accounts are maintained on an accrual-based double entry system of accounting, correct income, expenditure, liabilities and assets are shown in the financial statements. It is important to know the correct income, expenditure, liabilities and assets as it enables the businessman to plan his finances. Had he followed Cash Basis of Accounting the business would not have shown correct financial performance and financial position as credit transactions would not have been recorded

**Question 9.****(Dec 23 5 M)**

An accountant of a large-sized firm records all the transactions in a Journal instead of maintaining Subsidiary Books. His views on this are that it will result in better control and also large team of accountants will not be required.

Whether his decision is correct?

**Answer:**

No, his decision is not correct because of the following reasons:

- (i) It ignores the concept of division of work and specialisation;
- (ii) Maintaining a Journal book alone will make the book unwieldy and difficult to handle;
- (iii) Posting will become a complicated and time-consuming process;
- (iv) Difficult to prepare the Trial Balance and locate the errors, if any;
- (v) It leads to possibilities of manipulations and frauds as tracking of Cash and Bank will become difficult

**Question 10.****(Dec 23 10 M)**

A company purchased a machine for 20,000 and paid cost of installation 1,000. At the date of purchase, the life of the machine was estimated at 15 years and hence it was decided to create a depreciation fund to be invested in Government Securities to provide for replacement of the machine. Before expiration of the estimated life it was decided to dismantle the machine and replace it with a modern one. The cost of dismantling was Rs.200 and the cost of purchase and installation of new machine was Rs.23,000. Parts of the old machine estimated to be worth Rs.500, were retained and the remainder sold as scrap for Rs.750.





At the date of dismantling the old machine, the depreciation fund stood in the books at Rs.16,500 and was represented by Government Securities costing the same amount. These securities were sold for 15,600.

You are required to prepare the following ledger accounts:

- (i) Machinery Account
- (ii) Depreciation Fund Account
- (iii) Depreciation Fund Investment Account

Answer:

(i) Machinery Account

| Dr. | Particulars           | ₹      |                          | Particulars | Cr.<br>₹ |
|-----|-----------------------|--------|--------------------------|-------------|----------|
|     | To Cash A/c           |        | By Cash A/c (Scrap sale) | 750         |          |
|     | - cost of machine     | 20,000 | By Depreciation Fund A/c | 15,400      |          |
|     | - installation        | 1,000  | By Profit and Loss A/c   | 4,350       |          |
|     | To Cash A/c           |        | By Balance c/d           |             |          |
|     | - cost of new machine | 23,000 | - for old machine        | 500         |          |
|     |                       |        | - for new machine        | 23,000      |          |
|     | Total                 | 44,000 | Total                    | 44,000      |          |

(ii) Depreciation Fund Account

| Dr.   | Particulars                         | ₹      | Cr.   | Particulars    | ₹      |
|-------|-------------------------------------|--------|-------|----------------|--------|
|       | To Cash A/c                         | 200    |       | By Balance b/d | 16,500 |
|       | To Depreciation Fund Investment A/c | 900    |       |                |        |
|       | To Machinery A/c                    | 15,400 |       |                |        |
| Total |                                     | 16,500 | Total |                | 16,500 |

(iii) Depreciation Fund Investment Account

| Particulars    | ₹      | Particulars             | ₹      |
|----------------|--------|-------------------------|--------|
| To Balance b/d | 16,500 | By Cash A/c             |        |
|                |        | - Sale of securities    | 15,600 |
|                |        | - Depreciation fund A/c | 900    |
|                | 16,500 |                         | 16,500 |

Question 11.

(Dec 23 10 M)

Write short notes on the following:

- (i) Distinction between Revenue Receipts and Capital Receipts
- (ii) Provision for discount on Debtors

Answer:

| Revenue Receipt                                                                | Capital Receipt                                                       |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| It has a short-term effect. The benefit is enjoyed within one accounting year. | It has a long-term effect. The benefit is many years in the future.   |
| It occurs repeatedly. It is recurring and regular.                             | It does not occur again and again. It is non-recurring and irregular. |





|                                                                                                                                                                                                |                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| It is shown in the profit and loss account on the credit side, as an income for the year.                                                                                                      | It is shown in the Balance Sheet on the liability side.                                                                                                   |
| It does not produce capital receipt.                                                                                                                                                           | Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt.                       |
| This does not increase or decrease the value of asset or liability.                                                                                                                            | The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from the bank etc.                  |
| Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt | Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until it's repayment |

## (ii) Provision for Discount on Debtors:

We know that Cash discount is allowed by the suppliers to customers for prompt settlement of cash. Naturally a provision is created for this purpose. Thus the provision which is created on Sundry debtors for allowing Discount on receipt of Cash in that accounting period is called Provision for Discount on Debtors. It is needless to say that if the customer pays their debts before the due dates, they may claim discounts and that is why discount is allowed to debtors for prompt settlement is an usual way. Where goods are sold on credit, debtors' accounts are debited but the amount may not be realised in the same accounting periods. Naturally, a possible aim is to allow the discount whether cash is received. The same will happen in the next accounting period. Due to this reason a provision for discount on debtors is made on the basis of past experience at an estimate rate on Sundry Debtors. Care should be taken while calculating discount. Discount should be calculated at a specified rate on of debtors (ie, after, discounting bad debts and provision for bad debts)

### Question 12.

(Dec 23 7M)

on his current account at the bank. On checking the Cash Book with Bank Statement, you find the following:

- (i) Cheques issued Rs.1,500 had been entered in the Cash Book but had been presented into Bank Rs.1,000.
- (ii) Dividend amounting to Rs.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 Rs.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 8 50 was replaced when out of date. It was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unpresented cheques shown above.
- (vi) The receipt side of the Cash Book had been overcast by Rs.20.
- (vii) A cheque for Rs.20 had been entered as a receipt in the Cash Book instead of as a payment.
- (viii) A cheque drawn for Rs.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.

Answer:

- (i) In the books of Sachin Chatterjee Cash Book (Bank Column)

| Date     | Particulars          | ₹   | Date     | Particulars           | ₹   |
|----------|----------------------|-----|----------|-----------------------|-----|
| 30.09.23 | To Dividend A/c      | 150 | 30.09.23 | By Balance b/d        | 400 |
| 30.09.23 | To Bank Interest A/c | 170 | 30.09.23 | By Bank charges       | 50  |
| 30.09.23 | To Error A/c         | 80  | 30.09.23 | By Over casting error | 20  |
| 30.09.23 | To Balance c/d       | 110 | 30.09.23 | By Party A/c          | 40  |
| Total    |                      | 510 | Total    |                       | 510 |

- (ii) Bank Reconciliation Statement as on 30.09.23

| Particulars                                | ₹   | ₹   |
|--------------------------------------------|-----|-----|
| Overdraft balance as per Amended Cash Book |     | 110 |
| Less: Cheque issued but not presented      | 500 |     |
| Less: Cancelled cheque issued              | 50  | 550 |
| Balance as per Pass Book                   |     | 440 |

### Question 13.

(Dec 23 7M)

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

| Particulars           | ₹      | Particulars         | ₹      |
|-----------------------|--------|---------------------|--------|
| 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 Rs.2,000 and Rs.1,000 respectively.
- (ii) Insurance was paid to the extent of 300 advance.
- (iii) A sum of 8 500 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 Rs.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 Rs.20,000 |     |

Answer:

| Particulars             | ₹       | ₹       |
|-------------------------|---------|---------|
| Purchases               | 43,500  |         |
| Carriage Inward         | 1,000   |         |
| Wages                   | 7,000   |         |
| Salaries                | 12,000  |         |
| Rent Rates and taxes    | 1,800   |         |
| Insurance               | 1,200   |         |
| Interest Paid           | 1,000   |         |
| Sales                   |         | 94,500  |
| Cash and Bank           | 21,500  |         |
| Bills Payable           |         | 5800    |
| Sundry Creditors        | 35,000  |         |
| Plant and Machinery     | 9,000   |         |
| Buildings               | 4,750   |         |
| Furniture               | 2,700   |         |
| Bills Receivable        | 10,000  |         |
| Sundry Debtors          | 39,000  |         |
| Capital                 |         | 66,000  |
| Sundry Expenses         | 3,000   |         |
| Opening Stock           | 21,000  |         |
| Outstanding Salaries    |         | 2,000   |
| Outstanding Wages       |         | 1,000   |
| Drawings                | 3,500   |         |
| Prepaid Insurance       | 300     |         |
| Bad Debts               | 2,450   |         |
| Provision for Bad Debts |         | 1,950   |
| Depreciation            | 1,550   |         |
| Closing Stock           | 20,000  |         |
| Total                   | 206,250 | 206,250 |

Question 14.

(Dec 23 5M)

Explain the following accounting conventions:

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



**Answer:**

- (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 15.**

**(Jun 23 4M)**

**Difference between Bad debts and Provision of Bad debts**

**Answer:**

| Bad Debt                                                       | Provision for Bad Debt                                                                                            |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Represents uncollectible debts that are written off as a loss. | Represents an estimated amount set aside to cover potential future losses from uncollectible debts.               |
| Directly reduces the amount owed by a specific customer.       | Reduces the overall value of accounts receivable without singling out specific customers.                         |
| Occurs after a debt is determined to be uncollectible.         | Anticipates future losses based on past experiences and economic conditions.                                      |
| Has an immediate impact on the company's financial statements. | Helps to anticipate and prepare for future financial risks.                                                       |
| Examples include a customer going bankrupt or refusing to pay. | Examples include creating a reserve for doubtful accounts or setting aside a percentage of sales as a precaution. |

**Question 16.**

**(Jun 23 3M)**

Following is the extract from the Trial Balance of a firm as at 31st March, 2023:

**TRIAL BALANCE as at 31st March, 2023**

| Heads of Accounts            | Dr (₹)   | Cr (₹) |
|------------------------------|----------|--------|
| Sundry Debtors               | 4,10,000 | -      |
| Provision for Doubtful Debts | -        | 20,000 |
| Bad Debts                    | 6,000    | -      |

**Additional Information:**

(i) Additional Bad Debts Rs.10,000.

(ii) Maintain Provision for Doubtful Debts @ 10% on Sundry Debtors.

Pass necessary Journal entries and show relevant accounts (including Final Accounts).



Answer:

## Journal Entries

| Date           | Particulars                                                                                                                                                         | Dr. (₹) | Cr. (₹) |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|
| 2023<br>Mar 31 | Bad Debt A/c Dr<br>To Sundry Debtors A/c<br>(Being the additional bad debts recorded)                                                                               | 10,000  | 10,000  |
|                | Provision for Doubtful Debts A/c Dr<br>To Bad Debts A/c (6,000 + 10,000)<br>(Being the bad debts transferred to Provision for Doubtful Debt Account)                | 16,000  | 16,000  |
|                | Profit & Loss A/c Dr<br>To Provision for Doubtful Debts A/c<br>(Being the amount debited to P&L A/c to maintain Provision for Doubtful Debt & 10% on Sundry Debtor) | 36,000  | 36,000  |

## Sundry Debtor A/c

Dr

Cr

| Date          | Particulars    | ₹        | Date          | Particulars     | ₹        |
|---------------|----------------|----------|---------------|-----------------|----------|
| 2023 31st Mar | To Balance b/d | 4,10,000 | 2023 31st Mar | By Bad Debt A/c | 10,000   |
|               |                |          |               | By Balance c/d  | 4,00,000 |
|               |                | 4,10,000 |               |                 | 4,10,000 |

## Bad Debts A/c

Dr

Cr

| Date             | Particulars           | ₹      | Date             | Particulars                        | ₹      |
|------------------|-----------------------|--------|------------------|------------------------------------|--------|
| 2023<br>31st Mar | To Balance b/d        | 6,000  | 2023<br>31st Mar | By Provision for Doubtful Debt A/c | 16,000 |
|                  | To Sundry Debtors A/c | 10,000 |                  |                                    |        |
|                  |                       | 16,000 |                  |                                    | 16,000 |

## Provision for Bad Debt A/c

| Dr. | Date             | Particulars                                | ₹      | Cr. | Date             | Particulars                      | ₹      |
|-----|------------------|--------------------------------------------|--------|-----|------------------|----------------------------------|--------|
|     | 2023<br>31st Mar | To Bad Debts A/c                           | 16,000 |     | 2023 31st<br>Mar | By Balance b/d                   | 20,000 |
|     |                  | To Balance c/d<br>(10% of ₹410,000-10,000) | 40,000 |     |                  | By P & L A/c<br>(Balancing Fig.) | 36,000 |
|     | Total            |                                            | 56,000 |     | Total            |                                  | 56,000 |

## Profit &amp; Loss A/c

Dr.

Cr.

| Particulars                                        | ₹             | Particulars | ₹ |
|----------------------------------------------------|---------------|-------------|---|
| To Bad Debt                                        | 6,000         |             |   |
| Add: Further Bad Debt                              | 10,000        |             |   |
| <b>Total</b>                                       | <b>16,000</b> |             |   |
| Add: Provision For Doubtful Debt<br>(New Required) | 40,000        |             |   |



|       |                     |          |        |  |  |
|-------|---------------------|----------|--------|--|--|
| Total |                     | 56,000   |        |  |  |
|       | Less: Old Provision | (20,000) | 36,000 |  |  |

Dr

## Balance Sheet

Cr

| Liabilities | ₹ | Assets                          | ₹        |
|-------------|---|---------------------------------|----------|
|             |   | Sundry Debtors                  | 4,10,000 |
|             |   | (-) Further Bad Debts           | (10,000) |
|             |   |                                 | 4,00,000 |
|             |   | (-) Provision for Doubtful Debt | (40,000) |
|             |   |                                 | 3,60,000 |

Would you like me to format this into a table for your MS Word document as well?

## Question 17.

(Jun 23 8M)

Following information is obtained from the trial balance of Shekhar Enterprise for the year ending 31<sup>st</sup> March, 2022:

| Amount(₹)                         | Dr.      | Amount(₹) | Dr. |
|-----------------------------------|----------|-----------|-----|
| Provision for Bad Debts           | -        | 38,700    |     |
| Provision for Discount on Debtors | -        | 3,666     |     |
| Bad Debts                         | 15,400   | -         |     |
| Discount on Debtors               | 3,750    | -         |     |
| Bad Debts Recovered               | -        | 5,200     |     |
| Sundry Debtors                    | 3,50,000 | -         |     |

Adjustments:

(i) Write off further bad debts 2100.

(ii) Make a provision for bad and doubtful debts @5% on debtors and provision for discount on debtors@ 2%.

Prepare the Bad Debts Account, Provision for Bad Debts Account and Provision for Discount on Debtors Account.

Show how these items will appear in the Profit & Loss Account and Balance Sheet

Answer:

## Bad Debt A/c

Dr

Cr

| Particulars                       | ₹      | Particulars                   | ₹      |
|-----------------------------------|--------|-------------------------------|--------|
| To balance b/d                    | 15,400 | By balance b/d                | 5,200  |
| To Debtors A/c (Further Bad Debt) | 2,100  | By Provision for Bad Debt A/c | 12,300 |
|                                   | 17,500 |                               | 17,500 |

## Provision for Bad Debt A/c

Dr

Cr

| Particulars                         | ₹      | Particulars    | ₹      |
|-------------------------------------|--------|----------------|--------|
| To Bad Debt A/c                     | 12,300 | By balance b/d | 38,700 |
| To P & L A/c                        | 900    |                |        |
| To balance c/d (350000 - 2100) x 5% | 17,395 |                |        |
|                                     | 38,700 |                | 38,700 |





## Provision for Discount on Debtors A/c

| Particulars                           | ₹      | Particulars    | ₹      |
|---------------------------------------|--------|----------------|--------|
| To Discount on Debtor                 | 3,750  | By balance b/d | 3,666  |
| To Balance c/d                        | 6,610  | By P & L A/c   | 6,694  |
| $(350000 - 2100 - 17,395) \times 2\%$ | 10,360 |                | 10,360 |
|                                       | 10,360 |                | 10,360 |

## Profit &amp; Loss A/c (extract) for the year ended 31st March, 2022

| Particulars                        | ₹      | Particulars                          | ₹      |
|------------------------------------|--------|--------------------------------------|--------|
| To Provision for Doubtful Debt A/c | 17,395 | By Bad Debt Recovered                | 5,200  |
| (+) Bad Debt                       | 15,400 | By Provision for Doubtful Debt (Old) | 38,700 |
| (+) Further Bad Debt               | 2,100  |                                      |        |
| Total                              | 34,895 | Total                                | 34,895 |

## Balance Sheet (Extract) as on 31st March 2022

The extracted text from the image is as follows:

## Balance Sheet (Extract) as on 31st March 2022

| Liabilities | ₹ | Assets                          |          | Rs       |
|-------------|---|---------------------------------|----------|----------|
|             |   | Sundry Debtors                  | 3,50,000 |          |
|             |   | (-) Further Bad Debt            | (2,100)  |          |
|             |   | Net Sundry Debtors              | 3,47,900 |          |
|             |   | (-) Provision for B/D @ 5%      | (17,395) |          |
|             |   | Total                           | 3,30,505 |          |
|             |   | (-) Provision for Discount @ 2% | (6,610)  | 3,23,895 |

## Question 18.

(Jun 23 3M)

The conceptual framework is a body of interrelated objectives and fundamentals. Explain

**Answer:**

The Conceptual Framework is a body of interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarised and reported. It states the objectives of General-Purpose Financial Reporting and the information provided by it. Conceptual Framework also guides on the qualitative characteristics that the financial statements must possess

## Question 19.

(Jun 23 3M)

Briefly explain Expenditure.

**Answer:**

Expenditure is the act of spending money, After the incurrence of an expenditure by an entity, that expenditure has to be recognized as either a capital expenditure or a revenue expenditure before being recorded in the books of accounts.



Capital Expenditure refers to that expenditure, benefit from which can be enjoyed by an entity over a number of accounting periods.

This type of expenditure happens to be non-recurring in nature. A capital expenditure takes place when an asset or service is acquired or improvement of a fixed asset is affected. These assets resulting from such expenditure are not intended for resale in the ordinary course of business.

Example: Purchase of machinery; Construction of building; Development of website; Heavy repairs of a non-current asset etc.

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

Example: Purchase of goods for sale; payment of recurring expenses (like salaries, wages, rent, depreciation, conveyance charges, monthly internet charges etc.); Repairs and maintenance of non-current assets etc

**Question 20.****(Jun 23 3M)****When an account is said to have a debit balance?****Answer:**

An account is said to be having a debit balance when its debit-side total is higher than the (ii) credit side total

**Question 21.****(Jun 23 3M)****What is Depreciable Cost?****Answer:**

The depreciable cost is the cost of an asset that can be depreciated over time. It is equal to acquisition cost of the asset, minus its estimated salvage value at the end of its useful life.

**Question 22.****(Jun 23 8M)**

Rectify the following errors identified in the books of Su nil. The Trial Balance showed f 250 as debit excess. The difference has been posted to the Suspense Account.

- (i) Total debit side of Expenses Account has been cast in excess off 150.
- (ii) Sales Account has been totalled short by Rs.200.
- (iii) One item of purchase of Rs.25 has been posted from the Purchases Book to the Ledger as 350.
- (iv) Sales return off 200 from a party has not been posted to that account, though the Party's Account has been credited.
- (v) A cheque of 600 issued to the Supplier's Account (shown under Sundry Creditors) towards his dues had been wrongly debited to the Purchases Account.
- (vi) Credit sale off 100 has been credited to the sales and also to the Sundry Debtors Account.

Required: Pass the necessary journal entries for correcting the above and prepare a Suspense Account as it would appear in the ledger



Answer:

| Particular                                                                                                      | Dr. Amount | Cr. Amount |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|
| Suspense A/C Dr.<br>To Expense A/C<br>(Being the mistake in totaling of Expenses A/C rectified)                 | 150        | 150        |
| Suspense A/C Dr.<br>To Sales A/C<br>(Being the mistake in totaling of Sales A/C rectified)                      | 200        | 200        |
| Supplier's A/C Dr.<br>To Suspense A/C<br>(Being the mistake in posting from Purchases Book to ledger rectified) | 325        | 325        |
| Sales Return A/C Dr.<br>To Suspense A/C<br>(Being the sales wrongly credited to customer's A/c now Rectified)   | 200        | 200        |

**Suspense A/C**

| Particular     | ₹   | Particulars                  | ₹   |
|----------------|-----|------------------------------|-----|
| To Expense A/c | 150 | By difference in T/B (Given) | 250 |
| To Sales A/c   | 200 | By Supplier's A/c            | 325 |
| To Balance c/d | 625 | By sales return A/c          | 200 |
|                | 975 | By Sundry Debtors A/c        | 200 |
|                |     | By balance c/d               | 625 |

Note: Since the Suspense Account does not balance, it means that some errors still exist

**Question 23.****(Jun 23 4M)**

When you proceed to reconcile the Bank Account starting with 'Debit' Cash Book balance, how is the following dealt with and why?

- (i) Cheques issued but not presented for payment.
- (ii) Cheques deposited but not yet credited.
- (iii) Bank charges charged by the Bank not recorded in the Cash Book.
- (iv) Interest allowed by the Bank not recorded in the Cash Book.

Answer:

| Description                                                                                                                                                              | Amount |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Debit Balance of Cash Book                                                                                                                                               | XXX    |
| (+) Cheque issued but not presented for payment<br>(as cheque is issued we have deducted it from cash book balance but there was no deduction in Bank A/C)               | XXX    |
| (-) Cheque deposited but not yet credited<br>(as cheque is deposited it would have been added in Cash Book but no treatment in Bank A/c as it has not been credited yet) | XXX    |
| (-) Bank charges charged by the Bank not recorded in Cash Book                                                                                                           | XXX    |



|                                                                                                                                                     |     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| (Bank charges reduced from Bank A/c but there is no treatment in cash book & hence charges reduced from cash book balance to reach to Bank Balance) |     |
| (+) Interest allowed by the Bank not recorded in Cash Book                                                                                          | XXX |
| (Interest received from the Bank is an Income, recorded only in Bank A/c & hence added in Cash Book balance as well to reach to Bank Balance)       | XXX |
| Balance as per Bank A/c                                                                                                                             |     |

**Question 24.****(Jun 23 5M)**

Entity A purchased an asset on 1st January, 2019 for Rs.1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.

On 1st January, 2023, the directors reviewed the estimated life and decide that the asset will probably be useful for a further 4 years.

Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

**Answer:**

$$\begin{aligned}
 \text{Depreciation for the period Jan 2019 to Jan 2023 (4 years)} &= (1,00,000 - 0)/10 \\
 &= 10,000 \text{ p.a.} \\
 &= 840,000
 \end{aligned}$$

Depreciation for the next 4 years as now life remaining is only 4 years:

Remaining value of Machine = 60,000

Salvage value = Nil

Depreciation = Straight line Method

Remaining life of Machine = 4 years

∴ Depreciation for Remaining 4 years =  $60,000/4 = 15,000 \text{ p.a.}$

**Question 25.****(Jun 23 4M)**

The accounting cycle consists of certain sequential steps. List out those steps

**Answer:**

Steps of Accounting Cycle

The accounting cycle consists of the following sequential steps

1. Identifying transactions
2. Recording transactions in Books of Original Entry
3. Posting to the ledger
4. Drafting of Unadjusted Trial Balance
5. Passing of adjustment entries
6. Drafting of Adjusted Trial Balance
7. Closing of books
8. Drafting the Financial Statements



## Question 26.

(Jun 23 8M)

On 1st April, 2019, Jaggu Ltd. purchased a machine for ₹ 7,20,000 and spent 20,000 on freight and cartage; ₹ 15,000 as transit insurance; 30,000 for installation and ₹ 15,000 as brokerage. It was estimated that the machine will have a scrap value of ₹ 50,000 at the end of its useful life which is 15 years. On 1st January, 2021 repairs and renewals of ₹ 40,000 were carried out. On 1st October, 2021 this machine was sold for ₹ 6,10,000 and another machine was purchased costing ₹ 15,00,000. The new machine was estimated that the machine will have a scrap value of ₹ 1,20,000 at the end of its useful life which is 10 years. Prepare Machinery Account for the 3 years.

Answer:

| Date                 | Particular                                                       | ₹         | Date                | Particulars                                     | ₹         |
|----------------------|------------------------------------------------------------------|-----------|---------------------|-------------------------------------------------|-----------|
| 2019<br>1st<br>April | To Bank A/c<br>(7,20,000 + 20,000 + 15,000 +<br>30,000 + 15,000) | 8,00,000  | 2020<br>31st<br>Mar | By Depreciation A/c<br>(8,00,000 - 50,000) / 15 | 50,000    |
|                      |                                                                  | 8,00,000  |                     | By balance c/d                                  | 7,50,000  |
| 2020<br>1st<br>April | To Balance b/d                                                   | 7,50,000  | 2021<br>31st<br>Mar | By Depreciation A/c                             | 50,000    |
|                      |                                                                  | 7,50,000  |                     | By Balance c/d                                  | 7,00,000  |
| 2021<br>1st<br>April | To Balance b/d                                                   | 7,00,000  | 2021<br>1st Oct     | By Bank A/c                                     | 6,10,000  |
| 1st Oct              | To Bank A/c                                                      | 15,00,000 |                     | By Depreciation A/c (50,000<br>* 6/12)          | 25,000    |
|                      |                                                                  |           |                     | By P&LA/C (loss on sale)                        | 65,000    |
|                      |                                                                  |           | 2022<br>31st<br>Mar | By Depreciation A/C<br>(15,00,000-1,20,000) 10  | 1,38,000  |
|                      |                                                                  | 22,00,000 |                     | By balance c/d                                  | 13,62,000 |
| 2022<br>1st<br>April | To balance b/d                                                   | 13,62,000 |                     |                                                 | 22,00,000 |

Repairs & renewals are of Revenue nature & hence does not form part of cost of asset

## Question 27.

Give any four points of difference between Provision and Contingent Liability.

Answer:

| BASIS   | Provision                                                                      | Contingent liability                                                        |
|---------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Meaning | Provision is a present liability whose amount is uncertain. One can measure it | A contingent liability is a possible obligation that may or may not emerge, |



|                     |                                                                              |                                                                                                                                  |
|---------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
|                     | reliably using a substantial degree of estimation.                           | depending on the occurrence or non-occurrence of future events.                                                                  |
| Estimated           | Largely certain                                                              | Uncertain                                                                                                                        |
| Amount Recognized   | Yes                                                                          | No                                                                                                                               |
| Occurrence of event | Certain                                                                      | Conditional or uncertain                                                                                                         |
| Accounted for       | Provision is accounted for at present and occurs as a result of past events. | Contingent liability is recorded at present, as a note, to account for outflow of funds which are likely to occur in the future. |

**Question 28.**

**Explain the relevant accounting assumptions or principle which is an exception to Full Disclosure Principle**

**Answer:**

omission or misstatement would not significantly impact the decisions of users. In other words, information is considered material if its inclusion or exclusion could influence the judgment of investors, creditors, or other stakeholders.

The full disclosure principle requires the disclosure of all material information in financial statements to ensure transparency and avoid misleading users. However, when an accounting item is deemed immaterial, the full disclosure principle can be relaxed. Accountants use a "materiality threshold" to assess whether an item is material or immaterial.

For example, if a company faces a minor lawsuit for a negligible amount in comparison to its overall financial position, the potential financial impact of this lawsuit may be considered immaterial. In such cases, the company might decide not to separately disclose the details of the lawsuit in the financial statements.

While the materiality principle allows for certain omissions of immaterial information, it is crucial for accountants to exercise professional judgment and adhere to ethical standards.

They must ensure that the financial statements still present a true and fair view of the company's financial position and performance, even if some immaterial items are not disclosed.

**Question 29.****(Dec 22 5M)**

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

**Answer:**

ABC Ltd. should charge the amount of Rs. 4,00,000 to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31 March, 2021



**Question 30.****(Jun 23 10M)****Write a short note on Advantage of double entry system.****Answer:**

- ✓ It helps the trade know about his debtors and creditors from to time
- ✓ It helps the trader to prepare the final accounts to reflect the true trading results at the end of period
- ✓ It provides a Balance Sheet on a particular date to know the true value of assets, liabilities and capital.
- ✓ It helps the trader who can have a comparative study of working results and financial position over a number of years
- ✓ It helps to find out and prevent errors and frauds
- ✓ It provides ready-made information to be sent to Sales tax and Income Tax Authorities
- ✓ It provides good guidance on which management take new decisions to increase the profit and correct losses into profit

**Question 31.****The main objective of depreciation policy.****Answer:**

The main objectives of depreciation policy are given below.

- Description is the allocation of the cost of the asset over its effective life and being "tax shield" is deductible expense while calculating taxable income of the concern. Diminishing balance method of calculating depreciation results in greater tax saving in a balanced firm compared to straight line method
- To keep intact the capital invested in depreciable assets and to make provision for the replacement, modernization and expansion on most favourable terms. It is process of allocation and helps the management to retain this amount of profit in business for replacing asset. Otherwise this profit would have gone to the Government in the form of tax.
- To match the cost with revenue, depreciation is necessary to measure the cost incurred during a given period. Thus, know correct net income and financial condition for external reporting.
- Depreciation helps to measure managerial performance. But, charging it on historical cost or replacement cost basis is again a controversial issue and will affect the managerial decisions to be taken by the top management. Differences in costs because of charge of depreciation under different methods, tend to mislead management in selecting their operational alternative for more profitable for the firm as a whole.
- Withdrawal before the end of its useful life is not up to standard to cope with the increasing competition in the market but due to the external factor of technological improvements in the existing asset is referred to obsolescence. In such an atmosphere the asset is depreciated quickly otherwise the profit and loss account will be over burdened with the amount of loss on account of obsolescence in the year in which the asset obsolesces.
- Serving consistently to follow a particular method of depreciation otherwise would make the financial statements unreliable to the stakeholders. It means convention of consistency.



Depreciation makes to retain funds for replacement asset at the end of its working life. Apportioning total cost of the asset over its useful life is achieved by charging depreciation; and investing such amount of depreciation the public may not be misled and correct investment decisions may be made.



## EXERCISE

### Multiple Choice Questions

1. \_\_\_\_\_ concept assumes that the infinite life of an organisation can be split into smaller periods of equal duration.
  - (a) Accounting Period
  - (b) Entity
  - (c) Going concern
  - (d) None of the above
2. The accounts related to expenses or losses and incomes or gains are called \_\_\_\_\_.
  - (a) Personal Account
  - (b) Representative Personal Account
  - (c) Nominal Account
  - (d) Real Account
3. The accounting equation is presented as \_\_\_\_\_.
  - (a)  $\text{Assets} = \text{Liabilities} + \text{Equity}$
  - (b)  $\text{Assets} = \text{Liabilities} + [\text{Capital} + (\text{Revenue} - \text{Expenses}) - \text{Drawings}]$
  - (c)  $\text{Assets} + \text{Expenses} + \text{Drawings} = \text{Liabilities} + \text{Capital} + \text{Revenue}$
  - (d) All of the above
4. The book of account which records only those cash transactions which are not of heavy amount, but the type of transactions is frequently entered into by an entity is \_\_\_\_\_.
  - (a) Triple Column Cash Book
  - (b) Petty Cash Book
  - (c) Ledger
  - (d) None of the above
5. Which of the following is/ are true regarding Trial Balance?
  - (a) It is prepared for a particular period.
  - (b) A trial balance is just a statement.
  - (c) The agreement of a trial balance is a conclusive proof of absolute accuracy of the books of accounts.
  - (d) All of the above
6. 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
7. Which of the following transaction is of capital nature?
  - (a) Commission on purchases
  - (b) Cost of repairs
  - (c) Rent of factory
  - (d) Wages paid for installation of machinery
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 book is both a journal and a ledger?
- Cash Book
  - Sales Day Book
  - Bills Receivable Book
  - Journal Proper
10. Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of \_\_\_\_\_
- Omission
  - Commission
  - Principle
  - Misposting
11. Provision for Doubtful Debt on 1st April, 2022 was Rs.13,000. During the year 2022-23 the Bad-debt was Rs.9,500 . The Sundry Debtors on 31st March, 2023 were ₹3,25,000. Provision is to be made @ 5% on Debtors. If on 31st March, 2023, there was additional Bad debt of ₹2,500 then Provision for doubtful- debt will be:
- debited to Profit & Loss Account by ₹ 16,125.
  - debited to Profit & Loss Account by ₹15,125.
  - debited to Profit & Loss Account by ₹ 3,000.
  - debited to Profit & Loss Account by ₹ 900.
12. Original cost of a machine is Rs.1,50,000, residual value Rs.10,000, if depreciation is charged @ 10% per annum under WDV method then depreciation for 3rd year will be
- Rs.12,240
  - Rs.11,340
  - Rs.12,150
  - Rs.14,000
13. Purchased goods from Mr. R for Rs.3,600 but wrongly recorded as Rs.6,300 to the debit of Mr. R. In the rectification entry, Mr. R's account will be credited with —
- Rs.9,900
  - Rs.2,700
  - Rs.2,600
  - Rs.6,300

Answers:

|    |   |    |   |    |   |   |   |    |   |
|----|---|----|---|----|---|---|---|----|---|
| 1  | a | 2  | c | 3  | d | 4 | b | 5  | b |
| 6  | b | 7  | d | 8  | a | 9 | a | 10 | c |
| 11 | b | 12 | c | 13 | a |   |   |    |   |

State True or False

- There are four frameworks of accounting.
- Revenue Expenditures are recognised as expenses and losses in the debit-side of the income statements.
- Provision for depreciation account is a debit balance account.
- Cash Book is a book of account which is, by nature, a book of primary entry as-well-as a book of final entry.
- Errors which are identified and rectified before the preparation of Trial Balance may involve Suspense Account.



6. One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.
7. As per full disclosure principle, the financial statements should disclose all irrelevant information.
8. Trade discount is recorded in the books of original entry.
9. Bad debts recovered is credited to debtor's personal account.
10. Mistake in balancing an account will affect the agreement of a Trial balance.

**Answers:**

|   |      |   |       |   |       |   |      |    |       |
|---|------|---|-------|---|-------|---|------|----|-------|
| 1 | True | 2 | True  | 3 | False | 4 | True | 5  | False |
| 6 | True | 7 | False | 8 | False | 9 | True | 10 | True  |

### Fill in the Blanks

1. \_\_\_\_\_ are the assumptions and conditions that define the parameters and constraints within which the accounting operates.
2. \_\_\_\_\_ is a listing of all accounts in the general ledger, each account being accompanied by a reference number.
3. \_\_\_\_\_ is prepared to reconcile the balances as reflected by two related books, namely Cash Book and Pass Book.
4. The method of preparing Trial Balance under which the Trial Balance can be prepared only after each ledger account has been balanced is called the \_\_\_\_\_ method.
5. The amount charged by an entity against the profits to provide for the possible collection loss from customers is known as \_\_\_\_\_
6. The \_\_\_\_\_ discount is never entered in the books of accounts.
7. The Bank A/c is a \_\_\_\_\_ Account.
8. While posting an opening entry in the ledger, in case of an Account having debit balance, in 'Particulars' column the words \_\_\_\_\_ are written on debit side.

**Answer:**

|   |                                    |   |                   |
|---|------------------------------------|---|-------------------|
| 1 | Accounting Concepts                | 2 | Chart of Accounts |
| 3 | Bank Reconciliation Statement      | 4 | Balance           |
| 5 | Provision for bad & doubtful debts | 6 | Trade             |
| 7 | Personal                           | 8 | To, Balance b/f   |



## 2. BILLS OF EXCHANGE

### ILLUSTRATIONS

#### Illustration 1.

Calculate the due dates of the bills in the following cases

| Sl. No. | Date of Bill       | Tenure (Period) |
|---------|--------------------|-----------------|
| 1       | 1st January 2023   | 4 months        |
| 2       | 23rd November 2023 | 2 months        |

**Solution:**

| Sl. No. | Particulars                                                                               | Calculation of Due Date |
|---------|-------------------------------------------------------------------------------------------|-------------------------|
| 1       | Date of drawing of bill                                                                   | 01.01.2023              |
|         | Period / Tenure (month)                                                                   | <u>4</u>                |
|         |                                                                                           | 01.05.2023              |
|         | Days of grace                                                                             | <u>3</u>                |
|         | Due date / Maturity date                                                                  | 04.05.2023              |
| 2       | Date of drawing of bill                                                                   | 23.11.2023              |
|         | Period / Tenure (month)                                                                   | <u>2</u>                |
|         |                                                                                           | 23.01.2024              |
|         | Days of grace                                                                             | <u>3</u>                |
|         | Due date / Maturity date                                                                  | 26.01.2024              |
|         | But 26.01.2024 is a National Holiday. So due date would be one day before i.e. 25.01.2024 |                         |

#### Illustration 2.

X sold goods for Rs.20,000 to Y on credit on January 01, 2023. X drew a bill of exchange upon Y for the same amount for three months. Y accepted the bill and returned it to X. Y met his acceptance on maturity. Record the necessary journal entries under the following circumstances:

- X retained the bill till the date of its maturity and collected directly
- X discounted the bill @ 12% p.a. from his bank on January 01, 2023
- X endorsed the bill to his creditor Z, on January 01, 2023
- X retained the bill and on March 31, 2023 X sent the bill for collection to its bank. On April 05, 2023 bank advice was received.

**Solution:**

**In the Books of X Journal**

(i) When the bill is retained till its maturity

| Date      | Particulars                                                                                          | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-----------|------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| 2023      |                                                                                                      |      |           |           |
| January 1 | Y's A/c Dr.<br>To Sales A/c<br>(Being goods sold to Y's on credit)                                   |      | 20,000    | 20,000    |
| January 1 | Bills Receivable A/c Dr.<br>To Y's A/c<br>(Being received Y's acceptance payable after three months) |      | 20,000    | 20,000    |





|         |                                                                                     |  |        |        |
|---------|-------------------------------------------------------------------------------------|--|--------|--------|
| April 4 | Bank A/c Dr.<br>To Bills Receivable A/c<br>(Being Y met his acceptance on maturity) |  | 20,000 | 20,000 |
|---------|-------------------------------------------------------------------------------------|--|--------|--------|

## (ii) When the bill was discounted from the book

| Date      | Particulars                                                                                                                       | L.F. | Dr. (Rs.)     | Cr. (Rs.) |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------|------|---------------|-----------|
| 2023      |                                                                                                                                   |      |               |           |
| January 1 | Y's A/c Dr.<br>To Sales A/c<br>(Sold goods to Y's)                                                                                |      | 20,000        | 20,000    |
| January 1 | Bills Receivable A/c Dr.<br>To Y's A/c<br>(Received Y's acceptance three months)                                                  |      | 20,000        | 20,000    |
| January 1 | Bank A/c Dr.<br>Discount A/c (Rs.20,000 × 12% × 3/12) Dr.<br>To Bills Receivable A/c<br>(Y's acceptance discounted with the bank) |      | 19,400<br>600 | 20,000    |

## (iii) When X endorsed the bill in favour of his creditor Z

| Date      | Particulars                                                                          | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-----------|--------------------------------------------------------------------------------------|------|-----------|-----------|
| 2023      |                                                                                      |      |           |           |
| January 1 | Y's A/c Dr.<br>To Sales A/c<br>(Sold goods to Y's on credit)                         |      | 20,000    | 20,000    |
| January 1 | Bills Receivable A/c Dr.<br>To Y's A/c<br>(Received Y's acceptance for three months) |      | 20,000    | 20,000    |
| January 1 | Z's A/c Dr.<br>To Bills Receivable A/c<br>(Y acceptance endorsed in favour of Z)     |      | 20,000    | 20,000    |

## (iv) When the bill was sent for collection by X to the bank

| Date    | Particulars                                                                                           | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|---------|-------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| 2023    |                                                                                                       |      |           |           |
| Jan. 01 | Y's A/c Dr.<br>To Sales A/c<br>(Sold goods to Y's on credit)                                          |      | 20,000    | 20,000    |
| Jan. 01 | Bills Receivable A/c Dr.<br>To Y's A/c<br>(Received Y's acceptance payable after three months)        |      | 20,000    | 20,000    |
| Mar. 31 | Bills Sent for Collection A/c Dr.<br>To Bills Receivable A/c<br>(Bills sent for collection)           |      | 20,000    | 20,000    |
| Apr. 05 | Bank A/c Dr.<br>To Bills sent for collection A/c<br>(Bills sent for collection collected by the bank) |      | 20,000    | 20,000    |



The following journal entries will be made in the books of Y under all the four circumstances

**In the Books of Y Journal**

| Date        | Particulars                                                                                   | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-------------|-----------------------------------------------------------------------------------------------|------|-----------|-----------|
| <b>2023</b> |                                                                                               |      |           |           |
| Jan. 01     | Purchases A/c Dr.<br>To X's A/c<br>(Purchases goods from X on credit)                         |      | 20,000    | 20,000    |
| Jan. 01     | X's A/c Dr.<br>To Bill's Payable A/c<br>(Accepted bill drawn by X payable after three months) |      | 20,000    | 20,000    |
| Apr. 04     | Bills payable A/c Dr.<br>To Bank A/c<br>(Met acceptance maturity)                             |      | 20,000    | 20,000    |

**Illustration 3.**

Mr. X sold goods for Rs.15,000 to Mr. Y and immediately drew a bill upon him on Jan. 01, 2023 payable after 3 months. On maturity the bill was dishonoured and Rs.50 were paid by the holder of the bill as noting charges. The journal entries will be recorded in the books of Mr. X and Mr. Y as given below under the following circumstances:

- When the bill was kept by Mr. X till maturity.
- When the bill was discounted by Mr. X with his bank immediately @ 12% p.a.
- When the bill was endorsed by Mr. X in favour of his creditor Miss. Z.

**Solution:**

**In the Books of X Journal**

- (i) When the bill was retained till its maturity

| Date        | Particulars                                                                                                                  | L.F. | Dr. (Rs.) | Cr. (Rs.)    |
|-------------|------------------------------------------------------------------------------------------------------------------------------|------|-----------|--------------|
| <b>2023</b> |                                                                                                                              |      |           |              |
| Jan. 01     | Y's A/c Dr.<br>To Sales A/c (Sold goods to Y)                                                                                |      | 15,000    | 15,000       |
| Jan. 01     | Bills Receivable A/c Dr.<br>To Y's A/c<br>(Received Y's acceptance)                                                          |      | 15,000    | 15,000       |
| Apr. 04     | Y's A/c Dr.<br>To Bills Receivable A/c Dr.<br>To Cash A/c<br>(Y dishonoured his acceptance and paid Rs.50 as noting charges) |      | 15,050    | 15,000<br>50 |

- (ii) When the bill was discounted with the bank

| Date        | Particulars                                   | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-------------|-----------------------------------------------|------|-----------|-----------|
| <b>2023</b> |                                               |      |           |           |
| Jan. 01     | Y's A/c Dr.<br>To Sales A/c (Sold goods to Y) |      | 15,000    | 15,000    |
| Jan. 01     | Bills Receivable A/c Dr.                      |      | 15,000    |           |



|         |                                                                                                                 |  |               |        |
|---------|-----------------------------------------------------------------------------------------------------------------|--|---------------|--------|
|         | To Y's A/c<br>(Received Y's acceptance payable after three months)                                              |  |               | 15,000 |
| Jan. 01 | Bank A/c Dr.<br>Discount A/c Dr.<br>To Bills Receivable A/c<br>(Y's acceptance discounted)                      |  | 14,550<br>450 | 15,000 |
| Apr. 04 | Y's A/c<br>To Bank A/c Dr.<br>(Y dishonoured his acceptance on maturity and bank paid noting charges of Rs.50 ) |  | 15,050        | 15,050 |

## (iii) When the bill was endorsed to Z

| Date            | Particulars                                                                                                | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-----------------|------------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| 2023<br>Jan. 01 | Y's A/c Dr.<br>To Sales A/c (Sold goods to Y)                                                              |      | 15,000    | 15,000    |
| Jan. 01         | Bill's Receivable A/c Dr.<br>To Y's A/c<br>(Received Y's acceptance)                                       |      | 15,000    | 15,000    |
| Jan. 01         | Z's A/c Dr.<br>To Bills Receivable A/c<br>(Y's acceptance endorsed in favour of Z)                         |      | 15,000    | 15,000    |
| Apr. 04         | Y's A/c Dr.<br>To Z's A/c<br>(Y dishonoured his acceptance on maturity and Z paid Rs.50 as noting charges) |      | 15,050    | 15,050    |

The following journal entries will be made in the books of Y in all the three cases.

## In the Books of Y Journal

| Date           | Particulars                                                                                              | L.F. | Dr. (Rs.)    | Cr. (Rs.) |
|----------------|----------------------------------------------------------------------------------------------------------|------|--------------|-----------|
| 2023<br>Jan.01 | Purchases A/c Dr.<br>To X's A/c<br>(Purchase goods from X)                                               |      | 15,000       | 15,000    |
| Jan. 01        | X's A/c Dr.<br>To Bills Payable A/c (Accepted X's draft)                                                 |      | 15,000       | 15,000    |
| Apr. 04        | Bills Payable A/c Dr.<br>Noting charges A/c Dr.<br>To X's A/c<br>(Acceptance in favour of X dishonoured) |      | 15,000<br>50 | 15,050    |

## Illustration 4.

On February 01, 2023 X sold goods to Y for Rs.18,000; Rs.3,000 were paid by Y immediately and for the balance he accepted three months bill drawn upon him by X. On the date of maturity of the bill Y requested X to cancel the old bill and draw a new bill upon him for a period of 2 months. He further agreed to pay interest in cash to X @ 12% p.a. X agreed to Y's request and cancelled the old bill and drew a new bill. The new bill was met on maturity by Y. Pass necessary journal entries in the books of drawer and drawee.



Solution:

## In the Books of X Journal

| Date            | Particulars                                                                                                                                                          | L.F. | Dr. (Rs.)       | Cr. (Rs.)     |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------------|---------------|
| 2023<br>Feb. 01 | Y's A/c Dr.<br>To Sales A/c (Sold goods to Y)                                                                                                                        |      | 18,000          | 18,000        |
| Feb. 01         | Cash A/c Dr.<br>Bills Receivable A/c Dr.<br>To Y's A/c<br>(Received Rs.3,000 in cash from X and an acceptance for the balance)                                       |      | 3,000<br>15,000 | 18,000        |
| May 04          | Y's Account Dr.<br>To Bills Receivable A/c<br>To Interest A/c ( $\text{Rs.}15,000 \times 12\% \times 2 / 12$ )<br>(Cancelled old bill on renewal Rs.300 as interest) |      | 15,300          | 15,000<br>300 |
| May 04          | Bill's Receivable A/c Dr.<br>Cash A/c Dr.<br>To Y's A/c<br>(Received new acceptance from Y)                                                                          |      | 15,000<br>300   | 15,300        |
| Jul. 07         | Bank A/c Dr.<br>To Bills Receivable A/c<br>(Y met his new acceptance)                                                                                                |      | 15,000          | 15,000        |

## In the Books of Y Journal

| Date            | Particulars                                                                                                         | L.F. | Dr. (Rs.)     | Cr. (Rs.)       |
|-----------------|---------------------------------------------------------------------------------------------------------------------|------|---------------|-----------------|
| 2023<br>Feb. 01 | Purchases A/c Dr.<br>To X A/c<br>(Purchased goods from X)                                                           |      | 18,000        | 18,000          |
| Feb.01          | X's A/c Dr.<br>To Cash's A/c<br>To Bills Payable A/c<br>(Received cash from X and his acceptance)                   |      | 18,000        | 3,000<br>15,000 |
| May 04          | Bill Payable A/c Dr.<br>Interest A/c Dr.<br>To X A/c<br>(Old bill cancelled on renewal, Rs.300 charged as interest) |      | 15,000<br>300 | 15,300          |
| May 04          | X's A/c Dr.<br>To Bills Payable A/c<br>To Cash A/c<br>(Accepted new bill and paid cash for interest)                |      | 15,300        | 15,000<br>300   |
| Jul. 07         | Bill Payable A/c Dr.<br>To Bank A/c<br>(Met acceptance of the new bill on maturity)                                 |      | 15,000        | 15,000          |

**Illustration 5.**

X sold goods Rs.10,000 to Y on January 01, 2023 and immediately drew a bill on Y for three months for the same amount, Y accepted the bill and returned it to X. On March 04, 2022 Y retired her acceptance under rebate of 6% per annum. You are required to:

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

**Solution:**

In the books of X

**(a) Journal**

| Date      | Particulars                                                                                                                                                    | L.F. | Dr. (Rs.)   | Cr. (Rs.) |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------------|-----------|
| 2023      |                                                                                                                                                                |      |             |           |
| January 1 | Y's A/c Dr.<br>To Sales A/c<br>(Sold goods to Y)                                                                                                               |      | 10,000      | 10,000    |
| January 1 | Bills Receivable A/c Dr.<br>To Y's A/c<br>(Received Y's acceptance for three months)                                                                           |      | 10,000      | 10,000    |
| March 4   | Bank A/c Dr.<br>Rebate on bills A/c (Rs.10,000 × 12% × $\frac{1}{12}$ ) Dr.<br>To Bills Receivable A/c<br>(Y retired her acceptance and rebate allowed to him) |      | 9,950<br>50 | 10,000    |

(b) The recorded entries will be posted to the following ledger accounts:

| Dr. Y's Account |              |      |        | Cr.            |                         |      |        |
|-----------------|--------------|------|--------|----------------|-------------------------|------|--------|
| Date            | Particulars  | J.F. | (Rs.)  | Date           | Particulars             | J.F. | (Rs.)  |
| 2023<br>Jan. 01 | To Sales A/c |      | 10,000 | 2023<br>Jan 01 | By Bills Receivable A/c |      | 10,000 |
|                 |              |      | 10,000 |                |                         |      | 10,000 |

| Dr. Bill Receivable Account |             |      |        | Cr.            |                       |      |        |
|-----------------------------|-------------|------|--------|----------------|-----------------------|------|--------|
| Date                        | Particulars | J.F. | (Rs.)  | Date           | Particulars           | J.F. | (Rs.)  |
| 2023<br>Jan. 01             | To Y A/c    |      | 10,000 | 2023<br>Mar 04 | By Cash A/c           |      | 9,950  |
|                             |             |      | 10,000 |                | By Rebate on Bill A/c |      | 50     |
|                             |             |      |        |                |                       |      | 10,000 |

In the Books of Y Journal

| Date      | Particulars                                                                            | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-----------|----------------------------------------------------------------------------------------|------|-----------|-----------|
| 2023      |                                                                                        |      |           |           |
| January 1 | Purchases A/c Dr.<br>To X A/c<br>(Purchased goods from X)                              |      | 10,000    | 10,000    |
| January 1 | X's A/c Dr.<br>To Bills Payable A/c<br>(Accepted X's draft payable after three months) |      | 10,000    | 10,000    |
| March 4   | Bill Payable A/c Dr.<br>To Cash A/c                                                    |      | 10,000    | 9,950     |



|  |                                                                                   |  |  |    |
|--|-----------------------------------------------------------------------------------|--|--|----|
|  | To Rebate on bills A/c<br>(Acceptance in favour of X retired and rebate received) |  |  | 50 |
|--|-----------------------------------------------------------------------------------|--|--|----|

| (c) Dr. X's Account |                      |      |        | Cr.             |                  |      |        |
|---------------------|----------------------|------|--------|-----------------|------------------|------|--------|
| Date                | Particulars          | J.F. | (Rs.)  | Date            | Particulars      | J.F. | (Rs.)  |
| 2023<br>Jan. 01     | To Bills Payable A/c |      | 10,000 | 2023<br>Jan. 04 | By Purchases A/c |      | 10,000 |
|                     |                      |      | 10,000 |                 |                  |      | 10,000 |

| Dr. Bills Payable Account |                        |      |        | Cr.             |             |      |        |
|---------------------------|------------------------|------|--------|-----------------|-------------|------|--------|
| Date                      | Particulars            | J.F. | (Rs.)  | Date            | Particulars | J.F. | (Rs.)  |
| 2023<br>Jan. 01           | To Cash A/c            |      | 9,950  | 2023<br>Jan. 01 | By X A/c    |      | 10,000 |
|                           | To Rebate on bills A/c |      | 50     |                 |             |      |        |
|                           |                        |      | 10,000 |                 |             |      | 10,000 |

**Illustration 6.**

For mutual accommodation of himself and Y, X drew upon Y a bill of Rs.6,000 at 3 months on 01.04.2023. Y accepted the bill and returned to X who discounted it immediately @ 6% p.a. According to agreement, X and Y shared the proceeds as 2:1. On the date of maturity X remitted his share to Y who honoured the bill by payment.

Show journal entries in the books of X and Y

**Solution:**

**In the books of X  
Journal**

| Date       | Particulars                                                                                                                             | L.F. | Dr. (Rs.)   | Cr. (Rs.)   |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------|------|-------------|-------------|
| 01.04.2023 | Bills Receivable A/c Dr.<br>To Y A/c<br>(Accommodation bill drawn and acceptance received)                                              |      | 6,000       | 6,000       |
|            | Bank A/c Dr.<br>Discount on Bills A/c (Rs.6,000 × 6% × 3/12) Dr.<br>To Bills Receivable A/c<br>(The bill discounted with the bank @ 6%) |      | 5,910<br>90 | 6,000       |
|            | Y A/c Dr.<br>To Bank A/c<br>To Discount on Bills A/c<br>(1/3rd of the proceeds remitted and proportionate discount charged)             |      | 2,000       | 1,970<br>30 |
| 01.07.2023 | Y A/c (Rs.6,000 × $\frac{2}{3}$ ) Dr.<br>To Bank A/c<br>(Own share of the accommodation bill remitted to Y)                             |      | 4,000       | 4,000       |

**In the books of Y  
Journal**

| Date       | Particulars                                                                      | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|------------|----------------------------------------------------------------------------------|------|-----------|-----------|
| 01.04.2023 | X A/c Dr.<br>To Bills Payable A/c<br>(Acceptance give to the Accommodation bill) |      | 6,000     | 6,000     |





|            |                                                                                                                |     |  |             |       |
|------------|----------------------------------------------------------------------------------------------------------------|-----|--|-------------|-------|
| 01.04.2023 | Bank A/c<br>Discount A/c Dr.<br>To X A/c<br>(1/3rd of the proceed received and proportionate discount allowed) | Dr. |  | 1,970<br>30 | 2,000 |
| 01.07.2023 | Bank A/c<br>To X A/c<br>(X's share received)                                                                   | Dr. |  | 4,000       | 4,000 |
|            | Bills Payable A/c<br>To Bank A/c<br>(The bill honoured by payment)                                             | Dr. |  | 6,000       | 6,000 |

Note: In case of Accommodation of Bills, no grace period is given as it is not a trade bill and cannot be challenged in the court of law.

#### Illustration 7.

X draws a bill for Rs.1,200 and Y accepts the same for mutual accommodation in the ratio of 4:2. X discounts the bill for Rs.1,110 and remits 1/3rd of the proceeds to B. Before the due date, Y draws another bill for Rs.1,800 on X in order to provide funds to meet the first bill. The second bill is discounted for Rs.1,740 by Y and a sum of Rs.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. (Rs.)   | Cr. (Rs.) |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------|-----------|
|      | Bills Receivable A/c<br>To Y A/c<br>(Being on 1st bill drawn on Y for mutual accommodation)                                                                                                        | Dr.        | 1,200       | 1,200     |
|      | Bank A/c<br>Discount on Bills A/c<br>To Bills Receivable A/c<br>(Being the bill discounted with the banker for 1110)                                                                               | Dr.<br>Dr. | 1,110<br>90 | 1,200     |
|      | Y A/c (Rs.1,200 × $\frac{1}{2}$ )<br>To Bank A/c<br>To Discount on Bills A/c (Rs.90 × $\frac{1}{3}$ )<br>(Being 1/3rd of the proceeds remitted to Y - the loss on discount shared proportionately) | Dr.        | 400         | 370<br>30 |
|      | Y A/c<br>To Bills Payable A/c<br>(Being the bill drawn on X by Y)                                                                                                                                  | Dr.        | 1,800       | 1,800     |
|      | Bank A/c<br>Discount on Bills A/c<br>To Y A/c (Rs.1,200 × $\frac{1}{3}$ )<br>(Being the net amount remitted to X by Y)                                                                             | Dr.<br>Dr. | 360<br>40   | 400       |
|      | Bank A/c<br>To Y A/c<br>(Being the balance amount of the 2nd bill remitted by Y)                                                                                                                   | Dr.        | 600         | 600       |



|  |                                                                               |     |  |       |       |
|--|-------------------------------------------------------------------------------|-----|--|-------|-------|
|  | Bills Payable A/c<br>To Bank A/c<br>(Being the 2nd bill honoured at maturity) | Dr. |  | 1,800 | 1,800 |
|--|-------------------------------------------------------------------------------|-----|--|-------|-------|

Note: (Prepare Y A/C to know the balance amount due)

**In the books of Y**  
**Journal**

| Date | Particulars                                                                                                                                   | L.F.       | Dr. (Rs.)   | Cr. (Rs.) |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------|-----------|
|      | X A/c<br>To Bills Payable A/c<br>(Being a bill drawn on Y by X for mutual accommodation)                                                      | Dr.        | 1,200       | 1,200     |
|      | Bank A/c<br>Discount on Bills A/c Dr.<br>To X A/c<br>(Being 1/3rd of the proceed received and the loss on discount shared proportionately)    | Dr.        | 370<br>30   | 400       |
|      | Bills Receivable A/c<br>To X A/c<br>(Being the bill drawn on X)                                                                               | Dr.        | 1,800       | 1,800     |
|      | Bank A/c<br>Discount on Bills A/c (Bal. fig.)<br>To Bills Receivable A/c<br>(Being the bill discounted with the banker for Rs.1,740)          | Dr.<br>Dr. | 1,740<br>60 | 1,800     |
|      | X A/c<br>To Bank A/c<br>To Discount on Bills A/c<br>(Being 1/3rd of the proceeds remitted to X - the loss on discount shared proportionately) | Dr.        | 400         | 360<br>40 |
|      | Bills Payable A/c<br>To Bank A/c<br>(Being the 1st bill honoured at maturity)                                                                 | Dr.        | 1,200       | 1,200     |
|      | X A/c<br>To Bank A/c<br>(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 Rs.800 to Y to enable him to honour the bill. But X was not in a position to remit the required amount. He accepted a bill of Rs.1800 drawn by Y. Y discounted the bill for Rs.1,740 and remitted to X Rs.360 after adjusting Rs.800 in respect of the 1st bill. Therefore, X enjoyed Rs.(360+800) Rs.1,160 out of Rs.1,740. X's share of discount will be:  $\text{Rs.} \frac{60}{1,740} \times \text{Rs.} 1,160 = \text{Rs.} 40$

**Illustration 8.**

Vijay draws a bill for Rs.60,000 and Anand accepts the same for mutual accommodation of both of them to the extent of Vijay 2/3rd and Anand 1/3rd. Vijay discounts it with bank for Rs.56,400 and remits 1/3rd share to Anand. Before the due date, Anand draws another bill for Rs.84,000 on Vijay in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at Rs.81,600. With these proceeds, the first bill is settled and



Rs.14,400 were remitted to Vijay. Before the due date of the second bill, Vijay becomes insolvent and Anand receives a dividend of only 50 paise in a rupee in full satisfaction. Pass journal entries in the books of Vijay.

**Solution:**

In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Vijay and Anand is given as two-thirds and one-third. The first bill of Rs.60,000 is discounted at Rs.56,400 which means the discounting charges are Rs.3,600. The share of each one is:

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

Further, as Vijay has become insolvent, the amount due to Anand is settled at 50% of total. To calculate this amount, it's necessary to post all transactions to Anand's account and arrive at the balance.

**In the Books of Vijay Journal Entries**

| Date | Particulars                                                                                              | L.F. | Dr. (Rs.)       | Cr. (Rs.)        |
|------|----------------------------------------------------------------------------------------------------------|------|-----------------|------------------|
|      | Bills Receivable A/c Dr.<br>To Anand's A/c<br>(Being bill drawn on Anand)                                |      | 60,000          | 60,000           |
|      | Bank A/c Dr.<br>Discount A/c Dr.<br>To Bills Receivables A/c<br>(Being discounting of bill)              |      | 56,400<br>3,600 | 60,000           |
|      | Anand's A/c Dr.<br>To Bank A/c<br>To Discount A/c<br>(Being 1/3rd proceeds paid to Anand)                |      | 20,000          | 18,800<br>1,200  |
|      | Anand's A/c Dr.<br>To Bills payable A/c<br>(being acceptance of bill)                                    |      | 84,000          | 84,000           |
|      | Bank A/c Dr.<br>Discount A/c Dr.<br>To Anand's A/c<br>(Being proceeds of discounting 2nd bill)           |      | 14,400<br>1,600 | 16,000           |
|      | Bills Payable A/c Dr.<br>To Anand's A/c<br>(Being dishonour of bill)                                     |      | 84,000          | 84,000           |
|      | Anand's A/c Dr.<br>To Bank A/c<br>To Deficiency A/c<br>(Being payment of 50% & balance proved to be bad) |      | 56,000          | 28,000<br>28,000 |



Dr.

Anand's Account

Cr.

| Particulars       | Amount<br>(Rs.) | Particulars     | Amount<br>(Rs.) |
|-------------------|-----------------|-----------------|-----------------|
| To Bank A/c       | 18,800          | By B/R A/c      | 60,000          |
| To Discount A/c   | 1,200           | By Bank A/c     | 14,400          |
| To B/P A/c        | 84,000          | By Discount A/c | 1,600           |
| To Bank A/c       | 28,000          | By B/P A/c      | 84,000          |
| To Deficiency A/c | 28,000          |                 |                 |
|                   | 1,60,000        |                 | 1,60,000        |

**Illustration 9.**

Rahim, for mutual accommodation, draws a bill for Rs.3,000 on Ratan. Rahim discounted it for Rs.2,925. He remits Rs.975 to Ratan. On the due date, Rahim is unable to remit his dues to Ratan to enable him to meet the bill. He, however, accepts a bill for Rs.3,750 which Ratan discounts for Rs.3,625. Ratan sends Rs.175 to Rahim after discounting the above bill. Rahim becomes insolvent and a dividend of 80 paise in the rupee is received from his estate.

Pass the necessary journal entries in the books of both the parties.

**Solution:**

**In the books of Rahim  
Journal Entries**

| Date | Particulars                                                                                                    | L.F. | Dr. (Rs.)   | Cr. (Rs.)    |
|------|----------------------------------------------------------------------------------------------------------------|------|-------------|--------------|
|      | Bills Receivable A/c Dr.<br>To Ratan A/c<br>(Bill drawn for mutual accommodation and accepted by Ratan.)       |      | 3,000       | 3,000        |
|      | Bank A/c Dr.<br>Discount A/c Dr.<br>To Bills Receivable A/c<br>(Bill discounted by the bank.)                  |      | 2,925<br>75 | 3,000        |
|      | Ratan A/c Dr.<br>To Bank A/c<br>To Discount A/c<br>(1/3 Proceeds remitted to Ratan.)                           |      | 1,000       | 975<br>25    |
|      | Ratan A/c Dr.<br>To Bills Payable A/c<br>(Bill accepted.)                                                      |      | 3,750       | 3,750        |
|      | Bank A/c Dr.<br>Discount A/c Dr.<br>To Ratan A/c<br>(Proceeds received from Ratan including discount charges.) |      | 175<br>75   | 250          |
|      | Bills Payable A/c Dr.<br>To Ratan A/c<br>(Bill dishonored since e became insolvent.)                           |      | 3,750       | 3,750        |
|      | Ratan A/c Dr.<br>To Bank A/c<br>To Deficiency A/c                                                              |      | 2,250*      | 1,800<br>450 |



|  |                                                                                            |  |  |  |
|--|--------------------------------------------------------------------------------------------|--|--|--|
|  | (Cash paid to Ratan @80 paise in the rupee and balance transferred to deficiency account.) |  |  |  |
|--|--------------------------------------------------------------------------------------------|--|--|--|

\* This amount can be ascertained by preparing Ratan's Account in Rahim's book.

#### In the books of Ratan Journal Entries

| Date | Particulars                                                                                                                                                    | L.F. | Dr. (Rs.)    | Cr. (Rs.) |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------|-----------|
|      | Rahim A/c Dr.<br>To Bills Payable A/c<br>(Bill accepted for mutual accommodation)                                                                              |      | 3,000        | 3,000     |
|      | Bank A/c Dr.<br>Discount A/c Dr.<br>To Rahim A/c<br>(1/3 proceeds received from Rahim including discount)                                                      |      | 975<br>25    | 1,000     |
|      | Bills Receivable A/c Dr.<br>To Rahim A/c<br>(Bill drawn and accepted by Rahim)                                                                                 |      | 3,750        | 3,750     |
|      | Bank A/c Dr.<br>Discount A/c Dr.<br>To Bills Receivable A/c (Bill discounted)                                                                                  |      | 3,625<br>125 | 3,750     |
|      | Rahim A/c Dr.<br>To Bank A/c<br>To Discount A/c<br>(Proceeds remitted to Rahim including discount)                                                             |      | 250          | 175<br>75 |
|      | Rahim A/c Dr.<br>To Bank A/c<br>(Bill honoured at maturity)                                                                                                    |      | 3,750        | 3,750     |
|      | Bills Payable A/c Dr.<br>To Bank A/c<br>(Bill honoured at maturity)                                                                                            |      | 3,000        | 3,000     |
|      | Bank A/c Dr.<br>Bad Debt A/c Dr.<br>To Rahim A/c<br>(Amount realised from the official liquidator of Rahim @ 80 paise in the rupee and the balance proved bad) |      | 1,800<br>450 | 2,250     |

Note:

Sharing discount:

After discounting of the 1st bills, Rahim received

Rs.2,000 (including discount)

Add: Amount remitted by Ratan (after discounting of the 2nd bill).

Rs.175

Total benefit received by Rahim.

Rs.2,175

Now,

After discounting of the 2nd bill Ratan received Rs.3,625 (Net)

• Proportion of Rahim to Ratan = Rs.2,175 × 125 = Rs.75

Rahim is to bear = Rs.75 of discounting charges, and the balance by Ratan.



## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 7M)

Indra drew upon Chandra a bill for 790,000 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

Answer:

In the books of Indra

Journal entries

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

Note: Entries to be supported by Narration.

Question 2.

(Dec 23 15M)

Anil draws a bill of exchange on Bindu for goods supplied, for Rs.10,000 dated 1st January, at three months. Bindu accepts the bill and thereafter on 4th January Anil discounts it with his Bankers at 8 percent per annum (rounded off to the nearest month). The Bill is dishonoured on presentation on the due date and the Bankers debit Anil with ₹ 20 Noting Expenses, in addition to the value of the Bill. Bindu pays Anil cash Rs. 5,000 on 5th April and simultaneously accepts a fresh Bill for the balance due by him, including Rs.300 for interest and Noting Expenses on the first bill. The bill is paid in time. Journalise the above transactions in journals of Anil & Bindu

Answer:

Anil's Journal

| Date  | Particulars          | LF  | Dr.(₹) | Cr.(₹) |
|-------|----------------------|-----|--------|--------|
| Jan 1 | Bills Receivable A/C | Dr. | 10,000 |        |
|       | To Bindu             |     |        | 10,000 |





|         |                         |     |        |        |
|---------|-------------------------|-----|--------|--------|
| Jan 4   | Bank A/C                | Dr. | 9,800  |        |
|         | Discount A/C            | Dr. | 200    |        |
|         | To Bills Receivable A/C |     |        | 10,000 |
| April 4 | Bindu                   | Dr. | 10,020 |        |
|         | To Bank A/C             |     |        | 10,020 |
| April 5 | Bank A/C                | Dr. | 5,000  |        |
|         | To Interest A/C         |     |        | 5,000  |
| April 5 | Bills Receivable A/C    | Dr. | 300    |        |
|         | To Bindu                |     |        | 300    |
| April 5 | Bank A/C                | Dr  | 5320   |        |
|         | To Bills Receivable A/C |     |        | 5320   |

## Bindu's Journal

| Date    | Particulars          |     | LF | Dr.(₹) | Cr.(₹) |
|---------|----------------------|-----|----|--------|--------|
| Jan 1   | Anil's               | Dr. |    | 10,000 |        |
|         | To Bills Payable A/C |     |    |        | 10,000 |
| April 4 | Bills Payable A/C    | Dr. |    | 10,000 |        |
|         | Noting charges A/C   | Dr. |    | 20     |        |
|         | To Anil's            |     |    |        | 10,020 |
| April 5 | Anil's               | Dr. |    | 5,000  |        |
|         | To Bank A/C          |     |    |        | 5,000  |
| April 5 | Interest A/C         | Dr. |    | 300    |        |
|         | To Anil's            |     |    |        | 300    |
| April 5 | Anil's               | Dr. |    | 5,320  |        |
|         | To Bills Payable A/C |     |    |        | 5,320  |
| April 5 | Bills Payable A/C    | Dr. |    | 5,320  |        |
|         | To Bank A/C          |     |    |        | 5,320  |

## Question 3.

(Dec 23 7M)

On 1st July, 2023, G drew a bill for Rs.80,000 for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth ₹ 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

Answer:

## In the books of H Journal

| Date     | Particulars                    |     | ₹      | ₹      |
|----------|--------------------------------|-----|--------|--------|
| 1.7.2023 | G's A/c                        | Dr. | 80,000 |        |
|          | To Bills payable A/c           |     |        | 80,000 |
| 1.9.2023 | J's A/c                        | Dr. | 90,000 |        |
|          | To sales A/c (Sales made to J) |     |        | 90,000 |
|          | Bills receivable A/c           | Dr. | 80,000 |        |



|           |                         |     |          |          |
|-----------|-------------------------|-----|----------|----------|
|           | Bank A/c                | Dr. | 9,000    |          |
|           | Discount A/c            | Dr. | 1,000    |          |
|           | To J's A/c              |     |          | 90,000   |
| 10.1.2023 | Bills payable A/c       | Dr. | 80,000   |          |
|           | To Bills receivable A/c |     |          | 80,000   |
| 10.1.2023 | Purchased A/c           | Dr. | 1,00,000 |          |
|           | To G's A/c              |     |          | 1,00,000 |
| 10.1.2023 | G's A/c                 | Dr. | 20,000   |          |
|           | To Bank A/c             |     |          | 20,000   |

**Question 4.****(Jun 23 7M)**

JP sold goods for 2,10,000 to PK on 1st July, 2022 and on the same day JP draws two bills on PK for the amount of Rs.1,30,000 and Rs.80,000 respectively for 3 months each. PK accepts these and returns these to JP. On 4th July, 2022, JP discounts these bills with bank at a discount of 15% per annum. PK met the first bill on due date, by paying to the bank, but he showed his inability to pay full amount of second bill on the due date and paid 35,000 in cash. He requested JP to write a fresh bill including interest @ 15% per annum for two months which was accepted by JP. Before the fresh bill became due, PK retires the bill with a rebate of 625. Pass journal entries in books of JP.

**Answer:****In the Books of JP (Drawer)**

| Date          | Particulars                                                                   | Dr. Amount (₹) | Cr. Amount (₹) |
|---------------|-------------------------------------------------------------------------------|----------------|----------------|
| 1st July 2022 | PK A/c Dr                                                                     | 2,10,000       |                |
|               | To Sales A/c                                                                  |                | 2,10,000       |
|               | (Being goods sold on Credit)                                                  |                |                |
| 1st July      | Bills Receivable A/c Dr                                                       | 1,30,000       |                |
|               | Bills Receivable A/c Dr                                                       | 80,000         |                |
|               | To PK A/c                                                                     |                | 2,10,000       |
|               | (Being two B/R created for the amount due from PK)                            |                |                |
| 4th July      | Bank A/c Dr                                                                   | 2,02,125       |                |
|               | Discount A/c Dr                                                               | 7,875          |                |
|               | To Bills Receivable A/c                                                       |                | 2,10,000       |
|               | (Being the B/R discounted with a bank @ 15% p.a.)                             |                |                |
| 4th Oct       | PK A/c Dr                                                                     | 45,000         |                |
|               | To Bank A/c                                                                   |                | 45,000         |
|               | (Being the Bill partially dishonoured by PK)                                  |                |                |
| 4th Oct       | Bills Receivable A/c Dr                                                       | 46,125         |                |
|               | To PK A/c                                                                     |                | 45,000         |
|               | To Interest Receivable A/c                                                    |                | 1,125          |
|               | (Being new Bill drawn on PK for the unpaid amount +15% interest for 2 months) |                |                |
| 7th Dec       | Bank A/c Dr                                                                   | 44,375         |                |
|               | Rebate A/c Dr                                                                 | 625            |                |
|               | To Bills Receivable A/c                                                       |                | 45,000         |



|  |                                                  |  |  |
|--|--------------------------------------------------|--|--|
|  | (Being the Bill honoured by PK & rebate allowed) |  |  |
|--|--------------------------------------------------|--|--|

**Question 5.****(Dec22 5M)****Features of a bill of Exchange****Answer:**

As per Section 5 of the Negotiable Instruments Act, a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person, to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument. The essential of bill of exchange are as:

- There are three parties: The "Maker" is termed as the "Drawer" in the Bill of Exchange. He is the creditor.
- The person liable to pay the money is called the "Drawee".
- The person entitled to get the money is termed as the "Payee".
- It should be noted that the drawer himself can also be the payee. It must be drawn on a specific person
- The bill drawer being the creditor, orders the drawee to pay a certain sum of money.
- A Time Bill of Exchange can be made payable to the bearer.
- It is an instrument in writing and unconditional
- It must be in writing, dated, stamped and signed by Drawer
- It must be payable in demand or after a definite period of time, and for a certain amount of



### 3. CONSIGNMENT

#### ILLUSTRATIONS

##### Illustration 1.

Agarwal of Agra sent on consignment goods valued Rs.1,00,000 to Biyani of Bhagalpur on March 1, 2022. He incurred an expenditure of Rs.12,000 on Freight and Insurance. Biyani was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. Biyani took delivery of the consignment by incurring expenses of Rs.3,000 for goods consigned.

On Dec. 31, 2022, Biyani informed on phone that he had sold all the goods for Rs.1,50,000 by incurring selling expenses of Rs.2,000. He further informed that only Rs.1,48,000 had been realised and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale. The consignor closes his books on Dec. 31 each year.

On Jan. 5, 2023; Agarwal received the cheque for the amount due from Biyani and incurred bank charges of Rs.260 for collecting the cheque. The amount was credited by the bank on Jan. 9, 2023.

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

Solution:

##### Books of Agarwal

| Dr.                                            |                 | Consignment to Bhagalpur Account |          | Cr. |                 |
|------------------------------------------------|-----------------|----------------------------------|----------|-----|-----------------|
| Particulars                                    | (Rs.)           | Particulars                      | (Rs.)    |     |                 |
| To Goods sent on Consignment A/c               | 1,00,000        | By Biyani A/c [Sale]             | 1,50,000 |     |                 |
| To Bank A/c [Expenses incurred]                | 12,000          |                                  |          |     |                 |
| - Freight and Insurance                        |                 |                                  |          |     |                 |
| To Biyani A/c [Expenses paid by consignee]     |                 |                                  |          |     |                 |
| - Delivery Charges                             | 3,000           |                                  |          |     |                 |
| - Selling Expenses                             | <u>2,000</u>    |                                  |          |     |                 |
|                                                | 5,000           |                                  |          |     |                 |
| To Biyani A/c [Commission due]                 |                 |                                  |          |     |                 |
| - Ordinary Commission                          |                 |                                  |          |     |                 |
| [1,50,000 × 5%]                                | 7,500           |                                  |          |     |                 |
| Del credere Commission                         |                 |                                  |          |     |                 |
| [1,50,000 × 3%]                                | <u>4,500</u>    |                                  |          |     |                 |
|                                                | 12,000          |                                  |          |     |                 |
| To Provision for Expenses A/c                  | 260             |                                  |          |     |                 |
| [Provision created for collection charges]     |                 |                                  |          |     |                 |
| To P/L A/c [Profit on consignment transferred] | 20,740          |                                  |          |     |                 |
|                                                | <u>1,50,000</u> |                                  |          |     |                 |
|                                                |                 |                                  |          |     | <u>1,50,000</u> |

| Dr.      |                                         | Biyani Account |          | Cr.                                                          |          |
|----------|-----------------------------------------|----------------|----------|--------------------------------------------------------------|----------|
| Date     | Particulars                             | (Rs.)          | Date     | Particulars                                                  | (Rs.)    |
| 31.12.22 | To Consignment to Bhagalpur A/c [Sales] | 1,50,000       | 31.12.22 | By Consignment to Bhagalpur A/c [Expenses paid by consignee] | 5,000    |
|          |                                         |                | 31.12.22 | By Consignment to Bhagalpur A/c [Commission due]             | 12,000   |
|          |                                         |                | 31.12.22 | By Balance c/d [Balance due: : B/Fig.                        | 1,33,000 |



|        |                |                      |        |                                                    |                      |
|--------|----------------|----------------------|--------|----------------------------------------------------|----------------------|
| 1.1.23 | To Balance b/d | 1,50,000<br>1,33,000 | 5.1.23 | By Cheque for Collection A/c<br>[Final remittance] | 1,50,000<br>1,33,000 |
|        |                | 1,33,000             |        |                                                    | 1,33,000             |

| Dr. Provision for Expenses Account |                                                         |       | Cr.      |                                 |       |
|------------------------------------|---------------------------------------------------------|-------|----------|---------------------------------|-------|
| Date                               | Particulars                                             | (Rs.) | Date     | Particulars                     | (Rs.) |
| 9.1.23                             | To Cheque for Collection A/c<br>[Bank charges deducted] | 260   | 31.12.22 | By Consignment to Bhagalpur A/c | 260   |
|                                    |                                                         | 260   |          |                                 | 260   |

| Dr. Bank Account |                                                  |                      | Cr.    |                |                      |
|------------------|--------------------------------------------------|----------------------|--------|----------------|----------------------|
| Date             | Particulars                                      | (Rs.)                | Date   | Particulars    | (Rs.)                |
| 9.1.23           | To Cheque for Collection A/c<br>[1,33,000 - 260] | 1,32,740<br>1,32,740 | 9.1.23 | By Balance c/f | 1,32,740<br>1,32,740 |

#### Illustration 2.

M/s Singha Traders of Surat consigned 5,000 litres of edible oil costing Rs.32 each to M Ltd. of Mumbai on 1.2.2023. S Ltd. paid Rs.5,000 as freight and insurance charges. During transit 200 litres were destroyed for which the insurance company agreed to pay Rs.5,000 in full settlement. M Ltd. paid clearing charges Rs.6,100; godown rent Rs.300 and Salesman's salary Rs.900. It was entitled to 6% ordinary commission and 4% del credere commission on sales.

On 30.6.2023, M Ltd. reported that 4,000 litres were sold at Rs.1,65,000 and 100 litres were lost due to evaporation. A customer who bought oil for Rs.1,500 could pay only 40% of his amount. M Ltd. paid its balance due by a cheque.

Show the Consignment Account in the books of M/s Singha Traders.

Solution:

#### Books of M/s Singha Traders

| Dr. Consignment to Mumbai Account                   |          |                                          | Cr.      |  |
|-----------------------------------------------------|----------|------------------------------------------|----------|--|
| Particulars                                         | (Rs.)    | Particulars                              | (Rs.)    |  |
| To Goods Sent on Consignment A/c<br>[5,000 × Rs.32] | 1,60,000 | By M. Ltd. A/c [Sale]                    | 1,65,000 |  |
| To Bank A/c<br>[Expenses incurred by consignor]     |          | By Goods Destroyed-in-Transit A/c [WN:1] | 6,600    |  |
| - Freight and Insurance Charges                     | 5,000    | By Consignment Stock A/c [WN:1]          | 24,500   |  |
| To M. Ltd. A/c<br>[Expenses incurred by consignee]  |          |                                          |          |  |
| - Clearing Charges                                  | 6,100    |                                          |          |  |
| - Godown Rent                                       | 300      |                                          |          |  |
| - Salesman's Salaries                               | 900      |                                          |          |  |
| To M. Ltd. A/c [Commission due]                     |          |                                          |          |  |
| - Ordinary Commission<br>[1,65,000 × 6%]            | 9900     |                                          |          |  |
| - Del credere Commission<br>[1,65,000 × 4%]         | 6600     |                                          |          |  |
| To P/L A/c                                          | 7,300    |                                          |          |  |
| [Profit on consignment - transferred]               |          |                                          |          |  |
|                                                     | 1,96,100 |                                          | 1,96,100 |  |



Workings Note:

Value of Goods Destroyed-in-transit & Unsold Stock

|                                                                             | Litres                     | (Rs.)    |
|-----------------------------------------------------------------------------|----------------------------|----------|
| Cost of goods sent [5,000 × Rs.32]                                          | 5,000                      | 1,60,000 |
| Add: Consignor's expenses (being, freight and insurance charges)            | -                          | 5,000    |
|                                                                             | 5,000                      | 1,65,000 |
| Less: Goods destroyed -in-transit [ Rs.1,65,000 × 200/5,000]                | 200                        | 6,600    |
| Goods received by consignee                                                 | 4,800                      | 1,58,400 |
| Add: Non-recurring expenses incurred by consignee (being, clearing charges) | -                          | 6,100    |
|                                                                             | 4,800                      | 1,64,500 |
| Less: Normal loss                                                           | 100                        | -        |
|                                                                             | 4,700                      | 1,64,500 |
| Unsold Stock = [5,000 - 200 - 100 - 4,000] = 700 litres                     | Rs.1,64,500 × 700 / 4700 = |          |
| ∴ Value of 700 litres                                                       | Rs.24,500                  |          |

Illustration 3.

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

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

Solution:

Books of B  
Consignment Account

| Dr. | Particulars                                        | (Rs.)  | Cr. | Particulars                      | (Rs.)  |
|-----|----------------------------------------------------|--------|-----|----------------------------------|--------|
|     | To Goods sent on Consignment A/c<br>[100 × Rs.190] | 19,000 |     | By A A/c [Sale]<br>[68 × Rs.280] | 19,040 |
|     | To Bank A/c [Expenses incurred]                    | 500    |     | [11 × Rs.270]                    | 2,970  |
|     | To A A/c [Expenses paid by consignee]              | 1,520  |     | By Goods Damaged A/c [WN: 1]     | 195    |
|     | To A A/c [Commission due: Rs.22,010 × 6%]          | 1,321  |     | By Consignment Stock A/c [WN: 1] | 3,900  |
|     | To P/L A/c<br>[Profit on consignment transferred]  | 3,764  |     |                                  |        |
|     |                                                    | 26,105 |     |                                  | 26,105 |

Dr. Goods Damaged Account

| Dr. | Particulars                                       | (Rs.) | Cr. | Particulars                     | (Rs.) |
|-----|---------------------------------------------------|-------|-----|---------------------------------|-------|
|     | To Consignment A/c                                | 195   |     | By A A/c                        | 50    |
|     | To A A/c                                          | 3     |     | [Sale of damaged calculator]    |       |
|     | [Commission on sale of damaged goods: Rs.50 × 6%] |       |     | By P/L A/c                      | 148   |
|     |                                                   | 198   |     | [Net loss transferred - B/Fig.] |       |
|     |                                                   |       |     |                                 | 198   |

N.B. As the commission is allowed on gross sales, consignee is also entitled to get commission on sale of damaged goods also.





| Dr.                       |        | A Account                              |        | Cr. |  |
|---------------------------|--------|----------------------------------------|--------|-----|--|
| Particulars               | (Rs.)  | Particulars                            | (Rs.)  |     |  |
| To Consignment A/c [Sale] | 22,010 | By Consignment A/c [Expenses incurred] | 1,520  |     |  |
| To Goods Damaged A/c      | 50     | By Consignment A/c [Commission due]    | 1,321  |     |  |
|                           |        | By Goods Damaged A/c                   | 3      |     |  |
|                           |        | [Commission on sale of damaged goods]  |        |     |  |
|                           |        | By Balance c/f                         | 19,216 |     |  |
|                           | 22,060 |                                        | 22,060 |     |  |

| Dr.                                  |        | Goods Sent on Consignment Account |        | Cr. |  |
|--------------------------------------|--------|-----------------------------------|--------|-----|--|
| Particulars                          | (Rs.)  | Particulars                       | (Rs.)  |     |  |
| To Purchases/ Trading A/c [Transfer] | 19,000 | By Consignment A/c                | 19,000 |     |  |

| Dr.                                  |        | Books of A                         |        | Cr. |  |
|--------------------------------------|--------|------------------------------------|--------|-----|--|
|                                      |        | B Account                          |        |     |  |
| Particulars                          | (Rs.)  | Particulars                        | (Rs.)  |     |  |
| To Bank A/c [Expenses paid]          | 1,520  | By Bank A/c                        | 21,730 |     |  |
| To Commission A/c                    | 1,324  | [Cash Sales: (Rs.22,010 - Rs.280)] |        |     |  |
| [Commission earned]                  |        | By Consignment Debtors A/c         | 280    |     |  |
| To Balance c/f [Balance due: B/Fig.] | 19,216 | [Credit Sales]                     |        |     |  |
|                                      |        | By Bank A/c                        | 50     |     |  |
|                                      |        | [Sale of damaged calculator]       |        |     |  |
|                                      | 22,060 |                                    | 22,060 |     |  |

| Dr.                     |       | Consignment Debtors Account |       | Cr. |  |
|-------------------------|-------|-----------------------------|-------|-----|--|
| Particulars             | (Rs.) | Particulars                 | (Rs.) |     |  |
| To B A/c [Credit sales] | 280   | By Bank A/c [Collection]    | 250   |     |  |
|                         |       | By Commission A/c           | 30    |     |  |
|                         |       | [Bad debts written-off]     |       |     |  |
|                         | 280   |                             | 280   |     |  |

| Dr.                        |       | Commission Account |       | Cr. |  |
|----------------------------|-------|--------------------|-------|-----|--|
| Particulars                | (Rs.) | Particulars        | (Rs.) |     |  |
| To Consignment Debtors A/c |       | By B A/c           | 1,324 |     |  |
| [Rs.280 - Rs.250]          | 30    |                    |       |     |  |
| To P/L A/c [B/Fig.]        | 1,294 |                    |       |     |  |
|                            | 1,324 |                    | 1,324 |     |  |

### Workings Note:

- Value of goods damaged & unsold stock

|                                                 | Units                                  | (Rs.)  |
|-------------------------------------------------|----------------------------------------|--------|
| Cost of goods sent                              | 100                                    | 19,000 |
| Add: Consignor's expenses                       | --                                     | 500    |
|                                                 | 100                                    | 19,500 |
| Less: Goods damaged [ Rs.19,500 × 1/100]        | 1                                      | 195    |
|                                                 | 99                                     | 19,305 |
| Unsold stock = [100 - (68 + 11) - 1] = 20 units | Rs.19,305 × $\frac{20}{99}$ = Rs.3,900 |        |
| ∴ Value of 20 units                             |                                        |        |



**Illustration 4.**

RG Cellular of Kolkata consigned 100 mobile handsets to Techno Traders of Durgapur. The cost of each handset was Rs.25,000. The consignor paid insurance Rs.15,000, freight Rs.8,000. An account sale was received from Pluto, showing gross sale proceeds of 80 units at Rs.30,000 each.

The expenses paid and deducted by him were: Carriage Rs.2,000; Establishment expenses Rs.10,300; Insurance Rs.24,000; Commission Rs.85,000. The handsets lying unsold with Pluto were valued at Rs.5,05,000.

Pass the journal entries in the books of Techno Traders given that maintains Consignment Inward A/c.

**Solution:**

**Books of Techno Traders Journal**

| Date | Particulars                                                                                                              | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|------|--------------------------------------------------------------------------------------------------------------------------|------|-----------|-----------|
|      | Consignment Inward A/c [100 × Rs.25,000]<br>To RG Cellular A/c<br>(Being goods received from Jupiter)                    | Dr.  | 25,00,000 | 25,00,000 |
|      | Consignment Inward A/c<br>To Bank A/c<br>(Rs.2,000 + Rs.10,300 + Rs.24,000)<br>(Being expenses paid for consignment)     | Dr.  | 36,300    | 36,300    |
|      | Bank A/c<br>To Consignment Inward A/c<br>(80 × Rs.30,000)<br>(Being goods received on consignment sold)                  | Dr.  | 24,00,000 | 24,00,000 |
|      | Consignment Inward A/c<br>To Commission A/c<br>(Being commission due from Jupiter)                                       | Dr.  | 85,000    | 85,000    |
|      | RG Cellular A/c<br>To Consignment Inward A/c<br>(Being stock lying unsold)                                               | Dr.  | 5,05,000  | 5,05,000  |
|      | Consignment Inward A/c<br>To RG Cellular A/c<br>(Being balance of Consignment Inward A/c transferred to Jupiter account) | Dr.  | 2,83,700  | 2,83,700  |
|      | RG Cellular A/c<br>To Bank A/c<br>(Being payment made for balance due to consignor)                                      | Dr.  | 22,78,700 | 22,78,700 |

**Illustration 5.**

On Jan. 1, 2022 goods costing Rs.1,32,000 were consigned by Shri G of Chennai to his agent Shri H in Amritsar at a pro-forma invoice price of 20% above cost. Shri G paid freight and other forwarding charges amounting to Rs.4,000. The consignee was allowed Rs.2,000 p.a. towards establishment costs, 5% commission on gross sales. Shri H paid Rs.1,000 as godown rent and insurance for three months ended Mar. 31, 2023.

Three-fourths of the goods were sold at 331/3% profit on cost, half of which were credit sales.



Balance stock was valued at pro-forma invoice price. Consignee reported that a customer who purchased goods worth Rs.10,000 was untraceable and his balance was considered to be unrealisable. All other the debtors cleared their dues. Shri H cleared his dues by sending a bank draft on Mar. 31, 2023.

Prepare necessary accounts in the books of Consignor, for 3 months ending on Mar. 31, 2023.

Solution:

Books of Shri G

| Dr.                                                               |          | Consignment to Amritsar Account                                                |        | Cr. |          |
|-------------------------------------------------------------------|----------|--------------------------------------------------------------------------------|--------|-----|----------|
| Particulars                                                       | (Rs.)    | Particulars                                                                    | (Rs.)  |     |          |
| To Goods Sent on Consignment A/c<br>[Rs.1,32,000 + 20% there off] | 1,58,400 | By Shri H A/c [Cash Sales - WN:1]                                              | 66,000 |     |          |
| To Bank A/c<br>[Expenses incurred]                                |          | By Consignment Debtors A/c<br>[Credit sales - WN:1]                            | 66,000 |     |          |
| - Freight and other Forwarding Charges                            | 4,000    | By Goods sent on Consignment A/c<br>[Loading on goods sent: Rs.1,32,000 × 20%] | 26,400 |     |          |
| To Shri H A/c<br>[Expenses paid by consignee]                     |          | By Consignment Stock A/c [WN: 2]                                               | 40,600 |     |          |
| - Establishment Charges<br>[2,000 × 3/12] 500                     |          |                                                                                |        |     |          |
| - Godown Rent and Insurance 1,000                                 | 1,500    |                                                                                |        |     |          |
| To Shri H A/c                                                     | 6,600    |                                                                                |        |     |          |
| [Commission due: 1,32,000 × 5%]                                   |          |                                                                                |        |     |          |
| To Consignment Debtors A/c                                        | 10,000   |                                                                                |        |     |          |
| [Bad debt written off]                                            |          |                                                                                |        |     |          |
| To Stock Reserve A/c [WN:2]                                       | 6,600    |                                                                                |        |     |          |
| To P/L A/c                                                        | 11,900   |                                                                                |        |     |          |
| [Profit on consignment transferred]                               |          |                                                                                |        |     |          |
|                                                                   | 1,99,000 |                                                                                |        |     |          |
|                                                                   |          |                                                                                |        |     | 1,99,000 |

| Dr.                                                     |          | Shri H Account                                        |          | Cr. |          |
|---------------------------------------------------------|----------|-------------------------------------------------------|----------|-----|----------|
| Particulars                                             | (Rs.)    | Particulars                                           | (Rs.)    |     |          |
| To Consignment to Amritsar A/c<br>[Sales]               | 66,000   | By Consignment to Amritsar A/c<br>[Expenses incurred] | 1,500    |     |          |
| To Consignment Debtors A/c                              | 56,000   | By Consignment to Amritsar A/c<br>[Commission due]    | 6,600    |     |          |
| [Collection made by consignee:<br>(Rs.66,000 - 10,000)] |          | By Bank A/c [Final remittance - B/Fig.]               | 1,13,900 |     |          |
|                                                         | 1,22,000 |                                                       |          |     |          |
|                                                         |          |                                                       |          |     | 1,22,000 |

| Dr.                                    |        | Consignment Debtors Account     |        | Cr. |        |
|----------------------------------------|--------|---------------------------------|--------|-----|--------|
| Particulars                            | (Rs.)  | Particulars                     | (Rs.)  |     |        |
| To Consignment to Amritsar A/c [Sales] | 66,000 | By Shri H A/c                   | 56,000 |     |        |
|                                        |        | [Amount recovered by consignee] |        |     |        |
|                                        |        | By Consignment to Amritsar A/c  | 10,000 |     |        |
|                                        |        | [Bad debt written off]          |        |     |        |
|                                        | 66,000 |                                 |        |     | 66,000 |

| Dr. |  | Goods sent on Consignment Account |  | Cr. |  |
|-----|--|-----------------------------------|--|-----|--|
|-----|--|-----------------------------------|--|-----|--|



| Particulars                                               | (Rs.)    | Particulars                                                     | (Rs.)    |
|-----------------------------------------------------------|----------|-----------------------------------------------------------------|----------|
| To Consignment to Amritsar A/c<br>[Loading on goods sent] | 26,400   | By Consignment to Amritsar A/c<br>[Invoice price of goods sent] | 1,58,400 |
| To Purchases/Trading A/c<br>[Transfer]                    | 1,32,000 |                                                                 |          |
|                                                           | 1,58,400 |                                                                 | 1,58,400 |

**Workings Note:**

**1. Cash & credit sales made by consignee**

|                                                       | (Rs.)    |
|-------------------------------------------------------|----------|
| Cost price of goods sent                              | 1,32,000 |
| Cost price of goods sold [Rs.1,32,000 × 3/4]          | 99,000   |
| Add: Profit @ 33 1/3 % on Cost [Rs.99,000 × 33 1/3 %] | 33,000   |
| Total Sales                                           | 1,32,000 |
| ∴ Cash Sales [Rs.1,32,000 × 1/2]                      | 66,000   |
| ∴ Credit Sales [Rs.1,32,000 × 1/2]                    | 66,000   |

**2. Value of unsold stock**

|                                                                                                     | (Rs.)    |
|-----------------------------------------------------------------------------------------------------|----------|
| Invoice Price of goods sent                                                                         | 1,58,400 |
| Add: Consignor's expenses [Being, freight and other forwarding charges]                             | 4,000    |
|                                                                                                     | 1,62,400 |
| Unsold Stock [1/4th of the total goods = 1/4th × Rs.1,62,400]                                       | 40,600   |
| Loading on stock on consignment<br>= Load on goods sent × $\frac{1}{4}$ = Rs.26,400 × $\frac{1}{4}$ | 6,600    |

**Illustration 6.**

Kunal of Kolkata consigned goods costing Rs.45,000 to Quereshi of Meerut. The invoice price was made so as to show a profit of 33 1/3 % on cost. Kunal paid Rs.300 as carriage and Rs.1,200 as freight & insurance, Goods costing Rs.5,000 were destroyed while in-transit and the insurance company admitted the full claim. In Meerut, Quereshi paid Rs.40 as carriage and Rs.600 as godown rent. 2/3 rd of the goods received by Quereshi were sold by him. Quereshi sent a cheque to Kunal for the sale proceeds after deducting the expenses incurred by him and the commission due to him: ordinary @ 5% and del credere @ 2 1/2%.

Show the Consignment to Meerut A/c and Q's A/c in Kunal's Ledger.

**Solution:**

**Books of Kunal**

| Dr.                                                             |        | Cr.                                                                            |        |
|-----------------------------------------------------------------|--------|--------------------------------------------------------------------------------|--------|
| Consignment to Meerut Account                                   |        |                                                                                |        |
| Particulars                                                     | (Rs.)  | Particulars                                                                    | (Rs.)  |
| To Goods sent on Consignment A/c [Rs.45,000 + 33 1/3 % thereof] | 60,000 | By Quereshi A/c [Sale - WN :2]                                                 | 35,556 |
| To Bank A/c [Expenses incurred]                                 |        | By Goods Destroyed-in-Transit A/c [WN:1]                                       | 6,833  |
| - Carriage 300                                                  |        | By Goods Sent on Consignment A/c [Load on goods sent: 45,000 × $\frac{1}{3}$ ] | 15,000 |
| - Freight & Insurance 1,200                                     | 1,500  | By Consignment Stock A/c [WN: 1]                                               | 18,302 |
| To Quereshi A/c                                                 |        |                                                                                |        |



|                                                |              |       |              |
|------------------------------------------------|--------------|-------|--------------|
| [Expenses paid by consignee]                   |              |       |              |
| - Carriage                                     | 240          |       |              |
| - Godown Rent                                  | <u>600</u>   | 840   |              |
| To Quereshi A/c [Commission due]               |              |       |              |
| - Ordinary Commission                          |              |       |              |
| [35,556 × 5%]                                  | 1,778        |       |              |
| - Del credere Commission                       |              |       |              |
| [35,556 × 2½ %]                                | <u>889</u>   | 2,667 |              |
| To Goods Destroyed-in-Transit A/c              |              | 1667  |              |
| [loading on goods destroyed -WN 1]             |              |       |              |
| To Stock Reserve A/c [Loading on unsold stock  |              | 4444  |              |
| - WN: 1]                                       |              |       |              |
| To P/L A/c [Profit on consignment transferred] |              | 4573  |              |
|                                                | <b>75691</b> |       | <b>75691</b> |

NB: Discount on bill being purely a finance charge, would be recorded in debit side of P/L A/c.

| Dr. Quereshi Account                 |               | Cr.                                    |               |
|--------------------------------------|---------------|----------------------------------------|---------------|
| Particulars                          | (Rs.)         | Particulars                            | (Rs.)         |
| To Consignment to Meerut A/c [Sales] | 35,556        | By Consignment A/c [Expenses incurred] | 840           |
|                                      |               | By Consignment A/c [Commission due]    | 2,667         |
|                                      |               | By Bank A/c [Final remittance: B/Fig.] | 32,049        |
|                                      | <u>35,556</u> |                                        | <u>35,556</u> |

Workings Note:

1. Value of goods destroyed-in-transit and unsold stock

|                                                                                                    | Invoice Price<br>(Rs.) | Load<br>(Rs.)  |
|----------------------------------------------------------------------------------------------------|------------------------|----------------|
| Goods sent                                                                                         | 60,000                 | 15,000         |
|                                                                                                    |                        | [45,000 × 1/3] |
| Add: Consignor's expenses [being, Carriage and Freight & Insurance]                                | 1,500                  | -              |
|                                                                                                    | 61,500                 | 15,000         |
| Less: Goods destroyed-in-transit                                                                   |                        |                |
| [Goods costing Rs.5,000 were destroyed i.e. Rs.5,000/ Rs.45,000 = 1/9 <sup>th</sup> of goods sent] | 6,833                  | 1,667          |
| ∴ Load on goods destroyed-in-transit = [Rs.15,000 × 1/9] = Rs.1,667                                | 54,667                 | 13,333         |
| Add: Non-recurring expenses incurred by consignee [being, carriage]                                | 240                    | -              |
|                                                                                                    | 54,907                 | 13,333         |
| ∴ Unsold stock = 1/3rd of goods received [See note]                                                |                        |                |
| ∴ Value unsold stock                                                                               | 54,907 × 1/3 = 18,302  |                |
| ∴ Load on goods unsold stock = [Rs.13,333 × 1/3] = Rs.4,444                                        |                        |                |

2. Sales made by Quereshi

|                                                    | (Rs.)         |
|----------------------------------------------------|---------------|
| Cost of goods sent by consignor                    | 45,000        |
| Less: Cost of goods lost in transit                | 5,000         |
| ∴ Cost of goods received by consignee              | 40,000        |
| Cost of goods sold by consignor [Rs.40,000 × 2/3 ] | 26,667        |
| Add: Profit @ 33 1/3 % on Cost                     | 8,889         |
| ∴ Sale made by Quereshi                            | <u>35,556</u> |





**Illustration 7.**

Veemal of Delhi sends a consignment of wall clocks to Anand of Kolkata and charges proforma invoice price so as to show a profit of 25% on cost. The agent received commission @ 5% on all sales plus 3% del credere commission on credit sales made by him. Stock of goods with the agent at the beginning of the year: 40 clocks at proforma invoice price Rs.25,000. During the year ended 31st December 2023, Veemal had the following transactions with Anand:

- (a) Proforma invoice price of 200 Clocks consigned to Anand: Rs.1,25,000
- (b) Railway charges and insurance on the consignment paid by Veemal: Rs.3,500
- (c) Advance received from Anand : Rs.37,500
- (d) Sales made by Anand;
  - (i) 80 clocks for cash : Rs.53,750
  - (ii) 100 clocks on credit: Rs.70,000
- (e) Selling expenses made by agent: Rs.6,250 and discount allowed by him Rs.2,500.
- (f) 30 clocks were damaged by the railway for which Anand recovered Rs.6,750. The damaged clocks were sold on cash by Anand at Rs.5,750.
- (g) Out of the clock sold on credit, Rs.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.                                                    | Consignment to Kolkata Account |                                               | Cr.      |
| Particulars                                            | (Rs.)                          | Particulars                                   | (Rs.)    |
| To Consignment Stock A/c<br>[Unsold stock]             | 25,000                         | By Stock Reserve A/c                          | 5,000    |
| To Goods sent on Consignment A/c<br>[sent at IP]       | 1,25,000                       | [Load on opening stock:<br>25,000 × 25/125 ]  |          |
| To Bank A/c [Expenses incurred]                        |                                | By Anand A/c                                  | 1,23,750 |
| - Railway charges & Insurance                          | 3,500                          | [Sale: Rs.53,750 + Rs.70,000]                 |          |
| To Anand A/c                                           |                                | By Goods Sent on Consignment A/c              | 25,000   |
| [Expenses paid by consignee]                           |                                | [load on goods sent:<br>Rs.1,25,000 × 25/125] |          |
| - Selling expenses                                     | 6,250                          | By Goods Damaged-in-Transit A/c               | 19,275   |
| - Discount Allowed                                     | 2,500                          | [WN: 1]                                       |          |
| To Anand A/c [Commission due]                          |                                | By Consignment Stock A/c [WN: 1]              | 19,275   |
| - Ordinary Commission                                  | 6,188                          |                                               |          |
| [1,23,750 × 5%]                                        |                                |                                               |          |
| - Del credere Commission                               | 2,100                          |                                               |          |
| [70,000 × 3%]                                          |                                |                                               |          |
| To Goods Damaged-in-Transit A/c                        | 3,750                          |                                               |          |
| [Load - WN: 1]                                         |                                |                                               |          |
| To Stock Reserve A/c [Load on unsold<br>stock - WN: 1] | 3,750                          |                                               |          |
| To P/L A/c [Profit on consignment<br>transferred]      | 14,262                         |                                               |          |
|                                                        | 1,92,300                       |                                               | 1,92,300 |





| Dr.                                                           | Anand Account |                                                                          | Cr.      |
|---------------------------------------------------------------|---------------|--------------------------------------------------------------------------|----------|
| Particulars                                                   | (Rs.)         | Particulars                                                              | (Rs.)    |
| To Consignment A/c [Sales]                                    | 1,23,750      | By Bank A/c [Advance]                                                    | 37,500   |
| To Goods Damaged-in-Transit A/c<br>[Insurance claim received] | 6,750         | By Consignment A/c<br>[Expenses incurred]                                | 8,750    |
| To Goods Damaged-in-Transit A/c<br>[Sale of damaged goods]    | 5,750         | By Consignment A/c<br>[Commission due]                                   | 8,288    |
|                                                               |               | By Goods Damaged-in-Transit A/c<br>[Commission on sale of damaged goods] | 288      |
|                                                               |               | By Bank A/c<br>[Final remittance - B/Fig.]                               | 81,424   |
|                                                               | 1,36,250      |                                                                          | 1,36,250 |

| Dr.                                                                      | Goods Damaged-in-Transit Account |                                               | Cr.    |
|--------------------------------------------------------------------------|----------------------------------|-----------------------------------------------|--------|
| Particulars                                                              | (Rs.)                            | Particulars                                   | (Rs.)  |
| To Consignment A/c<br>[Goods damaged]                                    | 19,275                           | By Consignment A/c<br>[Load on goods damaged] | 3,750  |
| To Anand A/c<br>[Commission on sale of damaged goods -<br>Rs.5,750 × 5%] | 288                              | By Anand A/c<br>[Insurance claim received]    | 6,750  |
|                                                                          |                                  | By Anand A/c<br>[Sale of damaged goods]       | 5,750  |
|                                                                          |                                  | By P/L A/c [Net loss - B/Fig.]                | 3,313  |
|                                                                          | 19,563                           |                                               | 19,563 |

**Workings Note:****1. Value of Goods Damaged in Transit & Unsold Stock**

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

**Illustration 8.**

The Account Sales received from an agent disclosed that the total sales effected by him during 2022-23 amounted to Rs.4,50,000. This included Rs.3,12,500 for sales made at invoice price which is cost plus 25% and the balance at 10% above the invoice price. He incurred expenses to the tune of Rs.5,000 out of which a sum of Rs.1,800 is recurring in nature. Forwarding expenses of the Consignor totalled Rs.2,400. The Agent had remitted the balance due from him through Bank Draft after deducting the expenses. 5% commission on gross sales, bad debts Rs.850 and a Bills payable accepted by him for Rs.10,000.



The value of unsold stock at original cost lying with the Agent as on 31st March, 2023 amounted to Rs.50,000. You are required to prepare the Consignment Account and the Consignee's Account in the Books of the Consignor.

Solution:

| Books of Consignor                             |                     |                                                              |          |
|------------------------------------------------|---------------------|--------------------------------------------------------------|----------|
| Dr.                                            | Consignment Account |                                                              | Cr.      |
| Particulars                                    | (Rs.)               | Particulars                                                  | (Rs.)    |
| To Goods sent on Consignment A/c [WN:1]        | 5,00,000            | By Consignment Debtors A/c [Sale]                            | 4,50,000 |
| To Bank A/c [Expenses incurred]                |                     | By Goods sent on Consignment A/c [Load on goods sent - WN:1] | 1,00,000 |
| - Forwarding Expenses                          | 2,400               | By Consignment Stock A/c [WN:2]                              | 63,200   |
| To, Consignee A/c [Expenses paid by consignee] |                     |                                                              |          |
| - Non-recurring Expenses 3,200 [5,000 - 1,800] |                     |                                                              |          |
| - Recurring Expenses 1,800                     | 5,000               |                                                              |          |
| To Consignee A/c                               | 22,500              |                                                              |          |
| [Commission due: Rs.4,50,000 × 5%]             |                     |                                                              |          |
| To Consignment Debtors A/c [Bad debt]          | 850                 |                                                              |          |
| To Stock Reserve A/c                           | 12,500              |                                                              |          |
| [Load on unsold stock - WN: 2]                 |                     |                                                              |          |
| To P/L A/c                                     | 69,950              |                                                              |          |
| [Profit on consignment transferred]            |                     |                                                              |          |
|                                                | 6,13,200            |                                                              | 6,13,200 |

| Consignee Account                                |          |                                         |          |
|--------------------------------------------------|----------|-----------------------------------------|----------|
| Dr.                                              |          | Cr.                                     |          |
| Particulars                                      | (Rs.)    | Particulars                             | (Rs.)    |
| To Consignment Debtors A/c                       | 4,49,150 | By Bills Receivable A/c                 | 22,500   |
| [Collection from debtors: Rs.4,50,000 - Rs.850]+ |          | By Consignment A/c [Expenses incurred]  | 4,11,650 |
|                                                  |          | By Consignment A/c [Commission due]     | 10,000   |
|                                                  |          | By Bank A/c [Final remittance - B/Fig.] | 5,000    |
|                                                  | 4,49,150 |                                         | 4,49,150 |

Workings Note:

1. Goods sent on consignment

|                                                                        | (Rs.)    |
|------------------------------------------------------------------------|----------|
| Total sales                                                            | 4,50,000 |
| Less: Sales made at invoice price                                      | 3,12,500 |
| ∴ Sales made at invoice price plus 10%                                 | 1,37,500 |
| ∴ Total sales at invoice price [Rs.3,12,500 + (Rs.1,37,500 × 100/110)] | 4,37,500 |
| Less: Loading on above [Rs.4,37,500 × 25/125]                          | 87,500   |
| ∴ Cost of Goods sold                                                   |          |
| Add: Unsold stock                                                      | 3,50,000 |
| ∴ Cost of goods sent on consignment                                    | 50,000   |
| Add: Loading @ 25%                                                     | 4,00,000 |
| Goods sent on consignment [at IP]                                      | 1,00,000 |
|                                                                        | 5,00,000 |



## 2. Value of unsold stock

|                                                                                           | (Rs.)  |
|-------------------------------------------------------------------------------------------|--------|
| Original cost of unsold stock (given)                                                     | 50,000 |
| Add: Loading [ Rs.50,000 × 25%]                                                           | 12,500 |
|                                                                                           | 62,500 |
| Add: Proportionate expenses of consignor [ Rs.2,400 × 62,500 / 5,00,000]                  | 300    |
| Proportionate non-recurring expenses paid by consignee<br>[ Rs.3,200 × 62,500 / 5,00,000] | 400    |
| ∴ Value of unsold stock                                                                   | 63,200 |

### Illustration 9.

Mr. P consigned goods to Mr. D, his agent at Dhanbad, at cost price of Rs.40,000. Mr. P's accountant at the end of the year drew up the agent's account as below:

| Dr.             |        | Mr. D Account |        | Cr. |  |
|-----------------|--------|---------------|--------|-----|--|
| Particulars     | (Rs.)  | Particulars   | (Rs.)  |     |  |
| To Goods        | 40,000 | By Cash       | 25,000 |     |  |
| To Cash-Freight | 3,000  | By Balance    | 19,300 |     |  |
| To P/L A/c      | 1,300  |               |        |     |  |
|                 | 44,300 |               | 44,300 |     |  |

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

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

### Solution:

#### Books of Mr. P

| Dr.                                                        |        | Consignment to Dhanbad Account              |        | Cr. |  |
|------------------------------------------------------------|--------|---------------------------------------------|--------|-----|--|
| Particulars                                                | (Rs.)  | Particulars                                 | (Rs.)  |     |  |
| To Goods sent on Consignment A/c<br>[Rectification - WN:1] | 40,000 | By Consignment Debtors A/c<br>[Credit Sale] | 45,000 |     |  |
| To Mr. D's A/c<br>[Consignor's expenses - rectified]       |        | By Consignment Stock A/c<br>[WN: 2]         | 4,320  |     |  |
| - Freight                                                  | 3,000  |                                             |        |     |  |
| To Mr. D A/c [Expenses paid by consignee]                  |        |                                             |        |     |  |
| - Loading & Cartage 200                                    |        |                                             |        |     |  |
| - Other Expenses [ Rs.800 - Rs.200] 600                    | 800    |                                             |        |     |  |
| To Mr. D A/c<br>[Commission due: 5% on Rs.38,000]          | 1,900  |                                             |        |     |  |
| To Consignment Debtors A/c                                 |        |                                             |        |     |  |
| - Discount Allowed 2,000                                   |        |                                             |        |     |  |
| - Bad debt 1,000                                           | 3,000  |                                             |        |     |  |
| To P/L A/c [Profit on consignment transferred]             | 620    |                                             |        |     |  |
|                                                            | 49,320 |                                             | 49,320 |     |  |



| Dr.                        | Mr. D Account |                                       | Cr.    |
|----------------------------|---------------|---------------------------------------|--------|
| Particulars                | (Rs.)         | Particulars                           | (Rs.)  |
| To Balance b/f             | 19,300        | By Goods A/c [Rectification - WN: 1]  | 40,000 |
| To Consignment Debtors A/c | 38,000        | By Consignment A/c                    | 3,000  |
| [Collection from Debtors ] |               | [Expenses of consignor - rectified]   |        |
|                            |               | By P/L A/c                            |        |
|                            |               | [Profit wrongly included - rectified] | 1,300  |
|                            |               | By Consignment A/c [Commission due]   | 1,900  |
|                            |               | By Consignment A/c [Expenses paid]    | 800    |
|                            |               | By Balance c/f [Balance due: B/Fig.]  | 10,300 |
|                            | 57,300        |                                       | 57,300 |

| Dr.                        | Consignment Debtors Account |                               | Cr.    |
|----------------------------|-----------------------------|-------------------------------|--------|
| Particulars                | (Rs.)                       | Particulars                   | (Rs.)  |
| To Consignment A/c [Sales] | 45,000                      | By D A/c [Amount collected]   | 38,000 |
|                            |                             | By Consignment A/c            | 2,000  |
|                            |                             | [Discount Allowed]            |        |
|                            |                             | By Consignment A/c [Bad debt] | 1,000  |
|                            |                             | By Balance c/f [B/Fig.]       | 4,000  |
|                            | 45,000                      |                               | 45,000 |

**Workings Note:**

**1. Rectification of errors**

| Transaction               | Rectification Entry              |        |
|---------------------------|----------------------------------|--------|
| Goods sent on consignment | Consignment A/c Dr.              | 40,000 |
|                           | To Goods Sent on Consignment A/c | 40,000 |
|                           | Goods A/c Dr.                    | 40,000 |
|                           | To Mr. D A/c                     | 40,000 |
| Expenses paid by P        | Consignment A/c Dr.              | 3,000  |
|                           | To Mr. D A/c                     | 3,000  |
| Cash received from Mr. D  | No Rectification Entry is needed |        |
| Profit                    | P/L A/c Dr.                      | 1,300  |
|                           | To Mr. D A/c                     | 1,300  |

**2. Cost price of unsold stock**

|                              | (Rs.)  | (Rs.)  |
|------------------------------|--------|--------|
| Cost of goods sent           |        | 40,000 |
| Less: Cost of goods sold:    |        |        |
| Sales                        | 45,000 |        |
| Less: Margin over Cost Price | 9,000  | 36,000 |
| ∴ Cost of unsold stock       |        | 4,000  |

**3. Value of Unsold Stock**

|                                                                      | (Rs.) |
|----------------------------------------------------------------------|-------|
| Cost of unsold goods [WN:2]                                          | 4,000 |
| Add: Proportionate expenses of consignor [ Rs.3,000 × 4,000/ 40,000] | 300   |
| Add: Proportionate expenses of consignee [ Rs.200 × 4,000 / 40,000]  | 20    |
|                                                                      | 4,320 |



**Illustration 10.**

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

**Solution:**

| Books of Consignor                        |                     |                                                                      |          |
|-------------------------------------------|---------------------|----------------------------------------------------------------------|----------|
| Dr.                                       | Consignment Account |                                                                      | Cr.      |
| Particulars                               | (₹)                 | Particulars                                                          | (₹)      |
| To Goods sent on Consignment A/c          | 5,00,000            | By Consignment Debtors A/c<br>[Credit Sale: WN:1]                    | 4,50,000 |
| - Goods sent at IP [WN:2]                 |                     | By Goods sent on Consignment A/c<br>[Loading on unsold stock - WN:2] | 1,00,000 |
| To Bank A/c [Expenses incurred]           | 2,400               | By Consignment Stock A/c<br>[WN:3]                                   | 63,200   |
| - Forwarding Expenses                     |                     |                                                                      |          |
| To Agent A/c [Expenses paid by consignee] |                     |                                                                      |          |
| - Non-recurring Expenses [5,000 - 1,800]  | 3,200               |                                                                      |          |
| - Recurring Expenses                      | 1,800               |                                                                      |          |
| Total (Expenses paid)                     | 5,000               |                                                                      |          |
| To Agent A/c [Commission due: WN:1]       | 22,500              |                                                                      |          |
| To Consignment Debtors A/c [Bad debt]     | 850                 |                                                                      |          |
| To Stock Reserve A/c                      |                     |                                                                      |          |
| [Loading on unsold stock - WN:3]          | 12,500              |                                                                      |          |
| To P/L A/c                                |                     |                                                                      |          |
| [Profit on consignment transferred]       | 69,950              |                                                                      |          |
| Total                                     | 6,13,200            | Total                                                                | 6,13,200 |

| Dr.                                               | Agent Account |                                            | Cr.      |
|---------------------------------------------------|---------------|--------------------------------------------|----------|
|                                                   | (Rs.)         | Particulars                                | (Rs.)    |
| To Consignment Debtors A/c                        | 4,49,150      | By Bills Receivable A/c [Advance received] | 10,000   |
| [Collection from credit Sales:<br>4,50,000 - 850] |               | By Consignment A/c [Expenses incurred]     | 5,000    |
|                                                   |               | By Consignment A/c [Commission due - WN:1] | 22,500   |
|                                                   |               | By Bank A/c [Final remittance]             | 4,11,650 |
|                                                   | 4,49,150      |                                            | 4,49,150 |

**Workings Note:**

1. Calculation of sales and commission due to consignee:

Let total sales be Rs.X.

∴ Commission = 5% of X = 0.05 X.

Now from Consignee A/c:





$$\begin{aligned} \text{Final remittance from consignee} &= \text{Collection from Consignment Debtors} - \text{B/R received (as advance)} - \text{Expenses incurred by consignee} - \text{Commission due} \end{aligned}$$

$$\text{Or, } 4,11,650 = (X - \text{Rs.}850) - 10,000 - 5,000 - 0.05 X$$

$$\text{Or, } 4,11,650 = 0.95X - \text{Rs.}15,850$$

$$\text{Or, } 0.95X = \text{Rs.}4,27,500$$

$$\text{Or, } X = \text{Rs.}4,50,000$$

$$\begin{aligned} \therefore 0.05X &= \text{Rs.}4,50,000 \times 5\% \\ &= \text{Rs.}22,500 \end{aligned}$$

## 2. Goods sent on consignment:

According to the problem:

Total Sales = Sales made at invoice price + Sales made at invoice price plus 10% Let, sales made at invoice price = Y

$$\therefore \text{Sales made at invoice price plus 10\%} = 0.44Y$$

Now, total sales = Rs.4,50,000 (Computed in WN:1)

$$\therefore \text{Rs.}4,50,000 = Y + 0.44Y$$

$$\text{Or, } Y = \text{Rs.}4,50,000 / 1.44 = \text{Rs.}3,12,500 \text{ (i.e. Sales made at invoice price)}$$

$$\therefore 0.44Y = \text{Rs.}1,37,500 \text{ (i.e. Sales made at invoice price plus 10\%)}$$

Now, the invoice price of the goods which is sold at a higher rate [i.e. IP + 10% thereof]

$$= \text{Rs.}1,37,500 \times 100 / 110$$

$$= \text{Rs.}1,25,000$$

$$\therefore \text{Invoice price of goods sold} = \text{Rs.}3,12,500 + \text{Rs.}1,25,000$$

$$= \text{Rs.}4,37,500$$

$$\therefore \text{Cost of goods sold} = \text{Rs.}4,37,500 \times 100 / 125$$

$$= \text{Rs.}3,50,000$$

$$\therefore \text{Goods sent on consignment (at cost)} = \text{Cost of goods sold} + \text{unsold stock}$$

$$= \text{Rs.}3,50,000 + \text{Rs.}50,000$$

$$= \text{Rs.}4,00,000$$

Goods sent on consignment (at invoice price) = Cost of goods sent + Loading @ 25%

$$= \text{Rs.}4,00,000 + 25\% \text{ thereof}$$

$$= \text{Rs.}5,00,000$$

## 3. Valuation of unsold stock:

|                                                                                   | (Rs.)  |
|-----------------------------------------------------------------------------------|--------|
| Cost of unsold stock                                                              | 50,000 |
| Add: Load [ Rs.50,000 × 25% ]                                                     | 12,500 |
| $\therefore$ IP of unsold stock                                                   | 62,500 |
| Add: Consignor's proportionate expenses [ Rs.2,400 × 62,500 / 5,00,000 ]          | 300    |
| Consignee's proportionate non-recurring expenses [ Rs.3,200 × 62,500 / 5,00,000 ] | 400    |
| $\therefore$ Value of unsold stock                                                | 63,200 |

### Illustration 11.

Daga of Kolkata sent to Lodha of Kanpur goods costing Rs.40,000 on consignment at a commission of 5% on gross sales. The packaging and forwarding charges incurred by consignor amounted to Rs.4,000. The consignee paid freight and carriage of Rs.1,000 at Kanpur. Three-fourth of the





goods were sold for Rs.48,000. Then the consignee remitted the amount due from him to consignor along with the account sale, but he desired to return the goods still lying unsold with him as he was not agreeable to continue the arrangement of consignment. He was then persuaded to continue on joint venture basis sharing profit or loss as Daga 3/5th and Lodha 2/5th.

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

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

**Solution:**

**Books of Daga**

| Dr.                                    |        | Consignment to Lodha Account                                               |        | Cr. |        |
|----------------------------------------|--------|----------------------------------------------------------------------------|--------|-----|--------|
| Particulars                            | (Rs.)  | Particulars                                                                | (Rs.)  |     |        |
| To Goods Sent on Consignment A/c       | 40,000 | By Lodha's A/c (sales)                                                     | 48,000 |     |        |
| To Bank A/c<br>(packing & dispatching) | 4,000  | By Joint Venture with Lodha A/c<br>(stock transferred on conversion to JV) | 11,250 |     |        |
| To Lodha's A/c :                       |        |                                                                            |        |     |        |
| Freight & Carriage                     | 1,000  |                                                                            |        |     |        |
| Commission                             | 2,400  |                                                                            |        |     |        |
| To P & L A/c                           | 11,850 |                                                                            |        |     |        |
|                                        | 59,250 |                                                                            |        |     | 59,250 |

| Dr.                        |        | Lodha's Account                 |        | Cr. |  |
|----------------------------|--------|---------------------------------|--------|-----|--|
| Particulars                | (Rs.)  | Particulars                     | (Rs.)  |     |  |
| To Consignment A/c - sales | 48,000 | By Consignment A/c- expenses    | 1,000  |     |  |
|                            |        | By Consignment A/c - commission | 2,400  |     |  |
|                            |        | By Cash A/c                     | 44,600 |     |  |
|                            | 48,000 |                                 | 48,000 |     |  |

| Dr.                         |        | Joint Venture with Lodha Account |        | Cr. |        |
|-----------------------------|--------|----------------------------------|--------|-----|--------|
| Particulars                 | (Rs.)  | Particulars                      | (Rs.)  |     |        |
| To Consignment to Lodha A/c | 11,250 | By Balance c/d                   | 42,280 |     |        |
| To Purchase A/c             | 20,000 |                                  |        |     |        |
| To Bank A/c - expenses      | 2,000  |                                  |        |     |        |
| To P & L A/c (profit)       | 9,030  |                                  |        |     |        |
|                             | 42,280 |                                  |        |     | 42,280 |



## Books of Lodha

| Dr.                      |        | Daga's Account (as consignor) |        | Cr. |
|--------------------------|--------|-------------------------------|--------|-----|
| Particulars              | (Rs.)  | Particulars                   | (Rs.)  |     |
| To Cash A/c- expenses    | 1,000  | By Bank A/c - sales           | 48,000 |     |
| To Commission A/c        | 2,400  |                               |        |     |
| To Bank A/c - remittance | 44,600 |                               |        |     |
|                          | 48,000 |                               | 48,000 |     |

| Dr.                    |        | Joint Venture with Daga Account |        | Cr. |
|------------------------|--------|---------------------------------|--------|-----|
| Particulars            | (Rs.)  | Particulars                     | (Rs.)  |     |
| To Cash A/c - expenses | 1,700  | By Bank A/c - sales             | 50,000 |     |
| To P & L A/c (profit)  | 6,020  |                                 |        |     |
| To Balance c/d         | 42,280 |                                 |        |     |
|                        | 50,000 |                                 | 50,000 |     |

Working note:

## Memorandum Joint Venture Account

| Particulars            | (Rs.)  | Particulars          | (Rs.)  |
|------------------------|--------|----------------------|--------|
| To Daga A/c - goods    | 11,250 | By Lodha A/c - sales | 50,000 |
| To Daga A/c- goods     | 20,000 |                      |        |
| To Daga A/c- expenses  | 2,000  |                      |        |
| To Lodha A/c- expenses | 1,700  |                      |        |
| To Net Profit :        |        |                      |        |
| Daga 3/5th Share       | 9,030  |                      |        |
| Lodha 2/5th share      | 6,020  |                      |        |
|                        | 50,000 |                      | 50,000 |



QUESTIONS FROM PYP'S

Question 1.

(Jun 24 7M)

Kush of Kanpur sent to Jatin of Jaipur, a consignment of 400 electric sewing machine costing each 24,000 (invoice price Rs.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

Answer:

Books of Kush  
Consignment Account

| Dr                                |             | Cr                       |             |
|-----------------------------------|-------------|--------------------------|-------------|
| Dr. Particulars                   | Amount (₹)  | Cr. Particulars          | Amount (₹)  |
| 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   |                          |             |
| Total                             | 1,27,28,400 | Total                    | 1,27,28,400 |

| Dr.                |             | Cr                               |             |
|--------------------|-------------|----------------------------------|-------------|
| Particulars        | Amount (₹)  | Particulars                      | Amount (₹)  |
| 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 |
| Total              | 1,12,70,000 | Total                            | 1,12,70,000 |

Loss In Transit Account

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

Alternatively:

In the Book of Kush

| Dr                                  |             | Cr.                              |             |
|-------------------------------------|-------------|----------------------------------|-------------|
| Particulars                         | Amount (₹)  | Particulars                      | Amount (₹)  |
| 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      | By Jatin                         | 1,12,70,000 |



|                               |             |                                      |             |
|-------------------------------|-------------|--------------------------------------|-------------|
| To Jatin A/c - Clearance Exp. | 31,200      | By Loss in Transit A/c (10 Machines) | 2,42,400    |
| To Jatin A/c - Selling Exp.   | 5,10,000    | By Consignment Stock A/c             | 15,16,000   |
| To Jatin A/c - Commission     | 6,90,125    |                                      |             |
| To Stock Reserve A/c          | 3,00,000    |                                      |             |
| To P/L A/c                    | 18,01,075   |                                      |             |
| Total                         | 1,54,28,400 | Total                                | 1,54,28,400 |

**Question 2.**

(Jun 23 6M)

M/s Rampur & Co. of Hyderabad consigned 2400 cases of glassware costing Rs.70 each for sale on consignment basis to R Co. of Chennai for sale on commission basis subject to the (a) normal selling price per case Rs.70, (b) consignee's commission to be calculated at 5% on normal selling price and 1% additional commission if selling price is more than normal price and one-fourth per cent del credere commission on total sale to guarantee collection on account of credit sales. The R Co. reported the following sales as: Cash sales of 600, 500, 600 and 700 cases sold at Rs.70, 80 each, 75 each and 80 each. Ascertain total commission due to the consignee.

**Answer:**

| Particulars                                  | 600 cases | 500 cases | 600 cases | 700 cases |
|----------------------------------------------|-----------|-----------|-----------|-----------|
| Selling Price/case                           | ₹70       | ₹80       | ₹75       | ₹80       |
| Total Sales                                  | ₹42,000   | ₹40,000   | ₹45,000   | ₹56,000   |
| Normal Commission @5%                        | ₹2,500    | ₹2,000    | ₹2,250    | ₹2,800    |
| (+) Additional Commission @ 1%               | ₹400      | ₹400      | ₹450      | ₹560      |
| (+) Del credere commission @ $\frac{1}{4}$ % | ₹105      | ₹100      | ₹112.5    | ₹140      |
| Total Commission                             | ₹2,205    | ₹2,600    | ₹2,812.5  | ₹3,500    |



## Solved Cases

## Question 1.

Hyder is a producer of sandalwood miniature handicraft items having his business at the city of Mysore, Karnataka. He has gathered that even though Mysore is a popular tourist destination in South India, Agra happens to be the most popular destination, especially for foreign tourists in India. He was interested in selling his handcrafted items in Agra, but lacked the resources to open a full-fledged store in Agra. So, the only viable option available to him was to appoint an agent who would sell the handicraft items on his behalf for a commission. With this objective in mind, he searched for a reliable agent in Agra and got the reference of a popular business agent in Agra named Jalal from Yasin, one of his long-term business partner. After a few formal meeting and negotiations, Jalal was officially appointed as Hyder's agent who would receive goods from Hyder on consignment basis and sell them to customers in Agra.

On April 1, 2022, Hyder sent goods to Jalal of Agra. However, Hyder lost all the documents that recorded the details of the goods sent on consignment. The only information available from his office is that the forwarding expenses incurred by of him for sending the goods to Agra was Rs.12,000. Hyder gathered the following information from Jalal in relation to this consignment:

- He incurred expenses to the tune of Rs.25,000 out of which a sum of Rs.9,000 is recurring in nature.
- The Jalal had remitted the balance due from him through Bank Draft after deducting the expenses, 5% commission on gross sales, bad debts Rs.4,250 and a Bills payable accepted by him for Rs.50,000.
- The value of unsold stock at original cost lying with Jalal as on March 31, 2023 amounted to Rs.2,50,000.
- Jalal sent an Account Sales reflecting the total sales effected by him during 2022-23 of Rs.22,50,000. This included Rs.15,62,500 for sales made at invoice price which is cost plus 25% and the balance at 10% above the invoice price.
  - i. What is the amount of goods sent on consignment by Hyder to Jalal?
  - ii. Ascertain the amount of profit or loss made by Hyder out of this consignment to Agra. Show by drafting the relevant ledger account.
  - iii. Determine the amount of final remittance made by Jalal to Hyder by drafting Jalal Account in the books of Hyder.

Answer :

- i. Calculation of Goods Sent on Consignment by Hyder to Jalal

| Particulars                                                           | (Rs.)     |
|-----------------------------------------------------------------------|-----------|
| Total sales                                                           | 22,50,000 |
| Less: Sales made at invoice price                                     | 15,62,500 |
| Sales made at invoice price plus 10%                                  | 6,87,500  |
| Total sales at invoice price [Rs.15,62,500 + (Rs.6,87,500 × 100/110)] | 21,87,500 |
| Less: Loading on above [Rs.21,87,500 × 25/125]                        | 4,37,500  |
| Cost of Goods sold                                                    | 17,50,000 |
| Add: Unsold stock                                                     | 2,50,000  |
| Cost of goods sent on consignment                                     | 20,00,000 |
| Add: Loading @ 25%                                                    | 5,00,000  |
| Goods sent on consignment [at IP]                                     | 25,00,000 |



ii. Profit on consignment is Rs.3,49,750.

| Dr.                                                        |           | Consignment to Agra Account   |           | Cr.       |
|------------------------------------------------------------|-----------|-------------------------------|-----------|-----------|
| Particulars                                                | (Rs.)     | Particulars                   | (Rs.)     |           |
| To Goods sent on Consignment A/c                           | 25,00,000 | By Consignment Debtors A/c    | 22,50,000 |           |
| To Bank A/c [Expenses incurred]                            | 12,000    | [Sale]                        |           |           |
| - Forwarding Expenses                                      |           | By Goods sent on Consignment  |           |           |
| To Consignee A/c                                           |           | A/c [Load on goods sent]      | 5,00,000  |           |
| [Expenses paid by consignee]                               |           | By Consignment Stock A/c [WN] | 3,16,000  |           |
| - Non-recurring Expense                                    |           |                               |           |           |
| [25,000 - 9,000]                                           | 16,000    |                               |           |           |
| - Recurring Expenses                                       | 9,000     |                               |           |           |
|                                                            | 25,000    |                               |           |           |
| To Consignee A/c                                           | 1,12,500  |                               |           |           |
| [Commission due: Rs.22,50,000 × 5%]                        |           |                               |           |           |
| To Consignment Debtors A/c                                 | 4,250     |                               |           |           |
| [Bad debt]                                                 |           |                               |           |           |
| To Stock Reserve A/c                                       | 62,500    |                               |           |           |
| [Load on unsold stock - WN]                                |           |                               |           |           |
| To P/L A/c [Profit on consignment transferred] (Bal. fig.) | 3,49,750  |                               |           |           |
|                                                            | 30,66,000 |                               |           | 30,66,000 |

iii. Amount of final remittance made by Jalal to Hyder is - Rs.20,58,250.

**Jalal Account**

| Particulars                                  | (Rs.)     | Particulars                    | (Rs.)     |
|----------------------------------------------|-----------|--------------------------------|-----------|
| To Consignment Debtors A/c                   | 22,45,750 | By Bills Receivable A/c        | 50,000    |
| [Collection from debtors: 22,50,000 - 4,250] |           | By Consignment A/c             | 25,000    |
|                                              |           | [Expenses incurred]            |           |
|                                              |           | By Consignment A/c             | 1,12,500  |
|                                              |           | [Commission due]               |           |
|                                              |           | By Bank A/c                    | 20,58,250 |
|                                              |           | [Final remittance - Bal. Fig.] |           |
|                                              | 22,45,750 |                                | 22,45,750 |

**Working Note:**

**Statement showing valuation of Unsold Stock:**

| Particulars                                                                               | (Rs.)    |
|-------------------------------------------------------------------------------------------|----------|
| Original cost of unsold stock (given)                                                     | 2,50,000 |
| Add: Loading [Rs.50,000 × 25%]                                                            | 62,500   |
|                                                                                           | 3,12,500 |
| Add: Proportionate expenses of consignor [Rs.12,000 × 3,12,500/25,00,000]                 | 1,500    |
| Proportionate non-recurring expenses paid by consignee [Rs.16,000 × 3,12,500 / 25,00,000] | 2000     |
| Value of unsold stock                                                                     | 3,16,000 |





## 4. JOINT VENTURE

### ILLUSTRATIONS

#### Illustration 1.

A and B enter into a joint venture sharing profits and losses in the ratio 3:2. A purchased goods costing Rs.200000.

B sold 95% of goods for Rs.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 Rs.1,50,000. Calculate B's share of profit.

**Solution:**

Statement showing calculation of profit on joint venture

|                                                    | (Rs.)    | (Rs.)    |
|----------------------------------------------------|----------|----------|
| Sales                                              |          | 2,50,000 |
| Closing stock (5% of Rs.2,00,000)                  |          | 10,000   |
|                                                    |          | 2,60,000 |
|                                                    | (Rs.)    | (Rs.)    |
| Less: Purchase                                     | 2,00,000 |          |
| A's commission (Rs.2,00,000 × 1%)                  | 2,000    |          |
| B's commission (Rs.2,50,000 × 5%)                  | 12,500   |          |
| Discount charges (Rs.2,00,000 × 80%) - Rs.1,50,000 | 10,000   | 2,24,500 |
| Net Profit                                         |          | 35,500   |

B's share of Profit (Rs.35,500 × 2/5) = Rs.14,200.

#### Illustration 2.

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

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

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

**Solution:**

| Dr.                        |          | Joint Venture Account |                   | Cr. |          |
|----------------------------|----------|-----------------------|-------------------|-----|----------|
| Particulars                |          | (Rs.)                 | Particulars       |     | (Rs.)    |
| To Sagar A/c (Material)    |          | 35,000                | By Joint Bank A/c |     | 5,00,000 |
| To Pakhi A/c:              |          |                       | By Pakhi A/c      |     | 15,000   |
| Architect fees             |          | 20,000                | Unused materials  |     |          |
| To Joint Bank A/c          |          |                       |                   |     |          |
| Materials                  | 2,80,000 |                       |                   |     |          |
| Wages                      | 1,20,000 | 4,00,000              |                   |     |          |
| To Profit on Joint Venture |          |                       |                   |     |          |



|       |        |          |          |
|-------|--------|----------|----------|
| Sagar | 30,000 |          |          |
| Pakhi | 30,000 | 60,000   |          |
|       |        | 5,15,000 | 5,15,000 |

| Dr. Co-Venturers Account |             |             | Cr.                  |             |             |
|--------------------------|-------------|-------------|----------------------|-------------|-------------|
| Particulars              | Sagar (Rs.) | Pakhi (Rs.) | Particulars          | Sagar (Rs.) | Pakhi (Rs.) |
| To Joint Venture A/c     | -           | 15,000      | By Joint Bank A/c    | 1,25,000    | 75,000      |
| To Joint Bank A/c        | 1,90,000    | 1,10,000    | By Joint Venture A/c | 35,000      | 20,000      |
|                          |             |             | By Joint Venture A/c | 30,000      | 30,000      |
|                          | 1,90,000    | 1,25,000    |                      | 1,90,000    | 1,25,000    |

| Dr. Joint Bank Account |          | Cr.                  |          |
|------------------------|----------|----------------------|----------|
| Particulars            | (Rs.)    | Particulars          | (Rs.)    |
| To Sagar               | 1,25,000 | By Joint Venture A/c | 4,00,000 |
| To Pakhi               | 75,000   | By Sagar             | 1,90,000 |
| To Joint Venture       | 5,00,000 | By Pakhi             | 1,10,000 |
|                        | 7,00,000 |                      | 7,00,000 |

**Illustration 3.**

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

**Solution:**

| Dr. Joint Venture Account                  |       |        | Cr.                       |        |
|--------------------------------------------|-------|--------|---------------------------|--------|
| Particulars                                | (Rs.) | (Rs.)  | Particulars               | (Rs.)  |
| To X (goods)                               |       | 10,000 | By Joint Bank A/c (sales) | 45,000 |
| To Y (expenses)                            |       | 2,000  |                           |        |
| To Joint Bank A/c (goods)                  |       | 15,000 |                           |        |
| To Joint Bank A/c (expenses)               |       | 4,000  |                           |        |
| To Profit on Joint Venture transferred to: |       |        |                           |        |
| X (4/7 share)                              | 8,000 |        |                           |        |
| Y (3/7 share)                              | 6,000 | 14,000 |                           |        |
|                                            |       | 45,000 |                           | 45,000 |

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

|                            | X's contribution (Rs.) | Y's contribution (Rs.) |
|----------------------------|------------------------|------------------------|
| Amount contributed in cash | 10,000                 | 13,000                 |
| Expenses paid by Y         |                        | 2,000                  |
| Goods purchased by X       | 10,000                 |                        |
|                            | 20,000                 | 15,000                 |

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



| Dr.                          | Joint Bank Account |                                 | Cr.    |
|------------------------------|--------------------|---------------------------------|--------|
| Particulars                  | (Rs.)              | Particulars                     | (Rs.)  |
| To X                         | 10,000             | By Joint Venture A/c (expenses) | 4,000  |
| To Y                         | 13,000             | By Joint Venture A/c (goods)    | 15,000 |
| To Joint Venture A/c (sales) | 45,000             | By X                            | 28,000 |
|                              |                    | By Y                            | 21,000 |
|                              | 68,000             |                                 | 68,000 |

| Dr.               | X Account |                               | Cr.    |
|-------------------|-----------|-------------------------------|--------|
| Particulars       | (Rs.)     | Particulars                   | (Rs.)  |
| To Joint Bank A/c | 28,000    | By Joint Bank A/c             | 10,000 |
|                   |           | By Joint Venture A/c (goods)  | 10,000 |
|                   |           | By Joint Venture A/c (profit) | 8,000  |
|                   | 28,000    |                               | 28,000 |

| Dr.               | Y Account |                                 | Cr.    |
|-------------------|-----------|---------------------------------|--------|
| Particulars       | (Rs.)     | Particulars                     | (Rs.)  |
| To Joint Bank A/c | 21,000    | By Joint Bank A/c               | 13,000 |
|                   |           | By Joint Venture A/c (expenses) | 2,000  |
|                   |           | By Joint Venture A/c (profit)   | 6,000  |
|                   | 21,000    |                                 | 21,000 |

**Illustration 4.**

Anil and Mukesh enter into a venture to take a job for Rs.2,40,000. They provide the following information regarding the expenditure incurred by them:

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

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

- (a) Joint Venture Account and Mukesh Account in the books of Anil; and  
 (b) Joint Venture Account and Anil Account in the books of Mukesh.

**Solution:**

**(a) In the books of Anil**

| Dr.             | Joint Venture Account |                                  | Cr.      |
|-----------------|-----------------------|----------------------------------|----------|
| Particulars     | (Rs.)                 | Particulars                      | (Rs.)    |
| To Bank A/c:    |                       | By Bank A/c : Contract price     | 2,40,000 |
| Materials       | 68,000                | By Mukesh A/c : Plant taken over | 10,000   |
| Cement          | 13,000                |                                  |          |
| Architects Fees | 10,000                |                                  |          |
| To Mukesh A/c:  |                       |                                  |          |
| Materials       | 50,000                |                                  |          |
| Cement          | 17,000                |                                  |          |



|                                |          |  |          |
|--------------------------------|----------|--|----------|
| Wages                          | 27,000   |  |          |
| License Fees                   | 5,000    |  |          |
| Plant                          | 20,000   |  |          |
| To Mukesh A/c: Share of Profit | 20,000   |  |          |
| To P/L A/c : Share of Profit   | 20,000   |  |          |
|                                | 2,50,000 |  | 2,50,000 |

| Dr.                  |          | Mukesh's Account (Co-venturer) |          | Cr. |  |
|----------------------|----------|--------------------------------|----------|-----|--|
| Particulars          | (Rs.)    | Particulars                    | (Rs.)    |     |  |
| To Joint Venture A/c | 10,000   | By Joint venture A/c           | 1,19,000 |     |  |
| To Balance c/d       | 1,29,000 | By Plant A/c                   | 20,000   |     |  |
|                      | 1,39,000 |                                | 1,39,000 |     |  |

**(b) In the books of Mukesh**

| Dr.                           |          | Joint Venture Account           |          | Cr. |  |
|-------------------------------|----------|---------------------------------|----------|-----|--|
| Particulars                   | (Rs.)    | Particulars                     | (Rs.)    |     |  |
| To Anil A/c:                  |          | By Anil A/c : Contract Price    | 2,40,000 |     |  |
| Materials                     | 68,000   | By Plant A/c : Plant taken over | 10,000   |     |  |
| Cement                        | 13,000   |                                 |          |     |  |
| Architects Fees               | 10,000   |                                 |          |     |  |
| To Bank A/c:                  |          |                                 |          |     |  |
| Materials                     | 50,000   |                                 |          |     |  |
| Cement                        | 17,000   |                                 |          |     |  |
| Wages                         | 27,000   |                                 |          |     |  |
| License Fees                  | 5,000    |                                 |          |     |  |
| Plant                         | 20,000   |                                 |          |     |  |
| To P/L A/c: Share of Profit   | 20,000   |                                 |          |     |  |
| To Anil A/c : Share of Profit | 20,000   |                                 |          |     |  |
|                               | 2,50,000 |                                 | 2,50,000 |     |  |

| Dr.                  |          | Anil Account (Co-venturer) |          | Cr. |  |
|----------------------|----------|----------------------------|----------|-----|--|
| Particulars          | (Rs.)    | Particulars                | (Rs.)    |     |  |
| To Joint Venture A/c | 2,40,000 | By Joint Venture A/c       | 91,000   |     |  |
|                      |          | By Joint Venture A/c       | 20,000   |     |  |
|                      |          | By Balance C/d             | 1,29,000 |     |  |
|                      | 2,40,000 |                            | 2,40,000 |     |  |

**Illustration 5.**

Sahani and Sahu entered into a joint venture to sale 800 bags of food grains. The business risks are to be shared in the ratio of 3:2 between them. Sahani supplied 400 bags at Rs.800 per bag and paid freight Rs.8,000 and insurance Rs.2,000. Sahu sent 400 bags at Rs.1,000 per bag. He paid Rs.2,500 as freight, Insurance Rs.8,000 and sundry expenses as Rs.500. Sahani paid Rs.50,000 as advance to Sahu. They appointed Sandeep as agent for sale of grains. Sandeep sold all bags at Rs.1,200 per bag. He deducted Rs.21,000 as his expenses and commission of 5% on sales. He remitted Rs.6,00,000 by cheque to Sahani and the balance to Sahu by way of a bill of exchange. The co-venturers settled their accounts. Prepare Joint Venture A/c, Sahu's A/c and Sandeep's A/c in the books of Mr. Sahani.



Solution:

## Books of Sahani

| Dr. Joint Venture Account                    |          | Cr.                                 |          |
|----------------------------------------------|----------|-------------------------------------|----------|
| Particulars                                  | (Rs.)    | Particulars                         | (Rs.)    |
| To Food grains A/c (400 × 800)               | 3,20,000 | By Sandeep A/c - Sales (800 × 1200) | 9,60,000 |
| To Bank A/c - freight & insurance            | 10,000   |                                     |          |
| To Sahu A/c - food grains (400 × 1000)       | 4,00,000 |                                     |          |
| To Sahu A/c - expenses (8,000 + 2,500 + 500) | 11,000   |                                     |          |
| To Sandeep A/c - Expenses                    | 21,000   |                                     |          |
| To Sandeep A/c - Commission 5%               | 48,000   |                                     |          |
| To Profit & Loss A/c (3/5th share)           | 90,000   |                                     |          |
| To Sahu A/c (2/5th share)                    | 60,000   |                                     |          |
|                                              | 9,60,000 |                                     | 9,60,000 |

| Dr. Sahu's Account (Co-venturer) |          | Cr.                                                      |          |
|----------------------------------|----------|----------------------------------------------------------|----------|
| Particulars                      | (Rs.)    | Particulars                                              | (Rs.)    |
| To Bank A/c - advance            | 50,000   | By Joint Venture A/c - grains                            | 4,00,000 |
| To Sandeep A/c - bill            | 2,91,000 | By Joint Venture A/c - expenses (Rs.8,000 + 2,500 + 500) | 11,000   |
|                                  |          |                                                          |          |
| To Bank A/c - final balance      | 1,30,000 | By Joint Venture A/c - profit share                      | 60,000   |
|                                  | 4,71,000 |                                                          | 4,71,000 |

| Dr. Sandeep's Account (Co-venturer) |          | Cr.                               |          |
|-------------------------------------|----------|-----------------------------------|----------|
| Particulars                         | (Rs.)    | Particulars                       | (Rs.)    |
| To Joint Venture A/c - sales        | 9,60,000 | By Joint Venture A/c - expenses   | 21,000   |
|                                     |          | By Joint Venture A/c - commission | 48,000   |
|                                     |          | By Bank A/c - cheque received     | 6,00,000 |
|                                     |          | By Sahu A/c - Bill                | 2,91,000 |
|                                     | 9,60,000 |                                   | 9,60,000 |

## Illustration 6.

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

Prepare Joint Venture with Om Account in the books of Hari. Also show the Memorandum Joint Venture Account.

Solution:

## In the Books of Hari Memorandum Joint Venture Account

| Particulars                          | (Rs.)    | Particulars       | (Rs.)    |
|--------------------------------------|----------|-------------------|----------|
| To Bank A/c [Purchase] (10,000 × 10) | 1,00,000 | By Om A/c [Sales] | 1,50,000 |



|                                        |          |                  |          |
|----------------------------------------|----------|------------------|----------|
| To Bank A/c [Expense] (1,000 × 10)     | 10,000   | (Rs.15,000 × 10) |          |
| To Discount A/c (Bill discounted)      | 5,000    |                  |          |
| To Om A/c [Expenses]                   | 2,000    |                  |          |
| To Om A/c [Commission] (1,50,000 × 5%) | 7,500    |                  |          |
| To P/L A/c:                            |          |                  |          |
| Hari                                   | 15,300   |                  |          |
| Om                                     | 10,200   | 25,500           |          |
|                                        | 1,50,000 |                  | 1,50,000 |

| Dr.                          |          | Joint Venture with Om Account |        | Cr. |          |
|------------------------------|----------|-------------------------------|--------|-----|----------|
| Particulars                  | (Rs.)    | Particulars                   | (Rs.)  |     |          |
| To Bank A/c [Purchase]       | 1,00,000 | By Bills Receivable A/c       | 50,000 |     |          |
| To Bank A/c [Expense]        | 10,000   | By Balance c/d                | 80,300 |     |          |
| To Discount on Bill A/c      | 5,000    |                               |        |     |          |
| To P/L A/c [Share of profit] | 15,300   |                               |        |     |          |
|                              | 1,30,300 |                               |        |     | 1,30,300 |

**Illustration 7.**

Jiban and Mitrik decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3. They guaranteed the subscription at par of 50 lakhs shares of Rs.10 each in Rainbow Ltd. and to pay all expenses up to allotment in consideration of Rainbow Ltd. issuing to them 3 lakhs other shares of Rs.10 each fully paid together with a commission @ 5% in cash which will be taken by Jiban and Mitrik in 3:2.

Co-ventures introduced cash as follows:

|        |                     | (Rs.)    |
|--------|---------------------|----------|
| Jiban  | Stamp charges etc.  | 1,65,000 |
|        | Advertising charges | 1,35,000 |
|        | Car expenses        | 1,54,000 |
|        | Printing Charges    | 1,88,000 |
| Mitrik | Rent                | 1,30,000 |
|        | Solicitors' charges | 80,000   |

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

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

You are required to prepare:

- Memorandum Joint Venture A/c
- Joint Venture A/c with Mitrik in the books of Jiban

**Solution:**

**Memorandum Joint Venture Account**

| Particulars    | (Rs.)     | Particulars      | (Rs.)     |
|----------------|-----------|------------------|-----------|
| To Mitrik:     |           | By Jiban         |           |
| Cost of shares | 12,00,000 | Commission (3/5) | 15,00,000 |
| To Jiban:      |           | By Mitrik        | 10,00,000 |
| Stamp charges  | 1,65,000  | Commission (2/5) |           |





|                        |           |                         |           |
|------------------------|-----------|-------------------------|-----------|
| Advertising charges    | 1,35,000  | By Jiban                | 25,00,000 |
| Printing charges       | 1,88,000  | Sale proceeds of shares |           |
| Car expenses           | 1,54,000  | By Mitrik               | 12,50,000 |
| To Mitrik:             |           | Sale proceeds of shares |           |
| Rent                   | 1,30,000  |                         |           |
| Solicitor's charges    | 80,000    |                         |           |
| To Profit on venture : |           |                         |           |
| Jiban (2/3)            | 27,98,667 |                         |           |
| Mitrik (1/3)           | 13,99,333 |                         |           |
|                        | 62,50,000 |                         | 62,50,000 |

## In the books of Jiban

Dr.

## Joint Venture with Mitrik Account

Cr.

| Particulars                                                                | (Rs.)     | Particulars                       | (Rs.)     |
|----------------------------------------------------------------------------|-----------|-----------------------------------|-----------|
| To Bank:                                                                   |           | By Bank (commission)              | 15,00,000 |
| (Stamp charges, advertising charges,<br>car expenses and printing charges) | 6,42,000  |                                   |           |
| To Share of profit                                                         | 27,98,667 | By Bank (Sale proceeds of shares) | 25,00,000 |
| To Bank (Remittance)                                                       | 5,59,333  |                                   |           |
|                                                                            | 40,00,000 |                                   | 40,00,000 |



## BILLS OF EXCHANGE, CONSIGNMENT & JOINT VENTURE EXERCISE

### Multiple Choice Questions

1. Which class of account is Consignment Account?
  - (a) Personal Account
  - (b) Real Account
  - (c) Representative Personal Account
  - (d) Nominal Account
2. 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
3. On dishonor of a bill of exchange that has been discounted, noting charges are initially paid by
  - (a) Bank
  - (b) Drawer
  - (c) Drawee
  - (d) Acceptor
4. The share of profit of a co-venturer maintaining only her/ his own transactions is \_\_.
  - (a) Debited to Joint Venture Account
  - (b) Debited to other co-venturer's personal account
  - (c) Debited to Profit & Loss Account
  - (d) None of the above
5. 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.
6. 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
7. Shyam and Ramya are entered in the business of buy and sale of food grain for a period of one year and sharing the profit in the ratio of 2 :4 , this agreement is a:
  - (a) Partnership
  - (b) Consignment
  - (c) Joint-venture
  - (d) Lease
8. Memorandum Joint Venture Account is prepared when
  - (a) the separate set of books is maintained for Joint Venture.
  - (b) the each Co-venturer keeps records of all transactions.
  - (c) the each Co-venturer keeps records of their own transactions only.
  - (d) All of the above cases



9. 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?
- Del-credere Commission
  - Over-riding Commission
  - Hard work Commission
  - Ordinary Commission
10. If Kaveri's acceptance which was endorsed by us in favour of Saleem is dishonoured, then the amount will be debited in our books to:
- Saleem
  - Kaveri
  - Bills Receivable Account
  - None of the above
11. X draws a bill on Y for Rs.1,80,000 for mutual accommodation in the ratio of 2:1. X got it discounted for Rs.1,69,200 and remitted 1/3rd of the proceeds to Y. How much money should be remitted by X to Y at the time of maturity so as to enable Y to honour the bill?
- Rs.1,20,000
  - Rs.1,15,200
  - Rs.1,16,800
  - Rs.1,20,400
12. Raju draws a bill on Sampat on 25th October, 2023 for 90 days, the maturity date of the bill will be
- 27th January, 2024
  - 26th January, 2024
  - 25th January, 2024
  - 28th January, 2024
13. P and Q enter into a joint venture sharing profit and losses in the ratio of 3:2. P purchased goods costing Rs.2,00,000. Q sold 95% goods for Rs.2,50,000. P is entitled to get 1% commission on purchase and Q is entitled to get 5% commission on sales. P drew a bill on Q for an amount equivalent to 80% of original cost of goods. P got it discounted at Rs.1,50,000. What is P's share of profit?
- Rs.15,300
  - Rs.21,300
  - Rs.18,900
  - None of the above

Answer:

|    |   |    |   |    |   |   |   |    |   |
|----|---|----|---|----|---|---|---|----|---|
| 1  | D | 2  | C | 3  | A | 4 | B | 5  | A |
| 6  | C | 7  | C | 8  | C | 9 | B | 10 | B |
| 11 | A | 12 | D | 13 | B |   |   |    |   |

State True or False:

- A joint venture has a definite life.
- An Inland Bill is payable only in one country and not in any other foreign country.
- Consignment Debtors Account is always maintained in the books of the consignor.
- Proforma Invoice is a document sent by the consignor to the consignee.
- Discount at the time of retirement of a bill of exchange is a gain for the drawer.



Answer:

|   |      |   |      |   |       |   |      |   |       |
|---|------|---|------|---|-------|---|------|---|-------|
| 1 | True | 2 | True | 3 | False | 4 | True | 5 | False |
|---|------|---|------|---|-------|---|------|---|-------|

## Fill in the Blanks

1. A bill of exchange drawn on April 12, 2022 as payable 3 months after sight was accepted on April 13, 2022. The bill's date of maturity will be \_\_\_\_\_
2. When separate sets of books are maintained for a joint venture, goods are taken-over by a co-venturer is credited to \_\_\_\_\_ account.
3. Partners in a joint venture business are called \_\_\_\_\_
4. The party who sends the goods on consignment basis is referred to as the \_\_\_\_\_
5. Commission is due to the consignee from the consignor for rendering of regular activities associated with the consignment business is called \_\_\_\_\_ commission.
6. If cash sales are Rs.25,000, credit sales are Rs.75,000 and consignee's del credere commission is 10%, the amount of del credere commission will be \_\_\_\_\_
7. \_\_\_\_\_ expenses are included while computing the value of stock on consignment.
8. At the time of goods sent to consignee, the proforma invoice is prepared by \_\_\_\_\_
9. The relation between Consignee and Consignor is that of \_\_\_\_\_
10. \_\_\_\_\_ can be made payable to the bearer.

Answer:

|   |                     |    |                  |
|---|---------------------|----|------------------|
| 1 | July 16, 2022       | 2  | Joint Venture    |
| 3 | Co-venturers        | 4  | Consignor        |
| 5 | Ordinary            | 6  | Rs.10,000        |
| 7 | Non-recurring       | 8  | Consignor        |
| 9 | Agent and Principal | 10 | Bills Receivable |



## 5. PREPARATION OF FINAL ACCOUNTS OF COMMERCIAL ORGANISATIONS

### ILLUSTRATIONS

#### Illustration 1.

Following are the ledger balances presented by M/s. P. Sen as on 31st March 2023:

| Particulars      | (Rs.)    | Particulars           | (Rs.)    |
|------------------|----------|-----------------------|----------|
| Stock (1.4.2022) | 10,000   | Sales                 | 3,00,000 |
| Purchase         | 1,60,000 | Return Inward         | 16,000   |
| Carriage Inwards | 10,000   | Return Outward        | 10,000   |
| Wages            | 30,000   | Royalty on Production | 6,000    |
| Freight          | 8,000    | Gas and Fuel          | 2,000    |

#### Additional Information:

- (1) Stock on 31.3.2023: (i) Market Price Rs.24,000; (ii) Cost Price Rs.20,000;
- (2) Stock valued Rs.10,000 were destroyed by fire and insurance company admitted the claim to the extent of Rs.6,000.
- (3) Goods purchased for Rs.6,000 on 29th March, 2023, but still lying in-transit, not at all recorded in the books.
- (4) Goods taken for the proprietor for his own use for Rs.3,000.
- (5) Outstanding wages amounted to Rs.4,000.
- (6) Freight was paid in advance for Rs.1,000.

Solution:

#### M/s P. Sen Trading Account

for the year ended 31st March, 2023.

| Dr.                                             |          |          |                                    |          | Cr.      |
|-------------------------------------------------|----------|----------|------------------------------------|----------|----------|
| Particulars                                     | (Rs.)    | (Rs.)    | Particulars                        | (Rs.)    | (Rs.)    |
| To Opening Stock                                |          | 10,000   | By Sales                           | 3,00,000 |          |
| To Purchase                                     | 1,60,000 |          | Less: Return Inward                | 16,000   | 2,84,000 |
| Less: Return Outward                            | 10,000   |          | By Closing Stock                   |          | 20,000   |
|                                                 | 1,50,000 |          | By Stock Destroyed (Abnormal Loss) |          | 10,000   |
| Less: Goods taken by Proprietor                 | 3,000    |          | By Goods-in-Transit                |          | 6,000    |
|                                                 | 1,47,000 |          | By Goods-in-Transit                |          | 6,000    |
| Add: Goods-in-transit                           | 6,000    | 1,53,000 |                                    |          |          |
| To Wages                                        | 30,000   |          |                                    |          |          |
| Add: Outstanding                                | 4,000    | 34,000   |                                    |          |          |
| To Carriage Inwards                             |          | 10,000   |                                    |          |          |
| To Freight                                      | 8,000    |          |                                    |          |          |
| Less: Prepaid                                   | 1,000    | 7,000    |                                    |          |          |
| To Royalty on production                        |          | 6,000    |                                    |          |          |
| To Gas & fuel                                   |          | 2,000    |                                    |          |          |
| To Profit & Loss A/c (Gross profit transferred) |          | 98,000   |                                    |          |          |
|                                                 |          | 3,20,000 |                                    |          | 3,20,000 |

**Note:**

- (a) Stock should be valued as per cost price or net realizable value whichever is lower.
- (b) The claim which was admitted by insurance company and the loss of stock, will not appear in Trading Account.

**Illustration 2.**

From the following particulars presented by Mr. Shankar for the year ended 31st March 2023, prepare Profit and Loss Account after taking into consideration the given details:

Gross Profit Rs.1,00,000, Rent Rs.22,000; Salaries, Rs.10,000; Commission (Cr.) Rs.12,000; Insurance Rs.8,000; Interest (Cr.) Rs.6,000; Bad Debts Rs.2,000; Provision for Bad Debts (1.4.2021) Rs.4,000; Sundry Debtors Rs.40,000; Discount Received Rs.2,000; Plant & Machinery Rs.80,000.

**Adjustments:**

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

**Solution:**

**Mr. Shankar**

**Profit and Loss Account**

| Dr.                                                   |        | for the year ended 31st March 2023 |                                                    |        |          | Cr. |  |
|-------------------------------------------------------|--------|------------------------------------|----------------------------------------------------|--------|----------|-----|--|
| Particulars                                           | (Rs.)  | (Rs.)                              | Particulars                                        | (Rs.)  | (Rs.)    |     |  |
| To Rent                                               | 22,000 |                                    | By Trading A/c.                                    |        | 1,00,000 |     |  |
| Add: Outstanding                                      | 2,000  | 24,000                             | -Gross Profit                                      |        |          |     |  |
| " Salaries                                            | 10,000 |                                    | " Commission                                       | 12,000 |          |     |  |
| Add: Outstanding                                      | 4,000  | 14,000                             | Less: Received in advance                          | 2,000  | 10,000   |     |  |
| " Insurance                                           | 8,000  |                                    | " Interest                                         | 6,000  |          |     |  |
| Less: Prepaid                                         | 2,000  | 6,000                              | Add: Accrued Interest                              | 2,000  | 8,000    |     |  |
| " Bad Debts                                           | 2,000  |                                    |                                                    |        |          |     |  |
| Add: further Bad Debts                                | 2,000  | 4,000                              | " Discount received                                |        | 2,000    |     |  |
| " Depreciation on Plant & Machinery @10% on Rs.80,000 |        | 8,000                              | " Provisions for Bad Debts                         | 4,000  |          |     |  |
| " Capital A/c                                         |        | 66,100                             | Less: New Provision @ 5% on (Rs.40,000 - Rs.2,000) | 1,900  | 2,100    |     |  |
| (Net Profit Transferred)                              |        |                                    |                                                    |        |          |     |  |
|                                                       |        | 1,22,100                           |                                                    |        | 1,22,100 |     |  |



**Illustration 3.**

X, Y and Z are three Partners sharing profit and Losses equally. Their capital as on 01.04.2022 were:

X Rs.80,000 ; Y Rs.60,000 and Z Rs.50,000.

They mutually agreed on the following points (as per partnership deed):

(a) Interest on capital to be allowed @ 5% P.a.

(b) X to be received a salary @ Rs.500 p.m.

(c) Y to be received a commission @ 4% on net profit after charging such commission.

(d) After charging all other items 10% of the net profit to be transferred General Reserve. Profit from Profit and Loss Account amounted to Rs.66,720.

Prepare a Profit and Loss Appropriation Account for the year ended 31st March, 2023.

**Solution:**

**Profit & Loss Appropriation A/c**  
for the year ended 31st March, 2023

Dr.

Cr.

| Particulars               | (Rs.)  | (Rs.)  | Particulars              | (Rs.) | (Rs.)  |
|---------------------------|--------|--------|--------------------------|-------|--------|
| To Interest on Capital:   |        |        | By Profit and Loss A/c   |       | 66,720 |
| X                         | 4,000  |        | (Net profit transferred) |       |        |
| Y                         | 3,000  |        |                          |       |        |
| Z                         | 2,500  | 9,500  |                          |       |        |
| " Salaries                |        |        |                          |       |        |
| X : (Rs.500 × 12)         |        | 6,000  |                          |       |        |
| " Commission              |        | 1,970  |                          |       |        |
| Y [WN: 1]                 |        |        |                          |       |        |
| " General Reserve [WN: 2] |        | 4,925  |                          |       |        |
| " Partners' Capital A/c:  |        |        |                          |       |        |
| (Net Divisible Profit)    |        |        |                          |       |        |
| X                         | 14,775 |        |                          |       |        |
| Y                         | 14,775 |        |                          |       |        |
| Z                         | 14,775 | 44,325 |                          |       |        |
|                           |        | 66,720 |                          |       | 66,720 |

**Working Note:**

- Net Profit before charging Y's Commission = Rs.[66,720 - (9,500 + 6,000)] = Rs.51,220  
Less: Y's Commission @ 4% =  $(4 / 104 \times \text{Rs.}51,220)$  = Rs. 1,970  
49,250
- Transfer to General Reserve = Rs.49,250 × 10% = Rs. 4,925

**Illustration 4.**

From the following Trial Balance of M/s BJ & Sons, prepare the final accounts for the year ended on 31st March 2023, and also the Balance sheet as on that date:

| Particulars                            | Debit (Rs.) | Credit (Rs.) |
|----------------------------------------|-------------|--------------|
| Stock as on 01.04.2022: Finished goods | 2,00,000    |              |
| Purchases and Sales                    | 22,00,000   | 35,00,000    |
| Bills receivables                      | 50,000      |              |
| Returns                                | 1,00,000    | 50,000       |
| Carriage Inwards                       | 50,000      |              |



|                       |           |           |
|-----------------------|-----------|-----------|
| Debtors and Creditors | 2,00,000  | 4,00,000  |
| Carriage Outwards     | 40,000    |           |
| Discounts             | 5,000     | 5,000     |
| Salaries and wages    | 2,20,000  |           |
| Insurance             | 60,000    |           |
| Rent                  | 60,000    |           |
| Wages and salaries    | 80,000    |           |
| Bad debts             | 10,000    |           |
| Furniture             | 4,00,000  |           |
| BJ's capital          |           | 5,00,000  |
| BJ's drawing          | 70,000    |           |
| Loose tools           | 1,00,000  |           |
| Printing & stationery | 30,000    |           |
| Advertising           | 50,000    |           |
| Cash in hand          | 45,000    |           |
| Cash at bank          | 2,00,000  |           |
| Petty Cash            | 5,000     |           |
| Machinery             | 3,00,000  |           |
| Commis sion           | 10,000    | 30,000    |
| Total                 | 44,85,000 | 44,85,000 |

**Adjustments:**

- (i) Finished goods stock: Stock on 31st March was valued at Cost price Rs.4,20,000 and Market price Rs.400,000.
- (ii) Depreciate furniture @ 10% p.a. and machinery @ 20% p.a. on reducing balance method.
- (iii) Rent of Rs.5,000 was paid in advance.
- (iv) Salaries & wages due but not paid Rs.30,000.
- (v) Make a provision for doubtful debts @ 5% on debtors.
- (vi) Commission receivable Rs.5,000.

**Solution:****M/s BJ & Sons****Dr.****Trading Account for the year ended 31st March 2023****Cr.**

| Particulars                | (Rs.)     | (Rs.)     | Particulars         | (Rs.)     | (Rs.)     |
|----------------------------|-----------|-----------|---------------------|-----------|-----------|
| To Opening Stock :         |           |           | By Sales            | 35,00,000 |           |
| Finished Goods             |           | 2,00,000  | Less: Sales Returns | 1,00,000  | 34,00,000 |
| To Purchases               | 22,00,000 |           |                     |           |           |
| Less: Purchases Returns    | 50,000    | 21,50,000 | By Closing Stock    |           |           |
| To Carriage Inwards        |           | 50,000    | Finished Goods      |           | 4,00,000  |
| To Wages & Salaries        |           | 80,000    |                     |           |           |
| To P/L A/c                 |           | 13,20,000 |                     |           |           |
| (Gross Profit transferred) |           |           |                     |           |           |
|                            |           | 38,00,000 |                     |           | 38,00,000 |



## Dr. Profit &amp; Loss Account for the year ended 31st March 2023

Cr.

| Particulars                     | (Rs.)    | (Rs.)     | Particulars            | (Rs.)  | (Rs.)     |
|---------------------------------|----------|-----------|------------------------|--------|-----------|
| To Administrative expenses      | -        |           | By Gross Profit b/d    |        | 13,20,000 |
| To Salaries & wages             | 2,20,000 |           | By Discount received   |        | 5,000     |
| Add: Outstanding                | 30,000   | 2,50,000  | By Commission received | 30,000 |           |
| To Depreciation: on Furniture   |          | 40,000    | Add : Receivable       | 5,000  | 35,000    |
| on Machinery                    |          | 60,000    |                        |        |           |
| To Insurance                    |          | 60,000    |                        |        |           |
| To Rent                         | 60,000   |           |                        |        |           |
| Less: Paid in Advance           | 5,000    | 55,000    |                        |        |           |
| To Printing & Stationery        |          | 30,000    |                        |        |           |
| To Advertising                  |          | 50,000    |                        |        |           |
| To Carriage Outwards            |          | 40,000    |                        |        |           |
| To Discounts                    |          | 5,000     |                        |        |           |
| To Bad debts                    |          | 10,000    |                        |        |           |
| To Commission                   |          | 10,000    |                        |        |           |
| To Provision for Doubtful Debts |          | 10,000    |                        |        |           |
| To BJ's Capital A/c             |          | 740,000   |                        |        |           |
| (Net Profit transferred)        |          |           |                        |        |           |
|                                 |          | 13,60,000 |                        |        | 13,60,000 |

## Dr. Balance Sheet as on 31st March 2023

Cr.

| Liabilities                  | (Rs.)    | (Rs.)     | Assets                             | (Rs.)   | (Rs.)     |
|------------------------------|----------|-----------|------------------------------------|---------|-----------|
| BJ's Capital                 | 5,00,000 |           | Fixed Assets:                      |         |           |
| Less: Drawings               | 70,000   |           | Furniture                          | 400,000 |           |
| Add: Net Profit for the year | 7,40,000 | 11,70,000 | Less: Depreciation                 | 40,000  | 3,60,000  |
| Long Term Liabilities:       |          | -         | Machinery                          | 300,000 |           |
|                              |          |           | Less: Depreciation                 | 60,000  | 2,40,000  |
| Current Liabilities:         |          |           | Loose Tools                        |         | 1,00,000  |
| Sundry Creditors             |          | 4,00,000  | Current Assets:                    |         |           |
| Outstanding Salaries & Wages |          | 30,000    | Stocks                             |         | 4,00,000  |
|                              |          |           | Sundry Debtors                     | 200,000 |           |
|                              |          |           | Less: Provision for Doubtful Debts | 10,000  | 1,90,000  |
|                              |          |           | Bills Receivables                  |         | 50,000    |
|                              |          |           | Cash in Hand                       |         | 45,000    |
|                              |          |           | Cash at Bank                       |         | 2,00,000  |
|                              |          |           | Petty Cash                         |         | 5,000     |
|                              |          |           | Prepaid Rent                       |         | 5,000     |
|                              |          |           | Commission Receivable              |         | 5,000     |
|                              |          | 16,00,000 |                                    |         | 16,00,000 |

## Notes :

(1) Closing stock is valued at market price here as it is less than cost price (conservatism concept)

**Illustration 5.**

Mr. Arvind Kumar has a small business enterprise. He has given the trial balance as at 31st March 2023

| Particulars                    | Debit (Rs.) | Credit (Rs.) |
|--------------------------------|-------------|--------------|
| Mr. Arvind Kumar's Capital     |             | 1,00,000     |
| Machinery                      | 36,000      |              |
| Depreciation on Machinery      | 4,000       |              |
| Repairs to Machinery           | 5,200       |              |
| Wages                          | 54,000      |              |
| Salaries                       | 21,000      |              |
| Income Tax of Mr. Arvind Kumar | 1,000       |              |
| Cash in Hand                   | 4,000       |              |
| Land & Building                | 1,49,000    |              |
| Depreciation on Building       | 5,000       |              |
| Purchases                      | 2,50,000    |              |
| Purchase Returns               |             | 3,000        |
| Sales                          |             | 4,98,000     |
| CC Bank                        |             | 7,600        |
| Accrued Income                 | 3,000       |              |
| Salaries Outstanding           |             | 4,000        |
| Bills Receivables              | 30,000      |              |
| Provision for Doubtful Debts   |             | 10,000       |
| Bills Payable                  |             | 16,000       |
| Bad Debts                      | 2,000       |              |
| Discount on Purchases          |             | 7,080        |
| Debtors                        | 70,000      |              |
| Creditors                      |             | 62,520       |
| Opening Stock (01.04.2021)     | 74,000      |              |
| Total                          | 7,08,200    | 7,08,200     |

**Additional information:**

- (1) Stock as on 31st March 2023 was valued at Rs.60,000
- (2) Write off further Rs.6,000 as bad debt and maintain a provision of 5% for doubtful debt.
- (3) Goods costing Rs.10,000 were sent on approval basis to a customer for Rs.12,000 on 30th March, 2022. This was recorded as actual sales.
- (4) Rs.2,400 paid as rent for office was debited to Landlord's A/c and was included in debtors.
- (5) General Manager is to be given commission at 10% of net profits after charging his commission.
- (6) Works manager is to be given a commission at 12% of net profit before charging General Manager's commission and his own.

You are required to prepare final accounts in the books of Mr. Arvind Kumar, and also the Balance Sheet as on that date.



Solution:

Mr. Arvind Kumar

| Dr. Trading Account for the year ended 31st March 2023 Cr. |          |          |                        |          |          |
|------------------------------------------------------------|----------|----------|------------------------|----------|----------|
| Particulars                                                | (Rs.)    | (Rs.)    | Particulars            | (Rs.)    | (Rs.)    |
| To Opening stock:                                          |          |          | By Sales A/c           | 4,98,000 |          |
| Finished goods                                             | 2,50,000 | 74,000   | Less: Sent on Approval | (12,000) |          |
| To Purchases:                                              | (3,000)  |          |                        |          |          |
| Less: Purchases returns                                    |          | 2,47,000 | By Closing stock A/c   |          | 4,86,000 |
| To Wages:                                                  |          | 54,000   | Finished goods         | 60,000   |          |
| To P/L A/c                                                 |          | 181,000  | Add: Sent on Approval  | 10,000   |          |
| (Gross Profit transferred)                                 |          |          |                        |          | 70,000   |
|                                                            |          | 5,56,000 |                        |          | 5,56,000 |

| Dr. Profit and Loss Account for the year ended 31st March 2023 Cr. |          |          |                      |       |          |
|--------------------------------------------------------------------|----------|----------|----------------------|-------|----------|
| Particulars                                                        | (Rs.)    | (Rs.)    | Particulars          | (Rs.) | (Rs.)    |
| To Salaries                                                        |          | 21,000   | By Trading A/c       |       | 1,81,000 |
| To Repairs to Machinery                                            |          | 5,200    | By Discount Received |       | 7,080    |
| To Depreciation: on Machinery                                      |          | 4,000    |                      |       |          |
| on Building                                                        |          | 5,000    |                      |       |          |
| To Rent                                                            |          | 2,400    |                      |       |          |
| To Bad Debts                                                       | 2,000    |          |                      |       |          |
| Add: Further Bad Debts                                             | 6,000    |          |                      |       |          |
| To Provision for Doubtful Debts                                    |          |          |                      |       |          |
|                                                                    | 2,480    |          |                      |       |          |
| Less: Provision Opening                                            | (10,000) | 480      |                      |       |          |
| To Commission to Works Manager                                     |          | 18,000   |                      |       |          |
| To Commission to General Manager                                   |          | 12,000   |                      |       |          |
| To Capital A/c                                                     |          | 1,20,000 |                      |       |          |
| (Net Profit transferred)                                           |          |          |                      |       |          |
|                                                                    |          | 1,88,080 |                      |       | 1,88,080 |

## Balance Sheet as on 31st March 2023

| Liabilities                  | (Rs.)    | (Rs.)    | Assets                             | (Rs.)    | (Rs.)    |
|------------------------------|----------|----------|------------------------------------|----------|----------|
| Arvind Kumar's Capital       | 1,00,000 |          | Fixed Assets:                      |          |          |
| Less: Drawings (income tax)  | (1,000)  |          | Land & Building                    |          | 1,49,000 |
| Add: Net Profit for the year | 1,20,000 | 2,19,000 | Machinery                          |          | 36,000   |
| Long term Liabilities:       |          | -        | Current Assets:                    |          |          |
| Current Liabilities:         |          |          | Stocks                             | 60,000   |          |
| Sundry Creditors             |          | 62,520   | Add: Sent on Approval              | 10,000   | 70,000   |
| Outstanding Salaries         |          | 4,000    | Sundry Debtors                     | 70,000   |          |
| CC Bank's Overdraft          |          | 7,600    | Less: Goods on Approval            | (12,000) |          |
| Bills Payable                |          | 16,000   | Less: Bad Debts                    | (6,000)  |          |
|                              |          |          | Less: Related to Landlord          | (2,400)  |          |
| Commission Payable           |          | 30,000   | Less: Provision for Doubtful Debts | (2,480)  | 47,120   |



|  |  |          |                  |  |          |
|--|--|----------|------------------|--|----------|
|  |  |          | Bills Receivable |  | 30,000   |
|  |  |          | Cash in Hand     |  | 4,000    |
|  |  |          | Accrued Income   |  | 3,000    |
|  |  | 3,39,120 |                  |  | 3,39,120 |

**Working Notes:**

(1) Commission payable to works manager & general manager is computed as below:

|                                                          | (Rs.)    |
|----------------------------------------------------------|----------|
| Profit before charging any commission                    | 1,50,000 |
| Commission to works manager @ 12% on 1,50,000            | 18,000   |
| Profit after works manager's commission                  | 1,32,000 |
| Commission to General Manager $(1,32,000/110 \times 10)$ | 12,000   |

**Illustration 6.**

Mr. Abhay runs a small shop and deals in various goods. He has not been able to tally his trial balance and has closed it by taking the difference to Suspense A/c. It is given below:

| Particulars (as on 31st March 2023) | Debit (Rs.) | Credit (Rs.) |
|-------------------------------------|-------------|--------------|
| Abhay's Capital                     |             | 1,50,000     |
| Drawings                            | 75,000      |              |
| Fixed Assets                        | 1,35,000    |              |
| Opening Stock (01.04.2021)          | 36,500      |              |
| Purchases & Returns                 | 6,75,000    | 13,500       |
| Sales & returns                     | 34,000      | 8,50,000     |
| Due from Customer & to Creditors    | 95,000      | 3,25,000     |
| Expenses                            | 45,750      |              |
| Cash                                |             | 3,000        |
| Bank Deposits & Interest Earned     | 55,000      | 5,750        |
| Suspense A/c                        |             | 4,000        |
| Advertising                         | 2,00,000    |              |
| Total                               | 13,51,250   | 13,51,250    |

Mr. Abhay has requested you to help him in tallying his trial balance and also prepare his final accounts. On investigation of his books you get the following information:

- Closing Stock on 31st March 2023 was Rs.45,000 at cost and could sell over this value.
- Depreciation of Rs.13,500 needs to be provided for the year.
- A withdrawal slip indicated a cash withdrawal of Rs.15,000 which was charged as drawing. However, it was noticed that Rs.11,000 was used for business purpose only and was entered as expenses in cash book.
- Goods worth Rs.19,000 were purchased on 24th March 2023 and sold on 29th March 2023 for Rs.23,750. Sales were recorded correctly, but purchase invoice was missed out.
- Purchase returns of Rs.1,500 were routed through sales return. Party's A/c was correctly posted.
- Expenses include Rs.3,750 related to the period after 31st March 2023.
- Purchase book was over-cast by Rs.1,000. Posting to suppliers' A/c is correct.
- Advertising will be useful for generating revenue for 5 years.



**Solution:****Rectification of Errors:****(a) Cash withdrawn was recorded as**

|             |    |           |           |
|-------------|----|-----------|-----------|
| Cash A/c    | Dr | Rs.15,000 |           |
| To Bank A/c |    |           | Rs.15,000 |

But it was charged to drawing and Rs.11,000 was recorded as expenses as well i.e.

|              |    |           |           |
|--------------|----|-----------|-----------|
| Drawings A/c | Dr | Rs.15,000 |           |
| Expenses A/c | Dr | Rs.11,000 |           |
| To Cash A/c  |    |           | Rs.26,000 |

This resulted in negative cash of Rs.11,000. The rectification entry to be passed is

|                 |    |           |           |
|-----------------|----|-----------|-----------|
| Cash A/c        | Dr | Rs.11,000 |           |
| To Drawings A/c |    |           | Rs.11,000 |

**(b) Omitted transaction to be recorded**

|                   |    |           |           |
|-------------------|----|-----------|-----------|
| Purchases A/c     | Dr | Rs.19,000 |           |
| To Suppliers' A/c |    |           | Rs.19,000 |

**(c) Incorrect recording of purchase returns corrected by**

|                        |    |          |          |
|------------------------|----|----------|----------|
| Suspense A/c           | Dr | Rs.3,000 |          |
| To Purchase return A/c |    |          | Rs.1,500 |
| To sales return A/c    |    |          | Rs.1,500 |

**(d) Incorrect expenses rectified by**

|                      |    |          |          |
|----------------------|----|----------|----------|
| Prepaid expenses A/c | Dr | Rs.3,750 |          |
| To Expenses A/c      |    |          | Rs.3,750 |

**(e) Over-casting of purchase book rectified by**

|                  |    |          |          |
|------------------|----|----------|----------|
| Suspense A/c     | Dr | Rs.1,000 |          |
| To Purchases A/c |    |          | Rs.1,000 |

Based on these rectifications we can now proceed to complete the final accounts.

**Mr. Abhay****Dr. Trading Account for the year ended 31st March, 2023 Cr.**

| Particulars                  | (Rs.)    | (Rs.)    | Particulars        | (Rs.)    | (Rs.)    |
|------------------------------|----------|----------|--------------------|----------|----------|
| To Opening Stock             | -        | 36,500   | By Sales           | 8,50,000 |          |
| To Purchases                 | 6,75,000 |          | Less: Returns      | (34,000) |          |
| Less: Returns                | (13,500) |          | Add: Rectification | 1,500    | 8,17,500 |
| Less: Additional returns     | (1,500)  |          | By Closing stock   |          | 45,000   |
| Add: Purchases missed out    | 19,000   |          |                    |          |          |
| Less: Over-casting rectified | (1,000)  | 6,78,000 |                    |          |          |
| To Gross Profit c/d          |          | 1,48,000 |                    |          |          |
|                              |          | 8,62,500 |                    |          | 8,62,500 |

**Dr. Profit and Loss Account for the year ended 31st March, 2023 Cr.**

| Particulars     | (Rs.)  | (Rs.)    | Particulars                  | (Rs.) | (Rs.)    |
|-----------------|--------|----------|------------------------------|-------|----------|
| To Expenses     | 45,750 |          | By Gross Profit b/d          |       | 1,48,000 |
| Less: Prepaid   | 3,750  | 42,000   |                              |       |          |
| To Depreciation |        | 13,500   | By Interest on Bank deposits |       | 5,750    |
| To Advertising  |        | 2,00,000 | By Net Loss                  |       | 1,01,750 |
|                 |        | 2,55,500 |                              |       | 2,55,500 |



## Balance Sheet as on 31st March, 2023

| Liabilities                  | (₹)             | (₹)             | Assets                  | (₹)      | (₹)             |
|------------------------------|-----------------|-----------------|-------------------------|----------|-----------------|
| Mr. Abhay's Capital          | 1,50,000        |                 | Fixed Assets            |          |                 |
| Add: Wrong charge to drawing | 11,000          |                 | Gross Block             | 1,35,000 |                 |
|                              | <b>1,61,000</b> |                 | Less: Depreciation      | 13,500   | 1,21,500        |
| Less: Drawings               | 75,000          | 86,000          | Current Assets:         |          |                 |
| Current Liabilities:         |                 |                 | Stocks                  |          | 45,000          |
| Sundry Creditors             | 3,25,000        |                 | Sundry Debtors          |          | 95,000          |
| Add: Missed out purchase     | 19,000          | <b>3,44,000</b> | Cash in hand            | (3,000)  |                 |
|                              |                 |                 | Add: Rectification      | 11,000   | 8,000           |
|                              |                 |                 | Fixed deposit with Bank |          | 55,000          |
|                              |                 |                 | Prepaid expenses        |          | 3,750           |
|                              |                 |                 | Miscellaneous           |          |                 |
|                              |                 |                 | Expenditure:            |          |                 |
|                              |                 |                 | Profit & Loss (Dr.)     |          | 1,01,750        |
| <b>Total</b>                 |                 | <b>4,30,000</b> | <b>Total</b>            |          | <b>4,30,000</b> |

**Note:** The expenditure incurred on intangible items after the date AS 26 became/becomes mandatory (01.04.2003 or 01.04.2004, as the case may be) would have to be expensed when incurred since these do not meet the definition of an 'asset' as per AS 26. Hence, full amount of Advertisement expense is charged to Profit & Loss Account.

It may be mentioned here that students might be thinking that since Advertisement benefit spread over five years, hence 1/5th to be shown in P/L Account and rest 4/5 will be shown in Balance sheet. But to be an Asset (Tangible /intangible), Asset recognition criteria must be fulfilled as per AS-10 and AS-26 as the case may be i.e. Future economic Benefit flow into the organisation and it can be reliably measured. The 1st condition of future economic benefit fulfills but the second condition i.e. reliable measurement of revenue is absent. It cannot be measured reliably as to how much revenue can be generated each year with this expenses. Hence, the entire amount has been charged against profit in the year of expenditure.

## Illustration 7.

Mr. O maintains his accounts on Mercantile basis. The following Trial Balance has been prepared from his books as at 31st March, 2023 after making necessary adjustments for outstanding and accrued items as well as depreciation:

Trial Balance as at 31st March, 2023

| Particulars         | Debit (Rs.) | Credit (Rs.) |
|---------------------|-------------|--------------|
| Plant and Machinery | 2,12,500    |              |
| Sundry Creditors    |             | 2,64,000     |
| Sales               |             | 6,50,000     |
| Purchases           | 4,20,000    |              |
| Salaries            | 40,000      |              |
| Prepaid Insurance   | 370         |              |
| Advance Rent        | 2,000       |              |
| Outstanding Salary  |             | 6,000        |
| Advance Salary      | 2,500       |              |
| Electricity Charges | 2,650       |              |



|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Furniture and Fixtures              | 72,000    |           |
| Opening Stock (01.04.2022)          | 50,000    |           |
| Outstanding Electricity Charges     |           | 450       |
| Insurance                           | 1,200     |           |
| Rent                                | 10,000    |           |
| Miscellaneous Expenses              | 14,000    |           |
| Cash in Hand                        | 3,000     |           |
| Investments                         | 80,000    |           |
| Drawings                            | 24,000    |           |
| Dividend from Investments           |           | 8,000     |
| Accrued Dividend from Investments   | 1,500     |           |
| Depreciation on Plant and Machinery | 37,500    |           |
| Depreciation on Furniture           | 8,000     |           |
| Capital Account                     |           | 2,11,970  |
| Telephone Charges                   | 6,000     |           |
| Sundry Debtors                      | 1,70,500  |           |
| Stationery and Printing             | 1,200     |           |
| Cash at Bank                        | 65,000    |           |
| Interest on Loan                    | 8,000     |           |
| Interest Due but Not Paid on Loan   |           | 1,500     |
| Loan Account                        |           | 90,000    |
|                                     | 12,31,920 | 12,31,920 |

**Additional Information:**

(i) Salaries include Rs.10,000 towards renovation of Proprietor's residence.

(ii) Closing Stock amounted to Rs.75,000.

Mr. O, however, request you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date following cash basis of accounting.

**Solution:****Mr. O**

Dr. **Trading and Profit and Loss Account for the year ended 31st March, 2023** Cr.

| Particulars                                         | (₹)    | (₹)      | Particulars                | (₹)   | (₹)      |
|-----------------------------------------------------|--------|----------|----------------------------|-------|----------|
| To Opening Stock                                    |        | 50,000   | By Sales                   |       | 6,50,000 |
| To Purchases                                        |        | 4,20,000 | By Closing Stock           |       | 75,000   |
| To Profit & Loss A/c.<br>- Gross Profit transferred |        | 2,55,000 |                            |       |          |
| Total                                               |        | 7,25,000 | Total                      |       | 7,25,000 |
| To Salaries                                         | 40,000 |          | By Trading A/c             |       | 2,55,000 |
|                                                     |        |          | - Gross Profit transferred |       |          |
| Less: Outstanding                                   | 6,000  |          | By Dividend                | 8,000 |          |
| Salaries                                            | 34,000 |          | Less: Accrued Dividend     | 1,500 | 6,500    |
| Add: Advance Salary                                 | 2,500  |          |                            |       |          |
|                                                     | 36,500 |          |                            |       |          |
| Less: Renovation (Drawings)                         | 10,000 | 26,500   |                            |       |          |
| To Insurance                                        | 1,200  |          |                            |       |          |



|                           |        |          |       |  |          |
|---------------------------|--------|----------|-------|--|----------|
| Add: Prepaid              | 370    | 1,570    |       |  |          |
| To Rent                   | 10,000 |          |       |  |          |
| Add: Advance Rent         | 2,000  | 12,000   |       |  |          |
| To Electricity Charges    | 2,650  |          |       |  |          |
| Less: Outstanding         | 450    | 2,200    |       |  |          |
| To Miscellaneous Expenses |        | 14,000   |       |  |          |
| To Stationery & Printing  |        | 1,200    |       |  |          |
| To Depreciation:          |        |          |       |  |          |
| - Plant & Machinery       | 37,500 |          |       |  |          |
| - Furniture & Fixtures    | 8,000  | 45,500   |       |  |          |
| To Interest on Loan       | 8,000  |          |       |  |          |
| Less: Outstanding         | 1,500  | 6,500    |       |  |          |
| To Telephone Charges      |        | 6,000    |       |  |          |
| To Capital Account        |        | 1,46,030 |       |  |          |
| - Net Profit transferred  |        |          |       |  |          |
| Total                     |        | 2,61,500 | Total |  | 2,61,500 |

## Balance Sheet as at 31st March, 2023

| Liabilities             | (Rs.)    | (Rs.)    | Assets                                              | (Rs.) | (Rs.)    |
|-------------------------|----------|----------|-----------------------------------------------------|-------|----------|
| Capital Account         | 2,11,970 |          | Plant and Machinery<br>(at cost less depreciation)  |       | 2,12,500 |
| Add: Net Profit         | 1,46,030 |          | Furniture & Fixtures<br>(at cost less depreciation) |       | 72,000   |
|                         | 3,58,000 |          | Investments                                         |       | 80,000   |
| Less: Drawings          |          |          | Stock-in-Trade                                      |       | 75,000   |
| (Rs.24,000 + Rs.10,000) | 34,000   | 3,24,000 | Debtors                                             |       | 1,70,500 |
| Loan Account            |          | 90,000   | Cash at Bank                                        |       | 65,000   |
| Sundry Creditors        |          | 2,64,000 | Cash in hand                                        |       | 3,000    |
|                         |          | 6,78,000 |                                                     |       | 6,78,000 |

## Illustration 8.

The following Trial Balance has been prepared from the books of Mrs. Sexena as on 31st March, 2023 after making necessary adjustments for depreciation on Fixed Assets, outstanding and accrued items and difference under Suspense Account.

## Trial Balance as at 31st March, 2023

| Particulars         | Debit (Rs.) | Particulars           | Credit (Rs.) |
|---------------------|-------------|-----------------------|--------------|
| Machineries         | 1,70,000    | Sundry Creditors      | 82,000       |
| Furniture           | 49,500      | Capital Account       | 2,45,750     |
| Sundry Debtors      | 38,000      | Outstanding Expenses: |              |
| Drawings            | 28,000      | Salaries              | 1,500        |
| Travelling Expenses | 6,500       | Printing              | 600          |
| Insurance           | 1,500       | Audit Fees            | 1,000        |
| Audit Fees          | 1,000       | Bank Interest         | 1,200        |
| Salaries            | 49,000      | Discounts             | 1,800        |
| Rent                | 5,000       | Sales (Less Return)   | 6,80,000     |



|                             |           |  |           |
|-----------------------------|-----------|--|-----------|
| Cash in Hand                | 7,800     |  |           |
| Cash at Bank                | 18,500    |  |           |
| Stock-in-Trade (01.04.2021) | 80,000    |  |           |
| Prepaid Insurance           | 250       |  |           |
| Miscellaneous Expenses      | 21,200    |  |           |
| Discounts                   | 1,200     |  |           |
| Printing & Stationery       | 1,500     |  |           |
| Purchase (Less Returns)     | 4,60,000  |  |           |
| Depreciation:               |           |  |           |
| Machineries                 | 30,000    |  |           |
| Furniture                   | 5,500     |  |           |
| Suspense Account            | 39,400    |  |           |
|                             | 10,13,850 |  | 10,13,850 |

On the subsequent scrutiny following mistakes were noticed:

- A new machinery was purchase for Rs.50,000 but the amount was wrongly posted to Furniture Account as Rs.5,000.
- Cash received from Debtors Rs.5,600 was omitted to be posted in the ledger.
- Goods withdrawn by the proprietor for personal use but no entry was passed Rs.5,000.
- Sales included Rs.30,000 as goods sold cash on behalf of Mr. Thakurlal who allowed 15% commission on such sales for which effect is to be given.

You are further told that:

- Closing stock on physical verification amounted to Rs.47,500.
- Depreciation on Machineries and Furniture has been provided @ 15% and 10%, respectively, on reducing balancing system.

Full year's depreciation is provided on addition.

You are requested to prepare a Trading and Profit & Loss Account for the year ended 31st March 2023 and a Balance Sheet as on that date so as to represent a True and Correct picture.

**Solution:**

**Mrs. Sexena**

**Trading and Profit and Loss Account**

**Dr.**

**for the year ended 31st March, 2023**

**Cr.**

| Particulars                                     | (₹)      | (₹)             | Particulars                            | (₹) | (₹)             |
|-------------------------------------------------|----------|-----------------|----------------------------------------|-----|-----------------|
| To Opening Stock                                |          | 80,000          | By Sales (₹6,80,000 - ₹30,000)         |     | 6,50,000        |
| To Purchases                                    | 4,60,000 |                 | By Closing Stock                       |     | 47,500          |
| Less: Drawings                                  | 5,000    | 4,55,000        |                                        |     |                 |
| To Profit & Loss A/c - Gross Profit transferred |          | 1,62,500        |                                        |     |                 |
| <b>Total</b>                                    |          | <b>6,97,500</b> | <b>Total</b>                           |     | <b>6,97,500</b> |
| To Salaries                                     |          | 49,000          | By Trading A/c (Gross Profit)          |     | 1,62,500        |
| To Rent                                         |          | 5,000           | By Bank Interest                       |     | 1,200           |
| To Insurance                                    |          | 1,500           | By Selling Commission (15% on ₹30,000) |     | 4,500           |
| To Audit Fees                                   |          | 1,000           | By Discount Received                   |     | 1,800           |
| To Printing & Stationery                        |          | 1,500           |                                        |     |                 |
| To Miscellaneous Expenses                       |          | 21,200          |                                        |     |                 |



|                                             |        |                 |              |  |                 |
|---------------------------------------------|--------|-----------------|--------------|--|-----------------|
| To Discount Allowed                         |        | 1,200           |              |  |                 |
| To Travelling Expenses                      |        | 6,500           |              |  |                 |
| To Depreciation:                            |        |                 |              |  |                 |
| - Machinery                                 | 37,500 |                 |              |  |                 |
| - Furniture                                 | 5,000  | 42,500          |              |  |                 |
| To Capital Account (Net Profit transferred) |        | 40,600          |              |  |                 |
| <b>Total</b>                                |        | <b>1,70,000</b> | <b>Total</b> |  | <b>1,70,000</b> |

**Balance Sheet**  
as at 31st March, 2023

| Liabilities              | (Rs.)    | (Rs.)    | Assets                         | (Rs.)               | (Rs.)    |
|--------------------------|----------|----------|--------------------------------|---------------------|----------|
| Capital Account          | 2,45,750 |          | Machinery                      | 2,50,000            |          |
| Add: Net Profit          | 40,600   |          | Less: Depreciation             | 37,500              | 2,12,500 |
|                          | 2,86,350 |          | Furniture                      | 50,000 <sup>2</sup> |          |
| Less: Drawings           | 33,000   | 2,53,350 | Less: Depreciation             | 5,000               | 45,000   |
| (28,000 + 5,000)         |          |          |                                |                     |          |
| Sundry Creditors         |          | 82,000   | Stock                          |                     | 47,500   |
| Outstanding Liabilities: |          |          | Debtors (Rs.38,000 - Rs.5,600) |                     | 32,400   |
| Salaries                 | 1,500    |          | Cash                           |                     | 7,800    |
| Audit Fees               | 1,000    |          | Bank                           |                     | 18,500   |
| Printing                 | 600      | 3,100    | Prepaid Insurance              |                     | 250      |
| Thakurlal's A/c.         |          |          |                                |                     |          |
| (Rs.30,000 - Rs.4,500)   |          | 25,500   |                                |                     |          |
|                          |          | 3,63,950 |                                |                     | 3,63,950 |

| Notes:                                        | (Rs.)    |
|-----------------------------------------------|----------|
| 1. Machinery as per Trial Balance             | 1,70,000 |
| Add: Depreciation                             | 30,000   |
|                                               | 2,00,000 |
| Additions                                     | 50,000   |
|                                               | 2,50,000 |
| 2. Furniture                                  | 49,500   |
| Add: Depreciation                             | 5,500    |
|                                               | 55,000   |
| Less: Wrong Debit                             | 5,000    |
| 3. Suspense A/c is eliminated by item         | 50,000   |
| (i) Rs.45,000 (Rs.50,000 - Rs.5,000) and item |          |
| (ii) by Rs.5,600 (debited), respectively.     |          |



**Illustration 9.**

The following Trial Balance has been extracted from the books of Mr. Agarwal as on 31.3.2023:

**Trial Balance as on 31.3.2023**

| Particulars             | Dr. (Rs.) | Particulars              | Cr. (Rs.) |
|-------------------------|-----------|--------------------------|-----------|
| Purchase                | 6,80,000  | Sales                    | 8,38,200  |
| Sundry Debtors          | 96,000    | Capital Account          | 1,97,000  |
| Drawings                | 36,000    | Sundry Creditors         | 1,14,000  |
| Bad Debts               | 2,000     | Outstanding Salary       | 2,500     |
| Furniture & Fixtures    | 81,000    | Sale of Old Papers       | 1,500     |
| Office Equipments       | 54,000    | Bank Overdraft (PP Bank) | 60,000    |
| Salaries                | 24,000    |                          |           |
| Advanced Salary         | 1,500     |                          |           |
| Carriage Inward         | 6,500     |                          |           |
| Miscellaneous Expenses  | 12,000    |                          |           |
| Travelling Expenses     | 6,500     |                          |           |
| Stationery & Printing   | 1,500     |                          |           |
| Rent                    | 18,000    |                          |           |
| Electricity & Telephone | 6,800     |                          |           |
| Cash In Hand            | 5,900     |                          |           |
| Cash at Bank (SBI)      | 53,000    |                          |           |
| Stock (1.4.2021)        | 50,000    |                          |           |
| Repairs                 | 7,500     |                          |           |
| Motor Car               | 56,000    |                          |           |
| Depreciation:           |           |                          |           |
| Furniture               | 9,000     |                          |           |
| Office Equipment        | 6,000     |                          |           |
|                         | 12,13,200 |                          | 12,13,200 |

**Additional Information:**

- Sales includes Rs.60,000 towards goods for cash on account of a joint venture with Mr. Reddy who incurred Rs.800 as forwarding expenses. The joint venture earned a profit of Rs.15,000 to which Mr. Reddy is entitled to 60%
- The motor car account represents an old motor car which was replaced on 1.4.2022 by a new motor car costing Rs.1,20,000 with an additional cash payment of Rs.40,000 laying debited to Purchase Account.
- PP Bank has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the Bank.
- Sundry Debtors include Rs.4,000 as due from Mr. Trivedi and Sundry Creditors include Rs.7,000 as payable to him.
- On 31.3.2023 outstanding rent amounted to Rs.6,000 and you are informed that 50% of the total rent is attributable towards Agarwal's resident.
- Depreciation to be provided on motor car @ 20% (excluding sold item).

Mr. Agarwal requests you to prepare a Trading and Profit & Loss Account for the year ended 31.3.2023 and a Balance Sheet as on that date.



Solution:

**Mr. Agarwal**  
**Trading and Profit and Loss Account**  
**for the year ended 31st March, 2023**

| Dr.                                        |          |                 | Cr.                                                                               |          |                 |
|--------------------------------------------|----------|-----------------|-----------------------------------------------------------------------------------|----------|-----------------|
| Particulars                                | (₹)      | (₹)             | Particulars                                                                       | (₹)      | (₹)             |
| To Opening Stock                           |          | 50,000          | By Sales                                                                          | 8,38,200 |                 |
| To Purchases                               | 6,80,000 |                 | - Less: Sale on account of Joint Venture                                          | 60,000   | 7,78,200        |
| - Less: Motor Car                          | 40,000   | 6,40,000        | "Closing Stock (W.N. 1)"                                                          |          | 75,000          |
| To Carriage Inward                         |          | 6,500           |                                                                                   |          |                 |
| To Profit & Loss A/c                       |          | 1,56,700        |                                                                                   |          |                 |
| - Gross Profit transferred                 |          |                 |                                                                                   |          |                 |
|                                            |          | <b>8,53,200</b> |                                                                                   |          | <b>8,53,200</b> |
| To Salaries                                |          | 24,000          | By Trading A/c                                                                    |          | 1,56,700        |
|                                            |          |                 | - Gross Profit transferred                                                        |          |                 |
| To Travelling Expenses                     |          | 6,500           | " Sale of old papers                                                              |          | 1,500           |
| To Printing & Stationery                   |          | 1,500           | "Profit on Joint Venture (40% of ₹15,000)                                         |          | 6,000           |
| To Electricity & Telephone                 |          | 6,800           | " Profit on replacement of Motor Car (W.N. 2) [(₹1,20,000 - (₹56,000 + ₹40,000))] |          | 24,000          |
| To Rent                                    | 18,000   |                 |                                                                                   |          |                 |
| - Add: Outstanding                         | 6,000    | 24,000          |                                                                                   |          |                 |
| - Less: Drawings                           | 12,000   | 12,000          |                                                                                   |          |                 |
| " Bad Debts                                |          | 2,000           |                                                                                   |          |                 |
| " Miscellaneous Expenses                   |          | 12,000          |                                                                                   |          |                 |
| " Repairs                                  |          | 7,500           |                                                                                   |          |                 |
| " Depreciation on:                         |          |                 |                                                                                   |          |                 |
| - Furniture                                | 9,000    |                 |                                                                                   |          |                 |
| - Office Equipment                         | 6,000    |                 |                                                                                   |          |                 |
| - Motor Car (W.N. 3)                       | 24,000   | 39,000          |                                                                                   |          |                 |
| " Capital Account - Net Profit transferred |          | 76,900          |                                                                                   |          |                 |
| <b>Total</b>                               |          | <b>1,88,200</b> | <b>Total</b>                                                                      |          | <b>1,88,200</b> |

**Balance Sheet**  
**as at 31st March, 2023**

| Liabilities                      | (Rs.)    | (Rs.)    | Assets               | (Rs.)  | (Rs.)  |
|----------------------------------|----------|----------|----------------------|--------|--------|
| Capital Account                  | 1,97,000 |          | Furniture & Fixtures | 90,000 |        |
| Add: Net Profit                  | 76,900   |          | Less: Depreciation   | 9,000  |        |
|                                  | 2,73,900 |          | Office Equipment     | 60,000 | 81,000 |
| Less: Drawings (36,000 + 12,000) | 48,000   | 2,25,900 | Less: Depreciation   | 6,000  |        |
| Bank Overdraft                   |          | 60,000   |                      |        | 54,000 |
| Creditors                        | 1,14,000 |          | Motor Car            | 56,000 |        |



|                                                   |       |          |                        |          |          |
|---------------------------------------------------|-------|----------|------------------------|----------|----------|
| Less: Due to Trivedi                              | 4,000 | 1,10,000 | Additions              | 1,20,000 |          |
|                                                   |       |          |                        | 1,76,000 |          |
|                                                   |       |          | Less: Sold             | 56,000   |          |
| Amount payable to Reddy<br>(Rs.60,000 - Rs.6,000) |       | 54,000   |                        | 1,20,000 |          |
| Outstanding Liabilities:                          |       |          | Less: Depreciation     | 24,000   | 96,000   |
| Salaries                                          | 2,500 |          | Stock                  |          | 75,000   |
| Rent                                              | 6,000 | 8,500    | Debtors                | 96,000   |          |
|                                                   |       |          | Less: Due from Trivedi | 4,000    | 92,000   |
|                                                   |       |          | Cash                   |          | 5,900    |
|                                                   |       |          | Bank                   |          | 53,000   |
|                                                   |       |          | Prepaid Salary         |          | 1,500    |
|                                                   |       | 4,58,400 |                        |          | 4,58,400 |

Working Notes:

- Depreciation on Motor Car  
on new motor car i.e., @ 20% on Rs.1,20,000 = Rs.24,000
- Profit on Replacement of Motor Car

|                       | (Rs.)         | (Rs.)         |
|-----------------------|---------------|---------------|
| Cost of new Motor Car |               | 1,20,000      |
| Less: Exchange Value  | 56,000        |               |
| Cash Payment          | <u>40,000</u> | <u>96,000</u> |
| Profit on replacement |               | <u>24,000</u> |

- Closing Stock  
Maximum allowable limit  $(100 - 20)\% = 80\%$  of stock.  
Overdraft is Rs.60,000 which is equal to 80%.  
So, closing stock =  $\text{Rs.60,000} \times 100 / 80$   
= Rs.75,000.

Final Accounts of Partnership Firm

Illustration 10.

From the following particulars prepare a Final Accounts of M/s. X & Y for the year ended 31st March 2023.

| Particulars      | (Rs.)    | Particulars      | (Rs.)    |
|------------------|----------|------------------|----------|
| Sales            | 8,20,000 | Land             | 11,000   |
| Opening Stock    | 3,00,000 | Purchase         | 3,80,000 |
| Loan (Dr.)       | 20,000   | Interest (Cr.)   | 1,000    |
| Wages            | 60,000   | Salaries         | 40,000   |
| Carriage Inwards | 4,000    | Carriage Outward | 2,000    |
| Returns inward   | 4,000    | Returns Outwards | 3,000    |
| Furniture        | 10,000   | Trade charges    | 8,000    |
| Drawings         |          | Capital          |          |
| X                | 12,000   | X                | 24,000   |
| Y                | 10,000   | Y                | 16,000   |
| Cash             | 3,000    |                  |          |

Additional Information:

- (i) Closing Stock amounted to Rs.1,20,000;



- (ii) Provide Interest on drawings (on an average 6 months) and interest on capital @ 6% and 4% respectively.
- (iii) Y is to get a salary of Rs.400 p.m.
- (iv) X is to get a commissions @ 2% on gross sales
- (v) 50% of the profit is to be transferred to Reserve Fund.
- (vi) Depreciations on furniture @ 10% p.a. The partners share profit and loss equally.

**Solution:**

**M/s X & Y**

| Dr. Trading and Profit and Loss Account for the year ended 31st March, 2023 |          |                 | Cr.                  |          |                 |
|-----------------------------------------------------------------------------|----------|-----------------|----------------------|----------|-----------------|
| Particulars                                                                 | (Rs.)    | (Rs.)           | Particulars          | (Rs.)    | (Rs.)           |
| To Opening Stock                                                            |          | 3,00,000        | By Sales             | 8,20,000 |                 |
| Purchases                                                                   | 3,80,000 |                 | Less: Return Inwards | 4,000    | 8,16,000        |
| Less: Returns Outwards                                                      | 3,000    | 3,77,000        | " Closing Stock      |          | 1,20,000        |
| To Wages                                                                    |          | 60,000          |                      |          |                 |
| To Carriage Inward                                                          |          | 4,000           |                      |          |                 |
| To Profit & Loss A/c                                                        |          | 1,95,000        |                      |          |                 |
| -Gross Profit transferred                                                   |          |                 |                      |          |                 |
|                                                                             |          | <u>9,36,000</u> |                      |          | <u>9,36,000</u> |
| To Salaries                                                                 |          | 40,000          | By Trading A/c.      |          |                 |
| To Carriage Outward                                                         |          | 2,000           | Gross Profit         |          | 1,95,000        |
| To Trade Charges                                                            |          | 8,000           | " Interest           |          | 1,000           |
| To Depreciation on:                                                         |          |                 |                      |          |                 |
| - Furniture                                                                 |          | 1,000           |                      |          |                 |
| To P&L Appropriation A/c.                                                   |          |                 |                      |          |                 |
| - Net Profit transferred                                                    |          | 1,45,000        |                      |          |                 |
|                                                                             |          | 1,96,000        |                      |          | 1,96,000        |

**Profit and Loss Appropriation Account**

| Dr. for the year ended 31st March, 2023 |        |          | Cr.                      |       |          |
|-----------------------------------------|--------|----------|--------------------------|-------|----------|
| Particulars                             | (Rs.)  | (Rs.)    | Particulars              | (Rs.) | (Rs.)    |
| To Interest on Capital                  |        |          | By Profit and Loss A/c   |       | 1,45,000 |
|                                         |        |          | -Net Profit              |       |          |
| X                                       | 960    |          | By Interest on Drawings: |       |          |
| Y                                       | 640    | 1,600    | X                        | 360   |          |
| To Salary                               |        |          | Y                        | 300   | 660      |
| Y:                                      |        | 4,800    |                          |       |          |
| To Commission - X                       |        | 16,400   |                          |       |          |
| Reserve Fund (50%)                      |        | 61,430   |                          |       |          |
| To Partner's Capital A/c                |        |          |                          |       |          |
| Net Divisible Profit                    |        |          |                          |       |          |
| X                                       | 30,715 |          |                          |       |          |
| Y                                       | 30,715 |          |                          |       |          |
|                                         |        | 1,45,660 |                          |       | 1,45,660 |



Dr.

## Partners' Capital Account

Cr.

| Particulars          | X<br>(Rs.) | Y<br>(Rs.) | Particulars         | X<br>(Rs.) | Y<br>(Rs.) |
|----------------------|------------|------------|---------------------|------------|------------|
| To Drawings          | 12,000     | 10,000     | By Balance b/d.     | 24,000     | 16,000     |
| Interest on Drawings | 360        | 300        | Interest on Capital | 960        | 640        |
| Balance c/d.         | 59,715     | 41,855     | Salary              | ---        | 4,800      |
|                      |            |            | Commission          | 16,400     | ---        |
|                      |            |            | Share of Profit     | 30,715     | 30,715     |
|                      | 72,075     | 52,155     |                     | 72,075     | 52,155     |

## Balance Sheet

as at 31st March, 2023

| Liabilities  | (Rs.)    | Assets             | (Rs.)  | (Rs.)    |
|--------------|----------|--------------------|--------|----------|
| Capital:     |          | Land               |        | 11,000   |
| X            | 59,715   | Furniture          | 10,000 |          |
| Y            | 41,855   | Less: Depreciation | 1,000  | 9,000    |
| Reserve Fund | 61,430   | Loan               |        | 20,000   |
|              |          | Closing Stock      |        | 1,20,000 |
|              |          | Cash               |        | 3,000    |
|              | 1,63,000 |                    |        | 1,63,000 |

## Illustration 11.

From the following balances extracted from the books of Mr. S on December 31, 2023, prepare a Trading and Profit and Loss Account for the year ended on that date and also a Balance Sheet as on the same date:

Trial Balance as on 31.12.2023

| Particulars           | Dr. (Rs.) | Particulars                              | Cr. (Rs.) |
|-----------------------|-----------|------------------------------------------|-----------|
| Salaries              | 18,000    | Sales                                    | 2,43,000  |
| Debtors               | 1,26,000  | 8% Loan from Mr. Kumar (taken on 1.7.22) | 60,000    |
| Stock on 01.01.2022   | 30,000    | Provision for Bad Debts                  | 8,000     |
| Machinery             | 2,00,000  | Bills Payable                            | 11,000    |
| Furniture             | 85,000    | Outstanding Salaries                     | 3,000     |
| Bad Debts             | 4,000     | Capital Account                          | 3,30,000  |
| Purchases             | 1,50,000  | Creditors                                | 90,000    |
| Printing & Stationery | 5,300     |                                          |           |
| Postage & Telephone   | 3,200     |                                          |           |
| Rent                  | 4,500     |                                          |           |
| Cash in Hand          | 2,500     |                                          |           |
| Bank Balance          | 72,500    |                                          |           |
| Insurance             | 4,800     |                                          |           |
| Bills Receivable      | 15,000    |                                          |           |
| General Expenses      | 9,200     |                                          |           |
| Drawings              | 10,000    |                                          |           |
| Interest on loan      | 2,000     |                                          |           |
| Wages                 | 3,000     |                                          |           |
|                       | 7,45,000  |                                          | 7,45,000  |

**Additional Information:**

- Closing Stock (as on 31.12.2023): Cost Price Rs.50,000; Market Value Rs.40,000.
- An old furniture which stood at Rs.12,000 in the books on Jan 1, 2023 was disposed of at Rs.5,800 on June 30, 2023, in part exchange of a new furniture costing Rs.10,400. A net invoice of Rs.4,600 was passed through the Purchase Day Book.
- Sales include Rs.36,000 hire-purchase sales. Hire-purchase sales prices are determined after adding 25% on Hire-Purchase price. 30% of the installments have not fallen due yet. Profit or loss on hire-purchase sales is to be shown in the Profit and Loss Account.
- Debtors include Rs.7,500 due from Mr. M and Creditors include Rs.6,000 due to him.
- Annual Insurance premium up to 31.03.23.
- Depreciate the fixed assets as follow: Machinery @ 15% p.a. and Furniture @ 10% p.a.
- Provide 5% for bad debts on debtors (excluding hire-purchase debtors).

**Solution:****Mr. S****Dr. Trading and Profit & Loss Account for the year ended 31.12.2023****Cr.**

| Particulars                                   | (Rs.)        | (Rs.)    | Particulars                                       | (Rs.)         | (Rs.)           |
|-----------------------------------------------|--------------|----------|---------------------------------------------------|---------------|-----------------|
| To Opening Stock                              |              | 30,000   | By Sales                                          | 2,43,000      |                 |
| To Purchases                                  | 1,50,000     |          | Less: Sales on Hire Purchase basis                | <u>36,000</u> | 2,07,000        |
| Less: Exchange of Furniture [WN: 2]           | <u>4,600</u> | 1,45,400 | By Goods Sent on Hire Purchases [Rs.36,000 × 75%] |               | 27,000          |
| To Wages                                      |              | 3,000    | By Closing Stock [WN:1]                           |               | 40,000          |
| To Gross Profit                               |              | 95,600   |                                                   |               |                 |
|                                               |              | 2,74,000 |                                                   |               | <u>2,74,000</u> |
| To Salaries                                   |              | 18,000   |                                                   |               | 95,600          |
| To Bad Debts                                  |              | 4,000    | By Gross Profit                                   |               | 8,000           |
| To Printing & Stationery                      |              | 5,300    | By Provision for Bad Debts (Old)                  |               | 6,300           |
| To Postage & Telephone                        |              | 3,200    |                                                   |               |                 |
| To Rent                                       |              | 4,500    |                                                   |               |                 |
| To Insurance                                  | 4,800        |          |                                                   |               |                 |
| Less: Prepaid Insurance [4,800 × 3/12]        | <u>1,200</u> | 3,600    |                                                   |               |                 |
| To General Expenses                           |              | 9,200    |                                                   |               |                 |
| To Interest on Loan                           | 2,000        |          |                                                   |               |                 |
| Add: Outstanding interest on loan             | <u>400</u>   | 2,400    |                                                   |               |                 |
| [(Rs.60,000 × 8% × 6/12) - 2,000]             |              |          |                                                   |               |                 |
| To Loss on Exchange [WN: 2]                   |              | 5,600    |                                                   |               |                 |
| To Depreciation:                              |              |          |                                                   |               |                 |
| Machinery                                     | 30,000       |          |                                                   |               |                 |
| Furniture [Rs.7,820 (WN: 4) + Rs.600 (WN: 2)] | <u>8,420</u> | 38,420   |                                                   |               |                 |
| To Provision for Bad debt (New)               |              | 5,460    |                                                   |               |                 |





|                                            |  |          |  |          |
|--------------------------------------------|--|----------|--|----------|
| To Capital A/c<br>[Net Profit transferred] |  | 10,220   |  |          |
|                                            |  | 1,09,900 |  | 1,09,900 |

**Balance Sheet as on 31.12.2023**

| Liabilities                                         | (Rs.)         | (Rs.)           | Assets                           | (Rs.)         | (Rs.)           |
|-----------------------------------------------------|---------------|-----------------|----------------------------------|---------------|-----------------|
| Capital                                             | 3,30,000      |                 | Machinery                        | 2,00,000      |                 |
| Add: Net profit                                     | <u>10,220</u> |                 | Less: Depreciation @15%          | <u>30,000</u> |                 |
|                                                     | 3,40,220      |                 | Furniture                        | 85,000        |                 |
| Less: Drawings                                      | <u>10,000</u> | 3,30,220        | Less: Net Exchange<br>[WN: 2]    | <u>1,600</u>  |                 |
| 8% Loan from Mr. Kumar<br>Creditors                 | 90,000        | 60,000          | Less : Depreciation [WN:<br>4]   | <u>7,820</u>  | 75,580          |
| Less: Creditors for<br>Furniture [WN: 2]            | 4,600         |                 | Stock-in-Trade [WN: 1]           |               | 40,000          |
|                                                     | 85,400        |                 | Hire Purchase Stock<br>[WN: 3]   |               | 8,100           |
| Less: Set-off<br>Creditors for Furniture<br>[WN: 2] | 6,000         |                 | Debtors                          | 1,26,000      |                 |
| Bills Payable                                       |               |                 | Less: Hire Purchase<br>Debtors   | <u>10,800</u> |                 |
| Outstanding Salaries                                |               |                 | [Rs.36,000 × 30%]                | 1,15,200      |                 |
| Outstanding Interest on<br>Loan                     |               |                 | Less: Set-off                    | <u>6,000</u>  |                 |
|                                                     |               |                 |                                  | 1,09,200      |                 |
|                                                     |               |                 | Less : Provision for Bad<br>Debt | <u>5,460</u>  | 1,03,740        |
|                                                     |               |                 | Bills Receivable                 |               | 15,000          |
|                                                     |               |                 | Prepaid Insurance                |               | 1,200           |
|                                                     |               |                 | Bank Balance                     |               | 72,500          |
|                                                     |               |                 | Cash in hand                     |               | 2,500           |
|                                                     |               | <b>4,88,620</b> |                                  |               | <b>4,88,620</b> |

| Working Notes:                                                 |     | (Rs.) | (Rs.) |
|----------------------------------------------------------------|-----|-------|-------|
| 1.Exchange of Furniture - Rectification Entry<br>Creditors A/c | Dr. | 4,600 |       |
| Depreciation A/c                                               | Dr. | 600   |       |
| Loss on Exchange A/c                                           | Dr. | 5,600 |       |
| (New) Furniture A/C<br>To (Old) Furniture A/c                  | Dr. | 10400 | 12000 |
| To Creditors for Furniture A/c                                 |     |       | 4600  |
| To Purchases A/c                                               |     |       | 4600  |



## 1. Goods sent and sold on Hire-purchase

| Dr. HP Trading A/c ✓ Cr. |        |                         |        | Dr. HP Sales A/c ✓ Cr. |        |              |        |
|--------------------------|--------|-------------------------|--------|------------------------|--------|--------------|--------|
| Particulars              | (Rs.)  | Particulars             | (Rs.)  | Particulars            | (Rs.)  | Particulars  | (Rs.)  |
| To Goods sent on HP A/c  | 27,000 | By HP Sales A/c         | 25,200 | To HP Trading A/c      | 25,200 | By Sales A/c | 36,000 |
| [Rs.36,000 × 75%]        |        | [Matured Installment]   |        | [Rs.36,000 × 75%]      |        |              |        |
| To P/L A/c               | 6,300  | By Stock with H. P.     | 8,100  | To Balance c/f         | 10,800 |              |        |
|                          |        | [Rs.36,000 × 30% × 75%] |        |                        |        |              |        |
|                          | 33,300 |                         | 33,300 |                        | 36,000 |              | 36,000 |

| Dr. HP Debtors A/c |        |                |        | Cr. |  |
|--------------------|--------|----------------|--------|-----|--|
| Particulars        | (Rs.)  | Particulars    | (Rs.)  |     |  |
| To Debtors A/c     | 10,800 | By Balance c/f | 10,800 |     |  |
|                    | 10,800 |                | 10,800 |     |  |
|                    |        |                |        |     |  |

## 2. Depreciation on Furniture [to be deducted from Furniture in Balance Sheet]

|                                                                | (Rs.) |
|----------------------------------------------------------------|-------|
| On Old Furniture [Rs.85,000 - 12,000] × 10%                    | 7,300 |
| On Sold old Furniture (12,000 × 10% × 6/12)                    | 600   |
| On Furniture acquired during the year [Rs.10,400 × 10% × 6/12] | 520   |
|                                                                | 8,420 |

## Illustration 12.

Mrs. Joshi has presented you the following Trial Balance as on 31st December 2023:

| Dr. Trial Balance as on 31.12.2023 |          |                                 |          | Cr. |  |
|------------------------------------|----------|---------------------------------|----------|-----|--|
| Particulars                        | (Rs.)    | Particulars                     | (Rs.)    |     |  |
| Purchases                          | 1,75,000 | Sales                           | 3,25,000 |     |  |
| Interest                           | 8,000    | 10 % Loan from UBI              | 1,00,000 |     |  |
| Debtors                            | 1,04,000 | Bills Payable                   | 86,000   |     |  |
| Suspense A/c                       | 8,000    | Capital                         | 4,87,000 |     |  |
| Rent                               | 6,600    | Sundry Creditors                | 1,02,500 |     |  |
| Plant & Machinery                  | 5,30,000 | Apprenticeship Premium Received | 2,000    |     |  |
| Furniture & Fixture                | 85,000   | Purchase Return                 | 1,500    |     |  |
| Salaries                           | 7,000    |                                 |          |     |  |
| Wages                              | 2,500    |                                 |          |     |  |
| GST                                | 6,000    |                                 |          |     |  |
| Motor Car                          | 70,000   |                                 |          |     |  |
| Octroi                             | 500      |                                 |          |     |  |
| Insurance                          | 10,000   |                                 |          |     |  |
| Unexpired insurance                | 2,300    |                                 |          |     |  |
| Factory Shed                       | 30,000   |                                 |          |     |  |
| Bills Receivable                   | 25,000   |                                 |          |     |  |
| Patent                             | 32,100   |                                 |          |     |  |
| Sales Return                       | 2,000    |                                 |          |     |  |



|  |           |  |           |
|--|-----------|--|-----------|
|  | 11,04,000 |  | 11,04,000 |
|--|-----------|--|-----------|

You are required to prepare a Trading and Profit & Loss account and a Balance Sheet as on 31st Dec 2022 after considering the following adjustment:

1. A sale of Rs.25,000 made for cash had been credited to Purchase A/c.
2. Private purchase amounting to Rs.600 had been included in Purchase Day Book.
3. The loan account in the books of proprietor appeared as follows:

Dr. 10% Loan from UBI Account Cr.

| Date     | Particulars     | (Rs.)    | Date     | Particulars    | (Rs.)    |
|----------|-----------------|----------|----------|----------------|----------|
| 31.12.23 | To Balanced c/f | 1,00,000 | 1.1.23   | By Balance b/f | 50,000   |
|          |                 |          | 31.12.23 | By Bank A/c    | 50,000   |
|          |                 | 1,00,000 |          |                | 1,00,000 |

Interest paid includes Rs.3,000 interest paid to UBI Bank.

4. During the year goods worth Rs.1,00,000 were invoiced on 'sale on approval basis' at cost plus 25%. Out of these, goods worth Rs.20,000 accepted by the customers, Rs.40,000 worth of goods were rejected and properly accounted for but no intimation has been obtained for the balance of the goods and its period is yet to expire.
5. Debtors were shown after deduction of Provision for Doubtful Debt of Rs.2,000. It was decided that this debt was considered to be bad and should be written off and a provision of Rs.1,000 should be made which was considered doubtful.
6. Suspense account represents money advanced to sales manager who was sent to Mumbai in August, 2023 for sales promotion. On returning to Kolkata submitted a statement disclosing that Rs.2,000 was incurred for travelling, Rs.1,200 for legal expenses and Rs.1,800 for miscellaneous expenses. The balance lying with him is yet to be refunded.
7. Business is carried on in a two-storied rented house. The ground floor, being 50 per cent of the accommodation, is used for business. Mrs. Joshi lives with her family on the first floor.
8. The Furniture account represents old furniture which was replaced on 1.1.2023 by a new one, costing Rs.1,20,000 with an additional cash payment of Rs.80,000 lying debited to purchases account. However, the assets were put to use on 1.4.2023.
9. Depreciation is to be charged on Furniture @ 10% p.a., Plant & Machinery @ 5% p.a., Motor Car @ 5% p.a.
10. The General manager is entitled to commission based on a percentage of net profit (such commission being charged to profit and loss account before ascertaining the net profits), calculated in the following manner :  
On the first Rs.30,000 of net profit Nil  
On the next Rs.30,000 of net profit 10%  
On the next Rs.30,000 of net profit 20%  
And on the balance of net profit 30%
11. Closing Stock was 31.12.2023 was 22,000.

Solution:

Mrs. Joshi

Dr. Trading and Profit & Loss Account for the year ended 31.12.2023 Cr.

| Particulars            | (Rs.)    | (Rs.) | Particulars        | (Rs.)    | (Rs.) |
|------------------------|----------|-------|--------------------|----------|-------|
| To Purchases           | 1,75,000 |       | By Sales           | 3,25,000 |       |
| Less : Purchase Return | 1,500    |       | Less: Sales Return | 2,000    |       |
|                        | 1,73,500 |       |                    | 3,23,000 |       |



|                                            |          |          |                                         |          |               |
|--------------------------------------------|----------|----------|-----------------------------------------|----------|---------------|
| Add: Sales wrongly credited in Purchase    | 25,000   |          | Add: Sales wrongly credited to Purchase | 25,000   |               |
|                                            | 1,98,500 |          |                                         | 3,48,000 |               |
| Less : Private purchase                    | 600      |          | Less : Sale on approval basis           | 40,000   | 3,08,000      |
|                                            | 1,97,900 |          | By Closing Stock                        |          |               |
| Less: Payment for Furniture [WN: 2]        | 80,000   | 1,17,900 | In hand                                 | 22,000   |               |
| To Wages                                   |          | 2,500    | With Customer [WN: 1]                   | 32,000   | <b>54,000</b> |
| To Octroi                                  |          | 500      |                                         |          |               |
| To Gross Profit c/d                        |          | 2,41,100 |                                         |          |               |
|                                            |          | 3,62,000 |                                         |          | 3,62,000      |
| To Rent                                    | 6,600    |          | By Gross Profit b/d                     |          | 2,41,100      |
| Less: Rent of Personal portion (50%)       | 3,300    | 3,300    | By Apprenticeship Premium               |          | 2,000         |
| To Salaries                                |          | 7,000    | By Provision for Bad Debt               |          | 2,000         |
| To GST                                     |          | 6,000    |                                         |          |               |
| To Insurance                               |          | 10,000   |                                         |          |               |
| To Interest                                | 8,000    |          |                                         |          |               |
| Add : Outstanding [(50,000 × 10%) - 3,000] | 2,000    | 10,000   |                                         |          |               |
| To Bad Debt                                |          | 2,000    |                                         |          |               |
| To Provision for Bad Debts                 |          | 1,000    |                                         |          |               |
| To Depreciation:                           |          |          |                                         |          |               |
| Furniture                                  | 12,000   |          |                                         |          |               |
| Plant & Machinery                          | 26,500   |          |                                         |          |               |
| Motor Car                                  | 3,500    | 42,000   |                                         |          |               |
| To Loss on Exchange [WN: 2]                |          | 45,000   |                                         |          |               |
| To Sales Promotion Expenses:               |          |          |                                         |          |               |
| Travelling                                 | 2,000    |          |                                         |          |               |
| Legal Expenses                             | 1,200    |          |                                         |          |               |
| Misc. Expenses                             | 1,800    | 5,000    |                                         |          |               |
| To General Manager's Commission [WN:3]     |          | 16,140   |                                         |          |               |
| To Capital A/c [Net Profit transferred]    |          | 97,660   |                                         |          |               |
|                                            |          | 2,45,100 |                                         |          | 2,45,100      |



## Balance Sheet as on 31.12.2023

| Liabilities                                     | (Rs.)    | (Rs.)           | Assets                                 | (Rs.)    | (Rs.)           |
|-------------------------------------------------|----------|-----------------|----------------------------------------|----------|-----------------|
| Capital                                         | 4,87,000 |                 | Patent                                 |          | 32,100          |
| Add : Net Profit                                | 97,660   |                 | Factory Shed                           |          | 30,000          |
|                                                 | 5,84,660 |                 | Plant & Machinery                      | 5,30,000 |                 |
| Less: Drawings [Rent of Personal Accommodation] | 3,300    | 5,81,360        | Less : Depreciation @ 5%               | 26,500   | 5,03,500        |
| 10 % Loan from UBI                              |          | 1,00,000        | Furniture & Fixture                    | 85,000   |                 |
| Bills Payable                                   |          | 86,000          | Add: Net Exchange                      | 35,000   |                 |
| Sundry Creditors                                | 1,02,500 | 1,01,900        |                                        | 1,20,000 |                 |
| Less : Private purchase                         | 600      |                 | Less : Depreciation @10%               | 12,000   | 1,08,000        |
| Outstanding Interest                            |          | 2,000           | Motor Car                              | 70,000   |                 |
| Outstanding Manger's Commission                 |          | 16,140          | Less : Depreciation @ 5%               | 3,500    | 66,500          |
|                                                 |          |                 | Stock-in-Trade:                        |          |                 |
|                                                 |          |                 | In hand                                | 22,000   |                 |
|                                                 |          |                 | With Customers [WN: 1]                 | 32,000   | 54,000          |
|                                                 |          |                 | Debtors [1,04,000 + 2,000]             | 1,06,000 |                 |
|                                                 |          |                 | Less : Sale on Approval basis [WN:1]   | 40,000   |                 |
|                                                 |          |                 |                                        | 66,000   |                 |
|                                                 |          |                 | Less : Bad debt                        | 2,000    |                 |
|                                                 |          |                 |                                        | 64,000   |                 |
|                                                 |          |                 | Less: Provision for Bad Debts          | 1,000    | 63,000          |
|                                                 |          |                 | Bills Receivable                       |          | 25,000          |
|                                                 |          |                 | Unexpired insurance                    |          | 2,300           |
|                                                 |          |                 | Due from Sales Manager [8,000 - 5,000] |          | 3,000           |
|                                                 |          | <b>8,87,400</b> |                                        |          | <b>8,87,400</b> |

## Working Notes:

## 1. Unexpired goods on Sale on approval basis

|                                                                          | (Rs.)    |
|--------------------------------------------------------------------------|----------|
| Invoice price of goods sent                                              | 1,00,000 |
| Less: Goods accepted                                                     | (20,000) |
| Goods returned                                                           | (40,000) |
| ∴ Invoice Vale of goods lying in the hands of customer                   | 40,000   |
| ∴ Cost price of goods waiting approval = Rs.40,000 × 100/125 = Rs.32,000 |          |

## 2. Exchange of Furniture

|                                | (Rs.)    |
|--------------------------------|----------|
| Original Cost of new Furniture | 1,20,000 |
| Less: Payment made             | 80,000   |
| ∴ Exchange Value               | 40,000   |
| ∴ WDV of old Furniture         | 85,000   |
| ∴ Loss on Exchange             | 45,000   |



| Rectification Entry  |     | (Rs.)  | (Rs.)  |
|----------------------|-----|--------|--------|
| Furniture A/c        | Dr. | 35,000 |        |
| Loss on Exchange A/c | Dr. | 45,000 |        |
| To Purchases A/c     |     |        | 80,000 |

### 3. General manager's Commission

Net Profit before manager's commission = Rs.241,100 - Rs.1,27,300 = Rs.1,13,800

| Net Profit                              | Rate of Commission | Commission (Rs.) |                           |
|-----------------------------------------|--------------------|------------------|---------------------------|
| On first Rs.30,000                      | -                  | -                |                           |
| On Next Rs.30,000                       | 10%                | 3,000            | [30,000 × 10%]            |
| On Next Rs.30,000                       | 20%                | 6,000            | [30,000 × 20%]            |
| On balance                              | 30%                | 7,140            | [1,13,800 - 90,000] × 30% |
| ∴ Commission payable to General Manager |                    | 16,140           |                           |





## 6. PREPARATION OF FINANCIAL STATEMENTS OF NOT - FOR - PROFIT ORGANISATION

### ILLUSTRATIONS

#### Illustration 1.

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

**Solution:**

| Dr.                                      |          | Subscription Account                  |          | Cr. |  |
|------------------------------------------|----------|---------------------------------------|----------|-----|--|
| Particulars                              | (Rs.)    | Particulars                           | (Rs.)    |     |  |
| 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- Rs.1600 × 5) | 8,000    |     |  |
|                                          | 2,20,000 |                                       | 2,20,000 |     |  |

#### Illustration 2.

The City Sports Club of Surat had received in 2022-2023 Rs.50,000 towards subscription. Subscription for 2021- 22 unpaid on 1.4.2022 were Rs.5,000.

Subscriptions paid in advance on 31.3.2022 were Rs.1,250 and the same on 31.3.2023 was Rs.1,000. Subscriptions for 2022- 2023 unpaid on 31.3.2023 were Rs.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 31.03.2023.

**Solution:**

| Particulars                                          | (Rs.)  |
|------------------------------------------------------|--------|
| Subscriptions received during the year 2022-2023     | 50,000 |
| Add : Subscription outstanding on 31.3.2023          | 2,250  |
|                                                      | 52,250 |
| Less : Subscription outstanding on 1.4.22            | 5,000  |
|                                                      | 47,250 |
| Add : Subscription paid in advance on 31.3.2022      | 1,250  |
|                                                      | 48,500 |
| Less : Subscription received in advance on 31.3.2023 | 1,000  |
| Subscription for 2022-2023                           | 47,500 |

**Illustration 3.**

The following is the Income and Expenditure Account of GB Club for the year ended 31st March, 2023:

| Income and Expenditure Account of GB Club<br>for the year ended 31st March, 2023 |        |                 |        |
|----------------------------------------------------------------------------------|--------|-----------------|--------|
| Dr.                                                                              |        |                 | Cr.    |
| Expenditure                                                                      | (Rs.)  | Income          | (Rs.)  |
| To Salaries                                                                      | 19,500 | By Subscription | 68,000 |
| To Rent                                                                          | 4,500  | By Donation     | 5,000  |
| To Printing                                                                      | 750    |                 |        |
| To Insurance                                                                     | 500    |                 |        |
| To Audit Fees                                                                    | 750    |                 |        |
| To Games & Sports                                                                | 3,500  |                 |        |
| To Subscriptions written off                                                     | 350    |                 |        |
| To Miscellaneous Expenses                                                        | 14,500 |                 |        |
| To Loss on sale of Furniture                                                     | 2,500  |                 |        |
| To Depreciation:                                                                 |        |                 |        |
| Sports Equipment                                                                 | 6,000  |                 |        |
| Furniture                                                                        | 3,100  |                 |        |
| To Excess of income over expenditure                                             | 17,050 |                 |        |
|                                                                                  | 73,000 |                 | 73,000 |

**Additional Information:**

|                                    | 31-03-2022 (Rs.) | 31-03-2023 (Rs.) |
|------------------------------------|------------------|------------------|
| Subscription in arrears            | 2,600            | 3,700            |
| Advance Subscriptions              | 1,000            | 1,500            |
| Outstanding expenses:              |                  |                  |
| Rent                               | 500              | 800              |
| Salaries                           | 1,200            | 350              |
| Audit Fee                          | 500              | 750              |
| Sports Equipment less depreciation | 25,000           | 24,000           |
| Furniture less depreciation        | 30,000           | 27,900           |
| Prepaid Insurance                  | —                | 150              |

Book value of furniture sold is Rs.7,000. Entrance fees capitalized Rs.4,000. On 1st April, 2022 there was no cash in hand but Bank Overdraft was for Rs.15,000. On 31st March, 2023 cash in hand amounted to Rs.850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the GB Club for the year ended 31st March, 2022.

**Solution:**

**Receipts and Payments of GB Club Account  
for the year ended 31.3.2023**

| Receipt                     | Rs.    | Payments                        |        | Rs.    |
|-----------------------------|--------|---------------------------------|--------|--------|
| To Subscription A/c (W.N.1) | 67,050 | By Balance b/d (Bank overdraft) |        | 15,000 |
| To Donation A/c             | 5,000  | By Salary                       | 19,500 |        |
| To Entrance Fees A/c        | 4,000  | Add: Outstanding of last year   | 1,200  |        |
| To Furniture A/c            | 4,500  | Less: Outstanding of this year  | (350)  | 20,350 |



|                                     |               |                                         |       |               |
|-------------------------------------|---------------|-----------------------------------------|-------|---------------|
| (Sale of furniture) (7,000 - 2,500) |               | By Rent                                 |       | 4,500         |
|                                     |               | Add: Outstanding of last year           |       | 500           |
|                                     |               | Less: Outstanding of this year          | (800) | <b>4,200</b>  |
|                                     |               | By Printing                             |       | 750           |
|                                     |               | By Insurance                            | 500   |               |
|                                     |               | Add: Prepaid in this year               | 150   | <b>650</b>    |
|                                     |               | By Audit Fees                           | 750   |               |
|                                     |               | Add: Outstanding of last year           | 500   |               |
|                                     |               | Less: Outstanding of this year          | (750) | <b>500</b>    |
|                                     |               | By Games and Sports                     |       | 3,500         |
|                                     |               | By Miscellaneous Expenses               |       | 14,500        |
|                                     |               | By Sports Equipment (Purchased) (W.N.2) |       | 5,000         |
|                                     |               | By Furniture (Purchased) (W.N.3)        |       | 8,000         |
|                                     |               | By Balance c/d                          |       |               |
|                                     |               | Cash                                    |       | 850           |
|                                     |               | Bank (Bal. fig.)                        |       | 7,250         |
| <b>Total</b>                        | <b>80,550</b> | <b>Total</b>                            |       | <b>80,550</b> |

**Working Notes:****1. Calculation of subscription received during the year 2022-2023**

| Particulars                                    | (Rs.) | (Rs.)   |
|------------------------------------------------|-------|---------|
| Subscription as per Income and Expenditure A/c |       | 68,000  |
| Less: Arrears of 2022-2023                     | 3,700 |         |
| Advance in 2021-2022                           | 1,000 | (4,700) |
|                                                |       | 63,300  |
| Add: Arrears of 2021-2022                      | 2,600 |         |
| Advance for 2022-2023                          | 1,500 | 4,100   |
| Less: Written off during 2022-2023             |       | 67,400  |
|                                                |       | (350)   |
|                                                |       | 67,050  |

**2. Calculation of Sports Equipment purchased during 2022-2023**

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

**3. Calculation of Furniture purchased during 2022-2023**

| Dr.                                                  |        | Cr.                           |       |
|------------------------------------------------------|--------|-------------------------------|-------|
| Particulars                                          | (Rs.)  | Particulars                   | (Rs.) |
| To Balance b/d                                       | 30,000 | By Receipts & Payments A/c    | 4,500 |
| To Receipts and Payments A/c (Purchases) (Bal. fig.) | 8,000  | By Income and Expenditure A/c | 2,500 |
|                                                      |        | (Loss on sale)                |       |
|                                                      |        | By Income and Expenditure A/c | 3,100 |
|                                                      |        | (Depreciation)                |       |



|  |        |                |        |
|--|--------|----------------|--------|
|  |        | By Balance c/d | 27,900 |
|  | 38,000 |                | 38,000 |

**Illustration 4.**

The Income and Expenditure account of an association for the year ended 31 March 2023 is as under:

Dr.

Cr.

| Particulars                  | (Rs.)    | Particulars                | (Rs.)    |
|------------------------------|----------|----------------------------|----------|
| To Salaries                  | 1,20,000 | By Subscription            | 1,70,000 |
| To Printing and Stationery   | 6,000    | By Entrance fee            | 4,000    |
| To Telephone                 | 1,500    | By Contribution for Dinner | 36,000   |
| To Postage                   | 500      |                            |          |
| To General expenses          | 12,000   |                            |          |
| To Interest and bank charges | 5,500    |                            |          |
| To Audit fees                | 2,500    |                            |          |
| To Annual Dinner Expenses    | 25,000   |                            |          |
| To Depreciation              | 7,000    |                            |          |
| To Surplus                   | 30,000   |                            |          |
|                              | 2,10,000 |                            | 2,10,000 |

The aforesaid Income and Expenditure account has been prepared after the following adjustments

|                                                                              | (Rs.)    |
|------------------------------------------------------------------------------|----------|
| Subscription outstanding as on 31st March 2022                               | 16,000   |
| Subscription outstanding as on 31st March 2023                               | 18,000   |
| Subscription received in advance as on 31st March 2022                       | 13,000   |
| Subscription 'received in advance as on 31st March 2023                      | 8,400    |
| Salaries outstanding as on 31st March 2022                                   | 6,000    |
| Salaries outstanding as on 31st March 2023.                                  | 8,000    |
| Audit fees for 2021-22 paid during 2022-23                                   | 2,000    |
| Audit fee for 2022-23 not paid                                               | 2,500    |
| The building owned by the association since 2022 costs                       | 1,90,000 |
| Equipment as on 31st March, 2022 valued at                                   | 52,000   |
| At the end of the year after depreciation of Rs.7,000, equipment amounted to | 63,000   |
| In 2020-21, the association raised a bank loan of which is still not paid    | 30,000   |
| Cash in hand as on 31st March 2023                                           | 28,500   |
| Cash in hand as on 31st March 2022                                           | 13,600   |
| Capital Fund as on 31st March 2022                                           | 2,20,600 |

You are required to prepare Receipts and Payment Account of the association for the year ended 31st March 2023 and the Balance Sheet as at that date.

Solution:

**Receipts and Payments**  
for the year ended 31<sup>st</sup> March, 2023

| Receipts                | (Rs.)    | Payments                 | (Rs.)    |
|-------------------------|----------|--------------------------|----------|
| To Balance b/d          | 13,600   | By Salaries W.N. (2)     | 1,18,000 |
| To Subscription (W.N.3) | 1,63,400 | By Printing & Stationery | 6,000    |



|                               |          |                        |          |
|-------------------------------|----------|------------------------|----------|
| To Entrance Fees              | 4,000    | By Postage             | 500      |
| To Annual Dinner Contribution | 36,000   | By Telephone           | 1,500    |
|                               |          | By General Expenses    | 12,000   |
|                               |          | By Audit Fees          | 2,000    |
|                               |          | By Dinner Expenses     | 25,000   |
|                               |          | By Interest            | 5,500    |
|                               |          | By Equipments W.N. (1) | 18,000   |
|                               |          | By Balance c/d         | 28,500   |
|                               | 2,17,000 |                        | 2,17,000 |

## Balance Sheet as at 31st March, 2023

| Liabilities                      | (Rs.)    | (Rs.)    | Assets                  | (Rs.)    |
|----------------------------------|----------|----------|-------------------------|----------|
| Capital (W.N.- 4)                | 2,20,600 |          | Buildings               | 1,90,000 |
| Add: Surplus                     | 30,000   | 2,50,600 | Equipments              | 63,000   |
| Bank Loan                        |          | 30,000   | Cash in Hand            | 28,500   |
| Creditors : Salaries             |          | 8,000    | Subscription Receivable | 18,000   |
| Audit Fees O/S                   |          | 2,500    |                         |          |
| Subscription Received in Advance |          | 8,400    |                         |          |
|                                  |          | 2,99,500 |                         | 2,99,500 |

## Working Notes: (1)

| Dr.               |        | Equipment Account |        | Cr. |  |
|-------------------|--------|-------------------|--------|-----|--|
| Particulars       | (Rs.)  | Particulars       | (Rs.)  |     |  |
| To Balance b/d    | 52,000 | By Depreciation   | 7,000  |     |  |
| To Bank A/c (B/f) | 18,000 | By Balance c/d    | 63,000 |     |  |
|                   | 70,000 |                   | 70,000 |     |  |

## (2)

| Dr.                       |          | Salaries Account            |          | Cr. |  |
|---------------------------|----------|-----------------------------|----------|-----|--|
| Particulars               | (Rs.)    | Particulars                 | (Rs.)    |     |  |
| To Salary O/S (2021 - 22) | 8,000    | By Income & Expenditure A/c | 1,20,000 |     |  |
| To Bank A/c (Bal. fig.)   | 1,18,000 | By Salary O/S (2020-21)     | 6,000    |     |  |
|                           | 1,26,000 |                             | 1,26,000 |     |  |

## (3)

| Dr.                                           |          | Subscription Account                         |          | Cr. |  |
|-----------------------------------------------|----------|----------------------------------------------|----------|-----|--|
| Particulars                                   | (Rs.)    | Particulars                                  | (Rs.)    |     |  |
| To Subscription Receivable (2020-21)          | 16,000   | By Subscription Receive in Advance (2020-21) | 13,000   |     |  |
| To Subscription Received in Advance (2022-23) | 8,400    | By Subscription Receivable (2021-22)         | 18,000   |     |  |
| To Income & Expenditure A/c                   | 1,70,000 | By Bank A/c (Bal. fig.)                      | 1,63,400 |     |  |
|                                               | 1,94,400 |                                              | 1,94,400 |     |  |

## (4)

## Balance Sheet as at 31st March, 2022

| Liabilities              | (Rs.)    | Assets       | (Rs.)    |
|--------------------------|----------|--------------|----------|
| Capital fund (Bal. fig.) | 2,20,600 | Building     | 1,90,000 |
| Bank loan                | 30,000   | Equipment    | 52,000   |
| Creditors Salaries       | 6,000    | Cash in hand | 13,600   |





|                                  |          |                         |          |
|----------------------------------|----------|-------------------------|----------|
| Audit Fees O/S                   | 2,000    | Subscription Receivable | 16,000   |
| Subscription Received in Advance | 13,000   |                         |          |
|                                  | 2,71,600 |                         | 2,71,600 |

**Illustration 5.**

JB Club furnishes you the Receipts and Payments Account for the year ended 31.03.2023:

| Receipts                   | (Rs.)    | Payments                            | (Rs.)    |
|----------------------------|----------|-------------------------------------|----------|
| To Cash in hand (1.4.2022) | 40,000   | By Salary                           | 20,000   |
| To Cash at Bank (1.4.2022) | 1,00,000 | By Repair expenses                  | 5,000    |
| To Donations               | 50,000   | By Furnitures                       | 60,000   |
| To Subscriptions           | 1,20,000 | By Investments                      | 60,000   |
| To Entrance fee -          | 10,000   | By Misc. Expenses                   | 5,000    |
| To Interest on Investments | 1,000    | By Insurance Premium                | 2,000    |
| To Interest from Banks,    | 4,000    | By Billiards table and other Sports |          |
| To Sale of Old Newspaper   | 1,500    | Items                               | 80,000   |
| To Sale of Drama Tickets   | 10,500   | By Stationery Expenses              | 1,500    |
|                            |          | By Drama Expenses                   | 5,000    |
|                            |          | By Cash in Hand (31.03.2023)        | 26,500   |
|                            |          | By Cash at Bank (31.03.2023)        | 72,000   |
|                            | 3,37,000 |                                     | 3,37,000 |

**Additional information:**

- Subscriptions in arrear for 2022-23 Rs.9,000 and subscription in advance for the year 2023-24 Rs.3,500.
- Rs.400 was the insurance premium outstanding as on 31.03.2023.
- Miscellaneous expenses prepaid Rs.900.
- 50% of donation is to be capitalized.
- Entrance fees to be treated as revenue income.
- 8% interest has accrued on investments for five months.
- Billiards table and other sports equipments costing Rs.3,00,000 were purchased in the financial year 2021-22 and of which Rs.80,000 was not paid 31.03.2022. There is no charge for Depreciation to, be considered.

You are required to prepare Income and Expenditure Account for the year ended 31.03.2023 and Balance sheet of the Club as at 31.03.2023.

**Solution:**

**JB Club**  
**Income and Expenditure Account**

| Dr                           |        |                                     | Cr.      |
|------------------------------|--------|-------------------------------------|----------|
| Expenditure                  | (Rs.)  | Income                              | (Rs.)    |
| To Salary                    | 20,000 | By Subscription                     | 1,25,500 |
| To Repair Expenses           | 5,000  | (Rs.1,20,000 + Rs.9,000 - Rs.3,500) |          |
| To Misc. Expenses            | 4,100  | By Donation @ 50%                   | 25,000   |
| (5,000 - 900) (less prepaid) |        | By Entrance Fee                     | 10,000   |
| To Insurance Premium         | 2,000  | By Sale of Old Newspaper            | 1,500    |
| To Stationery Expenses       | 1,500  | By Bank Interest                    | 4,000    |





|                                      |                 |                                                            |                 |
|--------------------------------------|-----------------|------------------------------------------------------------|-----------------|
| To Drama Expenses                    | 5,000           | By Interest on Investments<br>(60,000 × 8% × 5/12) + 1,000 | 3,000           |
| To Excess of Income over Expenditure | 1,41,900        | By Sale of Drama Tickets                                   | 10,500          |
|                                      | <b>1,79,500</b> |                                                            | <b>1,79,500</b> |

**Balance Sheet as at 01.04.2022**

| Liabilities                 | (Rs.)           | Assets                                      | (Rs.)           |
|-----------------------------|-----------------|---------------------------------------------|-----------------|
| Capital Fund (Bal. fig)     | 3,60,000        | Cash in Hand                                | 40,000          |
| Billiards Table Outstanding | 80,000          | Cash at Bank                                | 1,00,000        |
|                             |                 | Billiards Table and Other Sports Equipments | 3,00,000        |
|                             | <b>4,40,000</b> |                                             | <b>4,40,000</b> |

**Balance Sheet as at 31.03.2023**

| Liabilities                       | (Rs.)    | (Rs.)           | Assets                                      | (Rs.)        | (Rs.)           |
|-----------------------------------|----------|-----------------|---------------------------------------------|--------------|-----------------|
| Capital Fund                      | 3,60,000 |                 | Cash in Hand                                |              | 26,500          |
| Add: Donations                    | 25,000   |                 | Cash at Bank                                |              | 72,000          |
| Excess of Income over Expenditure | 1,41,900 | 5,26,900        | Investments                                 | 60,000       |                 |
| Subscriber in Advance             |          | 3,500           | Accrued Interest                            | <u>2,000</u> | 62,000          |
|                                   |          |                 | Furniture                                   |              | 60,000          |
|                                   |          |                 | Prepaid Misc. Exp.                          |              | 900             |
|                                   |          |                 | Subscription Arrear                         |              | 9,000           |
|                                   |          |                 | Billiards Table and Other Sports Equipments |              | 3,00,000        |
|                                   |          | <b>5,30,400</b> |                                             |              | <b>5,30,400</b> |

**Note:** Insurance Premium Outstanding is not recorded because it is not a transaction.

**Illustration 6.**

OB Library Society showed the following position on 31st March, 2022:

**Balance Sheet as on 31st March, 2022**

| Liabilities      | (Rs.)           | Assets                    | (Rs.)           |
|------------------|-----------------|---------------------------|-----------------|
| Capital Fund     | 7, 93,000       | Electrical Fittings       | 1,50,000        |
| Expenses Payable | 7,000           | Furniture                 | 50,000          |
|                  |                 | Books                     | 4,00,000        |
|                  |                 | Investments in Securities | 1,50,000        |
|                  |                 | Cash at Bank              | 25,000          |
|                  |                 | Cash in Hand              | 25,000          |
|                  | <b>8,00,000</b> |                           | <b>8,00,000</b> |

The Receipts and Payment Account for the year ended on 31st March, 2023 is given below:

| Receipts                       | (Rs.)    | Payments                       | (Rs.)  |
|--------------------------------|----------|--------------------------------|--------|
| To Balance b/d                 |          | By Electric Charges            | 7,200  |
| Cash at Bank 25,000            |          | By Postage and Stationery      | 5,000  |
| Cash in Hand 25,000            | 50,000   | By Telephone Charges           | 5,000  |
| To Entrance Fees               | 30,000   | By Books Purchased (Apr, 2021) | 60,000 |
| To Membership Subscription     | 2,00,000 | By Outstanding Expenses Paid   | 7,000  |
| To Sale Proceeds of Old Papers | 1,500    | By Rent                        | 88,000 |
| To Hire of Lecture Hall        | 20,000   | By Investment in Securities    | 40,000 |



|                           |          |                           |          |
|---------------------------|----------|---------------------------|----------|
| To Interest on Securities | 8,000    | By Salaries               | 66,000   |
|                           |          | By Balance c/d            | 20,000   |
|                           |          | Cash at Bank Cash in Hand | 11,300   |
|                           | 3,09,500 |                           | 3,09,500 |

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2023 and a Balance Sheet as at 31st March, 2023 after making the following adjustments:

- Membership subscription included Rs.10,000 received in advance.
- Provide for outstanding rent Rs.4,000 and salaries Rs.3,000.
- Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.
- 75% of the entrance fees is to be capitalized.
- Interest on securities is to be calculated @ 5% p.a. including purchases made on 01.10.2022 for Rs.40,000.

Solution:

**Income & Expenditure Account of OB Library Society**  
**for the year ended 31-3-2023**

| Dr.                                   |              | for the year ended 31-3-2023 |                                                     | Cr. |          |
|---------------------------------------|--------------|------------------------------|-----------------------------------------------------|-----|----------|
| Particulars                           |              | (Rs.)                        | Particulars                                         |     | (Rs.)    |
| To Electricity Charges                |              | 7,200                        | By Entrance Fees (30,000 × 25%)                     |     | 7,500    |
| To Postage & Stationery               |              | 5,000                        | By Membership Subscription 2,00,000                 |     |          |
| To Telephone Charges                  |              | 5,000                        | Less: Advance 10,000                                |     | 1,90,000 |
| To Rent                               | 88,000       |                              | By Sale of Old Papers                               |     | 1,500    |
| Add: Outstanding                      | <u>4,000</u> | 92,000                       | By Hire of Lecture Hall                             |     | 20,000   |
| To Salaries                           | 66,000       |                              | By Interest on Securities 8,000                     |     |          |
| Add: Outstanding                      | <u>3,000</u> | 69,000                       | Add. Accrued Interest <u>500</u>                    |     | 8,500    |
| To Depreciation on:                   |              |                              | [5% on 1,50,00+ (5% on 40,000)× $\frac{1}{2}$ 8000] |     |          |
| Books (10% on 4,60,000)               |              | 46,000                       |                                                     |     |          |
| Electrical fittings (10% on 1,50,000) |              | 15,000                       | By Deficiency                                       |     | 16,700   |
| Furniture (10% on 50,000)             |              | 5,000                        |                                                     |     |          |
|                                       |              | 2,44,200                     |                                                     |     | 2,44,200 |

**Balance Sheet of OB Library as on 31.03.2023**

| Liabilities                               | (Rs.)    | Assets                                       | (Rs.)    |
|-------------------------------------------|----------|----------------------------------------------|----------|
| Capital Fund 7,93,000                     |          | Electrical Fitting (1,50,000 - 15,000)       | 1,35,000 |
| Add: Entrance fees <u>22,500</u>          |          | Furniture (50,000 - 5,000)                   | 45,000   |
| 8,15,500                                  |          | Books (4,60,000 - 46,000)                    | 4,14,000 |
| Less: Excess of                           |          | Investment in securities (1,50,000 + 40,000) | 1,90,000 |
| Expenditure over Income <u>16,700</u>     | 7,98,800 | Accrued Interest                             | 500      |
| Outstanding Expenses:                     |          | Cash at Bank Cash in Hand                    | 20,000   |
| Rent 4,000                                |          |                                              | 11,300   |
| Salaries <u>3,000</u>                     | 7,000    |                                              |          |
| Membership Subscription in Advance 10,000 | 10,000   |                                              |          |
|                                           | 8,15,800 |                                              | 8,15,800 |

**Illustration 7.**

Following is the summary of Receipts and Payments of RR Clinic for the year ended 31st March, 2023:

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

**Additional Information:**

| SI. |                                  | 01.04.2022 (Rs.) | 31.03.2023 (Rs.) |
|-----|----------------------------------|------------------|------------------|
| 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 31<sup>st</sup> March, 2023 and the Balance Sheet as on 31<sup>st</sup> March, 2023.

**Solution:****Receipts and Payments Account of RR Clinic for the year ended 31.03.2023**

| Receipts                    | (Rs.)    | Payments                  | (Rs.)    |
|-----------------------------|----------|---------------------------|----------|
| 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 31.03.2023

Cr.

| Expenditure              | (Rs.)    | Income          | (Rs.)    |
|--------------------------|----------|-----------------|----------|
| 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> |
| Medical Equipment 37,800                     |          |                            | 77,000        |
| 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 31<sup>st</sup> March, 2023**

| Liabilities                      | (Rs.)         | (Rs.)     | Assets                  | (Rs.)           | (Rs.)     |
|----------------------------------|---------------|-----------|-------------------------|-----------------|-----------|
| Capital Fund:                    |               |           | Building                | 3,50,000        |           |
| 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 in Advance |               | 4,900     |                         | 2,52,000        |           |
| Creditors for Medicine Supply    |               | 91,000    | Less: Depreciation      | <u>(37,800)</u> | 2,14,200  |
|                                  |               |           | Stock of Medicine       |                 | 1,05,000  |
|                                  |               |           | Investments             |                 | 7,00,000  |
|                                  |               |           | Subscription Receivable |                 | 15,400    |
|                                  |               |           | Cash in hand            |                 | 1,13,000  |
|                                  |               | 14,62,600 |                         |                 | 14,62,600 |

|    |                                                      | (Rs.)  | (Rs.)      |
|----|------------------------------------------------------|--------|------------|
| 1  | Subscription for the year ended 31.03.2023           |        |            |
|    | Subscription received during the year                |        | 3,50,000   |
|    | Less: Subscription receivable on 01.04.2022          | 10,500 | .          |
|    | Less: Subscription received in advance on 31.03.2023 | 4,900  | (15,400)   |
|    | Add: Subscription receivable on 31.03.2023           | 15,400 | 3,34,600   |
|    | Add: Subscription received in advance on 01.04.2022  | 8,400  | 23,800     |
|    | Subscription for the year 2022-23                    |        | 3,58,400   |
| 2. | Purchase of Medicine                                 |        |            |
|    | Payment of Medicine Supply                           |        | 2,10,000   |
|    | Less: Amount due for Medicine Supply 01.04.2022      |        | (63,000)   |
|    |                                                      |        | 1,47,000   |
|    | Add: Amount due for Medicine Supply on 31.03.2023    |        | 91,000     |
|    | Purchase of Medicine during 2022-23                  |        | 2,38,000   |
| 3. | Medicine Consumed                                    |        |            |
|    | Stock of Medicine on 01.04.2022                      |        | 70,000     |
|    | Add: Purchase of Medicine during the year            |        | 2,38,000   |
|    |                                                      |        | 3,08,000   |
|    | Less: Stock of Medicine on 31.03.2023                |        | (1,05,000) |



|   |                                            |  |            |
|---|--------------------------------------------|--|------------|
|   | Medicines Consumed                         |  | 2,03,000   |
| 4 | Depreciation on Equipment                  |  |            |
|   | Value of Equipment on 01.04.2022           |  | 1,47,000   |
|   | Add: Purchase of Equipment during the year |  | 1,05,000   |
|   |                                            |  | 2,52,000   |
|   | Less: Value of Equipment on 31.03.2023     |  | (2,14,200) |
|   | Depreciation on Equipment for the year     |  | 37,800     |

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

| Liability                        | (Rs.)     | Assets                  | (Rs.)     |
|----------------------------------|-----------|-------------------------|-----------|
| 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 |

**Illustration 8.**

The following information provided by the New Youth Club, Delhi for the first year ended 31st March, 2023:

(i) Donations Received for Building Rs.25,00,000;

(ii) Other Incomes and Receipts were:

(Rs.in '000)

| Particulars          | Capital Income | Revenue Income | Actual Receipt |
|----------------------|----------------|----------------|----------------|
|                      | (Rs.)          | (Rs.)          | (Rs.)          |
| Entrance Fees        | —              | 251            | 251            |
| Life Membership Fees | 105            | —              | 105            |
| Subscription         | —              | 1,160          | 1,151          |
| Play Ground Rent     | —              | 120            | 110            |
| Refreshment Account  | —              | 115            | 115            |
| Sundry Incomes       | —              | 62             | 49             |

(iii) Expenditures and actual payments were:

(Rs.in '000)

| Particulars                | Capital Expenditure | Revenue Expenditure | Actual Payment |
|----------------------------|---------------------|---------------------|----------------|
|                            | (Rs.)               | (Rs.)               | (Rs.)          |
| Land                       | 800                 | —                   | 800            |
| Books                      | 236                 | —                   | 202            |
| Furniture                  | 345                 | —                   | 315            |
| Honorarium and Salaries    | —                   | 165                 | 131            |
| Maintenance of Play Ground | —                   | 52                  | 50             |
| Refreshment Account        | —                   | 79                  | 79             |
| Insurance Premium          | —                   | 12                  | 15             |
| Sundry Expenses            | —                   | 70                  | 65             |



**Others:**

Donation were utilized to the extent of Rs.13 Lakh in construction of building, remaining balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2022 for Rs.10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2023. During the year 2022-23, Subscription received in advance Rs.52,000 for the year 2023-24.

Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2023.

**Solution:**

**New Youth Club**  
**Receipts & Payments Account**  
**for the year ending 31st March, 2023 (Rs.in 000)**

| Dr.                     |       |                               | Cr    |
|-------------------------|-------|-------------------------------|-------|
| Receipts                | (Rs.) | Payments                      | (Rs.) |
| To Donations            | 2,500 | By Land                       | 800   |
| To Entrance fees        | 251   | By Building                   | 1,300 |
| To life Membership fees | 105   | By Books                      | 202   |
| To Subscription         | 1,151 | By Furniture                  | 315   |
| To Play Ground rent     | 110   | By Honorarium and Salaries    | 131   |
| To Refreshment account  | 115   | By Maintenance of Play Ground | 50    |
| To Sundry incomes       | 49    | By Refreshment Account        | 79    |
|                         |       | By Insurance Premium          | 15    |
|                         |       | By Sundry Expenses            | 65    |
|                         |       | By Govt. Securities           | 1,050 |
|                         |       | By Term Deposits              | 150   |
|                         |       | By Balance c/d                | 124   |
|                         | 4,281 |                               | 4,281 |

**Income & Expenditure Account**  
**for the year ending 31st March, 2023**

| Dr.                            |           | for the year ending 31st March, 2023 |                                 | Cr.         |              |
|--------------------------------|-----------|--------------------------------------|---------------------------------|-------------|--------------|
|                                |           |                                      |                                 | (Rs.in 000) |              |
| Expenditure                    | (Rs.)     | (Rs.)                                | Income                          | (Rs.)       | (Rs.)        |
| To Honorarium and Salaries     | 131       |                                      | By Subscription                 | 1,151       |              |
| Add: Outstanding               | <u>34</u> | 165                                  | Less: Received in Advance       | <u>52</u>   |              |
| To Maintnc. of Play Ground.    | 50        |                                      |                                 | 1,099       |              |
| Add: Outstanding               | <u>2</u>  | 52                                   | Add: Outstanding                | <u>61</u>   | 1,160        |
| To Insurance Premium           | 15        |                                      | By Entrance Fees                |             | 251          |
| Less: Prepaid                  | <u>3</u>  | 12                                   | By Play Ground Rent             | 110         |              |
| To Sundry Expenses             | 65        |                                      | Add: Outstanding                | <u>10</u>   | 120          |
| Add: Outstanding               | <u>5</u>  | 70                                   | By Prof it on Refreshment       |             | 36           |
| To Depreciation                |           |                                      | By Sundry Incomes               | 49          |              |
| On Building-10% on Rs.13 Lakh  |           | 130                                  | Add: Outstanding                | <u>13</u>   | 62           |
| On Fumiture-10% on Rs.3,45,000 |           | 34.50                                | By Interest on Govt. Securities |             | 21           |
| On Books- 15% on Rs.2,36000    |           | 35.40                                | (Accrued)                       |             |              |
| To Surplus                     |           | 1,151.10                             |                                 |             |              |
|                                |           | <b>1,650</b>                         |                                 |             | <b>1,650</b> |





## Balance Sheet as on 31st march, 2023

(Rs. in 000)

| Liabilities                      | (Rs.)    | Assets                              | (Rs.)    |
|----------------------------------|----------|-------------------------------------|----------|
| Capital Fund                     |          | Land                                | 800      |
| Add: Life Membership fees 105.00 |          | Building (Rs.13 Lakh- Rs.1.3 Lakh)  | 1,170    |
| Add: Surplus 1,151.10            | 1,256.10 | Books (Rs.2,36,000 - Rs.35,400)     | 200.6    |
| Donations for Building           | 2,500    | Furniture (Rs.3,45,000 - Rs.34,500) | 310.5    |
| Creditors for Books              | 34       | 8% Govt. Securities                 | 1,050    |
| Creditors for Furniture          | 30       | Out. Int. on Govt. Securities       | 21       |
| Outstanding Hon. and salaries    | 34       | Outstanding Subscription            | 61       |
| Outs. Maintenance of play ground | 2        | Prepaid Insurance Premium           | 3        |
| Outstanding Sundry expenses      | 5        | Play Ground rent- Outstanding       | 10       |
| Subscription Received in Advance | 52       | Sundry incomes - Outstanding        | 13       |
|                                  |          | Term Deposits                       | 150      |
|                                  |          | Cash and Bank                       | 124      |
|                                  | 3,913.10 |                                     | 3,913.10 |

Working Notes:

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

## Illustration 9.

The following summary of the Cash Book has been prepared by the treasurer of a Club:

| Receipts                               | (Rs.)    | Payments                              | (Rs.)    |
|----------------------------------------|----------|---------------------------------------|----------|
| To Balance b/d                         | 4,740    | By Wages - outdoor staff              | 13,380   |
| To Subscriptions                       | 29,720   | By Restaurant Purchase                | 50,400   |
| To Entrance Fees                       | 3,200    | By Rent - 18 months' to July 30, 2022 | 7,500    |
| To Restaurant Receipts                 | 56,800   | By Rates                              | 2,700    |
| To Games & Competition Receipts        | 13,640   | By Secretary's Salary                 | 3,120    |
| To Due to Secretary for Petty expenses | 80       | By Lighting                           | 7,200    |
|                                        |          | By Competition Prizes                 | 4,000    |
|                                        |          | By Printing & Postage etc.            | 6,000    |
|                                        |          | By Placed in Fixed Deposit            | 8,000    |
|                                        |          | By Balance c/d                        | 5,880    |
|                                        | 1,08,180 |                                       | 1,08,180 |

On April 1, 2022 the club's assets were:- Furniture Rs.48,000, Restaurant stock Rs.2,600; Stock of prizes Rs.800; Rs.5,200 was owing for supplies to the restaurant.

On March, 31, 2023, the Restaurant stocks were Rs.3,000 and prizes in hand were Rs.500, while the club owed Rs.5,600 for restaurant supplies.

It was also found that subscriptions unpaid at March 31, 2023, amounted to Rs.1,000 and that the figure of Rs.29,720 shown in the Cash Book included Rs.700 in respect of previous year and Rs.400



paid in advance for the following year.

Prepare an account showing the Profit or Loss made on the Restaurant and a General Income and Expenditure Account for the year ended 31.3.2023, together with a Balance Sheet as at that date, after writing 10% off the Furniture.

**Solution:**

**Restaurant Trading Account**  
for the year ended 31<sup>st</sup> March, 2023

| Dr.                                           |        |        | Cr.                        |       |        |
|-----------------------------------------------|--------|--------|----------------------------|-------|--------|
| Particulars                                   | (Rs.)  | (Rs.)  | Particulars                | (Rs.) | (Rs.)  |
| To Opening Stock A/c                          |        | 2,600  | By Restaurant Receipts A/c |       | 56,800 |
| " Purchases A/c                               | 50,400 |        | " Closing Stock A/c        |       | 3,000  |
| " Add: Outstanding for 31.3.2022              | 5,600  |        |                            |       |        |
|                                               | 56,000 |        |                            |       |        |
| Less: Outstanding for 01.04.2021              | 5,200  | 50,800 |                            |       |        |
| " Income & Expenditure A/c (G.P. transferred) |        | 6,400  |                            |       |        |
|                                               |        | 59,800 |                            |       | 59,800 |

**Balance Sheet as at 1<sup>st</sup> April, 2023**

| Liabilities                           | (Rs.)  | Assets                    | (Rs.)  |
|---------------------------------------|--------|---------------------------|--------|
| Accumulated Fund: (Bal. fig.)         | 50,390 | Furniture and Equipment   | 48,000 |
| Owing for Supplies to Restaurant      | 5,200  | Restaurant Stock          | 2,600  |
| Outstanding Rent (Jan. to March 2021) | 1,250  | Stock of Prize            | 800    |
|                                       |        | Outstanding Subscriptions | 700    |
|                                       |        | Cash and Bank             | 4,740  |
|                                       | 56,840 |                           | 56,840 |

**Income and Expenditure Account**  
for the year ended 31<sup>st</sup> March, 2023

| Dr.                                            |       |        | Cr.                                 |        |        |
|------------------------------------------------|-------|--------|-------------------------------------|--------|--------|
| Expenditure                                    | (Rs.) | (Rs.)  | Income                              | (Rs.)  | (Rs.)  |
| To Wages                                       |       | 13,380 | By Subscription:                    | 29,720 |        |
| " Rent                                         | 7,500 |        | Subscription already received       |        |        |
| " Less: Outstanding on 1.4.2021                | 1,250 |        | Less: Outstanding for 1.4.12        | 700    |        |
|                                                | 6,250 |        |                                     | 29,020 |        |
|                                                |       |        | Add: Outstanding for 2022           | 1,000  |        |
| " Less: Prepaid for 3 months (Rs.7,500 × 3/18) | 1,250 | 5,000  |                                     | 30,020 |        |
| " Rates                                        |       | 2,700  | Less: Received in advance           | 400    | 29,620 |
| " Secretary's Salary                           |       | 3,120  | " Games Competition Receipts        |        | 13,640 |
| " Lighting, Cleaning, Services                 |       | 7,200  | " Restaurant Trading - Gross Profit |        | 6,400  |
| " Competition Prize                            | 4,000 |        |                                     |        |        |
| " Add: Opening Stock                           | 800   |        |                                     |        |        |
|                                                | 4,800 |        |                                     |        |        |
| " Less: Closing Stock                          | 500   | 4,300  |                                     |        |        |
| " Printing, Postage and Sundries               |       | 6,000  |                                     |        |        |



|                                               |  |        |  |  |        |
|-----------------------------------------------|--|--------|--|--|--------|
| " Dep. on Furniture and Equipment @ 10%       |  | 4,800  |  |  |        |
| " Surplus - Excess of Income over Expenditure |  | 3,160  |  |  |        |
|                                               |  | 49,660 |  |  | 49,660 |

**Balance Sheet as at 31st March, 2023**

| Liabilities                      | (Rs.)  | (Rs.)         | Assets                    | (Rs.)  | (Rs.)         |
|----------------------------------|--------|---------------|---------------------------|--------|---------------|
| Accumulated Fund:                |        |               | Furniture and Equipment   | 48,000 |               |
| Balance on 1.4.2021              | 50,390 |               | Less: Depreciation        | 4,800  | 43,200        |
| Add: Surplus                     | 3,160  | 53,550        | Restaurant Stock          |        | 3,000         |
| Entrance Fees                    |        | 3,200         | Stock of Prize            |        | 500           |
| Subscription Received in Advance |        | 400           | Outstanding Subscriptions |        | 1,000         |
| Owing for Supplies to Restaurant |        | 5,600         | Prepaid Rent              |        | 1,250         |
| Outstanding Petty Expenses       |        | 80            | Fixed Deposit with Bank   |        | 8,000         |
|                                  |        |               | Cash and Bank             |        | 5,880         |
|                                  |        | <b>62,830</b> |                           |        | <b>62,830</b> |

**Illustration 10.**

The following are the items of Receipts and Payments of the BJ Club as summarized from the books of account maintained by the Secretary:

| Receipts                         | (Rs.)         | Payments                   | (Rs.)         |
|----------------------------------|---------------|----------------------------|---------------|
| Opening Balance 1.1.2023         | 4,200         | Manager's Salary           | 1,000         |
| Entrance Fees: For 2022          | 1,000         | Printing and Stationery    | 2,600         |
| For 2023                         | 10,000        | Advertising                | 1,800         |
| Subscriptions: For 2022          | 600           | Fire Insurance             | 1,200         |
| For 2024                         | 15,000        | Investments Purchased      | 20,000        |
| Interest Received on Investments | 3,000         | Closing Balance 31.12.2023 | 7,600         |
| Subscriptions 2023               | 400           |                            |               |
|                                  | <b>34,200</b> |                            | <b>34,200</b> |

It was ascertained from enquiry that the following represented a fair picture of the Income and Expenditure of the Club for the year 2023 for audit purpose:

| Expenditure                       | (Rs.) | (Rs.)         | Income                  | (Rs.)         |
|-----------------------------------|-------|---------------|-------------------------|---------------|
| Manager's Salary                  |       | 1,500         | Entrance Fees           | 10,500        |
| Printing & Stationery             | 2,000 |               | Subscription            | 15,600        |
| Add: Accrued                      | 400   | 2,400         | Interest on Investments | 4,000         |
| Advertising (accrued Nil)         |       | 1,600         |                         |               |
| Audit Fees                        |       | 500           |                         |               |
| Fire Insurance                    |       | 1,000         |                         |               |
| Depreciation                      |       | 4,940         |                         |               |
| Excess of Income over Expenditure |       | 18,160        |                         |               |
|                                   |       | <b>30,100</b> |                         | <b>30,100</b> |

You are required to prepare the Balance Sheet of the Club as on 31.12.2022 and 31.12.2023, it being given that the values of the Fixed Assets as on 31.12.2022 were: Building Rs.44,000, Cricket Equipment Rs.25,000 and Furniture Rs.4,000. The rates of depreciation are Building 5%, Cricket Equipments 10%, Furniture 6%. You are entitled to make assumptions as may be justified.



Solution:

## BJ Club

## Balance Sheet as at 31st December, 2022

| Liabilities                                   | (Rs.)  | Assets                  | (Rs.)  |
|-----------------------------------------------|--------|-------------------------|--------|
| Outstanding Liabilities:                      |        | Building                | 44,000 |
| Advertisement (Rs.1,800 - Rs.1,600)           | 200    | Furniture               | 4,000  |
| Printing and Stationery (Rs.2,600 - Rs.2,000) | 600    | Cricket Equipment       | 25,000 |
| Capital Fund (Bal. fig.)                      | 78,000 | Entrance Fees in arrear | 1,000  |
|                                               |        | Subscription in arrear  | 600    |
|                                               |        | Cash                    | 4,200  |
|                                               | 78,800 |                         | 78,800 |

## BJ Club

## Balance Sheet as at 31st December, 2023

| Liabilities                            | (Rs.)  | (Rs.)  | Assets                                          | (Rs.)  | (Rs.)  |
|----------------------------------------|--------|--------|-------------------------------------------------|--------|--------|
| Capital Fund:                          |        |        | Building                                        | 44,000 |        |
| Balance on 1.1.2022                    | 78,000 |        | Less: Depreciation 5%                           | 2,200  | 41,800 |
| Add: Excess of Income over Expenditure | 18,160 | 96,160 | Furniture                                       | 4,000  |        |
| Subscription Received in Advance       |        | 400    | Less: Depreciation 6%                           | 240    | 3,760  |
| Outstanding Liabilities:               |        |        | Cricket Equipment                               | 25,000 |        |
| Printing and Stationery                |        | 400    | Less: Depreciation 10%                          | 2,500  | 22,500 |
| Manager's Salary: (1,500 - 1,000)      |        | 500    | Investments                                     |        | 20,000 |
| Audit Fees                             |        | 500    | Subscriptions in Arrear (15,600 - 15,000)       |        | 600    |
|                                        |        |        | Entrance Fees in Arrear (10,500 - 10,000)       |        | 500    |
|                                        |        |        | Accrued Interest on Investments (4,000 - 3,000) |        | 1,000  |
|                                        |        |        | Prepaid Insurance (1,200 - 1,000)               |        | 200    |
|                                        |        |        | Cash                                            |        | 7,600  |
|                                        |        | 97,960 |                                                 |        | 97,960 |

Note: Advertisement expenses and Printing and Stationery which were paid in excess over Income and Expenditure A/c are assumed to be outstanding for the previous year.



## QUESTIONS FROM PYP'S

Question 1.

(Dec 23 10M)

From the following details prepare Balance Sheet of Ever Green Club as at 31.3.2023

| Particulars                           | ₹      | Particulars                      | ₹      |
|---------------------------------------|--------|----------------------------------|--------|
| Furniture (before Depreciation)       | 8,000  | Printers Bill Outstanding        | 1,000  |
| Depreciation on Furniture written off | 800    | Allowances Outstanding           | 800    |
| Building Fund                         | 30,000 | Capital Grants                   | 10,000 |
| Income of Building Fund               | 2,000  | Entrance Fees (50% to be Funded) | 4,000  |
| Fixed Deposits                        | 20,000 | Legacies Received (to be Funded) | 8,000  |
| Opening Balance of General Fund       | 10,000 | Prize Fund                       | 10,000 |
| Excess of Income over Expenditure     | 20,000 | Income of Prize Fund             | 1,000  |
| Capital Fund (Opening Balance)        | 60,000 | Expenses of Prize Fund           | 800    |
| Cost of Swimming Pool                 | 40,000 | Investment of Prize Fund         | 10,000 |
| Equipments                            | 20,000 | Balance in Current Account       | 10,000 |
| Investment of General Fund            | 36,000 | Cash in Hand                     | 800    |
| Subscription Outstanding              | 10,000 |                                  |        |

Answer:

## Balance Sheet as at 31.3.2023

| Liabilities         | Amount (₹) | Assets                 | Amount (₹) |
|---------------------|------------|------------------------|------------|
| Capital Fund        | 80,000     | Fixed Assets           | 67,200     |
| General Fund        | 30,000     | Investments            | 46,000     |
| Building Fund       | 32,000     | Receivables            | 10,000     |
| Prize Fund          | 10,200     | Cash and Bank balances | 30,800     |
| Current Liabilities | 1,800      |                        |            |
| Total               | 1,54,000   | Total                  | 1,54,000   |

Question 2.

(Jun 23 15M)

The following is the statement of receipts and payments of the delhi hospital for the year ending March 31, 2022

| Receipts              | Amount (₹) | Payments               | Amount (₹) |
|-----------------------|------------|------------------------|------------|
| Opening balance: Cash | 5,000      | Furniture purchased    | 1,000      |
| Bank                  | 80,000     | Salaries               | 4,30,000   |
| Govt. securities      | 18,00,000  | Instruments purchased  | 5,000      |
|                       |            | Diet expenses          | 1,20,000   |
|                       |            | Surgery and dispensary | 4,10,000   |
| Subscriptions         | 12,50,000  | Rent and taxes         | 3,05,000   |
| Interest              | 2,00,000   | Insurance              | 12,000     |
| Donations             | 40,000     | Office expenses        | 97,000     |
| Miscellaneous         | 3,000      | Miscellaneous expenses | 11,000     |
|                       |            | Closing balance:       |            |
|                       |            | Bank                   | 1,80,000   |
|                       |            | Cash                   | 7,000      |
|                       |            | Govt. securities       | 18,00,000  |
| Total                 | 33,78,000  | Total                  | 33,78,000  |





You are asked to prepare the Income and Expenditure Account for the year and the Balance Sheet as on 31st March, 2022.

The other assets on 1st April, 2021 were:

|             |   |              |
|-------------|---|--------------|
| Furniture   | = | Rs.20,000;   |
| Land        | = | Rs.5,00,000  |
| Building    | = | Rs.15,00,000 |
| Instruments | = | Rs.35,000    |

Write off depreciation at

2.5% on Building;

6% on Furniture and

20% on Instruments (Including new).

The Government securities of the face value of 820,00,000 (Cost Rs.18,00,000) represent investment of the Endowment Fund.

Subscriptions received include 81,00,000 for the year 2020-21 but 770,000 is outstanding for 2021-22. Salaries paid included 340,000 for 2020-21 but 745,000 is payable for 2021-22.

The following is the income and expenditure account of gama club for the year ended 31st march, 2021

Answer:

#### Opening Balance Sheet as on 1st April, 2021

| Liabilities  | Amount (₹) | Assets           | Amount (₹) |
|--------------|------------|------------------|------------|
| Capital Fund | 40,50,000  | Furniture        | 20,000     |
| O/s Salary   | 40,000     | Land             | 5,00,000   |
|              |            | Building         | 15,00,000  |
|              |            | Instruments      | 35,000     |
|              |            | Cash             | 5,000      |
|              |            | Bank             | 80,000     |
|              |            | Govt. Securities | 18,00,000  |
|              |            | O/s Subscription | 1,00,000   |
|              |            | O/s Interest     | 50,000     |
| Total        | 40,90,000  | Total            | 40,90,000  |

#### Income and Expenditure Account

| Expenditure                   | Amount (₹) | Income              | Amount (₹) |
|-------------------------------|------------|---------------------|------------|
| To Depreciation on Furniture  | 1,260      | By Subscription A/c | 12,50,000  |
| To Salaries                   | 430,000    | (-) for 2020-21     | (1,00,000) |
| (-) for 2020-21               | (40,000)   | (+) O/s for 21-22   | 70,000     |
| (+) O/s for 21-22             | 45,000     | By Interest A/c     | 2,00,000   |
| To Depreciation on Instrument | 8,000      | (-) for 2020-21     | (50,000)   |
| To Diet Expenses              | 1,20,000   | (+) O/s for 21-22   | 53,000     |
| To Surgery & Dispensary       | 4,10,000   | By Donations        | 40,000     |
| To Rent & Taxes               | 3,05,000   | By Miscellaneous    | 3,000      |
| To Insurance                  | 12,000     |                     |            |
| To Office Expenses            | 97,000     |                     |            |
| To Miscellaneous Expenses     | 11,000     |                     |            |
| To Depreciation on Building   | 37,500     |                     |            |





|            |           |  |           |
|------------|-----------|--|-----------|
| To Surplus | 29,240    |  |           |
|            | 14,66,000 |  | 14,66,000 |

## Balance Sheet

| Liabilities  |               | Amount (₹)       | Assets                 |                 | Amount (₹)       |
|--------------|---------------|------------------|------------------------|-----------------|------------------|
| Capital Fund | 40,50,000     |                  | Furniture              | 20,000          |                  |
| (+) Surplus  | <u>29,240</u> | 40,79,240        | (+) Purchases          | <u>1000</u>     |                  |
|              |               |                  |                        | 21,0000         |                  |
| O/s Salary   |               | 45,000           | (-) Depreciation @6%   | <u>(1,260)</u>  | 19,770           |
|              |               |                  | O/s Subscription       |                 | 70,000           |
|              |               |                  | O/s Interest           |                 | 53,000           |
|              |               |                  | Instruments            | 35,000          |                  |
|              |               |                  | (+) Purchases          | 5,000           |                  |
|              |               |                  |                        | 40,000          |                  |
|              |               |                  | (-) Depreciation @20%  | <u>(8,000)</u>  | 32,000           |
|              |               |                  | Bank                   |                 | 1,80,000         |
|              |               |                  | Cash                   |                 | 7,000            |
|              |               |                  | Govt. Securities       |                 | 18,00,000        |
|              |               |                  | Land                   |                 | 5,00,000         |
|              |               |                  | Building               | 15,00,000       |                  |
|              |               |                  | (-) Depreciation @2.5% |                 |                  |
|              |               |                  |                        | <u>(37,500)</u> |                  |
|              |               | <b>41,24,240</b> |                        |                 | <b>41,24,240</b> |

## Question 3.

(Dec 22 15M)

The following is the income and expenditure account of gama club for the year ended 31st march, 2021

Income and expenditure account for the year ended 31st March, 2021

| Expenditure                          | Amount (₹) | Income          | Amount (₹) |
|--------------------------------------|------------|-----------------|------------|
| To Salaries                          | 19,500     | By Subscription | 68,000     |
| To Rent                              | 4,500      | By Donation     | 5,000      |
| To Printing                          | 750        |                 |            |
| To Insurance                         | 500        |                 |            |
| To Audit fees                        | 750        |                 |            |
| To Games & sports                    | 3,500      |                 |            |
| To Subscriptions written off         | 350        |                 |            |
| To Miscellaneous expenses            | 14,500     |                 |            |
| To Loss on sale of furniture         | 2,500      |                 |            |
| To Depreciation:                     |            |                 |            |
| - Sports equipment                   | 6,000      |                 |            |
| - Furniture                          | 3,100      |                 |            |
| To Excess of income over expenditure | 17,050     |                 |            |
| Total                                | 73,000     | Total           | 73,000     |

Additional Information



|                                     | 31-3-2020<br>(₹) | 31-3-2021<br>(₹) |
|-------------------------------------|------------------|------------------|
| Subscription in arrears             | 2,600            | 3,700            |
| Advance subscriptions               | 1,000            | 1,500            |
| Outstanding expenses:               |                  |                  |
| - Rent                              | 500              | 800              |
| - Salaries                          | 1,200            | 350              |
| - Audit fee                         | 500              | 750              |
| Sport equipment (less depreciation) | 25,000           | 24,000           |
| Furniture (less depreciation)       | 30,000           | 27,900           |
| Prepaid insurance                   | —                | 150              |

Book value of furniture sold is Rs.7,000. Entrance fees capitalized 84,000. On 1st April, 2020, there was

no cash in hand but Bank Overdraft was for 15,000. On 31st March, 2021, Cash in hand amounted to

850 and the rest was Bank balance.

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

**Answer:**

Receipts and Payments Account Total - Rs. 80,550



# 7. PREPARATION OF FINANCIAL STATEMENTS FROM INCOMPLETE RECORDS

## ILLUSTRATIONS

### Illustration 1.

Mr. Prakash keeps his accounts on single entry system. He has given following information about his assets and liabilities.

| Items             | On 31.03.2022 | On 31.03.2023 |
|-------------------|---------------|---------------|
| Creditors         | 55,200        | 58,500        |
| Cash at bank      | 600           | 1500          |
| Bills payable     | 26,400        | 28,200        |
| Bills receivables | 16,200        | 18,300        |
| Debtors           | 45,600        | 56,000        |
| Stock in trade    | 31,000        | 47,300        |
| Machinery         | 66,200        | 78,000        |
| Computer          | 18,000        | 17,000        |

During the year, Prakash brought additional Rs.7,500 cash in business. He withdrew goods of Rs.2,100 and cash of Rs.7,200 for his personal use. Interest on opening capital is to be given at 5% and interest on drawing is to be charged at 10%.

Prepare statement of profit or loss for the year ended 31.03.2023.

### Solution:

Here the information about opening and closing capital is not given. Both these figures can be computed based on statement of affairs as on 31.03.2022 and 31.03.2023.

These figures will then be used together with further information to ascertain the profit or loss for the period by drafting the Statement of Profit or Loss for the year ended 31.03.2023.

### Mr. Prakash

#### Statement of Affairs as on 31.03.2022

| Liabilities            | (Rs.)    | Assets            | (Rs.)    |
|------------------------|----------|-------------------|----------|
| Creditors              | 55,200   | Cash at Bank      | 600      |
| Bills Payable          | 26,400   | Bills Receivables | 16,200   |
| Capital (Bal. figure.) | 96,000   | Debtors           | 45,600   |
|                        |          | Stock in Trade    | 31,000   |
|                        |          | Machinery         | 66,200   |
|                        |          | Computers         | 18,000   |
|                        | 1,77,600 |                   | 1,77,600 |

#### Statement of Affairs as on 31.03.2023

| Liabilities         | (Rs.)    | Assets            | (Rs.)    |
|---------------------|----------|-------------------|----------|
| Creditors           | 58,500   | Cash at Bank      | 1,500    |
| Bills Payable       | 28,200   | Bills Receivables | 18,300   |
| Capital (Bal. fig.) | 131,400  | Debtors           | 56,000   |
|                     |          | Stock in Trade    | 47,300   |
|                     |          | Machinery         | 78,000   |
|                     |          | Computers         | 17,000   |
|                     | 2,18,100 |                   | 2,18,100 |



## Statement of Profit or Loss for the year ended 31.03.2023

| Particulars                                                          | (Rs.)    |
|----------------------------------------------------------------------|----------|
| Closing Capital as per Statement of Affairs as on (31.03.2023)       | 1,31,400 |
| Less: Opening Capital as per Statement of Affairs as on (31.03.2022) | (96,000) |
| Increase or decrease in capital                                      | 35,400   |
| Add: Drawings (Goods + Cash) [Rs.7,200 + Rs.2,100]                   | 9,300    |
| Add: Interest on Drawings @ 10% (Rs.9,300 × 10% × $\frac{6}{12}$ )   | 465      |
| Less: Interest on Opening Capital @ 5% (Rs.96,000 × 5%)              | (4,800)  |
| Less: Fresh Capital Introduced                                       | (7,500)  |
| Net Profit or Loss for the year                                      | 32,865   |

Note: Date of Drawings is not given in question hence, interest on drawings is charged for 6 months.

## Illustration 2.

Mr. Kanan is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Kanan for the financial year 2022-23, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

| On 31st March, 2022                               | (Rs.)     |
|---------------------------------------------------|-----------|
| Sundry Assets                                     | 16,65,000 |
| Liabilities                                       | 4,13,000  |
| On 31st March, 2023                               |           |
| Sundry Assets                                     | 28,40,000 |
| Liabilities                                       | 5,80,000  |
| Mr. Kanan's monthly drawings for the year 2022-23 | 32,000    |
| Income declared to the Income Tax Officer         | 9,12,000  |

During the year 2022-23, one life insurance policy of Mr. Kanan was matured and amount received Rs.50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving necessary working.

## Solution:

Determination of Capital balance of Mr. Kanan on 31.03.2022 and on 31.03.2023

| Particulars       | 31.03.2022 (Rs.) | 31.03.2023 (Rs.) |
|-------------------|------------------|------------------|
| Assets            | 16,65,000        | 28,40,000        |
| Less: Liabilities | 4,13,000         | 5,80,000         |
| Capital           | 12,52,000        | 22,60,000        |

Determination of Profit by applying the method of the Capital Comparison

| Particulars                                                          | (Rs.)       |
|----------------------------------------------------------------------|-------------|
| Capital Balance as on 31.3.2023                                      | 22,60,000   |
| Less. Fresh Capital Introduces(matured life insurance policy amount) | (50,000)    |
|                                                                      | 22,10,000   |
| Add: Drawings ( Rs.32,000 × 12)                                      | 3,84,000    |
|                                                                      | 25,94,000   |
| Less: Capital Balance as on 01.04.2022                               | (12,52,000) |
| Profit                                                               | 13,42,000   |
| Income Declared                                                      | 9,12,000    |
| Suppressed Income                                                    | 4,30,000    |



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

### Illustration 3.

The following information is available from Mrs. Sashi who maintains books of accounts on single entry system.

| Particulars               | 01.04.2022 (Rs.) | 31.03.2023 (Rs.) |
|---------------------------|------------------|------------------|
| Cash and Bank             | 20,000           | 21,000           |
| Sundry Debtors            | 17,000           | 25,000           |
| Stock                     | 40,000           | 60,000           |
| Furniture                 | 29,000           | 29,000           |
| Creditors                 | 32,000           | 22,000           |
| 10 % Loan from Mrs. Sashi | 30,000           | 30,000           |

Mrs. Sashi withdrew Rs.5,000 from the business every month for meeting her household expenses. During the year She sold investments held by her privately for Rs.35,000 and invested the amount in her business. At the end of the year 2021-2022, it was found that full years interest on loan from Mrs. Sashi had not been paid. Depreciation @ 10% p.a was to be provided on furniture for the full year. Shop assistant was to be given a share of 5% on the profits ascertained before charging such share. Calculate profit earned during the year ended 31.03.2023 by Mrs. Sashi.

**Solution:**

#### Statement of Affairs

| Particulars                 | 31.03.2022<br>(Rs.) | 31.03.2023<br>(Rs.) | Particulars  | 31.03.2022<br>(Rs.) | 31.03.2023<br>(Rs.) |
|-----------------------------|---------------------|---------------------|--------------|---------------------|---------------------|
| Capital (opening & closing) | 44,000              | 83,000              | Cash at Bank | 20,000              | 21,000              |
| (Bal. fig.)                 |                     |                     | Debtors      | 17,000              | 25,000              |
| Creditors                   | 32,000              | 22,000              | Stock        | 40,000              | 60,000              |
| Loan from Mrs. Sashi        | 30,000              | 30,000              | Furniture    | 29,000              | 29,000              |
|                             | 1,06,000            | 1,35,000            |              | 1,06,000            | 1,35,000            |

#### Statement of Profit & Loss

Dr.

for the year ended 31.03.2023

Cr.

| Particulars                     | (Rs.) | (Rs.)    | Particulars           | (Rs.) | (Rs.)    |
|---------------------------------|-------|----------|-----------------------|-------|----------|
| Opening Capital                 |       | 44,000   | Closing Capital       |       | 83,000   |
| Further Introduction of Capital |       | 35,000   | Drawings (5,000 × 12) |       | 60,000   |
| Trading Profit                  |       | 64,000   |                       |       |          |
|                                 |       | 1,43,000 |                       |       | 1,43,000 |
| Depreciation (29,000 × 10%)     |       | 2,900    | Trading Profit        |       | 64,000   |
| Interest on Loan (30,000 × 10%) |       | 3,000    |                       |       |          |
| Net Profit                      |       | 58,100   |                       |       |          |
|                                 |       | 64,000   |                       |       | 64,000   |

| Particulars                                | 31.03.2022<br>(Rs.) | 31.03.2023<br>(Rs.) | Particulars | 31.03.2022<br>(Rs.) | 31.03.2023<br>(Rs.) |
|--------------------------------------------|---------------------|---------------------|-------------|---------------------|---------------------|
| Commission to Shop Assistant (58,100 × 5%) |                     | 2,905               | Net Profit  |                     | 58,100              |



|            |  |        |  |  |        |
|------------|--|--------|--|--|--------|
| Net Profit |  | 55,195 |  |  |        |
|            |  | 58,100 |  |  | 58,100 |

**Statement of Affairs**  
**for the year ended 31.03.2023**

| Particulars                     | (Rs.)    | (Rs.)    | Particulars                      | (Rs.)    |
|---------------------------------|----------|----------|----------------------------------|----------|
| Capital                         | 44,000   |          | Cash at Bank                     | 21,000   |
| Add: Further Capital Introduced | 35,000   |          | Debtors                          | 25,000   |
| Less: Drawings                  | (60,000) |          | Stock                            | 60,000   |
| Add: Net profit                 | 55,195   | 74,195   | Furniture (Rs.29,000 - Rs.2,900) | 26,100   |
| Creditors                       |          | 22,000   |                                  |          |
| Interest on Loan                |          | 3,000    |                                  |          |
| Commission to Assistant         |          | 2,905    |                                  |          |
| Loan from Mrs. Sashi            |          | 30,000   |                                  |          |
|                                 |          | 1,32,100 |                                  | 1,32,100 |

**Illustration 4.**

Ram Prakash, a small trader does not keep his books following Double Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date:

| Particulars             | 31.03.2022<br>(Rs.) | 31.03.2023<br>(Rs.) |
|-------------------------|---------------------|---------------------|
| Furniture               | 1,00,000            | 1,20,000            |
| Stock of Goods-in-Trade | 60,000              | 20,000              |
| Sundry Debtors          | 1,20,000            | 140,000             |
| Prepaid Expenses        | —                   | 4,000               |
| Sundry Creditors        | 40,000              | ?                   |
| Unpaid Expenses         | 12,000              | 20,000              |
| Cash                    | 22,000              | 6,000               |

Receipts and Payments during the year were as follows:

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

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





Solution:

**Ram Prakash**  
**Trading and Profit and Loss Account**  
**for the year ended 31st March, 2023**

| Dr.                                      |          |          | Cr.                 |          |
|------------------------------------------|----------|----------|---------------------|----------|
| Particulars                              | (Rs.)    | (Rs.)    | Particulars         | (Rs.)    |
| To Opening Stock                         |          | 60,000   | By Sales:           |          |
| To Purchases                             |          | 2,30,000 | Credit (WN 1)       | 4,40,000 |
| To Transportation                        |          | 40,000   | Cash (WN 3)         | 84,000   |
| To Gross Profit c/d                      |          | 2,14,000 | By Closing Stock    | 20,000   |
|                                          |          | 5,44,000 |                     | 5,44,000 |
| To Sundry Exp.                           | 1,40,000 |          |                     |          |
| Less: Unpaid exp. For 2022               | 12,000   |          | By Gross Profit b/d | 2,14,000 |
|                                          | 1,28,000 |          |                     |          |
| Less: Prepaid Exp. 2023                  | 4,000    |          |                     |          |
|                                          | 1,24,000 |          |                     |          |
| Add: Unpaid Exp. For 2023                | 20,000   | 1,44,000 |                     |          |
| To Provision for Doubtful Debts.         |          | 14,000   |                     |          |
| To Net Profit transferred to Capital A/c |          | 56,000   |                     |          |
|                                          |          | 2,14,000 |                     | 2,14,000 |

**Balance Sheet as at 31st March, 2023**

| Liabilities      | (Rs.)     | (Rs.)    | Assets              | (Rs.)    | (Rs.)    |
|------------------|-----------|----------|---------------------|----------|----------|
| Creditors (WN 2) |           | 70,000   | Cash and balance    |          | 6,000    |
| Unpaid Expenses  |           | 20,000   | Debtors             | 1,40,000 |          |
| Capital (WN 4)   | 2,50,000  |          | Less: Provision for | 14,000   | 1,26,000 |
| Add: Net Profit  | 56,000    |          | Doubtful Debts      |          | 20,000   |
|                  | 3,06,000  |          | Closing Stock       |          | 4,000    |
| Less: Drawing    | (120,000) | 1,86,000 | Prepaid Expenses    |          |          |
|                  |           |          | Furniture           | 1,00,000 |          |
|                  |           |          | Add: Additions      | 20,000   | 1,20,000 |
|                  |           | 2,76,000 |                     |          | 2,76,000 |

**Working Notes:**

1. Calculation of Credit Sales:

| Dr.                               |          | Cr.              |          |
|-----------------------------------|----------|------------------|----------|
| Particulars                       | (Rs.)    | Particulars      | (Rs.)    |
| To Balance b/d                    | 1,20,000 | By Cash/Bank A/c | 4,20,000 |
| To Sales A/c — credit (Bal. fig.) | 4,40,000 | By Balance c/d   | 1,40,000 |
|                                   | 5,60,000 |                  | 5,60,000 |

2. Calculation of Closing Creditors Balance:

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



## 3. Calculation of Cash Sales:

Dr.

## Cash Book

Cr.

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

## 4. Calculation of Opening Capital:

Statement of Affairs as at 31<sup>st</sup> March, 2022

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

## Illustration 5.

The following is the Balance Sheet of Chirag as on 31st March, 2022:

## Balance Sheet as on April 1, 2022

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

A riot occurred on the night of 31st March, 2023 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- His sales for the year ended 31st March, 2023 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2023 were for cash. There were no cash purchases.
- On 1st April, 2022 the stock level was raised to Rs.30,000 and stock was maintained at this new level all throughout the year.
- Collection from debtors amounted to Rs.1,40,000 of which Rs.35,000 was received in cash, business expenses amounted to Rs.20,000 of which Rs.5,000 was outstanding on 31st March, 2023 and Rs.6,000 was paid by cheques.
- Analysis of the Pass Book revealed the Payment to Creditors Rs.1,37,500, Personal Drawing Rs.7,500, Cash deposited in Bank Rs.71,500 and Cash withdrawn from Bank Rs.12,000.
- Gross Profit as per last year's audited accounts was Rs.30,000.



(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2023 and Balance Sheet as on that date.

**Solution:**

**Chirag**

**Trading and Profit and Loss Account**

**Dr.**

**For the year ending on 31st March, 2023**

**Cr.**

| Particulars                          | (Rs.) | (Rs.)    | Particulars      | (Rs.)    |
|--------------------------------------|-------|----------|------------------|----------|
| To Opening Stock                     |       | 20,000   | By Sales         | 1,80,000 |
| To Purchase (Bal. fig.)              |       | 1,54,000 | By Closing stock | 30,000   |
| To Gross Profit old (@ 20% on sales) |       | 36,000   |                  |          |
|                                      |       | 2,10,000 |                  | 2,10,000 |

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

**Balance Sheet as at 31st March, 2023**

| Liabilities               | (Rs.)   | (Rs.)    | Assets                   | (Rs.)   | (Rs.)    |
|---------------------------|---------|----------|--------------------------|---------|----------|
| Capital Account:          |         |          | Building                 | 32,500  |          |
| Opening Balance           | 48,000  |          | Less: Depreciation       | (1,625) | 30,875   |
| Add: Net Profit           | 12,325  |          | Furniture                | 5,000   |          |
|                           | 60,325  |          | Less: Depreciation       | (250)   | 4,750    |
| Less: Drawings            | (7,500) | 52,825   | Motor Car                | 9,000   |          |
| Loan                      |         | 15,000   | Less: Depreciation       | (1,800) | 7,200    |
| Sundry Creditors [W.N. 2] |         | 47,500   | Stock in Trade           |         | 30,000   |
| Outstanding expenses      |         | 5,000    | Sundry Debtors [W.N. 1]  |         | 21,000   |
|                           |         |          | Cash at Bank [W.N. 3]    |         | 22,000   |
|                           |         | 1,20,325 | Sundry Advances [W.N. 3] |         | 4,500    |
|                           |         | 1,20,325 |                          |         | 1,20,325 |

**Working Notes:**

**1. Total Debtors Account**

**Dr.**

**Cr.**

| Particulars                   | (Rs.)    | Particulars                       | (Rs.)    |
|-------------------------------|----------|-----------------------------------|----------|
| To Balance b/d                | 17,000   | By Bank (Rs.1,40,000 - Rs.35,000) | 1,05,000 |
| To Sales (80% of Rs.1,80,000) | 1,44,000 | By Cash A/c                       | 35,000   |
|                               |          | By Balance c/d                    | 21,000   |
|                               | 1,61,000 |                                   | 1,61,000 |

**2. Total Creditors Account**

Dr.

Cr.

| Particulars    | (Rs.)    | Particulars    | (Rs.)    |
|----------------|----------|----------------|----------|
| To Bank        | 1,37,500 | By Balance b/d | 31,000   |
| To Balance c/d | 47,500   | By Purchases   | 1,54,000 |
|                | 1,85,000 |                | 1,85,000 |

**3. Cash Book**

Dr.

Cr.

| Particulars       | Cash<br>(Rs.) | Bank<br>(Rs.) | Particulars                                       | Cash<br>(Rs.) | Bank<br>(Rs.) |
|-------------------|---------------|---------------|---------------------------------------------------|---------------|---------------|
| To Balance b/d    | 2,000         | 8,500         | By Business Expenses                              | 9,000         | 6,000         |
| To Sales          | 36,000        | —             | By Drawings                                       | —             | 7,500         |
| To Sundry Debtors | 35,000        | 1,05,000      | By Sundry Creditors                               | —             | 1,37,500      |
| To Cash (Contra)  | —             | 71,500        | By Bank (Contra)                                  | 71,500        | —             |
| To Bank (Contra)  | 12,000        | —             | By Cash (Contra)                                  | —             | 12,000        |
|                   |               |               | By Amount Recoverable<br>from Cashier (Bal. fig.) | 4,500         | —             |
|                   |               |               | By Balance c/d (Bal. fig.)                        |               |               |
|                   | 85,000        | 1,85,000      |                                                   | 85,000        | 1,85,000      |

(i) Last years Total Sales = Gross Profit  $\times$  100/20 = Rs.30,000  $\times$  100/20 = Rs.1,50,000

(ii) Current year's Total Sales = Rs.1,50,000 + 20% of Rs.1,50,000 = Rs.1,80,000

(iii) Current year's Credit Sales = Rs.1,80,000  $\times$  80% = Rs.1,44,000

(iv) Cost of Goods Sold = Sales - G.P. = Rs.1,80,000 - 36,000 = Rs.1,44,000

(v) Purchases = Cost of Goods Sold + Closing Stock - Opening Stock  
 = Rs.1,44,000 + Rs.30,000 - Rs.20,000 = Rs.1,54,000.

**Illustration 6.**

The Statement of affairs of Mr. R on Saturday, the 31st December 2022 was as follows:

| Particulars            | (Rs.)  | Particulars  | (Rs.)  |
|------------------------|--------|--------------|--------|
| Capital                | 50,000 | Fixed Assets | 30,000 |
| Sundry Creditors       | 10,000 | Stock        | 10,000 |
| Liability for Expenses | 1,000  | Debtors      | 15,000 |
|                        |        | Bank         | 5,000  |
|                        |        | Cash         | 1,000  |
|                        | 61,000 |              | 61,000 |

Mr. R did not maintain his books on the double entry system. But he carefully follows the following system:

(a) Every week he draws Rs.200.

(b) After meeting his weekly sundry expenses (Rs.100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.

(c) No cash purchase is made and creditors are paid by cheques.

(d) Sales are at fixed price which include 20% profit on sales.

(e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.

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



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

The following are his bank transactions for 13 weeks:

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

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

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

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

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

**Solution :**

| Dr.                             |        | Sundry Debtors Account |        | Cr. |  |
|---------------------------------|--------|------------------------|--------|-----|--|
| Particulars                     | (Rs.)  | Particulars            | (Rs.)  |     |  |
| To Balance b/f                  | 15,000 | By Bank A/c            | 2,000  |     |  |
| To Credit Sales (Bal. fig.) A/c | 7,000  | By Balance c/f         | 20,000 |     |  |
|                                 | 22,000 |                        | 22,000 |     |  |

| Dr.            |        | Sundry Creditors Account        |        | Cr. |  |
|----------------|--------|---------------------------------|--------|-----|--|
| Particulars    | (Rs.)  | Particulars                     | (Rs.)  |     |  |
| To Bank A/c    | 40,000 | By Balance b/f                  | 10,000 |     |  |
| To Balance c/f | 8,000  | By Credit Purchases (Bal. fig.) | 38,000 |     |  |
|                | 48,000 |                                 | 48,000 |     |  |

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

**Note: Calculation of Cash Sales:**

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



**Illustration 7.**

Mrs. Laxmi, a retail trader needs final accounts for the year ended 31.03.2023 for the purpose of taking a bank loan. However, she informs you that principle of double entry had not been followed. With following inputs, prepare a Profit & Loss A/c for the year ended 31.03.2023 and Balance sheet as on 31.03.2023.

Details of receipts and payments:

- (i) Cash deposited in bank Rs.3,500
- (ii) Dividend on personal A/c deposited into bank Rs.250
- (iii) Tuition fees of Laxmi's daughter paid by cheque Rs.4,500
- (iv) Rent for the year by cheque Rs.9,000
- (v) Cash received from debtors Rs.52,500
- (vi) Paid to creditors Rs.40,025
- (vii) Salaries & wages paid in cash Rs.9,000
- (viii) Transportation in cash Rs.2,750
- (ix) Office electricity in cash Rs.6,600
- (x) Electricity (house) in cash Rs.7,200
- (xi) General expenses in cash Rs.890.

Opening and Closing Balances of Assets & Liabilities:

| Particulars | 31.03.2021 | 31.03.2022 |
|-------------|------------|------------|
| Stock       | 42,500     | 22,500     |
| Bank        | 55,500     | 20,500     |
| Cash        | 10,850     | 10,500     |
| Debtors     | 16,800     | 14,800     |
| Creditors   | 15,600     | 22,800     |
| Investments | 15,000     | 15,000     |

She also informs you that she draws Rs.6,000 from bank on monthly basis and some debtors deposit cheques directly in bank.

**Solution:**

| Dr.                       |                 | Stock Account                   |        | Cr. |                 |
|---------------------------|-----------------|---------------------------------|--------|-----|-----------------|
| Particulars               | (Rs.)           | Particulars                     | (Rs.)  |     |                 |
| To Balance b/d            | 42,500          | By Cost of sales (Bal. fig) A/c | 90,135 |     |                 |
| To Purchases (credit) A/c | 47,225          | By Balance c/d                  | 22,500 |     |                 |
| To Cash (purchases) A/c   | 22,910          |                                 |        |     |                 |
|                           | <b>1,12,635</b> |                                 |        |     | <b>1,12,635</b> |

| Dr.                    |                 | Bank Account                    |        | Cr. |                 |
|------------------------|-----------------|---------------------------------|--------|-----|-----------------|
| Particulars            | (Rs.)           | Particulars                     | (Rs.)  |     |                 |
| To Balance b/d         | 55,500          | By Drawings A/c (tuition fees)  | 4,500  |     |                 |
| To Cash A/c            | 3,500           | By Rent A/c                     | 9,000  |     |                 |
| To Capital (dividend)  | 250             | By Creditors A/c                | 40,025 |     |                 |
| To Debtors (Bal. fig.) | 86,775          | By Drawings A/c (@ Rs.6,000 pm) | 72,000 |     |                 |
|                        |                 | By Balance c/d                  | 20,500 |     |                 |
|                        | <b>1,46,025</b> |                                 |        |     | <b>1,46,025</b> |





| Dr.            |               | Cash Account                  |               | Cr. |  |
|----------------|---------------|-------------------------------|---------------|-----|--|
| Particulars    | (Rs.)         | Particulars                   | (Rs.)         |     |  |
| To Balance b/d | 10,850        | By Bank A/c                   | 3,500         |     |  |
| To Debtors A/c | 52,500        | By Salaries & Wages A/c       | 9,000         |     |  |
|                |               | By Transportation A/c         | 2,750         |     |  |
|                |               | By Electricity A/c            | 6,600         |     |  |
|                |               | By Drawings A/c (electricity) | 7,200         |     |  |
|                |               | By General Expenses A/c       | 890           |     |  |
|                |               | By Purchases (Bal. fig.)      | 22,910        |     |  |
|                |               | By Balance c/d                | 10,500        |     |  |
|                | <b>63,350</b> |                               | <b>63,350</b> |     |  |

| Dr.                                     |                 | Debtors Account |                 | Cr. |  |
|-----------------------------------------|-----------------|-----------------|-----------------|-----|--|
| Particulars                             | (Rs.)           | Particulars     | (Rs.)           |     |  |
| To Balance b/d                          | 16,800          | By Cash A/c     | 52,500          |     |  |
| To Sales A/c (credit Sales) (Bal. fig.) | 1,37,275        | By Bank A/c     | 86,775          |     |  |
|                                         |                 | By Balance c/d  | 14,800          |     |  |
|                                         | <b>1,54,075</b> |                 | <b>1,54,075</b> |     |  |

| Dr.            |               | Creditors Account                     |               | Cr. |  |
|----------------|---------------|---------------------------------------|---------------|-----|--|
| Particulars    | (Rs.)         | Particulars                           | (Rs.)         |     |  |
| To Bank A/c    | 40,025        | By Balance b/d                        | 15,600        |     |  |
| To Balance c/d | 22,800        | By Purchases A/c (credit) (Bal. fig.) | 47,225        |     |  |
|                | <b>62,825</b> |                                       | <b>62,825</b> |     |  |

| Dr.                            |                 | Mrs. Laxmi's capital Account |                 | Cr. |  |
|--------------------------------|-----------------|------------------------------|-----------------|-----|--|
| Particulars                    | (Rs.)           | Particulars                  | (Rs.)           |     |  |
| To Drawings A/c (Tuition Fees) | 4,500           | By Balance b/d (Bal. fig.)   | 1,25,050        |     |  |
| To Drawings A/c (Electricity)  | 7,200           | By Bank A/c (Dividend )      | 250             |     |  |
| To Drawings A/c (Bank)         | 72,000          |                              |                 |     |  |
| To Balance c/d                 | 41,600          |                              |                 |     |  |
|                                | <b>1,25,300</b> |                              | <b>1,25,300</b> |     |  |

| Dr.                  |                 | Trading Account      |                 | Cr. |  |
|----------------------|-----------------|----------------------|-----------------|-----|--|
| Particulars          | (Rs.)           | Particulars          | (Rs.)           |     |  |
| To Opening Stock A/c | 42,500          | By Sales A/c         | 1,37,275        |     |  |
| To Purchases A/c     | 70,135          | By Closing Stock A/c | 22,500          |     |  |
| To Gross profit c/d  | 47,140          |                      |                 |     |  |
|                      | <b>1,59,775</b> |                      | <b>1,59,775</b> |     |  |

| Dr.                     |               | Profit & Loss Account for the year ended 31st March 2023 |               | Cr. |  |
|-------------------------|---------------|----------------------------------------------------------|---------------|-----|--|
| Particulars             | (Rs.)         | Particulars                                              | (Rs.)         |     |  |
| To Rent A/c             | 9,000         | By Gross Profit b/d                                      | 47,140        |     |  |
| To Salary & Wages A/c   | 9,000         |                                                          |               |     |  |
| To Transportation A/c   | 2,750         |                                                          |               |     |  |
| To Electricity A/c      | 6,600         |                                                          |               |     |  |
| To General Expenses A/c | 890           |                                                          |               |     |  |
| To Net Profit c/d       | 18,900        |                                                          |               |     |  |
|                         | <b>47,140</b> |                                                          | <b>47,140</b> |     |  |



## Balance sheet as on 31st March 2022

| Liabilities         | (Rs.)  | Assets     | (Rs.)  |
|---------------------|--------|------------|--------|
| Creditors           | 22,800 | Stock      | 22,500 |
| Capital (Bal. fig.) | 41,600 | Bank       | 20,500 |
| Net profit          | 18,900 | Cash       | 10,500 |
|                     |        | Debtors    | 14,800 |
|                     |        | Investment | 15,000 |
|                     | 83,300 |            | 83,300 |

## Illustration 8.

Lucky does not maintain proper book of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2022-2023:

|              | Opening  | Closing |
|--------------|----------|---------|
| Debtors      | 1,02,500 | ?       |
| Creditors    | ?        | 46,000  |
| Stock        | 50,000   | 62,500  |
| Bank Balance | ?        | 50,000  |
| Fixed assets | 7,500    | 9,000   |

Details of his bank transactions were as follows:

|                                            |          |  |
|--------------------------------------------|----------|--|
| Received from debtors                      | 3,40,000 |  |
| Additional capital brought in              | 5,000    |  |
| Sale of fixed assets (book value Rs.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 was sold at cost plus 25%. Cost of goods sold was Rs.2,60,000

Solution:

Trading and profit and loss account  
For the year ended 31<sup>st</sup> March, 2023

| Dr                                         |          | Cr                               |          |
|--------------------------------------------|----------|----------------------------------|----------|
| Particulars                                | Rs.      | Particulars                      | Rs.      |
| To open stock                              | 50,000   | By Sales (Rs.2,60,000 × 125/100) | 3,25,000 |
| To purchase (balancing figure)             | 2,72,000 | By closing stock                 | 62,500   |
| To Gross profit c/d<br>(2,60,000 × 25/100) | 65,000   |                                  |          |
|                                            | 3,87,500 |                                  | 3,87,500 |
| To Expenses                                | 49,250   | By Gross Profit b/d              | 65,000   |
| To loss on sale of fixed assets            | 750      |                                  |          |
| To depreciation on fixed asset<br>(W.N.1)  | 1,000    |                                  |          |
| To new Profit                              | 14,000   |                                  |          |
|                                            | 65,000   |                                  | 65,000   |

Balance sheet As AT 31<sup>st</sup> March, 2023

| Liabilities                   | Rs.      | Assets                     | Rs.      |
|-------------------------------|----------|----------------------------|----------|
| Capital 169,000               |          | Fixed Assets Debtors Stock | 9,000    |
| Add: Additional capital 5,000 |          | Bank Balance               | 87,500   |
| New Profit 14,000             |          |                            | 62,500   |
| 1,88,000                      |          |                            | 50,000   |
| Less: Drawings 25,000         | 1,63,000 |                            |          |
| Creditors                     | 46,000   |                            |          |
|                               | 2,09,000 |                            | 2,09,000 |

## Working Notes :

## (i) Fixed Assets Account

Dr

Cr.

| Particulars    | Rs.    | Particulars                    | Rs.    |
|----------------|--------|--------------------------------|--------|
| To Balance b/d | 7,500  | By Bank (Sale)                 | 1,750  |
| To Bank        | 5,000  | By Loss on sale of fixed asset | 750    |
|                |        | By Depreciation of fixed asset | 1,000  |
|                |        | By Balance c/d                 | 9,000  |
|                | 12,500 |                                | 12,500 |

## (ii) Bank Account

Dr

Cr.

| Particulars                      | Rs.      | Particulars     | Rs.      |
|----------------------------------|----------|-----------------|----------|
| To Balance b/d ( balance figure) | 62,500   | By Creditors    | 2,80,000 |
| To Debtors                       | 3,40,000 | By Expenses     | 49,250   |
| To Capital                       | 5,000    | By Drawings     | 25,000   |
| To sale of fixed assets          | 1,750    | By Fixed Assets | 5,000    |
|                                  |          | By Balance c/d  | 50,000   |
|                                  | 4,09,250 |                 | 4,09,250 |

## (iii) Debtors Account

Dr

Cr.

| Particulars             | Rs.      | Particulars           | Rs.      |
|-------------------------|----------|-----------------------|----------|
| To Balance b/d          | 1,02,500 | By Bank               | 3,40,000 |
| To Sales                | 3,25,000 | By Balance c/d ( b.f) | 87,500   |
| [Rs.2,60,000 x 125/100] |          |                       |          |
|                         | 4,27,500 |                       | 4,27,500 |

## (iv) Creditors Account

Dr

Cr.

| Particulars    | Rs.      | Particulars                          | Rs.      |
|----------------|----------|--------------------------------------|----------|
| To Bank        | 2,80,000 | By Particular b/d ( balancing figure | 53,500   |
| To Balance c/d | 46,000   | By purchases ( trading account)      | 2,72,500 |
|                | 3,26,000 |                                      | 3,26,000 |

(v) Balance sheet as on 1<sup>st</sup> April ,2022

Dr

Cr.

| Liabilities | Rs.    | Assets       | Rs.   |
|-------------|--------|--------------|-------|
| Creditors   | 53,500 | Fixed assets | 7,500 |



|                            |          |              |          |
|----------------------------|----------|--------------|----------|
| Capital ( balance figure ) | 1,69,000 | Debtors      | 1,02,500 |
|                            |          | Stock        | 50,000   |
|                            |          | Bank balance | 62,500   |
|                            | 2,22,500 |              | 2,22,500 |

**Illustration 9.**

From the following particulars furnished by Shri Ramji, prepare Trading and profit and loss account for the year ended 31.3.2023 . also draft his balance sheet as at 31.03.2023.

|                                    | Opening  | Closing  |
|------------------------------------|----------|----------|
|                                    | Rs.      | Rs.      |
| Creditors                          | 3,15,400 | 2,48,000 |
| Expenses outstanding               | 12,000   | 6,600    |
| Fixed Assets ( includes machinery) | 2,32,200 | 2,40,800 |
| Stock in hand                      | 1,60,800 | 2,22,400 |
| Cash in hand                       | 59,200,  | 24,000   |
| Cash in Bank                       | 80,000   | 1,37,600 |
| Sunday Debtors                     | 3,30,600 | ?        |

Details of the year transections are as follows:

|                               | Rs.       |                                | Rs.       |
|-------------------------------|-----------|--------------------------------|-----------|
| Cash and discount credited    | 12,80,000 | Returns from debtors           | 29,000    |
| to debtors                    |           | Bad debts                      | 8,400     |
| Sales ( Both cash and Credit) | 14,36,200 | Discount allow by creditors    | 14,000    |
| Returns to creditors          | 8,000     | Capital introduced by cheque   | 1,70,000  |
| Cash purchases                | 20,600    | Expenses paid by cheque        | 1,91,400  |
| Deawing bt cheque             | 8,600     | Machinery acquired by cheque   | 63,600    |
| Cash deposited inti bank      | 1,00,000  | Cash withdrawal from bank      | 1,84,800  |
| Cash sales                    | 92,000    | Payment to creditors by cheque | 12,05,400 |
| Collection from debtors       | 12,50,000 |                                |           |

deposit into bank after receiving cash)

Note: Ramji has not sold any fixed asset during the year.

**Solution:**

**Trading and profit and loss account**  
**For the year ended 31<sup>st</sup> March,2023**

**Dr**

**Cr.**

| Particulars         |           | Rs.       | Particulars            |           | Rs.       |
|---------------------|-----------|-----------|------------------------|-----------|-----------|
| To Opening Stock    |           | 1,60,800  | By sales               |           |           |
| To purchase:        |           |           | Cash                   | 92,000    |           |
| Cash                | 20,600    |           | Credit                 | 13,44,200 |           |
| Credit              | 11,60,000 |           |                        | 14,36,200 |           |
|                     | 11,80,600 |           | Less: returns          | 29,000    | 14,07,200 |
| Less Returns        | 8,000     | 11,72,600 | By closing Stock       |           | 2,22,400  |
| To gross profit c/d |           | 2,96,200  |                        |           | 16,29,600 |
|                     |           | 16,29,600 | By Gross Profit b/d    |           | 2,96,200  |
| To Discount Allowed |           | 30,000    | By Discount (received) |           | 14,000    |



|                 |  |          |  |  |          |
|-----------------|--|----------|--|--|----------|
| To Bad Debts    |  | 8,400    |  |  |          |
| To Expenses     |  | 1,86,000 |  |  |          |
| To Depreciation |  | 55,000   |  |  |          |
| To Net Profit   |  | 30,800   |  |  |          |
|                 |  | 3,10,200 |  |  | 3,10,200 |

**Balance Sheet as At 31<sup>st</sup> March, 2023**

| Liabilities             |          | Rs.      | Assets              |          | Rs.       |
|-------------------------|----------|----------|---------------------|----------|-----------|
| Capital                 |          |          | Sundry Assets       | 2,32,200 |           |
| Opening Balance         | 5,35,400 |          | Add: New Machinery  | 63,600   |           |
| Add: Additional capital | 1,70,000 |          |                     | 2,95,800 |           |
|                         | 30,800   |          | Less : Depreciation | 55,000   | 2,40,800  |
|                         | 7,36,200 |          | Stock in Trade      |          | 2,22,400  |
| Less: Drawings          | 8600     | 7,27,600 | Sunday debtors      |          | 3,57,400, |
| Sundry Creditors        |          | 2,48,000 | Cash in hand        |          | 24,000    |
| Outstanding Expenses    |          | 6,600    | Cash at Bank        |          | 1,37,600  |
|                         |          | 9,82,200 |                     |          | 9,82,200  |

**Working Notes:****(i) Statement of affairs as at 31<sup>st</sup> March, 2022**

| Liabilities          | Rs.      | Assets        | Rs.      |
|----------------------|----------|---------------|----------|
| Sundry Creditors     | 3,15,400 | Sundry Assets | 2,32,200 |
| Outstanding expenses | 12,000   | Stock         | 1,60,800 |
| Ramji's Capital(b.f) | 5,35,400 | Debtors       | 3,30,600 |
|                      |          | Cash in Hand  | 59,200   |
|                      |          | Cash in Bank  | 80,000   |
|                      | 8,62,800 |               | 8,62,800 |

**(ii) Sundry Debtors Account****Dr****Cr.**

| Particulars                    | Rs.       | Particulars         | Rs.       |
|--------------------------------|-----------|---------------------|-----------|
| To Balance b/d                 | 3,30,600  | By Cash             | 12,50,000 |
| To Sales ( 14,36,200 - 92,000) | 13,44,200 | By Discount Allowed | 30,000    |
|                                |           | By Returns (Sales)  | 29,000    |
|                                |           | By Bad debts        | 8,400     |
|                                |           | By Balance (b.f)    | 3,57,400  |
|                                | 16,74,800 |                     | 16,74,800 |

**(iii) Sundry Creditors Account****Dr****Cr.**

| Particulars      | Rs.       | Particulars        | Rs.       |
|------------------|-----------|--------------------|-----------|
| To Bank Payments | 12,05,400 | By Balance b/d     | 3,15,400  |
| To Discount      | 14,000    | By Purchases (b.f) | 11,60,000 |
| To Return        | 8,000     |                    |           |
| To Balance c/d   | 2,48,000  |                    |           |
|                  | 14,75,400 |                    | 14,75,400 |

**(iv) Fixed Assets Account**

Dr

Cr.

| Particulars              | Rs.      | Particulars               | Rs.      |
|--------------------------|----------|---------------------------|----------|
| To Balance b/d           | 2,32,200 | By Depreciation a/c (b.f) | 55,000   |
| To Bank A/c (Purchases ) | 63,600   | By Balance c/d            | 2,40,800 |
|                          | 2,95,800 |                           | 2,95,800 |

**(v) Expenses Account**

Dr

Cr.

| Particulars                                 | Rs.      | Particulars                                       | Rs.      |
|---------------------------------------------|----------|---------------------------------------------------|----------|
| To Cash A/c                                 | 1,91,400 | By Outstanding Exp. A/c<br>(o/s in the begening ) | 12,000   |
| To Outstanding Exp. A/C<br>(o/s at the end) | 6,600    | By Profit & Loss A/c (b.f)                        | 1,86,000 |
|                                             | 1 98,000 |                                                   | 1,98,000 |

**(vi) Cash and Bank Account**

| Particulars    | Rs.      | Rs.       | Particulars            | Rs.      | Rs.       |
|----------------|----------|-----------|------------------------|----------|-----------|
| To Balance b/d | 59,200   | 80,000    | By Purchases           | 20,600,  | -         |
| To Capital     | -        | 1,70,000  | By Expenses            | 1,91,400 | -         |
| To Debtors     | -        | 12,50,000 | By Plant and Machinery | -        | 63,600    |
| To Bank        | 1,84,800 | -         | By Drawings            | -        | 8,600     |
| To Cash        | -        | 1,00,000  | By Creditors           | -        | 12,05,400 |
| To Sales       | 92,000   | -         | By Cash                | -        | 1,84,800  |
|                |          |           | By Bank                | 1,00,000 | -         |
|                |          |           | By Balance c/d         | 24,000   | 1,37,600  |
|                | 3,36,000 | 16,00,000 |                        | 3,36,000 | 16,00,000 |





## QUESTIONS FROM PYP'S

Question 1.

(Jun 23 15M)

Ram prakash keeps his books on single entry system. From the following information provided by him, prepare Trading and profit and loss Account for the year ended 31st March, 2023 and balance sheet as at that date:

| Particulars      | 31st March 2022 (₹) | 31st March 2023 (₹) |
|------------------|---------------------|---------------------|
| Furniture        | 1,00,000            | 1,20,000            |
| Stock-in-trade   | 60,000              | 20,000              |
| Sundry Debtors   | 1,20,000            | 1,40,000            |
| Prepaid Expenses | —                   | 4,000               |
| Sundry Creditors | 40,000              | ?                   |
| Unpaid Expenses  | 12,000              | 20,000              |
| Cash             | 22,000              | 6,000               |

Receipts and payments during the year were as follows

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

Other information:

There were considerable amount of cash sales. Credit purchases during the year amounted 72,30,000. Provide a provision for doubtful debts to the extent of 10% on debtors.

Answer:

Ram Prakash

Trading and Profit and Loss Account  
For the year ended 31st March, 2022

| Dr.                               |          |          | Cr.                 |          |
|-----------------------------------|----------|----------|---------------------|----------|
| Particulars                       | ₹        |          | Particulars         | ₹        |
| To Opening Stock                  |          | 60,000   | By Sales:           |          |
| To Purchases                      |          | 2,30,000 | - Credit (WN 1)     | 4,40,000 |
| To Transportation                 |          | 40,000   | - Cash (WN 3)       | 84,000   |
| To Gross Profit c/d               |          | 2,14,000 | By Closing Stock    | 20,000   |
| Total                             |          | 5,44,000 | Total               | 5,44,000 |
| To Sundry Expenses                | 1,40,000 |          |                     |          |
| Less: Unpaid Expenses (For 2021)  | (12,000) |          |                     |          |
| Subtotal                          | 1,28,000 |          |                     |          |
| Less: Prepaid Expenses (For 2022) | (4,000)  |          |                     |          |
| Subtotal                          | 1,24,000 |          |                     |          |
| Add: Unpaid Expenses (For 2022)   | 20,000   |          |                     |          |
| Final Sundry Expenses             |          | 1,44,000 |                     |          |
| To Provision for Doubtful Debts   |          | 14,000   | By Gross Profit b/d | 2,14,000 |



|                                          |  |          |  |          |
|------------------------------------------|--|----------|--|----------|
| To Net profit transferred to Capital A/c |  | 56,000   |  | 2,14,000 |
|                                          |  | 2,14,000 |  | 2,14,000 |

Balance Sheet as at 31st March, 2022

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

Working Notes:

## 1. Calculation of Credit Sales:

## Total Debtors Account

| Particulars                       | Amount (₹) | Particulars      | Amount (₹) |
|-----------------------------------|------------|------------------|------------|
| To Balance b/d                    | 1,20,000   | By Cash/Bank A/c | 4,20,000   |
| To Sales A/c — credit (Bal. fig.) | 4,40,000   | By Balance c/d   | 1,40,000   |
| Total                             | 5,60,000   | Total            | 5,60,000   |

## 2. Calculation of Closing Creditor's Balance:

## Total Creditors Account

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

## 3. Calculation of Cash Sales:

## Cash Book

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

## 4. Calculation of Opening Capital:

## Statement of Affairs as at 31st March, 2021

| Liabilities     | Amount (₹) | Assets        | Amount (₹) |
|-----------------|------------|---------------|------------|
| Creditors       | 40,000     | Furniture A/c | 1,00,000   |
| Unpaid Expenses | 12,000     | Stock         | 60,000     |



|               |          |              |          |
|---------------|----------|--------------|----------|
| Capital (B/F) | 2,50,000 | Debtors      | 1,20,000 |
|               |          | Cash in Hand |          |
|               | 3,02,000 |              | 3,02,000 |

**Question 2.****(Jun 24 14M)**

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 Rs.3 lakh during the year, and he introduced fresh capital of 8 65,000 on 1<sup>st</sup> October, 2022. A provision for 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.

**Answer:****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 on 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 3.****(Dec 23 5M)**

Write short notes on the following:

(i) Distinction between Single Entry System and Double Entry System

**Answer:**

Difference between single entry system and double entry system:

The distinctions between double entry system and single entry system are as follows:

- (i) In the double entry system both the aspects (debit and credit) of all the transactions are recorded. But in the single entry system, there is no record of some transactions; some transactions are recorded only in one of their aspects whereas some other transactions are recorded in both of their aspects.



- (ii) Under double entry system, various subsidiary books such as sales book, purchases books etc. are maintained. Under the single entry system, no such subsidiary books except cash books which are also considered as a part of the ledger are maintained.
- (iii) In the case of the double entry system, there is a ledger which contains personal, real and nominal accounts. But in the single entry system, the ledger contains some personal accounts only.
- (iv) Under double entry system, preparation of trial balance is possible whereas it is not possible to prepare a trial balance in single entry system. Hence accuracy of work is uncertain.
- (v) Under double entry system, Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner. But under the single entry system, it is not possible - only a rough estimate of profit or loss is made and a Statement of Affairs is prepared which resembles a balance sheet in appearance but which does not present an accurate picture of the financial position of the business

**Question 4.****(Dec 23 14M)**

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                   | Amount (₹) |
|-------------------------------|------------|
| 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 Debts                     | 1,000      |

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

**Answer:**

Trading and Profit and Loss Account for the Year Ended 31st March 2023

Dr.

Cr

| Particulars      | Amount (₹) | Particulars      | Amount (₹) |
|------------------|------------|------------------|------------|
| 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 |                      |          |
| Total               | 4,15,000 | Total                | 4,15,000 |
| To Salaries         | 60,000   | By Gross Profit b/d  | 1,25,000 |
| To Rent             | 7,500    | By Discount received | 3,500    |
| To Office Expenses  | 9,000    |                      |          |
| To Discount allowed | 1,500    |                      |          |
| To Bad Debts        | 1,000    |                      |          |
| To Net Profit       | 49,500   |                      |          |
| Total               | 1,28,500 | Total                | 1,28,500 |

**Balance Sheet as at 31st March 2023**

| Liabilities | Amount (₹) | Assets    | Amount (₹) |
|-------------|------------|-----------|------------|
| Capital     | 1,83,500   | Cash      | 10,000     |
| Creditors   | 25,000     | Debtors   | 1,25,000   |
|             |            | Stock     | 66,000     |
|             |            | Furniture | 7,500      |
| Total       | 2,08,500   | Total     | 2,08,500   |



## Solved Case

## Question 1.

Mr. M. Raja, is a graduate in Sociology who hails from a middle-class family in Madurai, Tamil Nadu. Since his childhood, Raja intended to be a businessman like Mr. P. Nageswar, father of his best friend N. Premnath. Accordingly, he started his personal sole proprietary business trading in coconut oil in the year 2020-21. Mr. Raja, not being very conversant with accounts of the business, approaches you for helping him with the finalisation of the accounts of the financial year 2022-23. He furnishes you with the following bank summary for the year ended March 31, 2023:

|                                      | (Rs.)    | (Rs.)    |
|--------------------------------------|----------|----------|
| Balance on April 1, 2022             |          | 11,000   |
| Add: Deposits                        |          |          |
| Cash (out of cash sales)             | 1,25,000 |          |
| Collection from Credit Customers     | 3,50,000 |          |
| Income from personal investments     | 36,000   | 5,11,000 |
|                                      |          | 5,22,000 |
| Less: Deductions                     |          |          |
| Cash withdrawn for personal drawings | 20,000   |          |
| Shop expenses                        | 40,000   |          |
| Cheques issued to suppliers of:      |          |          |
| Goods                                | 3,50,000 |          |
| Supplies                             | 40,000   |          |
| Cheques issued for personal purposes | 55,000   |          |
| Bank charges                         | 500      | 5,05,500 |
| Balance on March 31, 2023            |          | 16,500   |

Mr. Raja informs you that he had the following Assets and Liabilities (in addition to the Bank Balances) on March 31, the extracts of which are as under:

|                            | 2022-23 (Rs.) | 2021-22 (Rs.) |
|----------------------------|---------------|---------------|
| <b>Assets:</b>             |               |               |
| Cash Balance               | 7,000         | 4,000         |
| Amounts due from Customers | 37,000        | 27,500        |
| Unsold Inventory at Cost   | 13,000        | 10,000        |
| Prepaid Expenses           | 3,000         | 2,000         |
|                            | 60,000        | 43,500        |
| <b>Liabilities:</b>        |               |               |
| Creditors for Goods        | 23,000        | 28,000        |
| Creditors for Services     | 2,500         | 1,500         |
|                            | 25,500        | 29,500        |

He also informs you the following:

- He uses 75% of cash sale proceeds for making cash purchases; the remaining balance being deposited in Bank.
- He had allowed cash discount of Rs.5,000 to his credit customers for prompt payment; he was allowed cash discount Rs.7,000 by his suppliers of goods for prompt payment.
- Collections from credit customers and payments to suppliers of goods are invariable by crossed cheques.





1. What is the balance of Mr. M. Raja's capital account as on April 1, 2022?
2. Ascertain the amounts of credit sales and credit purchases made by the business during the year 2022-23.
3. Determine the operating result of the business by preparing the Trading and Profit & Loss account for the year ended March 31, 2023.
4. Draft the Balance Sheet of the business as at March 31, 2022.

**Answer :**

1. Capital balance on 1.1.2022 is - Rs.25,000

**Balance Sheet as on 1.1.2022**

| Liabilities               | (Rs.) | (Rs.)  | Assets             | (Rs.) | (Rs.)  |
|---------------------------|-------|--------|--------------------|-------|--------|
| Capital [Opening Capital: |       | 25,000 | Inventory          |       | 10,000 |
| Bal. Fig.]                |       |        | Due from Customers |       | 27,500 |
| Creditors for:            |       |        | Prepaid Expenses   |       | 2,000  |
| Goods                     |       | 28,000 | Bank               |       | 11,000 |
| Services                  |       | 1,500  | Cash               |       | 4,000  |
|                           |       | 54,500 |                    |       | 54,500 |

2. Credit Sales is - Rs.3,64,500 and Credit Purchase is - Rs.3,52,000

| Dr. Customers Account |                                        |          | Cr.  |                         |          |
|-----------------------|----------------------------------------|----------|------|-------------------------|----------|
| Date                  | Particulars                            | (Rs.)    | Date | Particulars             | (Rs.)    |
|                       | To Balance b/f                         | 27,500   |      | By Bank A/c             | 3,50,000 |
|                       | To Sales A/c [Credit Sales: Bal. Fig.] | 3,64,500 |      | By Discount Allowed A/c | 5,000    |
|                       |                                        |          |      | By Balance c/f          | 37,000   |
|                       |                                        | 3,92,000 |      |                         | 3,92,000 |

| Dr. Creditors Account |                          |          | Cr.  |                                                |          |
|-----------------------|--------------------------|----------|------|------------------------------------------------|----------|
| Date                  | Particulars              | (Rs.)    | Date | Particulars                                    | (Rs.)    |
|                       | To Bank A/c              | 3,50,000 |      | By Balance b/f                                 | 28,000   |
|                       | To Discount Received A/c | 7,000    |      | By Purchases A/c [Credit purchases: Bal. Fig.] | 3,52,000 |
|                       | To Balance c/f           | 23,000   |      |                                                |          |
|                       |                          | 3,80,000 |      |                                                | 3,80,000 |

3. Operating result - Rs.65,000

**Trading and Profit & Loss Accounts**

| Dr. for the year ended Dec. 31, 2023                |          |          | Cr.                      |          |          |
|-----------------------------------------------------|----------|----------|--------------------------|----------|----------|
| Particulars                                         | (Rs.)    | (Rs.)    | Particulars              | (Rs.)    | (Rs.)    |
| To Opening Stock                                    |          | 10,000   | By Sales:                |          |          |
| To Purchases: Cash [WN:4]                           | 3,75,000 |          | Cash [WN:4]              | 5,00,000 |          |
| Credit                                              | 3,52,000 | 7,27,000 | Credit                   | 3,64,500 | 8,64,500 |
| To Gross Profit c/d (Bal. fig.)                     |          | 1,40,500 | By Closing Stock at Cost |          | 13,000   |
|                                                     |          | 8,77,500 |                          |          | 8,77,500 |
| To Expenses [WN:3]                                  |          | 77,000   | By Gross Profit b/d      |          | 1,40,500 |
| To Bank Charges                                     |          | 500      | By Discount Received     |          | 7,000    |
| To Discount Allowed                                 |          | 5,000    |                          |          |          |
| To Capital A/c [Net Profit transferred] (Bal. fig.) |          | 65,000   |                          |          |          |
|                                                     |          | 1,47,500 |                          |          | 1,47,500 |



4.

## Balance Sheet as on Dec. 31, 2023

| Liabilities                                       | (Rs.)    | (Rs.)  | Assets             | (Rs.) | (Rs.)  |
|---------------------------------------------------|----------|--------|--------------------|-------|--------|
| Opening Capital                                   | 25,000   |        | Inventory          |       | 13,000 |
| Add: Net Profit                                   | 65,000   |        | Due from Customers |       | 37,000 |
| Further Capital [income from personal investment] | 36,000   |        | Prepaid Expenses   |       | 3,000  |
|                                                   | 1,26,000 |        | Bank               |       | 16,500 |
| Less: Drawings [20,000 + 55,000]                  | 75,000   | 51,000 | Cash               |       | 7,000  |
| Creditors for:                                    |          |        |                    |       |        |
| Goods                                             |          | 23,000 |                    |       |        |
| Services                                          |          | 2,500  |                    |       |        |
|                                                   |          | 76,500 |                    |       | 76,500 |

## Working Note:

1.

## Books of Raja

## Receipt and Payment Accounts for the year ended Dec. 31, 2023

| Receipts                        | (Rs.)    | Payments                       | (Rs.)    |
|---------------------------------|----------|--------------------------------|----------|
| To Opening Balance:             |          | By Cash Purchases [WN:4]       | 3,75,000 |
| Cash                            | 4,000    | By Payment to Suppliers        | 3,50,000 |
| Bank                            | 11,000   | By Payments for Services: Cash | 37,000   |
| To Cash Sales [WN:4]            | 5,00,000 | Cheques                        | 40,000   |
| To Collection from Customers    | 3,50,000 | By Bank Charges                | 500      |
| Capital Introduces:             |          | By Drawings [20,000 + 55,000]  | 75,000   |
| Income from Personal Investment | 36,000   | By Closing Balance:            |          |
|                                 |          | Cash                           | 7,000    |
|                                 |          | Bank                           | 16,500   |
|                                 | 9,01,000 |                                | 9,01,000 |

2. Expenses Paid during 2022-23

Dr.

## Cash Account

Cr.

| Date | Particulars                                         | Rs.      | Date | Particulars                                | Rs.      |
|------|-----------------------------------------------------|----------|------|--------------------------------------------|----------|
|      | To Balance b/f                                      | 4,000    |      | By Purchases A/c [WN:4]                    | 3,75,000 |
|      | To Sales A/c [WN:4]                                 | 5,00,000 |      | By Bank A/c [Amount deposited]             | 1,25,000 |
|      | To Bank A/c [Withdrawn from bank for shop expenses] | 40,000   |      | By Expenses A/c [Expenses paid: Bal. Fig.] | 37,000   |
|      |                                                     |          |      | By Balance c/f                             | 7,000    |
|      |                                                     | 5,44,000 |      |                                            | 5,44,000 |

3. Expenses to be transferred to Profit &amp; Loss Accounts

| Particulars                         | (Rs.)  |
|-------------------------------------|--------|
| Expenses Paid: Cash [WN:2]          | 37,000 |
| Cheque                              | 40,000 |
|                                     | 77,000 |
| Add: Prepaid Expenses on 31.12.2022 | 2,000  |



|                                               |        |
|-----------------------------------------------|--------|
| Outstanding Expenses on 31.12.2023            | 2,500  |
|                                               | 81,500 |
| Less: Prepaid Expenses on 31.12.2023          | 3,000  |
|                                               | 78,500 |
| Less: Outstanding Expenses on 31.12.2021      | 1,500  |
| ∴ Expenses to be debited to Profit & Loss A/c | 77,000 |

4. Cash Sales & Cash Purchases during 2022

75% of Cash Sale proceeds are used for Cash Purchases

∴ 25% Amount of Cash Sale proceeds deposited into Bank

∴ Cash Sales = Cash deposited  $\times 100/25 = 1,25,000 \times 100/25 = 5,00,000$

∴ Cash Purchases = 75% of Cash Sale proceeds =  $5,00,000 \times 75\% = 3,75,000$



## Exercise

### Multiple Choice Questions

|                                                                                                                                                                        |                           |                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| 1. 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                                                                                                                                         |                           |                           |
| 2. Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is                            |                           |                           |
| (a) Prior - period item                                                                                                                                                |                           |                           |
| (b) Extra - ordinary item                                                                                                                                              |                           |                           |
| (c) Ordinary item requiring separate disclosure                                                                                                                        |                           |                           |
| (d) Contingent item                                                                                                                                                    |                           |                           |
| 3. 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                                                                                                                                            |                           |                           |
| 4. Which of the following will not appear in P&L A/c?                                                                                                                  |                           |                           |
| (a) Capital                                                                                                                                                            |                           |                           |
| (b) Bad Debts                                                                                                                                                          |                           |                           |
| (c) Provision for Doubtful Debts                                                                                                                                       |                           |                           |
| (d) Rent paid                                                                                                                                                          |                           |                           |
| 5. Outstanding salaries is shown as -                                                                                                                                  |                           |                           |
| (a) An Asset in the Balance Sheet                                                                                                                                      |                           |                           |
| (b) A Liability in the Balance sheet                                                                                                                                   |                           |                           |
| (c) By adjusting it in the P & L A/c                                                                                                                                   |                           |                           |
| (d) Both (b) and (c)                                                                                                                                                   |                           |                           |
| 6. Following information is given: (Rs.)                                                                                                                               |                           |                           |
| 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                    |
| The rate of gross profit is 25% on cost then value of closing stock will be -----.                                                                                     |                           |                           |
| (a) Rs.2,57,800                                                                                                                                                        |                           |                           |
| (b) Rs.1,94,900                                                                                                                                                        |                           |                           |
| (c) Rs.2,25,300                                                                                                                                                        |                           |                           |
| (d) Rs.3,30,000                                                                                                                                                        |                           |                           |
| 7. Subscription of Rs.6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2023. Additional information is as below: |                           |                           |
| Particulars                                                                                                                                                            | On 31st March, 2022 (Rs.) | On 31st March, 2023 (Rs.) |
| Subscription Outstanding                                                                                                                                               | 55,000                    | 72,000                    |



|                                                                                                                                                                                                                                                                                                        |        |        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Subscription Received in Advance                                                                                                                                                                                                                                                                       | 31,000 | 37,000 |
| The amount of subscription received during the year 2022-23 would be :                                                                                                                                                                                                                                 |        |        |
| (a) Rs.6,36,000                                                                                                                                                                                                                                                                                        |        |        |
| (b) Rs.6,02,000                                                                                                                                                                                                                                                                                        |        |        |
| (c) Rs.6,14,000                                                                                                                                                                                                                                                                                        |        |        |
| (d) Rs.6,48,000                                                                                                                                                                                                                                                                                        |        |        |
| 8. If opening capital is Rs.70,000 and closing capital is Rs.90,000, what is the amount of profit or loss?                                                                                                                                                                                             |        |        |
| (a) Rs.20,000 Profit                                                                                                                                                                                                                                                                                   |        |        |
| (b) Rs.20,000 Loss                                                                                                                                                                                                                                                                                     |        |        |
| (c) Rs.70,000 Loss                                                                                                                                                                                                                                                                                     |        |        |
| (d) Rs.90,000 Profit                                                                                                                                                                                                                                                                                   |        |        |
| 9. A Charitable Institution has 250 members with a annual subscription of Rs.5,000 each. The subscription received during 2021-22 were Rs.11,25,000, which include Rs.65,000 and 25,000 for the years of 2020-21 and 2022-23 respectively. Amount of outstanding subscription for the 2021-22 will be: |        |        |
| (a) Rs.90,000                                                                                                                                                                                                                                                                                          |        |        |
| (b) Rs.1,25,000                                                                                                                                                                                                                                                                                        |        |        |
| (c) Rs.2,15,000                                                                                                                                                                                                                                                                                        |        |        |
| (d) Rs.1,90,000                                                                                                                                                                                                                                                                                        |        |        |
| 10. If average inventory is Rs.1,25,000 and closing inventory is Rs.10,000 less than opening inventory then the value of closing inventory will be:                                                                                                                                                    |        |        |
| (a) Rs.1,35,000                                                                                                                                                                                                                                                                                        |        |        |
| (b) Rs.1,15,000                                                                                                                                                                                                                                                                                        |        |        |
| (c) Rs.1,30,000                                                                                                                                                                                                                                                                                        |        |        |
| (d) Rs.1,20,000                                                                                                                                                                                                                                                                                        |        |        |

Answer:

|   |   |   |   |   |   |   |   |    |   |
|---|---|---|---|---|---|---|---|----|---|
| 1 | b | 2 | c | 3 | c | 4 | a | 5  | d |
| 6 | c | 7 | c | 8 | a | 9 | c | 10 | d |

## State True or False

|                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. The preparation of Trading Account always starts with the Opening Stock of inventory.                                                           |
| 2. Income & Expenditure Account is drafted by a trading concern.                                                                                   |
| 3. Balance Sheet is prepared to show the operating results of an organisation on a specific date.                                                  |
| 4. Final Accounts is prepared from the balances of ledger accounts                                                                                 |
| 5. Receipts & Payments A/c begins with the cash & bank balance at the beginning of the accounting period.                                          |
| 6. Endowments received by a non-profit organisation are to be treated as revenue receipts.                                                         |
| 7. Income & Expenditure A/c determines the 'Surplus' or 'Deficit' of the accounting period by matching expenses/ losses against incomes and gains. |
| 8. Income & Expenditure A/c is a summarised form of the Cash Book.                                                                                 |
| 9. Cash in hand represents cash actually held by the business on the balance sheet date.                                                           |
| 10. Subscription received by an organisation is a Revenue Receipt.                                                                                 |

Answers:

|   |       |   |       |   |       |   |      |    |      |
|---|-------|---|-------|---|-------|---|------|----|------|
| 1 | False | 2 | False | 3 | False | 4 | True | 5  | True |
| 6 | False | 7 | True  | 8 | False | 9 | True | 10 | True |



### Fill in the Blanks

1. Outstanding subscription is shown in the \_\_\_\_\_ side of Balance Sheet.
2. The Sales Rs.180 Lakh, Purchases Rs.129 Lakh and Opening Stock Rs.33 Lakh. If the rate of Gross Profit is 50% on cost, then the value of closing stock will be \_\_\_\_\_.
3. Profit & Loss Account is drafted to determine the \_\_\_\_\_ of a concern.
4. Distribution of profits is a/ an \_\_\_\_\_ item.
5. \_\_\_\_\_ is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period.
6. Advance subscription is reflected in the \_\_\_\_\_ side of the Balance Sheet.
7. In Receipts & Payments Account, all receipts (whether, capital or revenue) are recorded on the \_\_\_\_\_ hand side of this account, while all payments (whether, capital or revenue) are recorded on the \_\_\_\_\_ hand side of this account.
8. Subscriptions received in advance by a Club are shown on \_\_\_\_\_ side of the Balance Sheet.

#### Answer:

|   |                  |   |               |
|---|------------------|---|---------------|
| 1 | Asset            | 2 | Rs.42 Lakh    |
| 3 | Net Profit/ Loss | 4 | appropriation |
| 5 | Trading A/c      | 6 | Liabilities   |
| 7 | left, right;     | 8 | Liabilities   |





## 8. PARTNERSHIP ACCOUNTING

### ILLUSTRATIONS

#### Illustration 1.

A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit sharing ratio between A, B and C becomes 5: 3 : 2. What will be the sacrifice ratio of A and B after admission of C?

**Solution:**

Calculation of Sacrificing Ratio of A & B after C's admission

|           | A : | B : | C |
|-----------|-----|-----|---|
| Old Ratio | 4 : | 3   |   |
| New Ratio | 5 : | 3 : | 2 |

$$A = \frac{4}{7} - \frac{5}{10} = \frac{40-35}{70} = \frac{5}{70}$$

$$B = \frac{3}{7} - \frac{3}{10} = \frac{30-21}{70} = \frac{9}{70}$$

Sacrificing Ratio is 5:9

#### Illustration 2.

X, Y and Z are partners in the ratio of 3:2:1. W is admitted with  $\frac{1}{6}$  th share in future profits. Z would retain his original shares. Find out the new profit sharing ratios of the partners.

**Solution:**

|                                     |                                                                    |
|-------------------------------------|--------------------------------------------------------------------|
| X's New share                       | $= \frac{3}{6} - (\frac{1}{6} \times \frac{3}{5}) = \frac{12}{30}$ |
| Y's New share                       | $= \frac{2}{6} - (\frac{1}{6} \times \frac{2}{5}) = \frac{8}{30}$  |
| Z's share                           | $= \frac{1}{6}$                                                    |
| W's share                           | $= \frac{1}{6}$                                                    |
| Therefore, New Profit Sharing Ratio | $= X:Y:Z:W = 12:8:5:5$                                             |

#### Illustration 3.

S and N are partners sharing Profit / (Loss) in the ratio of 5:3. They admit J into partnership for in the Profit/(Loss) in which J acquired  $\frac{1}{5}$  th share from S and  $\frac{1}{10}$  th share from N respectively. Calculate the new profit and loss sharing ratios of the partners.

**Solution:**

$$S's \text{ new share} = \left[ \frac{5}{8} - \frac{1}{5} \right] = \frac{25-8}{40} = \frac{17}{40}$$

$$N's \text{ new share} = \left[ \frac{3}{8} - \frac{1}{10} \right] = \frac{15-4}{40} = \frac{11}{40}$$

$$J's \text{ share} = \frac{3}{10} = \frac{12}{40}$$

Hence New profit/loss sharing ratios of the partners = 17:11:12

#### Illustration 4.

X and Y are partners sharing profit/loss in the ratio of 5:4. They admit Z into partnership for  $\frac{1}{5}$  th the share in the profits which  $\frac{2}{15}$  th is given by X and  $\frac{1}{15}$  th by Y. Z brings Rs.1,50,000 as his capital and Rs.60,000 as premium.



Goodwill account appears in the books at Rs.1,65,000; Give necessary journal entries in the books of the firm at the time of Z's admission and find out the new profit sharing ratio.

**Solution:**

Journal

| Particulars                                                                                                                                                                                             |     | Dr. (Rs.) | Cr. (Rs.) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----------|-----------|
| i. Bank A/c                                                                                                                                                                                             | Dr. | 2,10,000  |           |
| To, Z's Capital A/c                                                                                                                                                                                     |     |           | 1,50,000  |
| To, Premium for Goodwill A/c                                                                                                                                                                            |     |           | 60,000    |
| (Being amount brought in as capital and premium for goodwill by Z)                                                                                                                                      |     |           |           |
| iii. Premium for goodwill A/c                                                                                                                                                                           | Dr. | 60,000    |           |
| To, X's Capital A/c                                                                                                                                                                                     |     |           | 40,000    |
| To, Y's Capital A/c                                                                                                                                                                                     |     |           | 20,000    |
| (Being transfer of premium brought by Z to X & Y's A/c)                                                                                                                                                 |     |           |           |
| ( Assuming that the goodwill shown in the books of account is purchased goodwill)                                                                                                                       |     |           |           |
| ( if it is a self generated Goodwill an extra entry as below will be passed to cancel the said goodwill between old partners in old profit sharing ratio then above tow entries I & ii will be passed)) |     |           |           |
| X's Capital Account                                                                                                                                                                                     | Dr  | 91667     |           |
| Y's Capital Account                                                                                                                                                                                     | Dr  | 73333     |           |
| To Goodwill Account                                                                                                                                                                                     |     |           | 165000    |

New Profit sharing ratio will be:

$$X's \text{ new share} = \frac{5}{9} - \frac{2}{15} = \frac{25-6}{45} = \frac{19}{45}$$

$$Y's \text{ new share} = \frac{4}{9} - \frac{1}{15} = \frac{20-3}{45} = \frac{17}{45}$$

Hence new ratio = 19 : 17 : 9

Note : From the above question , it is seen that goodwill is in the books at Rs.165000. Now the question is whether the said goodwill is self generated goodwill or purchased goodwill. If purchased goodwill, no need to writeoff from the books of account and whatever premium paid by the new partner will be shared by old partners in their sacrificing ratio. If self generated goodwill, first cancel that goodwill with old partners in old profit sharing ratio and distributed the premium paid by new partners as goodwill among the old partners in sacrificing ratio.

#### Illustration 5.

X & Y share profit & loss in the ratio of 5:3. They admit Z with 1/5th share of profits. He pays Rs.80,000 as capital but does not contribute anything towards goodwill which is valued at Rs.60,000. The capitals of the Partners are fixed. All adjustments are to be made through partners' current accounts. Their Balance Sheet as on March 31, 2023 is as follows:

Balance Sheet as on 31.03.2023

| Liabilities | (Rs.)  | (Rs.)    | Assets              | (Rs.) | (Rs.)  |
|-------------|--------|----------|---------------------|-------|--------|
| Capital:    |        |          | Plant and Machinery |       | 50,000 |
| X—          | 80,000 |          | Investments         |       | 31,000 |
| Y—          | 60,000 | 1,40,000 | Sundry Debtors      |       | 60,000 |



|                  |       |          |                 |  |          |
|------------------|-------|----------|-----------------|--|----------|
| Current account: |       |          | Stock and Trade |  | 90,000   |
| X—               | 5,000 |          | Bank            |  | 30,000   |
| Y—               | 6,000 | 11,000   |                 |  |          |
| General Reserve  |       | 60,000   |                 |  |          |
| Sundry Creditors |       | 50,000   |                 |  |          |
|                  |       | 2,61,000 |                 |  | 2,61,000 |

**Additional Information:**

- (i) Plant and Machinery is valued at Rs.46,000 and stock at Rs.96,000.  
(ii) One Creditor for Rs.6,000 is dead and nothing is likely to be paid on this account.  
(iii) The Capital accounts are to be proportionately adjusted on the basis of Z's capital and his share of profit, through Current accounts  
(iv) Partners decide to maintain the General Reserve in the books of the firm.  
Prepare Revaluation Account, Capital and Current Accounts, Bank Account and Balance Sheet of the new firm.

**Solution:**

| Dr.                      |       |        | Revaluation Account |       |       | Cr. |        |
|--------------------------|-------|--------|---------------------|-------|-------|-----|--------|
| Liabilities              | (Rs.) | (Rs.)  | Assets              | (Rs.) | (Rs.) |     |        |
| To Plant & Machinery A/c |       | 4,000  | By Stock A/c        |       | 6,000 |     |        |
| To Partner's Current A/c |       |        | By Creditors A/c    |       | 6,000 |     |        |
| X—                       | 5,000 |        |                     |       |       |     |        |
| Y—                       | 3,000 | 8,000  |                     |       |       |     |        |
|                          |       | 12,000 |                     |       |       |     | 12,000 |

| Dr.            |          |          |         | Partners' Capital Account |          |          |         | Cr. |  |
|----------------|----------|----------|---------|---------------------------|----------|----------|---------|-----|--|
| Particulars    | X (Rs.)  | Y (Rs.)  | Z (Rs.) | Particulars               | X (Rs.)  | Y (Rs.)  | Z (Rs.) |     |  |
| To Balance c/d | 2,00,000 | 1,20,000 | 80,000  | By Balance B/d            | 80,000   | 60,000   | —       |     |  |
|                |          |          |         | By Bank A/c               | —        | —        | 80,000  |     |  |
|                |          |          |         | By Partners' Current A/c  | 1,20,000 | 60,000   | ---     |     |  |
|                |          |          |         | (b.f.)                    |          |          |         |     |  |
|                | 2,00,000 | 1,20,000 | 80,000  |                           | 2,00,000 | 1,20,000 | 80,000  |     |  |

| Dr.                      |          |         |         | Partners' Current Account |          |         |         | Cr. |  |
|--------------------------|----------|---------|---------|---------------------------|----------|---------|---------|-----|--|
| Particulars              | X (Rs.)  | Y (Rs.) | Z (Rs.) | Particulars               | X (Rs.)  | Y (Rs.) | Z (Rs.) |     |  |
| To General Reserve A/c   | 30,000   | 18,000  | 12,000  | By Balance b/d            | 5,000    | 6,000   | -       |     |  |
| To X's Current A/c       | -        | -       | 7,500   | By Revaluation A/c        | 5,000    | 3,000   | -       |     |  |
| To Y's Current A/c       | .        | -       | 4,500   | By Z's Current A/c        | 7,500    | 4,500   | -       |     |  |
| To Partners' Capital A/c | 1,20,000 | 60,000  | -       | By General Reserve A/c    | 37,500   | 22,500  | -       |     |  |
|                          |          |         |         | By Bank A/c (B/F)         | 95,000   | 42,000  | 24,000  |     |  |
|                          | 1,50,000 | 78,000  | 24,000  |                           | 1,50,000 | 78,000  | 24,000  |     |  |

**Note:**

- (1) General Reserve is to be maintained in the books of the firm hence is credited to old partners' capital A/c & debited to all partners' capital A/c.  
(2) Sacrificing Ratio = X : Y Old Ratio 5 : 3  
Share of Z =  $1/5$  th  
Share of X & Y in the firm =  $1 - 1/5 = 4/5$  X's share =  $4/5 \times 5/8 = 5/10$   
Y's share =  $4/5 \times 3/8 = 3/10$  5/10: 3/10: 2/10 = New Ratio  
Sacrificing Ratio = Old Ratio — New Ratio. X =  $5/8 - 5/10 = 10/80$



$$Y = 3/8 - 3/10 = 6/80$$

Sacrificing Ratio = 10:6

**(3) Adjustment for goodwill**

Z's share of Goodwill = Rs.60,000 × 1/5 = Rs.12,000

X's share in Goodwill of Z = Rs.12,000 × 10/16 = Rs.7,500 in Sacrificing Ratio. Y's share in Goodwill of Z = Rs.12,000 × 6/16 = Rs.4,500 in Sacrificing Ratio.

**(4) Adjustment for capital**

Total Capital of the firm according to capital contribution of Z = Rs.80,000 × 5 = Rs.4,00,000. X's Capital balance = Rs.4,00,000 × 5/10 = Rs.2,00,000

Y's Capital balance = Rs.4,00,000 × 3/10 = Rs.1,20,000 Z's Capital balance = Rs.4,00,000 × 2/10 = Rs.80,000

Dr.

Bank Account

Cr.

| Particulars        | (Rs.)    | Particulars    | (Rs.)    |
|--------------------|----------|----------------|----------|
| To Balance b/d     | 30,000   |                |          |
| To Z's Capital A/c | 80,000   |                |          |
| To X's Capital A/c | 95,000   |                |          |
| To Y's Capital A/c | 42,000   | By Balance c/d | 2,71,000 |
| To Z's Capital A/c | 24,000   |                |          |
|                    | 2,71,000 |                | 2,71,000 |

**Balance Sheet as on 31.03.23**

| Liabilities      | (Rs.)    | Assets     | (Rs.)    |
|------------------|----------|------------|----------|
| Capital:         |          | Bank       | 2,71,000 |
| X                | 2,00,000 | Debtors    | 60,000   |
| Y                | 1,20,000 | Stock      | 96,000   |
| Z                | 80,000   | Machine    | 46,000   |
| Current A/c:     |          | Investment | 31,000   |
| X                | ---      |            |          |
| Y                | ---      |            |          |
| General Reserve  | 60,000   |            |          |
| Sundry Creditors | 44,000   |            |          |
|                  | 5,04,000 |            | 5,04,000 |

Note: It is assumed that the partners will bring necessary fund in cash to adjust their capital through Current A/c.

**Illustration 6.**

The Balance Sheet of a firm as on 31 .3.2023 was

| Liabilities          | (Rs.)    | Assets    | (Rs.)    |
|----------------------|----------|-----------|----------|
| Capital: Sun         | 50,000   | Property  | 35,000   |
| Moon                 | 41,000   | Motor car | 7,500    |
| Loan (Sun)           | 5,000    | Furniture | 1,000    |
| General Reserve      | 5,000    | Debtors   | 25,000   |
| Sundry Creditors     | 15,000   | Stock     | 45,000   |
| Outstanding Expenses | 1,500    | Cash      | 4,000    |
|                      | 1,17,500 |           | 1,17,500 |



The profit sharing ratio between Sun & Moon was 3 : 2. They decided to admit Pluto as a new partner from 1st April, 2023 on the following terms & conditions:

- (1) Property & Motor Car to be revalued at Rs.45,000 & Rs.6,500 respectively and 5% provision to be created on debtors.
- (2) Pluto should pay premium for goodwill to be valued at 2 years' purchase of last three years average profits. Such amount of premium was to be credited to old partners loan accounts.
- (3) Pluto should pay Rs.37,500 as capital.
- (4) The new profit sharing ratio should be 2: 1: 1.
- (5) Last three years' profit were Rs.5,000, Rs.6,000 and Rs.7,500.

The last three years' books of accounts, on verification, disclosed the following discrepancies:

2020-21: Bad debts previously written of recovered Rs.400, credited to Debtors Account, Closing Stock under valued by Rs.1,250.

2021-22: Furniture purchased Rs.300 debited to Purchases Account,

Depreciation was provided @ 10% on reducing balance method but Closing Stock was overvalued by Rs.2,000.

2022-23: A purchase invoice of Rs.1,000 was omitted from the books and Closing Stock was undervalued by Rs.1,000.

Pass the journal entries at the time of admission of Pluto and prepare the Balance Sheet just after his admission.

**Solution:**

| Dr.                            |              | Revaluation Account |        | Cr. |        |
|--------------------------------|--------------|---------------------|--------|-----|--------|
| Particulars                    | (Rs.)        | Particulars         | (Rs.)  |     |        |
| To Motor Car A/c               | 1,000        | By Property A/c     | 10,000 |     |        |
| To Provision for Bad Debts A/c | 1,250        |                     |        |     |        |
| To Profit on Revaluation:      |              |                     |        |     |        |
| Sun 3/5                        | 4,650        |                     |        |     |        |
| Moon 2/5                       | <u>3,100</u> |                     |        |     |        |
|                                | 10,000       |                     |        |     |        |
|                                |              |                     |        |     | 10,000 |

| Dr.            |           | Partners' Capital Account |             |                    |           | Cr.        |             |
|----------------|-----------|---------------------------|-------------|--------------------|-----------|------------|-------------|
| Particulars    | Sun (Rs.) | Moon (Rs.)                | Pluto (Rs.) | Particulars        | Sun (Rs.) | Moon (Rs.) | Pluto (Rs.) |
|                |           |                           |             | By Balance b/d     | 50,000    | 41,000     | —           |
|                |           |                           |             | By Cash A/c        | —         | —          | 37,500      |
|                |           |                           |             | By Profit on       | 4,650     | 3,100      | —           |
|                |           |                           |             | Revaluation        |           |            |             |
| To Balance c/d | 57,650    | 46,100                    | 37,500      | By General Reserve | 3,000     | 2,000      |             |
|                | 57,650    | 46,100                    | 37,500      |                    | 57,650    | 46,100     | 37,500      |

Calculation of sacrificing / gaining ratio of sun & moon because of admission , Pluto.

|                            | Sun: Moon : Pluto                                             |
|----------------------------|---------------------------------------------------------------|
| Old Ratio                  | 3:2                                                           |
| New Ratio                  | 2:1:1                                                         |
| Sacrificing ratio (Sun's)  | $\frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}$ |
| Moon's Sacrificing ratio = | $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$   |



Or, 2: 3

Dr.

## Statement showing Adjusted Profit Account

Cr.

| Particulars                                  | 2020-21 (Rs.) | 2021-22 (Rs.) | 2022-23 (Rs.) |
|----------------------------------------------|---------------|---------------|---------------|
| Profits                                      | 5,000         | 6,000         | 7,500         |
| Bad Debts Recovered                          | + 400         | —             | —             |
| Closing Stock Undervalued                    | + 1,250       | - 1,250       | —             |
| Furniture purchased debited to Purchases A/c |               | + 300         | —             |
| Depreciation                                 |               | -30           | -27           |
| Closing stock overvalued                     |               | - 2,000       | + 2,000       |
| Purchases not recorded                       |               |               | - 1,000       |
| Closing stock undervalued                    |               |               | + 1,000       |
|                                              | 6,650         | 3,020         | 9,473         |

Calculation of premium to be paid by Pluto Average profit of 3 year's:

$$\frac{\text{Rs}(6,650+3,020+9,473)}{3} = \text{Rs}6,381$$

Goodwill = Rs.6,381 × 2 = Rs.12,762

Pluto's share of goodwill = Rs.12,762 ×  $\frac{1}{4}$  = Rs 3,190.50

Adjustment Entries for rectification of past errors

## Journal

| Particulars                         |     | Dr. (Rs.) | Cr. (Rs.) |
|-------------------------------------|-----|-----------|-----------|
| Furniture A/c                       | Dr. | 243       |           |
| Debtors A/c                         | Dr. | 400       |           |
| To Adjusted P/L A/c                 |     |           | 643       |
| Adjusted P/L A/c                    | Dr. | 20        |           |
| To Provision for doubtful debts A/c |     |           | 20        |
| Closing Stock A/c                   | Dr. | 1,000     |           |
| To Adjusted P/L A/c                 |     |           | 1,000     |
| Adjusted P/L A/c                    | Dr. | 1,000     |           |
| To Creditors A/c                    |     |           | 1,000     |
| Adjusted P/L A/c                    | Dr. | 623       |           |
| To Sun's Capital A/c                |     |           | 373.80    |
| To Moon's Capital A/c               |     |           | 249.20    |

Journal

| Particulars                                                                  |     | Dr. (Rs.) | Cr. (Rs.) |
|------------------------------------------------------------------------------|-----|-----------|-----------|
| Property A/c                                                                 | Dr. | 10,000    |           |
| To Revaluation A/c                                                           |     |           | 10,000    |
| (Being revaluation of property done at the time of admission of Pluto)       |     |           |           |
| Revaluation A/c                                                              | Dr. | 2,250     |           |
| To Motor Car A/c                                                             |     |           | 1,000     |
| To Provision for bad debts A/c                                               |     |           | 1,250     |
| (Being revaluation done of motor car & Provision calculated on debtors @ 5%) |     |           |           |
| Revaluation A/c                                                              | Dr. | 7,750     |           |
| To Sun's Capital A/c                                                         |     |           | 4,650     |
| To Moon's Capital A/c                                                        |     |           | 3,100     |
| (Being profit on revaluation distributed to Partner's Capital A/c)           |     |           |           |





|                                                                                                                                                                                  |     |          |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----------|----------|
| Cash A/c<br>To Pluto's Capital A/c<br>(Being cash brought in by Pluto as his share of capital)                                                                                   | Dr. | 37,500   | 37,500   |
| Cash A/c<br>To Pluto's Capital A/c<br>(Being cash brought by Pluto for his share of goodwill)                                                                                    | Dr. | 3,190.50 | 3,190.50 |
| Pluto's Capital A/c<br>To Sun's Loan A/c<br>To Moon's Loan A/c<br>(Being Pluto's share of premium for goodwill credited to Old Partner's Capital A/c in their sacrificing ratio) | Dr. | 3,190.50 |          |
|                                                                                                                                                                                  |     |          | 1,276.20 |
|                                                                                                                                                                                  |     |          | 1,914.30 |
|                                                                                                                                                                                  |     |          |          |

## Balance Sheet (Post-Admission)

| Liabilities          | (Rs.)       | Assets                           | (Rs.)       |
|----------------------|-------------|----------------------------------|-------------|
| Capital:             |             | Property (35,000 + 10,000)       | 45,000.00   |
| Sun                  | 58,023.80   | Motor Car (7,500 - 1,000)        | 6,500.00    |
| Moon                 | 46,349.20   | Furniture (1,000 + 243)          | 1,243.00    |
| Pluto                | 37,500.00   | Debtors (25,000 + 400 - 1,270)   | 24,130.00   |
| Loan (Sun)           | 6,276.20    | Stock                            | 46,000.00   |
| Loan (Moon)          | 1,914.30    | Cash (4,000 + 37,500 + 3,190.50) | 44,690.50   |
| Sundry creditors     | 16,000.00   |                                  |             |
| Outstanding Expenses | 1,500.00    |                                  |             |
|                      | 1,67,563.50 |                                  | 1,67,563.50 |

## Illustration 7.

P and Q are partners sharing profits and losses in the ratio of 5:4. On 1<sup>st</sup> April, 2022 they admitted their Manager R into partnership for  $\frac{1}{5}$ th the share of the profits. As Manager, R was receiving a salary of Rs.60,000 per year and a commission of 5 percent on the net profit after charging such salary and commission. It is, however, agreed that any excess over his former remuneration to which R becomes entitled as a partner is to be borne by Q.

The profits of the firm for the year ended 31st March, 2023 amounted to Rs.4,27,500. You are required to show the division of profits among the partners.

## Solution:

(i) R's remuneration as Manager

$$\text{Salary Rs.60,000 \& Commission Rs.4,27,500 - Rs.60,000} = \text{Rs.3,67,500} \times \frac{5}{105} = \text{Rs.17,500}$$

$$\text{Or Rs.60,000 + Rs.17,500} = \text{Rs.77,500}$$

(ii) R's share in profit =  $\text{Rs.4,27,500} \times \frac{1}{5} = \text{Rs.85,000}$ ; it excess over above(i)

$$= \text{Rs.85,000} - \text{Rs.77,500} = \text{Rs.8,000} \text{ which to be borne by Q}$$

(iii) Share in profits of P & Q

$$P = \text{Rs.4,27,500} - \text{Rs.77,500} = \text{Rs.3,50,000} \times \frac{5}{9} = \text{Rs.1,94,444}$$

$$Q = \text{Rs.3,50,000} \times \frac{4}{9} = \text{Rs.1,55,556} - \text{Rs.8,000} = \text{Rs.1,47,556}$$



Dr.

## Profit and Loss Appropriation Account

Cr.

| Particulars             | (Rs.)        | (Rs.)    | Particulars            | (Rs.) | (Rs.)    |
|-------------------------|--------------|----------|------------------------|-------|----------|
| To P's Capital A/c:     |              | 1,94,444 | By Profit for the year |       | 4,27,500 |
| To Q's Capital A/c:     | 1,55,556     |          |                        |       |          |
| Less: transferred to R: | <u>8,000</u> | 1,47,556 |                        |       |          |
| To R's Capital A/c      |              |          |                        |       |          |
| As Manager:             | 77,500       |          |                        |       |          |
| Add: Transferred from Q | <u>8,000</u> | 85,500   |                        |       |          |
|                         |              | 4,27,500 |                        |       | 4,27,500 |

## Illustration 8.

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, 2023 was as under:

| Liabilities       | (Rs.)     | Assets              | (Rs.)     |
|-------------------|-----------|---------------------|-----------|
| 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:

- 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 31.03.2020 - Profit Rs.37,000  
 Year ended 31.03.2022 - Profit Rs.40,000  
 Year ended 31.03.2023 - Profit Rs.45,000
- The value of the stock and Plant & Machinery were to be reduced by 10%.
- Building was to be valued at Rs.10,11,000.
- There was an unrecorded liability of Rs.10,000.
- A, B, P & Q agreed to share profits and losses in the ratio 3 : 2 : 1:1.
- The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.
- 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:

- Memorandum Revaluation Account,
- Partner's Capital Accounts and
- The Balance Sheet of the newly constructed firm.

**Solution:**

## Memorandum Revaluation Account

| Particulars                 | (Rs.)  | Particulars | (Rs.)    |
|-----------------------------|--------|-------------|----------|
| To Stock A/c                | 30,000 | By Building | 1,11,000 |
| To Plant & Machinery A/c    | 50,000 |             |          |
| To Unrecorded Liability A/c | 10,000 |             |          |



|                                                                                                |                 |                                                                                                                                                                                                          |                                      |
|------------------------------------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| To Profit transferred to Partners' Capital A/c (in old ratio)<br>A = Rs.14,000<br>B = Rs.7,000 | 21,000          |                                                                                                                                                                                                          |                                      |
|                                                                                                | <b>1,11,000</b> |                                                                                                                                                                                                          | <b>1,11,000</b>                      |
| To Building                                                                                    | 1,11,000        | By Stock A/c<br>By Plant & Machinery A/c<br>By Unrecorded liability A/c<br>By Loss transferred to Partners' Capital A/c s (in new ratio)<br>A = Rs.9,000<br>B = Rs.6,000<br>P = Rs.3,000<br>Q = Rs.3,000 | 30,000<br>50,000<br>10,000<br>21,000 |
|                                                                                                | 1,11,000        |                                                                                                                                                                                                          | 1,11,000                             |

| Dr. Partners' Capital Accounts |           |          |          |          | Cr.                    |           |          |          |          |
|--------------------------------|-----------|----------|----------|----------|------------------------|-----------|----------|----------|----------|
| Particulars                    | A (Rs.)   | B (Rs.)  | P (Rs.)  | Q (Rs.)  | Particulars            | A (Rs.)   | B (Rs.)  | P (Rs.)  | Q (Rs.)  |
| To Memorandum                  |           |          |          |          | By Balance b/d         | 8,00,000  | 4,00,000 | —        | —        |
| Revaluation A/c                | 9,000     | 6,000    | 3,000    | 3,000    | By Memorandum          |           |          |          |          |
| To Reserves A/c                | 2,25,000  | 1,50,000 | 75,000   | 75,000   | Revaluation A/c        | 14,000    | 7,000    | —        | —        |
| To A & B A/c. (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 & O A/c (W.N.2)   | 20,000    | 4,000    | —        | —        |
|                                |           |          |          |          | By Cash A/c (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 31.03.2023

| Liabilities       | (Rs.)     | Assets                                    | (Rs.)     |
|-------------------|-----------|-------------------------------------------|-----------|
| Capital Accounts: |           | Plant and Machinery                       | 5,00,000  |
| A — Rs.9,50,000   |           | Building                                  | 9,00,000  |
| B — Rs.4,30,000   |           | Sundry Debtors                            | 2,50,000  |
| P — Rs.2,15,000   |           | Stock                                     | 3,00,000  |
| Q — Rs.2,15,000   | 18,10,000 | Cash                                      | 7,60,000  |
| Reserves          | 5,25,000  | (Rs.1,50,000 + Rs.3,05,000 + Rs.3,05,000) |           |
| 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 (Rs.) | Weight | Weighted Profit (Rs.) |
|------|--------------|--------|-----------------------|
| 2019 | 37,000       | 1      | 37,000                |
| 2020 | 40,000       | 2      | 80,000                |
| 2021 | 45,000       | 3      | 1,35,000              |
|      |              | 6      | 2,52,000              |



Weighted Average Profit = Rs.2,52,000/6 = Rs.42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: Rs.42,000 × 2 = Rs.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 (Rs.) | Goodwill as per new ratio (Rs.) | Effect (Rs.) |        |
|----------|---------------------------------|---------------------------------|--------------|--------|
| 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

| Particulars        |     | Dr. (Rs.) | Cr. (Rs.) |
|--------------------|-----|-----------|-----------|
| P's Capital A/c    | Dr. | 12,000    |           |
| Q's Capital A/c    | Dr. | 12,000    |           |
| To A's Capital A/c |     |           | 20,000    |
| To B's Capital A/c |     |           | 4,000     |

## 3. Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is 4,30,000.

Total capital of firm will be = Rs.4,30,000 × 7/2 = Rs.15,05,000 Hence, P's and Q's closing capital should be Rs.2,15,000 (Rs.15,05,000 × 1/7) each i.e. at par with B (as per new profit and loss sharing ratio).

## Illustration 9.

The balance sheet of Amit. Bhusan and Charan, who share profit and losses as 3:2:1 respectively, as on 01.04.2023 is as follows

| Liabilities              | Amount(Rs.) | Assets                   | Amount (Rs.) |
|--------------------------|-------------|--------------------------|--------------|
| Capital Accounts : Amit  | 1,80,000    | Machinery                | 1,50,000     |
| Bhusan                   | 1,60,000    | Furniture                | 1,50,000     |
| Charan                   | 1,40,000    | Debtors                  | 80,000       |
| Current Accounts: Bhusan | 16,000      | Less: Provision          | 4,000        |
| Creditors                | 1,20,000    | Stock                    | 2,10,000     |
|                          |             | Cash                     | 20,000       |
|                          |             | Current Account : charan | 10,000       |
|                          | 6,16,000    |                          | 6,16,000     |

Dev is admitted as a partner on the above data for 1/5<sup>th</sup> share in the profit and loss.

Following are agreed upon:

- 1) The profit and loss sharing ratio among the old partners will be equal
- 2) Dev brings in Rs.1,50,000 as capital but is unable to bring the required amount of premium for



goodwill

- 3) The goodwill of the firm is valued at Rs.60,000
  - 4) Assets and liabilities are to be valued as follows:  
Machinery Rs.2,60,000 : Furniture Rs.1,28,000 : Provision for doubtful debts @ 10% on debtors
  - 5) Necessary adjustment regarding goodwill and profit/loss on revolution are to made through the Partner's Current Accounts .
  - 6) It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.
  - 7) Capital Accounts of the old partners in the new firm should be proportionate the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partner's will not bring cash for future Capital. The necessary adjustment are to be made through the partner's current Account
- Prepare Partner's Capital & Current Account, and the Balance Sheet of the new firm after admission

Solution:

#### PARTNER'S CAPITAL ACCOUNTS

| Dr.            |          |          |          |          | Cr.                                  |          |          |          |          |
|----------------|----------|----------|----------|----------|--------------------------------------|----------|----------|----------|----------|
| Particular     | Amit     | Bhusan   | Charan   | Dev      | Particulars                          | Amit     | Bhusan   | Charan   | Dev      |
|                |          |          |          |          | By Balance b/d                       | 1,80,000 | 1,60,000 | 1,40,000 |          |
|                |          |          |          |          | By Bank A/c                          |          |          |          | 1,50,000 |
| To Balance c/d | 2,00,000 | 2,00,000 | 2,00,000 | 1,50,000 | By Partner's Current A/cs (bal. fig) | 20,000   | 40,000   | 60,000   |          |
|                | 2,00,000 | 2,00,000 | 2,00,000 | 1,50,000 |                                      | 2,00,000 | 2,00,000 | 2,00,000 | 1,50,000 |

#### PARTNER'S CURRENT ACCOUNTS

| Dr.                                       |        |        |        |        | Cr.                                    |        |        |        |        |
|-------------------------------------------|--------|--------|--------|--------|----------------------------------------|--------|--------|--------|--------|
| Particular                                | Amit   | Bhusan | Charan | Dev    | Particulars                            | Amit   | Bhusan | Charan | Dev    |
| To Balance b/d                            | -      | -      | 10,000 | -      | By Balance b/d                         | -      | 16,000 |        | -      |
| To Amit & Bhusan (Profit)                 | -      |        | 3,000  | 6,000  | By Dev & Charan Amit                   | 7,000  | 2,000  |        |        |
| To Amit and Bhusan (Goodwill adjustment ) |        |        | 6,000  | 12,000 | By Dev & Charan (Goodwill adjustment ) | 14,000 | 4,000  |        |        |
| To Partners Capital A/cs                  | 20,000 | 40,000 | 60,000 |        | By Balance c/d                         |        | 18,000 | 79,000 | 18,000 |
| To Balance c/d                            | 1,000  |        |        |        |                                        |        |        |        |        |
|                                           | 21,000 | 40,000 | 79,000 | 18,000 |                                        | 21,000 | 40,000 | 79,000 | 18,000 |

#### Balance Sheet of New Firm after Dev's Admission

| Liabilities           | Rs.      | Assets          | Rs.      |
|-----------------------|----------|-----------------|----------|
| Amit                  | 2,00,000 | Machinery       | 1,50,000 |
| Bhusan                | 2,00,000 | Furniture       | 1,50,000 |
| Charan                | 2,00,000 | Stock           | 2,10,000 |
| Dev                   | 1,50,000 | Debtors         | 80,000   |
| Current Account: Amit | 1,000    | Less: Provision | 4,000    |
| Creditors             | 1,20,000 | Cash            | 1,70,000 |
|                       |          | Current Account |          |
|                       |          | Bhusan          | 18,000   |
|                       |          | Charan          | 79,000   |



|  |          |     |        |          |
|--|----------|-----|--------|----------|
|  |          | Dev | 18,000 | 1,15,000 |
|  | 8,71,000 |     |        | 8,71,000 |

**Working Notes:**

1. Dev. Joins the business for  $\frac{1}{5}$ th share and bring Rs.1,50,000 as capital. Thus total capital of new firm will be Rs.7,50,000 ( $1,50,000 \times 5$ ).

Total capital of Amit, Bhushan & Charan will be Rs.6,00,000 ( $7,50,000 - 1,50,000$ ) which will be shared by them equally i.e. 2,00,000 each

2. New Profit-Sharing Ration

| Amit                             | Bhushan                          | Charan                           | Dev            |
|----------------------------------|----------------------------------|----------------------------------|----------------|
| $\frac{4}{5} \times \frac{1}{3}$ | $\frac{4}{5} \times \frac{1}{3}$ | $\frac{4}{5} \times \frac{1}{3}$ | $\frac{1}{5}$  |
| $\frac{4}{15}$                   | $\frac{4}{15}$                   | $\frac{4}{15}$                   | $\frac{3}{15}$ |

NR= 4:4:4:3

3. Adjustment of Goodwill

**Sacrifice/Gain of Partners**

| Amit                                                     | Bhushan                                                      | Charan                                                  | Dev                  |
|----------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------|----------------------|
| $\frac{4}{15} - \frac{3}{6} = \frac{21}{90}$ (Sacrifice) | $\frac{4}{15} \times \frac{2}{6} = \frac{6}{90}$ (Sacrifice) | $\frac{4}{15} \times \frac{1}{6} = \frac{9}{90}$ (gain) | $\frac{1}{5}$ (Gain) |

**JOURNAL ENTRY TO ADJUST GODWILL**

|                                                 |     |           |           |
|-------------------------------------------------|-----|-----------|-----------|
| Charan [Rs.60,000 $\times$ $\frac{9}{90}$ ]     | Dr. | Rs.6,000  |           |
| Dev [Rs.60,000 $\times$ $\frac{1}{5}$ ]         | Dr. | Rs.12,000 |           |
| To Amit [Rs.60,000 $\times$ $\frac{21}{90}$ ]   |     |           | Rs.14,000 |
| To Bhushan [Rs.60,000 $\times$ $\frac{6}{90}$ ] |     |           | Rs.4,000  |

4. Net Effect of Revolution of Assets and liabilities

|                                          |                   |
|------------------------------------------|-------------------|
| Increase in value of Machinery           | Rs.56,000         |
| Decrease in value of Furniture           | (Rs.22,000)       |
| Increase in Provision for Doubtful Debts | <u>Rs.30,000</u>  |
|                                          | <u>(Rs.4,000)</u> |

Net Effect of Revolution of Assets and liabilities

Journal Entry to Adjust on Revolution

|                                              |           |       |
|----------------------------------------------|-----------|-------|
| Charan [Rs.30,000 $\times$ $\frac{9}{90}$ ]  | Dr. 3,000 |       |
| Dev [Rs.30,000 $\times$ $\frac{1}{5}$ ]      | Dr. 6,000 |       |
| To Amit [30,000 $\times$ $\frac{21}{90}$ ]   |           | 7,000 |
| To Bhushan [30,000 $\times$ $\frac{6}{90}$ ] |           | 2,000 |

**Illustration 10.**

P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2023 on which date Balance Sheet of the firm is as follows.

| Liabilities       | (Rs.)    | Assets              | (Rs.)    |
|-------------------|----------|---------------------|----------|
| Capital accounts: |          | Cash                | 36,000   |
| P                 | 1,20,000 | Debtors             | 74,000   |
| Q                 | 85,000   | Stock               | 60,000   |
| R                 | 75,000   | Plant and Machinery | 1,20,000 |
| Creditors         | 85,000   | Land and Building   | 75,000   |
|                   | 3,65,000 |                     | 3,65,000 |

Value of goodwill was agreed as Rs.93,000. Land and building increased in value, it being agreed at Rs.1,05,600, plant and machinery was revalued at Rs.1,00,500 and it was agreed to provide 6% in





respect of debtors. Prepare Revaluation Account, Capital Accounts and Balance Sheet.

Solution:

In the Books of the Firm

| Dr.                            |        | Revaluation Account    |        | Cr. |        |
|--------------------------------|--------|------------------------|--------|-----|--------|
| Particulars                    | (Rs.)  | Particulars            | (Rs.)  |     |        |
| To Plant & Machinery A/c       | 19,500 | By Land & Building A/c | 30,600 |     |        |
| To Provision for Bad Debts A/c | 4,440  |                        |        |     |        |
| To Capital A/c (Profit)        |        |                        |        |     |        |
| P                              | 2,220  |                        |        |     |        |
| Q                              | 2,220  |                        |        |     |        |
| R                              | 2,220  |                        |        |     |        |
|                                | 30,600 |                        |        |     |        |
|                                |        |                        |        |     | 30,600 |

| Dr.         |          |         |          | Partners' Capital Accounts |          |         | Cr.      |
|-------------|----------|---------|----------|----------------------------|----------|---------|----------|
| Particulars | P (Rs.)  | Q (Rs.) | R (Rs.)  | Particulars                | P (Rs.)  | Q (Rs.) | R (Rs.)  |
| To Balance  | 1,06,720 | 71,720  | —        | By Balance                 | 1,20,000 | 85,000  | 75,000   |
| To Loan A/c | —        | —       | 1,08,220 | By Revaluation A/c         | 2,220    | 2,220   | 2,220    |
|             | 15,500   | 15,500  |          | By P & Q                   | —        | —       | 31,000   |
|             | 1,22,220 | 87,720  | 1,08,220 |                            | 1,22,220 | 87,720  | 1,08,220 |

Balance Sheet as on 31.3.2023

| Liabilities       | (Rs.)    | Assets            | (Rs.)        |
|-------------------|----------|-------------------|--------------|
| Capital Accounts: |          | Cash              | 36,000       |
| P                 | 106,720  | Debtors           | 74,000       |
| Q                 | 71,720   | Less: Provision   | <u>4,440</u> |
| Loan Account:     |          | Stock             | 60,000       |
| R                 | 1,08,220 | Plant & Machinery | 1,00,500     |
| Creditors         | 85,000   | Land & Building   | 1,05,600     |
|                   | 3,71,660 |                   | 3,71,660     |

Illustration 11.

A, B and C were in partnership sharing profits in the proportion of 5:4:3. The Balance Sheet of the firm as on 31st March, 2023 was as under :

| Liabilities        | (Rs.)    | Assets         | (Rs.)    |
|--------------------|----------|----------------|----------|
| Capital Accounts : |          | Goodwill       | 40,000   |
| A                  | 1,35,930 | Fixtures       | 8,200    |
| B                  | 95,120   | Stock          | 1,57,300 |
| C                  | 61,170   | Sundry Debtors | 93,500   |
| Sundry Creditors   | 41,690   | Cash           | 34,910   |
|                    | 3,33,910 |                | 3,33,910 |

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore entered into as on 31st March, 2023, the terms of which were as follows:

- (i) The Profit & Loss Account for the year ended 31st March, 2023, which showed a net profit of Rs.48,000 was to be reopened. B was to be credited with Rs.4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing ratio was to be revised as from 1st April, 2021 to 3:4:4.



- (ii) Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The Fixtures were to be revalued by an independent valuer. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.
- (iii) The valuations arising out of the above agreement were Goodwill Rs.56,800 and Fixture Rs.10,980.
- (iv) B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to eliminate Goodwill from the Balance Sheet, to retain the Fixtures on the books at revised value, and to increase the provision for doubtful debts to 6%.
- You are required to submit the Journal Entries necessary to give effect to the above arrangement and to draw up the Capital Accounts of the partners after carrying out all adjustment entries as stated above.

**Solution:**

**In the books of the firm**  
**Journal**

| Date                | Particulars                                                                 | Dr. (Rs.) | Cr. (Rs.) |
|---------------------|-----------------------------------------------------------------------------|-----------|-----------|
| 2023<br>March<br>31 | A's Capital A/c [5/12 of Rs.48,000] Dr.                                     | 20,000    |           |
|                     | B's Capital A/c [4/12 of Rs.48,000] Dr.                                     | 16,000    |           |
|                     | C's Capital A/c [3/12 of Rs.48,000] Dr.                                     | 12,000    |           |
|                     | To Profit & Loss Adjustment A/c                                             |           | 48,000    |
|                     | [Profits of Rs.48,000 already shared by A, B & C as 5 : 4 : 3 written back] |           |           |
|                     | Profit & Loss Adjustment A/c Dr.                                            | 4,000     |           |
|                     | To B's Capital A/c                                                          |           | 4,000     |
|                     | [B Credited with bonus of Rs.4,000 for his extra work]                      |           |           |
|                     | Profit & Loss Adjustment A/c Dr.                                            | 44,000    |           |
|                     | To A's Capital A/c [3/11 of Rs.44,000]                                      |           | 12,000    |
|                     | To B's Capital A/c [4/11 of Rs.44,000]                                      |           | 16,000    |
|                     | To C's Capital A/c [4/11 of Rs.44,000]                                      |           | 16,000    |
|                     | [The remaining profits re-distributed as 3 : 4 : 4]                         |           |           |
|                     | Goodwill A/c Dr.                                                            | 16,800    |           |
|                     | Fixtures A/c Dr.                                                            | 2,780     |           |
|                     | To Profit & Loss Adjustment A/c                                             |           | 19,580    |
|                     | [Values of assets increased on revaluation]                                 |           |           |
|                     | Profit & Loss Adjustment A/c Dr.                                            | 1,870     |           |
|                     | To Provision for doubtful debts A/c                                         |           | 1,870     |
|                     | [Provision created @ 2% on Debtors]                                         |           |           |
|                     | Profit & Loss Adjustment A/c Dr.                                            | 17,710    |           |
|                     | To A's Capital A/c [3/11]                                                   |           | 4,830     |
|                     | To B's Capital A/c [4/11]                                                   |           | 6,440     |
|                     | To C's Capital A/c [4/11]                                                   |           | 6,440     |
|                     | [Profit on Revaluation shared among all partners as 3 : 4 : 4]              |           |           |
|                     | A's Capital A/c Dr.                                                         | 1,32,760  |           |
|                     | To A's Loan A/c                                                             |           | 1,32,760  |
|                     | [Transfer of A's dues to his Loan A/c]                                      |           |           |
|                     | B's Capital A/c [3/5] Dr.                                                   | 36,324    |           |
|                     | C's Capital A/c [2/5] Dr.                                                   | 24,216    |           |



|                                                                                              |        |
|----------------------------------------------------------------------------------------------|--------|
| To Goodwill A/c                                                                              | 56,800 |
| To Provision for doubtful debts A/c                                                          | 3,740  |
| [Goodwill Account written off and provision on debtors increased by 4% further on Rs.93,500] |        |

## Dr. Partners' Capital Account Cr.

| Date    | Particulars                                | A<br>(Rs.) | B<br>(Rs.) | C<br>(Rs.) | Date    | Particulars                     | A<br>(Rs.) | B<br>(Rs.) | C<br>(Rs.) |
|---------|--------------------------------------------|------------|------------|------------|---------|---------------------------------|------------|------------|------------|
| 31.3.22 | To Profit & Loss Adjustment A/c            | 20,000     | 16,000     | 12,000     | 31.3.22 | By Balance b/d Profit and Loss  | 1,35,930   | 95,120     | 61,170     |
|         | To Loan A/c (Balance Transferred)          | 1,32,760   | -          | -          |         | By Adjustment A/c (Bonus)       | -          | 4,000      | -          |
|         | To Goodwill & Provision for Doubtful Debts | -          | 36,324     | 24,216     |         | By Profit & Loss Adjustment A/c | 12,000     | 16,000     | 16,000     |
|         | To Balance c/d                             | -          | 69,236     | 47,394     |         | By Profit & Loss Adjustment A/c | 4,830      | 6,440      | 6,440      |
|         |                                            | 1,52,760   | 1,21,560   | 83,610     |         |                                 | 1,52,760   | 1,21,560   | 83,610     |

## Illustration 12.

Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3 : 2 : 1.

The Balance Sheet of the firm as on 31st December, 2022 was as follows :

| Liabilities        | (Rs.)         | (Rs.)    | Assets                         | (Rs.)        | (Rs.)    |
|--------------------|---------------|----------|--------------------------------|--------------|----------|
| Capital accounts : |               |          | Machinery (at Cost)            | 50,000       |          |
| Compass            | 40,000        |          | Less: Provision for Dep.       | <u>8,000</u> | 42,000   |
| Cone               | 60,000        |          | Furniture                      |              | 1,000    |
| Circle             | <u>20,000</u> | 1,20,000 | Sundry Debtors                 | 80,000       |          |
| Reserve            |               | 30,000   | Less: Prov. for Doubtful Debts | <u>3,000</u> | 77,000   |
| Sundry Creditors   |               | 60,000   | Stocks                         |              | 50,000   |
|                    |               |          | Cash at Bank                   |              | 40,000   |
|                    |               | 2,10,000 |                                |              | 2,10,000 |

On 31st March, 2023 Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3 : 2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March, 2022, in respect of the following :

- The Machinery was to be revalued at Rs.45,000
- The Stock was to be reduced by 2%
- The Furniture was to be reduced to Rs.600
- The Provision for Doubtful Debts would be Rs.4,000
- A provision of Rs.300 was to be made for Outstanding Expenses.

The Partnership agreement provided that on the retirement of a partner, goodwill was to be valued at Rs.24,000 and Cone's share of the same was to be adjusted into the accounts of Compass and Circle. The profit up to the date of retirement was estimated at Rs.18,000. Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit sharing ratio. Subject to the condition that a cash balance of Rs.20,000 was to be maintained as working capital.

Pass the necessary journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts on 31st March, 2023.



Solution:

**In the books of the Firm**  
**Journal**

| Date      | Particulars                                                                                                                                                                                            | L.F. | Dr.<br>(Rs.)   | Cr.<br>(Rs.)                 |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|----------------|------------------------------|
| 31.3.2023 | Reserve A/c Dr.<br>To Compass' Capital A/c<br>To Cone's Capital A/c<br>To Circle's Capital A/c<br>(Reserve transferred to the capital accounts of the partners in 3 : 2 : 1)                           |      | 30,000         | 15,000<br>10,000<br>5,000    |
|           | Machinery A/c Dr.<br>To Revaluation A/c<br>(Value of the machinery increased on Cone's retirement)                                                                                                     |      | 3,000          | 3,000                        |
|           | Revaluation A/c Dr.<br>To Stock A/c<br>To Furniture A/c<br>To Provision for Bad Debts A/c To Outstanding Expenses A/c<br>(Value of the assets reduced on Cone's retirement)                            |      | 2,700          | 1,000<br>400<br>1,000<br>300 |
|           | Revaluation A/c Dr.<br>To Compass' Capital A/c<br>To Cone's Capital A/c<br>To Circle's Capital A/c<br>(Profit on revaluation transferred to the capital accounts of the partners)                      |      | 300            | 150<br>100<br>50             |
|           | Compass's Capital A/c Dr.<br>Circle's Capital A/c Dr.<br>To Cone's Capital A/c<br>(Cone's share of goodwill to be adjusted against remaining partner's capital accounts in the gaining ratio of 3 : 7) |      | 2,400<br>5,600 | 8,000                        |
|           | Profit and Loss Suspense A/c Dr.<br>To Compass' Capital A/c<br>To Cone's Capital A/c<br>To Circle's Capital A/c<br>(Estimated profit transferred to the capital accounts of the partners)              |      | 18,000         | 9,000<br>6,000<br>3,000      |
|           | Bank Account Dr.<br>To Profit and Loss Suspense Account<br>(Assumed that cash has been generated due to profit accrued in this three months)                                                           |      | 18,000         | 18,000                       |
|           | Cone's Capital A/c Dr.<br>To Bank A/c<br>(Payment is made to Cone on his retirement)                                                                                                                   |      | 84,100         | 84,100                       |
|           | Bank A/c Dr.                                                                                                                                                                                           |      | 46,100         |                              |



|                                                                |        |
|----------------------------------------------------------------|--------|
| To Compass' Capital A/c                                        | 16,430 |
| To Circle's Capital A/c                                        | 29,670 |
| (Cash to be brought in by Compass and Circle as per agreement) |        |

| Dr. Partners' Capital Account |                  |               |                 | Cr.                    |                  |               |                 |
|-------------------------------|------------------|---------------|-----------------|------------------------|------------------|---------------|-----------------|
| Particulars                   | Compass<br>(Rs.) | Cone<br>(Rs.) | Circle<br>(Rs.) | Particulars            | Compass<br>(Rs.) | Cone<br>(Rs.) | Circle<br>(Rs.) |
| To Cone's Capital A/c         | 2,400            | —             | 5,600           | By Balance b/d         | 40,000           | 60,000        | 20,000          |
| " Bank A/c (Bal. fig.)        | —                | 84,100        | —               | " Reserve A/c          | 15,000           | 10,000        | 5,000           |
| " Balance c/d                 | 78,180           | —             | 52,120          | " Revaluation A/c      |                  |               |                 |
|                               |                  |               |                 | — Profit               | 150              | 100           | 50              |
|                               |                  |               |                 | " Share of Profit      | 9,000            | 6,000         | 3,000           |
|                               |                  |               |                 | " Compass' Capital A/c | —                | 2,400         | —               |
|                               |                  |               |                 | " Circle's Capital A/c | —                | 5,600         | —               |
|                               |                  |               |                 | " Bank A/c (Bal. fig.) | 16,430           | —             | 29,670          |
|                               | 80,580           | 84,100        | 57,720          |                        | 80,580           | 84,100        | 57,720          |
|                               |                  |               |                 | By Balance b/d         | 78,180           | —             | 52,120          |

Working Notes:

1. Total value of goodwill Rs.24,000

∴ Cone's share of goodwill = Rs.24,000 × 2/6 = Rs.8,000 to be adjusted against Compass's and Circle capital in 3 : 7.

Computation of ratio : Compass = 3/5 - 3/6 = 3/30 (gain) Circle = 2/5 - 1/6 = 7/30 (gain)

2. Bank Related Transactions

| Dr. Bank Account                                |          | Cr.                |          |
|-------------------------------------------------|----------|--------------------|----------|
| Particulars                                     | (Rs.)    | Particulars        | (Rs.)    |
| To Balance b/d                                  | 40,000   | By Cone's Capital  | 84,100   |
| " Profit — increase in Cash                     | 18,000   | By Balance c/d     | 20,000   |
| " Compass and Circle's Capital (balance figure) | 46,100   | (to be maintained) |          |
|                                                 | 1,04,100 |                    | 1,04,100 |

3. Total adjusted capitals of Compass and Circle :

| Particulars                                | (Rs.)    |
|--------------------------------------------|----------|
| Compass' Capital                           | 61,750   |
| Rs.(40,000 + 15,000 + 150 + 9,000 - 2,400) |          |
| Circle's Capital :                         |          |
| Rs.(20,000 + 5,000 + 50 + 3,000 - 5,600)   | 22,450   |
| Add : Total Cash to be brought in          | 46,100   |
| Combined adjusted capitals                 | 1,30,300 |

∴ Compass' Capital = Rs.1,30,300 × 3/5 = Rs.78,180 Circle's Cap. = Rs.1,30,300 × 2/5 = Rs.52,120

Notes: It is assumed that there is inflow of cash to the Business equivalent to estimated profit from 1.1.22 to 31.3.22



**Illustration 13.**

The Balance Sheet of A, B and C who are sharing profits in proportion to their capital stood as follows on March 31<sup>st</sup> 2023:

| Liabilities       | (Rs.)  | (Rs.)    | Assets              | (Rs.)  | (Rs.)    |
|-------------------|--------|----------|---------------------|--------|----------|
| Capital Accounts: |        |          | Land and Buildings  |        | 50,000   |
| A                 | 40,000 |          | Plant and Machinery |        | 17,000   |
| B                 | 30,000 |          | Stock               |        | 16,000   |
| C                 | 20,000 | 90,000   | Debtors             | 10,000 |          |
| Creditors         |        | 13,800   | Less: Provision     | 200    | 9,800    |
|                   |        |          | Cash at Bank        |        | 11,000   |
|                   |        | 1,03,800 |                     |        | 1,03,800 |

B retired on the above date and the following was agreed upon:

- The stock be depreciated by 6%.
- That the provision for doubtful debts be brought up to 5% on Debtors.
- That the Land and Buildings be appreciated by 20%.
- That a provision for Rs.1,540 be made in respect of outstanding legal charges.
- That the Goodwill of the entire firm be fixed at Rs.21,600 and B's share of it be adjusted into the accounts of A and C who are going to share future profits in the ratio of 5: 3.
- That the assets and liabilities (except Cash at Bank) were to appear in the Balance Sheet at their old figures.
- That the entire capital of the firm as newly constituted be fixed at Rs.56,000 between A and C in the proportion of 5: 3 (actual cash to be brought in as paid off, as the case may be).

Show the Balance Sheet after B's retirement.

**Solution:**

**Balance Sheet as on 31st March, 2023**

| Liabilities      | (Rs.)         | (Rs.)    | Assets                               | (Rs.)      | (Rs.)    |
|------------------|---------------|----------|--------------------------------------|------------|----------|
| Capital Account: |               |          | Land and Building                    |            | 50,000   |
| A                | 35,000        |          | Plant and Machinery                  |            | 17,000   |
| C                | <u>21,000</u> | 56,000   | Stock                                |            | 16,000   |
| B's Loan A/c     |               | 39,600   | Debtors                              | 10,000     |          |
| Creditors        |               | 13,800   | Less: Provision for Bad Debt         | <u>200</u> | 9,800    |
|                  |               |          | Cash at Bank ( Rs.11,000 + Rs.5,600) |            | 16,600   |
|                  |               | 1,09,400 |                                      |            | 1,09,400 |

Note: Since assets and liabilities will appear in the Balance Sheet at their old figure Memorandum Revaluation Account should be opened.

**Working Notes:**

Gaining Ratio

$$A = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$C = \frac{3}{8} - \frac{2}{9} = \frac{25-16}{72} = \frac{11}{72}$$

Hence, gaining ratio = 13: 11





## Memorandum Revaluation Account

| Particulars                             | (Rs.)        | (Rs.)         | Particulars                           | (Rs.)        | (Rs.)         |
|-----------------------------------------|--------------|---------------|---------------------------------------|--------------|---------------|
| To Under valuation of Stock             |              | 960           | By Overvaluation of Land and Building |              | 10,000        |
| To Provision for Bad Debts Rs.(500-200) |              | 300           |                                       |              |               |
| To Provision for legal changes          |              | 1,540         |                                       |              |               |
| To Profit on Rev:                       |              |               |                                       |              |               |
| A                                       | 3,200        |               |                                       |              |               |
| B                                       | 2,400        |               |                                       |              |               |
| C                                       | <u>1,600</u> | 7,200         |                                       |              |               |
|                                         |              | <b>10,000</b> |                                       |              | <b>10,000</b> |
| To Reversal of items                    |              | 10,000        | By Reversal of items:                 |              |               |
| To Over valuation of Land and Building  |              |               | By Undervaluation of Stock            |              | 960           |
|                                         |              |               | By Provision for Bad Debts            |              | 300           |
|                                         |              |               | By Provision for legal changes        |              | 1,540         |
|                                         |              |               | By Capital A/c                        |              |               |
|                                         |              |               | Profit to be written-back             |              |               |
|                                         |              |               | A-5/8 =                               | 4,500        |               |
|                                         |              |               | C-3/8 =                               | <u>2,700</u> | 7,200         |
|                                         |              | 10,000        |                                       |              | 10,000        |

B's share of goodwill = Rs.21,600 × 3/9 = Rs.7,200

The entry being:

| Particulars           |     | Debit (Rs.) | Credit (Rs.) |
|-----------------------|-----|-------------|--------------|
| A's Capital A/c       | Dr. | 3,900       |              |
| C's Capital A/c       |     | 3,300       |              |
| To, B's Capital A/c   |     |             | 7,200        |
| (Being gaining ratio) |     |             |              |

Dr.

## Partners' Capital Account

Cr.

| Particulars         | A (Rs.) | B (Rs.) | C (Rs.) | Particulars                | A (Rs.) | B (Rs.) | C (Rs.) |
|---------------------|---------|---------|---------|----------------------------|---------|---------|---------|
| To Memo. Reval. A/c | 4,500   | -----   | 2,700   | By Balance b/d             | 40,000  | 30,000  | 20,000  |
| To B's Capital A/c  | 3,900   | -----   | 3,300   | By Revaluation A/c -Profit | 3,200   | 2,400   | 1,600   |
| To B's Loan A/c     | -----   | 39,600  | -----   | By A's capital A/c         | -----   | 3,900   | -----   |
|                     |         |         |         | By B's Capital A/c         | -----   | 3,300   | -----   |
| To Balance c/d      | 35,000* | -----   | 21,000  | By Bank A/c (Balance Fig.) | 200     | -----   | 5,400   |
|                     | 43,400  | 39,600  | 27,000  |                            | 43,400  | 39,600  | 27,000  |

\* Total Capital = Rs.56,000 in 5 : 3, i.e., A Rs.35,000; C Rs.21,000.

## RETIREMENT-CUM- ADMISSION

In many cases, whenever an existing partner retires, another partner joins the continuing partners in the firm. This situation is referred to as Retirement-cum-Admission. The principles of accounting in the event of admission of a partner and retirement of a partner have been separately discussed. In this section, the combined effect of simultaneous admission and retirement has been highlighted. It should be remembered that no separate treatment is practically needed i.e. same principles for admission and retirement are followed but only two sets of transactions are incorporated simultaneously.

**Illustration 14.**

Gita and Mita are equal partners. Gita, by agreement, retires and Lata joins the firm on the basis of one third share of profits on 01.04.2023. The balances of the books as on 31st March 2023 were:

| Particulars                | Dr. (Rs.) | Cr. (Rs.) |
|----------------------------|-----------|-----------|
| Good will                  | 10,000    |           |
| Fixed Assets at Cost       | 1,20,000  |           |
| Current Assets:            |           |           |
| Stock                      | 60,000    |           |
| Debtors                    | 40,000    |           |
| Bank                       | 8,000     |           |
| Creditors                  |           | 20,000    |
| Provision for Depreciation |           | 12,000    |
| Capital Accounts:          |           |           |
| Gita                       |           | 1,04,000  |
| Mita                       |           | 1,02,000  |
|                            | 2,38,000  | 2,38,000  |

Goodwill and Fixed Assets valued at Rs.30,000 and Rs.1,40,000 respectively and it was agreed to be written up accordingly before admission of Lata as partner. Sufficient money is to be introduced so as to enable Gita to be paid off and leave Rs.5,000 cash at Bank; Mita and Lata are to provide such sum as to make their Capitals proportionate to their share of profit. Assuming the agreement was carried out, you are required to pass the journal entries and prepare the Balance Sheet after admission of Lata.

**Solution:**

**In the books of the firm**  
**Journal**

| Date            | Particulars                                                                                                                                                   | L.F. | Debit<br>(Rs.)             | Credit<br>(Rs.)  |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------|----------------------------|------------------|
| 2023<br>April 1 | Goodwill A/c Dr.<br>Fixed Asset A/c Dr.<br>Prov. for Depreciation A/c Dr.<br>To Revaluation A/c<br>(Increased value of assets transferred to Revaluation A/c) |      | 20,000<br>20,000<br>12,000 | 52,000           |
| 2023<br>April 1 | Revaluation A/c Dr.<br>To Gita's Capital A/c<br>,, Mita's Capital A/c<br>(Profit on revaluation transferred)                                                  |      | 52,000                     | 26,000<br>26,000 |
|                 | Gita's Capital A/c Dr.<br>To Bank A/c (Amount paid to Gita)                                                                                                   |      | 1,30,000                   | 1,30,000         |
|                 | Bank A/c Dr.<br>To Mita's Capital A/c<br>,, Lata's Capital A/c<br>(Additional cash to be brought in to make their capital in proportion).                     |      | 1,27,000                   | 42,000<br>85,000 |



## Balance Sheet as on April 1, 2023

| Liabilities  | (Rs.)    | Assets               | (Rs.)    |
|--------------|----------|----------------------|----------|
| Capital:     |          | Goodwill             | 30,000   |
| Mita         | 1,70,000 | Fixed Assets         | 1,40,000 |
| Lata [WN: 2] | 85,000   | Stock                | 60,000   |
| Creditor     | 20,000   | Debtors              | 40,000   |
|              |          | Cash at Bank [WN: 1] | 5,000    |
|              | 2,75,000 |                      | 2,75,000 |

## Working Notes:

1. Bank balance on 1.4.2023

| Dr.                             | Bank Account |                       | Cr.      |
|---------------------------------|--------------|-----------------------|----------|
| Particulars                     | (Rs.)        | Particulars           | (Rs.)    |
| To Balance b/d                  | 8,000        | By Gita's capital A/C | 1,30,000 |
| To Mita's capital 42,000 [WN 4] |              | ,, Balance c/d        | 5,000    |
| Lata's Capital 85,000           | 1,27,000     |                       |          |
|                                 | 1,35,000     |                       | 1,35,000 |

2. Capital of the new firm

| Particulars     | (Rs.)    |
|-----------------|----------|
| Goodwill        | 30,000   |
| Fixed Asset     | 1,40,000 |
| Stock           | 60,000   |
| Debtors         | 40,000   |
| Cash at Bank    | 5,000    |
|                 | 2,75,000 |
| Less: Creditors | 20,000   |
|                 | 2,55,000 |

Mita = Rs.2,55,00 × 2/3 = Rs.1,70,000

Lata = Rs.2,55,000 × 1/3 = Rs.85,000

3. Profit on Revaluation

| Dr.                    | Revaluation Account |                               | Cr.    |
|------------------------|---------------------|-------------------------------|--------|
| Particulars            | (Rs.)               | Particulars                   | (Rs.)  |
| To Capital A/c         |                     | By Goodwill A/c               | 20,000 |
| Profit on Revaluation: |                     | „ Fixed Assets A/c            | 20,000 |
| Gita 26,000            |                     | „ Prov. For Depreciation A/c. | 12,000 |
| Mita <u>26,000</u>     | 52,000              |                               |        |
|                        | 52,000              |                               | 52,000 |

4. Amount to be brought in by Mita

| Particulars                      | (Rs.)         | (Rs.)    |
|----------------------------------|---------------|----------|
| Capital to be maintained [WN: 2] |               | 1,70,000 |
| Less: Opening balance            | 1,02,000      |          |
| Profit on Revaluation [WN: 3]    | <u>26,000</u> | 1,28,000 |
| To be brought in by Mita         |               | 42,000   |

**Illustration 15.**

X, Y, & Z were equal partners. Their Balance Sheet as on 31.12.2022 was as follows :

|                         |          |          |                          |          |
|-------------------------|----------|----------|--------------------------|----------|
| Partners' Capital       |          |          | Land & Freehold Property | 1,00,000 |
| X                       | 1,00,000 |          | Plant & Machinery        | 2,00,000 |
| Y                       | 1,00,000 |          | Furniture & Equipment    | 50,000   |
| Z                       | 2,00,000 | 4,00,000 | Stock in-trade           | 1,00,000 |
| Partner's Current A/c : |          |          | Sundry Debtors           | 1,00,000 |
| X                       | 50,000   |          | Balance with Bankers     | 1,50,000 |
| Y                       | 75,000   |          |                          |          |
| Z                       | 25,000   | 1,50,000 |                          |          |
| Sundry Creditors        |          | 1,50,000 |                          |          |
|                         |          | 7,00,000 |                          | 7,00,000 |

On 1.1.2023, X retired 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 3 years purchase of past 3 years profits which amounted to Rs.1,00,000, Rs.1,40,000 and Rs.1,20,000 respectively.

In order to meet his obligation, a bank loan was arranged on 1.1.2023 for Rs.2,00,000 pledging the fixed assets as security.

Further, to compensate a loyal manager Q, it was agreed between Y and Z that Q should be admitted as a partner, who should bring in, over and above a capital of Rs.1,00,000, his share of Goodwill in cash to serve as working capital. Y and Z agreed to forego 1/3rd of their individual share of profits to Q.

Prepare Partners Capital Accounts, Partners' Current Accounts and opening Balance Sheet of the firm as on 1.1.2023.

**Solution:****Dr.****Partners' Capital Account****Cr.**

| Particulars                    | X (Rs.)  | Y (Rs.)  | Z (Rs.)  | Q (Rs.)  | Particulars                     | X (Rs.)  | Y (Rs.)  | Z (Rs.)  | Q (Rs.)  |
|--------------------------------|----------|----------|----------|----------|---------------------------------|----------|----------|----------|----------|
| To Cash A/c (Final settlement) | 2,70,000 | -        | -        | -        | By Balance b/d                  | 1,00,000 | 1,00,000 | 2,00,000 | -        |
| To Balance c/d                 | -        | 1,00,000 | 2,00,000 | 1,00,000 | "X's Current A/c (Transfer)     | 1,70,000 | -        | -        | -        |
|                                |          |          |          |          | " Cash A/c (Capital introduced) | -        | -        | -        | 1,00,000 |
|                                | 2,70,000 | 1,00,000 | 2,00,000 | 1,00,000 |                                 | 2,70,000 | 1,00,000 | 2,00,000 | 1,00,000 |

**Dr.****Partners' Current Account****Cr.**

| Particulars               | X        | Y        | Z      | Particulars         | X        | Y        | Z      |
|---------------------------|----------|----------|--------|---------------------|----------|----------|--------|
| To X's Capital A/c (Tran) | 1,70,000 | -        | -      | By Balance b/d      | 50,000   | 75,000   | 25,000 |
| To X's Current A/c        | -        | 60,000   | 60,000 | " Y's Current A/c " | 60,000   | -        | -      |
| To Balance c/d            | -        | 75,000   | 25,000 | Z's Current A/c "   | 60,000   | -        | -      |
|                           | 1,70,000 | 1,35,000 | 85,000 | Cash A/c            | -        | 60,000   | 60,000 |
|                           |          |          |        |                     | 1,70,000 | 1,35,000 | 85,000 |

Balance Sheet as on 1.1.2022

| Liabilities              | (Rs.)    | (Rs.)    | Assets                     | (Rs.) | (Rs.)    |
|--------------------------|----------|----------|----------------------------|-------|----------|
| Partners' Capital A/cs : |          |          | Land and Freehold Property |       | 1,00,000 |
| Y                        | 1,00,000 |          | Plant & Machinery          |       | 2,00,000 |
| Z                        | 2,00,000 |          | Furniture & Equipment      |       | 50,000   |
| Q                        | 1,00,000 | 4,00,000 | Stock                      |       | 1,00,000 |
|                          |          |          | Debtors                    |       | 1,00,000 |



|                          |        |          |                      |  |          |
|--------------------------|--------|----------|----------------------|--|----------|
| Partner's Current A/cs : |        |          | Cash at Bank (WN: 2) |  | 3,00,000 |
| Y                        | 75,000 |          |                      |  |          |
| Z                        | 25,000 | 1,00,000 |                      |  |          |
| Bank loan (Secured)      |        | 2,00,000 |                      |  |          |
| Sundry Creditors         |        | 1,50,000 |                      |  |          |
|                          |        | 8,50,000 |                      |  | 8,50,000 |

**Working Notes:****(1) Valuation of Goodwill**

$$\text{Average Annual Profits} = \frac{\text{Rs.}(1,00,000 + 1,40,000 + 1,20,000)}{3} = \text{Rs } 1,20,000$$

$$\therefore \text{Goodwill} = 3 \times \text{Rs.}1,20,000 = \text{Rs.}3,60,000$$

Premium to be paid by Q =  $\frac{1}{3}$  of Rs.3,60,000 = Rs.1,20,000 and to be shared by Y and Z equally.

Similarly, X should be provided Rs.1,20,000 by Y and Z equally.

**2. Balance with Bank on 1.1.2023**

| Dr.                                |          | Bank Account       |          | Cr. |  |
|------------------------------------|----------|--------------------|----------|-----|--|
| Particulars                        | (Rs.)    | Particulars        | (Rs.)    |     |  |
| To Balance b/d                     | 1,50,000 | By X's Capital A/c | 2,70,000 |     |  |
| To Bank Loan A/c                   | 2,00,000 |                    |          |     |  |
| To Cash A/c (Premium for goodwill) | 1,20,000 |                    |          |     |  |
| To Q's capital A/c                 | 1,00,000 | By Balance c/d     | 3,00,000 |     |  |
|                                    | 5,70,000 |                    | 5,70,000 |     |  |

**Illustration 16.**

X, Y and Z are partners sharing profits and losses in the proportion to 3:2:2, respectively. The Balance Sheet of the firm as on 01.01.2023 was as follows:

| Liabilities             | (Rs.)    | Assets              | (Rs.)    |
|-------------------------|----------|---------------------|----------|
| Capital Accounts: (Rs.) |          | Plant and Machinery | 72,000   |
| X 1,00,000              |          | Furniture           | 28,000   |
| Y 80,000                |          | Stock               | 1,12,000 |
| Z <u>70,000</u>         | 2,50,000 | Sundry Debtors      | 96,000   |
| Bank overdraft          | 20,000   | Cash at Bank        | 18,000   |
| Sundry Creditors        | 56,000   |                     |          |
|                         | 3,26,000 |                     | 3,26,000 |

X retired on 01.01.2023 on which date R is admitted as new partner. For the purpose of adjusting the rights as between on partners' goodwill to be valued at Rs.84,000 and Sundry Debtors and Stock to be reduced by Rs.16,000 and to Rs.1,00,000 respectively. X is to receive Rs.44,000 in cash on the date of retirement and the balance due to him is to remain as loan at 8% p.a. Repayment of loan to be made at the end of each year by annual installments representing 25% of the future profit before charging interest on loan.

R is to bring in Rs.1,00,000 in cash as his capital on the date of admission. The new partners are to share profits and losses equally after paying the interest on X's Loan.

The net profit for the year ended 31st December 2023, is Rs.64,000 before taking into account the installment payable to X.

You are required to show:



- (a) Profit and Loss Appropriation Account for the year ended 31st December, 2023.  
 (b) Capital Accounts of the new partners; and  
 (c) X's Loan Account as on 31st Dec, 2023.

Solution:

In the books of firm  
 Revaluation Account

| Dr.                        |        |             | Cr.    |  |
|----------------------------|--------|-------------|--------|--|
| Particulars                | (Rs.)  | Particulars | (Rs.)  |  |
| To Provision for Bad Debts | 16,000 | By Goodwill | 84,000 |  |
| To Stock                   | 12,000 |             |        |  |
| To Share of Profit:        |        |             |        |  |
| X 3/7                      | 24,000 |             |        |  |
| Y 2/7                      | 16,000 |             |        |  |
| - Z 2/7                    | 16,000 |             |        |  |
|                            | 56,000 |             |        |  |
|                            | 84,000 |             | 84,000 |  |

| Dr.                 |  |            |            | Capital Account |                    |  |            | Cr.        |            |  |  |
|---------------------|--|------------|------------|-----------------|--------------------|--|------------|------------|------------|--|--|
| Particulars         |  | X<br>(Rs.) | Y<br>(Rs.) | Z<br>(Rs.)      | Particulars        |  | X<br>(Rs.) | Y<br>(Rs.) | Z<br>(Rs.) |  |  |
| To Bank - Repayment |  | 44,000     | -          | -               | By Balance c/d     |  | 1,00,000   | 80,000     | 70,000     |  |  |
| ,, X's Loan A/c     |  | 80,000     | -          | -               |                    |  |            |            |            |  |  |
| ,, Balance c/d      |  | -          | 96,000     | 86,000          | ,, Revaluation A/c |  | 24,000     | 16,000     | 16,000     |  |  |
|                     |  | 1,24,000   | 96,000     | 86,000          | - Profit           |  | 1,24,000   | 96,000     | 86,000     |  |  |

Profit and Loss Appropriation Account  
 for the year ended 31.12.2023

| Dr.                         |        |                        | Cr.    |  |
|-----------------------------|--------|------------------------|--------|--|
| Particulars                 | (Rs.)  | Particulars            | (Rs.)  |  |
| To Loan Redemption Fund A/c | 16,000 | By Profit and Loss A/c |        |  |
| (25% of Rs.64,000)          |        | - Net Profit           | 64,000 |  |
| „ Share of Profit:          |        |                        |        |  |
| Y (1/3)                     | 16,000 |                        |        |  |
| Z (1/3)                     | 16,000 |                        |        |  |
| R (1/3)                     | 16,000 |                        |        |  |
|                             | 48,000 |                        |        |  |
|                             | 64,000 |                        | 64,000 |  |

| Dr.                       |            |            |            | Cr.               |            |            |            |
|---------------------------|------------|------------|------------|-------------------|------------|------------|------------|
| Partners' Capital Account |            |            |            |                   |            |            |            |
| Particulars               | Y<br>(Rs.) | Z<br>(Rs.) | R<br>(Rs.) | Particulars       | Y<br>(Rs.) | Z<br>(Rs.) | R<br>(Rs.) |
| To Balance c/d            | 1,12,000   | 1,02,000   | 1,16,000   | By Balance c/d    | 96,000     | 86,000     | -          |
|                           |            |            |            | „ Bank A/c        | -          | -          | 1,00,000   |
|                           |            |            |            | „ Share of profit | 16,000     | 16,000     | 16,000     |
|                           |            |            |            | By Balance b/d    | 1,12,000   | 1,02,000   | 1,16,000   |
|                           | 1,12,000   | 1,02,000   | 1,16,000   |                   | 1,12,000   | 1,02,000   | 1,16,000   |





Dr.

X's 8% Loan Account

Cr.

| Particulars    | (Rs.)  | Particulars              | (Rs.)  |
|----------------|--------|--------------------------|--------|
| To Bank A/c    | 16,000 | By X's Capital A/c       | 80,000 |
| To Balance c/d | 70,400 | " Interest [80,000 × 8%] | 6,400  |
|                | 86,400 |                          | 86,400 |
|                |        | By Balance c/d           | 70,400 |

**Illustration 17.**

P, Q and R were partners sharing Profits & Losses as 2 : 3 : 5. P retired on 31.03.2022 and X joined as a new partner on the same date, the new profit sharing ratio between Q, R and X being 2 : 3 : 1. The Balance Sheet of P, Q & R on 31.03.2023 was as follows :

| Liabilities      | (Rs.)    | Assets         | (Rs.)    |
|------------------|----------|----------------|----------|
| Sundry Creditors | 50,000   | Cash in hand   | 2,000    |
| Loan from X      | 50,000   | Cash at Bank   | 93,000   |
| General Reserve  | 40,000   | Sundry Debtors | 30,000   |
| Capitals :       |          | Stock          | 20,000   |
| P 10,000         |          | Machinery      | 30,000   |
| Q 15,000         |          | Buildings      | 10,000   |
| R 20,000         | 45,000   |                |          |
|                  | 1,85,000 |                | 1,85,000 |

X was admitted on the following terms:

- Machinery was to be depreciated by Rs.3,000
- Buildings were revalued at Rs.30,000
- Stock was to be written off by Rs.5,000
- Provision of 5% was made against doubtful debts
- General Reserve would be apportioned among the partners
- The firm's Goodwill was to be valued at two years purchase of the average profits of the last three years
- The amount due to P was retained in the business as a loan but X's Capital contribution should be 1/5th of the combined adjusted capitals of Q and R. His capital would be transferred from his Loan Account,
- the Goodwill would be wiped off from the books after X's admission.
- Partners decided not to alter the book values of assets & liabilities after admission.

The profits/losses during the last 3 years had been 31.03.2021 Rs.20,000 (Profit) 31.03.2021 Rs.15,000 (loss) and 31.03.2023 Rs.40,000 (Profit).

Show the Memorandum Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm.

**Solution:****Memorandum Revaluation Account**

| Particulars                | (Rs.) | Particulars     | (Rs.)  |
|----------------------------|-------|-----------------|--------|
| To Machinery A/c           | 3,000 | By Building A/c | 20,000 |
| " Stock                    | 5,000 |                 |        |
| " Prov. for doubtful Debts | 1,500 |                 |        |
| " P/Capital A/c            |       |                 |        |



|                                      |               |                          |               |
|--------------------------------------|---------------|--------------------------|---------------|
| (Share of Rev. Profit)               |               |                          |               |
| P - Rs.2,100                         |               |                          |               |
| Q - Rs.3,150                         |               |                          |               |
| <u>R - Rs.5,250</u>                  | 10,500        |                          |               |
|                                      | <b>20,000</b> |                          | <b>20,000</b> |
| To Reversal of Items b/d<br>Building | 20,000        | By Reversal of Items b/d |               |
|                                      |               | Machinery                | 3,000         |
|                                      |               | Stock                    | 5,000         |
|                                      |               | Provision for D/Debts    | 1,500         |
|                                      |               | By P/Capital A/c         |               |
|                                      |               | (Share of Rev. Profit)   |               |
|                                      |               | Q -                      | 3,500         |
|                                      |               | R -                      | 5,250         |
|                                      |               | X -                      | <u>1,750</u>  |
|                                      | <b>20,000</b> |                          | <b>10,500</b> |
|                                      |               |                          | <b>20,000</b> |

Dr.

## Partners' Capital Account

Cr.

| Particulars                | P<br>(Rs.) | Q<br>(Rs.) | R<br>(Rs.) | X<br>(Rs.) | Particulars                      | P<br>(Rs.) | Q<br>(Rs.) | R<br>(Rs.) | X<br>(Rs.) |
|----------------------------|------------|------------|------------|------------|----------------------------------|------------|------------|------------|------------|
| To Memorandum Rev A/c      |            |            |            |            | By Balance b/d                   | 10,000     | 15,000     | 20,000     | -          |
| - Share of loss            | -          | 3,500      | 5,250      | 1,750      | By General Reserve               | 8,000      | 12,000     | 20,000     | -          |
| To Goodwill writtenoff     | -          | 10,000     | 15,000     | 5,000      | By Memorandum                    |            |            |            |            |
| To P's loan A/c (transfer) | 26,100     |            |            |            | - Share of profit                | 2,100      | 3,150      | 5,250      | -          |
| To Balance c/d             | -          | 25,650     | 40,000     | 13,130     | By Goodwill raised               | 6,000      | 9,000      | 15,000     | -          |
|                            |            |            |            |            | By Loan from X A/c<br>(Transfer) | -          | -          | -          | 19,880     |
|                            | 26,100     | 39,150     | 60,250     | 19,880     |                                  | 26,100     | 39,150     | 60,250     | 19,880     |

Capital Balance of X =  $1/5$  of (Rs.25,650 + Rs.40,000) =  $1/5 \times \text{Rs.65,650} = \text{Rs.13,130}$

Therefore from X's loan A/c :

Loan from X A/c

Dr. Rs.19,880

To, X's Capital A/c

Rs.19,880

**Balance Sheet of Q, R & X**  
**as at 31.3.2023**

| Liabilities     | (Rs.)    | Assets       | (Rs.)    |
|-----------------|----------|--------------|----------|
| S/Creditors     | 50,000   | Building     | 10,000   |
| Loan for X      | 30,120   | Machinery    | 30,000   |
| Loan from P     | 26,100   | Stock        | 20,000   |
| Q 25,650        |          | Debtors      | 30,000   |
| R 40,000        |          | Cash in hand | 2,000    |
| X <u>13,130</u> | 78,780   | Cash at Bank | 93,000   |
|                 | 1,85,000 |              | 1,85,000 |

**Working Notes :**

**1. Valuation of Goodwill**

Average Annual Profits =  $[\text{Rs.20,000} + (\text{Rs.15,000}) + \text{Rs.40,000}]/3 = \text{Rs.45,000}/3 = \text{Rs.15,000}$ . Goodwill  
=  $2 \times \text{Rs.15,000} = \text{Rs.30,000}$

**Illustration 18.**

A, B and C are in partnership sharing Profits and Losses in the ratio 3:2:1 respectively. The Balance Sheet of the partnership firm as on 31<sup>st</sup> March, 2023 is as under:

| Capital & Liabilities | (Rs.)         | (Rs.)    | Assets          | (Rs.) | (Rs.)    |
|-----------------------|---------------|----------|-----------------|-------|----------|
| Capital Accounts      |               |          | Premises        |       | 1 80,000 |
| A                     | 1,70,000      |          | Plant           |       | 74,000   |
| B                     | 1,30,000      |          | Vehicles        |       | 30,000   |
| C                     | <u>70,000</u> | 3,70,000 | Fixtures        |       | 4,000    |
| Current Accounts      |               |          | Current Account |       |          |
| A                     | 7,428         |          | B               |       | 5,018    |
| C                     | <u>9,356</u>  | 16,784   | Stock           |       | 1,24,758 |
| Loan-C                |               | 56,000   | Debtors         |       | 69,960   |
| Creditors             |               | 38,072   | Cash in hand    |       | 1,520    |
| Bank Overdraft        |               | 8,400    |                 |       |          |
|                       |               | 4,89,256 |                 |       | 4,89,256 |

C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters agreed:

- Assets revalued as: Premises - Rs.2,40,000, Plant- Rs.70,000 Stock - Rs.1,08,358.
- A provision of Rs.6,000 is created against debtors.
- Goodwill is to be recorded in the books on the day C retires at Rs.84,000. The partners in the new firm do not wish to maintain a Goodwill Account so that amount is to be written-off against the New Partners' Capital Accounts.
- A and B are to share profit in the same ratio as before, and D is to have the same share of profits as C.
- C is to take a car at its book value of Rs.7,800 in part payment, and the balance of all he is owed by the firm in cash except Rs.40,000 which he is willing to leave as a Loan Account.
- The partners in the new firm are to start on an equal footing so far as Capital and Current Account are concerned. D is to contribute cash to bring his Capital and Current Account to the same amount as the original partner from the old firm who has the lower investment in the business. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners. -
- Revaluation profit or loss is to be adjusted in the Partners' Current Account.

You are required to prepare Revaluation Account, Partners' Capital Accounts, Partners' Current Accounts, C's Loan Account, Bank Account and Balance Sheet of the newly constituted firm as at April 1, 2023.

**Solution:**

(a) In the books of the firm

| Dr                                  |        | Cr.             |        |
|-------------------------------------|--------|-----------------|--------|
| Particulars                         | (Rs.)  | Particulars     | (Rs.)  |
| To Plant A/c                        | 4,000  | By Premises A/c | 60,000 |
| To Stock A/c                        | 16,400 |                 |        |
| To Provision for doubtful debts A/c | 6,000  |                 |        |
| To Partner's Current A/c s          | 33,600 |                 |        |
| A                                   | 16,800 |                 |        |
| B                                   | 11,200 |                 |        |



|   |       |        |        |
|---|-------|--------|--------|
| C | 5,600 |        |        |
|   |       | 60,000 | 60,000 |

(b)

Dr.

## Partners' Capital Account

Cr.

| Particulars             | A (Rs.)  | B (Rs.)  | C (Rs.) | D (Rs.)  | Particulars             | A (Rs.)  | B (Rs.)  | C (Rs.) | D (Rs.)  |
|-------------------------|----------|----------|---------|----------|-------------------------|----------|----------|---------|----------|
| To Goodwill A/c (3:2:2) | 36,000   | 24,000   | —       | 24,000   | By Balance b/d          | 1,70,000 | 1,30,000 | 70,000  | —        |
| To Loan A/c             | 42,000   | —        | 84,000* | —        | By Goodwill A/c (3:2:1) | 42,000   | 28,000   | 14,000  | 1,58,000 |
| To Bank A/c             | —        | —        | —       | —        | By Bank A/c             | —        | —        | —       | —        |
| To Balance c/d          | 1,34,000 | 1,34,000 | —       | 1,34,000 |                         |          |          |         |          |
|                         | 2,12,000 | 1,58,000 | 84,000  | 1,58,000 |                         | 2,12,000 | 1,58,000 | 84,000  | 1,58,000 |

\* As mentioned in the illustration that goodwill is to be recorded in the books on the day C retires at Rs.84,000.

(c) Dr

## Partners' Current Account

Cr.

| Particulars     | A (Rs.) | B (Rs.) | C (Rs.) | D (Rs.) | Particulars        | A (Rs.) | B (Rs.) | C (Rs.) | D (Rs.) |
|-----------------|---------|---------|---------|---------|--------------------|---------|---------|---------|---------|
| To Balance b/d  | —       | 5,018   | —       | —       | By Balance b/d     | 7,428   | —       | 9,356   | —       |
| To C's Loan A/c | —       | —       | 14,956  | —       | By Revaluation A/c | 16,800  | 11,200  | 5,600   | —       |
| To Bank A/c     | 18,046  | —       | —       | —       | By Bank A/c        | —       | —       | —       | 6,182   |
| To Balance c/d  | 6,182   | 6,182   | —       | 6,182   |                    |         |         |         |         |
|                 | 24,228  | 11,200  | 14,956  | 6,182   |                    | 24,228  | 11,200  | 14,956  | 6,182   |

(d) Dr.

## C's Loan Account

Cr.

| Date     | Particulars             | (Rs.)    | Date     | Particulars        | (Rs.)    |
|----------|-------------------------|----------|----------|--------------------|----------|
| 31.03.23 | To Vehicles A/c         | 7,800    | 31.03.23 | By Balance b/d     | 56,000   |
|          | To Bank A/c (Bal. fig.) | 1,07,156 |          | By C's Capital A/c | 84,000   |
|          | To Balance c/d          | 40,000   |          | By C's Current A/c | 14,956   |
|          |                         | 1,54,956 |          |                    | 1,54,956 |

(e) Dr

## Bank Account

Cr.

| Date     | Particulars      | (Rs.)    | Date     | Particulars        | (Rs.)    |
|----------|------------------|----------|----------|--------------------|----------|
| 31.03.23 | To D Capital A/c | 1,58,000 | 31.03.23 | By Balance b/d     | 8,400    |
|          | To D Current A/c | 6,182    |          | By C's Loan A/c    | 1,07,156 |
|          | To Balance c/d   | 11,420   |          | By A's Capital A/c | 42,000   |
|          |                  |          |          | By A's Current A/c | 18,046   |
|          |                  | 1,75,602 |          |                    | 1,75,602 |

(f)

## Balance Sheet of as on 01 .04.2023

| Liabilities       | (Rs.)           | (Rs.)    | Assets   | (Rs.) | (Rs.)    |
|-------------------|-----------------|----------|----------|-------|----------|
| Capital Accounts: |                 |          | Premises |       | 2,40,000 |
| A                 | 1,34,000        |          | Plant    |       | 70,000   |
| B                 | 1,34,000        |          | Vehicles |       | 22,200   |
| D                 | <u>1,34,000</u> | 4,02,000 | Fixtures |       | 4,000    |



|                   |              |                 |                               |              |                 |
|-------------------|--------------|-----------------|-------------------------------|--------------|-----------------|
| Current Accounts: |              |                 | Stock                         |              | 1,08,358        |
| A                 | 6,182        |                 | Debtors                       | 69,960       |                 |
| B                 | 6,182        |                 | Less: Provision for bad debts | <u>6,000</u> | 63,960          |
| D                 | <u>6,182</u> | 18,546          | Cash                          |              | 1,520           |
| C's Loan Account: |              | 40,000          |                               |              |                 |
| Creditors         |              | 38,072          |                               |              |                 |
| Bank Overdraft    |              | 11,420          |                               |              |                 |
|                   |              | <u>5,10,038</u> |                               |              | <u>5,10,038</u> |

Working Notes:

Calculation of New P.S.R.

$$D's \text{ share} = B's \text{ share} = \frac{2}{6}$$

$$A's \text{ share} = \frac{3}{6}$$

$$B's \text{ share} = \frac{2}{6}$$

$$\therefore A:B:D = \frac{3}{6} : \frac{2}{6} : \frac{2}{6} = 3:2:2$$

#### Illustration 19.

A, B and C have been in business partnership for some years, Sharing Profit in the proportions of 4:3:3. The balances in the books of the firm as on 31st March, 2023 subject to final Adjustment, were as under:

|                                              | Dr. (Rs.) | Cr. (Rs.) |
|----------------------------------------------|-----------|-----------|
| Capital Account - A                          |           | 3,00,000  |
| Capital Account - B                          |           | 1,50,000  |
| Capital Account - C                          |           | 1,80,000  |
| Profit for the year before charging interest |           | 3,12,000  |
| Land and Buildings                           | 2,40,000  |           |
| Furniture and Fixtures                       | 45,000    |           |
| Stock                                        | 3,75,000  |           |
| Debtors                                      | 60,000    |           |
| Bank                                         | 1,20,000  |           |
| Creditors                                    |           | 90,000    |
| Partner's Drawings - A                       | 48,000    |           |
| Partner's Drawings - B                       | 72,000    |           |
| Partner's Drawings - C                       | 72,000    |           |
| Total                                        | 10,32,000 | 10,32,000 |

C died on 30.09.2022. The Partnership deed provided that:

- (1) Interest was to be credited on Capital accounts of partners at 10% P.A. on the balance at the beginning of the year.
- (2) On the death of a Partner:
  - (i) Goodwill was to be valued at three years' purchase of average Annual Profits of three years up to the date of death, after deducting interest on Capital Employed at 8% P.A. and a fair remuneration for each of the partners;
  - (ii) Fixed Assets were to be valued by an independent valuer and all other assets and liabilities



to be taken at Book Value.

(3) Wherever necessary, profit or loss should be apportioned on a time basis.

(4) The amount due to the deceased partner's Sole Heir was to receive interest @ 12% P.A. from the date of death until paid.

It was ascertained that:

(a) Profits for three years, before charging partners' interest were: 2019-20: Rs.3,36,000, 2020-21: Rs.3,78,000 and 2021-22: Rs.3,60,000 respectively.

(b) The independent valuation at the date of death revealed: Land and Buildings Rs.3,00,000 and Furniture and Fixtures Rs.30,000.

(c) A fair remuneration for each of the Partners would be Rs.75,000 P.A. and that the Capital employed in business to be taken as Rs.7,80,000 throughout.

It was agreed among the Partners that:

(i) Goodwill was not to be shown as an asset of the firm as on 31.03.2023. Therefore, adjustment for goodwill was to be made in Capital Accounts.

(ii) A and B would share equally from the date of death of C.

(iii) Depreciation on revised value of assets would be ignored. You are required to prepare:

(i) Revaluation Account

(ii) Partners' Capital Accounts

(iii) Partners' Current Accounts

(iv) C's Heir Account

(v) Balance Sheet as on 31.03.2022

**Solution:**

(i) In the Books of firm

| Dr.                                          | Revaluation Account |                          | Cr.    |
|----------------------------------------------|---------------------|--------------------------|--------|
| Particulars                                  | (Rs.)               | Particulars              | (Rs.)  |
| To Furniture and Fixture A/c                 | 15,000              | By Land and Building A/c | 60,000 |
| To Partners' Capital A/c s                   | 45,000              |                          |        |
| (A- Rs.18,000, B - Rs.13,500, C - Rs.13,500) |                     |                          |        |
|                                              | 60,000              |                          | 60,000 |

| Dr.                            |          |          |          | (ii) Partners' Capital Account |          |          | Cr.      |
|--------------------------------|----------|----------|----------|--------------------------------|----------|----------|----------|
| Particulars                    | A (Rs.)  | B (Rs.)  | C (Rs.)  | Particulars                    | A (Rs.)  | B (Rs.)  | C (Rs.)  |
| To C's Capital A/c - Goodwill  | 19,980   | 39,960   | -----    | By Balance b/d                 | 3,00,000 | 1,50,000 | 1,80,000 |
| To C's Current A/c. - Transfer | -----    | -----    | 25,650   | By Revaluation A/c             | 18,000   | 13,500   | 13,500   |
| To C's Heir A/c                | -----    | -----    | 2,27,790 | By A's Capital A/c Goodwill    | -----    | -----    | 19,980   |
| To Balance c/d                 | 2,98,020 | 1,23,540 | -----    | By A's Capital A/c Goodwill    | -----    | -----    | 39,960   |
|                                | 3,18,000 | 1,63,500 | 2,53,440 |                                | 3,18,000 | 1,63,500 | 2,53,440 |

| (iii) Partners' Current Account |                |         |         |         |                                                    |         |         | Cr.     |
|---------------------------------|----------------|---------|---------|---------|----------------------------------------------------|---------|---------|---------|
| Dr                              | Particulars    | A (Rs.) | B (Rs.) | C (Rs.) | Particulars                                        | A (Rs.) | B (Rs.) | C (Rs.) |
|                                 | To Balance b/d | 48,000  | 72,000  | 72,000  | By P/L Appropriation A/c (Interest on Capital A/c) | 30,000  | 15,000  | 9,000   |





|                |          |          |        |                           |          |          |        |
|----------------|----------|----------|--------|---------------------------|----------|----------|--------|
| To Balance c/d | 91,716   | 40,266   |        | By P/L Appropriation A/c  | 1,09,716 | 97,266   | 37,350 |
|                |          |          |        | By Capital A/c (Transfer) | -----    | -----    | 25,650 |
|                | 1,39,716 | 1,12,266 | 72,000 |                           | 1,39,716 | 1,12,266 | 72,000 |

Dr.

(iv) C's Heir Account

Cr.

| Particulars    | (Rs.)    | Particulars                    | (Rs.)    |
|----------------|----------|--------------------------------|----------|
| To Balance c/d | 2,41,458 | By C's Capital A/c             | 2,27,790 |
|                |          | By Profit & Loss Appropriation | 13,668   |
|                | 2,41,458 |                                | 2,41,458 |

(v)

Balance Sheet as on 31st March, 2023

| Liabilities         | (Rs.)    | Assets                 | (Rs.)    |
|---------------------|----------|------------------------|----------|
| Capital Account - A | 2,98,020 | Land and Buildings     | 3,00,000 |
| Capital Account - B | 1,23,540 | Furniture and Fixtures | 30,000   |
| Current Account - A | 91,716   | Stock                  | 3,75,000 |
| Current Account - B | 40,266   | Debtors                | 60,000   |
| C's Heir Account    | 2,41,458 | Bank                   | 1,20,000 |
| Creditors           | 90,000   |                        |          |
|                     | 8,85,000 |                        | 8,85,000 |

Working Note:

(1) Adjustment in Regard to Goodwill

| Particulars                                                                                       | (Rs.)              |
|---------------------------------------------------------------------------------------------------|--------------------|
| Aggregate profits for three years upto date of death (30.09.2021) are as follows:                 |                    |
| Profit for the year ended 30.9.20: ( $\frac{1}{2}$ of Rs.3,36,000 + $\frac{1}{2}$ of Rs.3,78,000) | 3,57,000           |
| Profit for the year ended 30.9.21: ( $\frac{1}{2}$ of Rs.3,78,000 + $\frac{1}{2}$ of Rs.3,60,000) | 3,69,000           |
| Profit for the year ended 30.9.22: ( $\frac{1}{2}$ of Rs.3,60,000 + $\frac{1}{2}$ of Rs.3,12,000) | 3,36,000           |
| Total profits for three years                                                                     | 10,62,000          |
| Average profits (Rs.10,62,000 ÷ 3)                                                                | 3,54,000           |
| Less: interest on capital employed (8% on Rs.7,80,000)                                            | Rs.62,400          |
| Fair remuneration to partners                                                                     | <u>Rs.2,25,000</u> |
| Adjusted average profit for goodwill                                                              | 66,600             |
| Goodwill is the purchase of 3 year's profit = 3 × Rs.66,600                                       | 1,99,800           |

| Partners                               | A (Rs.)    | B (Rs.)    | C (Rs.)    |
|----------------------------------------|------------|------------|------------|
| Right of goodwill before death (4:3:3) | 79,920     | 59,940     | 59,940     |
| Right of goodwill after death (1:1)    | 99,900     | 99,900     | —          |
| Gain (+) / Sacrifice(-)                | (+) 19,980 | (+) 39,960 | (-) 59,940 |

Profit &amp; Loss Appropriation Account

Dr.

Cr.

| Particulars                 | 01.04.21<br>To<br>30.09.22 | 01.10.21<br>to<br>31.03.23 | Particulars          | 01.04.21<br>to<br>30.09.22 | 01.10.21<br>to<br>31.03.23 |
|-----------------------------|----------------------------|----------------------------|----------------------|----------------------------|----------------------------|
| To Partners' Current A/c    |                            |                            | By Profit & Loss A/c | 1,56,000                   | 1,56,000                   |
| Interest on Capital A/c - A | 15,000                     | 15,000                     | (AppORTIONED on Time |                            |                            |
| Interest on Capital A/c - B | 7,500                      | 7,500                      | Basis)               |                            |                            |



|                                    |          |          |  |          |          |
|------------------------------------|----------|----------|--|----------|----------|
| Interest on Capital A/c- C         | 9,000    |          |  |          |          |
| To Interest on hire C's A/c (-12%) | —        | —        |  |          |          |
| Partners' Current A/cs - A         | 49,800   | 13,668   |  |          |          |
| Partners' Current A/cs - B         | 37,350   | 59,916   |  |          |          |
| Partners' Current A/cs - C         | 37,350   | 59,916   |  |          |          |
|                                    | 1,56,000 | 1,56,000 |  | 1,56,000 | 1,56,000 |

**Illustration 20.**

A, B and C are partners in a firm sharing profits and losses as 3:2:1. Their Balance Sheet as on 31st March, 2023 was as follows:

(Rs. in Lakh)

| Liabilities           | (Rs.) | Assets              | (Rs.) |
|-----------------------|-------|---------------------|-------|
| Partners' Capital A/c |       | Land and Building   | 210   |
| A                     | 145   | Plant and Machinery | 255   |
| B                     | 110   | Stock               | 125   |
| C                     | 75    | Debtors             | 95    |
| General Reserve       | 165   | Bills Receivable    | 25    |
| Partners' Loan:       |       | Cash in Hand        | 3     |
| A                     | 30    | Cash at Bank        | 37    |
| B                     | 20    |                     |       |
| Sundry Creditors      | 205   |                     |       |
|                       | 750   |                     | 750   |

B died on 1 August, 2023. His account is to be settled under the following terms:

- Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were :2019-2020 Rs.135 Lakh, 2020-2021 Rs.145 Lakh, 2021-2022 Rs.131 Lakh and 2022-2023 Rs.165 Lakh.
- Land and Building will be valued at Rs.250 Lakh and Plant and Machinery will be valued at Rs.240 Lakh.
- For the purpose of calculating B's share in the profits of 01.04.2023 to 31.07.2023, the profits for the year 2022-2023 will be taken as base.
- Interest on Partners' Loan will be calculated @ 6% per annum.
- A sum of Rs.50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1 December, 2023 together with interest @ 10% per annum.

You are required to pass necessary journal entries to record the above transactions and amount payable to B's Executor's Account.

**Solution:**

**Books of the firm  
Journal**

(Rs. in Lakh)

| Date     | Particulars                                      | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|----------|--------------------------------------------------|------|-----------|-----------|
| 01.08.23 | Land & Building A/c                              | Dr.  | 40        |           |
|          | To Revaluation A/c                               |      |           | 40        |
|          | (For increase in the value of land and building) |      |           |           |
| "        | Revaluation A/c                                  | Dr.  | 15        |           |



|          |                                                                                                                    |     |  |         |         |
|----------|--------------------------------------------------------------------------------------------------------------------|-----|--|---------|---------|
|          | To Plant & Machinery A/c<br>(For decrease in the value of Plant & Machinery)                                       |     |  |         | 15      |
| "        | Revaluation A/c                                                                                                    | Dr. |  | 25      |         |
|          | To A's Capital A/c                                                                                                 |     |  |         | 12.5    |
|          | To B's Capital A/c                                                                                                 |     |  |         | 8.333   |
|          | To C's Capital Ac                                                                                                  |     |  |         | 4.167   |
|          | (For profit on revaluation)                                                                                        |     |  |         |         |
| "        | General Reserve A/c                                                                                                | Dr. |  | 165     |         |
|          | To A's Capital A/c                                                                                                 |     |  |         | 82.5    |
|          | To B's Capital A/c                                                                                                 |     |  |         | 55      |
|          | To C's Capital A/c                                                                                                 |     |  |         | 27.5    |
|          | (For transfer of general reserve)                                                                                  |     |  |         |         |
| "        | A's Capital A/c C's Capital A/c                                                                                    | Dr. |  | 108     |         |
|          | To B's Capital A/c                                                                                                 | Dr. |  | 36      |         |
|          | (For the adjustment of goodwill)                                                                                   |     |  |         | 144     |
| "        | Profit & Loss Suspense A/c                                                                                         | Dr. |  | 18.333  |         |
|          | To B's Capital A/c                                                                                                 |     |  |         | 18.333  |
|          | (For the adjustment of profit from 1.4.23 to 1.8.23)                                                               |     |  |         |         |
| "        | B's Loan A/c                                                                                                       | Dr. |  | 20      |         |
|          | To B's Capital A/c (Balance transferred)                                                                           |     |  |         | 20      |
| "        | Interest on B's Loan A/c                                                                                           | Dr. |  | 0.40    |         |
|          | To B's Capital A/c                                                                                                 |     |  |         | 0.40    |
|          | (Interest on B's Loan from 1.04.18 to 1.08.18 credited to B's Capital A/c)                                         |     |  |         |         |
| "        | B's Capital A/c                                                                                                    | Dr. |  | 356.066 |         |
|          | To B's Executor's A/c                                                                                              |     |  |         | 356.066 |
|          | (Being balance of B's Capital A/c transferred to his Executor's A/c = 110 + 8.333 + 55 + 144 + 18.333 + 20 + 0.40) |     |  |         |         |
| "        | B's Executor's A/c                                                                                                 | Dr. |  | 50      |         |
|          | To Bank A/c                                                                                                        |     |  |         | 50      |
|          | (Amount paid)                                                                                                      |     |  |         |         |
| "        | Interest A/c                                                                                                       | Dr. |  | 10.202  |         |
|          | To B's Executor's A/c                                                                                              |     |  |         | 10.202  |
|          | (For interest due)                                                                                                 |     |  |         |         |
| 01.12.23 | Bs Executor's A/c                                                                                                  | Dr. |  | 316.268 |         |
|          | To Bank A/c                                                                                                        |     |  |         | 316.268 |
|          | (Amount due to Bs Executor including interest, paid)                                                               |     |  |         |         |

(Rs.in lakh)

Dr.

B's Executor's Account

Cr.

| Date    | Particulars | (Rs.)   | Date    | Particulars     | (Rs.)   |
|---------|-------------|---------|---------|-----------------|---------|
| 1.08.23 | To Bank A/c | 50      | 1.08.23 | By Capital A/c  | 356.066 |
| 1.12.23 | To Bank A/c | 316.268 | 1.12.23 | By Interest A/c | 10.202  |
|         |             | 366.268 |         |                 | 366.268 |



## Working Notes:

## (1) Calculation of Share of B in Goodwill:

Average of past four years profits = Rs.(135 Lakh + 145 Lakh + 131 Lakh + 165 Lakh)/4 = Rs.144 Lakh

Value of Firm's Goodwill = Rs.144 Lakh × 3 = Rs.432 Lakh

B's Share in Goodwill = Rs.432 Lakh × 2/6 = Rs.144 Lakh, which will be credited to B's Capital A/c and debited to A's Capital A/c & C's Capital A/c in the ratio of 3:1

## (2) B's Share in profit from 01.04.2023 to 1.8.2023 = (Rs.165 × 4/12) × 2/6 = Rs.18.333 Lakh

## (3) Interest on B's Loan from 01.04.2023 to 1.8.2023 = Rs.20 Lakh × 6% × 4/12 = Rs.40,000

(4) Interest to B's Executor's from 01.08.2023 - 01.12.2023 = Rs.356.066 Lakh - Rs.50 Lakh  
= Rs.306.066 × 10% × 4/12 = Rs.10.2022 Lakh

## Illustration 21.

The following was the Balance Sheet of A, B and C who shared profits in the ratio of 1:2: 2 as on 31st December, 2022:

| Liabilities                 | (Rs.)    | Assets       | (Rs.)    |
|-----------------------------|----------|--------------|----------|
| Sundry Creditors            | 10,000   | Goodwill     | 15,000   |
| Capital A/c :               |          | Debtors      | 10,000   |
| A 10,000                    |          | Machinery    | 20,000   |
| B 20,000                    |          | Buildings    | 30,000   |
| C 20,000                    | 50,000   | Stock        | 10,000   |
| General Reserve             | 5,000    | Cash at Bank | 5,000    |
| Investment Fluctuation Fund | 3,000    | Investments  | 10,000   |
| Bad Debts Reserve           | 2,000    |              |          |
| Bank Loan                   | 30,000   |              |          |
|                             | 1,00,000 |              | 1,00,000 |

C died on 31st March, 2023. His account is to be settled under the following terms:

Goodwill is to be calculated at the rate of 2 years purchase on the basis of the average of 5 years profit or loss. Profit for January to March 2022 is to be calculated proportionately on the average profit of 3 years. The profits were: 2018: Rs.3,000, 2019: Rs.7,000, 2020: Rs.10,000, 2021 Rs.14,000, 2022: Loss Rs.12,000. During 2022 a Moped costing Rs.4,000 was purchased and debited to Travelling Expenses Account on which depreciation is to be calculated @ 25%. Other values agreed on assets are : Stock Rs.12,000, Building Rs.35,000, Machinery Rs.25,000 and Investments Rs.8,000. Debtors are considered good.

Prepare new Balance Sheet of the firm, necessary Journal entries and Ledger Accounts of the Partners.

## Solution:

## Books of firm

## Journal

| Date | Particulars                                 | L. F. | Dr. (Rs.) | Cr. (Rs.) |
|------|---------------------------------------------|-------|-----------|-----------|
| 2022 | Stock A/c Dr.                               |       | 2,000     |           |
|      | Buildings A/c Dr.                           |       | 5,000     |           |
|      | Machinery A/c Dr.                           |       | 5,000     |           |
|      | Moped A/c [Rs.4,000 - Depr. Rs.1,000] Dr.   |       | 3,000     |           |
|      | To Revaluation A/c                          |       |           |           |
|      | [Values of assets increased on revaluation] |       |           | 15,000    |



|                                                                                                  |     |  |        |        |
|--------------------------------------------------------------------------------------------------|-----|--|--------|--------|
| General Reserve A/c                                                                              | Dr. |  | 5,000  |        |
| Investment Fluctuation Fund A/c                                                                  | Dr. |  | 3,000  |        |
| Bad Debts Reserve A/c                                                                            | Dr. |  | 2,000  |        |
| To A's Capital A/c                                                                               |     |  |        |        |
| To B's Capital A/c                                                                               |     |  |        | 2,000  |
| To C's Capital A/c                                                                               |     |  |        | 4,000  |
| [Transfer of Reserves etc. to Partners Capitals in 1 : 2 : 2]                                    |     |  |        | 4,000  |
| Revaluation A/c                                                                                  | Dr. |  | 2,000  |        |
| To Investment A/c                                                                                |     |  |        | 2,000  |
| [Value of investments reduced]                                                                   |     |  |        |        |
| Revaluation A/c                                                                                  | Dr. |  | 13,000 |        |
| To A's Capital A/c                                                                               |     |  |        | 2,600  |
| To B's Capital A/c                                                                               |     |  |        | 5,200  |
| To C's Capital A/c                                                                               |     |  |        | 5,200  |
| (Being profit on revaluation shared in 1 : 2 : 2)                                                |     |  |        |        |
| A's Capital A/c                                                                                  | Dr. |  | 1,000  |        |
| B's Capital A/c                                                                                  | Dr. |  | 2,000  |        |
| C's Capital A/c                                                                                  | Dr. |  | 2,000  |        |
| To Goodwill A/c                                                                                  |     |  |        |        |
| [Value of Goodwill reduced]                                                                      |     |  |        | 5,000  |
| A's Capital A/c                                                                                  | Dr. |  | 3,333  |        |
| B's Capital A/c                                                                                  | Dr. |  | 6,667  |        |
| To Goodwill A/c                                                                                  |     |  |        |        |
| [Value of Goodwill shared between A & B in the ratio of 1 : 2]                                   |     |  |        | 10,000 |
| Profit & Loss Suspense A/c                                                                       | Dr. |  | 500    |        |
| To C's Capital A/c                                                                               |     |  |        | 500    |
| [Estimated share of Profit till his date of death transferred to the deceased partner's Capital] |     |  |        |        |
| C's Capital A/c Dr.                                                                              |     |  | 27,700 |        |
| To C's Executors A/c                                                                             |     |  |        | 27,700 |
| [Total dues to the deceased partner transferred to his Executor's A/c]                           |     |  |        |        |

Dr.

## Partners' Capital Account

Cr.

| Particulars           | A<br>(Rs.) | B<br>(Rs.) | C<br>(Rs.) | Particulars           | A<br>(Rs.) | B<br>(Rs.) | C<br>(Rs.) |
|-----------------------|------------|------------|------------|-----------------------|------------|------------|------------|
| To Goodwill A/c       | 1,000      | 2,000      | 2,000      | By Balance b/d        | 10,000     | 20,000     | 20,000     |
| (1:2:2)               |            |            |            |                       |            |            |            |
| To Goodwill A/c (1:2) | 3,333      | 6,667      | -          | " Revaluation A/c     | 2,600      | 5,200      | 5,200      |
| To C's Executors A/c  |            |            | 27,700     | " Sundry Reserves A/c | 2,000      | 4,000      | 4,000      |
| (Balance transferred) |            |            |            |                       |            |            |            |
| To Balance c/d        | 10,267     | 20,533     | -          | " P & L Suspense A/c  | -          | -          | 500        |
|                       | 14,600     | 29,200     | 29,700     |                       | 14,600     | 29,200     | 29,700     |



## Balance Sheet as at 31.3.2023

| Liabilities        | (Rs.)  | (Rs.)  | Assets                           | (Rs.) | (Rs.)  |
|--------------------|--------|--------|----------------------------------|-------|--------|
| Capital A/cs :     |        |        | Buildings                        |       | 35,000 |
| A                  | 10,267 |        | Machinery                        |       | 25,000 |
| B                  | 20,533 | 30,800 | Moped                            |       | 3,000  |
| C's Executor's A/c |        | 27,700 | (cost less depreciation)         |       |        |
| Bank Loan          |        | 30,000 | Investments                      |       | 8,000  |
| Sundry Creditors   |        | 10,000 | Stock                            |       | 12,000 |
|                    |        |        | Debtors                          |       | 10,000 |
|                    |        |        | Bank                             |       | 5,000  |
|                    |        |        | Profit & Loss Suspense A/c (Dr.) |       | 500    |
|                    |        | 98,500 |                                  |       | 98,500 |

Working Notes :

## 1. Adjusted profit for 2022

|                                                            | (Rs.)    |
|------------------------------------------------------------|----------|
| Loss                                                       | (12,000) |
| Add : Cost of Moped Wrongly treated as Travelling Expense  | 4,000    |
| Less : Depreciation not charged on Moped @ 25% on Rs.4,000 | (1,000)  |
| Adjusted Loss                                              | (9,000)  |

## 2. Valuation of Goodwill

Total Profit/Loss for the last 5 years = Rs.(3,000 + 7,000 + 10,000 + 14,000 - 9,000) = Rs.25,000

Average Profit = Rs.25,000/5 = Rs.5,000; Goodwill = 2 × Rs.5,000 = Rs.10,000

But Goodwill is appearing at Balance Sheet at Rs.15,000.

Over valuation of Goodwill Rs.5,000 should be written off among A, B & C as 1:2:2.

The balance of Goodwill between A & B in the ratio 1:2

## 3. Share of Profit of Deceased Partner till his date of death

Average Profit of the last 3 years = Rs.(10,000 + 14,000 - 9,000)/3 = Rs.5,000 Estimated Profit for 3 months [Jan - March, 2022] = Rs.5,000 × 3/12 = Rs.1,250 C's share of profit = Rs.1,250 × 2/5 = Rs.500

## Illustration 22.

Naresh, Rohit and Krishna are partners sharing profits and losses in the ratio of 2:2:1. On 1st January, 2019, they took out a joint life policy of Rs.2,00,000. Annual premium of Rs.10,000 was payable on 1st January each year. Last premium was paid on 15th January, 2023. Rohit died on 1st March, 2023, and policy money was received on 31st March, 2023. The surrender value of policy as on 31st March each year were as follows:

2020 : Nil

2021 : Rs.2,000

2022 : Rs.5,000

Show Joint Life Policy accounts as on 31st March each year assuming that:

(viii) The premium is charged to profit and loss account every year.

(ix) The premium is debited to joint life policy account and the balance of the joint life policy account is adjusted every year to its surrender value.





Solution:

(i)

Dr.

## Joint Life Policy Account

Cr.

| Date     | Particulars              | (Rs.)    | Date     | Particulars           | (Rs.)    |
|----------|--------------------------|----------|----------|-----------------------|----------|
| 31.03.23 | To Partner's Capital A/c | 2,00,000 | 31.03.22 | By Bank (Policy Money | 2,00,000 |
|          | Naresh Rs.80,000         |          |          | Received)             |          |
|          | Rohit Rs.80,000          |          |          |                       |          |
|          | Krishna Rs.40,000        |          |          |                       |          |
|          |                          | 2,00,000 |          |                       | 2,00,000 |

(ii)

Dr.

## Joint Life Policy Account

Cr.

| Date     | Particulars              | (Rs.)    | Date     | Particulars             | (Rs.)    |
|----------|--------------------------|----------|----------|-------------------------|----------|
| 01.01.20 | To Bank A/c (Premium)    | 10,000   | 31.03.20 | By P & L A/c            | 10,000   |
|          |                          | 10,000   |          |                         | 10,000   |
| 01.11.21 | To Bank A/c (Premium)    | 10,000   | 31.03.21 | By P & L A/c            | 8,000    |
|          |                          | 10,000   | 31.03.21 | By Balance c/d          | 2,000    |
|          |                          |          |          |                         | 10,000   |
| 01.04.21 | To Balance b/d           | 2,000    | 31.03.21 | By P & L A/c            | 7,000    |
| 01.01.22 | To Bank A/c (Premium)    | 10,000   | 31.03.22 | By Balance c/d          | 5,000    |
|          |                          | 12,000   |          |                         | 12,000   |
| 01.04.22 | To Balance b/d           | 5,000    | 31.03.23 | By Bank A/c             | 2,00,000 |
|          |                          |          |          | (Police Money Received) |          |
| 01.01.23 | To Bank A/c (Premium)    | 10,000   |          |                         |          |
|          |                          |          |          |                         |          |
| 31.03.23 | To Partner's Capital A/c |          |          |                         |          |
|          | Naresh Rs.74,000         |          |          |                         |          |
|          | Rohit Rs.74,000          |          |          |                         |          |
|          | Krishna Rs.37,000        | 1,85,000 |          |                         |          |
|          |                          | 2,00,000 |          |                         | 2,00,000 |

## Illustration 23.

A, B and C sharing profits in 3 : 1 : 1 agree upon dissolution. They each decide to take over certain assets and liabilities and continue business separately.

Balance Sheet as on date of dissolution

| Liabilities    | (Rs.)  | Assets                                 | (Rs.)  |
|----------------|--------|----------------------------------------|--------|
| Creditors      | 6,000  | Cash at Bank                           | 3,200  |
| Loan           | 1,500  | Sundry Assets                          | 17,000 |
| Capitals:      |        | Debtors                                | 24,200 |
| (Rs.)          |        | Less: Bad Debts Provision <u>1,200</u> | 23,000 |
| A 27,500       |        | Stock                                  | 7800   |
| B 10,000       |        | Furnitures                             | 1,000  |
| C <u>7,000</u> | 44,500 |                                        |        |
|                | 52,000 |                                        | 52,000 |



It is agreed as follows:

- (i) Goodwill is to be ignored.
- (ii) A is to take over all the Fixtures at Rs.800; Debtors amounting to Rs.20,000 at Rs.17,200. The creditors of Rs.6,000 to be assumed by A at the figure.
- (iii) B is to take over all the stocks at Rs.7,000 and certain of the sundry assets at Rs.7,200 (being book value less 10%)
- (iv) C is take over the remaining sundry assets at 90% of book values less Rs.100 allowances and assume responsibility for the discharge of the loan, together with accruing interest of Rs.30 which has not been recorded in the books of the firm.
- (v) The expenses of dissolution were Rs.270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realisation Account, partners' Capital Accounts and Bank Account.

Solution:

In the books of A, B and C

| Dr.                 |                 | Realisation Account              |                  | Cr.    |        |
|---------------------|-----------------|----------------------------------|------------------|--------|--------|
| Particulars         | (Rs.)           | Particulars                      | (Rs.)            |        |        |
| To Sundry Assets:   |                 | By Provision for bad debts       |                  | 1,200  |        |
| Sundry Assets       | Rs.17,000       | Capital Account A :              |                  |        |        |
| Debtors             | Rs.24,200       | Fixtures                         | Rs.800           |        |        |
| Stock               | Rs.7,800        | Debtors                          | <u>Rs.17,200</u> |        |        |
| Fixtures            | <u>Rs.1,000</u> |                                  |                  | 18,000 |        |
|                     |                 | B: Stock                         | Rs.7,000         |        |        |
|                     | 50,000          | Sundry Assets                    | <u>Rs.7,200</u>  |        | 14,200 |
| „ Bank - Expenses   | 270             | C: Sundry Assets                 |                  |        | 8,000  |
| „ Capital Account   |                 | By Bank: Collection from Debtors |                  |        | 2,100  |
| C- Interest on loan | 30              | By Loss on realization:          |                  |        |        |
|                     |                 | A (3/5)                          | Rs.4,080         |        |        |
|                     |                 | B (1/5)                          | Rs.1,360         |        |        |
|                     |                 | C (1/5)                          | <u>Rs.1,360</u>  |        | 6,800  |
|                     | 50,300          |                                  |                  | 50,300 |        |

| Dr.                   |            | Capital Account |            |                        | Cr.        |            |            |
|-----------------------|------------|-----------------|------------|------------------------|------------|------------|------------|
| Particulars           | A<br>(Rs.) | B<br>(Rs.)      | C<br>(Rs.) | Particulars            | A<br>(Rs.) | B<br>(Rs.) | C<br>(Rs.) |
| To Dissolution Assets | 18,000     | 14,200          | 8,000      | By Balance b/d         | 27,500     | 10,000     | 7,000      |
| taken                 |            |                 |            | „ Creditors            | 6,000      | -          | -          |
| „ Dissolution A/c     | 4,080      | 1,360           | 1,360      | „ Loan (with interest) | -          | -          | 1,530      |
| Loss                  |            |                 |            | „ Bank                 |            |            |            |
| „ Bank —              |            |                 |            | Final receipts         | -          | 5,560      | 830        |
| Final payment         | 11,420     | -               | -          |                        |            |            |            |
|                       | 33,500     | 15,560          | 9,360      |                        | 33,500     | 15,560     | 9,360      |

Bank Account

| Dr.               |       | Cr.                    |       |
|-------------------|-------|------------------------|-------|
| Particulars       | (Rs.) | Particulars            | (Rs.) |
| To Balance b/d    | 3,200 | By Dissolution Account |       |
| „ Dissolution A/c |       | Expenses               | 270   |



|                         |        |                      |        |
|-------------------------|--------|----------------------|--------|
| Collection from Debtors | 2,100  |                      |        |
| „ Capital Accounts:     |        | „ Capital Account: A | 11,420 |
| B                       | 5,560  |                      |        |
| C                       | 830    | 6,390                |        |
|                         | 11,690 |                      | 11,690 |

## Working Notes:

- Realization of Sundry Assets: (Rs.)
 

|                                                                        |              |
|------------------------------------------------------------------------|--------------|
| Sundry Assets (Book Value)                                             | 17,000       |
| Less: Taken by B [ 7,200 × (100/90)]                                   | 8,000        |
| Remaining at book value                                                | <u>9,000</u> |
| Taken by C: 90% of Book value                                          |              |
| i.e. (Rs.9,000 × (90/100) = Rs.8,100 - Rs.100 for allowance = Rs.8,000 |              |
- Collection from Debtors: (Rs.)
 

|                             |              |
|-----------------------------|--------------|
| Debtors (Book Value)        | 24,200       |
| Less: Taken by (Book value) | 20,000       |
|                             | <u>4,200</u> |

Remaining at 50% i.e., Rs.2,100

## Illustration 24.

X, Y and Z sharing profits & Losses in the ratio of 2 : 2: 1 agreed upon dissolution of their partnership on 31st December, 2023 on which date their Balance Sheet was as under :

| Liabilities              | (Rs.)    | Assets                                    | (Rs.)    |
|--------------------------|----------|-------------------------------------------|----------|
| Capital:                 |          | Fixed Assets                              | 50,000   |
| X                        | 40,000   | Joint Life Policy<br>(at surrender Value) | 10,000   |
| Y                        | 30,000   | Debtors Rs.10,000                         |          |
| Reserve Fund             | 10,000   | Less : Provision for                      |          |
| Joint Life Policy Fund   | 10,000   | Bad Debts <u>Rs.500</u>                   | 9,500    |
| Creditors Rs.19,000      |          |                                           |          |
| Less: Prov <u>Rs.500</u> | 18,500   | Stock at Invoice Price Rs.10,000          |          |
| Salary Outstanding       | 2,000    | Less: Price loading Rs.2,000              | 8,000    |
|                          |          | Investments Rs.8,000                      |          |
|                          |          | Less: Fluctuation Fund Rs.500             | 7,500    |
|                          |          | Capital Account -Z                        | 2,000    |
|                          |          | Bank                                      | 23,500   |
|                          | 1,10,500 |                                           | 1,10,500 |

Investments were taken over by X at Rs.6,000, creditors of Rs.10,000 were taken over by Y who has agreed to settle account with them at Rs.9,900. Remaining creditors were paid Rs.7,500. Joint Life Policy was surrendered and Fixed Assets realized Rs.70,000, Stock and Debtors realized Rs.7,000 and Rs.9,000 respectively. One customer, whose account was written off as bad, now paid Rs.800 which is not included in Rs.9,000 mentioned above. There was an unrecorded asset estimated at Rs.3,000, half of which as handed over to an unrecorded liability of Rs.5,000 in settlement of claim of Rs.2,500 and the remaining half was sold in the market which realized Rs.1,300.



Y took over the responsibility of completing the dissolution and he is granted a salary of Rs.400 per month. Actual expenses amounted to Rs.1,100. Dissolution was completed and final payments were made on 30th April, 2024. You are required to prepare the Realization Account, Capital Account and Bank Account.

**Solution:**

| Books of the firm                                        |       |                 |                                    |        |                 |
|----------------------------------------------------------|-------|-----------------|------------------------------------|--------|-----------------|
| Realization Account                                      |       |                 |                                    |        |                 |
| Dr.                                                      |       |                 |                                    |        | Cr.             |
| Particulars                                              | (Rs.) | (Rs.)           | Particulars                        | (Rs.)  | (Rs.)           |
| To Fixed Assets A/c                                      |       | 50,000          | By Provision on Debtors A/c        |        | 500             |
| To Joint Life Policy A/c                                 |       | 10,000          |                                    |        | 2,000           |
|                                                          |       |                 | By Provision on Stock A/c          |        |                 |
| To Debtors A/c                                           |       | 10,000          |                                    |        |                 |
| To Stock (at I. P.)                                      |       | 10,000          | By Investment Fluctuation Fund A/c |        | 500             |
|                                                          |       |                 |                                    |        |                 |
| To Investments A/c                                       |       | 8,000           | By Joint Life Policy Fund A/c      |        | 10,000          |
|                                                          |       |                 | By Creditors A/c                   |        |                 |
| To Pro. for Disc. on Creditors A/c                       |       | 500             | By Outstanding Salary A/c          |        | 19,000          |
|                                                          |       |                 | By X' Capital A/c                  |        | 2,000           |
|                                                          |       |                 | (Investments taken over)           |        |                 |
| To Y's Capital A/c [Creditors taken over- see Note]      |       | 10,000          | By Bank A/c :                      |        | 6,000           |
|                                                          |       |                 |                                    |        |                 |
| To Bank A/c : Creditors paid off                         | 7,500 |                 | Joint Life Policy                  | 10,000 |                 |
| Unrecorded liability paid [ $\frac{1}{2} \times 5,000$ ] | 2,500 |                 | Fixed Assets                       | 70,000 |                 |
| Outstanding Salary                                       | 2,000 |                 | Stock                              | 7,000  |                 |
| Outstanding Expense                                      | 1,100 |                 | Debtors                            | 9,800  |                 |
| To Y's Cap. A/c [Salary $400 \times 4$ ]                 |       |                 | Unrecorded Assets (Sold)           | 1,300  |                 |
| To Partner's Capital A/c (Profit on Realization)         |       |                 | Bad Debt Recovered                 | 800    | 98,100          |
| X [ $\frac{2}{5}$ ]                                      | 9,960 |                 |                                    |        |                 |
| Y [ $\frac{2}{5}$ ]                                      | 9,960 |                 |                                    |        |                 |
| Z [ $\frac{1}{5}$ ]                                      | 4,980 | 24,900          |                                    |        |                 |
|                                                          |       | <b>1,38,100</b> |                                    |        | <b>1,38,100</b> |

| Bank Account       |        |                      |        |
|--------------------|--------|----------------------|--------|
| Dr.                |        |                      | Cr.    |
| Particulars        | (Rs.)  | Particulars          | (Rs.)  |
| To Balance b/f     | 23,500 | By Realization A/c   |        |
| To Realization A/c |        | Creditors            | 7,500  |
| Joint Life Policy  | 10,000 | Unrecorded Liability | 2,500  |
| Fixed Assets       | 70,000 | Outstanding Salary   | 2,000  |
| Stock              | 7,000  | Expenses             | 1,100  |
| Debtors            | 9,800  | By X's Capital A/c   | 47,960 |
| Unrecorded Assets  | 1,300  | By Y's Capital A/c   | 55,560 |



|  |          |                    |          |
|--|----------|--------------------|----------|
|  |          | By Z's Capital A/c | 4,980    |
|  | 1,21,600 |                    | 1,21,600 |

Dr.

## Partners' Capital Account

Cr.

| Date<br>2023 | Particulars                           | X<br>(Rs.) | Y<br>(Rs.) | Z<br>(Rs.) | Date<br>2023 | Particulars                             | X<br>(Rs.) | Y<br>(Rs.) | Z<br>(Rs.) |
|--------------|---------------------------------------|------------|------------|------------|--------------|-----------------------------------------|------------|------------|------------|
|              | To Balance b/d                        | -          | -          | 2,000      |              | By Balance b/d                          | 40,000     | 30,000     | -          |
|              | To Realization<br>A/c                 | 6,000      | -          | -          |              | By Reserve Fund<br>[2:2:1]              | 4,000      | 4,000      | 2,000      |
|              | To Bank A/c<br>(Balance<br>withdrawn) | 47,960     | 55,560     | 4,980      |              | By Realization A/c<br>(Profit)          | 9,960      | 9,960      | 4,980      |
|              |                                       |            |            |            |              | By Realization A/c<br>(Creditors)       | -          | 10,000     | -          |
|              |                                       |            |            |            |              | By Realization A/c<br>(4 months Salary) | -          | 1,600      | -          |
|              |                                       | 53,960     | 55,560     | 6,980      |              |                                         | 53,960     | 55,560     | 6,980      |

Note :

- Unrecorded Asset and unrecorded liability were not recorded. Any part of such asset utilized to discharge any part of such liability and discount received there on have been ignored.  
But unrecorded asset realized (debts previously written off now recovered) has been recorded.  
Similarly unrecorded asset sold has been recorded.
- Y took over creditors of Rs.10,000. This has been recorded. How he settles such liability is his personal matter. The discount on payment does not benefit the firm.

## Illustration 25.

A, B and C are in partnership sharing profit and losses equally and agreed to dissolve the firm on 30.06.2023. On that date their Balance Sheet stood as follows:

## Balance Sheet as at 30th June, 2023

| Liabilities       | (Rs.)  | Asset             | (Rs.)  |
|-------------------|--------|-------------------|--------|
| Capital A/c (Rs.) |        | Sundry Asset      | 50,000 |
| A 34,000          |        | Profit & Loss A/c | 12,000 |
| B 24,000          | 58,000 | Capital A/c       |        |
| Creditors         | 12,000 | C                 | 8,000  |
|                   | 70,000 |                   | 70,000 |

The assets are realised at 50% of the book value. Realization expenses amounted to Rs.5,000. C became insolvent and received Rs.2,000 from his estates. Close the book of the firm under

(i) Fixed Capital Method and

(ii) Fluctuating Capital Method applying Garner Vs. Murray principle.

Solution:

## In the books of A, B &amp; C

Dr.

## Realization Account

Cr.

| Particulars         | (Rs.)  | Particulars     | (Rs.)  |
|---------------------|--------|-----------------|--------|
| To Sundry Asset A/c | 50,000 | By Bank A/c     |        |
| " Bank A/c          |        | Amount Realised | 25,000 |



|           |        |                        |        |
|-----------|--------|------------------------|--------|
| " Expense | 5,000  | " Capital A/c          |        |
|           |        | By Loss on Realization |        |
|           |        | A Rs.10,000            |        |
|           |        | B Rs.10,000            |        |
|           |        | C Rs.10,000            | 30,000 |
|           | 55,000 |                        | 55,000 |

**Working Notes:****(a) Under Fixed Capital Method**

Deficiency of the insolvent partner Mr. C must be borne by the solvent partner A and B as per their last agreed capital given in the Balance Sheet i.e., 17:12.

**(b) Under Fluctuating Capital Method**

Deficiency of the insolvent partner Mr. C must be borne by the solvent partners A & B as the following adjusted capital which will be considered as the last agreed capital i.e., after adjusting the debit balance of Profit and Loss Account.

| Particulars                              | A (Rs.)   | B (Rs.)   |
|------------------------------------------|-----------|-----------|
| Capital as per Balance Sheet             | 34,000    | 24,000    |
| Less: Debit balance of P&L A/c (equally) | (-) 4,000 | (-) 4,000 |
|                                          | 30,000    | 20,000    |

∴ Ratio = 3:2

**(a) Capital Account under Fixed Capital Method**

| Dr. Partners' Capital Accounts |         |         |         | Cr.            |         |         |         |
|--------------------------------|---------|---------|---------|----------------|---------|---------|---------|
| Particulars                    | A (Rs.) | B (Rs.) | C (Rs.) | Particulars    | A (Rs.) | B (Rs.) | C (Rs.) |
| To Balance b/d                 | ---     | ---     | 8,000   | By Balance b/d | 34,000  | 24,000  | ---     |
| " Realisation A/c Loss         | 10,000  | 10,000  | 10,000  | " Bank A/c     | ---     | ---     | 2,000   |
| " Profit & Loss A/c Loss       | 4,000   | 4,000   | 4,000   | " Bank A/c     | 10,000  | 10,000  | ---     |
| " C's Capital A/c              | 11,724  | 8,276   | ---     | " A's Capital  | ---     | ---     | 11,724  |
| " Bank A/c                     | 18,276  | 11,724  | ---     | " B's Capital  | ---     | ---     | 8,276   |
| (bal. fig.)                    |         |         |         |                |         |         |         |
|                                | 44,000  | 34,000  | 22,000  |                | 44,000  | 34,000  | 22,000  |

| Dr. Bank Account |        |                    |        | Cr. |  |  |  |
|------------------|--------|--------------------|--------|-----|--|--|--|
| Particulars      | (Rs.)  | Particulars        | (Rs.)  |     |  |  |  |
| To Balance b/d   | 25,000 | By Realisation A/c |        |     |  |  |  |
| " Capital A/c    |        | Expenses           | 5,000  |     |  |  |  |
| A 10,000         |        | " Creditors        | 12,000 |     |  |  |  |
| B 10,000         |        | " Capital A/c      |        |     |  |  |  |
| C 2,000          | 22,000 | A                  | 18,276 |     |  |  |  |
|                  |        | B                  | 11,724 |     |  |  |  |
|                  | 47,000 |                    | 47,000 |     |  |  |  |

**(b) Under Fluctuating Capital Method**

| Dr. Partners' Capital Accounts |            |            |         | Cr.            |         |         |         |
|--------------------------------|------------|------------|---------|----------------|---------|---------|---------|
| Particulars                    | A (Rs.)    | B (Rs.)    | C (Rs.) | Particulars    | A (Rs.) | B (Rs.) | C (Rs.) |
| To Balance b/d                 | --- 10,000 | --- 10,000 | 8,000   | By Balance b/d | 34,000  | 24,000  | ---     |
| " Realisation A/c Loss         |            |            | 10,000  | " Bank A/c     | 10,000  | 10,000  | ---     |
| " Profit & Loss A/c Loss       | 4,000      | 4,000      | 4,000   | " Bank A/c     | ---     | ---     | 2,000   |
| " C's Capital A/c              | 12,000     | 8,000      | ---     | " A's Capital  | ---     | ---     | 12,000  |





|                        |        |        |        |               |        |        |        |
|------------------------|--------|--------|--------|---------------|--------|--------|--------|
| " Bank A/c (bal. fig.) | 18,000 | 12,000 | ---    | " B's Capital | ---    | ---    | 8,000  |
|                        | 44,000 | 34,000 | 22,000 |               | 44,000 | 34,000 | 22,000 |

| Dr.                |        | Bank Account       |        | Cr. |  |
|--------------------|--------|--------------------|--------|-----|--|
| Particulars        | (Rs.)  | Particulars        | (Rs.)  |     |  |
| To Realisation A/c | 25,000 | By Realisation A/c |        |     |  |
| Assets realized    |        | Expenses           | 5,000  |     |  |
| " Capital A/c      |        | " Creditors        | 12,000 |     |  |
| A                  | 10,000 | " Capital A/c      |        |     |  |
| B                  | 10,000 | A                  | 18,000 |     |  |
| C                  | 2,000  | B                  | 12,000 |     |  |
|                    | 47,000 |                    | 47,000 |     |  |

**Illustration 26.**

Ram, Rahim and Robert are partners of the firm ABC sharing profits and losses in the ratio of 5: 3: 2. The Balance Sheet of the firm as on 01.4.2023 is given below:

| Liabilities       | (Rs.)     | Assets      | (Rs.)     |
|-------------------|-----------|-------------|-----------|
| Partners Capital: |           | Goodwill    | 50,000    |
| Ram               | 3,00,000  | Machinery   | 4,55,000  |
| Rahim             | 2,50,000  | Furniture   | 10,000    |
| Robert            | 2,00,000  | Stock       | 2,00,000  |
| General Reserve   | 1,05,000  | Debtors     | 3,00,000  |
| Loan              | 95,000    | Cash & Bank | 35,000    |
| Sundry Creditors  | 1,00,000  |             |           |
|                   | 10,50,000 |             | 10,50,000 |

Partners of firm decided to dissolve the firm. The firm decided to settle the loan creditors directly. Ram took over goodwill for 75,000. Rahim took over machinery and furniture at 90% of book value and sundry creditors at book value.

Robert took over stock at 95% of book value and debtors at 90% of the book value. Partners have to pay cash if the assets taken over had exceeded the amounts due to them.

Prepare:

- Realisation Account;
- Partners Capital Account; and
- Cash Account of the firm to show the dissolution proceedings.

**Solution:**

| Dr.                    |          | Realisation Account     |          | Cr. |  |
|------------------------|----------|-------------------------|----------|-----|--|
| Particulars            | (Rs.)    | Particulars             | (Rs.)    |     |  |
| To Goodwill            | 50,000   | By Loan.                | 95,000   |     |  |
| To Machinery           | 4,55,000 | By Sundry creditors     | 1,00,000 |     |  |
| To Furniture           | 10,000   | By Ram's Capital A/c    | 75,000   |     |  |
| To Stock               | 2,00,000 | By Rahim's Capital A/c  | 4,18,500 |     |  |
| To Debtors             | 3,00,000 | By Robert's Capital A/c |          |     |  |
| To Cash (Loan)         | 95,000   | 95% of 2,00,000         |          |     |  |
| To Rahim's Capital A/c | 1,00,000 | 90% of 3,00,000         | 4,60,000 |     |  |
|                        |          | By Ram's Capital        | 30,750   |     |  |



|  |           |                     |           |
|--|-----------|---------------------|-----------|
|  |           | By Rahim's Capital  | 18,450    |
|  |           | By Robert's Capital | 12,300    |
|  | 12,10,000 |                     | 12,10,000 |

| Dr. Partners' Capital Account |          |          |          | Cr.                |          |          |          |
|-------------------------------|----------|----------|----------|--------------------|----------|----------|----------|
| Particulars                   | Ram      | Rahim    | Robert   | Particulars        | Ram      | Rahim    | Robert   |
| To Realisation A/c            | 75,000   | 4,18,500 | 4,60,000 | By Balance b/d     | 3,00,000 | 2,50,000 | 2,00,000 |
| To Realisation A/c            | 30,750   | 18,450   | 12,300   | By General Reserve | 52,500   | 31,500   | 21,000   |
| To Cash (b/f)                 | 2,46,750 |          |          | By Realisation A/c |          | 1,00,000 | 2,51,300 |
|                               |          |          |          | By Cash A/c (b/f)  |          | 55,450   |          |
|                               | 3,52,500 | 4,36,950 | 4,72,300 |                    | 3,52,500 | 4,36,950 | 4,72,300 |

| Dr. Cash Account      |          | Cr.                |          |
|-----------------------|----------|--------------------|----------|
| Particulars           | (Rs.)    | Particulars        | (Rs.)    |
| To Balance bid        | 35,000   | By Loans A/c       | 95,000   |
| To Rahim Capital A/c  | 55,450   | By Ram Capital A/c | 2,46,750 |
| To Robert Capital A/c | 2,51,300 |                    |          |
|                       | 3,41,750 |                    | 3,41,750 |

**Illustration 27.**

Ram, Rahim and Robert are partners in a firm sharing profits and losses in the proportion of 3:3:2. Their Balance Sheet as on 31.03.2023 was as follows:

| Liabilities               | (Rs.)    | (Rs.)    | Assets            | (Rs.) | (Rs.)    |
|---------------------------|----------|----------|-------------------|-------|----------|
| Partners Capital Account: |          |          | Bank              |       | 55,000   |
| Ram                       | 75,000   |          | Stock             |       | 69,000   |
| Rahim                     | 75,000   |          | Investments       |       | 6,000    |
| Robert                    | 1,00,000 |          | Debtors           |       | 70,000   |
|                           |          | 2,50,000 | Laud and Building |       | 1,25,000 |
| Partners Current          |          |          | Goodwill          |       | 25,000   |
| Accounts:                 |          |          |                   |       |          |
| Ram                       | 15,000   |          |                   |       |          |
| Rahim                     | 25,000   |          |                   |       |          |
| Robert                    | 12,500   | 52,500   |                   |       |          |
| Sundry creditors          |          | 47,500   |                   |       |          |
|                           |          | 3,50,000 |                   |       | 3,50,000 |

They decided to dissolve the firm on 01.04.2023. They report the result realization as follows:  
(Rs.)

|                    |        |                        |
|--------------------|--------|------------------------|
| Land and Buildings | 90,000 | — realized in cash     |
| Debtors            | 60,000 | — realized in cash     |
| Investments        | 5,500  | — taken over by Ram    |
| Stock              | 75,500 | — taken over by Rahim  |
| Goodwill           | 18,000 | — taken over by Robert |

The realization expenses amounted to Rs.2,000. You are required to close the books of accounts of the firm.



Solution:

| Dr                  |          | Realisation Account                 |          | Cr.      |
|---------------------|----------|-------------------------------------|----------|----------|
| Particulars         | (Rs.)    | Particulars                         | (Rs.)    |          |
| To Stock            | 69,000   | By Sundry Creditors                 | 47,500   |          |
| To Investments      | 6,000    | By Bank (assets realized)           | 1,50,000 |          |
| To Debtors          | 70,000   | By Ram's Capital A/c (investments)  | 5,500    |          |
| To Land & Buildings | 1,25,000 | By Rahim's Capital A/c (Stock)      | 75,500   |          |
| To Goodwill         | 25,000   | By Robert's Capital A/c (Goodwill)  | 18,000   |          |
| To Bank (Expenses)  | 2,000    | By Loss transferred to Current A/c: |          |          |
| To Bank (Creditors) | 47,500   | (Rs.)                               |          |          |
|                     |          | Ram                                 | 18,000   |          |
|                     |          | Rahim                               | 18,000   |          |
|                     |          | Robert                              | 12,000   | 48,000   |
|                     | 3,44,500 |                                     |          | 3,44,500 |

| Dr                 |              | Partners' Current Account |                 |                   |              | Cr.            |                 |
|--------------------|--------------|---------------------------|-----------------|-------------------|--------------|----------------|-----------------|
| Particulars        | Ram<br>(Rs.) | Rahim<br>(Rs.)            | Robert<br>(Rs.) | Particulars       | Ram<br>(Rs.) | Rahim<br>(Rs.) | Robert<br>(Rs.) |
| To Realisation A/c | 5,500        | 75,500                    | 18,000          | By Balance b/d By | 15,000       | 25,000         | 12,500          |
| To Realisation A/c | 18,000       | 18,000                    | 12,000          | Capital A/c       | 8,500        | 68,500         | 17,500          |
|                    | 23,500       | 93,500                    | 30,000          |                   | 23,500       | 93,500         | 30,000          |

| Dr.                    |              | Partners' Capital Account |                 |                |              | Cr.            |                 |
|------------------------|--------------|---------------------------|-----------------|----------------|--------------|----------------|-----------------|
| Particulars            | Ram<br>(Rs.) | Rahim<br>(Rs.)            | Robert<br>(Rs.) | Particulars    | Ram<br>(Rs.) | Rahim<br>(Rs.) | Robert<br>(Rs.) |
| To Current A/c         | 8,500        | 68,500                    | 17,500          | By Balance C/d | 75,000       | 75,000         | 1,00,000        |
| To Bank A/c (Bal. Fig) | 66,500       | 6,500                     | 82,500          |                |              |                |                 |
|                        | 75,000       | 75,000                    | 1,00,000        |                | 75,000       | 75,000         | 1,00,000        |

| Dr.                              |          | Bank Account                   |          | Cr. |
|----------------------------------|----------|--------------------------------|----------|-----|
| Particulars                      | (Rs.)    | Particulars                    | (Rs.)    |     |
| To Balance b/d                   | 55,000   | By Realisation A/c (expenses)  | 2,000    |     |
| To Realisation (Assets realized) | 1,50,000 | By Realisation A/c (Creditors) | 47,500   |     |
|                                  |          | By Ram's Capital A/c           | 66,500   |     |
|                                  |          | By Rahim's Capital A/c         | 6,500    |     |
|                                  |          | By Robert's Capital A/c        | 82,500   |     |
|                                  | 2,05,000 |                                | 2,05,000 |     |

**Illustration 28.**

A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2023 was as follows:

| Liabilities | (Rs.)     | Assets                 | (Rs.)    |
|-------------|-----------|------------------------|----------|
| A's Capital | 1,60,000  | Building               | 4,00,000 |
| C's Capital | 1,00,000  | Machinery              | 4,00,000 |
| A's Loan    | 2,00,000  | Furniture and Fixtures | 1,60,000 |
| Creditors   | 10,00,000 | Stock                  | 1,60,000 |



|           |                         |           |
|-----------|-------------------------|-----------|
|           | Book Debts              | 2,00,000  |
|           | Cash at Bank            | 10,000    |
|           | B's Capital (Overdrawn) | 1,30,000  |
| 14,60,000 |                         | 14,60,000 |

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:  
Book debts: 45% less; Building: Rs.1,60,000; Stock: Rs.1,00,000; Machinery: Rs.2,00,000; and  
Furnitures and fixtures; Rs.40,000. Realization expenses were Rs.10,000.

| Partner | Private Assets (Rs.) | Private Liabilities (Rs.) |
|---------|----------------------|---------------------------|
| A       | 2,50,000             | 2,50,000                  |
| B       | 2,00,000             | 1,80,000                  |
| C       | 2,30,000             | 2,50,000                  |

You are required to prepare:

- (i) Realisation Account,
- (ii) Bank Account,
- (iii) Creditors Account,
- (iv) Partners' Capital Account, and
- (v) Deficiency Account.

**Solution:**

| Dr.                        |           | Realisation Account       |               | Cr.   |           |
|----------------------------|-----------|---------------------------|---------------|-------|-----------|
| Particulars                | (Rs.)     | Particulars               |               | (Rs.) |           |
| To Building                | 4,00,000  | By Bank                   |               |       |           |
| To Machinery               | 4,00,000  | Book debts                | 1,10,000      |       |           |
| To Furniture               | 1,60,000  | Building                  | 1,60,000      |       |           |
| To Stock                   | 1,60,000  | Stock                     | 1,00,000      |       |           |
| To Book debts              | 2,00,000  | Machinery                 | 2,00,000      |       |           |
| To Bank - Realisation exp. | 10,000    | Furniture _               | <u>40,000</u> |       | 6,10,000  |
|                            |           | By Partners' Capital A/c: |               |       | 7,20,000  |
|                            |           | (Realisation loss)        |               |       |           |
|                            | 13,30,000 |                           |               |       | 13,30,000 |

| Dr.                    |          | Bank Account                 |  | Cr.      |          |
|------------------------|----------|------------------------------|--|----------|----------|
| Particulars            | (Rs.)    | Particulars                  |  | (Rs.)    |          |
| To Balance b/d         | 10,000   | By Realisation               |  | 10,000   |          |
| To Realisation A/c     | 6,10,000 | By Creditors A/c (Bal. Fig.) |  | 6,30,000 |          |
| To B's Capital A/c     | 20,000   |                              |  |          |          |
| (Excess of B's estate) |          |                              |  |          |          |
|                        | 6,40,000 |                              |  |          | 6,40,000 |

| Dr.                           |           | Creditors Account |  | Cr.       |           |
|-------------------------------|-----------|-------------------|--|-----------|-----------|
| Particulars                   | (Rs.)     | Particulars       |  | (Rs.)     |           |
| To Bank                       | 6,30,000  | By Bal b/d        |  | 10,00,000 |           |
| To Deficiency A/c (Bal. Fig.) | 3,70,000  |                   |  |           |           |
|                               | 10,00,000 |                   |  |           | 10,00,000 |

| Dr.         |         | Partners' Capital Account |         |             |          | Cr.     |          |
|-------------|---------|---------------------------|---------|-------------|----------|---------|----------|
| Particulars | A (Rs.) | B (Rs.)                   | C (Rs.) | Particulars | A (Rs.)  | B (Rs.) | C (Rs.)  |
| To Bal. b/d |         | 1,30,000                  |         | By Bal. b/d | 1,60,000 |         | 1,00,000 |



|                                            |          |          |          |                   |          |          |          |
|--------------------------------------------|----------|----------|----------|-------------------|----------|----------|----------|
| To Realisation loss<br>(7.20,000 in 1:1:1) | 2,40,000 | 2,40,000 | 2,40,000 | By A's Loan A/c   | 2,00,000 |          |          |
| To Deficiency                              | 1,20,000 |          |          | By Bank A/c.      |          | 20,000   |          |
|                                            | 3,60,000 | 3,70,000 | 2,40,000 | By Deficiency A/c |          | 3,50,000 | 1,40,000 |
|                                            |          |          |          |                   | 3,60,000 | 3,70,000 | 2,40,000 |

Dr.

## Deficiency Account

Cr.

| Particulars        | (Rs.)    | Particulars        | (Rs.)    |
|--------------------|----------|--------------------|----------|
| To B's Capital A/c | 3,50,000 | By Creditors A/c   | 3,70,000 |
| To C's Capital A/c | 1,40,000 | By A's Capital A/c | 1,20,000 |
|                    | 4,90,000 |                    | 4,90,000 |

## Illustration 29.

P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2023:

| Liabilities       | (Rs.)    | (Rs.)     | Assets                        | (Rs.)    | (Rs.)     |
|-------------------|----------|-----------|-------------------------------|----------|-----------|
| Capital Accounts: |          |           | Premises Furnitures           |          | 2,80,000  |
| P                 | 7,00,000 |           | Stock-in-Trade                |          | 30,000    |
| T                 | 3,00,000 | 10,00,000 | Trade Debtors                 | 3,50,000 | 2,00,000  |
| Trade Creditors   |          | 3,00,000  | Less: Provision for Bad Debts | 50,000   | 3,00,000  |
|                   |          |           | Cash at Bank                  |          |           |
|                   |          |           | Capital Accounts:             |          | 1,40,000  |
|                   |          |           | Q                             | 2,00,000 |           |
|                   |          |           | R                             | 1,50,000 | 3,50,000  |
|                   |          | 13,00,000 |                               |          | 13,00,000 |

It has been agreed to dissolve the partnership on 1st April, 2023, on basis of the following points agreed upon between the partners:

- P is to take over Trade Debtors at 80% of Book Value (Rs.3,50,000);
- T is to take over the stock in Trade at 95% of the value; and
- R is to discharge Trade Creditors.
- The realisation is: Premises Rs.2,75,000 and Furnitures Rs.25,000.
- The expenses of realisation come to Rs.30,000.
- Q is found insolvent and Rs.21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to prepare:

- Realisation Account
- Bank/Cash Account
- Capital Accounts of the Partners.

Solution:

## In the books of Firm

Dr.

## Realisation Account

Cr.

| Date    | Particulars           | (Rs.)    | Date    | Particulars                    | (Rs.)    |
|---------|-----------------------|----------|---------|--------------------------------|----------|
| 2023    | To Trade debtors A/c  | 3,50,000 | 2023    | By Provision for Bad Debts A/c | 50,000   |
| April 1 | To Stock in Trade A/c | 2,00,000 | April 1 | By Trade Creditor A/c          | 3,00,000 |
|         | To Premises A/c       | 2,80,000 |         | By P's Capital A/c             | 2,80,000 |



|  |                          |           |  |                                                |           |
|--|--------------------------|-----------|--|------------------------------------------------|-----------|
|  | To Furniture A/c         | 30,000    |  | (Trade Debtors taken over)                     |           |
|  | To R's Capital A/c       | 3,00,000  |  | By T's Capital A/c                             | 1,90,000  |
|  | Trade credit discharged) | 30,000    |  | (Stock-in-trade taken over)                    |           |
|  | Co Bank/Cash (Expenses)  |           |  | By Bank A/c<br>(Assets realised)               | 3,00,000  |
|  |                          |           |  | By Partners' Capital A/c                       | 70,000    |
|  |                          |           |  | (P: 28,000: Q: 7,000;<br>R: 14,000: T: 21,000) |           |
|  |                          | 11,90,000 |  |                                                | 11,90,000 |

Dr.

Bank Account

Cr.

| Date    | Particulars               | (Rs.)    | Date    | Particulars                   | (Rs.)    |
|---------|---------------------------|----------|---------|-------------------------------|----------|
| 2023    | To Balance b/d            | 1,40,000 | 2023    | By Realisation A/c (expenses) | 30,000   |
| April 1 | To Realization A/c        | 3,00,000 | April 1 | By Partners' Capital A/c      |          |
|         | To Partner's Capital A/c: |          |         | P:                            | 2,90,430 |
|         | P:                        | 28,000   |         | R:                            | 1,50,000 |
|         | Q:                        | 21,900   |         | T:                            | 54,470   |
|         | R:                        | 14,000   |         |                               |          |
|         | T:                        | 21,000   |         |                               |          |
|         |                           | 5,24,900 |         |                               | 5,24,900 |

Dr.

Partners' Capital Account

Cr.

| Particulars                  | P (Rs.)  | Q (Rs.)  | R (Rs.)  | T (Rs.)  | Particulars                                     | P (Rs.)  | Q (Rs.)  | R (Rs.)  | T (Rs.)  |
|------------------------------|----------|----------|----------|----------|-------------------------------------------------|----------|----------|----------|----------|
| To Balance b/d               | —        | 2,00,000 | 1,50,000 | —        | By Balance b/d                                  | 7,00,000 | —        | —        | 3,00,00  |
| To Realisation A/c           | 2,80,000 | —        | —        | 1,90,000 | By Realisation A/c<br>(Trade Credit discharged) | —        | —        | 3,00,000 | —        |
| To Realisation A/c<br>(Loss) | 28,000   | 7,000    | 14,000   | 21,000   | By Bank/Cash A/c<br>(W.N. 1)                    | 28,000   | —        | 14,000   | 21,000   |
| To Capital A/c (WN-2)        | 129,570  | —        | —        | 55,530   | By Bank/Cash (W.I)                              | —        | 21,900   | —        | —        |
| To Bank/Cash A/c             | 2,90,430 | —        | 1,50,000 | 54,470   | By P's Capital A/c                              | —        | 1,29,570 | —        | —        |
|                              |          |          |          |          | By T's Capital A/c                              | —        | 55,530   | —        | —        |
|                              | 7,28,000 | 2,07,000 | 3,14,000 | 3,21,000 |                                                 | 7,28,000 | 2,07,000 | 3,14,000 | 3,21,000 |

Working Notes :

- (1) Q's deficiency of Rs.1,85,100 (Rs.2,07,000 - Rs.21,900) should be shared by P and Tin the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.
- (2) The amount realised from the estate of Q is Rs.21,900.

## Illustration 30.

Balance Sheet as at 30.10.2023

| Liabilities      | (Rs.)  | Asset               | (Rs.)           |
|------------------|--------|---------------------|-----------------|
| <b>Capitals</b>  |        | <b>Fixed Assets</b> | <b>1,00,000</b> |
| P                | 5,000  |                     |                 |
| Q                | 3,000  |                     |                 |
| R                | 2,000  | Cash                | 10,000          |
| Bank Loan        | 60,000 |                     |                 |
| Sundry Creditors | 40,000 |                     |                 |





|  |          |  |          |
|--|----------|--|----------|
|  | 1,10,000 |  | 1,10,000 |
|--|----------|--|----------|

All the partners were declared insolvent. Profit sharing ratio : 5 : 3 : 2. Assets realized Rs.60,000. Prepare necessary ledger accounts to close the books of the firm.

**Solution:**

| Dr.             |          | Realisation Account                               |          | Cr. |  |
|-----------------|----------|---------------------------------------------------|----------|-----|--|
| Particulars     | (Rs.)    | Particulars                                       | (Rs.)    |     |  |
| To Fixed Assets | 1,00,000 | By Cash A/c (realisation)                         | 60,000   |     |  |
|                 |          | By Partners Capital A/cs<br>(loss on realisation) |          |     |  |
|                 |          | P: 20,000                                         |          |     |  |
|                 |          | Q: 12,000                                         |          |     |  |
|                 |          | R: 8,000                                          | 40,000   |     |  |
|                 | 1,00,000 |                                                   | 1,00,000 |     |  |

| Dr.                        |         |         |         | Cr.               |         |         |         |
|----------------------------|---------|---------|---------|-------------------|---------|---------|---------|
| Partners' Capital Accounts |         |         |         |                   |         |         |         |
| Particulars                | P (Rs.) | Q (Rs.) | R (Rs.) | Particulars       | P (Rs.) | Q (Rs.) | R (Rs.) |
| To Realization A/c         |         |         |         | By Balance b/d    | 5,000   | 3,000   | 2,000   |
|                            | 20,000  | 12,000  | 8,000   | By Deficiency A/c | 15,000  | 9,000   | 6,000   |
|                            | 20,000  | 12,000  | 8,000   |                   | 20,000  | 12,000  | 8,000   |

| Dr.                        |        | Deficiency Account |        | Cr. |  |
|----------------------------|--------|--------------------|--------|-----|--|
| Particulars                | (Rs.)  | Particulars        | (Rs.)  |     |  |
| To Partners Capital A/cs : |        |                    |        |     |  |
| P                          | 15,000 | By Bank Loan A/c   | 18,000 |     |  |
| Q                          | 9,000  | By Creditors       | 12,000 |     |  |
| R                          | 6,000  |                    |        |     |  |
|                            | 30,000 |                    | 30,000 |     |  |

| Dr.               |        | Bank Loan Account |        | Cr. |  |
|-------------------|--------|-------------------|--------|-----|--|
| Particulars       | (Rs.)  | Particulars       | (Rs.)  |     |  |
| To Deficiency A/c | 18,000 | By Balance b/d    | 60,000 |     |  |
| To Cash A/c       | 42,000 |                   |        |     |  |
|                   | 60,000 |                   | 60,000 |     |  |

| Dr.               |        | Creditors Account |        | Cr. |  |
|-------------------|--------|-------------------|--------|-----|--|
| Particulars       | (Rs.)  | Particulars       | (Rs.)  |     |  |
| To Deficiency A/c | 12,000 | By Balance b/d    | 40,000 |     |  |
| To Cash A/c       | 28,000 |                   |        |     |  |
|                   | 40,000 |                   | 40,000 |     |  |

| Dr.                |        | Cash Account     |        | Cr. |  |
|--------------------|--------|------------------|--------|-----|--|
| Particulars        | (Rs.)  | Particulars      | (Rs.)  |     |  |
| To Balance b/d     | 10,000 | By Bank Loan A/c | 42,000 |     |  |
| To Realisation A/c | 60,000 | By Creditors A/c | 28,000 |     |  |
|                    | 70,000 |                  | 70,000 |     |  |

Note : The total deficiency of the partners i.e. the firm is Rs.30,000. This is shared between the external liabilities in the ratio of their amount outstanding Rs.60,000 : Rs.40,000 = 3 : 2

Bank Loan A/c                      Dr.      Rs.18,000  
Creditors A/c                      Dr.      Rs.12,000  
To Deficiency A/c

Rs.30,000

**Illustration 31.**

X was admitted into partnership for 5 years, for which he paid a premium of Rs.1,20,000. After 39 months, the partnership firm was dissolved due to misconduct of Mr. Z, another partner of the firm. Y, being the third partner. Profit Sharing Ratio : Y : Z : X = 5 : 3 : 2.

**Solution:**

X is entitled to claim the refund of premium paid at the time of admission, since the admission was for a fixed term period and the firm is getting dissolved due to a misconduct of Mr.Z, another partner of the firm.

The amount of refund is

= (Total Premium Paid × Unexpired term of the partnership) / Total term of the partnership

= 1,20,000 × 21/60 = Rs.42,000

This shall be shared by the other partners Y and Z in their profit sharing ratio 3 : 2.

|                                                                                                    |     |           |
|----------------------------------------------------------------------------------------------------|-----|-----------|
| Y's Capital A/c                                                                                    | Dr. | Rs.25,200 |
| Z's Capital A/c                                                                                    | Dr. | Rs.16,800 |
| To X's Capital A/c                                                                                 |     | Rs.42,000 |
| (Being premium paid during admission now refunded to X after adjusting capitals of other partners) |     |           |

**Illustration 32.**

Partners M, N and P have called upon you to assist them in winding up the affairs of their partnership on 30th June, 2023. Their Balance Sheet as on that date is given below :

| Liabilities      | (Rs.)    | Assets              | (Rs.)    |
|------------------|----------|---------------------|----------|
| Sundry Creditors | 17,000   | Cash at Bank        | 6,500    |
| Capital          |          | Sundry Debtors      | 22,000   |
| Accounts:        |          | Stock in trade      | 13,500   |
| M                | 67,000   | Plant and Equipment | 99,000   |
| N                | 45,000   | Loan: M             | 12,000   |
| P                | 31,500   | Loan: N             | 7,500    |
|                  | 1,60,500 |                     | 1,60,500 |

(a) The partners share profits and losses in the ratio of 5 : 3 : 2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transaction are as follows:

July:

Rs.16,000 — collected from Debtors; balance is irrecoverable.

Rs.10,000 — received from sale of entire stock.

Rs.1,000 — liquidation expenses paid.

Rs.8,000 — cash retained in the business at the end of the month.

August:

Rs.1,500 — liquidation expenses paid; as part of the payment of his capital, P accepted an equipment for Rs.10,000 (book value Rs.4,000).

Rs.2,500 — cash retained in the business at the end of the month.

September :

Rs.75,000 — received on sale of remaining plant and equipment.

Rs.1,000 — liquidation expenses paid. No cash is retained in the business.

Required: Prepare a Schedule of cash payments as on 30th September, showing how the cash was distributed.

**Solution :**

Statement showing the Distribution of Cash (According to Proportionate Capital Method)

| Particulars                                                     | Creditors<br>(Rs.) | Capital |         |         |
|-----------------------------------------------------------------|--------------------|---------|---------|---------|
|                                                                 |                    | M (Rs.) | N (Rs.) | P (Rs.) |
| A. Balance Due                                                  | 17,000             | 55,000  | 37,500  | 31,500  |
| B. Amount Distributed as on 31st July                           | 17,000             | —       | —       | 6,500   |
| C. Balance Due (A - B)                                          | —                  | 55,000  | 37,500  | 25,000  |
| D. Cash paid to 'N' and<br>Equipment Given to P on 31st August. |                    |         | 4,000   | 10,000  |
| E. Balance Due (C - D)                                          |                    | 55,000  | 33,500  | 15,000  |
| F. Amount Paid to Partners on<br>30th September                 |                    | 41,500  | 25,400  | 9,600   |
| G. Loss on Realisation<br>(Unpaid Balance) [E - F]              |                    | 13,500  | 8,100   | 5,400   |
|                                                                 |                    |         |         |         |

**Working Notes :****(i) Statement showing the Calculation of Highest Relative Capital (Rs.)**

| Particulars                                                                | M      | N      | P      |
|----------------------------------------------------------------------------|--------|--------|--------|
| A Balance of Capital Accounts                                              | 67,000 | 45,000 | 31,500 |
| B Less : Loan                                                              | 12,000 | 7,500  | —      |
| C Actual Capital (A - B)                                                   | 55,000 | 37,500 | 31,500 |
| D Profit Sharing Ratio                                                     | 5      | 3      | 2      |
| E Actual Capital ÷ Profit Sharing Ratio                                    | 11,000 | 12,500 | 15,750 |
| F Proportionate Capitals Taking M's Capital as Base Capital                | 55,000 | 33,000 | 22,000 |
| G Excess of Actual Capitals Over Proportionate<br>Capitals (C - F)         |        | 4,500  | 9,500  |
| H Profit Sharing Ratio                                                     | —      | 3      | 2      |
| I Surplus Capital ÷ Profit Sharing Ratio                                   | —      | 1,500  | 4,750  |
| J Revised Proportionate Capital taking N's<br>Capital as Base Capital      | —      | 4,500  | 3,000  |
| K Excess of Surplus Capital over Revised<br>Proportionate Capitals (G - J) | —      | —      | 6,500  |

Scheme of distribution of available cash : First instalment up to Rs.6,500 will be paid to P. Next instalment up to Rs.7,500 will be distribution between N and P in the ratio of 3 : 2. Balance realisation will be distributed among M, N and P in the ratio of 5 : 3 : 2.

**(ii) Statement showing the Calculation of Cash Available for Distribution**

| Particulars                                              | July<br>(Rs.) | August<br>(Rs.) | September<br>(Rs.) |
|----------------------------------------------------------|---------------|-----------------|--------------------|
| A Opening Balance                                        | 6,500         | 8,000           | 2,500              |
| B Add : Net amount realised<br>(Gross amount — Expenses) | 25,000        | (1,500)         | 74,000             |
| C Less : Closing Balance                                 | 8,000         | 2,500           | —                  |
| D Amount available for distribution (A + B - C)          | 23,500        | 4,000           | 76,500             |



## (iii) Statement showing the Manner of Distribution of amount available in August and September

| Particulars                          | July<br>(Rs.) | August<br>(Rs.) | September<br>(Rs.) |
|--------------------------------------|---------------|-----------------|--------------------|
| First Rs.7,500                       | —             | 4,500           | 3,000              |
| Balance Rs.83,000                    | 41,500        | 24,900          | 16,600             |
| (Cash and Equipment)                 | 41,500        | 29,400          | 19,600             |
| Less : Actual Distribution in August | —             | 4,000           | 10,000             |
| Manner of Distribution in September  | 41,500        | 25,400          | 9,600              |

**Illustration 33.**

The firm of Blue Collars presented you with the following Balance Sheet drawn as on 31st March 2023:

| Liabilities        | (Rs.)    | Assets                 | (Rs.)    |
|--------------------|----------|------------------------|----------|
| Sundry Creditors   | 37,000   | Cash in hand Sundry    | 3,000    |
| Capital Accounts : |          | Debtors Stock in trade | 34,000   |
| L 40,000           |          | Plant and Machinery    | 39,000   |
| K 30,000           |          | Current Accounts :     | 51,000   |
| J 27,000           | 97,000   | K 4,000                |          |
|                    |          | J 3,000                | 7,000    |
|                    | 1,34,000 |                        | 1,34,000 |

Partners shared profits and losses in the ratio of 4 : 3 : 3. Due to difference among the partners, it was decided to wind up the firm, realise the assets and distribute cash among the partners at the end of each month.

The following realisations were made:

(i) May — Rs.15,000 from debtors and Rs.20,000 by sale of stock. Expenses on realisation were Rs.500.

(ii) June — Balance of debtors realised Rs.10,000. Balance of stock fetched Rs.24,000.

(iii) August — Part of machinery was sold for Rs.18,000. Expenses incidental to sale were Rs.600.

(iv) September — Part of machinery valued in the books at Rs.5,000 was taken by K, in part discharge at an agreed value of Rs.10,000. Balance of machinery was sold for Rs.30,000 (net).

Partners decided to keep a minimum cash balance of Rs.2,000 in the first 3 months and Rs.1,000 thereafter.

Required: Show how the amounts due to partners will be settled.

**Solution :**

## (i) Statement showing the Distribution of Cash (According to Proportionate Capital Method)

| Particulars                          | Creditors<br>(Rs.) | Capital |         |         |
|--------------------------------------|--------------------|---------|---------|---------|
|                                      |                    | L (Rs.) | K (Rs.) | J (Rs.) |
| A Amount Due                         | 37,000             | 40,000  | 26,000  | 24,000  |
| B Amount Distribution as on 31st May | 35,500             | —       | —       | —       |
| C Balance Due (A - B)                | 1,500              | 40,000  | 26,000  | 24,000  |
| D Amount Distributed as on 30th June |                    |         |         |         |
| First Rs. 1,500                      | 1,500              |         |         |         |
| Next Rs. 5,333                       | —                  | 5,333   | —       | —       |
| Next Rs. 4,667                       | —                  | 2,667   | 2,000   | —       |



|                                                                                |   |        |         |        |
|--------------------------------------------------------------------------------|---|--------|---------|--------|
| Balance Rs.22,500                                                              | — | 9,000  | 6,750   | 6,750  |
| E Balance Due (C - D)                                                          |   | 23,000 | 17,250  | 17,250 |
| F Amount Distributed as on 31st August                                         |   | 7,360  | 5,520   | 5,520  |
| G Balance Due (E - F)                                                          |   | 15,640 | 11,730  | 11,730 |
| H Add : Profit on Realisation<br>(Rs.41,000 - Rs.39,100)                       |   | 760    | 570     | 570    |
| I Amount Distributed (Including Machinery Taken by<br>K) as on 30th September. |   | 16,400 | 12,300* | 12,300 |
| * Includes Value of Machinery Rs.10,000 and Cash Rs.2,300                      |   |        |         |        |

**Working Notes :**

- (i) Assumption : As the firm is dissolved due to difference among the partners, all partners are presumed to be solvent and the problem has been worked out on the basis of the highest relative capital.
- (ii) Statement showing the Calculation of Highest Relative Capitals

| Particulars                                | L<br>(Rs.) | K<br>(Rs.) | J<br>(Rs.) |
|--------------------------------------------|------------|------------|------------|
| A Actual Capitals                          | 40,000     | 26,000     | 24,000     |
| B Profit Sharing Ratio                     | 4          | 3          | 3          |
| C Actual Capitals ÷ Profit Ratio           | 10,000     | 8,667      | 8,000      |
| D Proportionate Capitals Taking            | 32,000     | 24,000     | 24,000     |
| J's Capital as Base Capital                |            |            |            |
| E Surplus Capital of L and K (A - D)       | 8,000      | 2,000      | —          |
| F Profit Sharing Ratio                     | 4          | 3          | —          |
| G Surplus Capital ÷ Profit Sharing Ratio   | 2,000      | 667        | —          |
| H Revised Proportionate Capital of L and J | 2,667      | 2,000      | —          |
| I Revised Surplus Capital of L (E - H)     | 5,333      | —          | —          |

While distributing surplus among partners, 1st instalment up to Rs.5,333 will be paid to L, next instalment up to Rs.4,667 will be distributed between L and K in the ratio of 4 : 3 and the Balance among L, K and J in the ratio of 4 : 3 : 3.

**(iii) Statement showing the Calculation of Cash available each month**

| Particulars                             | May<br>(Rs.) | June<br>(Rs.) | August<br>(Rs.) | September<br>(Rs.) |
|-----------------------------------------|--------------|---------------|-----------------|--------------------|
| A Opening Balance                       | 3,000        | 2,000         | 2,000           | 1,000              |
| B Add: Amount realised Less Expenses    | 34,500       | 34,000        | 17,400          | 30,000             |
| C Less: Closing balance                 | 2,000        | 2,000         | 1,000           | —                  |
| D Total Cash available for Distribution | 35,500       | 34,000        | 18,400          | 31,000             |
| (A + B - C)                             |              |               |                 |                    |

**(iv)****Dr.****Realisation Account****Cr.**

| Particulars            | (Rs.)  | Particulars              | (Rs.)    |
|------------------------|--------|--------------------------|----------|
| To Sundry Debtors      | 34,000 | By Sundry Creditors      | 37,000   |
| To Stock in trade      | 39,000 | By Cash/Bank             | 1,17,000 |
| To Plant and Machinery | 51,000 | By L (Assets taken over) | 10,000   |
| To Cash/Bank :         |        |                          |          |





|                                      |          |  |          |
|--------------------------------------|----------|--|----------|
| Creditors                            | 37,000   |  |          |
| Expenses                             | 1,100    |  |          |
| To Profit transferred to Capital A/c | 1,900    |  |          |
|                                      | 1,64,000 |  | 1,64,000 |

**Illustration 34.**

A partnership firm was dissolved on 30th June, 2023. Its Balance Sheet on the date of dissolution was as follows:

| Liabilities      | (Rs.)    | Assets        | (Rs.)    |
|------------------|----------|---------------|----------|
| <b>Capitals:</b> |          | Cash          | 5,400    |
| Atrik            | 38,000   | Sundry Assets | 94,600   |
| Mohit            | 24,000   |               |          |
| Rupa             | 18,000   |               |          |
| Loan A/c — Mohit | 5,000    |               |          |
| Sundry Creditors | 15,000   |               |          |
|                  | 1,00,000 |               | 1,00,000 |

The assets were realised in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs.14,500 in full settlement of their account. Expenses of realisation were estimated to be Rs.2,700 but actual amount spent on this account was Rs.2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of Cash, which was realised as follows :

|                               |     |        |
|-------------------------------|-----|--------|
| On 5 <sup>th</sup> July       | Rs. | 12,600 |
| On 30 <sup>th</sup> August    | Rs. | 30,000 |
| On 15 <sup>th</sup> September | Rs. | 40,000 |

The partners shared profits and losses in the ratio of 2 : 2 : 1. Give working notes.

**Solution :**

**Statement Showing the Distribution of Cash**  
(According to Proportionate Capital Method)

| Particulars                               | Creditors<br>(Rs.) | Mohit's Loan<br>(Rs.) | Atrik<br>(Rs.) | Mohit<br>(Rs.) | Rupa<br>(Rs.) |
|-------------------------------------------|--------------------|-----------------------|----------------|----------------|---------------|
| A Balance Due                             | 15,000             | 5,000                 | 38,000         | 24,000         | 18,000        |
| B Cash Paid (Rs.5,400 - Rs.2,700)         | 2,700              | —                     | —              | —              | —             |
| C Balance Unpaid (A - B)                  | 12,300             | 5,000                 | 38,000         | 24,000         | 18,000        |
| D 1st Installment of Rs.12,600            | 11,800             | 800                   | —              | —              | —             |
| E Balance Unpaid (C - D)                  | 500                | 4,200                 | 38,000         | 24,000         | 18,000        |
| F Less: Written-off                       | 500                |                       |                |                |               |
| G 2nd Installment of Rs.30,000            |                    | 4,200                 | 16,320         | 2,320          | 7,160         |
| H Balance Unpaid (E - F - G)              |                    |                       | 21,680         | 21,680         | 10,840        |
| I 3rd Installment<br>(Rs.40,000 + Rs.700) |                    |                       | 16,280         | 16,280         | 8,140         |
| J Unpaid Balance                          |                    |                       |                |                |               |
| (H - I) = Loss on Realisation             |                    |                       | 5,400          | 5,400          | 2,700         |



**Working Notes:****(i) Statement showing the Calculation of Highest Relative Capitals**

| Particulars                                                         | Atrik (Rs.) | Mohit (Rs.) | Rupa (Rs.) |
|---------------------------------------------------------------------|-------------|-------------|------------|
| A Actual Capitals                                                   | 38,000      | 24,000      | 18,000     |
| B Profit-Sharing Ratio                                              | 2           | 2           | 1          |
| C Actual Capitals ÷ Profit Sharing Ratio                            | 19,000      | 12,000      | 18,000     |
| D Proportionate Capitals Taking Mohit's Capital as Base Capital     | 24,000      | 24,000      | 12,000     |
| E Surplus Capital [A-D]                                             | 14,000      | Nil         | 6,000      |
| F Surplus Capital ÷ Profit Sharing Ratio                            | 7,000       | —           | 6,000      |
| G Revised Proportionate Capitals Taking Rupa's Capital as the Basis | 12,000      | —           | 6,000      |
| H Revised Surplus Capital (E - G)                                   | 2,000       | —           | —          |

**(ii) Distribution of Second Instalment of Rs.30,000**

| Particulars                         | Mohit's Loan (Rs.) | Atrik (Rs.) | Mohit (Rs.) | Rupa (Rs.) |
|-------------------------------------|--------------------|-------------|-------------|------------|
| First Rs. 4,200                     | 4,200              | —           | —           | —          |
| Next Rs. 2,000 (Absolute Surplus)   |                    | 2,000       | —           | —          |
| Next Rs.18,000 (Balance of Surplus) |                    | 12,000      | —           | 6,000      |
| Balance Rs. 5,800 (2 : 2 : 1)       | 4,200              | 2,320       | 2,320       | 1,160      |
| Total Rs.30,000                     |                    | 16,320      | 2,320       | 7,160      |

**Illustration 35.**

East, South and North are in partnership sharing profits and losses in the ratio 3 : 2 : 1 respectively. They decide to dissolve the business on 31st July, 2023 on which date their Balance Sheet was as follows :

| Liabilities          | (Rs.)  | Assets             | (Rs.)  |
|----------------------|--------|--------------------|--------|
| Capital Accounts:    |        | Land and Buildings | 30,810 |
| East                 | 38,700 | Motor car          | 5,160  |
| South                | 10,680 | Investment         | 1,080  |
| North                | 11,100 | Stock              | 19,530 |
| Loan account : North | 3,000  | Debtors            | 11,280 |
| Creditors            | 10,320 | Cash               | 5,940  |
|                      | 73,800 |                    | 73,800 |

The assets were realised piecemeal as follows and it was agreed that cash should be distributed as and when realised:

|                  |                                                      | (Rs.)  |
|------------------|------------------------------------------------------|--------|
| 14 <sup>th</sup> | August                                               | 10,380 |
| 20 <sup>th</sup> | September                                            | 27,900 |
| 16 <sup>th</sup> | October                                              | 3,600  |
|                  | North took over investment as follows at a value of: |        |
| 15 <sup>th</sup> | November                                             | 1,260  |
| 18 <sup>th</sup> | November                                             | 19,200 |

Dissolution expenses were originally provided for an estimated amount of Rs.2,700, but actual amount spent on 25th October was Rs.1,920. The creditors were settled for Rs.10,080.



**Required: Prepare a statement showing distribution of cash amongst the partners, according to Proportionate Capital Method.**

**Solution :**

**Statement Showing the Distribution of Cash  
(According to Proportionate Capital Method)**

| Particulars                                                                 | Creditors<br>(Rs.) | Loan<br>(Rs.) | East<br>(Rs.) | South<br>(Rs.) | North<br>(Rs.) |
|-----------------------------------------------------------------------------|--------------------|---------------|---------------|----------------|----------------|
| A Balance Due                                                               | 10,320             | 3,000         | 38,700        | 10,680         | 11,100         |
| B Paid to Creditors                                                         |                    |               |               |                |                |
| [ Rs.5,940 - Rs.2,700]                                                      | 3,240              | —             | —             | —              | —              |
| C Balance Due (A - B)                                                       | 7,080              | 3,000         | 38,700        | 10,680         | 11,100         |
| D Amount paid on 14th August                                                | 6,840              | 3,000         | 540           |                |                |
| E Less: Written off                                                         | 240                | —             | 38,160        | 10,680         | 11,100         |
| F Balances Due (D - E)                                                      | (240)              | —             | —             | —              | —              |
| G Amount paid on 20th September                                             |                    |               | 38,160        | 10,680         | 11,100         |
| (i) First 4,860 (i.e. Rs.5,400 - Rs.540)                                    |                    |               | 4,860         | —              | —              |
| (ii) Balance Rs.23,040                                                      |                    |               | 33,300        | 10,680         | 11,100         |
| H Balance Due (F - G)                                                       |                    |               | 17,280        | —              | 5,760          |
| I Amount paid on 16th October                                               |                    |               | 16,020        | 10,680         | 5,340          |
| J Balance Due (H-I)                                                         |                    |               | 1,800         | 1,200          | 600            |
| K Amount paid on 25th October (being excess over estimated expenses Rs.780) |                    |               | 14,220        | 9,480          | 4,740          |
| L Balance due (J - K)                                                       |                    |               | 390           | 260            | 130            |
| M Cash brought in by North                                                  |                    |               | 13,830        | 9,220          | 4,610          |
| N Balance Due (L-M)                                                         |                    |               | 630           | 420            | 210            |
| O Amount paid on 18th November                                              |                    |               | 13,200        | 8,800          | 4,400          |
| P Balance unpaid (N-O)                                                      |                    |               | 9,600         | 6,400          | 3,200          |
|                                                                             |                    |               | 3,600         | 2,400          | 1,200          |

**Working Note :**

**Statement Showing the Calculation of Highest Relative Capitals**

| Particulars                                                                                | East<br>(Rs.) | South<br>(Rs.) | North<br>(Rs.) |
|--------------------------------------------------------------------------------------------|---------------|----------------|----------------|
| A Actual Capitals                                                                          | 38,700        | 10,680         | 11,100         |
| B Profit Sharing Ratio                                                                     | 3             | 2              | 1              |
| C Actual Capital ÷ Profit Sharing Ratio                                                    | 12,900        | 5,340          | 11,100         |
| D Proportionate capitals taking South's Capital as Base Capital (being the smallest) × PSR | 16,020        | 10,680         | 5,340          |
| E Surplus capital (i.e. Excess of Actual Capitals over proportionate capital) [A-D]        | 22,680        | —              | 5,760          |
| F Profit Sharing Ratio                                                                     | 3             | —              | 1              |
| G Surplus Capital ÷ Profit Sharing Ratio                                                   | 7,560         | —              | 5,760          |
| H Revised Proportionate Capitals taking North's Capital as Base Capital                    | 17,280        | —              | 5,760          |
| Revised Surplus Capital [E-H]                                                              |               |                |                |
| I Distribution Sequence                                                                    | 5,400         | —              | —              |



|                                                                  |        |       |       |
|------------------------------------------------------------------|--------|-------|-------|
| J First Rs.5,400 [To East]                                       | 5,400  | —     | —     |
| Next Rs.23,040 [To East & North in the ratio of 3:1]             | 17,280 | —     | 5,760 |
| Balance Rs.19,200 [To East, South & North in the ratio of 3:2:1] | 9,600  | 6,400 | 3,200 |

### PROBLEMS ON MAXIMUM LOSS METHOD

#### Illustration 36.

The following is the Balance Sheet of X, Y and Z, who were sharing in the ratio 5 : 3 : 2, on 31st December, 2023 when they decided to dissolve the partnership.

| Liabilities      | (Rs.)     | Assets       | (Rs.)     |
|------------------|-----------|--------------|-----------|
| Capital Account  |           | Cash         | 20,000    |
| - X              | 55,000    | Other assets | 13,04,000 |
| - Y              | 37,500    |              |           |
| - Z              | 31,500    |              |           |
| Loan Account - Y | 2,00,000  |              |           |
| Creditors        | 10,00,000 |              |           |
|                  | 13,24,000 |              | 13,24,000 |

Note : There was a bill for Rs.4,000 due on 01.04.2024 under discount.

Other assets realised as under :

1st January: Rs.8,85,000, 1st February: Rs.3,00,000; 1st March: Rs.8,000; 1st April: Rs.5,000; 1st May: Rs.10,000. The expenses of realisation were expected to be Rs.5,000, but ultimately amounted to Rs.4,000 only and were paid on 1st May. The acceptor of the bill under discount met the bill on the due date.

Required : Prepare a statement showing the monthly distribution of cash according to Maximum Loss Method.

**Solution:**

Statement showing the Distribution towards Firm's Outside debts' & Partners' Loan

| Particulars                                                    | Creditors (Rs.) | Y's Loan (Rs.) |
|----------------------------------------------------------------|-----------------|----------------|
| A Amount Due                                                   | 10,00,000       | 2,00,000       |
| B Amount paid on 1st Jan. (Rs.20,000 + Rs.8,85,000 - Rs.5,000) | 9,00,000        | —              |
| C Balance Due (A - B)                                          | 1,00,000        | 2,00,000       |
| D Amount paid on 1st February                                  | 1,00,000        | 2,00,000       |
| E Balance Due (C - D)                                          | Nil             | Nil            |

### Statement showing the Distribution of Cash (According to Maximum Loss Method)

| Particulars                                                                             | Total (Rs.) | X (Rs.) | Y (Rs.) | Z (Rs.) |
|-----------------------------------------------------------------------------------------|-------------|---------|---------|---------|
| (i) Distribution of Rs.4,000                                                            |             |         |         |         |
| A. Amount due as on 1st March                                                           | 1,24,000    | 55,000  | 37,500  | 31,500  |
| Less : Max. Possible Loss if the remaining nothing (Rs.1,24,000 - Rs.4,000)             |             |         |         |         |
| in the ratio of 5 : 3 : 2                                                               | 1,20,000    | 60,000  | 36,000  | 24,000  |
| Note : Cash available = Rs.8,000 - Rs.4,000<br>(Reserved for discounted B/R) = Rs.4,000 |             |         |         |         |
| Adjustment of X's Deficiency between Y and Z in their Capital ratio i.e. 375 : 315      | —           | 5,000   | (2,717) | (2,283) |



|                                                                                           |               |              |              |              |
|-------------------------------------------------------------------------------------------|---------------|--------------|--------------|--------------|
|                                                                                           | —             | —            | (1,217)      | 5,217        |
| Adjustment of Y's Deficiency (charged to Z)                                               | —             | —            | 1,217        | (1,217)      |
| B. Cash paid as on 1st March                                                              | 4,000         | —            | —            | 4,000        |
| (ii) Distribution of Rs.9,000 (including amount kept reserved for B/R no longer required) |               | —            |              |              |
| C. Balance due (A-B)                                                                      | 1,20,000      | 55,000       | 37,500       | 27,500       |
| Less : Max. Possible Loss                                                                 |               |              |              |              |
| (Rs.1,20,000 - Rs.9,000)                                                                  | 1,11,000      | 55,500       | 3,300        | 22,200       |
| Note: Cash available = Rs.5,000 + Rs.4,000 = Rs.9,000                                     |               | (500)        | 4,200        | 5,300        |
| Adjustment of X's Deficiency between Y and Z in their Capital ratio i.e. 375 : 315        | —             | 500          | (272)        | (228)        |
| D. Cash paid as on 1st April                                                              | 9,000         | —            | 3,928        | 5,072        |
| (iii) Distribution of Rs.11,000                                                           |               |              |              |              |
| E. Balance due (C-D)                                                                      | 1,11,000      | 55,000       | 33,572       | 22,428       |
| Less: Max. Possible Loss                                                                  | ,00,000       | 50,000       | 30,000       | 20,000       |
| (Rs.1,11,000 - Rs.11,000)                                                                 |               |              |              |              |
| F. Cash paid as on 1st May                                                                | <u>11,000</u> | <u>5,000</u> | <u>3,572</u> | <u>2,428</u> |
| G. Unpaid Balance (E - F)                                                                 | 1,00,000      | 50,000       | 30,000       | 20,000       |

**Illustration 37.**

The following is the Balance Sheet of P, Q and R on 31st August, 2023 when they decided to dissolve the partnership. They share profits in the ratio of 2 : 2 : 1.

| Liabilities | (Rs.)  | Assets        | (Rs.)  |
|-------------|--------|---------------|--------|
| Creditors   | 2,000  | Sundry Assets | 48,500 |
| P's Loan    | 5,000  | Cash          | 500    |
| P's Capital | 15,000 |               |        |
| Q's Capital | 18,000 |               |        |
| R's Capital | 9,000  |               |        |
|             | 49,000 |               | 49,000 |

The assets realised the following sums in instalments.

I— Rs.1,000, II— Rs.3,000, III— Rs.3,900, IV— Rs.6,000, V— Rs.20,000.

The expenses of realisation were expected to be Rs.500 but ultimately amounted to Rs.400 only.

Required : Show, how at each stage, the cash received should be distributed among partners according to Maximum Loss Method.

**Solution :**

Statement showing the Realisation and Distribution of Cash

| Installments                                                           | Realisation<br>(Rs.) | Creditors<br>(Rs.) | Partners'<br>Loans<br>(Rs.) | Partners'<br>Capital<br>(Rs.) |
|------------------------------------------------------------------------|----------------------|--------------------|-----------------------------|-------------------------------|
| (I) (After taking into account cash and amount set aside for expenses) | 1,000                | 1,000              |                             |                               |
| (II)                                                                   | 3,000                | 1,000              | 2,000                       |                               |
| (III)                                                                  | 3,900                |                    | 3,000                       | 900                           |
| (IV)                                                                   | 6,000                | —                  | —                           | 6,000                         |
| (V) (including saving in expenses)                                     | 20,100               | —                  | —                           | 20,100                        |
|                                                                        | 34,000               | 2,000              | 5,000                       | 27,000                        |



**Statement showing the Distribution of Cash among partners  
According to Maximum Loss Method)**

| Particulars                                                                                                             | Total<br>(Rs.) | P (Rs.)       | Q (Rs.)       | R (Rs.)      |
|-------------------------------------------------------------------------------------------------------------------------|----------------|---------------|---------------|--------------|
| (i) Distribution of Rs.900                                                                                              |                |               |               |              |
| A. Balance Due                                                                                                          | 42,000         | 15,000        | 18,000        | 9,000        |
| B. Less : Max. Possible loss, if the remaining assets prove to be worthless                                             |                |               |               |              |
| (Rs.42,000 - Rs.900) in the ratio (2 : 2 : 1)                                                                           | 41,100         | 16,440        | 16,440        | 8,220        |
| C. Deficiency of P's Capital charged to Q and R in the ratio of their Capitals i.e., 18,000 : 9,000 (Garner vs. Murray) | —              | 1,440         | (960)         | (480)        |
| D. Amount paid                                                                                                          | 900            | —             | 600           | 300          |
| (ii) Distribution of Rs.6,000                                                                                           |                |               |               |              |
| E. Balance after payment (A - D)                                                                                        | 41,100         | 15,000        | 17,400        | 8,700        |
| F. Less : Max. Possible loss                                                                                            |                |               |               |              |
| (Rs.41,100 - Rs.6,000)                                                                                                  | <u>35,100</u>  | <u>14,040</u> | <u>14,040</u> | <u>7,020</u> |
| G. Amount paid                                                                                                          | <u>6,000</u>   | <u>960</u>    | <u>3,360</u>  | <u>1,680</u> |
| (iii) Distribution of Rs.20,100                                                                                         |                |               |               |              |
| H. Balance after payment (E - G)                                                                                        | 35,100         | 14,040        | 14,040        | 7,020        |
| I. Less : Max. Possible loss                                                                                            |                |               |               |              |
| (Rs.35,100 - Rs.20,100)                                                                                                 | <u>15,000</u>  | <u>6,000</u>  | <u>6,000</u>  | <u>3,000</u> |
| J. Amount paid                                                                                                          | <u>20,100</u>  | <u>8,040</u>  | <u>8,040</u>  | <u>4,020</u> |
| K. Unpaid balance (H - J)                                                                                               | 15,000         | 6,000         | 6,000         | 3,000        |

**Illustration 38.**

Rahul, Roshan and Rohan were in partnership sharing profits and losses in the ratio of 3 : 2 : 1 respectively. The partnership was dissolved on 30th June, 2023 when the position was as follows :

| Liabilities | (Rs.)           | Assets         | (Rs.)           |
|-------------|-----------------|----------------|-----------------|
| Capitals :  |                 | Cash in hand   | 28,000          |
| Rahul       | 1,40,000        | Sundry Debtors | 2,94,000        |
| Roshan      | 70,000          | Stock in trade | 1,12,000        |
| Rohan       | 14,000          |                |                 |
| Creditors   | 2,10,000        |                |                 |
|             | <u>4,34,000</u> |                | <u>4,34,000</u> |

There was bill for Rs.10,000, due on 30th November, 2023, under discount. It was agreed that the net realisations should be distributed in their due order (at end of each month) but as safely as possible. The realisations and expenses were as under:

| Date                       | Stock and Debtors<br>(Rs.) | Expenses<br>(Rs.) |
|----------------------------|----------------------------|-------------------|
| 31 <sup>st</sup> July      | 84,000                     | 7,000             |
| 31 <sup>st</sup> August    | 1,26,000                   | 5,400             |
| 30 <sup>th</sup> September | 70,000                     | 4,900             |
| 31 <sup>st</sup> October   | 77,000                     | 3,500             |





|                           |        |       |
|---------------------------|--------|-------|
| 30 <sup>th</sup> November | 35,500 | 3,500 |
|---------------------------|--------|-------|

The Stock was completely disposed off and amounts due from debtors were realised, the balance being irrecoverable. The acceptor of the bill under discount met the bill on the due date. Prepare a Statement showing the piecemeal distribution of cash according to Maximum Loss Method.

Solution:

**Statement showing the Distribution of Cash**  
(According to Maximum Loss Method)

| Particulars                                                        | Creditors<br>(Rs.) | Rahul<br>(Rs.) | Roshan<br>(Rs.) | Rohan<br>(Rs.) |
|--------------------------------------------------------------------|--------------------|----------------|-----------------|----------------|
| A. Balance Due                                                     | 2,10,000           | 1,40,000       | 70,000          | 14,000         |
| B. Cash on hand on 30th June paid to creditors                     | 28,000             | —              | —               | —              |
| C. Balance outstanding (A - B)                                     | 1,82,000           | 1,40,000       | 70,000          | 14,000         |
| D. Cash paid on 31st July                                          | 77,000             | —              | —               | —              |
| E. Balance outstanding (C - D)                                     | 1,05,000           | 1,40,000       | 70,000          | 14,000         |
| F. Rs.1,05,000 paid to creditors on 31st August                    | 1,05,000           | —              | —               | —              |
| G. Balance outstanding (E - F)                                     | —                  | 1,40,000       | 70,000          | 14,000         |
| Balance available for distribution                                 |                    |                |                 |                |
| (Rs.1,20,600 - Rs.1,05,000 - Rs.10,000) = Rs.5,600                 |                    |                |                 |                |
| Less : Maximum loss (Rs.2,24,000 - Rs.5,600) in ratio of 3 : 2 : 1 |                    | (1,09,200)     | (72,800)        | (36,400)       |
| Balance                                                            |                    | 30,800         | (2,800)         | (22,400)       |
| Deficiency of Roshan and Rohan's capital charged to Rahul          |                    | (25,200)       | 2,800           | 22,400         |
| H. Cash paid on 31st August                                        |                    | 5,600          | —               | —              |
| I. Balance outstanding (G - H)                                     |                    | 1,34,400       | 70,000          | 14,000         |
| Less : Maximum Loss (Rs.2,18,400 - Rs.65,100)                      |                    | (76,650)       | (51,100)        | (25,550)       |
| Balance                                                            |                    | 57,750         | 18,900          | (11,550)       |
| Deficiency of Rohan's capital charged to Rahul and Roshan (2 : 1)  |                    | (7,700)        | (3,850)         | 11,550         |
| J. Cash paid on 30th September                                     |                    | 50,050         | 15,050          | —              |
| K. Balance outstanding (I - J)                                     |                    | 84,350         | 54,950          | 14,000         |
| Less : Maximum loss (Rs.1,53,300 - Rs.73,500)                      |                    | (39,900)       | (26,600)        | (13,300)       |
| L. Cash paid on 31st October                                       |                    | 44,450         | 28,350          | 700            |
| M. Balance outstanding (K - L)                                     |                    | 39,900         | 26,600          | 13,300         |
| Less : Maximum loss (Rs.79,800 - Rs.42,000*)                       |                    | (18,900)       | (12,600)        | (6,300)        |
| N. Cash paid on 30th November                                      |                    | 21,000         | 14,000          | 7,000          |
| O. Unpaid Balance (M - N)                                          |                    | 18,900         | 12,600          | 6,300          |

\*Note : Cash available on 30th November = (Rs.35,500 - Rs.3,500) + Rs.10,000 (Reserved for Discounted B/R, now no longer required) = Rs.42,000.



**Illustration 39.**

E, F and G were partners in a firm, sharing profits and losses in the ratio of 3 : 2 : 1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2023. The Balance Sheet on that date was as follows :

| Liabilities                | (Rs.)           | Assets                        | (Rs.)           |
|----------------------------|-----------------|-------------------------------|-----------------|
| <b>Capitals Accounts :</b> |                 | <b>Machinery</b>              | <b>1,54,000</b> |
| E 1,13,100                 |                 | <b>Furniture and Fittings</b> | <b>25,800</b>   |
| F 35,400                   |                 | <b>Investments</b>            | <b>5,400</b>    |
| G 31,500                   | 1,80,000        | <b>Stock</b>                  | <b>97,700</b>   |
| <b>Current Accounts :</b>  |                 | <b>Debtors</b>                | <b>56,400</b>   |
| E 26,400                   |                 | <b>Bank</b>                   | <b>29,700</b>   |
| G 6,000                    | 32,400          | <b>Current Account : F</b>    | <b>18,000</b>   |
| <b>Reserves</b>            | <b>1,08,000</b> |                               |                 |
| <b>Loan Account : G</b>    | <b>15,000</b>   |                               |                 |
| <b>Creditors</b>           | <b>51,600</b>   |                               |                 |
|                            | <b>3,87,000</b> |                               | <b>3,87,000</b> |

The realisation of assets is spread over the next few months as follows:

February, Debtors, Rs.51,900; March : Machinery, Rs.1,39,500; April, Furniture, etc. Rs.18,000; May : G agreed to take over Investments at Rs.6,300; June, Stock, Rs.96,000.

Dissolution expenses, originally provided, were Rs.13,500, but actually amounted to Rs.9,600 and were paid on 30th April. The partners decided that after creditors were settled for Rs.50,400, all cash received should be distributed at the end of each month in the most equitable manner.

Required: Prepare a statement of actual cash distribution as is received following "Maximum Loss basis".

**Solution :**

**Statement showing the Distribution of Cash**  
(According to Maximum Loss Method)

| Particular                                                                                   | Creditors G's Loan<br>(Rs.) |        | Capital Accounts |          |          |                |
|----------------------------------------------------------------------------------------------|-----------------------------|--------|------------------|----------|----------|----------------|
|                                                                                              |                             |        | E (Rs.)          | F (Rs.)  | G (Rs.)  | Total<br>(Rs.) |
| A Balance due<br>[Creditors net of discount]                                                 | 51,600                      | 15,000 | 1,93,500         | 53,400   | 55,500   | 3,02,400       |
| B Paid to Creditors and G                                                                    | 50,400                      | 15,000 | —                | —        | —        | —              |
| C Balance due (A - B) Max. Possible                                                          | —                           | —      | 1,93,500         | 53,400   | 55,500   | 3,02,400       |
| Loss if remaining assets fetch nothing<br>(Rs.3,02,400 - Rs.2,700) in the ratio of 3 : 2 : 1 |                             |        | 1,49,850         | 99,900   | 49,950   | 2,99,700       |
| Adjustment of F's Deficiency between E and G in<br>the ratio of                              |                             |        | 43,650           | (46,500) | 5,550    |                |
| their fixed capitals i.e. Rs.1,13,100 : Rs.31,500                                            |                             |        | (36,370)         | 46,500   | (10,130) |                |
| Balance Adjustment of G's Deficiency<br>(charged to E)                                       |                             |        | 7,280            | —        | (4,580)  |                |
|                                                                                              |                             |        | (4,580)          |          | 4,580    | 2,700          |
| D Cash paid to E on 28th Feb.                                                                |                             |        | 2,700            | —        | —        | 2,99,700       |
| E Balance due (C - D)                                                                        |                             |        | 1,90,800         | 53,400   | 55,500   |                |
| Possible Max. Loss (Rs.2,99,700 - Rs.1,39,500)                                               |                             |        |                  |          |          | 1,60,200       |
| Cash paid on 31st Mar.                                                                       |                             |        | 80,100           | 53,400   | 26,700   | 1,39,500       |
| Balance Due (E - F)                                                                          |                             |        | 1,10,700         | —        | 28,800   | 1,60,200       |



|   |                                        |  |  |        |        |        |          |
|---|----------------------------------------|--|--|--------|--------|--------|----------|
|   | Possible Max. Loss                     |  |  | 80,100 | 53,400 | 26,700 |          |
|   | (Rs.1,60,200 - Rs.21,900)              |  |  |        |        |        | 1,38,300 |
| H | Cash paid on 30th April                |  |  | 69,150 | 46,100 | 23,050 | 21,900   |
| I | Balance Due (G - H)                    |  |  | 10,950 | 7,300  | 3,650  | 1,38,300 |
| J | Maximum Loss (Rs.1,38,300 - Rs. 6,300) |  |  | 69,150 | 46,100 | 23,050 |          |
|   |                                        |  |  |        |        |        | 1,32,000 |
| K | Cash brought in by G                   |  |  | 66,000 | 44,000 | 22,000 |          |
| L | Balance Due (I + K)                    |  |  | 3,150  | 2,100  | 1,050  | (6,300)  |
|   | Possible Max. Loss                     |  |  | 66,000 | 44,000 | 22,000 | 1,32,000 |
|   | (Rs.1,32,000 - Rs.96,000)              |  |  | 18,000 | 12,000 | 6,000  | 36,000   |
| M | Cash paid on 30th June                 |  |  | 48,000 | 32,000 | 16,000 | 96,000   |
| N | Unpaid Balance (L - N)                 |  |  | 18,000 | 12,000 | 6,000  | 36,000   |

Working Note :

**Statement showing the Calculation of Cash Available for Distribution**

| Particular                           | February<br>(Rs.) | March<br>(Rs.) | April<br>(Rs.) | May<br>(Rs.) | June<br>(Rs.) |
|--------------------------------------|-------------------|----------------|----------------|--------------|---------------|
| A Opening Balance                    | 29,700            | —              | —              | —            | —             |
| B Add : Net Amount realised          | 51,900            | 1,39,500       | 18,000         | —            | 96,000        |
| C Less : Provision for Expenses      | 13,500            | —              | —              | —            | —             |
| D Add : Provision no longer required | —                 | —              | 3,900          | —            | —             |
| E Cash available for distribution    | 68,100            | 1,39,500       | 21,900         | —            | 96,000        |
| (A + B - C + D)                      |                   |                |                |              |               |

**Illustration 40.**

A and B carry on independent business and their position on 31.03.2023 are reflected in the Balance Sheet given below :

| Liabilities          | A (Rs.)  | B (Rs.)  | Assets                 | A (Rs.)  | B (Rs.)  |
|----------------------|----------|----------|------------------------|----------|----------|
| Sundry creditors for | 1,10,000 | 47,000   | Stock-in-trade         | 1,70,000 | 98,000   |
| purchases            |          |          | Sundry Debtors         | 89,000   | 37,000   |
| Sundry creditors for | 750      | 2,000    | Cash at bank           | 13,000   | 7,500    |
| expenses             |          |          | Cash in hand           | 987      | 234      |
| Bills payable        | 12,500   | —        | Furniture and Fixtures | 2,750    | 1,766    |
| Capital A/c          | 1,53,000 | 95,500   | Investments            | 513      | —        |
|                      | 2,76,250 | 1,44,500 |                        | 2,76,250 | 1,44,500 |

Both of them want to form a partnership firm from 1.4.2023 in the style of AB & Co. on the following terms:

- The capital of the partnership firm would be Rs.3,00,000 and to be contributed by them in the ratio of 2:1.
- The assets of the individual businesses would be evaluated by C at which values, the firm will take them over and the value would be adjusted against the contribution due by A and B.
- C gave his valuation report as follows :

Assets of A : Stock-in trade to be written-down by 15% and a portion of the sundry debtors amounting to Rs.9,000 estimated unrealisable; furniture and fixtures to be valued at Rs.2,000 and investments to be taken at market value of Rs.1,000.

Assets of B : Stocks to be written-up by 10% and sundry debtors to be admitted at 85% of their value; rest of the assets to be assumed at their book values.



(d) The firm is not to consider any creditors other than the dues on account of purchases made.

(e) Creditors for expenses waived their claims.

You are required to pass necessary Journal entries in the books of A and B. Also prepare the opening Balance Sheet of the firm as on 01.04.2023.

**Solution :**

**In the books of  
A Journal**

| Date          | Particulars                                                                                                                                                                                                               | Dr. (Rs.)                 | Cr. (Rs.)                                           |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------------------------------|
| 2023<br>Apr.1 | Realisation A/c Dr.<br>To Stock-in-trade A/c<br>To Sundry Debtors A/c<br>To Cash at bank A/c To Cash in hand A/c<br>To Furniture & Fixture A/c<br>To Investments A/c<br>(Transfer of different Assets to Realisation A/c) | 2,76,250                  | 1,70,000<br>89,000<br>13,000<br>987<br>2,750<br>513 |
|               | Creditors for Goods A/c Dr.<br>Creditors for Expenses A/c Dr.<br>Bills Payable A/c Dr.<br>To Realisation A/c<br>(Transfer of different liabilities to Realisation A/c)                                                    | 1,10,000<br>750<br>12,500 | 1,23,250                                            |
|               | AB & Co. A/c (Note 1) Dr.<br>To Realisation A/c<br>(Purchase consideration due)                                                                                                                                           | 1,18,987                  | 1,18,987                                            |
|               | Capital A/c Dr.<br>To Realisation A/c<br>(Realisation loss transferred to Capital A/c)                                                                                                                                    | 34,013                    | 34,013                                              |
|               | Capital in AB & Co. A/c Dr.<br>To AB & Co. A/c<br>(Settlement of purchase consideration)                                                                                                                                  | 1,18,987                  | 1,18,987                                            |
|               | Capital A/c Dr.<br>To Capital in AB & Co. A/c<br>(Final adjustment to close the books of account)                                                                                                                         | 1,18,987                  | 1,18,987                                            |

**In the books of B  
Journal**

| Date          | Particulars                                                                                                                                                                                            | Dr. (Rs.)       | Cr. (Rs.)                                 |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------------------------------|
| 2023<br>Apr.1 | Realisation A/c Dr.<br>To Stock-in-trade A/c<br>To Sundry Debtors A/c<br>To Cash at bank A/c<br>To Cash in hand A/c<br>To Furniture & Fixture A/c<br>(Transfer of different Assets to Realisation A/c) | 1,44,500        | 98,000<br>37,000<br>7,500<br>234<br>1,766 |
|               | Creditors for Goods A/c Dr.<br>Creditors for Expenses A/c Dr.<br>To Realisation A/c                                                                                                                    | 47,000<br>2,000 | 49,000                                    |



|      | (Transfer of different liabilities to Realisation A/c)                                            |           |           |
|------|---------------------------------------------------------------------------------------------------|-----------|-----------|
|      | AB & Co. A/c Dr.<br>To Realisation A/c<br>(Purchase consideration due )                           | 1,01,750  | 1,01,750  |
| Date | Particulars                                                                                       | Dr. (Rs.) | Cr. (Rs.) |
|      | Realisation A/c Dr.<br>To Capital A/c<br>(Realisation Profit transferred to Capital A/c)          | 6,250     | 6,250     |
|      | Capital in AB & Co. A/c Dr.<br>To AB & Co. A/c<br>(Settlement of purchase consideration)          | 1,01,750  | 1,01,750  |
|      | Capital A/c Dr.<br>To Capital in AB & Co. A/c<br>(Final adjustment to close the books of account) | 1,01,750  | 1,01,750  |

**Balance Sheet of AB & Co. as on 01.04.2023**

| Liabilities                    | (Rs.)    | Assets                            | (Rs.)    |
|--------------------------------|----------|-----------------------------------|----------|
| Capital Accounts :             |          | Furniture & Fittings              | 3,766    |
| A                              | 2,00,000 | Investments                       | 1,000    |
| B                              | 1,00,000 | Stock-in-trade                    | 2,52,300 |
| Sundry creditors for purchases | 1,57,000 | Sundry Debtors                    | 1,11,450 |
| Bills payable                  | 12,500   | Cash at bank                      | 99,763   |
|                                |          | (13,000 + 7,500 + 81,013 - 1,750) |          |
|                                |          | Cash in hand (987 + 234)          | 1,221    |
|                                | 4,69,500 |                                   | 4,69,500 |

**Working Notes :****(1) Calculation of purchase consideration :**

| Particulars                                             | A (Rs.)      | B (Rs.)      |
|---------------------------------------------------------|--------------|--------------|
| Furniture                                               | 2,000        | 1,776        |
| Investments                                             | 1,000        | -            |
| Stock-in-trade                                          | 1,44,500     | 1,07,800     |
| Sundry Debtors                                          | 80,000       | 31,450       |
| Cash at bank                                            | 13,000       | 7,500        |
| Cash in hand                                            | 987          | 234          |
|                                                         | 2,41,487     | 1,48,750     |
| Less : Sundry creditors for purchases                   | 1,10,000     | 47,000       |
| Bills payable (Assumed arising out of credit purchases) | 12,500       | -            |
| Net assets taken over by the AB & Co.                   | 1,18,987     | 1,01,750     |
| Capital as per agreement                                | 2,00,000     | 1,00,000     |
| Less: Net assets taken over                             | 1,18,987 (+) | 1,01,750 (-) |
| Cash to be introduced (+) / withdrawn (-)               | 81,013       | 1,750        |

**Illustration 41.**

Following are the Balance Sheets of partners X and Y (sharing profits and losses in the ratio of their capital) and the sole proprietor Z as on 31.03.2023 :

| Liabilities | Partners X & Y | Sole Proprietor Z | Assets           | Partners X & Y | Sole Proprietor Z |
|-------------|----------------|-------------------|------------------|----------------|-------------------|
| Capital     |                |                   | Goodwill         | -              | 2,000             |
| X           | 15,000         | -                 | Building         | 25,000         | -                 |
| Y           | 5,000          | -                 | Stock            | 10,000         | 15,000            |
| Z           | -              | 10,000            | Bills receivable | 5,000          | 5,000             |
| Creditors   | 26,000         | 13,000            | Debtors          | 4,000          | 6,000             |
| Loan        | -              | 5,000             | Cash in Hand     | 2,000          | -                 |
|             | 46,000         | 28,000            |                  | 46,000         | 28,000            |

The partners decided to admit Z as a partner and Z agreed to amalgamate his business with that of the partnership on the following terms :

1. The new profit-sharing ratio among X, Y, and Z will be in the ratio of their capitals.
2. The building is to be appreciated by Rs.15,000 and provision @ 5 % is to be created on debtors.
3. The goodwill of the partnership is valued at Rs.10,000 and of the sole proprietor at Rs.1,500; both are to be recorded in the books.
4. Stock is to be taken at Rs.9,200 and Rs.16,800, respectively of the firm and the sole proprietor.

Prepare ledger accounts to close the books of Z, to make necessary Journal entries in the books of the firm and prepare the Balance Sheet of the re-constituted partnership.

**Solution :**

**Working Note : Calculation of purchase consideration**

| Assets taken over :           | (Rs.)  | (Rs.)  |
|-------------------------------|--------|--------|
| Goodwill                      | 1,500  |        |
| Stock                         | 16,800 |        |
| Bills receivable              | 5,000  |        |
| Debtors                       | 6,000  | 29,300 |
| Less: Liabilities taken over: |        |        |
| Creditors                     | 13,000 |        |
| Loan                          | 5,000  |        |
| Provision for bad debts       | 300    | 18,300 |
| Purchase consideration        |        | 11,000 |

**In the books of Z**

| Dr.  |                         |        | Cr.  |                       |        |
|------|-------------------------|--------|------|-----------------------|--------|
| Date | Particulars             | (Rs.)  | Date | Particulars           | (Rs.)  |
|      | To Goodwill A/c         | 2,000  |      | By Creditors A/c      | 13,000 |
|      | To Stock A/c            | 15,000 |      | By Loan A/c           | 5,000  |
|      | To Bills receivable A/c | 5,000  |      | By Partners X & Y A/c | 11,000 |
|      | To Debtors A/c          | 6,000  |      |                       |        |
|      | To Capital A/c - Profit | 1,000  |      |                       |        |
|      |                         | 29,000 |      |                       | 29,000 |



Dr.

## Capital Account

Cr.

| Date | Particulars           | (Rs.)  | Date | Particulars        | (Rs.)  |
|------|-----------------------|--------|------|--------------------|--------|
|      | To Partners X & Y A/c | 11,000 |      | By Balance b/d     | 10,000 |
|      |                       | 11,000 |      | By Realisation A/c | 1,000  |
|      |                       |        |      |                    | 11,000 |

Dr.

## Partners X &amp; Y Account

Cr.

| Date | Particulars        | (Rs.)  | Date | Particulars    | (Rs.)  |
|------|--------------------|--------|------|----------------|--------|
|      | To Realisation A/c | 11,000 |      | By Capital A/c | 11,000 |
|      |                    | 11,000 |      |                | 11,000 |

## In the Books of X &amp; Y

## Journals Dr. Cr.

| Date | Particulars                                                                                                                                                                                     | L.F                      | (Rs.)                             | (Rs.)                            |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------|----------------------------------|
|      | Building A/c<br>To Revaluation A/c<br>(Increase in the Value of Building)                                                                                                                       | Dr.                      | 15,000                            | 15,000                           |
|      | Revaluation A/c<br>To Stock A/c<br>To Provision for Bad Debt A/c<br>(Decrease in the value of assets )                                                                                          | Dr.                      | 1,000                             | 800<br>200                       |
|      | Revaluation A/c<br>To X Capital A/c<br>To Y Capital A/c<br>(Profit on revaluation transferred)                                                                                                  | Dr.                      | 14,000                            | 10,500<br>3,500                  |
|      | Goodwill A/c<br>To X Capital A/c<br>To Y Capital A/c<br>(Goodwill raised in the books)                                                                                                          | Dr.                      | 10,000                            | 7,500<br>2,500                   |
|      | Goodwill A/c<br>Stock A/c<br>Bills Receivable A/c<br>Debtors A/c<br>To Loan A/c<br>To Creditors A/c<br>To Provision for Bad Debt A/c<br>To Z Capital A/c<br>(Assets and liabilities taken over) | Dr.<br>Dr.<br>Dr.<br>Dr. | 1,500<br>16,800<br>5,000<br>6,000 | 5,000<br>13,000<br>300<br>11,000 |

## Balance Sheet of X, Y &amp; Z (after absorption) as at 01.04.2023

| Liabilities     | (Rs.)  | Assets           | (Rs.)  | (Rs.)  |
|-----------------|--------|------------------|--------|--------|
| Capital Account |        | Goodwill         |        | 11,500 |
| - X             | 33,000 | Building         |        | 40,000 |
| - Y             | 11,000 | Stock            |        | 26,000 |
| - Z             | 11,000 | Bills Receivable |        | 10,000 |
| Loan            | 5,000  | Debtors          | 10,000 |        |
| Crдитors        | 39,000 | Less: Provision  | 500    | 9,500  |
|                 |        | Cash in hand     |        | 2,000  |
|                 | 99,000 |                  |        | 99,000 |



**Illustration 42.**

Following is the Balance sheet of AB & Co. and CD & Co. as on 31.03.2023.

| Liabilities   | AB & Co.<br>(Rs.) | CD & Co.<br>(Rs.) | Assets         | AB & Co.<br>(Rs.) | CD & Co.<br>(Rs.) |
|---------------|-------------------|-------------------|----------------|-------------------|-------------------|
| Bank Loan     | 10,000            | -                 | Stock-in-trade | 32,000            | 24,000            |
| Bills Payable | 30,000            | 40,000            | Sundry Debtors | 18,000            | 30,000            |
| Capital A     | 60,000            | -                 | Machinery      | 60,000            | 20,000            |
| Capital B     | 30,000            | -                 | Cash in hand   | 12,000            | 2,000             |
| Capital C     |                   | 36,000            | Furniture      | 8,000             | 6,000             |
| Capital D     |                   | 24,000            | Investments    | -                 | 18,000            |
|               | 130,000           | 100,000           |                | 130,000           | 100,000           |

AB & Co. absorbed CD & Co. on 01.04.2023 on the following terms:

- The value of the goodwill of CD & Co. would be Rs.12,000;
- The investments of CD & Co. to be sold out for Rs.24,000 and the realised cash will be introduced in the acquiring business;
- The stock of CD & Co. to be reduced to Rs.22,000;
- The machinery of CD & Co. will be increased by 40%;
- The Furniture of CD & Co. will be reduced by 10%.

It was further agreed that for AB & Co., following are the adjustments to be made :

- Assets are to be revalued as follows :

Goodwill- Rs.16,000; Stock - Rs.40,000; Machinery - Rs.84,000; Furniture - Rs.7,200;

- Bank loan to be repaid

Show necessary Ledger Accounts to close the books of CD & Co. and to prepare necessary Journal entry and Balance Sheet of AB & Co. after absorption.

**Solution:**

**Working Notes:**

**Calculation of Purchase Consideration**

| Assets taken over:          | (Rs.)    |
|-----------------------------|----------|
| Machinery                   | 28,000   |
| Furniture                   | 5,400    |
| Stock                       | 22,000   |
| Debtors                     | 30,000   |
| Cash (Rs.24,000 + Rs.2,000) | 26,000   |
| Goodwill                    | 12,000   |
|                             | 1,23,400 |
| Less : Liability taken over |          |
| - Bills payable             | 40,000   |
| Purchase consideration      | 83,400   |

**In the books of CD & Co.**

| Dr.  |                   |        | Realisation Account |                      | Cr.    |
|------|-------------------|--------|---------------------|----------------------|--------|
| Date | Particulars       | (Rs.)  | Date                | Particulars          | (Rs.)  |
|      | To Stock-in-trade | 24,000 |                     | By Bills Payable A/c | 40,000 |
|      | " Sundry Debtors  | 30,000 |                     | By AB & Co A/c       | 83,400 |
|      | " Machinery       | 20,000 |                     |                      |        |



|                            |         |  |         |
|----------------------------|---------|--|---------|
| " Cash in hand "           | 26,000  |  |         |
| Furniture                  | 6,000   |  |         |
| To Partners' Capital A/cs: |         |  |         |
| C - 8,700                  |         |  |         |
| D - 8,700                  | 17,400  |  |         |
|                            | 123,400 |  | 123,400 |

| Dr. Cash Account |                    |        | Cr.  |                    |        |
|------------------|--------------------|--------|------|--------------------|--------|
| Date             | Particulars        | (Rs.)  | Date | Particulars        | (Rs.)  |
|                  | To Balance b/d     | 2,000  |      | By Realisation A/c | 26,000 |
|                  | To Investments A/c | 24,000 |      |                    |        |
|                  |                    | 26,000 |      |                    | 26,000 |

| Dr. Partners' Capital Account |                            |         |         | Cr.  |                                     |         |         |
|-------------------------------|----------------------------|---------|---------|------|-------------------------------------|---------|---------|
| Date                          | Particulars                | C (Rs.) | D (Rs.) | Date | Particulars                         | C (Rs.) | D (Rs.) |
|                               | To Capital in AB & Co. A/c | 47,700  | 35,700  |      | By Balance b/d                      | 36,000  | 24,000  |
|                               |                            |         |         |      | By Profit on Sale of Investment A/c | 3,000   | 3,000   |
|                               |                            |         |         |      | By Realisation A/c                  | 8,700   | 8,700   |
|                               |                            | 47,700  | 35,700  |      |                                     | 47,700  | 35,700  |

## In the books of AB &amp; Co.

| Dr. Partners' Capital Account |                |         |         | Cr.  |                    |         |         |
|-------------------------------|----------------|---------|---------|------|--------------------|---------|---------|
| Date                          | Particulars    | A (Rs.) | B (Rs.) | Date | Particulars        | A (Rs.) | B (Rs.) |
|                               | To Balance c/d | 83,600  | 53,600  |      | By Balance b/d     | 60,000  | 30,000  |
|                               |                |         |         |      | By Goodwill A/c    | 8,000   | 8,000   |
|                               |                |         |         |      | By Revaluation A/c | 15,600  | 15,600  |
|                               |                | 83,600  | 53,600  |      |                    | 83,600  | 53,600  |

## Balance Sheet as on 01.04.2023

| Liabilities      | (Rs.)    | Assets                             | (Rs.)    |
|------------------|----------|------------------------------------|----------|
| Capital Accounts |          | Goodwill                           | 28,000   |
| A                | 83,600   | Machinery                          | 1,12,000 |
| B                | 53,600   | Furniture                          | 12,600   |
| C                | 47,700   | Stock                              | 62,000   |
| D                | 35,700   | Debtors                            | 48,000   |
| Bills payable    | 70,000   | Cash Rs.(26,000 + 12,000 - 10,000) | 28,000   |
|                  | 2,90,600 |                                    | 2,90,600 |

## Journal

| Date | Particulars                                                                              | L.F | Dr. (Rs.) | Cr. (Rs.)      |
|------|------------------------------------------------------------------------------------------|-----|-----------|----------------|
| 2023 | Bank Loan A/c<br>To Cash A/c<br>(Being the bank loan repaid)                             | Dr. | 10,000    | 10,000         |
|      | Goodwill A/c<br>To A's Capital A/c<br>To B's Capital A/c<br>(Being the goodwill raised ) | Dr. | 16,000    | 8,000<br>8,000 |



|                                                                                                                                                                                                                                    |            |                                                         |                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------|----------------------------|
| Stock A/c Machinery A/c<br>To Revaluation A/c<br>(Being increase in the value of assets)                                                                                                                                           | Dr.<br>Dr. | 8,000<br>24,000                                         | 32,000                     |
| Revaluation A/c<br>To Furniture A/c<br>(Being the decrease in the value of furniture)                                                                                                                                              | Dr.        | 800                                                     | 800                        |
| Revaluation A/c Dr.<br>To A's Capital A/c<br>To B's Capital A/c<br>(Being the profit on revaluation transferred to Partners' Capital A/cs in the profit-sharing ratio)                                                             |            | 31,200                                                  | 15,600<br>15,600           |
| Goodwill A/c Dr.<br>Machinery A/c Dr.<br>Furniture A/c Dr.<br>Stock A/c Dr.<br>Debtors A/c Dr.<br>Cash A/c Dr.<br>To Bills Payable A/c<br>To C's Capital A/c<br>To D's Capital A/c<br>(Being the introduction of capital by C & D) |            | 12,000<br>28,000<br>5,400<br>22,000<br>30,000<br>26,000 | 40,000<br>47,700<br>35,700 |

(D) When two or more partnership firms form a new partnership firm

When two or more partnership firms amalgamate to form a new partnership firm, the books of account of the old firm is to be closed. In the books of each old firm, a Realisation Account to be opened. The accounting entries of the amalgamating firm is same as before as they were absorbed.

#### Illustration 43.

Two partnership firms, carrying on business under the style of R & Co. (Partners A & B) and W & Co. (Partners C & D) respectively, decided to amalgamate into RW & Co. with effect from 1st April 2023. The respective Balance Sheets of both the firms as on 31st March, 2023 are in below :

| Liabilities | R (Rs.) | W (Rs.) | Assets         | R (Rs.) | W (Rs.) |
|-------------|---------|---------|----------------|---------|---------|
| Capital B   | 19,000  | -       | Goodwill       | -       | 5,000   |
| Capital C   | -       | 10,000  | Machinery      | 10,000  | -       |
| Capital D   | -       | 2,000   | Stock-in-trade | 20,000  | 5,000   |
| Bank Loan   | 15,000  | -       | Sundry Debtors | 10,000  | 10,000  |
| Creditors   | 10,000  | 9,500   | Cash in hand   | -       | 1,500   |
|             |         |         | Capital - A    | 4,000   | -       |
|             | 44,000  | 21,500  |                | 44,000  | 21,500  |

Profit sharing ratios are : A & B = 1:2; C & D = 1:1. Agreed terms are :

- All fixed assets are to be devalued by 20%.
- All stock in trade is to be appreciated by 50%.
- R & Co. owes Rs.5,000 to W & Co. as on 31st March 2013. This is settled at Rs.2,000. Goodwill is to be ignored for the purpose of amalgamation.
- The fixed capital accounts in the new firm (RW & Co.) are to be : Mr A Rs.2,000; Mr. B Rs.3,000; Mr C Rs.1,000 and D Rs.4,000.



- (v) Mr. B takes over bank overdraft of R & Co. and contributed to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.
- (vi) Mr C is paid off in cash from W & Co. and Mr. D brings in sufficient cash to make up his required capital contribution.
- Pass necessary Journal entries to close the books of both the firms as on 31st March 2023.

**Solution:**

**Calculation of Purchase Consideration**

| Assets taken over:                                                   |       | R & Co. (Rs.) | W & Co. (Rs.) |
|----------------------------------------------------------------------|-------|---------------|---------------|
| Plant & Machinery                                                    |       | 8,000         | - 7,500       |
| Stock-in-trade                                                       |       | 30,000        | *7,000        |
| Sundry Debtors [( * After adjustment of Rs.3,000 (Rs.5,000 - 2,000)] | (A)   | 10,000        |               |
|                                                                      |       | 48,000        | 14,500        |
| Liability taken over:                                                |       |               |               |
| Sundry Creditors [( * Rs.(10,000 - 3000)]                            | (B)   | *7,000        | 9,500         |
| Purchase consideration                                               | (A-B) | 41,000        | 5,000         |

**In the books of R & Co.**

| Journals                                |                                                                             |     | Dr.       | Cr        |
|-----------------------------------------|-----------------------------------------------------------------------------|-----|-----------|-----------|
| Date                                    | Particulars                                                                 | L.F | Dr. (Rs.) | Cr. (Rs.) |
| 31.3.23                                 | Realisation A/c Dr.                                                         |     | 40,000    |           |
|                                         | To Machinery A/c                                                            |     |           | 10,000    |
|                                         | To Stock-in-trade A/c                                                       |     |           | 20,000    |
|                                         | To Sundry Debtors A/c (Different assets transferred)                        |     |           | 10,000    |
|                                         | Sundry Creditors A/c Dr.                                                    |     | 10,000    |           |
|                                         | To Realisation A/c                                                          |     |           | 10,000    |
|                                         | (Sundry creditors transferred to Realisation Account)                       |     |           |           |
|                                         | Bank Loan A/c Dr.                                                           |     | 15,000    |           |
|                                         | To B Capital A/c                                                            |     |           | 15,000    |
| (Bank overdraft taken over by B)        |                                                                             |     |           |           |
|                                         | RW & Co. A/c Dr.                                                            |     | 41,000    |           |
|                                         | To Realisation A/c                                                          |     |           | 41,000    |
|                                         | (Purchase consideration due)                                                |     |           |           |
|                                         | Realisation A/c Dr.                                                         |     | 11,000    |           |
|                                         | To A Capital A/c                                                            |     |           | 3,667     |
|                                         | To B Capital A/c                                                            |     |           | 7,333     |
|                                         | (Profit on realisation transferred to partners capital in the ratio of 1:2) |     |           |           |
|                                         | B Capital A/c Dr.                                                           |     | 2,333     |           |
|                                         | To A Capital A/c                                                            |     |           | 2,333     |
| (Deficit in A's capital made good by B) |                                                                             |     |           |           |
|                                         | A Capital A/c Dr.                                                           |     | 2,000     |           |
|                                         | B Capital A/c (3,000 + 36,000) Dr.                                          |     | 39,000    |           |
|                                         | To RW & Co. A/c                                                             |     |           | 41,000    |
|                                         | (Capital accounts of the partners closed by transfer to RW & Co.)           |     |           |           |



|                      |     |  |        |        |
|----------------------|-----|--|--------|--------|
| Alternatively Shows: |     |  |        |        |
| A Capital A/c        | Dr. |  | 2,000  |        |
| B Capital A/c        | Dr. |  | 3,000  |        |
| Loan from B A/c      | Dr. |  | 36,000 |        |
| To RW & Co. A/c      |     |  |        | 41,000 |

Note : It should be noted that the credit balance in B's capital account is Rs.39,000. His agreed capital in RW & Co is Rs.3,000 only. Since there is no liquid assets in R & Co. from which B can be repaid, the excess amount of Rs.36,000 should be taken over by RW & Co. as loan from B.

### In the books of W & Co.

#### Journals

| Date    | Particulars                                                                                                                                                                                                                                                                     | L.F. | Dr. (Rs.)               | Cr. (Rs.)                |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------------------------|--------------------------|
| 31.3.23 | Realisation A/c Dr.<br>To Goodwill A/c<br>To Stock-in-trade A/c<br>To Sundry Debtors A/c<br>(Different Assets transferred)                                                                                                                                                      |      | 20,000                  | 5,000<br>5,000<br>10,000 |
|         | Sundry Creditors A/c Dr.<br>To Realisation A/c<br>(Sundry creditors transferred)                                                                                                                                                                                                |      | 9,500                   | 9,500                    |
|         | RW & Co. A/c Dr.<br>To Realisation A/c<br>(Purchase consideration due)                                                                                                                                                                                                          |      | 5,000                   | 5,000                    |
|         | C's Capital A/c Dr.<br>D's Capital A/c Dr.<br>To Realisation A/c<br>(Loss on realisation transferred to Capital Account equally)                                                                                                                                                |      | 2,750<br>2,750          | 5,500                    |
|         | Cash A/c Dr.<br>To D's Capital A/c<br>(Being the necessary amount brought in by D to make up his required capital contribution)                                                                                                                                                 |      | 4,750                   | 4,750                    |
|         | C's Capital A/c Dr.<br>D's Capital A/c Dr.<br>To RW & Co. A/c<br>To Cash A/c<br>(Capital accounts of the partners closed by transfer to RW & Co. and balance paid by cash)<br>Alternatively Shows:<br>C's Capital A/c Dr.<br>To Cash A/c<br>(Being the C's Capital is paid off) |      | 7,250<br>4,000<br>6,250 | 5,000<br>6,250           |
|         | C's Capital A/c Dr.<br>D's Capital A/c Dr.<br>To RW & Co. A/c<br>(Being the Partner's Capital transferred to RW & Co.)                                                                                                                                                          |      | 1,000<br>4,000          | 5,000                    |



Dr.

## Realization Account

Cr.

| Particulars      | R & Co.<br>(Rs.) | W & Co.<br>(Rs.) | Particulars    | R & Co.<br>(Rs.) | W & Co.<br>(Rs.) |
|------------------|------------------|------------------|----------------|------------------|------------------|
| To Goodwill      | -                | 5,000            | By Creditors   | 10,000           | 9,500            |
| " Machinery      | 10,000           | -                | By RW & Co.    | 41,000           | 5,000            |
| " Stock-in-trade | 20,000           | 5,000            | By C's Capital |                  | 2,750            |
| " Sundry Debtors | 10,000           | 10,000           | By D's Capital |                  | 2,750            |
| " Cash in hand   | -                |                  |                |                  |                  |
| " A's Capital    | 3,667            |                  |                |                  |                  |
| " B's Capital    | 7,333            |                  |                |                  |                  |
|                  | 51,000           | 20,000           |                | 51,000           | 20,000           |

Dr.

## Partners' Capital Accounts of R &amp; Co.

Cr.

| Date | Particulars     | A<br>(Rs.) | B<br>(Rs.) | Date | Particulars                | A<br>(Rs.) | B<br>(Rs.) |
|------|-----------------|------------|------------|------|----------------------------|------------|------------|
| 2022 | To Balance b/d  | 4,000      | —          | 2022 | By Balance b/d             | —          | 19,000     |
| Mar  | " A Capital A/c | —          | 2,333      | Mar  | " Realisation A/c (Profit) | 3,667      | 7,333      |
|      | " Loan A/c      | —          | 36,000     |      | " Bank overdraft A/c       | —          | 15,000     |
|      | " R W & Co. A/c | 2,000      | 3,000      |      | " B's Capital A/c          | 2,333      | —          |
|      |                 | 6,000      | 41,333     |      |                            | 6,000      | 41,333     |

Dr.

## Partners' Capital Accounts of W &amp; Co.

Cr.

| Date | Particulars               | C<br>(Rs.) | D<br>(Rs.) | Date | Particulars    | C<br>(Rs.) | D<br>(Rs.) |
|------|---------------------------|------------|------------|------|----------------|------------|------------|
| 2022 | To Realisation A/c (Loss) | 2,750      | 2,750      | 2022 | By Balance b/d | 10,000     | 2,000      |
| Mar  | " Cash A/c                | 6,250      | —          | Mar  | " Cash A/c     | —          | 4,750      |
|      | " R W & Co. A/c           | 1,000      | 4,000      |      |                |            |            |
|      |                           | 10,000     | 6,750      |      |                | 10,000     | 6,750      |

## Illustration 44.

A and B carry on independent business in provisions and their position as at 31.3.2023 are reflected in the Balance Sheets given below:

|                                     | A (Rs.)  | B (Rs.)  |
|-------------------------------------|----------|----------|
| Stock in Trade                      | 1,70,000 | 98,000   |
| Sundry Debtors                      | 89,000   | 37,000   |
| Cash at Bank                        | 13,000   | 7,500    |
| Cash in hand                        | 987      | 234      |
| Furniture and Fixtures              | 2,750    | 1,766    |
| Investments                         | 513      | -----    |
|                                     | 2,76,250 | 1,44,500 |
| Represented by Sundry Creditors for |          |          |
| Purchases                           | 1,10,000 | 47,000   |
| Expenses                            | 13,250   | 2,000    |
| Capital Account                     | 1,53,000 | 95,500   |
|                                     | 2,76,250 | 1,44,500 |





Both of them want to. form a partnership firm from 1st April, 2023 on the following understanding:

- The capital of the partnership would be Rs.3 lakhs which would be contributed by them in the ratio of 2 :1.
- The assets of the individual business would be evaluated by C at which values, the firm will take them over and the value would be adjusted against the contribution due by A and B.
- C gave his valuation report as follows:  
Business of A: Stock in Trade to be written down by 15% and a portion of Sundry Debtors amounting to Rs.9,000 estimated unrealisable not to be assumed by the firm; furniture and fixtures to be valued at Rs.2,000 and investments to be taken of market value of 1,000. Assets of B: Stocks to be increased by 10%, and Sundry Debtors to be admitted at 85% of their value; rest of the assets to be assumed at their book value.
- The firm is not to assume any Creditors other than the dues on account of purchases made. Prepare the opening Balance Sheet of the firm.

**Solution:**

**Calculation Net Assets taken over**

|                                                 | A (Rs.)  | B (Rs.)  |
|-------------------------------------------------|----------|----------|
| Investments                                     | 1,000    | —        |
| Sundry debtors                                  | 80,000   | 31,450   |
| Furniture & fixtures                            | 2,000    | 1,766    |
| Stock in trade                                  | 1,44,500 | 1,07,800 |
| Cash in hand                                    | 987      | 234      |
| Cash at bank                                    | 13,000   | 7,500    |
|                                                 | 2,41,487 | 1,48,750 |
| Less: Sundry Trade Creditors                    | 1,10,000 | 47,000   |
|                                                 | 1,31,487 | 1,01,750 |
| Add: Additional Cash bought is by A             | 68,513   | —        |
| Less: Excess Amount transferred to Current A/c. | —        | 1,750    |
|                                                 | 2,00,000 | 1,00,000 |

**M/s A & B**

**Balance Sheet as at 01.04.2023**

| Liabilities      | (Rs.)           | (Rs.)    | Assets                 | (Rs.) | (Rs.)    |
|------------------|-----------------|----------|------------------------|-------|----------|
| Capital          |                 |          | Furniture and Fixtures |       | 3,766    |
| A                | 2,00,000        |          | Investments            |       | 1,000    |
| B                | <u>1,00,000</u> | 3,00,000 | Sundry Debtors         |       | 1,11,450 |
| Sundry Creditors |                 | 1,57,000 | Stock in Trade         |       | 2,52,300 |
| B's Current A/c  |                 | 1,750    | Cash in hand           |       | 1,221    |
|                  |                 |          | Cash at Bank           |       | 89,013   |
|                  |                 | 4,58,750 |                        |       | 4,58,750 |

**Illustration 45.**

X and Y were in partnership in XY & Co. sharing profits in the proportions 3:2. On 31st March 2023, they accepted an offer from P Ltd. to acquire at that date their fixed assets and stock at an agreed price of Rs.7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership firm.



The purchase consideration of Rs.7,20,000 consisted of cash Rs.3,60,000, debentures in P Ltd. (at par) Rs.1,80,000 and 12,000 Equity Shares of Rs.10 each in P Ltd. X will be employed in P Ltd. but, since Y was retiring X agreed to allow him Rs.30,000 in compensation, to be adjusted through their Capital Accounts. Y was to receive 1,800 shares in P Ltd. and the balance due to him in cash. The Balance Sheet of the firm as on 31.03.2023 is in below :

| Liabilities         | (Rs.)    | Assets              | (Rs.)    |
|---------------------|----------|---------------------|----------|
| X's Capital Account | 1,20,000 | Fixed Assets        | 4,80,000 |
| Loan from X         | 2,10,000 | Stock               | 45,000   |
| Bank overdraft      | 1,50,000 | Debtors             | 75,000   |
| Creditors           | 1,80,000 | Y's Capital Account | 60,000   |
|                     | 6,60,000 |                     | 6,60,000 |

The sale of the assets to P. Ltd. took place as agreed; the debtors realised Rs.60,000 and creditors were settled for Rs.1,71,000. The firm then ceased business. You are required to pass necessary Journal entries and show:

- Realisation Account
- Bank Account
- Partners' Capital Accounts.

**Solution:**

In the books of XY & Co.

#### Journals

| Date    | Particulars                       | L.F | Dr. (Rs.) | Cr. (Rs.) |
|---------|-----------------------------------|-----|-----------|-----------|
| 31.3.23 | Realisation A/c                   | Dr. | 6,00,000  |           |
|         | To Fixed Assets A/c               |     |           | 4,80,000  |
|         | To Stock-in-trade A/c             |     |           | 45,000    |
|         | To Sundry Debtors A/c             |     |           | 75,000    |
|         | (Different Assets transferred)    |     |           |           |
|         | Creditors A/c                     | Dr. | 1,80,000  |           |
|         | To Realisation A/c                |     |           | 1,80,000  |
|         | (Sundry creditors transferred)    |     |           |           |
|         | P Ltd A/c                         | Dr. | 7,20,000  |           |
|         | To Realisation A/c                |     |           | 7,20,000  |
|         | (Purchase consideration due)      |     |           |           |
|         | Bank A/c                          | Dr. | 3,60,000  |           |
|         | Debentures in P Ltd.              | Dr. | 1,80,000  |           |
|         | Shares in P Ltd.                  | Dr. | 1,80,000  |           |
|         | To P. Ltd A/c                     |     |           | 7,20,000  |
|         | (Purchase consideration Received) |     |           |           |
|         | Bank A/c                          | Dr. | 60,000    |           |
|         | To Realisation A/c                |     |           | 60,000    |
|         | (Debtors realized)                |     |           |           |
|         | Realisation A/c                   | Dr. | 1,71,000  |           |
|         | To Bank A/c                       |     |           | 1,71,000  |
|         | (Payment to Creditors)            |     |           |           |
|         | Realisation A/c                   | Dr. | 1,89,000  |           |
|         | To X Capital A/c                  |     |           | 1,13,400  |



|                                                                                                                    |     |          |                                |
|--------------------------------------------------------------------------------------------------------------------|-----|----------|--------------------------------|
| To Y Capital A/c<br>(Profit on realisation transferred to Capital Account)                                         |     |          | 75,600                         |
| Loan from X<br>To X Capital<br>(Loan Balance transferred)                                                          | Dr. | 2,10,000 | 2,10,000                       |
| X Capital A/c<br>To Y Capital A/c<br>(Adjustment for compensation)                                                 | Dr. | 30,000   | 30,000                         |
| X Capital A/c<br>To Share in P Ltd<br>To Debenture in P Ltd.<br>To Bank A/c<br>(Final settlement of accounts of X) | Dr. | 4,13,400 | 1,53,000<br>1,80,000<br>80,400 |
| Y Capital A/c<br>To Shares in P Ltd.<br>To Bank<br>(Final settlement of accounts of Y)                             | Dr. | 45,600   | 27,000<br>18,600               |

| Dr.                             |          | Realisation Account            |          | Cr. |  |
|---------------------------------|----------|--------------------------------|----------|-----|--|
| Particulars                     | (Rs.)    | Particulars                    | (Rs.)    |     |  |
| To Fixed Assets A/c             | 4,80,000 | By Creditors A/c               | 1,80,000 |     |  |
| To Stock A/c                    | 45,000   | By Bank A/c (Debtors realised) | 60,000   |     |  |
| To Debtors A/c                  | 75,000   | By P Ltd A/c (Purch. Consid.)  |          |     |  |
| To Bank A/c (creditors payment) | 1,71,000 | Bank                           | 3,60,000 |     |  |
| To X's Capital A/c (profit)     | 1,13,400 | Debentures in P Ltd            | 1,80,000 |     |  |
| To Y's Capital A/c (profit)     | 75,600   | Shares in P Ltd.               | 1,80,000 |     |  |
|                                 | 9,60,000 |                                | 9,60,000 |     |  |

| Dr.                      |          | Bank Account       |          | Cr. |  |
|--------------------------|----------|--------------------|----------|-----|--|
| Particulars              | (Rs.)    | Particulars        | (Rs.)    |     |  |
| To Realisation A/c       | 60,000   | By Balance b/d     | 1,50,000 |     |  |
| (Debtors realised)       |          | By Realisation A/c | 1,71,000 |     |  |
| To S Ltd. A/c            | 3,60,000 | (Crs payment)      |          |     |  |
| (Purchase Consideration) |          | By Capital A/c - X | 80,400   |     |  |
|                          |          | By Capital A/c - Y | 18,600   |     |  |
|                          | 4,20,000 |                    | 4,20,000 |     |  |

| Dr. |                            |          |          | Partners' Capital Accounts |                    |          |          | Cr. |  |  |  |
|-----|----------------------------|----------|----------|----------------------------|--------------------|----------|----------|-----|--|--|--|
| Dt. | Particulars                | X (Rs.)  | Y (Rs.)  | Dt.                        | Particulars        | X (Rs.)  | Y (Rs.)  |     |  |  |  |
|     | To Balance b/d             | -        | 60,000   |                            | By Balance b/d     | 1,20,000 | -        |     |  |  |  |
|     | To Y Capital A/c           | 30,000   |          |                            | By Loan from X     | 2,10,000 | -        |     |  |  |  |
|     | To Shares in P Ltd         | 1,53,000 |          |                            | By Realisation A/c | 1,13,400 | 75,600   |     |  |  |  |
|     | To Debentures in P Ltd A/c |          | 27,000   |                            | (profit)           |          |          |     |  |  |  |
|     | To Bank A/c                | 1,80,000 |          |                            | By X's Capital A/c |          |          |     |  |  |  |
|     | (final payment)            | 80,400   | -        |                            |                    | -        | 30,000   |     |  |  |  |
|     |                            |          | 18,600   |                            |                    |          |          |     |  |  |  |
|     |                            | 4,43,400 | 1,05,600 |                            |                    | 4,43,400 | 1,05,600 |     |  |  |  |



|                              |                                 |                 |                 |
|------------------------------|---------------------------------|-----------------|-----------------|
| Note :                       |                                 |                 |                 |
| Value of equity shares       |                                 | (Rs.)           | (Rs.)           |
| Total Purchase consideration |                                 |                 | <u>7,20,000</u> |
| Discharged:                  |                                 |                 |                 |
| In Cash                      |                                 | 3,60,000        |                 |
| By Debentures                |                                 | <u>1,80,000</u> | <u>5,40,000</u> |
| Balance by 12,000            | Equity shares of Rs.10 per each |                 | 1,80,000        |

So the cost of each equity share be Rs.1,80,000/12,000 = Rs.15 per share.

Thus in the books of P Ltd. Security premium will be Rs.12,000 × 5 = Rs.60,000

#### Illustration 46.

Suchandra, Ashmita and Kasturi were running partnership business sharing Profit and Losses in 2:2:1 ratio. Their Balance Sheet as on 31.03.2023 stood as following: (Rs.in 000's)

| Liabilities         | (Rs.)  | (Rs.)    | Assets          | (Rs.)  | (Rs.)    |
|---------------------|--------|----------|-----------------|--------|----------|
| Fixed Capital       |        |          | Fixed Assets    |        | 920.00   |
| Suchandra           | 690.00 |          | Investment      |        | 115.00   |
| Ashmita             | 460.00 |          | Current Assets: |        |          |
| Kasturi             | 230.00 | 1,380.00 | Stock           | 230.00 |          |
| Current Account:    |        |          | Debtors         | 632.50 |          |
| Suchandra           | 138.00 |          | Cash in Bank    | 287.50 | 1,150.00 |
| Kasturi             | 92.00  | 230.00   |                 |        |          |
| Unsecured Loan      |        | 230.00   |                 |        |          |
| Current Liabilities |        | 345.00   |                 |        |          |
|                     |        | 2,185.00 |                 |        | 2,185.00 |

On 1.4.2023, they agreed to form new company TT (P). Ltd. with Ashmita and Kasturi each taking up 460 eq. share of Rs.10 each, which shall take over the firm as going concern including Goodwill, but excluding cash and bank balance.

The following are also agreed upon:

- Goodwill will be valued at 3 years purchase of super profit.
- The actual profit for the purpose of Goodwill valuation will be Rs.4,60,000.
- The normal rate of return will be 18% p.a. on Fixed Capital.
- All other assets and liabilities will be taken at Book value.
- Ashmita and Kasturi are to acquire interest in the new company at the ratio 3:2.
- The purchase consideration will be payable partly in shares of Rs.10 each and partly in cash. Payment in cash being to meet the requirement to discharge Suchandra, who has agreed to retire.
- Realisation expenses amounted to Rs.1,17,300.

You are required to close the books of the firm by passing necessary journal entries.

**Solution:**

| Particulars |                       |     | Dr. (Rs.) | Cr. (Rs.) |
|-------------|-----------------------|-----|-----------|-----------|
| (a)         | Realization A/c       | Dr. | 26,49,600 |           |
|             | To Fixed Assets A/c   |     |           | 9,20,000  |
|             | To Investment A/c     |     |           | 1,15,000  |
|             | To Stock A/c          |     |           | 2,30,000  |
|             | To Sundry Debtors A/c |     |           | 6,32,500  |



|     |                                                                                                                                                                     |                    |                            |                                  |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------------|----------------------------------|
|     | To Goodwill N<br>To Bank A/c (Realization Expenses)<br>(Being transfer of Assets To, Realization A/c)                                                               |                    |                            | 6,34,800<br>1,17,300             |
| (b) | Unsecured loan A/c Current liabilities A/c<br>To Realisation A/c<br>(Being transfer of liabilities To, Realization A/c)                                             | Dr.<br>Dr.         | 2,30,000<br>3,45,000       | 5,75,000                         |
| (c) | Suchandra's Capital A/c<br>Ashmita's Capital A/c<br>Kasturi's Capital A/c<br>To Realisation A/c<br>(Being transfer of realization losses To, partner's Capital A/c) | Dr.<br>Dr.<br>Dr.  | 46,920<br>46,920<br>23,460 | 1,17,300                         |
| (d) | TT (P) Ltd. A/c<br>To Realisation A/c<br>(Being purchase consideration due)                                                                                         | Dr.<br>W.N.<br>(3) | 19,57,300                  | 19,57,300                        |
| (e) | Goodwill A/c<br>To Suchandra's Capital A/c<br>To Ashmita's Capital A/c<br>To Kasturi's Capital No<br>(Being transfer of goodwill To, parties Capital A/c)           | Dr.<br>W.N.<br>(2) | 6,34,800                   | 2,53,920<br>2,53,920<br>1,26,960 |
| (f) | Suchandra's Current A/c Kasturi's Current A/c<br>To Suchandra's Capital A/c<br>To Kasturi's Capital A/c<br>(Being transfer of Current A/c balances To, Capital A/c) | Dr.<br>Dr.         | 1,38,000<br>92,000         |                                  |
| (g) | Suchandra's Capital A/c .<br>To Bank A/c<br>(Being amount of Capital paid To, Suchandra)                                                                            | Dr.                | 10,35,000                  | 10,35,000                        |
| (h) | Ashmita's Capital A/c<br>To Kasturi's Capital A/c<br>(Being amount payable by Kasturi To, Ashmita in order To, make their claim in new company as 3:2)              | Dr.                | 11,500                     | 11,500                           |
| (i) | Bank A/c<br>Shares in TT (P) Ltd. A/c<br>To TT (P). Ltd. A/c<br>(Being amount received, amount shares in Tata (P) Ltd. distributed for Purchase consideration)      | Dr.<br>Dr.         | 8,64,800<br>10,92,500      | 19,57,300                        |

**Working Notes:**

1. Dr.

**Ashmita's Capital A/c**

Cr.

| Particulars              | (Rs.)    | Particulars     | (Rs.)    |
|--------------------------|----------|-----------------|----------|
| To Realization A/c       | 46,920   | By Balance c/d  | 4,60,000 |
| To Kasturi's Capital     | 11,500   | By Goodwill A/c | 2,53,920 |
| To Shares in TT (P) Ltd. | 6,55,500 |                 |          |
|                          | 7,13,920 |                 | 7,13,920 |

Dr.

**Kasturi's Capital A/c**

Cr.

| Particulars        | (Rs.)  | Particulars    | (Rs.)    |
|--------------------|--------|----------------|----------|
| To Realization A/c | 23,460 | By Balance c/d | 2,30,000 |





|                          |          |                          |          |
|--------------------------|----------|--------------------------|----------|
| To Shares in TT (P) Ltd. | 4,37,000 | By Goodwill A/c          | 1,26,960 |
|                          |          | By Current A/c           | 92,000   |
|                          |          | By Ashmita's Capital A/c | 11,500   |
|                          | 4,60,460 |                          | 4,60,460 |

## 2. Calculation of goodwill.

Normal Ratio of return = 18% p.a. or fixed capital

= Rs.13,80,000 × 18%

= Rs.2,48,400

Actual Profit = Rs. 4,60,000

(-) Normal Profit = Rs. 2,48,400

Super Profit

Goodwill = Rs.2,11,600 × 3 years of purchase of S.P.

= Rs.6,34,800

Suchandra's Share = Rs.6,34,800 × 2/5

= Rs.2,53,920

Ashmita's Share = Rs.6,34,800 × 2/5

Kasturi's Share = Rs.6,34,800

= Rs.1,26,960

## 3. Computation of Purchases Consideration

|                      |                     |
|----------------------|---------------------|
| Investments          | Rs.1,15,000         |
| Fixed Assets         | Rs.9,20,000         |
| Stock                | Rs.2,30,000         |
| Debtors              | Rs.6,32,500         |
| Goodwill             | <u>Rs.6,34,800</u>  |
|                      | <u>Rs.25,32,300</u> |
| Less: Unsecured loan | Rs.2,30,000         |
| Current liabilities  | <u>Rs.3,45,000</u>  |
|                      | <u>Rs.19,57,300</u> |

## 4. Calculation of cash required from TT (P) Ltd.

|                                                                 |                    |
|-----------------------------------------------------------------|--------------------|
| Cash required to pay to Suchandra                               | Rs.10,35,000       |
| Less: Cash available after expenses (Rs.2,87,500 - Rs.1,17,300) | <u>Rs.1,70,200</u> |
| Cash received for purchase Consideration                        | <u>Rs.8,64,800</u> |

5. Shares of Rs.10,92,500 are to be issued to Ashmita and Kasturi in the ratio of 3:2

Ashmita Rs.10,92,500 ×  $\frac{3}{5}$  = Rs.6,55,500

Kalsuri Rs.10,92,500 ×  $\frac{2}{5}$  = Rs.4,37,000

### Illustration 47.

P and Q are the partners of a limited liability partnership - M/s P & Q LLP dealing in electrical goods. The following is their trial balance as on March 31, 2023:

| Name of Accounts             | Dr. (Rs.) | Cr. (Rs.) |
|------------------------------|-----------|-----------|
| Inventories on April 1, 2022 | 4,50,000  |           |
| Equipment                    | 5,50,000  |           |
| Premises                     | 8,00,000  |           |
| Bank                         | 9,46,500  |           |





|                                 |           |           |
|---------------------------------|-----------|-----------|
| Sundry Debtors                  | 3,60,000  |           |
| Sundry creditors                |           | 1,65,000  |
| Secured loan                    |           | 1,80,000  |
| Unsecured loan                  |           | 1,35,000  |
| Returns outward                 |           | 67,500    |
| Outstanding expenses            |           | 24,000    |
| Sales revenue from goods traded |           | 53,00,000 |
| Revenue from services rendered  |           | 2,35,000  |
| Indirect Tax on turnover        | 1,35,000  |           |
| Interest received on investment |           | 67,500    |
| Purchases                       | 29,47,500 |           |
| Salaries                        | 8,45,000  |           |
| Rent & Rates                    | 3,12,000  |           |
| Stationery charges              | 13,200    |           |
| Communication charges           | 27,300    |           |
| Insurance                       | 54,800    |           |
| Advertisement                   | 44,200    |           |
| Delivery charges                | 48,000    |           |
| Interest on debt                | 95,500    |           |
| Furniture & Fixture             | 5,40,000  |           |
| Long-term investments           | 3,15,000  |           |
| Cash                            | 2,10,000  |           |
| General Reserve                 |           | 270,000   |
| P's contribution                |           | 1,300,000 |
| Q's contribution                |           | 950,000   |
|                                 | 8,694,000 | 8,694,000 |

**Additional information:**

(a) Unsold inventories on 31.03.2023 worth Rs.5,62,500.

(b) Outstanding rent amounts to Rs.36,000.

(c) Rate of depreciation on Furniture & Fixture @ 10%.

(d) Depreciate equipment by Rs.67,500

(e) Provisions to be created: Rs.22,500 for possible bad debts and Rs.180,000 for taxation.

Considering the additional information provided above, you are required to prepare:

(i) Statement of Income and Expenditure for the year ended March 31, 2023; and

(ii) Statement of Assets and Liabilities as on that date.

**Solution:**

**M/s P&Q LLP**

**Statement of Income and Expenditure for the year ended March 31, 2023**

| Particulars                           | (Rs.)      | (Rs.)     |
|---------------------------------------|------------|-----------|
| Income                                |            |           |
| Gross Turnover [53,00,000+235,000]    | 55,35,000  |           |
| Less: Excise duty                     | (1,35,000) |           |
| Net Turnover Details                  |            | 54,00,000 |
| Other income: Interest on investments |            | 67,500    |



|                                                                             |               |           |
|-----------------------------------------------------------------------------|---------------|-----------|
| Increase in inventories                                                     |               | 1,12,500  |
| [Closing 562,500 - Opening 450,000]                                         |               |           |
| Total Income                                                                |               | 55,80,000 |
| Expenses                                                                    |               |           |
| Purchases                                                                   | 29,47,500     |           |
| Less: Returns outward                                                       | (67,500)      | 28,80,000 |
| Salaries                                                                    |               | 8,45,000  |
| Rent & Rates                                                                | 3,12,000      |           |
| Add: Outstanding                                                            | <u>36,000</u> | 3,48,000  |
| Stationery charges                                                          |               | 13,200    |
| Communication charges                                                       |               | 27,300    |
| Insurance                                                                   |               | 54,800    |
| Advertisement                                                               |               | 44,200    |
| Delivery charges                                                            |               | 48,000    |
| Interest on debt                                                            |               | 95,500    |
| Depreciation: on Furniture & Fixture                                        | 54,000        |           |
| on Equipment                                                                | <u>67,500</u> | 1,21,500  |
| Provision for bad debts                                                     |               | 22,500    |
| Total expenditure                                                           |               | 45,00,000 |
| Net Profit or Net Loss (before taxes)<br>(Total Income - Total Expenditure) |               | 10,80,000 |
| Less: Provision for Tax                                                     |               | 1,80,000  |
| Profit after Tax                                                            |               | 9,00,000  |
| Profit transferred to Reserves and Surplus                                  |               | 9,00,000  |

## Statement of Assets and Liabilities as on March 31, 2023

| Particulars                            | (Rs.)     | (Rs.)     |
|----------------------------------------|-----------|-----------|
| (I) CONTRIBUTION AND LIABILITIES       |           |           |
| (1) Partner's funds                    |           |           |
| P's Contribution                       | 13,00,000 |           |
| Q's Contribution                       | 9,50,000  | 22,50,000 |
| General Reserves                       |           | 2,70,000  |
| Profit earned in 2022-23               |           | 9,00,000  |
| (2) Liabilities                        |           |           |
| Secured loans                          |           | 1,80,000  |
| Unsecured loans                        |           | 1,35,000  |
| Sundry creditors                       |           | 1,65,000  |
| Outstanding expenses [24,000 + 36,000] |           | 60,000    |
| Provision for taxation                 |           | 1,80,000  |
| Total                                  |           | 41,40,000 |
| (II) ASSETS                            |           |           |
| Premises                               |           | 8,00,000  |
| Equipment                              | 5,50,000  |           |
| Less: Depreciation                     | 67,500    | 4,82,500  |
| Furniture & Fixture                    | 5,40,000  |           |



|                               |          |           |
|-------------------------------|----------|-----------|
| Less: Depreciation            | 54,000,  | 4,86,000  |
| Net fixed assets              |          | 17,68,500 |
| Investments: Long-term        |          | 3,15,000  |
| Inventories                   |          | 5,62,500  |
| Sundry Debtors                | 3,60,000 |           |
| Less: Provision for bad debts | 22,500   | 3,37,500  |
| Cash and cash equivalents     |          |           |
| Bank                          | 9,46,500 |           |
| Cash                          | 2,10,000 | 11,56,500 |
| Total                         |          | 41,40,000 |



## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 4M)

Give entries for the following transactions:

- I. Realisation expenses 8000 were paid by Rana a partner.
- II. Realisation expenses Rs.10,000 paid by the firm on behalf of the Dhana (a partner), he has to bear the realisation expenses.
- III. Realisation expenses Rs.20,000, out of which 60% to be borne by Mana (a partner) and remaining by the firm.
- IV. Realisation expenses 10,000 to be borne by Kana, a partner, but paid by Dhana, another partner.

Answer:

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

Question 2.

(Jun 24 14M)

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 (₹) | Assets                                | Amount (₹) |
|-----------------|------------|---------------------------------------|------------|
| Creditors       | 4,25,000   | Cash in Hand                          | 17,000     |
| Bills Payable   | 1,35,000   | Cash at Bank                          | 2,48,000   |
| General Reserve | 5,10,000   | Debtors                               | 8,70,000   |
|                 |            | Less: Provision for Bad Debt          | (30,000)   |
|                 |            | Net Debtors                           | 8,40,000   |
| Capital A/c:    |            | Bills Receivable                      | 1,65,000   |
| X               | 9,70,000   | Stock in Trade                        | 3,15,000   |
| Y               | 7,40,000   | Investments (Market Value ₹ 4,10,000) | 3,75,000   |
| Z               | 3,80,000   | Furniture                             | 4,20,000   |
|                 |            | Land & Building                       | 7,80,000   |
| Total           | 31,60,000  | Total                                 | 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. Goodwill was to be calculated on the basis of 4 years' purchase of super profit method.

Other informations are given below:

- (i) Average capital employed in the business 8 26,10,000.
- (ii) Net trading profit of the firm for past 3 years 8 6,30,000; 8 5,40,000; 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 Rs.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 718,000 to be created against bill discounted.
- (vii) The value of land and building is appreciated by Rs.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 8 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:
- Calculate value of goodwill and show its treatment.
  - Calculate profit or loss on revaluation of Assets and Liabilities and show its adjustment among the partners.
  - Show the balances of Partners' Capital account after Y's retirement.
  - Prepare firm's balance sheet after retirement of Y.

**Answer:**

(a) Value of goodwill = Rs.9,36,000

#### Treatment of Goodwill

| Particulars        |     | (₹)      | 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 = ₹ 1,65,000

#### Adjustment of Profit on Revaluation among the Partners

| Particulars                             | 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)  | -           | (61,875)    |
| Net Adjustment                          |            | 20,625 (Dr) | 55,000 (Dr) | 34,375 (Cr) |

(c) Balance of Partners' Capital Accounts after Y's Retirement

| Particulars                            | 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 (₹) | Assets                    | Amount (₹) |
|-----------------|------------|---------------------------|------------|
| 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 Debts | (30,000)   |
|                 |            | Net Debtors               | 8,40,000   |
|                 |            | Bills Receivable          | 1,65,000   |
|                 |            | Cash at Bank              | 41,000     |
|                 |            | Cash in Hand              | 17,000     |
| Total           | 29,53,000  | Total                     | 29,53,000  |

**Question 3.****(Jun 24 4M)****What do you mean by piecemeal distribution? Explain it.****Answer:****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 realisation 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 23 15M)**

A, B and C were equal partners in a firm. From 1st April 2022, they decided to change their profit sharing ratio to 4:3: 2. It was also decided that A, who was getting remuneration of Rs.10,000 per month will not get any remuneration henceforth.

They also decided to value the Goodwill of the firm at 150% of the average annual profits of the last three years, which were as follows:

| Year Ended       | Amount (₹) |
|------------------|------------|
| 31st March, 2021 | 1,70,000   |
| 31st March, 2022 | 1,40,000   |
| 31st March, 2023 | 2,88,000   |

On a scrutiny of accounts the following errors were discovered:

- (1) On 1st October, 2022, 2 Motor bikes costing 50,000 each were purchased and were wrongly debited to Travelling Expenses. Depreciation on Motor bikes be charged @20% p.a. on written down value basis.
- (2) On 1st January, 2021, a fire broke out which resulted into a loss of goods of Rs.2,00,000. A claim of 75% was received from the insurance company.
- (3) The closing stock for the year ending on 31st March, 2022 was over-valued by Rs.30,000. On the basis of above information, answer the following questions:
  - (a) What may be the reason for withdrawing remuneration to A with effect from 1st April, 2022?
  - (b) What are the adjusted profits of the firm?
  - (c) What will be the value of firm's goodwill?
  - (d) What Journal entry will be passed for goodwill and why?





**Answer:**

(a) Profit share of A is / rd which has increased to 4/9th. Since his profit share has increased, the remuneration to A may have been withdrawn.

(b) Adjusted Profits:

|            | Rs      |
|------------|---------|
| 31.03.2021 | 220,000 |
| 31.03.2022 | 110,000 |
| 31.03.2023 | 408,000 |

(c) Value of goodwill = ₹ 3,69,000

|               |                        | Dr     | Cr     |
|---------------|------------------------|--------|--------|
| April 1, 2023 | A's Capital Account    | 41,000 |        |
|               | To C's Capital Account |        | 41,000 |

**Question 5.**

(Dec 23 5M)

Write short notes on of the following:

(i) Applicability of Section 37 of the Indian Partnership Act, 1932.

**Answer:**

Applicability of Section 37 of the Indian Partnership Act 1932:

In case of retirement, the retiring partner or in case of death, the executor of the deceased partner. If the dues are not settled, then such retired partner or the executor is entitled to the following Maximum of: Interest@ 6% pa on the amount due to them (ie, if the amount is unsettled, like, rate of interest on loan to be allowed to the retired partner or the executor is not mentioned)

Or

The share of profit earned for the amount due to the partner.

Conditions:

- The surviving partners/continuing partners continue to carry on the business of the firm.
- The business is carried on without any final settlement of accounts between the continuing partners and the outgoing partners or his estate.
- There is no contract to the contrary of the options contained in Section 37 i.e. share in the profits or interest@ 6% p.a. on the unsettled capital.

**Question 6.**

(Dec 23 5M)

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                 | ₹        |
|-----------------------------|----------|------------------------|----------|
| <b>Capital Accounts:</b>    |          | <b>Fixed Assets:</b>   |          |
| 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   |
| <b>Current Liabilities:</b> |          | <b>Current Assets:</b> |          |
| 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 Rs.15,000. Bills Payable by ₹ 2,500 and Bank Loan by 20,000. On 30th June stock was valued at Rs.7,09,000. Book Debts were 75,000 and Cash at Bank was Rs.2,500. On 30th June, 2023 the firm sold the business to a limited company for ₹ 4,00,000 payable in Equity Shares of Rs.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

**Answer:**

(i) Net Asset as on 30<sup>th</sup> June, 2023 = Rs.9,70,000

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

(iii) Realisation Account:

Realisation Account

| Particulars            | Amount (₹) | Particulars             | Amount (₹) |
|------------------------|------------|-------------------------|------------|
| To Plant and Machinery | 1,71,000   | By Bank Loan            | 20,000     |
| To Leasehold Building  | 76,000     | By Sundry Creditors     | 55,000     |
| To Furniture           | 19,000     | By Bills Payables       | 7,500      |
| To Stock               | 7,09,000   | By .....Ltd. Company    | 4,00,000   |
| To Sundry Debtors      | 75,000     | By Loss on Realisation: |            |
| To Cash at Bank        | 2,500      | A's Capital - 2,85,000  |            |
|                        |            | B's Capital - 2,85,000  | 5,70,000   |
| Total                  | 10,52,500  | Total                   | 10,52,500  |

(iv) Partner's Capital Account

| Dr. Particulars              | A (₹)    | B (₹)    | Cr. Particulars               | A (₹)    | B (₹)    |
|------------------------------|----------|----------|-------------------------------|----------|----------|
| 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:                  |          |          |
| To Equity Shares in Ltd. Co. | 2,00,000 | 2,00,000 | Cash brought in by B to pay A | +7,000   | -7,000   |
|                              |          |          | By Net Profit for the Period  | 6,80,000 | 6,80,000 |
| Total                        | 8,25,000 | 8,25,000 | Total                         | 8,25,000 | 8,25,000 |

**Question 7.**

(Dec 23 14M)

'A' and 'B' were partners in a firm and their capitals were ₹ 5,00,000 and ₹ 3,00,000 respectively on 1st April, 2022. Profit for the year ending 31st March, 2023 amounted to ₹ 2,10,000. Drawings of partners were ₹ 1,00,000 and ₹ 60,000 respectively. It was observed that following errors were committed while distributing the profit:

(i) Manager's commission @ 10% on the profits before charging such commission was omitted.



- (ii) Closing Inventory was valued at 70,000 whereas its net realisable value (market value) was 50,000.
- (iii) Outstanding salary of employees Rs.40,000 were not recorded.
- (iv) 'A' had given a loan of 1,50,000 to the firm on 1st December, 2022, interest was omitted to be recorded on this loan.
- (v) Loan was given to 'B' on 1st July, 2022 amounting to? 1,00,000 bearing interest 8% p.a. Interest was omitted to be charged by the firm.
- (vi) Interest on Capital @ 6% p.a. was not allowed and interest on drawings was not charged @ 10% p.a. On the basis of above information, answer the following questions:
- (I) How much interest should be allowed on A's Loan to the firm? Is it a charge or appropriation of profit?

**Answer:**

- (i) Interest = Rs 3000

It is treated as a charge against profits and is debited to a profit and loss account

- (ii) What is the amount of net profit?

Net profit = Rs 137700

- (iii) What is the amount of divisible profit?

Divisible profit = Rs 97700

- (iv) What is each partner's share of profit?

Each partner's share of profit = Rs 48850

**Question 8.**

(Jun 23 15M)

X and Y were in partnership in XY & Co. sharing profits in the proportions of 3 : 2. On 31st March, 2023, they accepted an offer from P. Ltd. to acquire at that date their fixed assets and stock at an agreed price of 7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership firm.

The purchase consideration of 87,20,000 consisted of cash 3,60,000, Debentures in P. Ltd. (at par) Rs.1,80,000 and 12,000 Equity Shares of Rs.10 each in P. Ltd, X will be employed in P. Ltd. but, since Y was retiring X agreed to allow him ?30,000 in compensation, to be adjusted through their Capital Accounts. Y was to receive 1,800 shares in P. Ltd. and the balance due to him in cash. The Balance

Sheet of the firm as on 31.03.2023 is in below:

| Liabilities         | Amount (₹) | Assets              | Amount (₹) |
|---------------------|------------|---------------------|------------|
| X's Capital Account | 1,20,000   | Fixed Assets        | 4,80,000   |
| Loan from X         | 2,10,000   | Stock               | 45,000     |
| Bank Overdraft      | 1,50,000   | Debtors             | 75,000     |
| Creditors           | 1,80,000   | Y's Capital Account | 60,000     |
| Total               | 6,60,000   | Total               | 6,60,000   |

The sale of the assets to P. Ltd. took place as agreed; the Debtors realised 60,000 and Creditors were settled for 1,71,000. The firm then ceased business. You are required to pass necessary journal entries and show:

- (a) Realisation Account  
(b) Bank Account  
(c) Partners' Capital Accounts



Answer:

In the Books of XY & Co.  
Journal Entries

| Date    | Particulars                                            | L.F. | Dr. (₹)  | Cr. (₹)  |
|---------|--------------------------------------------------------|------|----------|----------|
| 31.3.22 | Realisation A/c Dr.                                    |      | 6,00,000 |          |
|         | To Fixed Assets A/c                                    |      |          | 4,80,000 |
|         | To Stock-in-trade A/c                                  |      |          | 45,000   |
|         | To Sundry Debtors A/c                                  |      |          | 75,000   |
|         | (Different Assets transferred)                         |      |          |          |
| 31.3.22 | Creditors A/c Dr.                                      |      | 1,80,000 |          |
|         | To Realisation A/c                                     |      |          | 1,80,000 |
|         | (Sundry creditors transferred)                         |      |          |          |
|         | P Ltd A/c                                              |      | 7,20,000 |          |
|         | To, Realisation A/c                                    |      |          | 7,20,000 |
|         | (Purchase consideration due)                           |      |          |          |
|         | Bank A/c Dr.                                           |      | 3,60,000 |          |
|         | Debentures in P Ltd.                                   |      | 1,80,000 |          |
|         | Shares in P Ltd.                                       |      | 1,80,000 |          |
|         | To, P Ltd A/c                                          |      |          | 7,20,000 |
|         | (Purchase consideration Received)                      |      |          |          |
|         | Bank A/c                                               |      | 60,000   |          |
|         | To, Realisation A/c                                    |      |          | 60,000   |
|         | (Debtors realised)                                     |      |          |          |
|         | Realisation A/c                                        |      | 1,71,000 |          |
|         | To, Bank A/c                                           |      |          | 1,71,000 |
|         | (Payment to Creditors)                                 |      |          |          |
|         | Realisation A/c                                        |      | 1,89,000 |          |
|         | To, X Capital A/c                                      |      |          | 1,13,400 |
|         | To, Y Capital A/c                                      |      |          | 75,600   |
|         | (Profit on realisation transferred to Capital Account) |      |          |          |
|         | Loan from X Dr.                                        |      | 2,10,000 |          |
|         | To, X Capital                                          |      |          | 2,10,000 |
|         | (Loan Balance transferred)                             |      |          |          |
|         | X Capital A/c Dr.                                      |      | 30,000   |          |
|         | (Adjustment for Compensation)                          |      |          |          |
|         | X Capital A/c Dr.                                      |      | 4,13,400 |          |
|         | To, Shares in P Ltd.                                   |      |          | 1,53,000 |
|         | To, Debenture in P Ltd.                                |      |          | 1,80,000 |
|         | To, Bank                                               |      |          | 80,400   |
|         | (Final Settlement of accounts of X)                    |      |          |          |
|         | Y Capital A/c Dr.                                      |      | 45,600   |          |
|         | To, Shares in P Ltd.                                   |      |          | 27,000   |
|         | To, Bank                                               |      |          | 18,600   |
|         | (Final Settlement of accounts of Y)                    |      |          |          |



## Realisation Account

| Particulars                      | Amount (₹) | Particulars                            | Amount (₹) |
|----------------------------------|------------|----------------------------------------|------------|
| To, Fixed Assets A/c             | 4,80,000   | By, Creditors A/c                      | 1,80,000   |
| To, Stock A/c                    | 45,000     | By, Bank A/c (Debtors realised)        | 60,000     |
| To, Debtors A/c                  | 75,000     | By, P Ltd A/c (Purchase Consideration) | 3,60,000   |
| To, Bank A/c (creditors payment) | 1,71,000   | Bank A/c                               | 1,80,000   |
| To, X's Capital A/c (profit)     | 1,13,400   | Debentures in P Ltd                    | 1,80,000   |
| To, Y's Capital A/c (profit)     | 75,600     | Shares in P Ltd                        | 1,80,000   |
| Total                            | 9,60,000   | Total                                  | 9,60,000   |

## Bank Account

| Particulars                             | Amount (₹) | Particulars                        | Amount (₹) |
|-----------------------------------------|------------|------------------------------------|------------|
| To, Realisation A/c (Debtors realized)  | 60,000     | By, Balance b/d                    | 1,50,000   |
| To, S Ltd. A/c (Purchase Consideration) | 3,60,000   | By, Realisation A/c (Cr's payment) | 1,71,000   |
|                                         | 4,20,000   | By, Capital A/c - X                | 80,400     |
|                                         |            | By, Capital A/c - Y                | 18,600     |
| Total                                   | 4,20,000   | Total                              | 4,20,000   |

## Partner's Capital Account

| Particulars                  | X (₹)    | Y (₹)    | Particulars                  | X (₹)    | Y (₹)    |
|------------------------------|----------|----------|------------------------------|----------|----------|
| To, Balance b/d              | -        | 60,000   | By, Balance b/d              | 1,20,000 | -        |
| To, Y Capital A/c            | 30,000   | -        | By, Loan from X              | 2,10,000 | -        |
| To, Shares in P Ltd          | 1,53,000 | 27,000   | By, Realisation A/c (profit) | 1,13,400 | 75,600   |
| To, Debentures in P Ltd A/c  | 1,80,000 | -        | By, X's Capital A/c          | -        | 30,000   |
| To, Bank A/c (final payment) | 80,400   | 18,600   | Total                        | 4,43,400 | 1,05,600 |
| Total                        | 4,43,400 | 1,05,600 | Total                        | 4,43,400 | 1,05,600 |

| Note                                           | Rs       | Rs       |
|------------------------------------------------|----------|----------|
| Total Purchase Consideration                   |          | 7,20,000 |
| Discharged:                                    |          |          |
| In Cash                                        | 3,60,000 |          |
| By Debentures                                  | 1,80,000 | 5,40,000 |
| Balance by 12,000 Equity Shares of Rs. 10 each |          | 1,80,000 |

## Question 9.

(Jun 23 2M)

A, B and C were partners in a firm sharing profits in a 5:3:2 ratio. They decided to share the future profits at 2 : 3 : 5. For this purpose the goodwill of the firm was valued at ₹ 2,00,000. There was a credit balance of Profit & Loss Account amounting to ₹ 1,00,000 which they do not want to distribute.

Prepare adjustment entry for the treatment of Goodwill and Profit & Loss due to change in the Profit Sharing Ratio.

Answer:

## Adjustments for Reconstitution of Partnership

| Particulars                         | Dr. Amount | Cr. Amount |
|-------------------------------------|------------|------------|
| (i) C's Capital A/c (2,00,000 3/10) | 60,000     | 60,000     |
| To A's Capital A/c                  |            | 60,000     |





|                                                 |        |        |
|-------------------------------------------------|--------|--------|
| (Adjustment Entry for G/W due to change in PSR) |        |        |
| (ii) C's Capital A/c (1,00,000 3/10)            | 30,000 | 30,000 |
| To A's Capital A/c                              |        | 30,000 |
| (Adjustment Entry for P&L due to change in PSR) |        |        |

|   | Old Ratio | New Ratio | Sacrifice/Gain Ratio           |
|---|-----------|-----------|--------------------------------|
| A | 5/10      | 2/10      | 5/10 - 2/10 = 3/10 (Sacrifice) |
| B | 3/10      | 3/10      |                                |
| C | 2/10      | 4/10      | 2/10 - 3/10 = -3/10 (Gain)     |

## Question 10.

(Jun 23 15M)

X, Y and Z are partners sharing profits and losses in the ratio of 4:3:1. Their balance sheet as on 31st March, 2022 was as under:

| Liabilities       | Amount (₹) | Assets               | Amount (₹) |
|-------------------|------------|----------------------|------------|
| Sundry Creditors  | 7,00,000   | Cash in Hand         | 20,000     |
| Bills Payable     | 4,00,000   | Cash at Bank         | 8,80,000   |
| General Reserve   | 8,00,000   | Stock                | 7,50,000   |
| Capital Accounts: |            | Debtors              | 13,00,000  |
| X                 | 20,00,000  | Less: Prov. for B.D. | (50,000)   |
| Y                 | 30,00,000  | Net Debtors          | 12,50,000  |
| Z                 | 20,00,000  | Joint Life Policy    | 15,00,000  |
|                   |            | Investments          | 10,00,000  |
|                   |            | Plant and Machinery  | 12,00,000  |
|                   |            | Building             | 23,00,000  |
| Total             | 89,00,000  | Total                | 89,00,000  |

On the above date, Y retires from the firm selling his share of profits to X for Rs.3,60,000 and to Z for 4.50,000 in the ratio of 4:5. Stock is to be appreciated by 20% and Building by 10%. Joint Life Policy is surrendered at 7,00,000 to Insurance Company. Provision for doubtful debts is increased to 10%.

Investments are sold for Rs.23,00,000. The Capital of the newly constituted firm is fixed at Rs.60,00,000 to be divided among X and Z in the profit-sharing ratio and adjustments to be made in cash. Y is paid the amount due. Prepare Revaluation Account, Cash Account, Partners Capital Account and the Balance Sheet of the new firm

Answer:

| Partner | Old Ratio | New Ratio                       |
|---------|-----------|---------------------------------|
| X       | 4/8       | $4/8 + 3/8 = 4/9 = 48/72 = 2/3$ |
| Y       | 3/8       | --                              |
| Z       | 1/8       | $1/8 + 3/8 = 5/9 = 24/72 = 1/3$ |

New ratio of X &amp; Z = 2: 1

In the books of the firm

## Revaluation Account

| Particulars          | ₹         | Particulars     | ₹        |
|----------------------|-----------|-----------------|----------|
| To Joint Life Policy | 15,00,000 | By Stock A/c    | 1,50,000 |
| To Investment        | 10,00,000 | By building A/c | 2,30,000 |





|                                                      |           |                             |           |
|------------------------------------------------------|-----------|-----------------------------|-----------|
| To Provision for Doubtful Debts<br>(1,30,000-50,000) | 80,000    | By Bank A/c (JLP Surrender) | 7,00,000  |
|                                                      |           | By Bank A/c (Investment)    | 23,00,000 |
| To Partner's Capital A/c                             | 8,00,000  | Total                       |           |
| X: 4,00,000                                          |           |                             |           |
| Y: 3,00,000                                          |           |                             |           |
| Z: 1,00,000                                          |           |                             |           |
|                                                      | 33,80,000 |                             | 33,80,000 |

General Reserve A/c.....Dr. 8,00,000

To X's Capital A/c 4,00,000

To Y's Capital A/c 3,00,000

To Z's Capital A/c 1,00,000

| Particulars        | X (₹)     | Y (₹)     | Z (₹)     | Particulars            | X (₹)     | Y (₹)     | Z (₹)     |
|--------------------|-----------|-----------|-----------|------------------------|-----------|-----------|-----------|
| To Y's Capital A/c | 3,60,000  |           | 4,50,000  | By balance b/d         | 20,00,000 | 30,00,000 | 20,00,000 |
| To Bank A/c        | 44,10,000 |           |           | By Revaluation A/c     | 4,00,000  | 4,00,000  | 1,00,000  |
| To Balance c/d     | 40,00,000 |           | 20,00,000 | By General Reserve A/c | 4,00,000  | 4,00,000  | 1,00,000  |
|                    | 43,60,000 | 44,10,000 | 24,50,000 | Total                  | 43,60,000 | 44,10,000 | 24,50,000 |

| Particulars        | ₹         | Particulars        | ₹         |
|--------------------|-----------|--------------------|-----------|
| To balance b/d     | 9,00,000  | By Y's Capital A/c | 44,10,000 |
| To Revaluation A/c | 30,00,000 | By Balance c/d     | 13,00,000 |
| To X's Capital A/c | 15,60,000 |                    |           |
| To Z's Capital A/c | 2,50,000  | Total              | 57,10,000 |

| Particulars        | ₹         |                       |                   |
|--------------------|-----------|-----------------------|-------------------|
| Sundry Creditors   | 7,00,000  | Cash                  | 13,00,000         |
| Bills Payable      | 4,00,000  | Stock                 | 9,00,000          |
| Capital Account: X | 40,00,000 | Debtors               | 13,00,000         |
| Capital Account: Z | 20,00,000 | (-) Provision for B/D | <u>(1,30,000)</u> |
|                    |           | Plant and Machinery   | 12,00,000         |
|                    |           | Building              | 25,30,000         |
|                    | 71,00,000 |                       | 71,00,000         |

#### Question 11.

(Dec 22 15M)

P, Q, R and S are sharing profits and losses in the ratio 3:3:2:1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

| Liabilities | Amount (₹) | Assets      | Amount (₹) |
|-------------|------------|-------------|------------|
| Capitals:   |            | Building    | 1,90,000   |
| P           | 1,50,000   | Stock       | 1,30,000   |
| Q           | 1,50,000   | Investments | 50,000     |
| R           | -          | Debtors     | 70,000     |



|                 |          |       |          |
|-----------------|----------|-------|----------|
| S               | 60,000   | Cash  | 30,000   |
| General Reserve | 40,000   | R     | 40,000   |
| Trade Creditors | 80,000   |       |          |
| Bills Payable   | 30,000   |       |          |
| Total           | 5,10,000 | Total | 5,10,000 |

Following information is given to you:

- 1) A cheque for 7,000 received from debtor was not recorded in the books and was misappropriated by R.
  - 2) Investments costing 8,000 were sold by R at Rs.11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
  - 3) A creditor agreed to take over investments of the book value of 9,000 at Rs.13,000. The rest of the creditors were paid off at a discount of 5%.
  - 4) The other assets realized as follows:
 

|                |                                                            |
|----------------|------------------------------------------------------------|
| Building Stock | 110% of book value                                         |
| Stock          | Rs.1,20,000                                                |
| Investments    | The rest of investments were sold at a profit of Rs.7,000  |
| Debtors        | The rest of the debtors were realized at a discount of 10% |
  - 5) The bills payable were settled at a discount of Rs.500.
  - 6) The expenses of dissolution amounted to Rs.8,000.
  - 7) It was found out that realization from R's private assets would only be Rs.7,000.
- Prepare realization Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer.

**Answer:**

Realisation Account -5,53,700

Total Cash- Rs. - Rs. 4,62,700

Partner's Capital Accounts Total

P - Rs. 1,67,516

Q - Rs. 1,67,516

R- Rs. 58,000

S - Rs. 65,840



## SOLVED CASE

## Question 1.

Amal, Bimal and Kamal were the partners in a firm which is engaged in the manufacturing of leather shoes. Their business is located in the outskirts of the city of Kanpur in Uttar Pradesh. The partners are in this business since 1997, and they share profits and losses in the ratio of 3:2:1. On November 5, 2022, Kamal met with a serious road accident while travelling from Lucknow to Kanpur after attending a meeting with one of their customers. After being hospitalized for three long months, he was released in the first week of February 2023. During this time, he realised that it would not be possible for him to continue as a partner in this business and so he decided to retire from the firm. He communicated his decision to the other partners and it was mutually agreed upon that Kamal will continue till the end of this financial year and thereafter retire from the business, while the other partners will continue. The Balance Sheet of the firm as on 31.03.2022 was as follows:

| Liabilities       |        | (Rs.)    | Assets    | (Rs.)    |
|-------------------|--------|----------|-----------|----------|
| Capital Accounts: |        |          | Plant     | 40,000   |
| Amal              | 45,000 |          | Building  | 50,000   |
| Bimal             | 35,000 |          | Furniture | 4,000    |
| Kamal             | 25,000 | 1,05,000 | Debtors   | 30,000   |
| Profit & Loss A/c |        | 12,000   | Stock     | 25,000   |
| Reserve fund      |        | 15,000   | Bank      | 3,500    |
| Creditors         |        | 20,500   |           |          |
|                   |        | 1,52,500 |           | 1,52,500 |

Kamal retired on that date subject to the following conditions:

- Goodwill of the firm to be valued at Rs. 36,000;
- Building is to be appreciated by 20%;
- Plant and Furniture are to be depreciated by 10% and 15% respectively;
- Provision to be made for doubtful debts @ 5%.

Amal and Bimal are to bring in cash, if necessary, in their profit-sharing ratio to pay off Kamal's dues on retirement and leave a sum of Rs. 10,000 as working capital.

- Ascertain the amount of profit or loss arising to the firm out of revaluation. Also state the share of individual partner therein.
- Determine the amount of cash to be brought in by Amal and Bimal to pay off Kamal's dues.
- Draft the post-retirement Balance Sheet of the partnership firm.

## Answer:

- The amount of profit or loss arising to the firm out of revaluation is - Rs.39,900 share of individual partner therein are Rs.19,950, Rs.13,300 and Rs.6,650 respectively.

Dr.

## Revaluation Account

Cr.

| Particulars                          | (Rs.)  | Particulars     | (Rs.)  |
|--------------------------------------|--------|-----------------|--------|
| To Provision for Doubtful Debts A/c  | 1,500  | By Goodwill A/c | 36,000 |
| To Depreciation on Plant A/c         | 4,000  | By Building A/c | 10,000 |
| To Depreciation on Furniture A/c     | 600    |                 |        |
| To Partner's Capital A/c             |        |                 |        |
| - Amal's Capital (3/6) 19,950        |        |                 |        |
| - Bimal's Capital (2/6) 13,300       |        |                 |        |
| - Kamal's Capital (1/6) <u>6,650</u> | 39,900 |                 |        |



|  |        |        |
|--|--------|--------|
|  | 46,000 | 46,000 |
|--|--------|--------|

## 2. Additional amount to be brought in by Amal and Bimal:

|                                                           |          |              |
|-----------------------------------------------------------|----------|--------------|
| Amount paid to Kamal                                      |          | (Rs.) 36,150 |
| Add: required working capital to be maintained            |          | 10,000       |
|                                                           |          | 46,150       |
| Less: Cash at Bank as per existing balance Sheet          |          | 3,500        |
| Amount to be brought in                                   |          | 42,650       |
| So, Amount to be brought in by Amal = $42,650 \times 3/5$ | = 25,590 |              |
| Amount to be brought in by Bimal = $42,650 \times 2/5$    | = 17,060 |              |

## 3. Balance Sheet as at 31.03.2023

| Liabilities |               | (Rs.)    | Assets          |              | (Rs.)    |
|-------------|---------------|----------|-----------------|--------------|----------|
| Capital A/C |               |          | Goodwill        |              | 36,000   |
| Amal        | 1,04,040      |          | Buildings       |              | 60,000   |
| Bimal       | <u>74,360</u> | 1,78,400 | Plant           |              | 36,000   |
|             |               |          | Furniture       |              | 3,400    |
| Creditors   |               | 20,500   | Debtors         | 30,000       |          |
|             |               |          | Less: Provision | <u>1,500</u> | 28,500   |
|             |               |          | Stock           |              | 25,000   |
|             |               |          | Bank [Note 1]   |              | 10,000   |
|             |               | 1,98,900 |                 |              | 1,98,900 |

Working Notes:

Dr.

### Partners' Capital Account

Cr.

| Particulars                 | Amal<br>(Rs.) | Bimal<br>(Rs.) | Kamal<br>(Rs.) | Particulars          | Amal<br>(Rs.) | Bimal<br>(Rs.) | Kamal<br>(Rs.) |
|-----------------------------|---------------|----------------|----------------|----------------------|---------------|----------------|----------------|
| To Bank A/c                 | -             | -              | 36,150         | By Balance b/d       | 45,000        | 35,000         | 25,000         |
| - Dues paid off (Bal. fig.) |               |                |                | By Reserve Fund A/c  | 7,500         | 5,000          | 2,500          |
|                             |               |                |                | By Revaluation A/c   | 19,950        | 13,300         | 6,650          |
|                             |               |                |                | - Profit             |               |                |                |
|                             |               |                |                | By Profit & Loss A/c | 6,000         | 4,000          | 2,000          |
| To Balance c/d (Bal. fig.)  | 1,04,040      | 74,360         | -              | By Bank A/c (Def.)   | 25,590        | 17,060         | -              |
|                             | 1,04,040      | 74,360         | 36,150         |                      | 1,04,040      | 74,360         | 36,150         |
|                             |               |                |                | By Balance b/d       | 1,04,040      | 74,360         | -              |



## Exercise

## MULTIPLE CHOICE QUESTIONS

1. **Sacrificing ratio is:**
  - (a) New Profit sharing ratio - old profit sharing ratio.
  - (b) Equal to old profit sharing ratio
  - (c) Equal
  - (d) Old profit sharing ratio - new profit sharing ratio.
2. **Which of the following is not an essential feature of a partnership firm?**
  - (a) Mutual agency.
  - (b) Existence of business.
  - (c) Association of two or more people.
  - (d) Compulsory registration
3. **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
4. **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
5. **X and Y are partners with the capital of Rs.50,000 and Rs.30,000 respectively. Interest Payable on Capital is 10% p.a. If the profits earned by the firm is Rs.4,800, what will be the Interest on Capital for X and Y?**
  - (a) Rs.5,000 and Rs.3,000
  - (b) Rs.3,000 and Rs.1,800
  - (c) No interest will be paid to the partners
  - (d) None of the above
6. **X and Y were partners sharing profit/losses as 3:2. They admit Z as a new partner, giving him 1/5th share of future profits. What should be the new profit sharing ratio?**
  - (a) 12:8:5
  - (b) 3:2:1
  - (c) 8:12:5
  - (d) 5:8:12
7. **B and D are partners, sharing profit or loss in the ratio 3 : 2. They admit K for 1/6th share of profits in the firms of which she takes 2/3rd from B and 1/3rd from D. What will be the new profit sharing ratio?**
  - (a) 44: 31: 15
  - (b) 31: 44: 15
  - (c) 32: 41: 14
  - (d) 15: 31: 44
8. **G and C are partners. They are entitled for 9% interest on their capital contributions. The firm allowed Rs.54,000 towards interest on capital to partners. What will be the capital contribution of each partner if interest on Gunnu's capital is Rs.13,500 more than the interest on Chinu's**



capital?

- (a) Rs.2,25,000
- (b) Rs.2,55,000
- (c) Rs.2,50,000
- (d) Rs.2,15,000

Answers:

|   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|
| 1 | d | 2 | d | 3 | a | 4 | d |
| 5 | b | 6 | a | 7 | a | 8 | a |

### STATE TRUE OR FALSE

- In absence of partnership deed the profit or loss should be distributed among partners in their capital ratio.
- In absence of partnership deed, partners are entitled to interest on capital @ 6% p.a.
- New-partner pays premium for goodwill, which will be shared by old partners in their new profit sharing ratio.
- When the capitalization of profits method is used then the value of goodwill on the basis of future maintainable profits is more than that of on the basis of super profits.
- It is necessary to revalue of assets and liabilities at the time of admission of a new partner.
- After the death of a partner, the combined shares of continuing partners decrease.
- Changes in profit sharing ratio among the existing partners may occur at any time during the financial year.
- Loss on Realisation should be distributed according to capital ratio.
- The surrender value of Joint Life Policy is distributed among all partners in their old ratio upon retirement.
- Adjustments are recorded in Partner's Current Account in Fixed Capital Method.

Answers:

|   |       |   |       |   |       |   |       |    |      |
|---|-------|---|-------|---|-------|---|-------|----|------|
| 1 | False | 2 | False | 3 | False | 4 | False | 5  | True |
| 6 | False | 7 | True  | 8 | False | 9 | True  | 10 | True |

### FILL IN THE BLANKS

- Profit or Loss on revaluation is shared among the partners in \_\_\_\_\_ Ratio.
- Realisation account is opened at the time of \_\_\_\_\_ of firm.
- Memorandum revaluation account is prepared when the \_\_\_\_\_ of assets and liabilities are not altered.
- Interest to be allowed @ 0.75 per cent per month on Partners Capital of Rs.60 Lakh; Manager's Commission @ 5 per cent of Net Profit before charging such commission. If the Net Profit before charging interest on capital and manager's commission amounted to Rs.14.85 Lakh, then manager's commission will be \_\_\_\_\_.
- The amount due to deceased partner is paid to his/ her \_\_\_\_\_.
- Surplus capital method is suitable when all partners are \_\_\_\_\_.
- Profit or loss on revaluation of assets and liabilities is shared by the \_\_\_\_\_.
- At the time of admission of a partner, General Reserve is distributed among the partners in \_\_\_\_\_ sharing ratio.
- If there is any change in profit sharing ratio of the partners, the old partnership will be \_\_\_\_\_.
- An incoming partner contributes \_\_\_\_\_ to share in the total assets and \_\_\_\_\_ for future profits.



**Answers:**

|   |                    |    |                         |
|---|--------------------|----|-------------------------|
| 1 | Old profit sharing | 2  | Dissolution of the firm |
| 3 | Book value         | 4  | Rs.47,250               |
| 5 | Executors          | 6  | Solvent                 |
| 7 | Old Partners       | 8  | Old Profit.             |
| 9 | Terminated         | 10 | Capital, goodwill       |



## 9. LEASE ACCOUNTING (AS - 19)

### ILLUSTRATIONS

#### Illustration 1.

Arun Ltd. has taken an equipment on operating lease for the coming 5 years. As per the agreement with the lessor, it will not make any payment for lease rentals for the first 2 years, and will have to pay Rs.21,00,000 in each of the following 3 years. Advise Arun Ltd. on accounting for the lease rentals in this case.

#### Solution:

As per AS-19, lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

The pattern of payment, in this case, does not follow straight line basis, rather it is arising towards the end of the lease period. For accounting purpose, such effect should be neutralized i.e. the total payment of Rs.63,00,000 in the last 3 years should be spread over the entire lease period of 5 years i.e. Rs.12,60,000 should be charged to the statement of profit and loss for each year.

#### Illustration 2.

Vishnu Ltd. leased a printing machine from Garur Ltd. for a period of 3 years. The useful life of the printing machine is known to be of 5 years. It was agreed between the lessor and lessee that the amount will be paid in 3 instalments and at the termination of the lessee, Garur Ltd. will take back the said machine. The following details are available in respect of the machine lessee:

- Cost of the printing machine is Rs.15,00,000;
- Unguaranteed residual value at the end of the lease period is Rs.2,00,000;
- Fair value of the machine is Rs.15,00,000;
- The internal rate of return of the investment is 10%.

You are required to:

(a) State whether the lease is a finance lease or an operating lease?

(b) Ascertain the amount of unearned finance income.

Given: PVF10%, 3 = 0.7513; PVAF10%, 3 = 2.4868.

#### Solution:

(a) Present value of unguaranteed residual value = Rs.2,00,000 × 0.7513 = Rs.1,50,260

∴ Present value of lease payments = Rs.(15,00,000 - 1,50,260) = Rs.13,49,740

Present value of lease payments as percentage of Fair value =  $\frac{13,49,740}{15,00,000} = 90\%$  approx

As the 'Present value of lease payments' makes a substantial portion of the 'Fair value', the machine lease by Vishnu Ltd. from Garur Ltd. is a finance lease by nature.

(b) Annual lease payments =  $\frac{\text{Present value of lease payments}}{\text{PVAF10\%, 3}} = \frac{13,49,740}{2.4868} = \text{Rs.}5,42,762$  (approx.)

Gross investment in lease = Rs.[(Rs.5,42,762 × 3) + 2,00,000] = Rs.18,28,286

∴ Unearned finance income = Excess of 'Gross investment in lease' over 'Cost of the printing machine'  
= Rs.(18,28,286 - 15,00,000)  
= Rs.3,28,286

#### Illustration 3.

PQ Ltd. sold machinery having WDV of Rs.80 lakhs to BR Ltd. for Rs.100 lakhs and the same



machinery was leased back by BR Ltd. to PQ Ltd. The lease back is operating lease. Comment if -

- Sale price of Rs.100 lakhs is equal to fair value.
- Fair value is Rs.120 lakhs.
- Fair value is Rs.90 lakhs and sale price is Rs.76 lakhs.
- Fair value is Rs.80 lakhs and sale price is Rs.100 lakhs.
- Fair value is Rs.92 lakhs and sale price is Rs.100 lakhs
- Fair value is Rs.70 lakhs and sale price is Rs.78 lakhs.

**Solution:**

Following will be the treatment in the given cases:

- When sales price of Rs.100 lakhs is equal to fair value, PQ Ltd. should immediately recognise the profit of Rs.20 lakhs (i.e. 100 - 80) in its books.
- When fair value is Rs.120 lakhs then also profit of Rs.20 lakhs should be immediately recognised by PQ Ltd.
- When fair value of leased machinery is Rs.90 lakhs & sales price is Rs.76 lakhs, then loss of Rs.4 lakhs (80 - 76) to be immediately recognised by PQ Ltd. in its books provided loss is not compensated by future lease payment, otherwise it can defer and amortise the loss.
- When fair value is Rs.80 lakhs & sales price is Rs.100 lakhs then, profit of Rs.20 lakhs is to be deferred and amortised over the lease period.
- When fair value is Rs.92 lakhs & sales price is Rs.100 lakhs, profit of Rs.12 lakhs (92 - 80) to be immediately recognised in its books and balance profit of Rs.8 lakhs (100-92) is to be amortised/deferred over lease period.
- When fair value is Rs.70 lakhs & sales price is Rs.78 lakhs, then the loss of Rs.10 lakhs (80-70) to be immediately recognised by PQ Ltd. in its books and profit of Rs.8 lakhs (78-70) should be amortised/deferred over lease period.

**Illustration 4.**

SKS Ltd. has taken the assets on lease from PC Soft Ltd. The following information is given below:

Lease term = 4 years

Fair value at inception of the lease term = Rs.16,00,000

Lease Rent = Rs.5,00,000 p.a. at the end of the year

Guaranteed Residual Value = Rs.1,00,000

Expected Residual value = Rs.3,00,000

Implicit Interest Rate = 14.97%

Show the accounting in the book of lessee.

**Solution:**

Present value of minimum lease payment

| Year | MLP                     | Discount rate at 14.97% | PV        |
|------|-------------------------|-------------------------|-----------|
| 1    | 5,00,000                | 0.8698                  | 4,34,900  |
| 2    | 5,00,000                | 0.7565                  | 3,78,250  |
| 3    | 5,00,000                | 0.6580                  | 3,29,000  |
| 4    | 6,00,000                | 0.5724                  | 3,43,000  |
|      | (Including Rs.1,00,000) |                         | 14,85,590 |

Present value of minimum lease payment (Rs.14,85,590) which is less than Fair value at the inception of lease (Rs.16,00,000) hence the leased asset and liability will be recognized at Rs.14,85,590.

Apportionment of Finance Lease: Rate of Interest 14.97%



| Year | Liability | MLP      | Finance Charge | Principal Amt. of reduction |
|------|-----------|----------|----------------|-----------------------------|
| 0    | 14,85,590 | -        | -              | -                           |
| 1    | 12,07,983 | 5,00,000 | 2,22,393       | 2,77,607                    |
| 2    | 8,88,818  | 5,00,000 | 1,80,835       | 3,19,165                    |
| 3    | 5,21,874  | 5,00,000 | 1,33,056       | 3,66,944                    |
| 4    | -         | 6,00,000 | 78,125         | 5,21,875                    |

Books of SKS Ltd.

#### Lease Rent Account

Dr.

Cr.

| Particulars      | Amount (Rs.) | Particulars            | Amount (Rs.) |
|------------------|--------------|------------------------|--------------|
| 1st year To Bank | 5,00,000     | By Finance Charge      | 2,22,393     |
|                  |              | By Lease liability A/c | 2,77,607     |
|                  | 5,00,000     |                        | 5,00,000     |
| 2nd year To Bank | 5,00,000     | By Finance Charge      | 1,80,835     |
|                  |              | By Lease liability A/c | 3,19,165     |
|                  | 5,00,000     |                        | 5,00,000     |
| 3rd year To Bank | 5,00,000     | By Finance Charge      | 1,33,056     |
|                  |              | By Lease liability A/c | 3,66,944     |
|                  | 5,00,000     |                        | 5,00,000     |
| 4th year To Bank | 6,00,000     | By Finance Charge      | 78,126       |
|                  |              | By Lease liability A/c | 5,21,874     |
|                  | 6,00,000     |                        | 6,00,000     |

#### Lease Liability Account (Lessor)

Dr.

Cr.

| Particulars     | Amount (Rs.) | Particulars          | Amount (Rs.) |
|-----------------|--------------|----------------------|--------------|
| 1st year        |              |                      |              |
| To Lease Rental | 2,77,607     | By Fixed Asset under | 14,85,590    |
| To Balance c/d  | 12,07,983    | Finance lease        |              |
|                 | 14,85,590    |                      | 14,85,590    |
| 2nd year        |              |                      |              |
| To Lease Rental | 3,19,165     | By Balance b/d       | 12,07,903    |
| To Balance C/d  | 8,88,818     |                      |              |
|                 | 12,07,903    |                      | 12,07,903    |
| 3rd year        |              |                      |              |
| To Lease Rent   | 3,66,944     | By Balance b/d       | 8,88,818     |
| To Balance c/d  | 5,21,874     |                      |              |
|                 | 8,88,818     |                      | 8,88,818     |
| 4th year        |              |                      |              |
| To Lease Rent   | 5,21,874     | By Balance b/d       | 5,21,874     |
|                 | 5,21,874     |                      | 5,21,874     |

#### Extract of Profit and Loss Account

| Year     | Particulars                               | Amount (Rs.) |
|----------|-------------------------------------------|--------------|
| 1st Year | To Finance Charge                         | 2,22,393     |
|          | To Depreciation on leased asset under SLM | 3,71,397     |



|          |                                           |          |
|----------|-------------------------------------------|----------|
| 2nd Year | To Finance Charge                         | 1,80,835 |
|          | To Depreciation                           | 3,71,397 |
| 3rd Year | To Finance Charge                         | 1,33,056 |
|          | To Depreciation on leased Asset under SLM | 3,71,397 |
| 4th Year | To Finance Charge                         | 78,125   |
|          | To Depreciation on leased Asset under SLM | 3,71,397 |

## Extract of Balance Sheet

| Liability           | Amount (Rs.) | Asset                           | Amount (Rs.) |
|---------------------|--------------|---------------------------------|--------------|
| Lease liability A/c | 12,07,983    | Fixed Asset under Finance Lease | 14,85,590    |
|                     |              | Less: Depreciation              | 3,71,397     |
|                     |              |                                 | 11,14,193    |
| 2nd year            |              |                                 |              |
| Lease liability A/c | 8,88,818     | Fixed Asset under Finance Lease | 14,85,590    |
|                     |              | Less: Depreciation              | 7,42,794     |
|                     |              |                                 | 7,42,796     |
| 3rd year            |              |                                 |              |
| Lease liability A/c | 5,21,874     | Fixed Asset under Finance Lease | 14,85,590    |
|                     |              | Less: Depreciation              | 11,14,191    |
|                     |              |                                 | 3,71,399     |
| 4th year            |              |                                 |              |
| Lease liability A/c | Nil          | Fixed Asset under Finance Lease | 14,85,590    |
|                     |              | Less: Depreciation              | 14,85,590    |
|                     |              |                                 | NIL          |

## Illustration 5.

RK Soft Ltd. has taken the assets on lease from BD Tech Ltd. The following information is given below:

Lease term = 4 years

Fair value at inception of lease = Rs.16,00,000

Lease Rent = Rs.5,00,000 p.a. at the end of the year

Guaranteed Residual Value = Rs.1,20,000

Expected Residual value = Rs.3,00,000

Implicit Interest Rate = 14.97%

Show the accounting in the book of lessor.

## Solution:

Lessor should recognize asset given under lease at net investment in lease.

Net investment in lease = Gross investment - unearned finance income

Gross Investment = MLP + Guaranteed residual value + Unguaranteed residual value  
 = 20,00,000 + 1,20,000 + 1,80,000  
 = 23,00,000

Unearned finance Income = Gross investment - Present value of gross investment

| Present Year | Value of MLP (Rs.) | Gross investment discount factor | Present Value (Rs.) |
|--------------|--------------------|----------------------------------|---------------------|
| 1            | 5,00,000           | 0.8698                           | 4,34,900            |



|   |           |        |                         |
|---|-----------|--------|-------------------------|
| 2 | 5,00,000  | 0.7565 | 3,78,250                |
| 3 | 5,00,000  | 0.6580 | 3,29,000                |
| 4 | 8,00,000  | 0.5724 | 4,57,920                |
|   | 23,00,000 |        | 16,00,070 say 16,00,000 |

Unearned finance income = Rs.23,00,000 - Rs.16,00,000 = Rs.7,00,000

Appointment of MLP into Capital recovery & finance income

| Year | Balance of lease receivable<br>(Rs.) | Cash<br>receipts<br>(Rs.) | Finance<br>(Rs.) | Capital recovery reduced from<br>receivable<br>(Rs.) |
|------|--------------------------------------|---------------------------|------------------|------------------------------------------------------|
| 0    | 16,00,000                            | -                         | -                | -                                                    |
| 1    | 13,39,520                            | 5,00,000                  | 2,39,520         | 2,60,480                                             |
| 2    | 10,40,045                            | 5,00,000                  | 2,00,525         | 2,99,475                                             |
| 3    | 6,95,740                             | 5,00,000                  | 1,55,695         | 3,44,305                                             |
| 4    | -                                    | 8,00,000                  | 1,04,260         | 6,95,747                                             |
|      |                                      |                           | 7,00,000         | 16,00,000                                            |

The lease receivable account, as shown in the books of lessor will not tally with the lease liability account as shown by the lessee in his book. Difference will remain due to the guaranteed residual value from the third party or /and unguaranteed residual value from the lessee point of view.

#### Illustration 6.

VHR Ltd. availed a lease from Alpha Ltd. on following terms:

- A lease for a tenor of 3 years, in the beginning of year 2021 for equipment costing Rs.6,00,000 and which has an expected useful life of 5 years. The fair market value is also Rs.6,00,000.
- 3 equal annual payments are made at end of each year.
- The property reverts back to the lessor on termination of the lease.
- The unguaranteed residual value is estimated at Rs.75,000 at the end of year 2023.
- IRR = 10%
- The present value of Rs.1 due at the end of 3rd year at 10% rate of interest is 0.7513.
- The present value of annuity of Rs.1 due at the end of 3rd year at 10% IRR is Rs.2.4868

(i) State with reason whether the lease constitute finance lease.

(ii) Calculate unearned finance income.

**Solution:**

(i) Computation of Annual payment to the lessor

PV of residual value (Rs.) =  $75,000 \times 0.7513 = 56,348$

PV of lease payments (Rs.) =  $6,00,000 - 56,348 = 5,43,652$

Annual payments (Rs.) =  $5,43,652 / 2.4868 = 2,18,615$

The present value of lease payments i.e. Rs.5,43,652 equals 90.60% of the fair market value i.e., Rs.6,00,000. As the present value of minimum lease payment substantially covers the initial fair value of the leased assets and leased term (3 years) covers the major part of the life of asset (5 years).

Therefore, it constitutes a finance lease.

(ii) Computation of unearned finance income

|                                                                | Amt. (Rs.)      |
|----------------------------------------------------------------|-----------------|
| Gross investment in the lease ( $3 \times 2,18,615$ ) + 75,000 | 7,30,845        |
| Cost of leased property                                        | <u>6,00,000</u> |
| Unearned finance income                                        | <u>1,30,845</u> |



**Illustration 7.**

Beta Ltd. leased a machinery to Gama Ltd. on the following terms:

|                             | (Rs. In Lakhs) |
|-----------------------------|----------------|
| Fair value of the machinery | 20.00          |
| Lease term                  | 5 years        |
| Lease rental per annum      | 5.00           |
| Guaranteed Residual value   | 1.00           |
| Expected residual value     | 2.00           |
| Internal Rate of Return     | 15%            |

Depreciation is provided on Straight line method @10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year.

**Solution:**

**Present value of MLP (for lessee)**

| Year | MLP (Rs.) | Discount Rate | PV (Rs.)  |
|------|-----------|---------------|-----------|
| 1    | 5,00,000  | 0.8696        | 4,34,800  |
| 2    | 5,00,000  | 0.7561        | 3,78,050  |
| 3    | 5,00,000  | 0.6575        | 3,28,750  |
| 4    | 5,00,000  | 0.5718        | 2,85,900  |
| 5    | 6,00,000  | 0.4972        | 2,98,320  |
|      |           |               | 17,25,820 |

**Note:**

It has been assumed that the lease rent is paid at the end of the year

Present value of MLP is less than fair value of Rs.20,00,000, so the leased asset and liability should be recognized at Rs.17,25,820 in the books of lessee (Beta Ltd.)

Calculation of unearned finance income

Unearned finance income = Gross investment - PV of Gross Investment.

**For the Lesser.**

| Year | MLP (Rs.) | Discount Rate | P.V. (Rs.) |
|------|-----------|---------------|------------|
| 1    | 5,00,000  | 0.8696        | 4,34,800   |
| 2    | 5,00,000  | 0.7561        | 3,78,050   |
| 3    | 5,00,000  | 0.6575        | 3,28,750   |
| 4    | 5,00,000  | 0.5718        | 2,85,900   |
| 5    | 7,00,000  | 0.4972        | 3,48,040   |
|      | 27,00,000 |               | 17,75,540  |

Unearned Finance Income - Rs.27,00,000 - Rs.17,75,540 = Rs.9,24,460

Apportionment of MLP into finance charge and principal amount at the end of the year.

| Year | Liability (Rs.) | MLP (Rs.) | Finance Charge (Rs.) | Principal (Rs.) |
|------|-----------------|-----------|----------------------|-----------------|
| 0    | 17,25,820       | -         | -                    | -               |
| 1    | 14,84,693       | 5,00,000  | 2,58,873             | 2,41,127        |
| 2    | 12,07,397       | 5,00,000  | 2,22,704             | 2,77,296        |
| 3    | 12,07,397       | 5,00,000  | 1,81,110             | 3,18,890        |
| 4    | 8,88,507        | 5,00,000  | 1,33,276             | 3,66,724        |
| 5    | -               | 6,00,000  | 78,267               | 5,21,733        |



Entries in the books of Beta Ltd. (lessee) in first year

| Particulars                     |     | Dr. (Rs.) | Cr. (Rs.) |
|---------------------------------|-----|-----------|-----------|
| Machinery (leased) A/c          | Dr. | 17,25,820 |           |
| To lease liability              |     |           | 17,25,820 |
| Depreciation A/c                | Dr. | 1,72,582  |           |
| To Machinery A/c                |     |           | 1,72,582  |
| Lease Liability A/c (Beta Ltd.) | Dr. | 2,41,127  |           |
| Finance Charge                  | Dr. | 2,58,873  |           |
| To Bank                         |     |           | 5,00,000  |
| Profit & Loss A/c               | Dr. | 4,31,455  |           |
| To Depreciation A/c             |     |           | 1,72,582  |
| To Finance Charges              |     |           | 2,58,873  |



## QUESTIONS FROM PYP'S

Question 1.

(Dec 23 7M)

Lease Ltd. has initiated a lease for four years in respect of a vehicle costing Rs.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 Rs.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.
- (iii) 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.

Answer:

- (i) The annual lease payment = 577074
- (ii) The Unearned Finance Income = Rs 558296

Question 2.

(Jun 23 3M)

AS-19 should be applied in accounting for all leases. Comment.

Answer:

Applicability:

AS 19 should be applied in accounting for all leases other than:

- (a) lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights;
- (b) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and
- (c) lease agreements to use lands.



## Exercise

## MULTIPLE CHOICE QUESTIONS

- The person who undertake 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
- Operating lease is a \_\_\_\_\_.  
(a) Revocable contract  
(b) Non revocable contract  
(c) Operating contract  
(d) None of the above
- Which lease transfer substantially all the risk and rewards incident to ownership of an asset?  
(a) Operating lease  
(b) Finance lease  
(c) Both  
(d) None of the above
- 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
- Short-term lease which is often cancellable is known as  
(a) Finance Lease  
(b) Net Lease  
(c) Operating Lease  
(d) Leverage Lease
- 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
- 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 cancelable by lease  
(d) A financial lease is generally cancelable by lease.

Answer:

|   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|
| 1 | A | 2 | A | 3 | B | 4 | A | 5 | C |
| 6 | C | 7 | C |   |   |   |   |   |   |

## FILL IN THE BLANKS

- As per AS-19 in \_\_\_\_\_ lease risk and reward is not transferred to the lessee.
- In financial lease as per As-19 leased assets is shown in the Balanced sheet of \_\_\_\_\_
- \_\_\_\_\_ account is credited when lessor receive an amount.

Answer:

|   |                |   |        |
|---|----------------|---|--------|
| 1 | Operating      | 2 | Lessee |
| 3 | Lessee Account |   |        |



# 10. BRANCH (INCLUDING FOREIGN BRANCH) ACCOUNTS

## ILLUSTRATIONS

### Illustration 1.

DK Traders of Assam has a branch at Mumbai. The branch receives all supply of goods from the head office (Assam). From the following particulars relating to Mumbai Branch for the year ending Mar.31, 2023. Prepare a Branch Accounts and a Goods Sent to Branch Account in the books of the Head office.

| Particulars                             | (Rs.)  | Particulars                            | (Rs.)  |
|-----------------------------------------|--------|----------------------------------------|--------|
| Stock at Branch on 1.04.2022 (at cost): | 8400   | Bills Receivable received from Debtor  | 20,000 |
| Branch Debtor on 1.04.2022              | 6200   | Cash sent to branch for exp.           |        |
| Petty Cash at Branch on 1.04.2022:      | 200    | - Salaries                             | 3,800  |
| Goods Sent to Branch                    |        | - Petty exp.                           | 400    |
| during the year (at cost):              | 80,000 | Stock at Branch on 31.3.2023 (at cost) | 6,400  |
| Goods returned by the branch            | 800    | Petty Cash at Branch on 31.3.2023      | 300    |
| Cash Sales during the year              | 72,000 | Branch Debtor on 31.3.2023             | ?      |
| Credit Sales during the year            | 46,000 |                                        |        |
| Cash received from Debtor               | 18,800 |                                        |        |

Solution:

Books of DK Traders (Assam H.O.)

Dr.

Mumbai Branch Account

Cr.

| Particulars                           | (Rs.)    | Particulars                        | (Rs.)    |
|---------------------------------------|----------|------------------------------------|----------|
| To Balance b/f:                       |          | By Bank A/c [Remittance by branch] |          |
| Stock (at cost)                       | 8,400    | Cash Sales Rs.72,000               |          |
| Debtors                               | 6,200    | Collection from Debtors Rs.18,800  | 90,800   |
| Petty Cash                            | 200      | By Goods Sent to Branch A/c        | 800      |
|                                       |          | [Returned by branch]               |          |
| To Goods Sent to Branch A/c [at cost] | 80,000   | By Balance c/f                     |          |
| To Bank A/c [Cash sent]               |          | Stock (at cost)                    | 6,400    |
| Salaries Rs.3,800                     |          | Debtors [WN:1]                     | 13,400   |
| Petty Expenses Rs.400                 | 4,200    | Petty Cash                         | 300      |
| To General P/L A/C [Branch Transfer]  | 32,700   | Bills Receivable                   | 20,000   |
|                                       | 1,31,700 |                                    | 1,31,700 |

Dr.

Goods Sent to Branch Account

Cr.

| Particulars               | (Rs.)  | Particulars          | (Rs.)  |
|---------------------------|--------|----------------------|--------|
| To Mumbai Branch A/c      | 800    | By Mumbai Branch A/c | 80,000 |
| [Returned by branch]      |        | [Cost of goods sent] |        |
| To Trading/ Purchases A/c | 79,200 |                      |        |
| [Transfer]                | 80,000 |                      | 80,000 |

**Working Notes:****1. Closing Balance of Branch Debtors:****Memorandum Branch Debtors Account**

| Particulars        | (Rs.)  | Particulars                  | (Rs.)  |
|--------------------|--------|------------------------------|--------|
| To Opening Balance | 6,200  | By Cash collected            | 18,800 |
| To Credit Sales    | 46,000 | By Bills Receivable Received | 20,000 |
|                    |        | By Closing Balance [B/fig]   | 13,400 |
|                    | 52,200 |                              | 52,200 |

**Illustration 2.**

S Ltd. Sends goods to Siliguri Branch Account at an invoice price (IP) so as to show 20% profit on such IP. Branch sale are partly on cash and partly on credit. From the following details prepare Branch Account in the books of the Head Office [Fig. in Rs.]:

|                                          |          |                               |          |
|------------------------------------------|----------|-------------------------------|----------|
| Opening stock at Branch at invoice price | 8,000    | Cash received from customers  | 6,50,000 |
| Closing stock at Branch at invoice price | 8,500    | Discount allowed to customers | 20,000   |
| Goods sent to Branch at cost price       | 4,80,000 | Closing balance of Debtor     | 92,000   |
| Goods returned to H.O at invoice price   | 40,000   | Opening balance of Debtor     | 1,00,000 |

**Sales:****Credit - Rs.6,80,000****Cash - Rs.1,10,000****Bad debts 4,000****Returns from Customers 14,000****Sundry Branch Exp. 1,50,000****Solution:**

Books of S Ltd. (.....H.O.)

**Dr.****Siliguri Branch Account****Cr.**

| Particulars                                                              | (Rs.)     | Particulars                                                              | (Rs.)     |
|--------------------------------------------------------------------------|-----------|--------------------------------------------------------------------------|-----------|
| To Balance b/f<br>Stock [at IP]                                          | 8,000     | By Stock Reserve A/c<br>[Load on opening Stock Reserve:<br>Rs.8,000×20%] | 1,600     |
| Debtors                                                                  | 1,00,000  | By Goods sent to branch A/c<br>[Load on goods sent: 6,00,000×20%]        | 1,20,000  |
| To Goods sent to branch A/c<br>[goods sent at IP: Rs.4,80,000 × 100/80]  | 6,00,000  | By Goods sent to branch A/c<br>[Returns by Branch to H.O: at IP]         | 40,000    |
| To Goods sent to branch A/c<br>[Load on goods returned: Rs.40,000 × 20%] | 8,000     | By Bank A/c<br>[Remittance from branch]                                  |           |
| To Bank A/c<br>[Remittance for branch expenses]                          | 1,50,000  | Cash sales Rs.1,10,000                                                   |           |
| To Stock Reserve A/c<br>[Load on closing Stock Reserve:<br>8500×20%]     | 1,700     | Receipt from customers Rs.6,50,000                                       | 7,60,00   |
| To General P/L A/c<br>[Branch NP transferred]                            | 1,54,400  | By Balance c/f<br>Stock [at IP]                                          | 8,500     |
|                                                                          |           | Debtors                                                                  | 92,000    |
|                                                                          | 10,22,100 |                                                                          | 10,22,100 |



**Illustration 3.**

Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31<sup>st</sup> March, 2023 assuming that H.O. sold goods at cost price 25%.

| Particulars                 | (Rs.)  | Particulars                | (Rs.)  |
|-----------------------------|--------|----------------------------|--------|
| Stock on 1.4.2022 (I.P.)    | 12,500 | Bad Debts                  | 2,000  |
| Debtors (")                 | 5,000  | Allowances to customers    | 1,000  |
| Petty Cash (")              | 1,000  | Returns Inwards            | 1,000  |
| Goods sent to branch (I.P.) | 40,000 | Charges sent to Bank:      |        |
| Goods return to H.O. (I.P.) | 5,000  | Rates & Taxes              | 3,000  |
| Cash Sales                  | 12,000 | Salaries                   | 8,000  |
| Cash received from Debtors  | 30,000 | Misc. Exps.                | 1,000  |
|                             |        | Stock on 31.03.2023 (I.P.) | 15,000 |
|                             |        | Debtors (")                | 4,000  |
|                             |        | Petty Cash (")             | 1,000  |

**Solution:**

**In the books of H.O.**

| Dr.                    |              | Branch Account |                                         | Cr.           |        |
|------------------------|--------------|----------------|-----------------------------------------|---------------|--------|
| Particulars            | (Rs.)        | (Rs.)          | Particulars                             | (Rs.)         | (Rs.)  |
| To Balance b/d         |              |                | By Stock Reserve (Loading)              |               | 2,500  |
| Stock                  | 12,500       |                | „ Bank A/c: Cash Sales                  |               |        |
| Debtors                | 5,000        |                | , Cash Received from Debtors            | 12,000        |        |
| Petty Cash             | <u>1,000</u> | 18,500         | , Goods sent to branch (Return to H.O.) | <u>30,000</u> | 42,000 |
| „ Goods sent to branch |              | 40,000         | , Goods sent to branch (Return to H.O.) |               | 5,000  |
| „ Bank A/c:            |              |                |                                         |               |        |
| Rates & Taxes          | 3,000        |                |                                         |               | 8,000  |

| Particulars                 | (Rs.)        | (Rs.)  | Particulars          | (Rs.)        | (Rs.)  |
|-----------------------------|--------------|--------|----------------------|--------------|--------|
| Salaries                    | 8,000        |        | By Balance c/d Stock |              |        |
| Misc. Expenses              | <u>1,000</u> | 12,000 | Debtors Petty Cash   | 15,000       |        |
| „ Goods sent to Branch      |              | 1,000  |                      | 4,000        |        |
| (Loading on returns)        |              |        |                      | <u>1,000</u> | 20,000 |
| „ Closing Stock Reserve     |              | 3,000  |                      |              |        |
| (Rs.15,000 × 1/5 )          |              |        |                      |              |        |
| „ General Profit & Loss A/c |              | 3,000  |                      |              |        |
|                             |              | 77,500 |                      |              | 77,500 |

Note: Here, loading is  $\frac{25}{125} = \frac{1}{5}$  of invoice price. Hence, loading on opening stock will be Rs.12,500  $\times \frac{1}{5}$  = Rs 2,500 and so on.

**Illustration 4.**

M/S C and Sons has a branch at Kolkata where it sends goods at cost plus 50%. From the following particulars regarding the branch, prepare Branch Stock Accounts, Branch Adjustment Account, Branch Debtor Account and Branch Profit & loss Account as would appear in the books of C Ltd.'s head office.



| [Fig. in Rs.]                   |          |                          |          |
|---------------------------------|----------|--------------------------|----------|
|                                 | (Rs.)    |                          | (Rs.)    |
| Stock at cost (1.04.2022)       | 40,000   | Sales returned to Branch | 6,000    |
| Debtors (1.04.2022)             | 36,000   | Bad Debts                | 400      |
| Cash (1.04.2022)                | 10,000   | Cash remitted to H.O     | 1,60,000 |
| Goods sent to Branch (at IP)    | 1,98,000 | Expenses paid by H.O     | 10,000   |
| Sales: Cash: Rs.54,0000 credit: | 1,58,000 | Cash (31.3.2023)         | 12,000   |
| Normal loss at cost             | 4,000    | Stock at IP (31.03.2023) | 54,000   |
|                                 |          | Debtor (31.03.2023)      | 60,000   |

Solution:

Books of M/S C and Sons. (H.O.)

| Dr.                                        |          | Kolkata Branch Stock Account         |          | Cr. |  |
|--------------------------------------------|----------|--------------------------------------|----------|-----|--|
| Particulars                                | (Rs.)    | Particulars                          | (Rs.)    |     |  |
| To Balance b/f [at IP Rs.40,000 × 150/100] | 60,000   | By Branch Cash A/c [Cash sales]      | 54,000   |     |  |
| To Goods Sent to Branch A/c [at IP]        | 1,98,000 | By Branch Debtors A/c [Credit sales] | 1,58,000 |     |  |
| To Branch Debtors A/c [Sales return]       | 6,000    | By Branch Adjustment A/c             | 6,000    |     |  |
| To Branch Adjustment A/c                   | 8,000    | [Normal loss - at IP                 |          |     |  |
| [Apparent Gross Profit B/fig]              |          | (Rs.4000 × 150/100)                  |          |     |  |
|                                            |          | By Balance c/f [at IP] [B/fig]       | 54,000   |     |  |
|                                            | 2,72,000 |                                      | 2,72,000 |     |  |

NB: The missing figure appearing in the debit-side of Branch Stock A/c has been considered as Apparent Gross Profit and NOT Stock Surplus as the branch has suffered normal loss of stock.

Kolkata Branch Adjustment Account

| Dr.                                                        |        | Cr.                                                          |        |
|------------------------------------------------------------|--------|--------------------------------------------------------------|--------|
| Particulars                                                | (Rs.)  | Particulars                                                  | (Rs.)  |
| To Branch Stock A/c [Normal loss]                          | 6,000  | By Balance b/f [Load on opening stock: Rs.60,000 × 50 / 150] | 20,000 |
| To Branch P/L A/c                                          | 70,000 | By Goods Sent to Branch A/c                                  | 66,000 |
|                                                            |        | [Load on goods sent: Rs.1,98,000 × 50/100]                   |        |
| [Gross profit transferred - B/fig ]                        |        | By Branch Stock A/c [Apparent Gross Profit]                  | 8,000  |
| To Balance c/f [Load on closing stock: Rs.54,000 × 50/150] | 18,000 |                                                              |        |
|                                                            | 94,000 |                                                              | 94,000 |

Kolkata Branch Debtors Account

| Dr.                                |          | Cr.                                |          |
|------------------------------------|----------|------------------------------------|----------|
| Particulars                        | (Rs.)    | Particulars                        | (Rs.)    |
| To Balance b/f                     | 36,000   | By Branch Stock A/c [Sales return] | 6,000    |
| To Branch Stock A/c [Credit sales] | 1,58,000 | By Bad Debts A/c                   | 400      |
|                                    |          | By Branch Cash A/c                 | 1,27,600 |
|                                    |          | [Collection from Debtors B/fig]    |          |
|                                    |          | By Balance c/f                     | 60,000   |
|                                    | 1,94,000 |                                    | 1,94,000 |



## Kolkata Branch Profit &amp; Loss Account

| Dr.                           |        | Cr.                            |        |
|-------------------------------|--------|--------------------------------|--------|
| Particulars                   | (Rs.)  | Particulars                    | (Rs.)  |
| To Bad Debts A/c              | 400    | By Branch Stock Adjustment A/c | 70,000 |
| To Branch Expenses A/c [WN:1] | 39,600 | [Gross Profit Transferred]     |        |
| To General P/L A/c            | 30,000 |                                |        |
| [Branch Net Profit]           |        |                                |        |
|                               | 70,000 |                                | 70,000 |

## Working Notes:

## 1. Branch expenses paid by branch

| Dr.                                             |          | Kolkata Branch Cash Account           |          | Cr. |  |
|-------------------------------------------------|----------|---------------------------------------|----------|-----|--|
| Particulars                                     | (Rs.)    | Particulars                           | (Rs.)    |     |  |
| To Balance b/f                                  | 10,000   | By Bank A/c [Cash remitted to Branch] | 1,60,000 |     |  |
| To Branch Stock A/c [Cash sales]                | 54,000   | By Branch Expenses A/c [b/fig]        | 19,600   |     |  |
| To Branch Debtors A/c [Collection from debtors] | 1,27,600 | By Balance figure c/f                 | 12,000   |     |  |
|                                                 |          |                                       |          |     |  |
|                                                 | 1,91,600 |                                       | 1,91,600 |     |  |

## Kolkata Branch expenses for the year

| Dr.                        |        | Kolkata Branch Expense Account      |        | Cr. |  |
|----------------------------|--------|-------------------------------------|--------|-----|--|
| Particulars                | (Rs.)  | Particulars                         | (Rs.)  |     |  |
| To Bank A/c [Paid by H.O.] | 20,000 | By Branch Profit & Loss A/c - B/fig | 39,600 |     |  |
| To Branch Cash A/c         | 19,600 |                                     |        |     |  |
| [Paid by Branch- WN1]      |        |                                     |        |     |  |
|                            | 39,600 |                                     | 39,600 |     |  |

NB: The drafting of Branch Expenses A/c is not mandatory and the total branch expenses could be ascertained by simple aggregation.

## Illustration 5.

Green Ltd. with their H.O. at Kolkata, invoiced goods to their Patna Branch at 20% less than the list price, which is Cost plus 100% with instruction that cash sales are made at invoice price and credit price at list price. From following particulars, prepare Branch Stock account and Branch Stock Adjustment Account for the year ended on 31.3.2023

| Particulars                      | (Rs.)  | Particulars                | (Rs.)  |
|----------------------------------|--------|----------------------------|--------|
| Stock at cost (1.4.2022)         | 4,800  | Cash received from Debtors | 34,254 |
| Debtors (1.4.2022)               | 4,000  | Expenses at Branch         | 6,946  |
| Goods received from H.O. (at IP) | 52,800 | Remitted to H.O            | 48,000 |
| Goods returned to H.O.           | 400    | Debtor (31.3.2023)         | 9,746  |
|                                  |        | Stock at IP (31.3.2023)    | 7,040  |
| Sales: Credit                    | 40,000 |                            |        |
| Cash                             | 18,400 |                            |        |



Solution:

## Books of Green Ltd. (Kolkata H.O.)

| Dr.                                          | Patna Branch Stock Account |                                    | Cr.    |
|----------------------------------------------|----------------------------|------------------------------------|--------|
| Particulars                                  | (Rs.)                      | Particulars                        | (Rs.)  |
| To Balance b/f [at IP]                       | 4,800                      | By Goods Sent to Branch A/c        | 400    |
| To Goods Sent to Branch A/c [at IP]          | 52,800                     | [Goods returned (at IP) - assumed] |        |
| To Branch Adjustment A/c                     | 8,000                      | By Branch Cash A/c                 | 18,400 |
| [Excess Contribution to Gross Profit - WN:3] |                            | By Branch Debtors A/c              | 40,000 |
| To Stock Surplus A/c [B/fig]                 | 240                        | By Balance c/f [at IP]             | 7,040  |
|                                              | 65,840                     |                                    | 65,840 |

NB: Balancing figure appearing in the debit-side of Branch stock A/c has been considered as 'Stock Surplus' as the problem involves 'Excess Contribution to Gross Profit'.

| Dr.                                       | Patna Branch Adjustment Account |                                         | Cr.    |
|-------------------------------------------|---------------------------------|-----------------------------------------|--------|
| Particulars                               | (Rs.)                           | Particulars                             | (Rs.)  |
| To Goods Sent to Branch A/c               | 150                             | By Balance b/f                          | 1,800  |
| [Load: $400 \times 60/160$ ]              |                                 | [Load on opening stock:                 |        |
| To Branch P/L A/c                         | 26,900                          | Rs.4800 $\times 60/160$ ]               |        |
| [Gross Profit transferred - B/fig]        |                                 | By Goods Sent to Branch A/c             | 19,800 |
| To Balance c/f                            | 2,640                           | [Load on goods sent: Rs.52,800 $\times$ |        |
| [Load on closing stock: Rs.7,040 $\times$ |                                 | 60/160]                                 |        |
| 60/160]                                   |                                 | By Branch Stock A/c                     | 8,000  |
|                                           |                                 | [Excess Contribution to Gross Profit]   |        |
|                                           |                                 | By Stock Surplus A/c                    | 90     |
|                                           |                                 | [Load: Rs.240 $\times 60/160$ ]         |        |
|                                           | 29,690                          |                                         | 29,690 |

## Working Notes:

1. Relation between Cost Price(CP), Invoice Price(IP) and List Price(LP):

Considering CP=100, LP=100+100% thereof=200. Hence IP= LP Less 20% thereof = 200 - 20% =160.

2. Transactions relating to Branch Debtors:

| Dr.                                | Patna Branch Debtors Account |                                          | Cr.    |
|------------------------------------|------------------------------|------------------------------------------|--------|
| Particulars                        | (Rs.)                        | Particulars                              | (Rs.)  |
| To Balance b/f                     | 4,000                        | By Bank A/c [Cash received from Debtors] | 34,254 |
| To Branch Stock A/c [Credit sales] | 40,000                       |                                          |        |
|                                    |                              | By Balance c/f                           | 9,746  |
|                                    | 44,000                       |                                          | 44,000 |

3. Excess Contribution to Gross Profit:

Here, the difference between the LP and IP results 'Excess Contribution to Gross Profit'. It arises only out of the credit sales which have been made at list price.

$\therefore$  Excess Contribution to Gross Profit = Rs.40,000  $\times 40/200$  = Rs.8,000

## Branch Trading and Profit &amp; Loss Account

| Dr.              | for the year ended.... |                    | Cr.   |
|------------------|------------------------|--------------------|-------|
| Particulars      | (Rs.)                  | Particulars        | (Rs.) |
| To Opening Stock | ***                    | By Sales: Cash *** |       |



|                         |     |     |                            |     |
|-------------------------|-----|-----|----------------------------|-----|
| To Goods Sent to Branch | *** |     | Credit ***                 |     |
| Less: Returns by Branch | **  |     | Less: Returns **           | *** |
| To Gross Profit c/d     |     | *** | By Goods-in-Transit        | *** |
|                         |     |     | By Abnormal Loss           | *** |
|                         |     |     | By Closing stock           | *** |
|                         |     |     | By Gross Loss c/d (if any) | *** |
|                         |     | *** |                            | *** |

| Particulars           | (Rs.) | Particulars          | (Rs.) |
|-----------------------|-------|----------------------|-------|
| To Gross Loss b/d     | ***   | By Gross Profit b/d  | ***   |
| To Salaries           | ***   | By Net Loss (if any) | ***   |
| To Rent & Salaries    | ***   |                      |       |
| To Petty Cash Exp.    | ***   |                      |       |
| To Abnormal loss      | ***   |                      |       |
| Less, Insurance claim | ***   |                      |       |
| To Net Profit         | ***   |                      |       |
|                       | ****  |                      | ****  |

| Dr.                          |       | Branch Account                       |       | Cr. |     |
|------------------------------|-------|--------------------------------------|-------|-----|-----|
| Particulars                  | (Rs.) | Particulars                          | (Rs.) |     |     |
| To Balance B/f               |       | By Bank A/c (remittance to H.O.)     | ***   |     | *** |
| Stock                        | ***   | Goods Sent to Branch A/c (Returns by | ***   |     | *** |
| Debtor                       | ***   | Branch)                              | ***   |     | *** |
| Petty Cash                   | ***   | By General Profit & Loss A/c         | ***   |     | *** |
| To Goods Sent to Branch A/c  | ***   |                                      |       |     |     |
| To Bank A/c (remittance)     | ***   | By Balance c/f                       | ***   |     | *** |
| To General Profit & Loss A/c | ***   |                                      |       |     |     |
|                              | ***   |                                      |       |     | *** |

#### Illustration 6.

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 31.3.2023. [Fig. in Rs.]:

| Particulars          | H.O       | Branch | Particulars        | H.O       | Branch    |
|----------------------|-----------|--------|--------------------|-----------|-----------|
| Stock on 1.4.2022    | 7,00,000  | -      | Sales              | 42,84,000 | 14,40,000 |
| Purchases            | 42,00,000 | -      | Stock on 31.3.2023 | 16,80,000 | 2,52,000  |
| Goods sent to Branch | 15,12,000 | -      |                    |           |           |
| (at IP)              |           |        |                    |           |           |

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 &amp; Loss account for the year ended 31.3.2023

| Dr.                        |           |              | Cr.                     |           |              |
|----------------------------|-----------|--------------|-------------------------|-----------|--------------|
| Particulars                | H.O (Rs.) | Branch (Rs.) | Particulars             | H.O (Rs.) | Branch (Rs.) |
| 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:

- Relationship Between Cost Price (CP), Selling Price (SP) and Wholesale Price (WP)  
Let CP be Rs.100. Thereof SP = Rs. (100+60) = Rs.160; and WP = (100+40) = 140
- Unrealised profit in Unsold stock  
Unrealised profit on closing stock of branch = Rs.(2,52,000×40/140) = Rs.72,000

Illustration 7.

Journalise the following transactions in the books of Kolkata Head Office, Delhi Branch and Agra Branch:

- Goods worth Rs.50,000 are supplied by Delhi Branch to Agra Branch under the instructions of Head Office.
- Delhi Branch draws a bill receivable for Rs.40,000 on Agra Branch which sends its acceptance.
- Delhi Branch received Rs.10,000 from Agra Branch.
- Goods worth Rs.20,000 were returned by a customer of Agra Branch to Delhi Branch.
- Agra Branch collected Rs.20,000 from a customer of Delhi Branch.

Solution :

Books of Kolkata Head Office

| Dr.                                                       |     | Journal |           | Cr.       |  |
|-----------------------------------------------------------|-----|---------|-----------|-----------|--|
| Particulars                                               |     | L.F.    | Dr. (Rs.) | Cr. (Rs.) |  |
| (a) Agra Branch A/c                                       | Dr. |         | 50,000    |           |  |
| To Delhi Branch A/c                                       |     |         |           | 50,000    |  |
| (Being the goods supplied by Delhi Branch to Agra Branch) |     |         |           |           |  |
| (b) Delhi Branch A/c                                      | Dr. |         | 40,000    |           |  |
| To Agra Branch A/c                                        |     |         |           | 40,000    |  |
| (Being a B/R drawn by Delhi upon Agra Branch)             |     |         |           |           |  |
| (c) Delhi Branch A/c                                      | Dr. |         | 10,000    |           |  |
| To Agra Branch A/c                                        |     |         |           | 10,000    |  |
| (Being Cash sent by Agra Branch to Delhi Branch)          |     |         |           |           |  |





|                                                                                                                         |     |  |        |        |
|-------------------------------------------------------------------------------------------------------------------------|-----|--|--------|--------|
| (d) Delhi Branch A/c<br>To Agra Branch A/c<br>(Being the goods returned by customer of Agra Branch to Delhi Branch)     | Dr. |  | 20,000 | 20,000 |
| (e) Agra Branch A/c<br>To Delhi Branch A/c<br>(Being the Cash collected by Agra Branch from a customer of Delhi Branch) | Dr. |  | 20,000 | 20,000 |

**Books of Delhi Branch**

| Dr.                                                                                                              | Journal | Cr.    |        |
|------------------------------------------------------------------------------------------------------------------|---------|--------|--------|
| Particulars                                                                                                      | L.F.    | (Rs.)  | (Rs.)  |
| (a) Kolkata H.O. A/c<br>To Goods sent to Branch A/c<br>(Being the goods supplied to Agra Branch)                 | Dr.     | 50,000 | 50,000 |
| (b) Bills Receivable A/c<br>To Kolkata H.O. A/c<br>(Being the acceptance of a B/R received from Agra Branch)     | Dr.     | 40,000 | 40,000 |
| (c) Cash A/c<br>To Kolkata H.O. A/c<br>(Being the cash received from Agra Branch)                                | Dr.     | 10,000 | 10,000 |
| (d) Goods Sent to Branch A/c<br>To Kolkata H.O. A/c<br>(Being the goods received from a customer of Agra Branch) | Dr.     | 20,000 | 20,000 |
| (e) Kolkata H.O. A/c<br>To Debtors A/c<br>(Being the cash collected by Agra Branch from our customer)            | Dr.     | 20,000 | 20,000 |

**Books of Agra Branch**

| Dr.                                                                                                 | Journal |      |        | Cr.    |
|-----------------------------------------------------------------------------------------------------|---------|------|--------|--------|
| Particulars                                                                                         |         | L.F. | (Rs.)  | (Rs.)  |
| (a) Goods sent to Branch A/c<br>To Kolkata H.O. A/c<br>(Being the goods received from Delhi Branch) | Dr.     |      | 50,000 | 50,000 |
| (b) Kolkata H.O. A/c<br>To Bill Payable A/c<br>(Being a B/P accepted for Delhi Branch)              | Dr.     |      | 40,000 | 40,000 |
| (c) Kolkata H.O. A/c<br>To Cash A/c<br>(Being cash paid to Delhi Branch)                            | Dr.     |      | 10,000 | 10,000 |
| (d) Kolkata H.O. A/c<br>To Debtors A/c<br>(Being the goods returned by customer of Delhi Branch)    | Dr.     |      | 20,000 | 20,000 |
| (e) Cash A/c<br>To Kolkata H.O. A/c<br>(Being the Cash received from a customer of Delhi Branch)    | Dr.     |      | 20,000 | 20,000 |

**Illustration 8.**

X Ltd. of Assam has a Branch at Darjeeling. From the given information, reconcile Darjeeling Branch Current A/c with Assam H.O. Current A/c by preparing Branch Current A/c in the books of H.O.

| Particulars                   | Assam H.O. |           | Darjeeling Branch |           |
|-------------------------------|------------|-----------|-------------------|-----------|
|                               | Dr. (Rs.)  | Cr. (Rs.) | Dr. (Rs.)         | Cr. (Rs.) |
| Goods sent to branch          | -          | 13,02,400 | -                 | -         |
| Goods received by branch      | -          | -         | 12,80,400         | -         |
| Cash sent by branch           | -          | -         | -                 | 1,86,500  |
| Cash received by H.O.         | 1,00,000   | -         | -                 | -         |
| Darjeeling Branch Current A/c | 4,11,100   | -         | -                 | -         |
| Assam H.O. Current A/c        | -          | -         | -                 | 3,02,600  |

**Solution:**

**Books of X Ltd. (Assam H.O.)**

| Dr. Darjeeling Branch Current Account |          | Cr.                            |          |
|---------------------------------------|----------|--------------------------------|----------|
| Particulars                           | (Rs.)    | Particulars                    | (Rs.)    |
| To Balance b/f                        | 4,11,100 | By Goods-in-Transit A/c [WN:1] | 22,000   |
|                                       |          | By Cash-in-Transit A/c [WN:2]  | 86,500   |
|                                       |          | By Balance c/f [B/fig]         | 3,02,600 |
|                                       | 4,11,100 |                                | 4,11,100 |

NB: The Darjeeling Branch Current A/c (in the books of H.O.) Assam H.O. Current A/c (in the Branch books) reflects the same but opposite balance; hence H.O. can proceed with incorporation of the Branch accounts in its books.

**Working Notes**

| Assam H.O. Current Account     |           |                              |        |
|--------------------------------|-----------|------------------------------|--------|
| Goods sent to Branch           | 13,02,400 | Journal Entry:               |        |
| Less: Goods received by Branch | 12,80,400 | Goods-in-Transit A/c Dr.     | 22,000 |
|                                | 22,000    | To Darjeeling Branch A/c     | 22,000 |
| Cash sent to Branch            | 1,86,500  | Journal                      |        |
| Less: Cash received by H.O.    | 1,00,000  | Cash-in-Transit A/c..... Dr. | 86,500 |
|                                | 86,500    | To Darjeeling Branch A/c     | 86,500 |

**Illustration 9.**

A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in March 2023, make the entries in the books of Delhi Head office.

(a) Kolkata Branch :

- (i) Received goods from Patna branch Rs.9,000 and Ahmedabad branch Rs.6,000.
- (ii) Sent goods to Ahmedabad branch Rs.15,000 and Patna branch Rs.12,000.
- (iii) Sent acceptances to Patna branch Rs.6,000 and Ahmedabad branch Rs.3,000.

(b) Kanpur branch [apart from (a) above] :

- (i) Sent goods to Ahmedabad branch Rs.9,000.
- (ii) Recived B/R from Ahmedabad branch Rs.9,000.
- (iii) Recived cash from Ahmedabad branch Rs.5,000.



Solution:

Books of H.O.  
Journal

| Particulars           | L.F. | Dr. (Rs.) | Cr. (Rs.) |
|-----------------------|------|-----------|-----------|
| Kanpur Branch A/c     | Dr.  | 5,000     |           |
| Patna Branch A/c      | Dr.  | 9,000     |           |
| Ahmedabad Branch A/c  | Dr.  | 7,000     | 21,000    |
| To Kolkata Branch A/c |      |           |           |

## Statement of Inter-branch Transactions

| Particulars    | Kolkata   |           | Kanpur    |           | Patna     |           | Ahmedabad |           |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                | Dr. (Rs.) | Cr. (Rs.) | Dr. (Rs.) | Cr. (Rs.) | Dr. (Rs.) | Cr. (Rs.) | Dr. (Rs.) | Cr. (Rs.) |
| Goods Received | 15,000    | -         | -         | -         | -         | 9,000     | -         | 6,000     |
| Goods Sent     | -         | 27,000    | -         | -         | 12,000    | -         | 15,000    | -         |
| Acceptance     | -         | 9,000     | -         | -         | 6,000     | -         | 3,000     | -         |
| Goods Sent     | -         | -         | -         | 9,000     | -         | -         | 9,000     | -         |
| B/R Received   | -         | -         | 9,000     | -         | -         | -         | -         | 9,000     |
| Cash           | -         | -         | 5,000     | -         | -         | -         | -         | 5,000     |
|                | 15,000    | 36,000    | 14,000    | 9,000     | 18,000    | 9,000     | 27,000    | 20,000    |
| Balance        | 21,000    | -         | -         | 5,000     | -         | 9,000     | -         | 7,000     |
|                | 36,000    | 36,000    | 14,000    | 14,000    | 18,000    | 18,000    | 27,000    | 27,000    |

## Illustration 10.

SL Corporation presented the following trial balance on 31.03.2023 to the H.O. at New Delhi.

| Particulars            | Debit (Rs.) | Particulars            | Credit (Rs.) |
|------------------------|-------------|------------------------|--------------|
| Delhi H.O.             | 6,480       | Sales                  | 76,000       |
| Stock 1.4.2022         | 12,000      | Goods supplied to H.O. | 12,000       |
| Purchase               | 35,600      | Creditors              | 3,700        |
| Goods Return From H.O. | 18,000      |                        |              |
| Salaries               | 3,000       |                        |              |
| Debtors                | 7,400       |                        |              |
| Rent                   | 1,920       |                        |              |
| Misc. Expense          | 940         |                        |              |
| Furniture              | 2,800       |                        |              |
| Cash and Bank          | 3,560       |                        |              |
|                        | 91,700      |                        | 91,700       |

## Additional Information:

The branch account on H.O. books on 31.03.2023 stood at Rs.920 (Debit).

On 31.03.2023, the, H.O. forwarded goods to the value of Rs.5,000 to the branch which are received on 3rd July. A cash remittance of Rs.2,400 by branch on 29th March 2023, was received by the H.O. on 2nd April 2023.

Closing Stock was valued at Rs.5,400

Show the incorporation entries in the books of H.O. showing separate Branch Trading and Branch Profit and Loss Account, and Prepare Branch Account and Branch Balance Sheet also in H.O. books.



**Solution:**

**(a) First Method**

**In the Books of H.O.  
Journal**

| Date     | Particulars                                                                                                                      | L/F | Dr.<br>(Rs.) | Cr.<br>(Rs.) |
|----------|----------------------------------------------------------------------------------------------------------------------------------|-----|--------------|--------------|
| 31.03.23 | Branch Trading A/c<br>To Branch A/c<br>(Items of Br. Trading incorporated)<br>Rs.12,000 + Rs.35,600 + Rs.18,000)                 | Dr. | 65,600       |              |
|          |                                                                                                                                  |     |              | 65,600       |
|          | Branch A/c<br>To Branch Trading A/c<br>(Items of Br. Trading incorporated i.e.,<br>Rs.76,000 + Rs.12,000 + Rs.5,400)             | Dr. | 93,400       |              |
|          |                                                                                                                                  |     |              | 93,400       |
|          | Branch Trading A/c<br>To Branch Profit & Loss A/c<br>(Gross Profit transferred) [Rs.93,400 - Rs.65,600]                          | Dr. | 27,800       |              |
|          |                                                                                                                                  |     |              | 27,800       |
|          | Branch Profit and Loss A/c<br>To Branch A/c<br>(Item of Branch Profit & Loss incorporated i.e.,<br>Rs.3,000 + Rs.1,920 + Rs.940) | Dr. | 5,860        |              |
|          |                                                                                                                                  |     |              | 5,860        |
|          | Branch Profit and Loss A/c<br>To General Profit & Loss A/c<br>(Net Profit Transferred) [Rs.27,800 - Rs.5,860]                    | Dr. | 21,940       |              |
|          |                                                                                                                                  |     |              | 21,940       |
|          | Goods-in-Transit A/c<br>To Branch A/c<br>(Goods-in-Transit adjusted)                                                             | Dr. | 5,000        |              |
|          |                                                                                                                                  |     |              | 5,000        |
|          | Remittance (Cash)-in-Transit A/c<br>To Branch A/c<br>(Remittance-in-Transit adjusted)                                            | Dr. | 2,400        |              |
|          |                                                                                                                                  |     |              | 2,400        |
|          | Branch Asset A/c<br>To Branch A/c<br>(Branch Asset incorporated) [Rs.2,800 + Rs.5,400 + Rs.7,400 +<br>Rs.3,560]                  | Dr. | 19,160       |              |
|          |                                                                                                                                  |     |              | 19,160       |
|          | Branch A/c<br>To Branch Liabilities A/c<br>(Branch liabilities incorporated)                                                     | Dr. | 3,700        |              |
|          |                                                                                                                                  |     |              | 3,700        |

| Dr. Branch Trading and Profit and Loss Account              |        |        | Cr.                    |        |        |
|-------------------------------------------------------------|--------|--------|------------------------|--------|--------|
| Particulars                                                 | (Rs.)  | (Rs.)  | Particulars            | (Rs.)  | (Rs.)  |
| To Branch A/c                                               |        |        | By Branch A/c          |        |        |
| Stock                                                       | 12,000 |        | Sales                  | 76,000 |        |
| Purchase                                                    | 35,600 |        | Goods supplied to H.O. | 12,000 |        |
| Goods from H.O.                                             | 18,000 | 65,600 | Closing Stock          | 5,400  | 93,400 |
| To Branch Profit and Loss A/c<br>(Gross Profit transferred) |        | 27,800 |                        |        |        |
|                                                             |        | 93,400 |                        |        | 93,400 |



|                                                         |       |        |                       |  |        |
|---------------------------------------------------------|-------|--------|-----------------------|--|--------|
| To Branch A/c                                           |       |        | By Branch Trading A/c |  | 27,800 |
| Salaries                                                | 3,000 |        | - Gross Profit        |  |        |
| Rent                                                    | 1,920 |        |                       |  |        |
| Office Expenses                                         | 940   | 5,860  |                       |  |        |
| To General Profit and Loss A/c (Net Profit transferred) |       | 21,940 |                       |  |        |
|                                                         |       | 27,800 |                       |  | 27,800 |

| Dr.      |                          |        | Branch Account |                             | Cr.    |
|----------|--------------------------|--------|----------------|-----------------------------|--------|
| Date     | Particulars              | (Rs.)  | Date           | Particulars                 | (Rs.)  |
| 01.04.22 | To Balance b/d           | 920    | 31.03.23       | By Branch Trading A/c       | 65,600 |
|          |                          |        |                | „ Branch P&L A/c            | 5,860  |
| 31.03.23 | „ Branch Trading A/c     | 93,400 |                | „ Goods-in-Transit A/c      | 5,000  |
|          | „ Branch Liabilities A/c | 3,700  |                | „ Remittance-in-Transit A/c | 2,400  |
|          | Creditors                |        |                | „ Branch Assets A/c         |        |
|          |                          |        |                | Furniture                   | 2,800  |
|          |                          |        |                | Stock                       | 5,400  |
|          |                          |        |                | Debtors                     | 7,400  |
|          |                          |        |                | Cash                        | 3,560  |
|          |                          | 98,020 |                |                             | 19,160 |
|          |                          |        |                |                             | 98,020 |

Branch Balance Sheet as at 31st March, 2023

| Liabilities           |        | (Rs.)  | Assets       |  | (Rs.)  |
|-----------------------|--------|--------|--------------|--|--------|
| H.O. A/c              |        |        | Furniture    |  | 2,800  |
| Opening balance (Dr.) | 6,480  |        | Stock        |  | 5,400  |
| Less: Net Profit      | 21,940 | 15,460 | Debtors      |  | 7,400  |
| Creditors             |        | 3,700  | Cash at Bank |  | 3,560  |
|                       |        | 19,160 |              |  | 19,160 |

(b) Second Method/Abridged Method

| Dr.      |                             |        | Branch Account |                             | Cr.     |
|----------|-----------------------------|--------|----------------|-----------------------------|---------|
| Date     | Particulars                 | (Rs.)  | Date           | Particulars                 | (Rs.)   |
| 01.04.22 | To Balance b/d              | 920    | 31.03.23       | By Goods-in-Transit A/c     | 5,000   |
|          |                             |        |                | „ Remittance-in-Transit A/c | 2,400   |
| 31.03.23 | „ Branch P&L A/c Net Profit | 21,940 |                | „ Balance c/d               | 15,460* |
|          |                             | 22,860 |                |                             | 22,860  |

Note: This is the difference between Branch Assets and Branch Liabilities

(Rs.19,160 - Rs.3,700) = Rs.15,460.

Illustration 11.

A Chennai Head Office has an independent Branch at Ahmedabad. From the following particulars, give journal entries to close the books of the Ahmedabad Branch. Show also the Chennai Head Office account in the branch books.

Ahmedabad Branch

| Dr.                  |       |             | Trial Balance as at 31st December, 2022 |  | Cr. |
|----------------------|-------|-------------|-----------------------------------------|--|-----|
| Particulars          | (Rs.) | Particulars | (Rs.)                                   |  |     |
| Stock on 1st January | 8,200 | Creditors   | 2,700                                   |  |     |



|                          |        |                  |        |
|--------------------------|--------|------------------|--------|
| Purchases                | 12,800 | Sales            | 34,950 |
| Wages                    | 6,550  | Head Office      | 14,000 |
| Manufacturing Expenses   | 3,400  | Discount         | 150    |
| Rent                     | 1,700  | Purchase Returns | 300    |
| Salaries                 | 5,500  |                  |        |
| Debtors                  | 4,000  |                  |        |
| General Expenses         | 2,000  |                  |        |
| Goods received from H.O. | 7,200  |                  |        |
| Cash at Bank             | 750    |                  |        |
|                          | 52,100 |                  | 52,100 |

(a) Closing Stock at Branch Rs.14,350.

(b) The branch fixed assets maintained at H.O. books were: Machinery Rs.25,000, Furniture Rs.1,000 Depreciations are to be allowed at 10% on Machinery and 15% on Furniture.

(c) Rent due Rs.150.

(d) A remittance of Rs.4,000 made by the Branch on 29th Dec. 2022 was received by Head Office on 4th January, 2023.

Solution: Method 1:

In the books of Branch  
Journal

| Date     | Particulars                                                                                                                                                                                                                                                      | L/F | Dr. (Rs.) | Cr. (Rs.)                                                                      |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----------|--------------------------------------------------------------------------------|
| 31.12.22 | Depreciation A/c Dr.<br>To Head Office A/c<br>(Depreciation on fixed assets maintained in head office books @ 10% on Machinery and 15% on Furniture)                                                                                                             |     | 2,650     | 2,650                                                                          |
|          | Rent A/c Dr.<br>To Outstanding Rent A/c (Rent Outstanding)                                                                                                                                                                                                       |     | 150       | 150                                                                            |
|          | Cash-in-Transit A/c Dr.<br>To Head Office A/c<br>(Cash remitted to H.O. but not received within 31st December)                                                                                                                                                   |     | 4,000     | 4,000                                                                          |
|          | Head Office A/c Dr.<br>To Opening Stock<br>,, Purchases<br>,, Wages<br>,, Manufacturing Expenses<br>,, Rent (Rs.1,700 + Rs.150)<br>,, Salaries<br>,, General Expenses<br>,, Goods received from H.O.<br>,, Depreciation<br>(Above items transferred to H.O. A/c) |     | 50,150    | 8,200<br>12,800<br>6,550<br>3,400<br>1,850<br>5,500<br>2,000<br>7,200<br>2,650 |
|          | Discount A/c Dr.                                                                                                                                                                                                                                                 |     | 150       |                                                                                |
|          | Sales A/c Dr.                                                                                                                                                                                                                                                    |     | 34,950    |                                                                                |
|          | Purchase Returns A/c Dr.                                                                                                                                                                                                                                         |     | 300       |                                                                                |
|          | Closing Stock A/c Dr.                                                                                                                                                                                                                                            |     | 14,350    | 49,750                                                                         |





|  |                                                             |  |        |        |
|--|-------------------------------------------------------------|--|--------|--------|
|  | To Head Office A/c<br>(Above items transferred to H.O. A/c) |  |        |        |
|  | Head Office A/c Dr.                                         |  | 23,100 |        |
|  | To Closing Stock A/c                                        |  |        | 14,350 |
|  | „ Debtors A/c                                               |  |        | 4,000  |
|  | „ Bank A/c                                                  |  |        | 750    |
|  | „ Cash-in-Transit A/c (Assets transferred to H.O. A/c)      |  |        | 4,000  |
|  | Creditors A/c Dr.                                           |  | 2,700  |        |
|  | Outstanding Rent A/c Dr.                                    |  | 150    |        |
|  | To Head Office A/c                                          |  |        | 2,850  |
|  | (Liabilities transferred to H.O. A/c)                       |  |        |        |

Dr.

Head Office Account

Cr.

| Date     | Particulars                                   | (Rs.)  | Date   | Particulars                                 | (Rs.)  |
|----------|-----------------------------------------------|--------|--------|---------------------------------------------|--------|
| 31.12.22 | To Sundries- (debit balance of Revenue items) | 50,150 | 1.1.21 | By Balance b/d                              | 14,000 |
|          | „ Sundry Assets                               | 23,100 |        | „ Depreciation A/c                          | 2,650  |
|          |                                               |        |        | „ Cash-in-Transit A/c                       | 4,000  |
|          |                                               |        |        | „ Sundries -Credit Balance of Revenue items | 49,750 |
|          |                                               |        |        | „ Sundry Liabilities                        | 2,850  |
|          |                                               | 73,250 |        |                                             | 73,250 |

Method 2:

| Date            | Particulars                                                                                              | L/F | (Rs.)  | (Rs.)  |
|-----------------|----------------------------------------------------------------------------------------------------------|-----|--------|--------|
| 2022<br>Dec. 31 | Depreciation A/c Dr.                                                                                     |     | 2,650  |        |
|                 | To Head Office A/c<br>(Depreciation on fixed assets @ 10% Monthly and @ 15% or Furniture in H.O. Books.) |     |        | 2,650  |
|                 | Rent A/c Dr.                                                                                             |     | 150    |        |
|                 | To Outstanding Rent A/c<br>(Rent Outstanding)                                                            |     |        | 150    |
|                 | Cash-in-Transit A/c Dr.                                                                                  |     | 4,000  |        |
|                 | To Head Office A/c<br>(Cash remitted to H.O. but in transit)                                             |     |        | 4,000  |
|                 | Head Office A/c Dr.                                                                                      |     | 400    |        |
|                 | To Profit & Loss A/c<br>(Net Loss Transferred.) [ Rs.50,150 - Rs.49,750]                                 |     |        | 400    |
|                 | Head Office A/c Dr.                                                                                      |     | 23,100 |        |
|                 | To Closing Stock                                                                                         |     |        | 14,350 |
|                 | „ Debtors                                                                                                |     |        | 4,000  |
|                 | „ Cash at Bank                                                                                           |     |        | 750    |
|                 | „ Cash-in-Transit (Asset transferred to H.O. A/c)                                                        |     |        | 4,000  |
|                 | Creditors A/c Dr.                                                                                        |     | 2,700  |        |
|                 | Outstanding Rent A/c Dr.                                                                                 |     | 150    |        |
|                 | To Head Office A/c<br>(Various Liabilities transferred to H.O. A/c)                                      |     |        | 2,850  |



Dr.

Head Office Account

Cr.

| Date     | Particulars           | (Rs.)  | Date     | Particulars           | (Rs.)  |
|----------|-----------------------|--------|----------|-----------------------|--------|
| 31.12.22 | To Profit & Loss A/c  | 400    | 31.12.22 | By Balance b/d        | 14,000 |
|          | Net Loss              |        |          | „ Depreciation A/c    | 2,650  |
|          | „ Closing Stock A/c   | 14,350 |          | „ Cash-in-Transit A/c | 4,000  |
|          | „ Debtors A/c         | 4,000  |          | „ Credit A/c          | 2,700  |
|          | „ Cash at Bank        | 750    |          | „ Outstanding Rent    | 150    |
|          | „ Cash-in-Transit A/c | 4,000  |          |                       |        |
|          |                       | 23,500 |          |                       | 23,500 |

**Illustration 12.**

Puskar Enterprise has its H.O. in Ranchi and a branch in Imphal. The following Trial Balance has been extracted from the books of accounts as at 31st March, 2023:

| Particulars                          | Head Office |           | Branch Office |           |
|--------------------------------------|-------------|-----------|---------------|-----------|
|                                      | Dr. (Rs.)   | Cr. (Rs.) | Dr. (Rs.)     | Cr. (Rs.) |
| Capital                              | ---         | 16,50,000 | ---           | ---       |
| Debtors                              | 3,00,000    | ---       | 1,80,000      | ---       |
| Creditors                            | ---         | 1,50,000  | ---           | ---       |
| Purchases                            | 27,42,000   | ---       | ---           | ---       |
| Sales                                | ---         | 25,50,000 | ---           | 13,11,000 |
| Goods sent to Branch at I.P.         | ---         | 11,40,000 | 11,25,000     | ---       |
| Fixed Assets (Net)                   | 10,50,000   | ---       | 2,00,000      | ---       |
| Stock (1.4.2022)                     | 24,000      | ---       | 60,000        | ---       |
| Stock Adjustment (Unrealised Profit) | ---         | 12,000    | ---           | ---       |
| H.O./Branch Current A/c              | 5,25,000    | ---       | ---           | 3,60,000  |
| Administrative & Selling Expenses    | 8,41,500    | ---       | 74,500        | ---       |
| Cash and Bank                        | 46,500      | ---       | 39,000        | ---       |
| Provision for Bad Debts              | ---         | 27,000    | ---           | 7,500     |
|                                      | 55,29,000   | 55,29,000 | 16,78,500     | 16,78,500 |

Other relevant information:

- All goods are purchased by the H.O. Goods are sent to branch at cost plus 25%.
  - Stock 31.3.2023 are valued at:  
H.O. Rs.36,000  
Branch Rs.45,000 (Invoice Price)
  - Depreciation is to be provided on fixed assets at 10% on book value.
  - Bad debts provision is to be maintained at 5% on debtors as at the end of the year.
  - Cash-in-transit from branch to H.O. at 31st March 2023 was Rs.1,50,000.
  - Goods-in-transit from H.O. to branch at 31st March, 2023 at invoice price was Rs.15,000.
- Prepare in Columnar form, the branch and H.O. Trading and Profit and Loss Accounts for the year ended 31st March, 2023 and a combined Balance Sheet of Puskar Enterprises as on that date.



Solution:

In the books of H.O.

## Columnar Trading and Profit and Loss Account

Dr.

for the year ended March 31, 2023

Cr.

| Particulars                      | H.O.<br>(Rs.) | Branch<br>(Rs.) | Particulars                      | H.O.<br>(Rs.) | Branch<br>(Rs.) |
|----------------------------------|---------------|-----------------|----------------------------------|---------------|-----------------|
| To Opening Stock                 | 24,000        | 60,000          | By Sales                         | 25,50,000     | 13,11,000       |
| „ Purchases                      | 27,42,000     | ---             | „ Goods Sent to Branch           | 11,40,000     | ---             |
| „ Goods from H.O.                | ---           | 11,25,000       | „ Closing Stock                  | 36,000        | 45,000          |
| „ Gross Profit c/d               | 9,60,000      | 1,71,000        |                                  |               |                 |
|                                  | 37,26,000     | 13,56,000       |                                  | 37,26,000     | 13,56,000       |
| To Adm. & Selling Exp.           | 8,41,500      | 74,500          |                                  |               |                 |
| „ Depreciation                   | 1,05,000      | 20,000          | By Gross Profit b/d              | 9,60,000      | 1,71,000        |
| „ Stock Adjustment (for closing) | 12,000        | ---             | „ Stock Adjustment (for opening) | 12,000        | ---             |
| 20% of (45,000 + 15,000)         |               |                 |                                  |               |                 |
| „ Provision for Bad Debts (new)  | 15,000        | 9,000           | „ Provision for Bad Debts (old)  | 27,000        | 7,500           |
|                                  |               |                 |                                  |               |                 |
| Net Profit                       | 25,500        | 75,000          |                                  |               |                 |
|                                  | 9,99,000      | 1,78,500        |                                  | 9,99,000      | 1,78,500        |

## Balance Sheet (Combined) as at March 31, 2023

| Liabilities                       | (Rs.)     | (Rs.)     | Assets                    | (Rs.)     | (Rs.)     |
|-----------------------------------|-----------|-----------|---------------------------|-----------|-----------|
| Capital                           | 16,50,000 |           | Fixed Assets              | 12,50,000 |           |
| Add: Net Profit (25,500 + 75,000) | 1,00,500  | 17,50,500 | Less: Depreciation        | 1,25,000  | 11,25,000 |
|                                   | 5,25,000  |           | Current Assets            |           |           |
| Current A/c - H.O.                |           |           | Stock                     |           |           |
| Less: Branch (Cr.) 3,60,000       |           |           | H.O.                      | 36,000    |           |
| Cash-in-transit 1,50,000          |           |           | Branch                    | 45,000    |           |
| Goods-in-transit 15,000           | 5,25,000  |           |                           | 81,000    |           |
|                                   |           | Nil       | Less: Stock Adj.          | 12,000    | 69,000    |
| Creditors                         |           | 1,50,000  | Goods-in-Transit          |           | 15,000    |
|                                   |           |           | Debtors                   |           |           |
|                                   |           |           | H.O.                      | 3,00,000  |           |
|                                   |           |           | Branch                    | 1,80,000  |           |
|                                   |           |           |                           | 4,80,000  |           |
|                                   |           |           | Less: Prov. for Bad Debts | 24,000    | 4,56,000  |
|                                   |           |           | Debts                     |           |           |
|                                   |           |           | Cash at Bank              |           |           |
|                                   |           |           | H.O.                      | 46,500    |           |
|                                   |           |           | Branch                    | 39,000    |           |
|                                   |           |           | Cash-in-transit           | 1,50,000  | 2,35,500  |
|                                   |           | 19,00,500 |                           |           | 19,00,500 |

**Illustration 13.**

SS Textiles Ltd. have a branch in Auckland, New Zealand. The trail balance of the branch as on 31.03.2023 was as given below:

|                                    | Dr. (NZ \$) | Cr. (NZ \$) |
|------------------------------------|-------------|-------------|
| Head Office Account                |             | 18,000      |
| Sales                              |             | 1,20,000    |
| Goods from the Head Office Account | 90,000      |             |
| Opening Stock                      | 15,000      |             |
| Office furniture                   | 20,000      |             |
| Cash                               | 100         |             |
| Bank                               | 1,900       |             |
| Expenses outstanding               |             | 2,000       |
| Salaries                           | 6,000       |             |
| Taxes & Insurance                  | 500         |             |
| Rent                               | 2,000       |             |
| Debtors                            | 4,500       |             |
|                                    | 1,40,000    | 1,40,000    |

The Branch Account in the head office showed a debit balance of Rs.13,20,000 and 'Goods sent to Branch Accounts' a credit balance of Rs.80,00,000.

Office furniture were acquired in 2005 when NZ \$1 = Rs.80.

The exchange rates were (NZ \$1): 01-04-2022 - Rs.88; 31-03-2023 - Rs.92; Average - Rs.90.

The stock at branch on 31-03-2023 was valued at NZ \$9,000.

Convert the Branch Trial Balance into rupees and prepare the Branch Trading and Profit and Loss Account for 2023, and the Branch Account in Head Office books. Depreciation is to be written off the office furniture @ 10%.

**Solution:****Auckland Branch Trial Balance as at 31st March, 2023**

| Item                   | Rate (Rs.) | Dr.<br>(NZ \$) | Cr.<br>(NZ \$) | Dr.<br>(Rs.) | Cr.<br>(Rs.) |
|------------------------|------------|----------------|----------------|--------------|--------------|
| H.O. Account           | -          |                | 18,000         |              | 13,20,000    |
| Sales                  | 90         |                | 1,20,000       |              | 108,00,000   |
| Goods from H.O. A/c    | -          | 90,000         |                | 80,00,000    |              |
| Stock on 01-04-2022    | 88         | 15,000         |                | 13,20,000    |              |
| Office Furniture       | 80         | 20,000         |                | 16,00,000    |              |
| Cash                   | 92         | 100            |                | 9,200        |              |
| Bank                   | 92         | 1,900          |                | 1,74,800     |              |
| Expenses outstanding   | 92         |                | 2,000          |              | 1,84,000     |
| Salaries               | 90         | 6,000          |                | 5,40,000     |              |
| Taxes & Insurance      | 90         | 500            |                | 45,000       |              |
| Rent                   | 90         | 2,000          |                | 1,80,000     |              |
| Debtors                | 92         | 4,500          |                | 4,14,000     |              |
|                        |            | 1,40,000       | 1,40,000       | 1,22,83,000  | 1,23,04,000  |
| Difference in exchange |            |                |                | 21,000       |              |
|                        |            |                |                | 1,23,04,000  | 1,23,04,000  |
| Closing stock          | 92         | 9,000          |                | 8,28,000     |              |



## Auckland Branch Trading and Profit &amp; Loss Account

Dr.

for the year ended 31st March, 2023

Cr.

| Particulars               | (Rs.)      | Particulars         | (Rs.)      |
|---------------------------|------------|---------------------|------------|
| To Opening Stock          | 13,20,000  | By Sales            | 108,00,000 |
| To Goods from H.O.        | 80,00,000  | By Closing Stock    | 8,28,000   |
| To Gross Profit c/d       | 23,08,000  |                     |            |
|                           | 116,28,000 |                     | 116,28,000 |
| To Salaries               | 5,40,000   | By Gross Profit b/d | 23,08,000  |
| To Taxes & Insurance      | 45,000     |                     |            |
| To Rent                   | 1,80,000   |                     |            |
| To Difference in exchange | 21,000     |                     |            |
| To Depreciation           | 1,60,000   |                     |            |
| To Net Profit             | 13,62,000  |                     |            |
|                           | 23,08,000  |                     | 23,08,000  |

Dr.

## Auckland Branch Account

Cr.

| Particulars           | (Rs.)       | Particulars           | (Rs.)       |
|-----------------------|-------------|-----------------------|-------------|
| To Balance b/d        | 13,20,000   | By Branch Trading A/c | (Rs.)       |
| To Branch Trading A/c | (Rs.)       | Opening stock         | 13,20,000   |
| Sales                 | 108,00,000  | Goods from H.O.       | 80,00,000   |
| Stock                 | 8,28,000    |                       | 93,20,000   |
|                       | 116,28,000  | By Branch P & L A/c   | 9,46,000    |
|                       |             | (Sundry expenses )    |             |
|                       |             | By Balance c/d        | 26,82,000   |
|                       | 1,29,48,000 |                       | 1,29,48,000 |



## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 7M)

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                                    | Rs     | Particulars                                     | Rs     |
|------------------------------------------------|--------|-------------------------------------------------|--------|
| 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 branch 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

Answer:

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 - Loading  | 10,000     |
| To Bank A/c                       | 3,000      | By Goods-in-Transit A/c                | 6,000      |
| To Goods-in-Transit A/c - Loading | 1,000      | By Bank A/c - [Remittance from Branch] | 43,000     |
| To Stock Reserve                  | 1,000      | By Balance c/f:                        |            |
| To General Profit & Loss A/c      | 22,800     | - Branch Debtors                       | 20,800     |
| [Branch NP transferred]           |            | - Branch Cash                          | 2,000      |
|                                   |            | - Branch Stock                         | 6,000      |
|                                   | 87,800     | Total                                  | 87,800     |

Question 2.

(Jun 24 7M)

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            |           |
| - Stock at Invoice price                 | 1,20,000  |
| - Debtors                                | 43,200    |
| - Goods Sent to Branch (Invoice Price)   | 18,00,000 |
| Goods returned by Branch (Invoice Price) | 24,000    |
| Credit Sales                             | 72,000    |
| Credit 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     |
| Balances 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

Answer:

**Branch Stock Account (Books of Ranu Stores - Head Office)**

| Particulars                     | Amount (₹) | Particulars                       | Amount (₹) |
|---------------------------------|------------|-----------------------------------|------------|
| 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      |
|                                 |            |                                   | 1,99,200   |
| Total                           | 19,32,000  | Total                             | 19,32,000  |

**Branch Debtors Account**

| Particulars                       | Amount (₹) | Particulars                        | Amount (₹) |
|-----------------------------------|------------|------------------------------------|------------|
| 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 debts) | 2,400      |
| By Balance c/d                    | 88,800     | Total                              | 16,75,200  |
| Total                             | 16,75,200  | Total                              | 16,75,200  |

**Goods Sent to Branch Account**

| Particulars              | Amount (₹) | Particulars         | Amount (₹) |
|--------------------------|------------|---------------------|------------|
| 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  | Total               | 18,00,000  |
| Total                    | 18,00,000  | Total               | 18,00,000  |

**Branch Expenses Account**

| Dr                                |            |                          | Cr         |
|-----------------------------------|------------|--------------------------|------------|
| Particulars                       | Amount (₹) | Particulars              | Amount (₹) |
| 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   |                          |            |
| Total                             | 1,40,600   | Total                    | 1,40,600   |



## Branch Adjustment Account

| Dr.                            |            |                             | Cr         |
|--------------------------------|------------|-----------------------------|------------|
| Particulars                    | Amount (₹) | Particulars                 | Amount (₹) |
| 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   |                             |            |
| Total                          | 6,32,000   | Total                       | 6,32,000   |

| Particulars              | Amount (₹) | Particulars              | Amount (₹) |
|--------------------------|------------|--------------------------|------------|
| 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     |
| Total                    | 1,06,400   | Total                    | 1,06,400   |

## Question 3.

(Dec 23 7M)

X Ltd. has a retail branch at Puri. Goods are sold at 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Delhi H.O. to branch at Puri at wholesale price. From the following particulars ascertain the profit made at H.O. and branch for the year ended 31st March, 2023

| Particulars                             | H.O ₹     | Branch ₹  |
|-----------------------------------------|-----------|-----------|
| Stock on 01.04.2022                     | 7,00,000  |           |
| Purchase                                | 42,00,000 |           |
| Goods sent to Branch (at invoice price) | 15,12,000 |           |
| Sales                                   | 42,84,000 | 14,40,000 |
| Stock on 31.03.2023                     | 16,80,000 | 2,52,000  |
| Expenses                                | 80,000    | 40,000    |

Sales at H.O. are made only on wholesale basis and that at branch only to customers at retail price. Stock at H.O. is valued at invoice price.

Answer;

Profit made at H.O. = Rs 21,44,000

Profit made at Branch = Rs 8 1,40,000

## Question 4.

(Jun 23 1M)

Explain accounting treatment of normal loss in Branch Account

Answer:

Normal loss does not appear in the Branch Account since the closing stock appears at the adjusted figure

## Question 5.

(Jun 23 3M)

Distinguish between Foreign Branch and Domestic Branch.

Answer:

| Domestic Branch                                                                                                                 | Foreign Branch                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Domestic branch is mainly opened and operated in the same country where the organisation is registered and has its head office. | Foreign branch is opened and operated in a country other than the country where the organisation is registered and has its head office. |



Example: State bank of India and its different branches all over India.

Example: Dubai branch of State bank of India.

**Question 6.**

(Dec 22 15M)

From the following particulars relating to Pune Branch for the year ending December 31, 2018, prepare Branch Account in the books of Head Office

| Particulars                                                 |       | Rs       |
|-------------------------------------------------------------|-------|----------|
| Stock at Branch on January 1, 2018                          |       | 10,000   |
| Branch Debtors on January 1, 2018                           |       | 4,000    |
| Branch Debtors on December 31, 2018                         |       | 4,900    |
| Petty cash at branch on January 1, 2018                     |       | 500      |
| Furniture at branch on January 1, 2018                      |       | 2,000    |
| Prepaid fire insurance premium on January 1, 2018           |       | 150      |
| Salaries outstanding at branch on January 1, 2018           |       | 100      |
| Goods sent to branch during the year                        |       | 80,000   |
| Cash sales during the year                                  |       | 1,30,000 |
| Credit sales during the year                                |       | 40,000   |
| Cash received from debtors                                  |       | 35,000   |
| Cash paid by the branch debtors directly to the head office |       | 2,000    |
| Discount allowed to others                                  |       | 100      |
| Cash sent to branch for expenses                            |       |          |
| Rent                                                        | 2,000 |          |
| Salaries                                                    | 2,400 |          |
| Petty cash                                                  | 1,000 |          |
| Annual insurance up to March 31, 2019                       | 6,000 |          |
| Goods returned by the Branch                                |       | 1,000    |
| Goods returned by the Debtors                               |       | 2,000    |
| Stock on December 31, 2018                                  |       | 5,000    |
| Petty Cash spent by Branch                                  |       | 850      |
| Provide depreciation on furniture 10% p .a                  |       | .        |

Goods costing 1,200 were destroyed due to fire and a sum of 1,000 was received from the Insurance company

**Answer:**

Pune Branch Account Total - Rs. 1,81,600



## SOLVED CASE

## Question 1.

Pal & Co., is a manufacturer of umbrella with their head office at Kolkata. In order to expand their business, Mr. Sourav Pal, grandson of the founder Mr, Suresh Pal, opened a branch of their business at Bangalore in the southern Indian state of Karnataka in the year 2019-20.

It was decided by Sourav that the goods will be invoiced from Kolkata head office to their Bangalore branch at 20% less than list price, which is cost plus 100%, with instruction that cash sales are made at invoice price and credit sales at list price.

There were not much transactions between the head office and Bangalore branch during the next to financial years due to the lockdown induced by the COVID-19 outbreak. However, the business started with slowly but steadily in 2022-23.

The following particulars have been made available to you for the year ended 31.03.2023:

|                                                            | (Rs.)    |
|------------------------------------------------------------|----------|
| Stock at Bangalore branch on 01.04.2022 (at invoice price) | 24,000   |
| Amount due from debtors on 01.04.2022                      | 20,000   |
| Goods received from head office (at invoice price)         | 2,64,000 |
| Goods returned to head office (at invoice price)           | 2,000    |
| Sales:                                                     |          |
| Cash                                                       | 92,000   |
| Credit                                                     | 2,00,000 |
| Cash received from debtors                                 | 1,71,268 |
| Expenses incurred at Bangalore branch                      | 34,732   |
| Remittance from Bangalore branch to Kolkata head office    | 2,40,000 |
| Amount due from debtors on 31.03.2023                      | 48,732   |
| Stock at Bangalore branch on 31.03.2023 (at invoice price) | 30,800   |

It is further communicated by the branch manager that there has been some stock shortage at their Bangalore branch which were identified in the month of March 2023.

1. Calculate the amount of stock shortage (at invoice price) that occurred at Bangalore branch.
2. Determine the gross profit or loss made by Bangalore branch for the year ended 31.03.2023.
3. Determine the net profit or loss made by Bangalore branch for the year ended 31.03.2023.

## Answer:

1. Calculation of stock shortage:

| Particulars                                                           | (Rs.)    | (Rs.)    |
|-----------------------------------------------------------------------|----------|----------|
| Stock on 1.4.22 at invoice price                                      |          | 24,000   |
| Goods from head office at invoice price                               |          | 2,64,000 |
|                                                                       |          | 2,88,000 |
| Less: Returns to head office at invoice price                         |          | 2,000    |
|                                                                       |          | 2,86,000 |
| Less: Cash sales                                                      | 92,000   |          |
| Less: Invoice value of credit sales: $[160/200 \times 2,00,000]$      | 1,60,000 | 2,52,000 |
| Stock that should have been on 31.12.23 at invoice price<br>Rs.34,000 |          | 34,000   |
| Less: Actual stock on 31.12.23 at invoice price                       |          | 30,800   |
| Stock shortage at invoice price                                       |          | 3,200    |



2.

Dr.

## Branch Stock Adjustment Account

Cr.

| Particulars                     | (Rs.)    | Particulars                 | (Rs.)    |
|---------------------------------|----------|-----------------------------|----------|
| To Goods Sent to Branch A/c     |          | By Balance b/f              |          |
| (load on returns from branch) : |          | (load on opening stock) :   |          |
| [60/160 × Rs.2,000]             | 750      | [60/160 × Rs.24,000]        | 9,000    |
| " Stock Shortage A/c            |          |                             |          |
| (load on stock shortage) :      |          | By Goods Sent to Branch A/c |          |
| [60/160 × Rs.3,200]             | 1,200    | (load on goods sent) :      |          |
| " Branch Profit and Loss A/c    | 1,34,500 | [60/160 × Rs.2,64,000]      | 99,000   |
| (gross profit transferred)      |          | " Branch Stock A/c          | 40,000   |
| (balancing figure)              |          | (apparent gross profit)     |          |
| " Balance c/f                   |          |                             |          |
| (load on closing stock) :       |          |                             |          |
| [60/160 × Rs.30,800]            | 11,550   |                             |          |
|                                 | 1,48,000 |                             | 1,48,000 |

3. Net profit or loss made by Bangalore branch for the year ended 31.03.2023 - Rs.97,768

Dr.

## Branch Profit and Loss Account

Cr.

| Particulars                             | (Rs.)    | Particulars                    | (Rs.)    |
|-----------------------------------------|----------|--------------------------------|----------|
| To Branch Expenses A/c                  | 34,732   | By Branch Stock Adjustment A/c | 1,34,500 |
| " Stock Shortage A/c: [100/160 × 3,200] | 2,000    | (gross profit)                 |          |
| " General Profit and Loss A/c           | 97,768   |                                |          |
| (branch net profit transferred)         |          |                                |          |
|                                         | 1,34,500 |                                | 1,34,500 |

## Working Note:

Dr.

## Branch Stock Account

Cr.

| Particulars                 | (Rs.)    | Particulars                       | (Rs.)    |
|-----------------------------|----------|-----------------------------------|----------|
| To Balance b/f              | 24,000   | By Bank (cash sales)              | 92,000   |
| 01.04.22                    |          | " Branch debtors (credit sales)   | 2,00,000 |
| To Goods Sent to Branch A/c | 2,64,000 | " Goods Sent to Branch A/c        | 2,000    |
| " Branch Adjustment A/c     | 40,000   | (returns from branch)             |          |
| (apparent gross profit)     |          | " Stock Shortage A/c (see Note 2) | 3,200    |
|                             |          | " Balance c/f                     | 30,800   |
|                             | 3,28,000 |                                   | 3,28,000 |

Dr.

## Branch Debtors Account

Cr.

| Particulars                        | (Rs.)    | Particulars   | (Rs.)    |
|------------------------------------|----------|---------------|----------|
| To Balance b/f                     | 20,000   | By Bank       | 1,71,268 |
| 01.04.22                           |          | " Balance c/f | 48,732   |
| To Branch Stock A/c (credit sales) | 2,00,000 |               |          |
|                                    | 2,20,000 |               | 2,20,000 |

## Working Notes:

(1) When cost price is Rs.100, list price is Rs.200 (i.e., cost price plus 100%), and invoice price is Rs.160 (i.e., list price minus 20%).





# 11. DEPARTMENTAL ACCOUNTS

## ILLUSTRATIONS

### Illustration 1.

M/s Unique is a departmental store having three departments - X, Y and Z. Information regarding three departments for the year ended March 31, 2023 are given below:

| Particulars                                        | X (Rs.)  | Y (Rs.)  | Z (Rs.)  |
|----------------------------------------------------|----------|----------|----------|
| Opening Stock                                      | 72000    | 48000    | 40000    |
| Furniture                                          | 40,000   | 40,000   | 20,000   |
| Purchases                                          | 2,64,000 | 1,76,000 | 88,000   |
| Sales                                              | 3,60,000 | 2,70,000 | 1,80,000 |
| Closing stock                                      | 90,000   | 35,000   | 42,000   |
| Sundry Debtors                                     | 30,000   | 20,000   | 20,000   |
| Floor area occupied by each department (in sq. ft) | 6,000    | 5,000    | 4,000    |
| Number of employees                                | 50       | 40       | 30       |
| Electricity Consumed (in units)                    | 600      | 400      | 200      |

The Balances of other revenue items in the books for the year given below (in Rs.)

| Particulars       | (Rs.)  | Particulars                | (Rs.)  |
|-------------------|--------|----------------------------|--------|
| Carriage Inwards  | 6,000  | Discount Received          | 3,600  |
| Carriage Outwards | 5,400  | Employees Welfare Expenses | 4,800  |
| Discount Allowed  | 4,500  | Rent, Rates & Taxes        | 15,000 |
| Advertisement     | 5,400  | Electricity charges        | 6,000  |
| Wages             | 96,000 | Depreciation on furniture  | 2,000  |

After providing Provision for Bad Debts at 5%, prepare Departmental Trading and Profit and Loss Account

Solution:

M/s Unique

Departmental Trading and Profit & Loss Account

Dr. for the year ended 31.03.2023 Cr.

| Particulars                   | X (Rs.)  | Y (Rs.)  | Z (Rs.)  | Particulars          | X (Rs.)  | Y (Rs.)  | Z (Rs.)  |
|-------------------------------|----------|----------|----------|----------------------|----------|----------|----------|
| To Opening Stock              | 72,000   | 48,000   | 40,000   | By Sales             | 3,60,000 | 2,70,000 | 1,80,000 |
| To Purchases                  | 2,64,000 | 1,76,000 | 88,000   | By Closing Stock     | 90,000   | 35,000   | 42,000   |
| To Carriage Inwards (WN:1)    | 3,000    | 2,000    | 1,000    |                      |          |          |          |
| To Gross Profit c/d           | 1,11,000 | 79,000   | 93,000   |                      |          |          |          |
|                               | 4,50,000 | 3,05,000 | 2,22,000 |                      | 4,50,000 | 3,05,000 | 2,22,000 |
| To Rent, Rates & Taxes (WN:1) | 6000     | 5000     | 4000     | By Gross Profit b/d  | 1,11,000 | 79,000   | 93,000   |
| To Wages (WN:1)               | 40,000   | 32,000   | 24,000   |                      |          |          |          |
| To Carriage Outwards (WN:1)   | 2,400    | 1,800    | 1,200    | By Discount Received | 1800     | 1200     | 600      |
| To Discount Allowed (WN:1)    | 2,000    | 1,500    | 1,000    |                      |          |          |          |
| To Electricity Expenses       | 3,000    | 2,000    | 1,000    |                      |          |          |          |





| Particulars                               | X (Rs.)  | Y (Rs.) | Z (Rs.) | Particulars | X (Rs.)  | Y (Rs.) | Z (Rs.) |
|-------------------------------------------|----------|---------|---------|-------------|----------|---------|---------|
| To Advertisement (WN:1)                   | 2,400    | 1,800   | 1,200   |             |          |         |         |
| To Depreciation (WN:1)                    | 800      | 800     | 400     |             |          |         |         |
| (WN:1)                                    |          |         |         |             |          |         |         |
| To Employees Welfare Expenses (WN:1)      | 2000     | 1600    | 1200    |             |          |         |         |
| To Provision for Bad Debt (WN:2)          | 1500     | 1000    | 1000    |             |          |         |         |
| To General P/L A/c (Dept. NP transferred) | 52,700   | 32,700  | 58,600  |             |          |         |         |
|                                           | 1,12,800 | 80,200  | 93,600  |             | 1,12,800 | 80,200  | 93,600  |

### Working Notes

#### 1. Allocation of unallocated income and expenses

| Item of Expenses           | (Rs.)  | Basis                | Ratio | X (Rs.) | Y (Rs.) | Z (Rs.) |
|----------------------------|--------|----------------------|-------|---------|---------|---------|
| Carriage Inwards           | 6000   | Purchases            | 3:2:1 | 3,000   | 2,000   | 1,000   |
| Rent, Rates & Taxes        | 15,000 | Floor area           | 6:5:4 | 6,000   | 5,000   | 4,000   |
| Wages                      | 96,000 | Number of employees  | 5:4:3 | 40,000  | 32,000  | 24,000  |
| Carriage Outwards          | 5,400  | Sales                | 4:3:2 | 2,400   | 1,800   | 1,200   |
| Discount Allowed           | 4,500  | Sales                | 4:3:2 | 2,000   | 1,500   | 1,000   |
| Electricity expenses       | 6,000  | Electricity consumed | 3:2:1 | 3,000   | 2,000   | 1,000   |
| Advertisement              | 5,400  | Sales                | 4:3:2 | 2,400   | 1,800   | 1,200   |
| Depreciation on Furniture  | 2,000  | Value of Furniture   | 2:2:1 | 800     | 800     | 400     |
| Employees Welfare Expenses | 4,800  | Number of employees  | 5:4:3 | 2,000   | 1,600   | 1,200   |
| Discount Received          | 3,600  | Purchases            | 3:2:1 | 1,800   | 1,200   | 600     |

#### 2. Provision for Bad Debt

Dept. X: Rs.30,000 × 5% = Rs.1,500,

Dept. Y: Rs.20,000 × 5% = Rs.1,000, Dept. Z: Rs.20,000 × 5% = Rs.1,000

### Illustration 2.

A firm has two departments - Raw Materials and Manufacturing. The finished goods are produced by the Manufacturing Department with raw materials supplied by Raw Materials department at selling price. Using the following information prepare Departmental Trading and Profit and Loss Account for the year ended on 31st March 2023.

|                                                  | Raw Materials Dept.<br>(Rs.) | Manufacturing Dept.<br>(Rs.) |
|--------------------------------------------------|------------------------------|------------------------------|
| Opening Stock                                    | 1,20,000                     | 20,000                       |
| Purchases                                        | 8,00,000                     | 6,000                        |
| Sales                                            | 8,80,000                     | 1,80,000                     |
| Manufacturing Expenses                           | --                           | 24,000                       |
| Selling Expenses                                 | 1,600                        | 800                          |
| Raw Materials transferred to Manufacturing Dept. | 1,20,000                     | --                           |
| Closing Stock                                    | 80,000                       | 24,000                       |



Cost of the closing stock of the manufacturing department consists of 25% for manufacturing expenses and 75% for raw materials. In the preceding year Raw Materials Department earned gross profit at the rate of 10%. Salaries of Rs.5,000 and Insurance Premium of Rs.1,600 are allocated between the two departments on the basis of sales ratio. Find out the Net Profit of the firm as a whole.

**Solution :**

**Dr. Departmental Trading and Profit & Loss Account for the year ended 31.3.2023 Cr.**

| Particulars                                       | Raw Materials | Manufacturing | Particulars                     | Raw Materials | Manufacturing |
|---------------------------------------------------|---------------|---------------|---------------------------------|---------------|---------------|
| To Opening Stock                                  | 1,20,000      | 20,000        | By Sales                        | 8,80,000      | 1,80,000      |
| To Purchases                                      | 8,00,000      | 6,000         | By Transfer (Transferred to MF) | 1,20,000      | -             |
| To Transfer (Received from RM)                    | -             | 1,20,000      | By Closing Stock                | 80,000        | 24,000        |
| To Manufacturing Expenses                         | -             | 24,000        |                                 |               |               |
| To Gross Profit c/d                               | 1,60,000      | 34,000        |                                 |               |               |
|                                                   | 10,80,000     | 2,04,000      |                                 | 10,80,000     | 2,04,000      |
| To Salaries (44:9)                                | 4,150         | 850           | By Gross Profit b/d             | 1,60,000      | 34,000        |
| To Selling Expenses                               | 1,600         | 800           |                                 |               |               |
| To Insurance Premium (44:9)                       | 1328          | 272           |                                 |               |               |
| To General P/L A/c (Dept. Net Profit transferred) | 1,52,922      | 32,078        |                                 |               |               |
|                                                   | 1,60,000      | 34,000        |                                 | 1,60,000      | 34,000        |

**Dr. General Profit & Loss Account for the year ended 31.3.2023 Cr.**

| Particulars                     | (Rs.)    | Particulars                       | (Rs.)    |
|---------------------------------|----------|-----------------------------------|----------|
| To Stock Reserve (WN:1)         | 1380     | By Departmental Profit & Loss A/c | 1,52,922 |
| To Capital A/c (NP transferred) | 1,83,620 | By Raw Materials Manufacturing    | 32,078   |
|                                 | 1,85,000 |                                   | 1,85,000 |

**Working Notes:**

**1. Unrealized Profit in unsold stock:**

Profit rate on transferred goods = GP rate of Raw Materials Dept.

$$= \{ \text{Gross profit} / (\text{Sales} + \text{Transfer}) \} \times 100$$

$$= \{ 1,60,000 / (8,80,000 + 1,20,000) \} \times 100$$

$$= 16\%$$

Value of the goods of Manufacturing dept. included in the Closing stock of Raw Materials Dept.

$$= \text{Rs.}24,000 \times 75\% = \text{Rs.}18,000$$

$$\text{Unrealized Profit in Closing Stock} = \text{Rs.}18,000 \times 16\% = \text{Rs.}2,880$$

Value of the goods of Manufacturing dept. included in the Opening stock of Raw Materials Dept.

$$= \text{Rs.}20,000 \times 75\% = \text{Rs.}15,000$$

$$\text{Unrealised Profit in Opening Stock} = \text{Rs.}15,000 \times 10\% = \text{Rs.}1,500$$

$$\text{Net Stock Reserve} = \text{Rs.}2,880 - \text{Rs.}1,500 = \text{Rs.}1,380$$

**Illustration 3.**

A & Co. has two departments P & Q. department P sells goods to department Q at normal selling prices. From the following particulars, prepare departmental Trading & PL account for the year ended 31.03.2023 and also ascertain the net profit to be transferred to Balance Sheet:

| Particulars                             | Department P (Rs.) | Department Q (Rs.) |
|-----------------------------------------|--------------------|--------------------|
| Opening stock                           | 5,00,000           | NIL                |
| Purchases                               | 28,00,000          | 3,00,000           |
| Goods from P                            | NIL                | 8,00,000           |
| Wages                                   | 3,50,000           | 2,00,000           |
| Travelling expenses                     | 20,000             | 1,60,000           |
| Closing stock at cost to the department | 8,00,000           | 2,09,000           |
| Sales                                   | 30,00,000          | 2,00,000           |
| Printing & Stationery                   | 30,000             | 25,000             |

The following expenses incurred for both the departments were not apportioned between the departments:

Salaries Rs.33,000, advertisement expenses Rs.1,20,000, General expenses Rs.5,00,000, Depreciation is to be charged @ 30% on the machinery worth Rs.96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation are to be apportioned in the ratio 2:1 and 1:3 respectively. General expenses are to be apportioned in the ratio 3:1.

**Solution:**

**A & Co.**

**Departmental Trading and P/L Account**

**Dr. for the year ended 31.03.2023 Cr.**

| Particulars                     | Deptt. P (Rs.) | Deptt. Q (Rs.) | Total (Rs.) | Particulars               | Deptt. P (Rs.) | Deptt. Q (Rs.) | Total (Rs.) |
|---------------------------------|----------------|----------------|-------------|---------------------------|----------------|----------------|-------------|
| To Opening Stock                | 5,00,000       | Nil            | 5,00,000    | By Sales                  | 30,00,000      | 20,00,000      | 50,00,000   |
| To Purchases                    | 28,00,000      | 3,00,000       | 31,00,000   | By Goods transferred to Q | 8,00,000       |                |             |
| To Goods from P                 |                | 8,00,000       |             | By Closing Stock          | 8,00,000       | 2,09,000       | 10,09,000   |
| To Wages                        | 3,50,000       | 2,00,000       | 5,50,000    |                           |                |                |             |
| To Gross Profit c/d             | 9,50,000       | 9,09,000       | 18,59,000   |                           |                |                |             |
|                                 | 46,00,000      | 22,09,000      | 60,09,000   |                           | 46,00,000      | 22,09,000      | 60,09,000   |
| To Travelling Expenses          | 20,000         | 1,60,000       | 1,80,000    | By Gross Profit b/d       | 9,50,000       | 9,09,000       | 18,59,000   |
| To Printing & Stationery        | 30,000         | 25,000         | 55,000      |                           |                |                |             |
| To Salaries (2:1)               | 2,20,000       | 1,10,000       | 3,30,000    |                           |                |                |             |
| To Advertisement Expenses (3:2) | 72,000         | 48,000         | 1,20,000    |                           |                |                |             |
| To General Expenses (3:1)       | 3,75,000       | 1,25,000       | 5,00,000    |                           |                |                |             |
| To Depreciation (1:3)           | 7,200          | 21,600         | 28,800      |                           |                |                |             |
| To, Net Profit c/d              | 2,25,800       | 4,19,400       | 6,45,200    |                           |                |                |             |
|                                 | 9,50,000       | 9,09,000       | 18,59,000   |                           | 9,50,000       | 9,09,000       | 18,59,000   |



|                                                              |  |  |          |                   |  |  |          |
|--------------------------------------------------------------|--|--|----------|-------------------|--|--|----------|
| To Provision for unrealised profit on closing stock (note 2) |  |  | 38,000   | By Net Profit b/d |  |  | 6,45,200 |
| To Capital A/c (net profit transferred)                      |  |  | 6,07,200 |                   |  |  |          |

Working notes:

- Gross profit ratio of department P =  $\text{Rs.}9,50,000 / \text{Rs.}(30,00,000 + 8,00,000) \times 100 = 25\%$
- Proportionate P department's stock in department Q  
 $(\text{Purchase from department P} / \text{total purchases of department Q}) \times \text{total stock of department Q}$   
 $= \text{Rs.}(8,00,000 / 11,00,000) \times \text{Rs.}2,09,000 = \text{Rs.}1,52,000$   
Unrealised profit =  $25\% \text{ of Rs.}1,52,000 = \text{Rs.}38,000$

#### Illustration 4.

A Ltd. manufacturing electronic components operates with two departments. Transfer made between the departments of both purchased goods and manufactured finished goods. Goods purchased are transferred at cost and manufactured goods are transferred only at selling price as is the case with open market.

Transactions for the year ended Mar. 31, 2023 are given below:

| Particulars        | Dept. X (Rs.) | Dept. Y (Rs.) |
|--------------------|---------------|---------------|
| Opening Stock      | 20,000        | 15,000        |
| Sales              | 1,90,000      | 1,35,000      |
| Wages              | 12,500        | 7,500         |
| Purchases          | 1,00,000      | 80,000        |
| Closing stock:     |               |               |
| Purchased goods    | 2,000         | 5,000         |
| Manufactured goods | 7,000         | 8,000         |

The following were the transfers from Dept. X to Dept. Y: Purchased goods Rs.6,000 and finished goods Rs.20,000; and from Dept. Y to Dept. X: Purchased goods Rs.5,000 and finished goods Rs.35,000. Stocks were valued at cost to the department concerned. It is estimated that the closing stock of manufactured goods of Dept. Y consists of 20% for goods received from Dept. X and closing stock of Dept. X consists of 20% for goods received from Dept. Y.

You are required to prepare Departmental Trading Account and A Ltd.'s Trading Account for the year ended Mar 31, 2022. Also show the reconciliation of the profits ascertained from these accounts.

Solution :

A Ltd.

#### Departmental Trading Account

for the year ended 31.3.2023

| Dr.               |          |         |                           |          | Cr.      |
|-------------------|----------|---------|---------------------------|----------|----------|
| Particulars       | X (Rs.)  | Y (Rs.) | Particulars               | X (Rs.)  | Y (Rs.)  |
| To Opening Stock  | 20,000   | 15,000  | By Sales                  | 1,90,000 | 1,35,000 |
| To Purchases      | 1,00,000 | 80,000  | By Transfer [Goods sent]: |          |          |
| To Transfer       |          |         | Purchased goods           | 6,000    | 5,000    |
| [Goods received]: |          |         | Finished goods            | 20,000   | 35,000   |
| Purchased goods   | 5,000    | 6,000   |                           |          |          |



|                        |          |          |                    |          |          |
|------------------------|----------|----------|--------------------|----------|----------|
| Finished goods         | 35,000   | 20,000   | By Closing Stock:  |          |          |
| To Wages               | 12,500   | 7,500    | Purchased goods    | 2,000    | 5,000    |
| To Departmental Profit | 52,500   | 59,500   | Manufactured goods | 7,000    | 8,000    |
| [Bal. Fig.]            |          |          |                    |          |          |
|                        | 2,25,000 | 1,88,000 |                    | 2,25,000 | 1,88,000 |

### Trading Account

| Dr.                                |          | for the year ended 31.3. 2023   |          | Cr. |  |
|------------------------------------|----------|---------------------------------|----------|-----|--|
| Particulars                        | (Rs.)    | Particulars                     | (Rs.)    |     |  |
| To Opening Stock [20,000 + 15,000] | 35,000   | By Sales [1,90,000 + 1,35,000]  | 3,25,000 |     |  |
| To Purchases [1,00,000 + 80,000]   | 1,80,000 | By Closing Stock:               |          |     |  |
| To Wages [12,500 + 7,500]          | 20,000   | Purchased goods [2,000 + 5,000] | 7,000    |     |  |
| To Gross Profit [Bal. Fig.]        | 1,11,110 | Manufactured goods [WN: 1]      | 14,110   |     |  |
|                                    | 3,46,110 |                                 | 3,46,110 |     |  |

### Reconciliation of Profits:

The departmental profits ascertained from the Departmental Trading & P/L A/c and the company's Gross Profit determined from the Company's Trading A/c can be reconciled as under:

Gross Profit of the company = Profit of Dept. X + Profit of Dept. Y - Unrealised profit in Unsold stock  
= Rs.52,500 + Rs.59,500 - Rs.(490+400) = Rs.1,11,110

### Working Notes:

#### 1. Value of closing stock of manufactured goods:

|                                                                                               | Dept. X (Rs.)                                 | Dept. Y (Rs.)                                 |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| 'Profit rate of the transferor 'on' transferred goods'                                        |                                               |                                               |
| $\frac{\text{Gross Profit}}{\text{Sales} + \text{Transfer of Finished Goods}} \times 100$     | $\frac{52,500}{1,90,000 + 20,000} \times 100$ | $\frac{59,500}{1,35,000 + 35,000} \times 100$ |
| Value of 'transferred goods' included in closing stock                                        | Rs.1,400<br>[7,000 × 20%]                     | Rs.1,600<br>[8,000 × 20%]                     |
| Less: Unrealised profits included in closing stock                                            | Rs.490<br>[1,400 × 35%]                       | Rs.400<br>[1,600 × 25%]                       |
| [Transferred goods × Profit rate of transferor]                                               |                                               |                                               |
| Total cost of closing stock of manufactured goods = [7,000 + 8,000] - [490 + 400] = Rs.14,110 |                                               |                                               |

### Illustration 5.

Samudra & Co. a partnership firm has three departments viz. K, L, M which are under the charge of the Partners B, C and D respectively. The following Consolidated P&L Account is given below :

| Dr.                          |          | Profit and Loss Account        |          | Cr. |  |
|------------------------------|----------|--------------------------------|----------|-----|--|
| Particulars                  | (Rs.)    | Particulars                    | (Rs.)    |     |  |
| To Opening Stocks (Note i)   | 81,890   | By Sales (Note vii)            | 4,00,000 |     |  |
| To Purchases (Note ii)       | 2,65,700 | By Closing Stocks (Note viii)  | 89,000   |     |  |
| To Salaries and Wages        | 48,000   | By Discounts Received (Note x) | 800      |     |  |
| (Note iii)                   |          |                                |          |     |  |
| To Rent Expenses (Note iv)   | 10,800   |                                |          |     |  |
| To Selling Expenses (Note v) | 14,400   |                                |          |     |  |
| To Discount Allowed (Note v) | 1,200    |                                |          |     |  |
| To Depreciation (Note vi)    | 750      |                                |          |     |  |





|                            |          |  |          |
|----------------------------|----------|--|----------|
| To Net Profit for the year | 67,060   |  |          |
|                            | 4,89,800 |  | 4,89,800 |

From the above account and the following additional information, prepare the Departmental P&L Account for the year ended 31st March, 2023.

- (i) Break up of Opening Stock Department wise is: K - Rs.37,890; L - Rs.24,000 and M - Rs.20,000.
- (ii) Total Purchases were as under: K - Rs.1,40,700; L - Rs.80,600; M - Rs.44,400.
- (iii) Salaries and Wages include Rs.12,000 wages of Department M. The balance Salaries should be apportioned to the three departments as 4:4:1.
- (iv) Rent is to be apportioned in the ratio of floor space which is as 2:2:5.
- (v) Selling Expenses and Discount Allowed are to be apportioned in the ratio of Turnover.
- (vi) Depreciation on assets should be equally charged to the three departments.
- (vii) Sales made by the three departments were: K - Rs.1,80,000; L - Rs.1,30,000 and M - Rs.90,000.
- (viii) Break up of Closing Stock Department wise is: K - Rs.45,100; L - Rs.22,300 and M - Rs.21,600. The Closing Stock of Department M includes Rs.5,700 goods transferred from Department K. However, Opening Stock does not include any goods transferred from other departments.
- (ix) Departments K and L sold goods worth Rs.10,700 and Rs.600 respectively to Department M.
- (x) Discounts received are traceable to Departments K, L and M as Rs.400; Rs.250 and Rs.150 respectively.
- (xi) Partners are to share the profits as under: (a) 75% of the Profits of Departments K, L and M to the respective Partner in Charge, (b) Balance Profits to be credited as 2:1:1.

**Solution:**

| Dr. Departmental P&L Account for the year ended 31st March, 2023 |          |          |          | Cr.                 |          |          |          |
|------------------------------------------------------------------|----------|----------|----------|---------------------|----------|----------|----------|
| Particulars                                                      | K (Rs.)  | L (Rs.)  | M (Rs.)  | Particulars         | K (Rs.)  | L (Rs.)  | M (Rs.)  |
| To Opening Stock                                                 | 37,890   | 24,000   | 20,000   | By Sales            | 1,80,000 | 1,30,000 | 90,000   |
| To Purchases                                                     | 1,40,700 | 80,600   | 44,400   | By Transfer         | 10,700   | 600      | —        |
| To Inter-Dept Trf                                                | —        | —        | 11,300   | By Closing Stock    | 45,100   | 22,300   | 21,600   |
| To Wages                                                         | —        | —        | 12,000   |                     |          |          |          |
| To Gross Profit c/d                                              | 57,210   | 48,300   | 23,900   |                     |          |          |          |
|                                                                  | 2,35,800 | 1,52,900 | 1,11,600 |                     | 2,35,800 | 1,52,900 | 1,11,600 |
| To Salaries (4:4:1)                                              | 16,000   | 16,000   | 4,000    | By Gross Profit b/d | 57,210   | 48,300   | 23,900   |
| To Rent (2:2:5)                                                  | 2,400    | 2,400    | 6,000    | By Discounts        | 400      | 250      | 150      |
| To Selling Exp                                                   | 6,480    | 4,680    | 3,240    | Received            |          |          |          |
| To Disc. (18:13:9)                                               | 540      | 390      | 270      |                     |          |          |          |
| To Depreciation                                                  | 250      | 250      | 250      |                     |          |          |          |
| To Net Profit c/d                                                | 31,940   | 24,830   | 10,290   |                     |          |          |          |
|                                                                  | 57,610   | 48,550   | 24,050   |                     | 57,610   | 48,550   | 24,050   |

**Computation of Stock Reserve**

From the above profits, Stock Reserve should be eliminated on the Closing Stock.

- ⊙ GP Rate in Department K =  $\text{Rs.}(57,210 \times 100) / \text{Rs.}1,90,700 = 30\%$ .
- ⊙ Stock Reserve = 30% on Rs.5,700 = Rs.1,710.





| Profit and Loss Appropriation Account |        |                            |        |
|---------------------------------------|--------|----------------------------|--------|
| Dr.                                   |        |                            | Cr.    |
| Particulars                           | (Rs.)  | Particulars                | (Rs.)  |
| To Stock Reserve                      | 1,710  | By Profit b/d              | 67,060 |
| To Profits transferred to Capital:    |        | (31,940 + 24,830 + 10,290) |        |
| B : 75% of 31,940 23,955              |        |                            |        |
| C : 75% of 24,830 18,623              |        |                            |        |
| D : 75% of 10,290 7,718               | 50,296 |                            |        |
| To Balance profits trfd in 2: 1: 1    |        |                            |        |
| B : 50% of 15,054 7,527               |        |                            |        |
| C : 25% of 15,054 3,763               |        |                            |        |
| D : 25% of 15,054 3,764               |        |                            |        |
| (bal.fig)                             | 15,054 |                            |        |
|                                       | 67,060 |                            | 67,060 |

**Illustration 6.**

The following details are available in respect of a business for a year.

| Department | Opening Stock | Purchase    | Sales                        |
|------------|---------------|-------------|------------------------------|
| X          | 120 units     | 1,000 units | 1,020 units at Rs.20.00 each |
| Y          | 80 units      | 2,000 units | 1,920 units at Rs.22.50 each |
| Z          | 152 units     | 2,400 units | 2,496 units at Rs.25.00 each |

The total value of purchases is Rs.1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year.

**Solution:**

**Computation of Closing Stock Quantity (in units)**

| Particulars       | X       | Y       | Z       |
|-------------------|---------|---------|---------|
| Opening Stock     | 120     | 80      | 152     |
| Add: Purchases    | 1,000   | 2,000   | 2,400   |
| Less : Units Sold | (1,020) | (1,920) | (2,496) |
| Closing Stock     | 100     | 160     | 56      |

**Computation of Gross Profit Ratio**

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under. Assuming all purchases are sold, the sale proceeds would be

| Particulars                           |                        | (Rs.)                |
|---------------------------------------|------------------------|----------------------|
| Department X                          | 1,000 Units @ Rs.20.00 | 20,000               |
| Department Y                          | 2,000 units @ Rs.22.50 | 45,000               |
| Department Z                          | 2,400 units @ Rs.25.00 | 60,000               |
| Total Sale Value of Purchase Quantity | 125,000                |                      |
| Less : Cost of Purchase               | 1,00,000               |                      |
| Gross Profit Amount                   | 25,000                 |                      |
| Gross Profit Ratio                    | 25,000 ÷ 1,25,000      | 20% of Selling Price |



### Computation of Profit and Cost for each article

| Department   | Selling Price | Profit at 1/5 of SP    | Cost = Sales - Profit |
|--------------|---------------|------------------------|-----------------------|
| Department X | Rs.20.00      | 1/5 of Rs.20.00 = 4.00 | Rs.16.00              |
| Department Y | Rs.22.50      | 1/5 of Rs.22.50 = 4.50 | Rs.18.00              |
| Department Z | Rs.25.00      | 1/5 of Rs.25.00 = 5.00 | Rs.20.00              |

Dr. Departmental Trading Account for the year ended... Cr.

| Particulars     | X (Rs.) | Y (Rs.) | Z (Rs.) | Total (Rs.) | Particulars  | X (Rs.) | Y (Rs.) | Z (Rs.) | Total (Rs.) |
|-----------------|---------|---------|---------|-------------|--------------|---------|---------|---------|-------------|
| To Op. stock    | 1,920   | 1,440   | 3,040   | 6,400       | By Sales     | 20,400  | 43,200  | 62,400  | 126,000     |
| To Purchase     | 16,000  | 36,000  | 48,000  | 100,000     | By Cl. stock | 1,600   | 2,880   | 1,120   | 5,600       |
| To Gross Profit | 4,080   | 8,640   | 12,480  | 25,200      |              |         |         |         |             |
|                 | 22,000  | 46,080  | 63,520  | 131,600     |              | 22,000  | 46,080  | 63,520  | 131,600     |

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

### Illustration 7.

M/s Auto Garage consists of three departments: Spares, Services and Repairs. Each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit. In the absence or inadequacy of profit, a minimum commission of Rs.3,000 is to be paid to managers. Inter- departmental transfers of goods and services are made on the basis of loaded price given as under:

From Spares to Services 5% above cost From Spares to Repairs 10% above cost From Repairs to Services 10% above cost

In respect of the year ended 31st March, 2023 the books has already been closed and positions drawn. Subsequently it was discovered that closing stock of departments had included inter- departmental transferred goods at loaded price instead of the correct cost price. From the following information prepare a revised statement recomputing the departmental profit or loss.

|                                                                                  | Spares (Rs.)     | Service (Rs.)                                         | Repairs (Rs.)      |
|----------------------------------------------------------------------------------|------------------|-------------------------------------------------------|--------------------|
| Net Profit/Loss as per accounts                                                  | 19,000<br>(loss) | 25,200 (profit)                                       | 36,000<br>(profit) |
| Inter-departmental transfers included at loaded price in the departmental stocks | ---              | 32,500                                                | 2,100              |
|                                                                                  |                  | (Rs.10,500 from Spares and<br>Rs.22,000 from Repairs) | (from spares)      |

Solution:

### Statement showing computation of correct departmental profit:

| Particulars                                     | Spares (Rs.) | Service (Rs.) | Repairs (Rs.) |
|-------------------------------------------------|--------------|---------------|---------------|
| Net Profit/ (Loss) as per accounts              | (19,000)     | 25,200        | 36,000        |
| Add: Managerial Remuneration:                   | 3,000        |               |               |
| [Spares: Higher of (19,000) × 5/95 and 3,000]   |              |               |               |
| [Service: Higher of (22,500 × 10/90) and 3,000] | -            | 3,000         | -             |
| [Repairs: Higher of (36,000 × 10/90) and 3,000] | -            | -             | 4,000         |
| ∴ Profits before Managerial Remuneration        | (16,000)     | 28,200        | 40,000        |



|                                                          |          |        |        |
|----------------------------------------------------------|----------|--------|--------|
| Less: Unrealised Profits of transferor department [WN:1] | 691      | -      | 2,000  |
|                                                          | (16,691) | 28,200 | 38,000 |
| Less: Managerial Remuneration:                           | 3,000    | -      | -      |
| [Spares: Higher of (16,691) × 5% and 3,000]              |          |        |        |
| [Service: Higher of (28,200 × 10%) and 3,000]            | -        | 3,000  | -      |
| [Repairs: Higher of (38,000 × 10%) and 3,000]            | -        | -      | 3,800  |
| ∴ Correct departmental profit                            | (19,691) | 25,200 | 34,200 |

#### Working Notes:

| Transferor |         | Transferee                 |                            |             |
|------------|---------|----------------------------|----------------------------|-------------|
|            |         | Services (Rs.)             | Repairs (Rs.)              | Total (Rs.) |
| Transferor | Spares  | 500<br>[10,500 × 5/105]    | 191<br>[Rs.2,100 × 10/110] | 691         |
|            | Repairs | 2,000<br>[22,000 × 10/110] | ..                         | 2,000       |



## QUESTIONS FROM PYP'S

## Question 1.

(Jun 23 9M)

The proprietors of Sima retail store wish to ascertain approximately separate net profits of their two particular departments A and B for the six months ended 30th September, 2022. It is not possible to take stock on that date. However, normal rates of Gross profit (calculated without reference to Direct Expenses) for the department concerned were 40% and 30% respectively on sales. There are six departments in all in the store. The following figures were extracted from the books for the period ending 30th September, 2022:

| Particulars           | Dept A (₹ in Thousands) | Dept B (₹ in Thousands) |
|-----------------------|-------------------------|-------------------------|
| Stock (April 1, 2022) | 600                     | 560                     |
| Sales                 | 2800                    | 2400                    |
| Purchases             | 1800                    | 1440                    |
| Direct Expenses       | 366                     | 568                     |

The total indirect expenses of all the six departments for the period were ₹ 7,20,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were 28,00,000. The Manager of each department is also entitled to a commission of 2 per cent on the turnover of his department. Prepare Departmental Trading and Profit & Loss Account in columnar form for the period ending 30th September, 2022 making a stock reserve of 7% for each department on the estimated value on 30th September, 2022.

Answer:

**Departmental Trading and Profit and Loss Account**  
For the six months ending 30th September, 2022

(₹'000)

Dr.

Cr.

| Particulars                            | Dept A<br>(₹) | Dept B<br>(₹) | Dept C<br>(₹) | Particulars         | Dept A<br>(₹) | Dept B<br>(₹) | Dept C<br>(₹) |
|----------------------------------------|---------------|---------------|---------------|---------------------|---------------|---------------|---------------|
| To Opening Stock                       | 600           | 560           | 1160          | By Sales            | 2800          | 2400          | 5200          |
| To Purchases                           | 1800          | 1440          | 3240          | By Closing Stock    | 720           | 320           | 1040          |
| To Direct Expenses                     | 366           | 568           | 934           | (balancing fig.)    |               |               |               |
| To Gross Profit c/d                    | 754           | 152           | 906           | By Gross Profit b/d | 3520          | 2720          | 6240          |
| Total                                  | 3520          | 2720          | 6240          | By Net Sales        | 754           | 152           | 906           |
| To indirect Exp -                      |               |               |               |                     |               |               |               |
| - Equal Allocation                     | 40            | 40            | 80            |                     |               |               |               |
| - Sales basis allocation               | 168           | 144           | 312           |                     |               |               |               |
| To Manager's Commission @ 2% on Sales  | 56            | 48            | 104           |                     |               |               |               |
| To Stock Reserve @ 7% on closing stock | 50.4          | 22.4          | 72.8          |                     |               |               |               |
| To Net Profit                          | 439.6         | 337.2         |               |                     |               |               |               |
|                                        | 754           | 254.4         | 906           |                     | 754           | 254.4         | 906           |

**Working Notes:**

1. Gross Profit before Direct Expenses



| Particulars         | A (₹'000) | B (₹'000) |
|---------------------|-----------|-----------|
| A - 40% of 2800     | 1120      |           |
| B - 30% of 2400     |           | 720       |
| (-) Direct Expenses | (366)     | (368)     |
| Net Gross Profit    | 754       | 152       |

|                                         |                                                                           |
|-----------------------------------------|---------------------------------------------------------------------------|
| Equal Allocation -                      | $720,000 \times 1/3 = 240,000 \times 1/6$<br>= 40,000 for each department |
| Sales Basis:                            | Sales ratio for A, B & other 4 departments                                |
|                                         | (28,00,000 : 24,00,000 : 28,00,000) or 7:6:7                              |
| Indirect Expenses for this basis        | $= 790,000 \times 2/3$<br>= Rs 84,80,000                                  |
| Share of Dept A: $4,80,000 \times 7/20$ | = Rs 1,68,000                                                             |
| Share of Dept B                         |                                                                           |
| Calculation: $4,80,000 \times 6/20$     | 1,44,000                                                                  |



## EXERCISE

### STATE TRUE OR FALSE

1. In Departmental P&L A/c, insurance on stock should be apportioned based on Average Value of Stock ratio.
2. In the final Balance Sheet closing stock of a department receiving goods from another department at cost plus 10% profit, should be shown at the cost to the receiving department
3. For apparent profit or loss (i.e. difference between sales price and invoice price), journal entry is passed involving Branch Stock A/c and Branch Stock Adjustment A/c.
4. Under Stock Debtors System of Branch Accounting, Branch Stock A/c is maintained at cost price.
5. The objective of keeping Branch Stock A/c at invoice price under Stock Debtors System is to ensure control over stock.
6. Branch Stock Adjustment A/c is used to record the loading on stock and on goods sent and to record the apparent profit or loss.
7. Under Final Accounts method, profit or loss of any branch is ascertained by preparing Branch Profit and Loss Account in place of Branch Account.
8. Under Debtors System of maintaining branch accounts, depreciation does not appear in Branch Account.
9. Stock debtor's system of maintaining branch account is used for independent branch.
10. For independent branch, incorporation of branch trial balance is required.

**Answers:**

|   |      |   |       |   |      |   |       |    |      |
|---|------|---|-------|---|------|---|-------|----|------|
| 1 | True | 2 | False | 3 | True | 4 | False | 5  | True |
| 6 | True | 7 | True  | 8 | True | 9 | False | 10 | True |

### FILL IN THE BLANKS

1. In branch accounts, in debtor's system, opening balances of assets are \_\_\_\_\_ to branch account.
2. A branch which keeps complete records of \_\_\_\_\_ all accounting transactions are called \_\_\_\_\_.
3. A branch which does not keep the full system of accounting is known as \_\_\_\_\_.
4. Stock and debtor system is popularly known as \_\_\_\_\_.
5. Branch account is prepared to ascertain \_\_\_\_\_ of the branch.
6. The system in which profit and loss made by the branch is determined by preparing branch trading and profit & loss account at cost price is \_\_\_\_\_.
7. The account prepared for the ascertaining the amount of gross profit earned by the branch under stock and debtor system is \_\_\_\_\_.
8. The account prepared to adjust the loading included in the value of opening and closing stock at branch is termed as \_\_\_\_\_.
9. The account prepared in the same way as that when goods are invoice at cost, except that all entries are made at invoice price is termed as \_\_\_\_\_.
10. The goods sent by the head office may be either at \_\_\_\_\_ or cost plus profit

**Answer:**

|   |                           |    |                                   |
|---|---------------------------|----|-----------------------------------|
| 1 | Debited                   | 2  | Independent branch                |
| 3 | Dependent branch          | 4  | Analytical Method                 |
| 5 | Profit and loss           | 6  | Final account methods             |
| 7 | Branch adjustment account | 8  | Stock reserve and surplus account |
| 9 | Branch stock account      | 10 | Cost price                        |





## 12. INSURANCE CLAIM FOR LOSS OF STOCK AND LOSS OF PROFIT

### ILLUSTRATIONS

#### Illustration 1.

A fire occurred on 15th September 2023 in the premises of Sen & Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

| Particulars                         | (Rs.)    |
|-------------------------------------|----------|
| Stock at cost on 1.1.2022           | 40,000   |
| Stock at cost on 1.1.2023           | 60,000   |
| Purchases in 2022                   | 80,000   |
| Purchase from 1.1.2022 to 15.9.2023 | 1,76,000 |
| Sales in 2022                       | 1,20,000 |
| Sales from 1.1.2023 to 15.9.2023    | 2,10,000 |

During the current year cost of purchase has risen by 10% above last years' level. Selling prices have gone up by 5%. Salvage value of stock after fire was Rs.4,000.

#### Solution:

Memorandum Trading Account for the period from 1.1.2023 to 15.9.2023

| Particulars      | Current Year<br>(Rs.) | Last Year<br>(Rs.) | Particulars      | Current Year<br>(Rs.) | Last Year<br>(Rs.) |
|------------------|-----------------------|--------------------|------------------|-----------------------|--------------------|
| To Opening Stock | 60,000                | 60,000             | By Sales         | 2,10,000              | 2,00,000           |
| „ Purchase       | 1,76,000              | 1,60,000           | By Closing Stock | 1,32,000              | 1,20,000           |
| „ Gross Profit   | 1,06,000              | 1,00,000           |                  |                       |                    |
|                  | (B/fig.)              | (50% of            |                  |                       |                    |
|                  |                       | Sales)             |                  |                       |                    |
|                  | 3,42,000              | 3,20,000           |                  | 3,42,000              | 3,20,000           |

#### Working Notes:

##### 1. Value of Closing Stock (Rs.)

|                                       |          |
|---------------------------------------|----------|
| Stock at last years' level            | 60,000   |
| Add: 10% increase in cost of purchase | 6,000    |
|                                       | 66,000   |
| Amount of Claim                       | (Rs.)    |
| Closing Stock                         | 1,32,000 |
| Less: Stock Salvaged                  | 4,000    |
| Actual Value of Stock last            | 1,28,000 |
| Actual Value of Stock Loss            |          |

#### Trading Account (for ascertaining rate of Gross Profit)

Dr.

For the year ended 31.12.2022

Cr.

| Particulars                  | (Rs.)    | Particulars              | (Rs.)    |
|------------------------------|----------|--------------------------|----------|
| To, Opening Stock            | 40,000   | By, Sales (less returns) | 1,20,000 |
| To, Purchase (less returns)  | 80,000   | By, Closing Stock        | 60,000   |
| To, Gross profit (bal. fig.) | 60,000   |                          |          |
|                              | 1,80,000 |                          | 1,80,000 |



∴ Percentage of gross profit on sales = (Gross Profit/Sales) × 100

= (Rs.60,000/Rs.1,20,000) × 100 = 50%

### Illustration 2.

Mr. X's godown was destroyed by fire on 1.6.2023 when the goods in stock were insured for Rs.60,000. The

following particulars are given:

Balance Sheet (Extract) as at 31st December 2022

| Liabilities        | (Rs.)  | Asset                                          | (Rs.)  |
|--------------------|--------|------------------------------------------------|--------|
| Creditor for goods | 20,000 | Stock (including goods held by agent Rs.2,000) | 36,000 |
|                    |        | Debtors                                        | 70,000 |

Transactions upto 31st May, 2023 include:

| Particulars                | (Rs.)    | Particulars            | (Rs.)    |
|----------------------------|----------|------------------------|----------|
| Cash Received from Debtors | 3,40,000 | Cash paid to Creditors | 2,20,000 |
| Bad Debt written off       | 3,500    | Discount Received      | 1,000    |
| Balance on 31.5.2023:      |          |                        |          |
| Debtors                    | 70,000   |                        |          |
| Creditors                  | 30,000   |                        |          |

Additional information:

- Debtors on 31.5.2023, included an amount owing from the agent from sales to date Rs.4,000 less 10% commission and his expenses amounting to Rs.100 on 31.5.2023 - the agent still held the said goods valued at Rs.3,600 (at selling price).
- Sales (total) for the periods include Rs.1,600 for goods which have the selling price reduced by 50% and also Rs.6,000 reduced by 25%.
- The normal mark up is 50% on cost and except the above, all sales can be assumed to be at the full selling price.
- All the goods were destroyed and there was no salvage value of the goods. Calculate the amount of claim.

Solution:

In the Books of Mr. X

Dr.

Debtors Account

Cr.

| Date   | Particulars         | (Rs.)    | Date   | Particulars            | (Rs.)    |
|--------|---------------------|----------|--------|------------------------|----------|
| 2023   |                     |          | 2023   |                        |          |
| Jan 1  | To Balance b/d      | 70,000   | May 31 | By Cash Received       | 3,40,000 |
| May 31 | „ Sales (bal. fig.) | 3,40,000 |        | „ Bad Debts            | 3,500    |
|        |                     |          |        | „ Balance c/d          | 66,500   |
|        |                     | 4,10,000 |        | (excluding form agent) | 4,10,000 |

Dr.

Creditors Account

Cr.

| Date | Particulars         | (Rs.)    | Date   | Particulars           | (Rs.)    |
|------|---------------------|----------|--------|-----------------------|----------|
| 2023 |                     |          | 2023   |                       |          |
| May, | To Cash paid        | 2,20,000 | Jan. 1 | By Balance b/d        | 20,000   |
| 31   | „ Discount Received | 1,000    |        |                       |          |
|      | „ Balance c/d       | 30,000   | May 31 | „ Purchase (bal. fig) | 2,31,000 |



|      |                        | 2,51,000             |      |                           | 2,51,000 |
|------|------------------------|----------------------|------|---------------------------|----------|
| Dr.  |                        | Godown Stock Account |      |                           | Cr.      |
| Date | Particulars            | (Rs.)                | Date | Particulars               | (Rs.)    |
| 2022 |                        |                      | 2022 | By Cost of Goods Sold     | 2,29,066 |
| May  | To Balance b/d         |                      | May  | „ Stock at Agents         | 3,067    |
| 31   | (Rs.36,000 - Rs.2,000) | 34,000               | 31   | „ Stock Destroyed by fire | 32,867   |
|      | „ Purchase from the    |                      |      | (bal. fig)                |          |
|      | Creditors)             | 2,31,000             |      |                           |          |
|      |                        | 2,65,000             |      |                           | 2,65,000 |

Thus, amount of claim which will be lodged for Rs.32,867.

### Working Notes:

#### 1. Bad Debts

| Particulars           | (Rs.) |
|-----------------------|-------|
| Sales                 | 4,000 |
| Less: Commission @10% | 400   |
| Expenses              | 100   |
|                       | 500   |
|                       | 3,500 |

#### 2. Cost of Goods Sold

| Sales<br>(Rs.)       | Normal Selling Price<br>(Rs.) | Cost (2/3 of Selling Price)<br>(Rs.) |
|----------------------|-------------------------------|--------------------------------------|
| 1,600                | 3,200                         | 2,133                                |
| 6,000                | 8,000 [6,000 × (100/75)]      | 5,333                                |
| 3,32,400 (bal. fig.) | -                             | 2,21,600                             |
| 3,40,000             |                               | 2,29,066                             |

#### 3. Stock at Agent

| Sales (Rs.)                         | Cost (Rs.)             |
|-------------------------------------|------------------------|
| 4,000                               | 2,667 (Rs.4,000 × 2/3) |
| —                                   | 2,400 (Rs.3,600 × 2/3) |
|                                     | 5,067                  |
| Less: Agents' hand at the beginning | 2,000                  |
|                                     | 3,067                  |

#### Illustration 3.

X Ltd. has taken out a fire policy of Rs.1,60,000 covering its stock. A fire occurred on 31st March, 2023. The following particulars are available:

|                                   | Rs.      |
|-----------------------------------|----------|
| Stock as on 01.04.2022            | 60,000   |
| Purchases to the date of fire     | 2,60,000 |
| Sales to the date of fire         | 1,80,000 |
| Carriage Inwards                  | 1,600    |
| Commission on purchase to be paid | @2%      |
| Gross Profit Ratio @ 50% on cost  |          |

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to Rs.41,360.



**Solution:**

In the books of X Ltd.

**Memorandum Trading Account for the period ended 31st March, 2023**

| Particulars                     | (Rs.)    | (Rs.)    | Particulars     | (Rs.)    |
|---------------------------------|----------|----------|-----------------|----------|
| To Opening Stock                |          | 60,000   | By Sales        | 1,80,000 |
| " Purchase                      | 2,60,000 |          | " Closing Stock | 2,06,800 |
| Add: Carriage Inward            | 1,600    |          | (bal. figure)   |          |
| Add: Com. on Purchase           | 5,200    | 2,66,800 |                 |          |
| " Gross Profit                  |          | 60,000   |                 |          |
| (@ 50% on cost or 33 % on sale) |          | 3,86,800 |                 | 3,86,800 |

Note: Carriage Inward and Com. on Purchase are direct expenses and hence, these are added to purchases.

Loss of Stock:

|                           |                 |
|---------------------------|-----------------|
|                           | (Rs.)           |
| Stock at the date of fire | 2,06,800        |
| Less: Stock Salvaged      | <u>41,360</u>   |
| Loss of Stock             | <u>1,65,440</u> |

Amount of claim applying Average Clause

$$\text{Amount of Claim} = \text{Actual Loss} \times \frac{\text{Amount of policy}}{\text{Value of stocks at the date of fire}}$$

$$= \text{Rs.}1,65,440 \times (\text{Rs.}1,60,000 / \text{Rs.}2,06,800)$$

$$= \text{Rs.}1,28,000$$

**Illustration 4.**

A fire occurred in the premises of Sri. G. Vekatesh on 1.4.2023 and a considerable part of the stock was destroyed. The stock salvaged was Rs.28,000. Sri Venkatesh had taken a fire insurance policy for Rs.17,10,000 to cover the loss of stock by fire.

You are required to ascertain the insurance claim which the company should claim from the insurance company for the loss of stock by fire. The following particulars are available:

|                                 | (Rs.)     |                             | (Rs.)    |
|---------------------------------|-----------|-----------------------------|----------|
| Purchases for the year 2022     | 9,38,000  | Stock on 1.1.22             | 1,44,000 |
| Sales for the year 2022         | 11,60,000 | Stock on 31.12.2022         | 2,42,000 |
| Purchases from 1.1.23 to 1.4.23 | 1,82,000  | Wages paid during 2022      | 1,00,000 |
| Sales from 1.1.23 to 1.4.23     | 24,00,000 | Wages paid 1.1.23 to 1.4.23 | 1,80,000 |

Sri Venkatesh had in June 2022 consigned goods worth Rs.50,000, which unfortunately were lost in an accident. Since there was no insurance cover taken, the loss had to be borne by him full.

Stocks at the end of each year for and till the end of calendar year 2021 had been valued at cost less 10%. From 2022, however there was a change in the valuation of closing stock which was ascertained by adding 10% to its costs.

**Solution:**

In order to find the rate of gross profit on sales for the year 2022, the following Trading Account is to be prepared for the same year as:

**Trading Account**

| Dr.              | For the year ended 31st Dec. 2022 |             | Cr.       |
|------------------|-----------------------------------|-------------|-----------|
| Particulars      | (Rs.)                             | Particulars | (Rs.)     |
| To Opening Stock | 1,60,000                          | By Sales    | 11,60,000 |



|                                         |           |                                       |           |
|-----------------------------------------|-----------|---------------------------------------|-----------|
| 1,44,000 × (100/90)                     |           | By Stock lost by Accident             | 50,000    |
| To Purchases                            | 9,38,000  | By Closing Stock (2,42,000 × 100/110) | 2,20,000  |
| To Wages                                | 1,00,000  |                                       |           |
| To Profit & Loss A/c (G.P. transferred) | 2,32,000  |                                       |           |
|                                         | 14,30,000 |                                       | 14,30,000 |

Rate of Gross Profit on Sales =  $2,32,000 / 11,60,000 \times 100 = 20\%$

| Dr. Trading Account for the period (from 1.1.23 to 1.4.23) |          | Cr.              |          |
|------------------------------------------------------------|----------|------------------|----------|
| Particulars                                                | (Rs.)    | Particulars      | (Rs.)    |
| To Opening Stock                                           | 2,20,000 | By Sales         | 2,40,000 |
| To Purchases                                               | 1,82,000 | By Closing Stock | 2,28,000 |
| To Wages                                                   | 18,000   |                  |          |
| To Profit & Loss A/c (G.P. @20% of sales)                  | 48,000   |                  |          |
|                                                            | 4,68,000 |                  | 4,68,000 |

Amount of Claim = Stock destroyed - Stock salvaged

= Rs.2,28,000 - Rs.28,000

= Rs.2,00,000

As the policy amount is less than the value of stock destroyed, average clause is applicable. Here, the amount of claim will be:

Net Claim = Loss of Stock × (Amount of Policy / Stock at the date of fire)

= Rs.2,00,000 × (1,71,000 / 2,28,000)

= Rs.1,50,000/-

#### Illustration 5.

On 1.4.2022, godown of Y Ltd. was destroyed by fire. The records of the company revealed the following

| particulars:                               | (Rs.)    |
|--------------------------------------------|----------|
| Stock on 1.1.2022                          | 75,000   |
| Stock on 31.12.2022                        | 80,000   |
| Purchases during 2022                      | 3,10,000 |
| Sales during 2022                          | 4,00,000 |
| Purchase from 1.1.2023 to the date of fire | 75,000   |
| Sales from 1.1.2023 to the date of fire    | 1,00,000 |

In valuing Closing Stock of 2022, Rs.5,000 was written off whose cost was Rs.4,800. Part of this stock was sold in 2023 at a loss of Rs.400, at Rs.2,400. Stock salvaged was Rs.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 31.12.2022 |       |        | Cr.         |       |          |
|---------------------------------------------------|-------|--------|-------------|-------|----------|
| Particulars                                       | (Rs.) | (Rs.)  | Particulars | (Rs.) | (Rs.)    |
| 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 | <u>4,800</u> | 3,05,200 | Add: Loss on value of abnormal items | <u>200</u> | 80,200   |
| " Gross Profit (bal. fig.)                |              | 1,00,000 | (Rs.5,000 - Rs.4,800)                |            |          |
|                                           |              | 4,80,200 |                                      |            | 4,80,200 |

$$\text{Percentage pf Gross Profit on sales} = \frac{\text{Rs } 1,00,000}{\text{Rs } 4,00,000} \times 100$$

$$= 25\%$$

**Memorandum Trading Account**  
for the period ended 31st March, 2023

| Particulars                        | (Rs.)    | Particulars                  | (Rs.)    | (Rs.)    |
|------------------------------------|----------|------------------------------|----------|----------|
| 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 Rs.98,000) | 24,500   | (Rs.2,400 - Rs.400)          |          |          |
|                                    |          | " Closing Stock (bal. fig.)  |          | 81,700   |
|                                    | 1,79,700 |                              |          | 1,79,700 |

**Alternative approach**

**In a combined form**

**Trading Account**

for the year ended 31st December, 2023

| Dr                           |                    |                      |             | Cr.             |                    |                      |             |
|------------------------------|--------------------|----------------------|-------------|-----------------|--------------------|----------------------|-------------|
| Particulars                  | Normal Items (Rs.) | Abnormal Items (Rs.) | Total (Rs.) | Particulars     | Normal Items (Rs.) | Abnormal Items (Rs.) | Total (Rs.) |
| To Opening Stock             | 75,000             | ---                  | 75,000      | By Sales        | 4,00,000           | ---                  | 4,00,000    |
| „ Purchase                   |                    |                      |             | „ Closing Stock | 80,200             | (-) 200              | 80,000      |
| „ Gross Profit @25% on sales | 3,05,200           | 4,800                | 3,10,000    | „ Gross Loss    |                    |                      |             |
|                              | 1,00,000           | ---                  | 1,00,000    |                 | ---                | 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, 2023

| Particulars      | Normal Items (Rs.) | Abnormal Items (Rs.) | Total (Rs.) | Particulars                | Normal Items (Rs.) | Abnormal Items (Rs.) | Total (Rs.) |
|------------------|--------------------|----------------------|-------------|----------------------------|--------------------|----------------------|-------------|
| 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 Rs.4,800 i.e., remaining abnormal stocks are valued at cost.

| Amount of Claim                    | (Rs.)  |
|------------------------------------|--------|
| Value of Stock at the date of fire | 84,100 |
| Less: Stock Salvaged               | 5,000  |
|                                    | 79,100 |



**Illustration 6.**

On 30.09.2023 the stock of Harshvardhan was lost in a fire accident. From the available records the following

information is made available to you to enable you to prepare a statement of claim of the insurer:

| Particulars                                         | (Rs.)    | Particulars                                     | (Rs.)    |
|-----------------------------------------------------|----------|-------------------------------------------------|----------|
| Stock at cost on 1.4.2022                           | 75,000   | Sales less returns for the year ended 31.3.2023 | 6,30,000 |
| Stock at cost on 31.3.2023                          | 1,04,000 | Purchase less returns up to 30.09.2023          | 2,90,000 |
| Purchases less returns for the year ended 31.3.2023 | 5,07,500 | Sales less returns up to 30.09.2023             | 3,68,100 |

In valuing the stock on 31.03.2023 due to obsolescence 50% of the value of the stock which originally cost Rs.12,000 had been written-off. In May 2023,  $\frac{3}{4}$ th of these stocks had been sold at 90% of original cost and it is now expected that the balance of the obsolete stock would also realize the same price, subject to the above, G.P had remained uniform throughout stock to the value of Rs.14,400 was salvaged.

**Solution:**

**Memorandum Trading Account  
for the period ended 30.09.2023**

| Particulars                          | Normal Items (Rs.) | Abnormal Items (Rs.) | Total (Rs.) | Particulars     | Normal Items (Rs.) | Abnormal Items (Rs.) | Total (Rs.) |
|--------------------------------------|--------------------|----------------------|-------------|-----------------|--------------------|----------------------|-------------|
| To Opening Stock                     | 98,000             | 6,000                | 1,04,000    | By Sales        | 3,60,000           | 8,100                | 3,68,100    |
| „ Purchase                           | 2,90,000           | ---                  | 2,90,000    | (Less returns)  |                    |                      |             |
| (Less: Returns)                      |                    |                      |             | „ Closing Stock | 1,18,000           | 2,700                | 1,20,700    |
| „ Gross Profit (25% on Normal Sales) | 90,000             | 4,800                | 94,800      |                 |                    |                      |             |
|                                      | 4,78,000           | 10,800               | 4,88,800    |                 | 4,78,000           | 10,800               | 4,88,800    |

|                           |              |
|---------------------------|--------------|
| <b>∴ Amount of Claim</b>  | <b>(Rs.)</b> |
| Stock at the date of fire | 1,20,700     |
| Less: Stock Salvaged      | 14,400       |
|                           | 1,06,300     |

**Working Notes:**

**Trading Account  
for the year ended 31.03.2023**

| Dr. | Particulars                | (Rs.)    | Cr. | Particulars              | (Rs.)    |
|-----|----------------------------|----------|-----|--------------------------|----------|
|     | To Opening Stock           | 75,000   |     | By Sales (Less: Returns) | 6,30,000 |
|     | „ Purchase (Less: Returns) | 5,07,500 |     | „ Closing Stock          | 1,10,000 |
|     | „ Gross Profit             | 1,57,500 |     |                          |          |
|     |                            | 7,40,000 |     |                          | 7,40,000 |

$$\text{So, Percentage of Gross Profit On Sales} = \frac{\text{Rs } 1,57,000}{\text{Rs } 6,30,000} \times 100$$

$$= 25\%$$



## 1. Closing Stock

| Particulars            | (Rs.)    |
|------------------------|----------|
| Closing Stock          | 1,04,000 |
| Add: Stock Written off | 6,000    |
|                        | 1,10,000 |

## 2. Sale of Abnormal Items of goods

$$\text{Rs.}12,000 \times \frac{3}{4} \times (90/100) = \text{Rs } 8,100$$

## 3. Closing Stock of Abnormal Items

$$\text{Rs.}12,000 \times \frac{1}{4} \times (90/100) = \text{Rs } 2,700$$

**Illustration 7.**

A fire occurred in the premises of M/s Bad Luck Traders twice during the accounting year 2022-23 that is on 31st August 2022 and again on 30th November, 2022. From the following particulars, calculate the claim to be lodged in respect of the goods lost by fire on the aforementioned date:

1. The stock as at 31st March, 2022 was valued at Rs.59,000.
2. The purchases from 1st April, 2022 to 31st August, 2022 amounted to Rs.3,45,000.
3. The purchases from 1st September, 2022 to 30th November, 2022 amounted to Rs.1,90,000 of which goods costing Rs.45,000 were received on 10th December, 2022.
4. Sales for the period from 1st April, 2022 to 31st August, 2022 amounted to Rs.4,71,000.
5. The sales for the period from 1st September, 2022 to 30th November, 2022 amounted to Rs.2,25,000. It includes sale of old furniture of Rs.27,000.

The company earns a steady rate of Gross profit at 20% at the beginning of the year 2022. However, the selling price was raised by 20% from the month of April.

The value of the goods salvaged was Rs.30,000 and Rs.2,000 on 31st August, 2022 and on 30th November, 2022 respectively.

The firm had taken out a fire insurance policy of Rs.45,000 on 1st April, 2022. At the time of receiving the insurance claim on 31st August, 2022, no additional premium was paid for restoration of the insurance policy to its original amount. The policy was subject to average clause.

**Solution:**

Amount of stock lost on August 31, 2022

| Particulars                           | (Rs.)         |
|---------------------------------------|---------------|
| Value of stock on date of fire (WN-2) | 90,000        |
| Less: Value of stock salvaged         | 30,000        |
| <b>∴ Actual Loss of Stock</b>         | <b>60,000</b> |

Applicability of Average Clause (for first insurance claim)

Here, Insurable Value = Value of stock on date of fire = Rs.90,000; Policy Value = Rs.45,000. There is under-insurance.

∴ Average clause will be applicable.

$$\begin{aligned} \therefore \text{Net Claim} &= \text{Policy Value} \times \frac{\text{Policy Value}}{\text{Insurable Value}} \\ &= 60,000 \times \frac{45,000}{90,000} = \text{Rs } 30,000 \end{aligned}$$



Amount of stock lost on November 30, 2022

| Particulars                    | (Rs.)         |
|--------------------------------|---------------|
| Goods destroyed by fire (WN-3) | 43,000        |
| Less: Value of stock salvaged  | <u>2,000</u>  |
| ∴ Actual Loss of Stock         | <u>41,000</u> |

Applicability of Average Clause (for second insurance claim)

Here, Insurable Value = Value of stock on date of fire = Rs.43,000; Policy Value = Rs.15,000 [WN: 4]

In this case also there is under-insurance.

∴ Average clause will be applicable.

$$\begin{aligned}
 \therefore \text{Net Claim} &= \text{Actual loss of Stock} \times \frac{15,000}{43,000} \\
 &= 41,000 \times \frac{15,000}{43,000} \\
 &= \text{Rs.14,302 (approx.)}
 \end{aligned}$$

**Working Notes:**

1. **New Rate of GP in 2022-23:**

|                             | Sale price | Gross Profit |
|-----------------------------|------------|--------------|
| Normal Price                | 100        | 20           |
| Add: Increase in sale Price | 20         | 20           |
|                             | 120        | 40           |

$$\therefore \text{Rate of GP in 2022-22} = \frac{40 \times 100}{120} = 33.33\%$$

2. Stock on the date of first accident i.e. August 31, 2022

Memorandum Trading Account for the period Apr. 1 - Aug. 31, 2022

| Particulars                    | (Rs.)    | Particulars                  | (Rs.)    |
|--------------------------------|----------|------------------------------|----------|
| To Opening Stock               | 59,000   | By Sales                     | 4,71,000 |
| To Purchases                   | 3,45,000 | By Closing Stock [Bal. Fig.] | 90,000   |
| To Gross Profit                | 1,57,000 |                              |          |
| [Rs.4,71,000 × 33.33% (WN: 1)] |          |                              |          |
|                                | 5,61,000 |                              | 5,61,000 |
|                                |          |                              |          |

3. Stock on the date of second accident i.e. November 30, 2022

**Memorandum Trading Account**  
for the period Sept. 1 - November 30, 2022

| Particulars            | (Rs.)    | (Rs.)    | Particulars                  | (Rs.)    | (Rs.)    |
|------------------------|----------|----------|------------------------------|----------|----------|
| To Opening Stock       |          | 30,000   | By Sales                     | 2,25,000 |          |
| To Purchases           | 1,90,000 |          | Less: Sale of furniture      | 27,000   | 1,98,000 |
| Less: Goods-in-Transit | 45,000   | 1,45,000 | By Closing Stock [Bal. Fig.] |          | 43,000   |
| To Gross Profit        |          | 66,000   |                              |          |          |
| [Rs.1,98,000 × 33.33%] |          |          |                              |          |          |
|                        |          | 2,41,000 |                              |          | 2,41,000 |

4. Policy Value of the fire insurance policy

⊙ For the first insurance claim

The value of fire insurance policy taken = Rs.45,000

⊙ For the second insurance claim

As the original policy was not restored at the time of receiving the insurance claim on 31.8.2022,



the subsequent 'Policy Value' will get reduced by the amount of insurance claim received.

$$\begin{aligned} \therefore \text{revised policy value} &= \text{Original policy value} - \text{Compensation received on first insurance claim} \\ &= \text{Rs.45,000} - \text{Rs.30,000} \\ &= \text{Rs.15,000} \end{aligned}$$

#### Illustration 8.

On account of fire on June 15, 2023, in business house of a company, the working remained disturbed up to December 15, 2023 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for Rs.1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current year's sales as compared to last year. The company incurred an additional expenditure of Rs.12,000 to make sales possible and made a saving of Rs.2,000 in insured standing charges.

Ascertain the claim under the consequential loss policy keeping the following additional information in view:

| Particulars                                      | (Rs.)    | Particulars                                    | (Rs.)    |
|--------------------------------------------------|----------|------------------------------------------------|----------|
| Actual sales from 15.6.23 to 15.12.23            | 70,000   | Total standing charges for last financial year | 1,20,000 |
| Sales from 15.6.22 to 15.12.22                   | 2,40,000 |                                                |          |
| Net profit for the financial year                | 80,000   | Turnover for last financial year               | 6,00,000 |
| Insured standing charges for last financial year | 70,000   | Turnover from 16.6.22 to 15.6.23               | 5,60,000 |

#### Solution:

GP for previous accounting period

= Net profit for previous accounting period + Insured standing charges.

= Rs.80,000 + Rs.70,000 = Rs.1,50,000

$$\text{GP rate} = \frac{\text{GP}}{\text{Sales}} \times 100 = \frac{\text{Rs } 1,50,000}{\text{Rs } 6,00,000} \times 100 = 25\%$$

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

= Rs.(2,40,000 × 125%) - Rs.70,000 = Rs.2,30,000

GP Lost = Short sale × GP rate

= Rs.2,30,000 × 25% = Rs.57,500

Admissible additional expenses for insurance claim

Least of the following: (Rs.)

i. Actual additional exp. 12,000

ii. Sales due to additional expenses × GP rate (Rs.70,000 × 25%) 17,500

iii Actual additional expenses ×  $\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}}$

$$\text{Rs } (12000 \times \frac{80,000 + 70,000}{80,000 + 1,20,000})$$

9,000

Admissible additional expenses

9,000

Gross claim = GP lost + admissible expenses for insurance claim - Saving in standing charges.

= Rs.(57,500 + 9,000 - 2,000) = Rs.64,500

Insurable value = adjusted annual turnover × GP rate

= (Rs.5,60,000 × 125%) × 25% = Rs.1,75,000



$$\text{Net Claim} = \frac{\text{Policy Value}}{\text{Insurable Value}} \times \text{Gross claim} = \frac{\text{Rs}1,40,000}{\text{Rs}1,70,000} \times \text{Rs}64,000 = \text{Rs}53,118$$

**Illustration 9.**

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 Rs.1,08,900
- Sales were Rs.6,00,000 for preceding financial year ended 31st march.
- Net profit for preceding financial year Rs.36,000 plus insured standing charges Rs.72,000
- Rate of gross profit 18%
- Turnover during disruption period Rs.67,500
- Uninsured standing charges Rs.6,000
- Annual turnover for 12 months immediately preceding the date of fire Rs.6,60,000
- Standard turnover i.e. for corresponding months in the year preceding the date of fire Rs.2,25,000
- Increase in the cost of working capital Rs.12,000 with a saving of insured standing charges Rs.4,500 during the disruption period;
- Reduced turnover avoided through increase in working capital Rs.30,000
- A special clause stipulated:
  - ⊙ Increase in rate of GP by 2%
  - ⊙ Increase in turnover (standard and annual) 10%

**Solution:**

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

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

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

$$\text{GP Lost} = \text{Short sale} \times \text{GP rate}$$

$$= \text{Rs.}1,80,000 \times 20\% = \text{Rs.}36,000$$

Admissible additional expenses for insurance claim

|                                                                                                                                                 |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Least of the following:                                                                                                                         | (Rs.)         |
| i. Actual additional exp.                                                                                                                       | 12,000        |
| ii. Sales due to additional expenses × GP rate (Rs.30,000 × 20%)                                                                                | 6,000         |
| iii. Actual additional expenses × $\frac{\text{Net profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}}$ |               |
| Rs (12000 × $\frac{36,000+72,000}{[36,000+(72,000+6,000)]}$ )                                                                                   |               |
|                                                                                                                                                 | <u>11,368</u> |

Admissible additional expenses 6000

Gross claim = GP lost + admissible expenses for insurance claim - saving in standing charges

$$= \text{Rs.}(36,000 + 6,000 - 4,500) = \text{Rs.}37,500$$

$$\text{Insurable value} = \text{adjusted annual turnover} \times \text{GP rate} = (\text{Rs.}6,60,000 \times 110\%) \times 20\% = \text{Rs.}1,45,200$$

Policy Value Rs.1,08,900

$$\text{Net Claim} = \text{Insurable Value} \times \text{Gross claim} = \text{Rs.}1,45,200 \times \text{Rs.}37,500 = \text{Rs.}28,125$$



**Illustration 10.**

A fire occurred on Mar. 15, 2023 in the premises of Omega Ltd. A Loss of Profit policy was taken by Omega Ltd. for Rs.80,000. The indemnity period was for 3 months. Net Profit for the year ending Dec. 31, 2021 was Rs.56,000 and standing charges (all insured) amounted to Rs.49,600. Determine insurance claim from the following details available from quarterly sales tax returns:

| Sales                             | 2019     | 2020     | 2021     | 2022     |
|-----------------------------------|----------|----------|----------|----------|
|                                   | (Rs.)    | (Rs.)    | (Rs.)    | (Rs.)    |
| From Jan.1 to Mar.31              | 1,20,000 | 1,30,000 | 1,42,000 | 1,30,000 |
| From Apr.1 to June 30             | 80,000   | 90,000   | 1,00,000 | 40,000   |
| From July 1 to Sept.30            | 1,00,000 | 1,10,000 | 1,20,000 | 1,00,000 |
| From Oct.1 to Dec.31              | 1,36,000 | 1,50,000 | 1,66,000 | 1,60,000 |
|                                   |          |          | (Rs.)    |          |
| Sales from 16.3.2022 to 31.3.2022 |          |          | 28,000   |          |
| Sales from 16.3.2023 to 31.3.2023 |          |          | Nil      |          |
| Sales from 16.6.2022 to 30.6.2022 |          |          | 24,000   |          |
| Sales from 16.6.2023 to 30.6.2023 |          |          | 6,000    |          |

**Solution:****Statement of Claim for Loss of Profit**

| Particulars                       | (Rs.)         |
|-----------------------------------|---------------|
| GP lost on Short Sales [WN: 4]    | 16,080        |
| Less: Savings in Standing Charges | Nil           |
| <b>∴ Gross Claim</b>              | <b>16,080</b> |

∴ Net Claim (under "Average clause") = Gross Claim × Policy Value

Insurable Value

$$= \text{Rs.}16,080 \times 80,000 / 1,19,680$$

$$= \text{Rs.}10,749 \text{ (Approx.)}$$

**Working Notes:**

WN: 1 Trend of Turnover of last few years

Sales of: 2020 = Rs.(1,20,000 + 80,000 + 1,00,000 + 1,36,400) = Rs.4,36,400

2021 = Rs.(1,30,000 + 90,000 + 1,10,000 + 1,50,000) = Rs.4,80,000

2022 = Rs.(1,42,000 + 1,00,000 + 1,20,000 + 1,66,000) = Rs.5,28,000

$$\text{Rate of Turnover change} = \frac{\text{Turnover of the current year} - \text{Turnover of the previous year}}{\text{Turnover of the previous year}} \times 100$$

$$\text{For 2022} = \frac{5,28,000 - 4,80,000}{4,80,000} \times 100 = 10\%$$

$$\text{For 2021} = \frac{4,80,000 - 4,36,400}{4,36,400} \times 100 = 10\% \text{ (approx)}$$

Thus, we observe a 10% upward trend in turnover over the last few years.

**2. Calculation of GP Rate**

| Particulars                   | (Rs.)           |
|-------------------------------|-----------------|
| Net Profit of 2022            | 56,000          |
| Add: Insured Standing Charges | 49,600          |
| <b>∴ Insured Gross Profit</b> | <b>1,05,600</b> |

Sales of 2022 = Rs.5,28,000 (as computed above)

$$\therefore \text{Rate of Gross Profit in 2022} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$





$$= \frac{1,05,600}{5,28,000} \times 100$$

$$= 20\%$$

### 3. Calculation of Short Sales

| Particulars                                                  | (Rs.)    | (Rs.)    |
|--------------------------------------------------------------|----------|----------|
| Standard Turnover (from March 15, 2023 to June 15, 2023):    |          |          |
| Turnover from April 1, 2022 to June 30, 2022                 | 1,00,000 |          |
| Add: Turnover from March 16, 2022 to March 31, 2022          | 28,000   |          |
|                                                              | 1,28,000 |          |
| Less: Turnover from June 16, 2022 to June 30, 2022           | 24,000   | 1,04,000 |
| Add: Upward trend @ 10% [WN: 1]                              |          | 10,400   |
|                                                              |          | 1,14,400 |
| Less: Actual Turnover (from March 15, 2023 to June 15, 2023) |          |          |
| Turnover from April 1, 2023 to June 30, 2023                 | 40,000   |          |
| Add: Turnover from March 16, 2023 to March 31, 2023          | Nil      |          |
|                                                              | 40,000   |          |
| Less: Turnover from June 16, 2023 to June 30, 2023           | 6,000    | 34,000   |
| ∴ Short Sales                                                |          | 80,400   |

### 4. GP lost on Short Sales

$$\text{Short sales} \times \text{Rate of GP} = \text{Rs.} 80,400 \times 20\%$$

$$= \text{Rs.} 16,080$$

### 5. Annual Turnover i.e. Sale for the year ending March 15, 2022

|                                           | (Rs.)           |
|-------------------------------------------|-----------------|
| From March 16, 2022 to March 31, 2022     | 28,000          |
| From April 1, 2022 to June 30, 2022       | 1,00,000        |
| From July 1, 2022 to September 30, 2022   | 1,20,000        |
| From October 1, 2022 to December 31, 2022 | 1,66,000        |
| From January 1, 2023 to March 31, 2023    | <u>1,30,000</u> |
|                                           | 5,44,000        |
| Less: March 16, 2023 to March 31, 2023    | <u>Nil</u>      |
|                                           | <u>5,44,000</u> |

### 6. Applicability of Average Clause

$$\text{Insurable Value} = \text{Adjusted Annual Turnover} \times \text{GP Rate} = (\text{Rs.} 5,44,000 \times 110\%) \times 20\% = \text{Rs.} 1,19,680$$

$$\text{Policy Value} = \text{Rs.} 80,000 \text{ (Given)}$$

In this case, as Policy Value < Insurable Value, there is 'under insurance' and so Average Clause is applicable.



## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 7M)

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 100,000. 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 |

Answer:

| Particulars               | Amount (₹)      | Particulars           | 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           | <u>1,80,000</u> |                       |                 |
|                           | <u>9,00,000</u> | Total                 | <u>9,00,000</u> |

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

| Particulars               | Amount (₹)      | Particulars           | 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           | <u>1,44,000</u> | (Balancing figure)    |                 |
| Total                     | <u>8,28,000</u> | Total                 | <u>8,28,000</u> |

Loss on Stock destroyed by fire =  $(188,000 - 28,800) = 8,19,200$

Amount of Claim: = Rs.84,681.

Question 2.

(Jun24 7M)

From the following information ascertain consequential loss claim:

1. Financial year ends on 31st March, with sales of 25,00,000.
2. Date of fire 1st September following.
3. Period of interruption 1st September to 1st February, next year.
4. Indemnity period - 6 months.
5. Net Profit 2,75,000 plus insured standing charges 73,00,000.
6. Uninsured Standing Charges 850,000.
7. Sum Insured 6,16,000.
8. Standard Turnover for corresponding months (1st September to 1st February in the year preceding the fire 7,50,000.
9. Turnover in period of interruption 82,25,000.
10. Annual Turnover (i.e 12 months preceding the fire) 728,00,000.
11. Incurred additional expenses amounting to 50,000 with a saving of insured standing charges 714,000.



12. Reduced turnover avoided through additional expenses 71,50,000.

13. Special Circumstances clause stipulated:

(i) Increase in turnover (standard and annual) 10%

(ii) Increase in rate of gross profit 2%

Answer:

Total Loss = Rs.1,73,500

Amount of Net Claim = 1,38,800

Question 3.

(Dec 23 8M)

X Ltd. has taken out a fire policy of Rs.1,60,000 covering its stock. A fire occurred on 31st March, 2023.

| Particulars                       | ₹        |
|-----------------------------------|----------|
| Stock as on 31.12.2022            | 60,000   |
| Purchases to the date of fire     | 2,60,000 |
| Sales to the date of fire         | 1,80,000 |
| Carriage Inwards                  | 1,600    |
| Commission on purchase to be paid | @ 2%     |
| Gross Profit Ratio @ 50% on cost  |          |

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to Rs 41,360

Answer:

(i) Loss of stock = Rs.165,440

(ii) Amount of Claim by applying Average clause = 128,000

Question 4.

(Dec 23 7M)

On 1st April, 2023 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained

| Particulars                       | ₹        |
|-----------------------------------|----------|
| Stock at cost 1 Jan. 2022         | 1,47,000 |
| Stock at cost 31 Dec. 2022        | 1,59,200 |
| Purchases year ended 31 Dec. 2022 | 7,96,000 |
| Sales year ended 31st Dec. 2022   | 9,74,000 |
| Purchases 1.1.2023 to 31.3.2023   | 3,24,000 |
| Sales 1.1.2023 to 31.3.2023       | 4,62,400 |

In valuing the stock for the Balance Sheet at 31st Dec. 2022 ₹ 4,600 had been written off on Certain stock which was a poor selling line having the cost Rs.13,800. A portion of these goods were sold in rch, 2023 at a loss of Rs.500 on original cost of 6,900. The remainder of this stock was no estimated to be worth its original cost. Subject to the above exception gross profit had remained at a uniform rate throughout the year. The value of stock salvaged was Rs.11,600. The policy was for 1,00,000 and was subject to average clause. Work out the amount of the claim of loss by fire.

Answer:

Amount of the claim of loss by fire = Rs 90,008.60 or 90,009



## Question 5.

(Jun 23 8M)

A fire occurred in the premises of a businessman on 31st January, 2023, which destroyed stock. However, stock worth Rs.5,940 was salvaged. The company's insurance policy covers the following: Stock Rs 6,00,000; Loss of Profit (including standing charges) Rs.3,75,000; and Period of indemnity 6 months. The summarised Profit and Loss Account for the year ended 31st December, 2022 is as follows: (all figures in ₹)

| Particulars          | Amount (₹) | Particulars      | Amount (₹) |
|----------------------|------------|------------------|------------|
| To Opening Stock     | 6,18,750   | By Sales         | 30,00,000  |
| To Purchases         | 27,18,750  | By Closing Stock | 7,87,500   |
| To Standing charges  | 2,51,250   |                  |            |
| To Variable expenses | 1,20,000   |                  |            |
| To Net Profit        | 78,750     | Total            | 37,87,500  |
| Total                | 37,87,500  | Total            | 37,87,500  |

The transactions for the month of January, 2023 were:

|                                      |                 |
|--------------------------------------|-----------------|
| (i) Turnover -                       | Rs1,50,000; and |
| (ii) Payment to Creditors -          | Rs1,60,020.     |
| Trade Creditors: 1st January, 2023 - | Rs2,26,000.     |
| 31 <sup>st</sup> January, 2023 -     | Rs2,30,980      |

The company's business was disrupted until 30th April, 2023, during which period the reduction in the turnover amounted to 2,70,000 as compared with the corresponding turnover of the same period in the previous year. You are required to submit the claim for insurance for loss of stock and loss of profit

## Answer:

## Loss of Stock Policy

Step 1: Prepare Memorandum Trading Account on the date of fire to find the value of stock.

Step 2: Find Loss of Stock value :

Value of Stock on the date of fire      xxx  
 (-) Salvage Value                              (xxx)

Step 3: Claim Amount:                              xxx

Value of Stock > Insurance Value    Value of Stock < Insurance Value

Claim of Amount using Average Clause Claim Amount = Loss of Stock

= Insurance Value / Closing stock x Loss of Stock

## Loss of Profit Policy

Step 1: Computation of Short Sales :

Estimated Sales XXX

(-) Actual Sales (XXX)

XXX

Step 2: Compute GP Ratio

(Net Profit + Insured Standing Charges) / Last year Turnover x 100

Step 3: Computation of Gross Profit on Short Sales:

Step 1 x Step 2.

Step 4: Compute Annual Adjusted Turnover

Sales made in one year immediately preceding the date of fire + Trend.

Step 5: Admissible Additional Expenses

a) Actual Expenses



$$b) \text{ Actual Expenses} \times \frac{\text{Gross Profit on Annual Adjusted Turnover}}{\text{Gross Profit on Annual Adjust T/O} + \text{Uninsured Standing Charges}}$$

Charges

c) GP on sales generated by Additional expenses

Step 6: Amount of Loss = Step 3 + Step 5- Savings in Expenses

Step 7: Amount of Claim

Policy Value  $\geq$  Gross Profit on Annual Adjusted Turnover      Policy Value  $\leq$  Gross Profit on Annual Adjusted Turnover

$$\text{Claim Value} = \text{Amount of Loss} \times \frac{\text{policy value} \times \text{Amount of loss}}{\text{Gross Profit on Annual Adjusted T/o}}$$

Loss of stock

Memorandum Trading Account upto 31st January, 2023

| Particulars                                     | Amount (₹) |
|-------------------------------------------------|------------|
| To Opening stock                                | 7,87,500   |
| To Purchases (2,30,980 - (2,26,000 + 1,60,020)) | 1,65,000   |
| To Gross Profit @ 15% on Sales                  | 22,500     |
| Total                                           | 9,75,000   |
| By Sales                                        | 1,50,000   |
| By Closing Stock                                | 8,25,000   |
| Total                                           | 9,75,000   |

Trading Account upto 31st December, 2022

| Particulars                      | Amount (₹) | Particulars      | Amount    |
|----------------------------------|------------|------------------|-----------|
| To Opening Stock                 | 6,18,750   | By Sales         | 30,00,000 |
| To Purchases                     | 27,18,750  | By Closing Stock | 7,87,500  |
| To Gross Profit (Balancing Fig.) | 4,50,000   |                  | 37,87,500 |
| Total                            | 37,87,500  |                  | Amount    |

$$\text{Gross Profit \%} = (4,50,000 / 30,00,000) \times 100 = 15\%$$

Computation of Loss of Stock Value:

|                                     | Amount (₹) |
|-------------------------------------|------------|
| Value of Stock as on 31st Jan, 2023 | 8,25,000   |
| (-) Salvage                         | (5,940)    |
|                                     | 8,19,060   |

Calculation of Claim Amount:

As, Loss of Stock Value > Insurance Value

Claim amount will be calculated using the average clause

$$= \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$= \frac{6,00,000}{8,25,000} \times 8,19,060 = \text{Rs. } 5,95,680$$

Loss of Profit:

Step 1: Short Sales = 2,70,000

Step 2: Compute GP Ratio =  $\frac{\text{Net profit} \pm \text{Insured Standing Charges} \times 100}{\text{Last Year Turnover}}$

Step 3: Computation of Gross Profit on Short Sales:

$$\text{Short Sales} \times \text{GP Ratio} = 2,70,000 \times 11\% = \text{Rs. } 29,700$$

Step 4: Computation of Annual Adjusted Turnover:



Sales for the month of January 2022=Rs.1,50,000

Sales for the remaining period=Rs 28,50,000

(30,00,000-1,50,000)

Avg. Turnover for the period Feb 2022n to December 2022= Rs.28,50,000

Turnover for Jan 2023 =Rs. 1,50,000

30,00,000

GP on Annual Turnover=30,00,000×11%=3,30,000

Step 5: Amount of Loss = Step 3 = 29,700

Step 6: Claim Policy Value ≥ Gross Profit on Annual Adjusted Turnover

Claim Value=Amount of Loss=Rs.29,700





## EXERCISE

### STATE TRUE OR FALSE

1. Salvage of stock means stock saved during accident.
2. Unusual item and defective item is separate under insurance claim
3. Defective items mean goods which cannot fetch the usual rate of gross profit.
4. Average clause is applicable in case of under insurance.
5. A memorandum trading account is to be prepared to ascertain the value of stock on the date of fire.
6. A marine insurance policy is taken to cover the claims for loss of stock.
7. The amount paid by insured to insurer as a consideration is known as premium.
8. Gross profit must always be calculated as a percentage on purchase.

**Answers:**

|   |      |   |       |   |      |   |       |
|---|------|---|-------|---|------|---|-------|
| 1 | True | 2 | False | 3 | True | 4 | True  |
| 5 | True | 6 | False | 7 | True | 8 | False |

### FILL IN THE BLANKS

1. Standard turnover corresponds with the \_\_\_\_\_ period.
2. Under insurance claim 'Standing charges' means \_\_\_\_\_ Standing charges only.
3. If the policy value is \_\_\_\_\_ the value of stock lost, is called over insurance.
4. In case of Loss of Profit Policy, Gross Profit is the sum of Net Profit plus \_\_\_\_\_ Standing Charges.
5. If value of stock on the date of fire is Rs.4,29,000, salvage is Rs.15,70,000 then stock destroyed by fire will be \_\_\_\_\_.
6. Goods costing Rs.1,0,000 were insured for Rs.50,000. Out of these goods, 3/4th are destroyed by fire. The amount of average clause will be \_\_\_\_\_.
7. Loss of stock is calculated by deducting \_\_\_\_\_ from book value of stock as on date of fire.
8. The difference between the value of stock on the date of fire and stock salvaged is \_\_\_\_\_.

**Answer:**

|   |                |   |                         |
|---|----------------|---|-------------------------|
| 1 | indemnity      | 2 | insured                 |
| 3 | more than      | 4 | Insured                 |
| 5 | Rs.2,71,500    | 6 | Rs.37,500               |
| 7 | Stock salvaged | 8 | Claim for loss of stock |



# 13. HIRE PURCHASE AND INSTALLMENT SALE TRANSACTIONS

## ILLUSTRATIONS

### Illustration 1.

X purchases a car on hire-purchase system on 01.01.2021. The total cash price of the car is Rs.4,50,000 payable Rs.90,000 down and three installments of Rs.1,70,000, Rs.1,50,000 and Rs.1,08,460 payable at the end of first, second and third year respectively. Interest is charged at 10% p.a.

You are required to calculate interest paid by the buyer to the seller each year.

### Solution:

Following table is useful for calculating interest paid with each installment :

#### Analysis of Installments

| Year     | Opening Balance of Cash Price (Rs.) | Installments (Rs.) | Payment towards Principal/Cash Price (Rs.) | Payment towards Interest (Rs.) | Closing Balance of Cash Price (Rs.) |
|----------|-------------------------------------|--------------------|--------------------------------------------|--------------------------------|-------------------------------------|
| 01.01.21 | 4,50,000                            | 90,000             | 90,000                                     | -                              | 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                          | -                                   |

### Illustration 2.

X purchased a T.V on hire-purchase system. As per terms he is required to pay Rs.3000 down, Rs.4000 at the end of first year, Rs.3000 at the end of second year, and Rs.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 (Rs.) | Analysis of Installments |                  |
|-----------------------------------------|-------------------|--------------------------|------------------|
|                                         |                   | Interest (Rs.)           | Cash Price (Rs.) |
| 3rd Installment                         | 5,000             |                          |                  |
| (-) Interest ( $12/112 \times 5,000$ )  | <u>536</u>        |                          |                  |
|                                         | <u>4,464</u>      | 536                      | 4,464            |
| Balance of Cash Price                   | 3,000             |                          |                  |
| (+) 2nd Installment                     | 7,464             |                          |                  |
| (-) Interest ( $12/112 \times 7,464$ )  | 800               | 800                      | 2,200            |
| Balance of Cash Price                   | 6,664             |                          |                  |
| (+) 1st Installment                     | 4,000             |                          |                  |
|                                         | 10,664            |                          |                  |
| (-) Interest ( $12/112 \times 10,664$ ) | 1,143             | 1,143                    | 2,857            |
| Balance of Cash Price                   | 9,521             |                          |                  |
| (+) Down Payment Total Cash Price       | 3,000             | -                        | 3,000            |
|                                         | 12,521            | 2,479                    | 12,521           |

**Illustration 3.**

X & Co. purchased a Motor car on April 1, 2023 on hire-purchase paying Rs.60,000 cash down and balance in four annual installments of Rs.55,000, Rs.50,000, Rs.45,000 and Rs.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 | (Rs.)    |
|---------------------|----------|
| Down Payment        | 60,000   |
| 1st installment     | 55,000   |
| 2nd installment     | 50,000   |
| 3rd installment     | 45,000   |
| 4th installment     | 40,000   |
| Total               | 2,50,000 |

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:

(Rs.)

- (i)  $X + I = 40,000$
- (ii)  $X + 2I = 45,000$
- (iii)  $X + 3I = 50,000$
- (iv)  $X + 4I = 55,000$

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

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

| Particulars         | Cash Price (Rs.) | Interest (Rs.) | Installment (Rs.) |
|---------------------|------------------|----------------|-------------------|
| 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.

**Illustration 4.**

On 01.01.2023 X purchase a plant from Y on hire purchase system. The hire purchase rate was settled at Rs.60,000, payable as to Rs.15,000 on 01.01.2023 and Rs.15,000 at the end of three successive year. Interest was charged @5% p.a. The asset was to be depreciated in the books of



the purchaser at 10% p.a. on Reducing Balance Method. Given the present value of an annuity of Rs.1 p.a. @5% interest is Rs.2.7232.  
Ascertain the cash price.

**Solution :**

|                    |                                                                |
|--------------------|----------------------------------------------------------------|
| Amount of Interest | Present value                                                  |
| Rs.1               | Rs.2.7232                                                      |
| Rs.15,000          | $\frac{\text{Rs } 15,000 \times 2.7232}{1} = \text{Rs.40,848}$ |

∴ Cash Price = Rs.40,848 + Rs.15,000 (down) = Rs.55,848.

**Accounting Treatment**

Accounting treatment in the books of buyer is presented in below :

In the Books of the Hire-Purchaser

The following methods are followed:

- (1) Cash Price Method
- (2) Interest Suspense Method

**Cash Price Method:**

| Particulars |                                                            |     | Debit (Rs.) | Credit (Rs.) |
|-------------|------------------------------------------------------------|-----|-------------|--------------|
| 1.          | Hire Purchase Asset A/c<br>To Hire Vendor A/c [Cash price] | Dr. | xxxx        | xxxx         |
| 2.          | Hire Vendor A/c<br>To Bank A/c [Down payment]              | Dr. | xxxx        | xxxx         |
| 3.          | Interest A/c<br>To Hire Vendor A/c                         | Dr. | xxxx        | xxxx         |
| 4.          | Hire Vendor A/c<br>To Bank A/c [Installment amount]        | Dr. | xxxx        | xxxx         |
| 5.          | P/L A/c<br>To Interest A/c<br>To Depreciation A/c          | Dr. | xxxx        | xxxx xxxx    |

**Interest Suspense Method:**

| Particulars |                                                                                                                  |            | Debit (Rs.)  | Credit (Rs.) |
|-------------|------------------------------------------------------------------------------------------------------------------|------------|--------------|--------------|
| 1.          | Hire Purchase Asset A/c [Cash Price]<br>Interest Suspense A/c [Total Interest]<br>To Hire Vendor A/c [H.P price] | Dr.<br>Dr. | xxxx<br>xxxx | xxxx         |
| 2.          | Hire Vendor A/c<br>To Bank A/c [Down payment]                                                                    | Dr.        | xxxx         | xxxx         |
| 3.          | Interest A/c<br>To Interest Suspense A/c                                                                         | Dr.        | xxxx         | xxxx         |
| 4.          | Hire Vendor A/c<br>To Bank A/c [Installment amount]                                                              | Dr.        | xxxx         | xxxx         |
| 5.          | P/L A/c<br>To Interest A/c<br>To Depreciation A/c                                                                | Dr.        | xxxx         | xxxx xxxx    |

**Illustration 5.**

On 1.1.2019 Mr. X took delivery from Mr. Y of 5 machines on a hire purchase system. Rs.4,000 being paid on delivery and the balance in five installments of Rs.6,000 each, payable annually on 31st December. The vendor company charges 5% interest p.a. on yearly balances. The cash price of 5 machines was Rs.30,000. Show the entries (without narration) Assets Account, Mr. Y Account for 5 years assuming that the purchaser charges depreciation @20% on straight line method.

**Solution:****Computation of Interest**

| Hire-purchase price       | (Rs.)  | (Rs.)  |
|---------------------------|--------|--------|
| Down payment              | 4,000  |        |
| Intallment Rs.6,000 × 5 = | 30,000 | 34,000 |
| Less: Cash Price          |        | 30,000 |
| ∴ Interest                |        | 4,000  |

**Analysis of Payments of Vendors**

| Year       | Opening Balance<br>of Cash Price<br>(Rs.) | Towards<br>Principal<br>(Rs.) | Towards<br>Interest<br>(Rs.) | Installment<br>(Rs.) | Closing balance<br>of Cash Price<br>(Rs.) |
|------------|-------------------------------------------|-------------------------------|------------------------------|----------------------|-------------------------------------------|
| 01.01.2019 | 30,000                                    | 4,000                         | ---                          | ---                  | 26,000                                    |
| 31.12.2019 | 26,000                                    | 4,700                         | 1,300                        | 6,000                | 21,300                                    |
| 31.12.2020 | 21,300                                    | 4,935                         | 1,065                        | 6,000                | 16,365                                    |
| 31.12.2021 | 16,365                                    | 5,182                         | 818                          | 6,000                | 11,183                                    |
| 31.12.2022 | 11,183                                    | 5,441                         | 559                          | 6,000                | 5,742                                     |
| 31.12.2023 | 5,742                                     | 5,742                         | 258<br>(bal. fig.)           | 6,000                | NIL                                       |
|            |                                           |                               | 4,000                        |                      |                                           |

**In the Books of Mr. X****Dr.****Journal (without narrations)****Cr.**

| Date             | Particulars                                                 | L/F | (Rs.)  | (Rs.)          |
|------------------|-------------------------------------------------------------|-----|--------|----------------|
| 2019<br>Jan. 1.  | Assets A/c<br>To Mr. Y A/c                                  | Dr. | 30,000 | 30,000         |
|                  | Mr. Y A/c<br>To Bank A/c                                    | Dr. | 4,000  | 4,000          |
| Dec. 31.         | Interest A/c<br>To Mr. Y A/c                                | Dr. | 1,300  | 1,300          |
|                  | Mr. Y A/c<br>To Bank A/c                                    | Dr. | 6,000  | 6,000          |
|                  | Depreciation A/c<br>To Assets A/c                           | Dr. | 6,000  | 6,000          |
|                  | Profit & Loss A/c<br>To Interest A/c<br>To Depreciation A/c | Dr. | 7,300  | 1,300<br>6,000 |
| 2020<br>Dec. 31. | Interest A/c<br>To Mr. Y A/c                                | Dr. | 1,065  | 1,065          |
|                  | Mr. Y A/c                                                   | Dr. | 6,000  |                |



|                  |                       |     |       |       |
|------------------|-----------------------|-----|-------|-------|
|                  | To Bank A/c           |     |       | 6,000 |
|                  | Depreciation A/c      | Dr. | 6,000 |       |
|                  | To Assets A/c         |     |       | 6,000 |
|                  | Profit & Loss A/c     | Dr. | 7,065 |       |
|                  | To Interest A/c       |     |       | 1,065 |
|                  | To Depreciation A/c   |     |       | 6,000 |
| 2021<br>Dec. 31. | Interest A/c          | Dr. | 818   |       |
|                  | To Mr. Y A/c          |     |       | 818   |
|                  | Mr. Y A/c             | Dr. | 6,000 |       |
|                  | To Bank A/c           |     |       | 6,000 |
|                  | Depreciation A/c      | Dr. | 6,000 |       |
|                  | To Assets A/c         |     |       | 6,000 |
|                  | Profit & Loss A/c     | Dr. | 6,818 |       |
|                  | To Interest A/c       |     |       | 818   |
|                  | To Depreciation A/c   |     |       | 6,000 |
| 2022<br>Dec. 31. | Interest A/c          | Dr. | 559   |       |
|                  | To Mr. Y A/c          |     |       | 559   |
|                  | Mr. Y A/c             | Dr. | 6,000 |       |
|                  | To Bank A/c           |     |       | 6,000 |
|                  | Depreciation A/c      | Dr. | 6,000 |       |
|                  | To Assets A/c         |     |       | 6,000 |
|                  | Profit & Loss A/c     | Dr. | 6,559 |       |
|                  | To Interest A/c       |     |       | 559   |
|                  | To Depreciation A/c   |     |       | 6,000 |
| 2023<br>Dec. 31. | Interest A/c          | Dr. | 258   |       |
|                  | To Mr. Y A/c          |     |       | 258   |
|                  | Mr. Y A/c Dr.         | Dr. | 6,000 |       |
|                  | To Bank A/c           |     |       | 6,000 |
|                  | Depreciation A/c Dr.  | Dr. | 6,000 |       |
|                  | To Assets A/c         |     |       | 6,000 |
|                  | Profit & Loss A/c Dr. | Dr. | 6,258 |       |
|                  | To Interest A/c       |     |       | 258   |
|                  | To Depreciation A/c   |     |       | 6,000 |

| Dr.     |                 |        | Cr.      |                      |        |
|---------|-----------------|--------|----------|----------------------|--------|
| Date    | Particulars     | (Rs.)  | Date     | Particulars          | (Rs.)  |
| 2019    |                 |        | 2019     |                      |        |
| Jan. 1. | To Mr. Y A/c    | 30,000 | Dec. 31. | By Depreciation A/c. | 6,000  |
|         |                 | 30,000 |          | By Balance c/d.      | 24,000 |
| 2020    |                 |        | 2020     |                      |        |
| Jan. 1. | To Balance b/d. | 24,000 | Dec. 31. | By Depreciation A/c. | 6,000  |
|         |                 | 24,000 |          | By Balance c/d.      | 18,000 |
|         |                 |        |          |                      | 24,000 |
| 2021    |                 |        | 2021     |                      |        |
| Jan. 1. | To Balance b/d. | 18,000 | Dec. 31. | By Depreciation A/c. | 6,000  |





|         |                 |        |          |                      |        |
|---------|-----------------|--------|----------|----------------------|--------|
|         |                 | 18,000 |          | By Balance c/d.      | 12,000 |
| 2022    |                 |        | 2022     |                      |        |
| Jan. 1. | To Balance b/d. | 12,000 | Dec. 31. | By Depreciation A/c. | 6,000  |
|         |                 | 12,000 |          | By Balance c/d.      | 6,000  |
| 2023    |                 |        | 2023     |                      | 12,000 |
| Jan. 1. | To Balance b/d. | 6,000  | Dec. 31. | By Depreciation A/c. | 6,000  |
|         |                 | 6,000  |          |                      | 6,000  |

Note: It has been observed that Hire Purchase Trading Account (Debtors) method and Stock and Debtors method of ascertaining profit or loss on sale of goods of small value under hire purchase system based on the simplified approach are not fully compliant with AS 19 "Leases" since loading amount contains both profit as well as interest element.

As both companies and other than companies are involved in Hire Purchase Trading it is necessary to prepare the company accounts in compliance with Accounting Standards as per Companies Act, 2013.

Accordingly it is proposed to follow the methods other than Hire Purchase Trading Account (Debtors) Method and Stock and Debtors Method in case of Companies.

#### Illustration 6.

On 01.01.2020 A purchased five Machines each costing Rs.1,58,500 each from B Payment was to be made 20% down and the remainder in four equal annual installments commencing from 31.12.2020 with interest at 10% p.a. A writes off depreciation @20% on the diminishing balance.

Give the necessary journal entries and ledger accounts in the books of A and B under Sales Method. Also show how the relevant of items will appear in the Balance Sheet.

**Solution:**

#### Journal

| Journal A             |     | Journal B            |     | Dr. (Rs.) | Cr. (Rs.) |
|-----------------------|-----|----------------------|-----|-----------|-----------|
| 01.01.2020            |     |                      |     |           |           |
| (a) Machines A/c      | Dr. | (a) A A/c            | Dr. | 7,92,500  |           |
| To B A/c              |     | To HP Sales A/c      |     |           | 7,92,500  |
| (b) B A/c             | Dr. | (b) Bank A/c         | Dr. | 1,58,500  |           |
| To Bank A/c           |     | To A A/c             |     |           | 1,58,500  |
| 31.12.2020            |     |                      |     |           |           |
| (c) Interest A/c      | Dr. | (c) A A/c            | Dr. | 63,400    |           |
| To B A/c              |     | To Interest A/c      |     |           | 63,400    |
| (d) B A/c             | Dr. | (d) Bank A/c         | Dr. | 2,21,900  |           |
| To Bank A/c           |     | To A A/c             |     |           | 2,21,900  |
| (e) Depreciation A/c  | Dr. | (e) No Entry         |     | 1,58,500  |           |
| To Machines A/c       |     |                      |     |           | 1,58,500  |
| (f) Profit & Loss A/c | Dr. | (f) No Entry         |     | 1,58,500  |           |
| To Depreciation A/c   |     |                      |     |           | 1,58,500  |
| (g) Profit & Loss A/c | Dr. | (g) Interest A/c     | Dr. | 63,400    |           |
| To Interest A/c       |     | To Profit & Loss A/c |     |           | 63,400    |
| 31.12.2021            |     |                      |     |           |           |
| (a) Interest A/c      | Dr. | (a) A A/c            | Dr. | 47,550    |           |
| To B A/c              |     | To Interest A/c      |     |           | 47,550    |



|                       |     |                      |     |          |          |
|-----------------------|-----|----------------------|-----|----------|----------|
| (b) B A/c             | Dr. | (b) Bank A/c         | Dr. | 2,06,050 |          |
| To Bank A/c           |     | To A A/c             |     |          | 2,06,050 |
| (c) Depreciation A/c  | Dr. | (c) No Entry         |     | 1,26,800 |          |
| To Machines A/c       |     |                      |     |          | 1,26,800 |
| (d) Profit & Loss A/c | Dr. | (d) No Entry         |     | 1,26,800 |          |
| To Depreciation A/c   |     |                      |     |          | 1,26,800 |
| (e) Profit & Loss A/c | Dr. | (e) Interest A/c     | Dr. | 47,550   |          |
| To Interest A/c       |     | To Profit & Loss A/c |     |          | 47,550   |

**31.12.2022**

|                       |     |                      |     |          |          |
|-----------------------|-----|----------------------|-----|----------|----------|
| (a) Interest A/c      | Dr. | (c) A A/c            | Dr. | 31,700   |          |
| To B A/c              |     | To Interest A/c      |     |          | 31,700   |
| (b) B A/c             | Dr. | (b) Bank A/c         | Dr. | 1,90,200 |          |
| To Bank A/c           |     | To A A/c             |     |          | 1,90,200 |
| (c) Depreciation A/c  | Dr. | (c) No Entry         |     | 1,01,440 |          |
| To Machines A/c       |     |                      |     |          | 1,01,440 |
| (d) Profit & Loss A/c | Dr. | (d) No Entry         |     | 1,01,440 |          |
| To Depreciation A/c   |     |                      |     |          | 1,01,440 |
| (e) Profit & Loss A/c | Dr. | (e) Interest A/c     | Dr. | 31,700   |          |
| To Interest A/c       |     | To Profit & Loss A/c |     |          | 31,700   |

**31.12.2023**

|                       |     |                      |     |          |          |
|-----------------------|-----|----------------------|-----|----------|----------|
| (a) Interest A/c      | Dr. | (d) A A/c            | Dr. | 15,850   |          |
| To B A/c              |     | To Interest A/c      |     |          | 15,850   |
| (b) B A/c             | Dr. | (b) Bank A/c         | Dr. | 1,74,350 |          |
| To Bank A/c           |     | To A A/c             |     |          | 1,74,350 |
| (c) Depreciation A/c  | Dr. | (c) No Entry         |     | 81,152   |          |
| To Machines A/c       |     |                      |     |          | 81,152   |
| (d) Profit & Loss A/c | Dr. | (d) No Entry         |     | 81,152   |          |
| To Depreciation A/c   |     |                      |     |          | 81,152   |
| (e) Profit & Loss A/c | Dr. | (e) Interest A/c     | Dr. | 15,850   |          |
| To Interest A/c       |     | To Profit & Loss A/c |     |          | 15,850   |

| Dr.      |                 |          | Machinery Account |                     |          | Cr. |  |  |
|----------|-----------------|----------|-------------------|---------------------|----------|-----|--|--|
| Date     | Particulars     | (Rs.)    | Date              | Particulars         | (Rs.)    |     |  |  |
| 01.01.20 | To B A/c        | 7,92,500 | 31.12.20          | By Depreciation A/c | 1,58,500 |     |  |  |
|          |                 |          |                   | By Balance c/d      | 6,34,000 |     |  |  |
|          |                 | 7,92,500 |                   |                     | 7,92,500 |     |  |  |
| 01.01.21 | To Balance b/d  | 6,34,000 | 31.12.21          | By Depreciation A/c | 1,26,800 |     |  |  |
|          |                 |          |                   | By Balance c/d      | 5,07,200 |     |  |  |
|          |                 | 6,34,000 |                   |                     | 6,34,000 |     |  |  |
| 01.01.22 | To Balance b/d  | 5,07,200 | 31.12.22          | By Depreciation A/c | 1,01,440 |     |  |  |
|          |                 |          |                   | By Balance c/d      | 4,05,760 |     |  |  |
|          |                 | 5,07,200 |                   |                     | 5,07,200 |     |  |  |
| 01.01.23 | To, Balance b/d | 4,05,760 | 31.12.23          | By Depreciation A/c | 81,152   |     |  |  |
|          |                 |          |                   | By Balance c/d      | 3,24,608 |     |  |  |
|          |                 | 4,05,760 |                   |                     | 4,05,760 |     |  |  |



Dr.

B's Account

Cr.

| Date     | Particulars                              | (Rs.)           | Date     | Particulars                                               | (Rs.)           |
|----------|------------------------------------------|-----------------|----------|-----------------------------------------------------------|-----------------|
| 01.01.20 | To Bank A/c [Down Payment]               | 1,58,500        | 01.01.20 | By Machines A/c                                           | 7,92,500        |
| 31.12.20 | To Bank A/c<br>[Rs.1,58,500 + Rs.63,400] | 2,21,900        | 31.12.20 | By Interest A/c<br>[(Rs.7,92,500 - Rs.1,58,500) × 10/100] | 63,400          |
|          | To Balance c/d                           | 4,75,500        |          |                                                           |                 |
|          |                                          | 8,55,900        |          |                                                           | 8,55,900        |
| 31.12.21 | To Bank A/c<br>[Rs.1,58,500 + Rs.47,550] | 2,06,050        | 01.01.21 | By Balance b/d                                            | 4,75,500        |
|          | To Balance c/d                           | 3,17,000        | 31.12.21 | By Interest A/c<br>[Rs.4,75,500 × 10/100]                 | 47,550          |
|          |                                          | <b>5,23,050</b> |          |                                                           | <b>5,23,050</b> |
| 31.12.22 | To Bank A/c<br>[Rs.1,58,500 + Rs.31,700] | 1,90,200        | 01.01.22 | By Balance b/d                                            | 3,17,000        |
|          | To Balance c/d                           | 1,58,500        | 31.12.22 | By Interest A/c<br>[Rs.3,17,000 × 10/100]                 | 31,700          |
|          |                                          | 3,48,700        |          |                                                           | 3,48,700        |
| 31.12.23 | To Bank A/c<br>[Rs.1,58,500 + Rs.15,850] | 1,74,350        | 01.01.23 | By Balance b/d                                            | 1,58,500        |
|          |                                          |                 | 31.12.23 | By Interest A/c<br>[Rs.1,58,500 × 10/100]                 | 15,850          |
|          |                                          | 1,74,350        |          |                                                           | 1,74,350        |

## An Extract of Balance Sheet of A

| Liabilities | 1st yr<br>(Rs.) | 2nd yr<br>(Rs.) | 3rd yr<br>(Rs.) | 4th yr<br>(Rs.) | Assets                       | 1st yr<br>(Rs.) | 2nd yr<br>(Rs.) | 3rd yr<br>(Rs.) | 4th yr<br>(Rs.) |
|-------------|-----------------|-----------------|-----------------|-----------------|------------------------------|-----------------|-----------------|-----------------|-----------------|
|             |                 |                 |                 |                 | Fixed Assets:                |                 |                 |                 |                 |
|             |                 |                 |                 |                 | Machines                     | 7,92,500        | 7,92,500        | 7,92,500        | 7,92,500        |
|             |                 |                 |                 |                 | Less: Depreciation till date | 1,58,500        | 2,85,300        | 3,86,740        | 4,67,892        |
|             |                 |                 |                 |                 | Less: Balance due To B       | 4,75,500        | 3,17,000        | 1,58,500        | -               |
|             |                 |                 |                 |                 |                              | <b>1,58,500</b> | <b>1,90,200</b> | <b>2,47,260</b> | <b>3,24,608</b> |

In the Books of B

Dr.

A's Account

Cr.

| Date     | Particulars     | (Rs.)           | Date     | Particulars                | (Rs.)           |
|----------|-----------------|-----------------|----------|----------------------------|-----------------|
| 01.01.20 | To Sales A/c    | 7,92,500        | 01.01.20 | By Bank A/c [Down payment] | 1,58,500        |
| 31.12.20 | To Interest A/c | 63,400          | 31.12.20 | By Bank A/c                | 2,21,900        |
|          |                 |                 |          | By Balance c/d             | 4,75,500        |
|          |                 | 8,55,900        |          |                            | 8,55,900        |
| 01.01.21 | To Balance b/d  | 4,75,500        | 31.12.21 | By Bank A/c                | 2,06,050        |
| 31.12.21 | To Interest A/c | 47,550          | 31.12.21 | By Balance c/d             | 3,17,000        |
|          |                 | <b>5,23,050</b> |          |                            | <b>5,23,050</b> |



|          |                 |          |          |                |          |
|----------|-----------------|----------|----------|----------------|----------|
| 01.01.22 | To Balance b/d  | 3,17,000 | 31.12.22 | By Bank A/c    | 1,90,200 |
| 31.12.22 | To Interest A/c | 31,700   |          | By Balance c/d | 1,58,500 |
|          |                 | 3,48,700 |          |                | 3,48,700 |
| 01.01.23 | To Balance b/d  | 1,58,500 | 31.12.23 | By Bank A/c    | 1,74,350 |
| 31.12.23 | To Interest A/c | 15,850   |          |                |          |
|          |                 | 1,74,350 |          |                | 1,74,350 |

An Extract of Balance Sheet of B

| Liabilities | 1st yr<br>(Rs.) | 2nd yr<br>(Rs.) | 3rd yr<br>(Rs.) | 4th yr<br>(Rs.) | Assets                    | 1st yr<br>(Rs.) | 2nd yr<br>(Rs.) | 3rd yr<br>(Rs.) | 4th yr<br>(Rs.) |
|-------------|-----------------|-----------------|-----------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|
|             |                 |                 |                 |                 | Current Assets:           |                 |                 |                 |                 |
|             |                 |                 |                 |                 | Hire Purchase Debtors - A | 4,75,500        | 3,17,000        | 1,58,500        | -               |

#### Illustration 7.

On 1.1.2021, A purchased 5 Machines from B. Payment was to be made — 20% down and the balance in four annual installments of Rs.2,80,000, Rs.2,60,000, Rs.2,40,000 and Rs.2,20,000 commencing from 31.12.2021. The vendor charged interest @ 10% p.a. A, writes off depreciation @ 20% p.a. on the original cost.

On A's failure to pay the installment due on 31.12.2022, B repossessed all the machines on 01.01.2023 and valued them on the basis of 40% p.a. depreciation on W.D.V. basis. B after incurring Rs.6,000 on repairs sold the machines for Rs.2,66,000 on 30th June 2023. Prepare the relevant accounts in the books of A and B.

Solution:

#### Computation of Cash Price and Periodic Interest

| A<br>Installment<br>Number | B<br>Closing Balance<br>after the<br>Payment of<br>Installment | C<br>Installment<br>Amount | D = B + C<br>Closing Balance<br>before the payment<br>of Installment | E = D×R/<br>(100 + R)<br>Interest D×<br>10/110 | F = D - E<br>Opening<br>Balance |
|----------------------------|----------------------------------------------------------------|----------------------------|----------------------------------------------------------------------|------------------------------------------------|---------------------------------|
| IV                         | —                                                              | 2,20,000                   | 2,20,000                                                             | 20,000                                         | 2,00,000                        |
| III                        | 2,00,000                                                       | 2,40,000                   | 4,40,000                                                             | 40,000                                         | 4,00,000                        |
| II                         | 4,00,000                                                       | 2,60,000                   | 6,60,000                                                             | 60,000                                         | 6,00,000                        |
| I                          | 6,00,000                                                       | 2,80,000                   | 8,80,000                                                             | 80,000                                         | 8,00,000                        |

Let the cash price be 'X'

$$X = \text{Rs.}8,00,000 + 20\% \text{ of } X \text{ (i.e. down payment)} \quad 0.8X = \text{Rs.}8,00,000 \quad X = \text{Rs.}8,00,000/0.8 = \text{Rs.}10,00,000$$

#### In the Book of A

Dr.

#### Machinery Account

Cr.

| Date     | Particulars    | (Rs.)     | Date     | Particulars         | (Rs.)     |
|----------|----------------|-----------|----------|---------------------|-----------|
| 01.01.21 | To B's A/c     | 10,00,000 | 31.12.21 | By Depreciation A/c | 2,00,000  |
|          |                |           |          | By Balance c/d      | 8,00,000  |
|          |                | 10,00,000 |          |                     | 10,00,000 |
| 01.01.22 | To Balance b/d | 8,00,000  | 31.12.22 | By Depreciation A/c | 2,00,000  |
|          |                |           |          | By, Balance c/d     | 6,00,000  |
|          |                | 8,00,000  |          |                     | 8,00,000  |



|          |                     |          |          |            |          |
|----------|---------------------|----------|----------|------------|----------|
| 01.01.23 | To Balance b/d      | 6,00,000 | 01.01.23 | By B's A/c | 6,60,000 |
|          | To P&L A/c (Profit) | 60,000   |          |            |          |
|          |                     | 6,60,000 |          |            | 6,60,000 |

| Dr.      |                                          |           | B's Account |                                                            |           | Cr. |  |           |
|----------|------------------------------------------|-----------|-------------|------------------------------------------------------------|-----------|-----|--|-----------|
| Date     | Particulars                              | (Rs.)     | Date        | Particulars                                                | (Rs.)     |     |  |           |
| 01.01.21 | To Bank A/c (Down payment)               | 2,00,000  | 01.01.21    | By Machinery A/c                                           | 10,00,000 |     |  |           |
| 31.12.21 | To Bank A/c<br>[Rs.2,00,000 + Rs.80,000] | 2,80,000  | 31.12.21    | By Interest A/c<br>[(Rs.10,00,000 - Rs.2,00,000) × 10/100] | 80,000    |     |  |           |
|          | To Balance c/d                           | 6,00,000  |             |                                                            |           |     |  |           |
|          |                                          | 10,80,000 |             |                                                            |           |     |  | 10,80,000 |
| 31.12.22 | To Balance c/d                           | 6,60,000  | 01.01.22    | By Balance b/d                                             | 6,00,000  |     |  |           |
|          |                                          |           |             | By Interest A/c<br>(Rs.6,00,000 × 10/100)]                 | 60,000    |     |  |           |
| 01.01.23 | To Machinery A/c                         | 6,60,000  | 01.01.23    | By Balance b/d                                             | 6,60,000  |     |  |           |

## In the Books of B

| Dr.      |                                                            |           | A's Account |                                          |           | Cr. |  |  |
|----------|------------------------------------------------------------|-----------|-------------|------------------------------------------|-----------|-----|--|--|
| Date     | Particulars                                                | (Rs.)     | Date        | Particulars                              | (Rs.)     |     |  |  |
| 01.01.21 | To H.P. Sales A/c                                          | 10,00,000 | 01.01.21    | By Bank A/c (Down Payment)               | 2,00,000  |     |  |  |
| 31.12.21 | To Interest A/c<br>[(Rs.10,00,000 - Rs.2,00,000) × 10/100] | 80,000    | 31.12.21    | By Bank A/c<br>(Rs.2,00,000 + Rs.80,000) | 2,80,000  |     |  |  |
|          |                                                            | 10,80,000 |             | By Balance c/d                           | 6,00,000  |     |  |  |
| 01.01.22 | To Balance b/d                                             | 6,00,000  |             |                                          | 10,80,000 |     |  |  |
| 31.12.22 | To Interest A/c<br>[Rs.6,00,000 × 10/100]                  | 60,000    | 31.12.22    | By Balance c/d                           | 6,60,000  |     |  |  |
|          |                                                            | 6,60,000  |             |                                          | 6,60,000  |     |  |  |
| 01.01.23 | To Balance b/d                                             | 6,60,000  | 01.01.23    | By H.P. Goods Repossessed A/c            | 3,60,000  |     |  |  |
|          |                                                            | 6,60,000  |             | By Profit & Loss A/c                     | 3,00,000  |     |  |  |
|          |                                                            |           |             |                                          | 6,60,000  |     |  |  |

| Dr.      |             |          | H.P. Goods Repossessed Account |              |          | Cr. |  |  |
|----------|-------------|----------|--------------------------------|--------------|----------|-----|--|--|
| Date     | Particulars | (Rs.)    | Date                           | Particulars  | (Rs.)    |     |  |  |
| 01.01.23 | To A's A/c  | 3,60,000 | 30.06.23                       | By Bank A/c  | 2,66,000 |     |  |  |
|          | To Bank A/c | 6,000    |                                | By P & L A/c | 1,00,000 |     |  |  |
|          |             | 3,66,000 |                                |              | 3,66,000 |     |  |  |

## Illustration 8.

On 1.1.2021, A purchased 5 Machines from B. Payment was to be made—20% down and the balance in four annual installments of Rs.2,80,000, Rs.2,60,000, Rs.2,40,000 and Rs.2,20,000 commencing from 31.12.2021. The vendor charged interest @ 10% p.a. A, writes off depreciation @ 20% p.a. on the original cost.

On A's failure to pay the installment due on 31.12.2022, after negotiations on 01.01.2023 B agreed to leave two machines with A adjusting the value of the other three machines against the amount due. The machines being valued at cost less 40% p.a. depreciation on W.D.V basis, B after spending Rs.6000 on repairs of each of such machines sold @ Rs.70,000 on 30th June 2023. Prepare the relevant accounts in the books of A and B.



Solution:

| A<br>Installment<br>Number | B<br>Closing Balance<br>after the<br>payment of<br>Installment | C<br>Installment | D = B+C<br>Closing Balance<br>before the payment<br>of Installment | E = D × R/<br>(100 + R)<br>Interest D ×<br>10/110 | F = D-E<br>Opening<br>Balance |
|----------------------------|----------------------------------------------------------------|------------------|--------------------------------------------------------------------|---------------------------------------------------|-------------------------------|
|                            | (Rs.)                                                          | (Rs.)            | (Rs.)                                                              | (Rs.)                                             | (Rs.)                         |
| IV                         | -                                                              | 2,20,000         | 2,20,000                                                           | 20,000                                            | 2,00,000                      |
| III                        | 2,00,000                                                       | 2,40,000         | 4,40,000                                                           | 40,000                                            | 4,00,000                      |
| II                         | 4,00,000                                                       | 2,60,000         | 6,60,000                                                           | 60,000                                            | 6,00,000                      |
| I                          | 6,00,000                                                       | 2,80,000         | 8,80,000                                                           | 80,000                                            | 8,00,000                      |

Let the cash price be 'X'

 $X = \text{Rs.} 8,00,000 + 20\% \text{ of } X \text{ (i.e. down payment)} \quad 0.8X = \text{Rs.} 8,00,000$  $X = \text{Rs.} 8,00,000 / 0.8 = \text{Rs.} 10,00,000$ 

## In the Books of A

| Dr.      |                |           | Cr.      |                              |           |
|----------|----------------|-----------|----------|------------------------------|-----------|
| Date     | Particulars    | (Rs.)     | Date     | Particulars                  | (Rs.)     |
| 01.01.21 | To B A/c       | 10,00,000 | 31.12.21 | By Depreciation A/c          | 2,00,000  |
|          |                |           |          | By Balance c/d               | 8,00,000  |
|          |                | 10,00,000 |          |                              | 10,00,000 |
| 01.01.22 | To Balance b/d | 8,00,000  | 31.12.22 | By Depreciation A/c          | 2,00,000  |
|          |                |           |          | By Balance c/d               | 6,00,000  |
|          |                | 8,00,000  |          |                              | 8,00,000  |
| 01.01.23 | To Balance b/d | 6,00,000  | 01.01.23 | By B A/c                     | 2,16,000  |
|          |                |           |          | By P&L A/c [loss on default] | 1,44,000  |
|          |                |           |          | By Depreciation A/c          | 80,000    |
|          |                |           |          | By Balance c/d               | 1,60,000  |
|          |                | 6,00,000  |          |                              | 6,00,000  |

| Dr.      |                            |           | Cr.      |                               |           |
|----------|----------------------------|-----------|----------|-------------------------------|-----------|
| Date     | Particulars                | (Rs.)     | Date     | Particulars                   | (Rs.)     |
| 01.01.21 | To Bank A/c (Down payment) | 2,00,000  | 01.01.21 | By Machinery A/c              | 10,00,000 |
| 31.12.21 | To Bank A/c                | 2,80,000  | 31.12.21 | By Interest A/c               | 80,000    |
|          | [Rs.2,00,000 + Rs.80,000]  |           |          | [(Rs.10,00,000 - Rs.2,00,000) |           |
|          | To Balance c/d             | 6,00,000  |          | × 10/100]                     |           |
|          |                            | 10,80,000 |          |                               | 10,80,000 |
| 31.12.22 | To Balance c/d             | 6,60,000  | 01.01.22 | By Balance b/d                | 6,00,000  |
|          |                            |           | 31.12.22 | By Interest A/c               | 60,000    |
|          |                            |           |          | [(Rs.6,00,000 × 10/100)]      |           |
| 01.01.23 | To Machinery A/c           | 6,60,000  | 01.01.23 | By Balance b/d                | 6,60,000  |

## Working Notes:

1. Calculation of Book value of Goods Repossessed (Rs.)

|                                                           |          |
|-----------------------------------------------------------|----------|
| A. Cost [Rs.2,00,000 × 3]                                 | 6,00,000 |
| B. Less: Depreciation for 2 years [Rs.6,00,000 × 20% × 2] | 2,40,000 |
|                                                           | 3,60,000 |





## 2. Calculation of Agreed value of Goods Repossessed (Rs.)

|                                                         |          |
|---------------------------------------------------------|----------|
| A. Cost [Rs.2,00,000 × 3]                               | 6,00,000 |
| B. Less: Depreciation for 1st Year [40% of Rs.6,00,000] | 2,40,000 |
| C. Book Value in the beginning of 2nd year              | 3,60,000 |
| D. Less: Depreciation for 2nd year [40% of Rs.3,60,000] | 1,44,000 |
| E. Book Value at the end of 2nd Year                    | 2,16,000 |

## 3. Loss on Default = Book Value - Agreed Value = Rs.3,60,000 - Rs.2,16,000 = Rs.1,44,000

## In the Books of B

| Dr.      |                                                            |           | Cr.      |                                          |           |
|----------|------------------------------------------------------------|-----------|----------|------------------------------------------|-----------|
| Date     | Particulars                                                | (Rs.)     | Date     | Particulars                              | (Rs.)     |
| 01.01.21 | To H.P. Sales A/c                                          | 10,00,000 | 01.01.21 | By Bank A/c<br>(Down payment)            | 2,00,000  |
| 31.12.21 | To Interest A/c<br>[(Rs.10,00,000 - Rs.2,00,000) × 10/100] | 80,000    | 31.12.21 | By Bank A/c<br>[Rs.2,00,000 + Rs.80,000] | 2,80,000  |
|          |                                                            |           |          | By Balance c/d                           | 6,00,000  |
|          |                                                            | 10,80,000 |          |                                          | 10,80,000 |
| 01.01.22 | To Balance b/d                                             | 6,00,000  | 31.12.22 | By Balance c/d                           | 6,60,000  |
| 31.12.22 | To Interest A/c<br>[Rs.6,00,000 × 10/100]                  | 60,000    |          |                                          |           |
|          |                                                            | 6,60,000  |          |                                          | 6,60,000  |
| 01.01.23 | To Balance b/d                                             | 6,60,000  | 01.01.23 | By H.P. Goods Repossessed A/c            | 2,16,000  |
|          |                                                            |           |          | By Balance c/d                           | 4,44,000  |
|          |                                                            | 6,60,000  |          |                                          | 6,60,000  |

| Dr.      |                                         |          | Cr.      |                   |          |
|----------|-----------------------------------------|----------|----------|-------------------|----------|
| Date     | Particulars                             | (Rs.)    | Date     | Particulars       | (Rs.)    |
| 01.01.23 | To A's A/c                              | 2,16,000 | 30.06.23 | By Bank A/c       | 2,10,000 |
|          | To Bank A/c (Repairs)<br>[Rs.6,000 × 3] | 18,000   |          | By P&L A/c (Loss) | 24,000   |
|          |                                         | 2,34,000 |          |                   | 2,34,000 |

## Illustration 9.

A Transport purchased from Kolkata Motors 3 Tempos costing Rs.50,000 each on the hire purchase system on 1.1.2021. Payment was to be made Rs.30,000 down and the remainder in 3 equal annual installments payable on 31.12.2021, 31.12.2022 and 31.12.2023 together with interest @ 9% p.a. A Transport writes off depreciation at the rate of 20% p.a. on the diminishing balance. It paid the installment due at the end of the first year i.e. 31.12.2021 but could not pay the next on 31.12.2022. Kolkata Motors agreed to leave one Tempo with the purchaser on 31.12.2022 adjusting the value of the other 2 Tempos against the amount due on 31.12.2022. The Tempos were valued on the basis of 30% depreciation annually on W.D.V. basis.

Required: Show the necessary accounts in the books of A Transport for the year 2021, 2022, 2023.



Solution:

| In the Books of<br>Tempos Account |                                           |          |          |                                                          |          |
|-----------------------------------|-------------------------------------------|----------|----------|----------------------------------------------------------|----------|
| Dr.                               |                                           |          | Cr.      |                                                          |          |
| Date                              | Particulars                               | (Rs.)    | Date     | Particulars                                              | (Rs.)    |
| 01.01.21                          | To Kolkata Motors' A/c<br>(Rs.50,000 × 3) | 1,50,000 | 31.12.21 | By Depreciation A/c<br>(20% on Rs.1,50,000)              | 30,000   |
|                                   |                                           |          |          | By Balance c/d                                           | 1,20,000 |
|                                   |                                           | 1,50,000 |          |                                                          | 1,50,000 |
| 01.01.22                          | To Balance b/d                            | 1,20,000 | 31.12.22 | By Depreciation A/c                                      | 24,000   |
|                                   |                                           |          | 31.12.22 | By Kolkata Motors' A/c<br>(Value of 2 tempos taken away) | 49,000   |
|                                   |                                           |          | 31.12.22 | By P&L A/c (Loss on Default)                             | 15,000   |
|                                   |                                           |          | 31.12.22 | By Balance c/d (value of one tempo left)                 | 32,000   |
|                                   |                                           | 1,20,000 |          |                                                          | 1,20,000 |
| 01.01.23                          | To Balance b/d                            | 32,000   | 31.12.23 | By Depreciation A/c                                      | 6,400    |
|                                   |                                           |          | 31.12.23 | By Balance c/d                                           | 25,600   |
|                                   |                                           | 32,000   |          |                                                          | 32,000   |

| Kolkata Motor's Account |                            |          |          |                                        |          |
|-------------------------|----------------------------|----------|----------|----------------------------------------|----------|
| Dr.                     |                            |          | Cr.      |                                        |          |
| Date                    | Particulars                | (Rs.)    | Date     | Particulars                            | (Rs.)    |
| 01.01.21                | To Bank A/c (Down Payment) | 30,000   | 01.01.21 | By Tempos A/c (Rs.50,000 × 3)          | 1,50,000 |
| 31.12.21                | To Bank A/c                | 50,800   | 31.12.21 | By Interest A/c<br>(9% on Rs.1,20,000) | 10,800   |
| 31.12.21                | To Balance c/d             | 80,000   |          |                                        |          |
|                         |                            | 1,60,800 |          |                                        | 1,60,800 |
| 31.12.22                | To Tempos A/c              | 49,000   | 01.01.22 | By Balance b/d                         | 80,000   |
| 31.12.22                | To Balance c/d             | 38,200   | 31.12.22 | By Interest A/c<br>(9% on Rs.80,000)   | 7,200    |
|                         |                            | 87,200   |          |                                        | 87,200   |
| 31.12.23                | To Bank A/c                | 41,638   | 01.01.23 | By Balance b/d                         | 38,200   |
|                         |                            |          | 31.12.23 | By Interest A/c<br>(9% on Rs.38,200)   | 3,438    |
|                         |                            | 41,638   |          |                                        | 41,638   |

Working Notes:

- Value of a tempo left with the buyer =  $\text{Rs.}50,000 \times 80/100 \times 80/100 = \text{Rs.}32,000$
- Value of Tempos taken away by the seller =  $\text{Rs.}50,000 \times 2 \times 70/100 \times 70/100 = \text{Rs.}49,000$
- Loss on Tempos taken away = Book Value - Agreed Value  
 $= [2 \times \text{Rs.}50,000 \times 80/100 \times 80/100] - \text{Rs.}49,000$   
 $= \text{Rs.}15,000.$

**Illustration 10.**

On 1 January 2022, A purchased from B a plant valued at Rs.7,45,000; payment to be made by four semi-annual installments of Rs.2,10,000 each; interest being charged at 5% per half year. A paid the first installment on 1st July 2022 but failed to pay the next. B repossessed the plant on 4 January 2023. On 5 January 2023, after negotiation, A was allowed to retain the plant of which the original cash price was Rs.3,90,000 and he was to bear the loss on the remainder which was taken over by B on that date for Rs.3,75,000. B waived the interest after 31st December 2022. Another agreement was signed for payment of the balance amount.

Show by ledger accounts the necessary records in the books of A charging depreciation at 10% per annum half yearly on the written down value.

**Solution:**

**In the Books of A  
Machinery Account**

| Dr.      |                       |          | Cr.      |                     |          |
|----------|-----------------------|----------|----------|---------------------|----------|
| Date     | Particulars           | (Rs.)    | Date     | Particulars         | (Rs.)    |
| 01.01.22 | To B's A/c            | 7,45,000 | 30.06.21 | By Depreciation A/c | 37,250   |
|          |                       |          |          | By Balance c/d      | 7,07,750 |
|          |                       | 7,45,000 |          |                     | 7,45,000 |
| 01.07.22 | To Balance b/d        | 7,07,750 | 31.12.22 | By Depreciation A/c | 35,388   |
|          |                       |          |          | By Balance c/d      | 6,72,362 |
|          |                       | 7,07,750 |          |                     | 7,07,750 |
| 01.01.23 | To Balance b/d        | 6,72,362 | 05.01.23 | By B's A/c          | 3,75,000 |
|          | To Profit & Loss A/c  | 54,613   |          | By Balance c/d      | 3,51,975 |
|          | (Balancing Figure)    |          |          |                     |          |
|          | [3,75,000 - 3,20,387] |          |          |                     |          |
|          |                       | 7,26,975 |          |                     | 7,26,975 |

| Dr.      |                  |          | Cr.      |                                       |          |
|----------|------------------|----------|----------|---------------------------------------|----------|
| Date     | Particulars      | (Rs.)    | Date     | Particulars                           | (Rs.)    |
| 30.6.22  | To balance c/d   | 7,82,250 | 01.01.22 | By Plant on Hire Purchase A/c         | 7,45,000 |
|          |                  |          | 30.06.22 | By Interest A/c<br>[Rs.7,45,000 × 5%] | 37,250   |
|          |                  | 7,82,250 |          |                                       | 7,82,250 |
| 01.07.22 | To Bank A/c      | 2,10,000 | 01.07.22 | By Balance b/d                        | 7,82,250 |
| 31.12.22 | To Balance c/d   | 6,00,863 | 31.12.22 | By Interest A/c<br>[Rs.5,72,250 × 5%] | 28,613   |
|          |                  | 8,10,863 |          |                                       | 8,10,863 |
| 05.01.23 | To Machinery A/c | 3,75,000 | 01.01.23 | By Balance b/d                        | 6,00,863 |
|          | To Balance c/d   | 2,25,863 |          |                                       |          |
|          |                  | 6,00,863 |          |                                       | 6,00,863 |

**Working Note:**

Calculation of Book Value of Plant Repossessed and Retained

| Particulars                             | Repossessed (Rs.) | Retained (Rs.) |
|-----------------------------------------|-------------------|----------------|
| A. Cash Price of the Plant              | 3,55,000          | 3,90,000       |
| B. Less: Depreciation @10% for 6 months | (17,750)          | (19,500)       |



|                                         |          |          |
|-----------------------------------------|----------|----------|
| C. Book Value                           | 3,37,250 | 3,70,500 |
| D. Less: Depreciation @10% for 6 months | (16,863) | (18,525) |
| E. Book Value                           | 3,20,387 | 3,51,975 |

**Illustration 11.**

Z sold 3 Machinery for a total cash sale price of Rs.6,00,000 on hire purchase basis to X on 01.01.2021. The terms of agreement provided for 30% as cash down and the balance of the cash price in three equal installments together with interest at 10% per annum compounded annually. The installments were payable as per the following schedule:

1st installment on 31.12.2021; 2nd installment on 31.12.2022 and 3rd installment on 31.12.2023.

X paid the 1st installment on time but failed to pay thereafter. On his failure to pay the second installment, Z repossessed two machineries and valued them at 50% of the cash price. X charges 10% p.a. depreciation on straight line method.

Prepare necessary ledger accounts in the books of X for 2020-2022.

**Solution:**

**In the Books of X****Machinery Account**

| Dr.      |                |          | Cr.      |                        |          |
|----------|----------------|----------|----------|------------------------|----------|
| Date     | Particulars    | (Rs.)    | Date     | Particulars            | (Rs.)    |
| 01.01.21 | To Z's A/c     | 6,00,000 | 31.12.21 | By Depreciation A/c    | 60,000   |
|          |                |          |          | By Balance c/d         | 5,40,000 |
|          |                | 6,00,000 |          |                        | 6,00,000 |
| 01.01.22 | To Balance b/d | 5,40,000 | 31.12.22 | By Depreciation A/c    | 60,000   |
|          |                |          |          | By Balance c/d         | 4,80,000 |
|          |                | 5,40,000 |          |                        | 5,40,000 |
| 01.01.23 | To Balance b/d | 4,80,000 | 31.12.23 | By Depreciation A/c    | 60,000   |
|          |                |          |          | By Z's A/c             | 2,00,000 |
|          |                |          |          | By Profit and Loss A/c | 80,000   |
|          |                |          |          | (balancing figure)     |          |
|          |                |          |          | By Balance c/d         | 1,40,000 |
|          |                | 4,80,000 |          |                        | 4,80,000 |

**Dr.**

**Z's Account**

**Cr.**

| Date     | Particulars                                 | (Rs.)    | Date     | Particulars                                             | (Rs.)    |
|----------|---------------------------------------------|----------|----------|---------------------------------------------------------|----------|
| 01.01.21 | To Bank A/c                                 | 1,80,000 | 31.12.21 | By Machinery A/c                                        | 6,00,000 |
| 31.12.21 | To Balance c/d                              | 4,62,000 |          | By, Interest A/c [10% on<br>(Rs.,00,000 - Rs.1,80,000)] | 42,000   |
|          |                                             | 6,42,000 |          |                                                         | 6,42,000 |
| 31.12.22 | To Bank A/c (1,40,000 +<br>42,000 + 46,200) | 2,28,200 | 01.01.22 | By Balance c/d                                          | 4,62,000 |
|          | To Balance c/d                              | 2,80,000 | 31.12.22 | By Interest A/c<br>[10% on Rs.4,62,000]                 | 46,200   |
|          |                                             | 5,08,200 |          |                                                         | 5,08,200 |
| 31.12.23 | To Machinery A/c                            | 2,00,000 | 01.01.23 | By Balance b/d                                          | 2,80,000 |
|          | To Balance c/d                              | 1,08,000 | 31.12.23 | By Interest A/c                                         | 28,000   |
|          |                                             | 3,08,000 |          |                                                         | 3,08,000 |

**Working Notes:**

1. Book value of machine left and repossessed

| Particulars                            | 1 left   | 2 repossessed |
|----------------------------------------|----------|---------------|
| A. Costs                               | 2,00,000 | 4,00,000      |
| B. Less: Depreciation for 3 years @10% | (60,000) | (1,20,000)    |
|                                        | 1,40,000 | 2,80,000      |

2. Agreed Value of 2 Machinery Repossessed = Cash Price - 50% of cash price  
 = Rs.(4,00,000 - 2,00,000)  
 = Rs.2,00,000

3. Loss on Default = Agreed Value - Book Value  
 = Rs.(2,00,000 - 2,80,000)  
 = Rs.80,000

**Illustration 12.**

X purchased a truck for Rs.2,80,000, payment to be made Rs.91,000 down and 3 installments of Rs.76,000 each at the end of each year. Rate of interest is charged at 10% p.a. Buyer depreciates assets at 15% p.a. on written down value method.

Because of financial difficulties, X, after having paid down payment and first installment to the end of 1st year could not pay second installment and seller took possession of the truck. Seller, after spending Rs.9,200 on repairs of the asset sold it for Rs.150,000. Show the relevant accounts in the books of the purchaser & the vendor.

**Solution:**

| Particulars     | Total Cash Price<br>(Rs.) | Installment Paid<br>@ 10% Int<br>(Rs.) | Interest<br>Paid<br>(Rs.) | Paid towards Cash Price<br>(Installment-Interest)<br>(Rs.) |
|-----------------|---------------------------|----------------------------------------|---------------------------|------------------------------------------------------------|
|                 | 280,000                   |                                        |                           |                                                            |
| Down Payment    | 91,000                    | 91,000                                 | 0                         | 91,000                                                     |
|                 | 189,000                   |                                        |                           |                                                            |
| End of 1st year | 57,100                    | 76,000                                 | 18,900                    | 57,100                                                     |
|                 | 131,900                   |                                        |                           |                                                            |
| End of 2nd Year | 62,810                    | 76,000                                 | 13,190                    | 62,810                                                     |
|                 | 69,090                    |                                        |                           |                                                            |
| End of 3rd Year | 69,090                    | 76,000                                 | 6,910                     | 69,090                                                     |
| Total           | 0                         | 3,19,000                               | 39,000                    | 2,80,000                                                   |

**In the Books of X****Truck Account****Dr.****Cr.**

| Date     | Particulars   | (Rs.)    | Date | Particulars              | (Rs.)    |
|----------|---------------|----------|------|--------------------------|----------|
| 1st Year | To Vendor A/c | 2,80,000 |      | By Depreciation A/c      | 42,000   |
|          |               |          |      | By Bal c/d               | 2,38,000 |
|          |               |          |      |                          | 2,80,000 |
|          |               | 2,80,000 |      |                          | 35,700   |
| 2nd Year | To Bal b/d    | 2,38,000 |      | By Depreciation A/c      | 1,45,090 |
|          |               |          |      | By Vendors A/c           | 57,210   |
|          |               | 2,38,000 |      | By P/L A/c (Bal. figure) | 2,38,000 |





| Dr.  |                              |          | Vendors Account |                           |          | Cr. |  |  |
|------|------------------------------|----------|-----------------|---------------------------|----------|-----|--|--|
| Date | Particulars                  | (Rs.)    | Date            | Particulars               | (Rs.)    |     |  |  |
| 1st  | To Bank (Down Payment)       | 91,000   |                 | By Truck (Cash Price) A/c | 2,80,000 |     |  |  |
| Year | To Bank (Installment)        | 76,000   |                 | By Interest A/c           | 18,900   |     |  |  |
|      | To Bal c/d                   | 1,31,900 |                 |                           |          |     |  |  |
|      |                              | 2,98,900 |                 |                           | 2,98,900 |     |  |  |
|      | To Asset A/c                 | 1,45,090 |                 | By Balance b/d            | 1,31,900 |     |  |  |
| 2nd  | (Default- Assets taken over) |          |                 | " Interest A/c            | 13,190   |     |  |  |
| Year |                              | 1,45,090 |                 |                           | 1,45,090 |     |  |  |

## In the Books of Vendor

| Dr.  |                            |          | X Account |                           |          | Cr. |  |  |
|------|----------------------------|----------|-----------|---------------------------|----------|-----|--|--|
| Date | Particulars                | (Rs.)    | Date      | Particulars               | (Rs.)    |     |  |  |
| 1st  | To Hire Purchase Sales A/c | 2,80,000 |           | By Bank (Down) A/c        | 91,000   |     |  |  |
| Year | To Interest A/c            | 18,900   |           | By Bank (Installment) A/c | 76,000   |     |  |  |
|      |                            |          |           | By Balance c/d            | 1,31,900 |     |  |  |
|      |                            | 2,98,900 |           |                           | 2,98,900 |     |  |  |
| 2nd  | To Balance b/d             | 1,31,900 |           | By Goods Repossessed A/c  | 1,45,090 |     |  |  |
| Year | To Interest A/c            | 13,190   |           |                           |          |     |  |  |
|      |                            | 1,45,090 |           |                           | 1,45,090 |     |  |  |

| Dr.  |                                |          | Goods Repossessed Account |                         |          | Cr. |  |  |
|------|--------------------------------|----------|---------------------------|-------------------------|----------|-----|--|--|
| Date | Particulars                    | (Rs.)    | Date                      | Particulars             | (Rs.)    |     |  |  |
|      | To X A/c (Purchaser) A/c       | 1,45,090 |                           | By Bank (Sales) A/c     | 1,50,000 |     |  |  |
|      | To Bank (Repairing Charge) A/c | 9,200    |                           | By P/L A/c (Bal Figure) | 4,290    |     |  |  |
|      |                                | 1,54,290 |                           |                         | 1,54,290 |     |  |  |

## Illustration 13.

Z Associates purchased seven trucks on hire purchase on 1st July, 2022. The cash purchase price of each truck was Rs.1,00,000. The company has to pay 20% of the cash purchase price at the time of delivery and the balance in five half yearly installment starting from 31st December, 2022 with interest at 5% per annum at half yearly rates. On the Company's failure to pay the installment due on 30th June 2023, it was agreed that the Company would return 3 trucks to the vender and the remaining four would be retained. The vendor agreed to allow him a credit for the amount paid against these 3 trucks less 25%. Show the relevant Accounts in the books of the purchaser and vendor assuming the books are closed in June every year and depreciation @ 20% p.a. is charged on Trucks. Vendor after spending Rs.2,000 on repairs sold away all the three trucks for Rs.80,000.

Solution :

## In Books of Hire-Purchaser

| Dr.      |                     |          | Truck Account |                                  |          | Cr. |  |  |
|----------|---------------------|----------|---------------|----------------------------------|----------|-----|--|--|
| Date     | Particulars         | (Rs.)    | Date          | Particulars                      | (Rs.)    |     |  |  |
| 01.07.22 | To Hire Vendor's    | 7,00,000 | 30.06.23      | By Depreciation A/c              | 1,40,000 |     |  |  |
|          | A/c (Cost of Trucks |          |               | By Hire Vendor's A/c (Value of 3 | 81,000   |     |  |  |
|          | @ Rs.1,00,000 each) |          |               | Trucks returned to Vendor)       |          |     |  |  |
|          |                     |          |               | By P & L A/c (Loss on surrender) | 1,59,000 |     |  |  |





|  |  |          |                                      |          |
|--|--|----------|--------------------------------------|----------|
|  |  |          | By Balance c/d                       | 3,20,000 |
|  |  | 7,00,000 | [4/7 of (Rs.7,00,000 - Rs.1,40,000)] | 7,00,000 |

| Dr.      |                                                 |                 | Hire Vendor's Account |                                      |          | Cr. |                 |
|----------|-------------------------------------------------|-----------------|-----------------------|--------------------------------------|----------|-----|-----------------|
| Date     | Particulars                                     | (Rs.)           | Date                  | Particulars                          | (Rs.)    |     |                 |
| 01.07.22 | To Bank A/c<br>(7,00,000 × 20/100)              | 1,40,000        | 01.07.22              | By Truck A/c                         | 7,00,000 |     |                 |
|          |                                                 |                 | 31.12.22              | By Interest A/c<br>[5,60,000 × 2.5%] | 14,000   |     |                 |
| 31.12.22 | To Bank A/c<br>[(20% of 5,60,000 + 14,000)]     | 1,26,000        | 30.06.23              | By Interest A/c<br>[4,48,000 × 2.5%] | 11,200   |     |                 |
| 30.06.23 | To Truck A/c<br>(Value of Truck<br>surrendered) | 81,000          |                       |                                      |          |     |                 |
| 30.06.23 | To Balance c/d                                  | 3,78,200        |                       |                                      |          |     |                 |
|          |                                                 | <b>7,25,200</b> |                       |                                      |          |     | <b>7,25,200</b> |

Rate of interest is  $[5\% \div 2] = 2.5\%$  for half year.

#### Working Notes :

|                                                                                |                 |
|--------------------------------------------------------------------------------|-----------------|
| (i) Credit allowed by Vendor against 3 trucks                                  | (Rs.)           |
| Total amount of principal paid against 7 trucks<br>(Rs.1,40,000 + Rs.1,12,000) | 2,52,000        |
| Total amount of principal paid against 3 trucks (Rs.2,52,000 × 3/7)            | 1,08,000        |
| Credit allowed by Vendor (Rs.1,08,000 - 25% of Rs.1,08,000)                    | <u>81,000</u>   |
| (ii) Loss on surrender of 3 trucks                                             |                 |
| Book value of 3 trucks surrendered [(Rs.1,00,000 × 3) less 20% of Rs.3,00,000] | 2,40,000        |
| Less : Credit allowed by Vendor against these 3 Trucks                         | <u>81,000</u>   |
| Loss on surrender of 3 Trucks                                                  | <u>1,59,000</u> |

#### In Books of Hire Vendor

| Dr.      |                   |                 | Z Associates Account |                          |          | Cr. |                 |
|----------|-------------------|-----------------|----------------------|--------------------------|----------|-----|-----------------|
| Date     | Particulars       | (Rs.)           | Date                 | Particulars              | (Rs.)    |     |                 |
| 01.07.22 | To H.P. Sales A/c | 7,00,000        | 01.07.23             | By Bank A/c              | 1,40,000 |     |                 |
| 31.12.22 | To Interest A/c   | 14,000          | 31.12.22             | By Bank A/c              | 1,26,000 |     |                 |
| 30.06.23 | To Interest A/c   | 11,200          | 30.06.23             | By Goods Repossessed A/c | 81,000   |     |                 |
|          |                   |                 | 30.06.23             | By Balance c/d           | 3,78,200 |     |                 |
|          |                   | <b>7,25,200</b> |                      |                          |          |     | <b>7,25,200</b> |

| Dr.     |                   |               | Goods Repossessed Account |                      |        | Cr. |               |
|---------|-------------------|---------------|---------------------------|----------------------|--------|-----|---------------|
| Date    | Particulars       | (Rs.)         | Date                      | Particulars          | (Rs.)  |     |               |
| 30.6.23 | To Banerjee & Co. | 81,000        | 30.6.23                   | By Bank A/c (Sales)  | 80,000 |     |               |
| 30.6.23 | To Cash A/c       | 2,000         | 30.6.23                   | By Profit & Loss A/c | 3,000  |     |               |
|         | (expenses)        |               |                           | (Loss on Sale)       |        |     |               |
|         |                   | <b>83,000</b> |                           |                      |        |     | <b>83,000</b> |

**Illustration 14.**

On 1.1.2020, B & Brothers bought 5 computers from Chirag Computers on hire-purchase. The cash price of each computer was Rs.20,000. It was agreed Rs.30,000 each at the end of each year. The Vendor charges interest @ 10% p.a. The buyer depreciates computers at 20% p.a. on the diminishing balance method.

B&Brothers paid cash down of Rs.5,000 each and two installments but failed to pay the last installment. Consequently, the Computer Traders repossessed three sets, leaving two sets with the buyer and adjusting the value of 3 sets against the amount due. The sets repossessed were valued on the basis of 30% depreciation p.a. on the written down value. The sets repossessed were sold by the Chirag Computers for Rs.30,000 after necessary repairs amounting to Rs.5,000 on 30th June 2023.

**Required :** Open the necessary ledger account in the books of both the parties.

**Solution :**

**In the Books of B & Brothers**

| Dr.      |                         |          | Computers Account |                                                |          | Cr. |  |  |
|----------|-------------------------|----------|-------------------|------------------------------------------------|----------|-----|--|--|
| Date     | Particulars             | (Rs.)    | Date              | Particulars                                    | (Rs.)    |     |  |  |
| 01.01.20 | To Chirag Computers A/c | 1,00,000 | 31.12.20          | By Depreciation A/c                            | 20,000   |     |  |  |
|          |                         |          |                   | By Balance c/d                                 | 80,000   |     |  |  |
|          |                         | 1,00,000 |                   |                                                | 1,00,000 |     |  |  |
| 01.01.21 | To Balance b/d          | 80,000   | 31.12.21          | By Depreciation A/c                            | 16,000   |     |  |  |
|          |                         |          |                   | By Balance c/d                                 | 64,000   |     |  |  |
|          |                         | 80,000   |                   |                                                | 80,000   |     |  |  |
| 31.12.22 | To Balance b/d          | 64,000   | 31.12.22          | By Depreciation A/c                            | 12,800   |     |  |  |
|          |                         |          |                   | By Chirag Computers<br>(computers surrendered) | 20,580   |     |  |  |
|          |                         |          |                   | By P & L A/c                                   | 10,140   |     |  |  |
|          |                         |          |                   | - Loss on surrender                            |          |     |  |  |
|          |                         |          |                   | By Balance c/d                                 | 20,480   |     |  |  |
|          |                         | 64,000   |                   |                                                | 64,000   |     |  |  |

| Dr.      |                                |          | Chirag Computers Account |                                 |          | Cr. |  |  |
|----------|--------------------------------|----------|--------------------------|---------------------------------|----------|-----|--|--|
| Date     | Particulars                    | (Rs.)    | Date                     | Particulars                     | (Rs.)    |     |  |  |
| 01.01.20 | To Cash A/c                    | 25,000   | 01.01.20                 | By Computers A/c                | 1,00,000 |     |  |  |
| 31.12.20 | To Cash A/c                    | 30,000   | 31.12.20                 | By Interest A/c                 |          |     |  |  |
|          | To Balance c/d                 | 52,500   |                          | [(Rs.1,00,000-Rs.25,000) × 10%] | 7,500    |     |  |  |
|          |                                | 1,07,500 |                          |                                 | 1,07,500 |     |  |  |
| 31.12.21 | To Cash                        | 30,000   |                          | By Balance b/d                  | 52,500   |     |  |  |
|          | To Balance c/d                 | 27,750   | 01.01.21                 | By Interest A/c                 |          |     |  |  |
|          |                                | 57,750   | 31.12.21                 | [52,500 × 10%]                  | 5,250    |     |  |  |
|          |                                |          |                          |                                 | 57,750   |     |  |  |
| 31.12.22 | To Computers A/c (surrendered) | 20,580   | 01.01.22                 | By Balance b/d                  | 27,750   |     |  |  |
|          | To Balance c/d                 | 9,420    | 31.12.22                 | By Interest A/c                 | 2,250    |     |  |  |
|          |                                | 30,000   |                          |                                 | 30,000   |     |  |  |

**Working Notes :**

(i) Total Interest = Hire Purchase Price - Cash Price



|       |                                                                                                                                                   |           |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| (i)   | Total Interest = Hire Purchase Price - Cash Price<br>= [Rs.25,000 + (Rs.30,000 × 3)] - (Rs.20,000 × 5)<br>= Rs.1,15,000 - Rs.1,00,000 = Rs.15,000 |           |
| (ii)  | Interest for 3rd year = Rs.15,000 - Rs.7,500 - Rs.5,250 = Rs.2,250                                                                                |           |
| (iii) | Agreed Value of 3 Computers Repossessed on the basis of depreciation @ 30% p.a.                                                                   |           |
|       | Cost (Cash Price) of 3 Computers                                                                                                                  | Rs.60,000 |
|       | Less : Depreciation @ 30% p.a. for 3 years [Rs.18,000 + Rs.12,600 + Rs.8,820]                                                                     | 39,420    |
|       |                                                                                                                                                   | 20,580    |
| (iv)  | Book Value of 3 Computers Repossessed on the basis of depreciation @ 20% p.a                                                                      | Rs.       |
|       | Cost (Cash Price) of 3 Computers                                                                                                                  | 60,000    |
|       | Less: Depreciation @ 20% WDV for 3 years [Rs.12,000 + Rs.9,600 + Rs.7,680]                                                                        | 29,280    |
|       |                                                                                                                                                   | 30,720    |
| (v)   | Loss on Surrender = Book value - Agreed Value = Rs.30,720 - Rs.20,580 =                                                                           | Rs.10,140 |

## In the Books of Chirag Computers

| Dr.      |                   |          | B & Brothers Account |                          |          | Cr. |  |  |
|----------|-------------------|----------|----------------------|--------------------------|----------|-----|--|--|
| Date     | Particulars       | (Rs.)    | Date                 | Particulars              | (Rs.)    |     |  |  |
| 01.01.20 | To H.P. Sales A/c | 1,00,000 | 01.01.20             | By Cash A/c              | 25,000   |     |  |  |
| 31.12.20 | To Interest A/c   | 7,500    | 31.12.20             | By Cash A/c              | 30,000   |     |  |  |
|          |                   | 1,07,500 |                      | By Balance c/d           | 52,500   |     |  |  |
|          |                   |          |                      |                          | 1,07,500 |     |  |  |
| 01.01.21 | To Balance b/d    | 52,500   | 31.12.21             | By Cash A/c              | 30,000   |     |  |  |
| 31.12.21 | To Interest A/c   | 5,250    | 31.12.21             | By Balance c/d           | 27,750   |     |  |  |
|          |                   | 57,750   |                      |                          | 57,750   |     |  |  |
| 01.01.22 | To Balance b/d    | 27,750   | 31.12.22             | By Goods Repossessed A/c | 20,580   |     |  |  |
| 31.12.22 | To Interest A/c   | 2,250    |                      | By Balance c/d           | 9,420    |     |  |  |
|          |                   | 30,000   |                      |                          | 30,000   |     |  |  |

| Dr.      |                               |        | Goods Repossessed Account |                     |        | Cr. |  |  |
|----------|-------------------------------|--------|---------------------------|---------------------|--------|-----|--|--|
| Date     | Particulars                   | (Rs.)  | Date                      | Particulars         | (Rs.)  |     |  |  |
| 30.06.23 | To B & Brothers A/c           | 20,580 | 30.06.23                  | By Cash A/c (sales) | 30,000 |     |  |  |
| 30.06.23 | To Cash A/c (Repairs)         | 5,000  |                           |                     |        |     |  |  |
| 30.06.23 | To Profit & Loss A/c (Profit) | 4,420  |                           |                     |        |     |  |  |
|          |                               | 30,000 |                           |                     | 30,000 |     |  |  |

## Illustration 15.

Beta Ltd. sells its products only on hire purchase terms, the hire purchase price being 'cost plus 33.33%'. From the given information, you are required determine the operating results from the hire purchase transactions by drafting necessary accounts under each of the following methods:

[A] Debtors Method

[B] Stock-Debtors Method

[C] Final Accounts Method

|                                 | 1.4.2022 (Rs.) | 1.4.2023 (Rs.) |
|---------------------------------|----------------|----------------|
| Stock out on hire at H.P price  | 2,40,000       | ?              |
| Stock in hand at shop           | 30,000         | 42,000         |
| Installments due from customers | 18,000         | 30,000         |

**Further information:**

- ⊙ Goods repossessed (installments not yet matured Rs.12,000) valued at Rs.4,800;
- ⊙ Purchases made during the year 2022-23 amounted to Rs.4,08,000;
- ⊙ Cash collected from customers during 2022-23 was Rs.4,80,000.

From the given information, you are required independently determine the operating results from the hire purchase transactions by drafting necessary accounts under each of the following methods:

[A] Debtors Method;

[B] Stock-Debtors Method; and

[C] Final Accounts Method.

[D] Method A: Debtors Method

**Solution:****Books of Beta Ltd.****Hire Purchasing Trading Account**

for the year ended 31.3.2023

| Dr                                              |          |                                                               | Cr.      |
|-------------------------------------------------|----------|---------------------------------------------------------------|----------|
| Particulars                                     | (Rs.)    | Particulars                                                   | (Rs.)    |
| To H.P. Stock [at H.P. price: 1.4.2022]         | 2,40,000 | By Stock Reserve $[2,40,000 \times 1/4]$                      | 60,000   |
| To H.P. Debtors [1.4.2022]                      | 18,000   | By Goods sent on H.P. [ Load: $5,28,000 \times \frac{1}{4}$ ] | 1,32,000 |
| To Goods sent on H.P. [at H.P. Price - W.N:1]   | 5,28,000 | By Cash Received                                              |          |
| To Loss on Repossession [WN:4]                  | 7,200    | By Goods Repossessed [Unmatured Installments]                 | 4,80,000 |
| To Stock Reserve $[2,64,000 \times 1/4]$        | 66,000   | By H.P. Stock [at H.P. Price: 31.3.2023- WN:3]                | 12,000   |
| To General P/L A/c [ Profit on H.P transferred] | 1,18,800 | By H.P. Debtors [ 31.3.2023]                                  | 2,64,000 |
|                                                 |          |                                                               | 30,000   |
|                                                 | 9,78,000 |                                                               | 9,78,000 |

**Working Notes:****1. Goods sent on H.P. basis ( at H.P. price)****Memorandum Shop Stock Account**

| Particulars        | (Rs.)    | Particulars                               | (Rs.)    |
|--------------------|----------|-------------------------------------------|----------|
| To Opening Balance | 30,000   | By Goods sent on H.P [at cost: Bal. Fig.] | 3,96,000 |
| To Purchases       | 4,08,000 |                                           | 42,000   |
|                    |          | By Closing Balance                        |          |
|                    | 4,38,000 |                                           | 4,38,000 |

Therefore, Goods Sent on H.P [at H.P price] =  $3,96,000 + 33 \frac{1}{3}\% = \text{Rs.}5,28,000$ .

**2. Installments Matured during the year****Memorandum H.P Debtors Account**

| Particulars                           | (Rs.)    | Particulars                           | (Rs.)    |
|---------------------------------------|----------|---------------------------------------|----------|
| To Opening Balance [Installments due] | 18,000   | By Cash Received                      | 4,80,000 |
| To Installments Matured [Bal. Fig.]   | 4,92,000 | By Closing Balance [Installments due] | 30,000   |
|                                       | 5,10,000 |                                       | 5,10,000 |

**3. Balance of H.P. Stock on 31.3.2023****Memorandum H.P. Stock Account**

| Particulars                                                  | (Rs.)    | Particulars                   | (Rs.)    |
|--------------------------------------------------------------|----------|-------------------------------|----------|
| To Opening Balance [stock out on hire purchase at H.P price] | 2,40,000 | By Intsalments Matured [WN:2] | 4,92,000 |



|                             |          |                                                                   |          |
|-----------------------------|----------|-------------------------------------------------------------------|----------|
| To Goods sent on H.P [WN:1] | 5,28,000 | By Goods Repossessed<br>[Unmatured installments]                  | 12,000   |
|                             |          | By Closing Balance<br>[Stock with customers at SP<br>- Bal. fig.] | 2,64,000 |
|                             | 7,68,000 |                                                                   | 7,68,000 |

4. Loss on Repossession = Installments not yet matured on repossessed goods - Value on repossession = Rs.[12,000 - 4,800] = Rs.7,200. It is to be debited to H.P. Trading A/c.

Alternatively, Instead of recording value of "Goods Repossessed" and "Loss on Repossession", the value on repossession Rs.4,800 may be reflected on the credit side of H.P. Trading A/c.

#### Method B: Stock-Debtors Method

##### Books of Beta Ltd.

| Dr. Shop Stock Account |                                           |          | Cr.     |                                                                      |          |
|------------------------|-------------------------------------------|----------|---------|----------------------------------------------------------------------|----------|
| Date                   | Particulars                               | (Rs.)    | Date    | Particulars                                                          | (Rs.)    |
| 1.4.22                 | To Balance b/f<br>[Opening Stock at Shop] | 30,000   | 31.3.23 | By Goods Sent on H.P A/c<br>[Cost Price of goods sent:<br>Bal. Fig.] | 3,96,000 |
| 31.3.23                | To Purchases A/c                          | 4,08,000 | 31.3.23 | By Balance c/f [Closing<br>Stock at shop]                            | 42,000   |
|                        |                                           | 4,38,000 |         |                                                                      | 4,38,000 |

| Dr. Goods Sent on H.P Account |                                                                           |          | Cr.     |                              |          |
|-------------------------------|---------------------------------------------------------------------------|----------|---------|------------------------------|----------|
| Date                          | Particulars                                                               | (Rs.)    | Date    | Particulars                  | (Rs.)    |
| 31.3.23                       | To Shop Stock A/c<br>[Cost of goods sent]                                 | 3,96,000 | 31.3.23 | By H.P. Stock A/c            | 5,28,000 |
| 31.3.23                       | To H.P Stock Adjustment A/c<br>[Loading on goods sent: 3,96,000 ×<br>1/3] | 1,32,000 |         | [Goods sent at H.P<br>Price] |          |
|                               |                                                                           | 5,28,000 |         |                              | 5,28,000 |

| Dr. H.P Stock Account |                                                       |          | Cr.     |                                                                    |          |
|-----------------------|-------------------------------------------------------|----------|---------|--------------------------------------------------------------------|----------|
| Date                  | Particulars                                           | (Rs.)    | Date    | Particulars                                                        | (Rs.)    |
| 1.4.22                | To Balance b/f [stock with<br>customers at H.P Price] | 2,40,000 | 31.3.23 | By H.P. Debtors A/c<br>[Matured Installments]                      | 4,92,000 |
| 31.3.23               | To Goods sent on H.P A/c [at<br>H.P Price]            | 5,28,000 | 31.3.23 | By Goods Repossessed A/c                                           | 12,000   |
|                       |                                                       |          | 31.3.23 | By Balance c/f [Stock with<br>customers at H.P Price: Bal.<br>Fig] | 2,64,000 |
|                       |                                                       | 7,68,000 |         |                                                                    | 7,68,000 |

| Dr. H.P. Debtors Account |                                                      |          | Cr.     |                                          |          |
|--------------------------|------------------------------------------------------|----------|---------|------------------------------------------|----------|
| Date                     | Particulars                                          | (Rs.)    | Date    | Particulars                              | (Rs.)    |
| 1.4.22                   | To Balance b/f<br>[ Installments overdue]            | 18,000   | 31.3.23 | By Bank A/c [Cash Received]              | 4,80,000 |
| 31.3.23                  | To H.P Stock A/c<br>[Matured Installments: Bal. Fig] | 4,92,000 | 31.3.23 | By Balance c/f [Installments<br>overdue] | 30,000   |
|                          |                                                      | 5,10,000 |         |                                          | 5,10,000 |





| Dr.     |                                                                            | H.P. Stock Adjustment Account |         | Cr.                                                         |          |
|---------|----------------------------------------------------------------------------|-------------------------------|---------|-------------------------------------------------------------|----------|
| Date    | Particulars                                                                | (Rs.)                         | Date    | Particulars                                                 | (Rs.)    |
| 31.3.23 | To Goods Repossessed A/c [Repossession Loss]                               | 7,200                         | 1.4.22  | By Balance b/f                                              | 60,000   |
| 31.3.23 | To General P/L A/c [ H.P Profit transferred]                               | 1,18,800                      |         | [Load on opening H.P Stock: $2,40,000 \times \frac{1}{4}$ ] |          |
| 31.3.23 | To Balance c/f [Load on Closing H.P Stock: $2,64,000 \times \frac{1}{4}$ ] | 66,000                        | 31.3.23 | By Goods Sent on H.P A/c                                    | 1,32,000 |
|         |                                                                            |                               |         | [Load on goods sent: $5,28,000 \times \frac{1}{4}$ ]        |          |
|         |                                                                            | 1,92,000                      |         |                                                             | 1,92,000 |

| Dr.     |                                             | Goods Repossessed Account |         | Cr.                                        |        |
|---------|---------------------------------------------|---------------------------|---------|--------------------------------------------|--------|
| Date    | Particulars                                 | (Rs.)                     | Date    | Particulars                                | (Rs.)  |
| 31.3.23 | To H.P Stock A/c [Installments not matured] | 12,000                    | 31.3.23 | By H.P. Stock Adj. A/c [Repossession Loss] | 7,200  |
|         |                                             |                           | 31.3.23 | By Balance c/f                             | 4,800  |
|         |                                             | 12,000                    |         |                                            | 12,000 |

### Method C: Final Accounts Method

#### Books of Beta Ltd.

#### Hire Purchase Trading Account

| Dr.                               |          | for the year ended 31.3.2023                          |          | Cr. |  |
|-----------------------------------|----------|-------------------------------------------------------|----------|-----|--|
| Particulars                       | (Rs.)    | Particulars                                           | (Rs.)    |     |  |
| To Balance b/f:                   |          | By H.P Slaes                                          | 4,92,000 |     |  |
| Stock at shop                     | 30,000   | [Matured Intsalments - WN:1]                          |          |     |  |
| Stock with customer               | 1,80,000 | By Balance c/f:                                       |          |     |  |
| [ $2,40,000 \times \frac{3}{4}$ ] |          | Stock at Shop                                         | 42,000   |     |  |
| To Purchases                      | 4,08,000 | Stock with Customer [ $2,64,000 \times \frac{3}{4}$ ] | 1,98,000 |     |  |
| To General P/L A/c                | 1,18,800 | (WN:2)                                                |          |     |  |
| [Profit on H. P. transferred]     |          | Repossessed Goods                                     | 4,800    |     |  |
|                                   | 7,36,800 |                                                       | 7,36,800 |     |  |

### Working Notes:

#### 1. Matured Installments during 2022-23:

| Dr.                                                      |          | H.P. Sales Account                  |          | Cr. |  |
|----------------------------------------------------------|----------|-------------------------------------|----------|-----|--|
| Particulars                                              | (Rs.)    | Particulars                         | (Rs.)    |     |  |
| To H.P. Trading A/c                                      | 4,92,000 | By Balance b/f: Stock with customer | 2,40,000 |     |  |
| [Matured Installments- B/Fig]                            |          |                                     |          |     |  |
| To H.P. Sales A/c [Installment due on repossessed goods] | 12,000   | By H.P. Debtors A/c                 | 5,28,000 |     |  |
| To Balance c/f:                                          | 2,64,000 | [Goods sold on H.P. basis - WN:3]   |          |     |  |
| Stock with Customer                                      |          |                                     |          |     |  |
|                                                          | 7,68,000 |                                     | 7,68,000 |     |  |

#### 2. Stock with customers at H.P. Price on 31.3.2023:

| Dr.             |       | H.P. Debtors Account       |          | Cr. |  |
|-----------------|-------|----------------------------|----------|-----|--|
| Particulars     | (Rs.) | Particulars                | (Rs.)    |     |  |
| To Balance b/f: |       | By Cash A/c                | 4,80,000 |     |  |
|                 |       | [Received during the year] |          |     |  |





|                                       |          |                                                          |          |
|---------------------------------------|----------|----------------------------------------------------------|----------|
| Stock with Customer                   | 2,40,000 |                                                          |          |
| Installment overdue To H.P. Sales A/c | 18,000   | By H.P. Sales A/c [Installment due on repossessed goods] | 12,000   |
| [Goods sold on H.P. basis - WN:3]     | 5,28,000 | By Balance c/f:                                          |          |
|                                       |          | Stock with Customer [Bal. Fig.]                          | 2,64,000 |
|                                       |          | Installments due                                         | 30,000   |
|                                       | 7,86,000 |                                                          | 7,86,000 |

**3. Goods sent on H.P basis ( at H.P. Price ) during 2022-23**

Cost of goods sent under H.P basis :

Opening Shop Stock + Purchases - Closing Shop Stock

= Rs [30,000 + 4,08,000 - 42,000] = Rs.3,96,000

∴ Goods sold on H.P. basis at H.P. Price = Cost of goods sold under H.P. basis + Profit

= Rs.3,96,000 + 33.33 % = Rs.5,28,000



## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 7M)

On 1st April, 2021, Aarvi Limited purchased a machine on hire purchase system, whose cash price was Rs.12,00,000. The hire purchase price of the machine was Rs.15,00,000. Rs.3,00,000 was payable immediately and the balance was to be paid in three equal annual installments. 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 installment and prepare Machinery Account for three years in the books of Aarvi Limited

Answer:

## 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

| 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  |
| 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   |
| 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   |

Question 2.

(Jun 24 7M)

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 installments of Rs.1,70,000, Rs.1,50,000 and Rs.1,08,460 payable at the end of 1st, 2nd and 3rd year respectively. Interest is charged at 10% p.a. You are required to calculate interest paid with each installment

Answer:

## Interest paid with each instalment

| Year     | Opening Balance of Cash Price (₹) | Instalment (₹) | Payment towards Cash Price (₹) | Payment towards Interest (₹) | Closing Balance of Cash Price (₹) |
|----------|-----------------------------------|----------------|--------------------------------|------------------------------|-----------------------------------|
| 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 3.

(Jun 23 3M)

| Particulars  | ₹        |
|--------------|----------|
| Down Payment | 6,00,000 |



|                                         |          |
|-----------------------------------------|----------|
| 1st Instalment at the end of first year | 4,20,000 |
| 2nd Instalment at the end of 2nd year   | 4,90,000 |
| 3rd Instalment at the end of 3rd year   | 5,50,000 |

Interest is charged at 10% pa. Rajdeep provides depreciation @ 25% on the diminishing balance.

You are required to calculate the cash price of the cars and the interest paid with each instalment

Answer:

| Calculation of Cash Price                | Instalment | Interest (₹)                            | Cash Price (₹) |
|------------------------------------------|------------|-----------------------------------------|----------------|
| 3rd Instalment                           | 5,50,000   | (-) Interest $(10/110 \times 5,50,000)$ | (50,000)       |
| Balance of Cash Price                    | 5,00,000   | 50,000                                  | 5,00,000       |
| (+) 2nd Instalment                       | 4,90,000   | 9,90,000                                |                |
| (-) Interest $(10/110 \times 9,90,000)$  | (90,000)   |                                         |                |
| Balance of Cash Price                    | 9,00,000   | 90,000                                  | 4,00,000       |
| (+) 1st Instalment                       | 4,20,000   | 13,20,000                               |                |
| (-) Interest $(10/110 \times 13,20,000)$ | (1,20,000) |                                         |                |
| Balance of Cash Price                    | 12,00,000  | 1,20,000                                | 3,00,000       |
| (+) Down Payment                         | 6,00,000   |                                         | 6,00,000       |
| Total                                    | 18,00,000  | 2,60,000                                | 18,00,000      |

Cash price of the Car = ₹ 18,00,000

Interest paid with each instalment:

1st installment: ₹ 1,20,000

2nd installment: ₹ 90,000

3rd installment: ₹ 50,000

₹ 2,60,000

Question 4.

(Jun 23 7M)

On 1st April, 2019, Richa Industries purchased a machine on hire-purchase system from Chinu Limited. Hire-purchase price and cash price of the machine were Rs.27,00,000 and Rs.21,60,000 respectively. Rs 5,40,000 was payable immediately and the balance was to be paid in three equal annual installments. Richa Industries charges depreciation @ 15% per annum on written down value method and books are closed on 31st March each year.

Calculate interest included in each instalment and prepare Chinu Limited Account and Machine Account in the books of Richa Industries

Answer:

| Date      | Particulars       | ₹         | Date     | Particulars         | ₹         |
|-----------|-------------------|-----------|----------|---------------------|-----------|
| 2019      | To Chinu Ltd. A/c | 21,60,000 | 2020     | By Depreciation A/c | 3,24,000  |
| 1st April |                   |           | 31st Mar | By Balance c/d      | 18,36,000 |
|           |                   | 21,60,000 |          |                     | 21,60,000 |
| 2020      | To balance b/d    | 18,36,000 | 2021     | By Depreciation A/c | 2,75,400  |
| 1st April |                   |           | 31st Mar | By Balance c/d      | 15,60,600 |
|           |                   | 18,36,000 |          |                     | 18,36,000 |
| 2021      |                   |           | 2022     |                     |           |
| 1st April | To balance b/d    | 15,60,600 | 31st Mar | By Balance c/d      | 2,34,090  |
|           |                   |           |          |                     | 15,60,600 |
| 2022      | To balance b/d    | 13,26,510 |          |                     |           |
| 1st April |                   |           |          |                     |           |



## Chinu Ltd. A/c

| Dr                 |                            |            | Cr.                |                       |           |
|--------------------|----------------------------|------------|--------------------|-----------------------|-----------|
| Date               | Particulars                | ₹          | Date               | Particulars           | ₹         |
| 2019<br>1st April  | To Bank A/c (Down Payment) | 5,40,000   | 2019<br>1st April  | By Machinery A/c      | 21,60,000 |
| 2020<br>31st March | To Bank A/c (7,20,000)     | 7,20,000   | 2020<br>31st March | By Interest A/c (WN3) | 2,70,000  |
|                    | To Balance c/d             | 11,70,000  | 2020<br>1st April  |                       |           |
|                    |                            | 24,30,000  |                    |                       | 24,30,000 |
| 2021<br>31st March | To Bank A/c (7,20,000)     | 7,20,000   | 2021<br>1st April  | By Balance c/d        | 11,70,000 |
|                    |                            |            |                    | By Interest A/c (WN3) | 1,80,000  |
|                    | To Balance c/d             | 6,30,000   |                    |                       | 13,50,000 |
|                    |                            | 13,50,000  |                    |                       |           |
| 2022<br>31st March | To Bank A/c                | 7,20,000   | 2022<br>1st March  | By Balance c/d        | 6,30,000  |
|                    |                            |            |                    | By Interest A/c (WN3) | 90,000    |
|                    |                            | (7,20,000) |                    |                       | 7,20,000  |

| Hire Purchase Price | Amount (Rs.) |
|---------------------|--------------|
| Down Payment        | 5,40,000     |
| 1st Instalment      | 7,20,000     |
| 2nd Instalment      | 7,20,000     |
| 3rd Instalment      | 7,20,000     |
| Total               | 27,00,000    |

## Working Note 2:

| Description         | Amount (Rs.) |
|---------------------|--------------|
| Hire Purchase Price | 27,00,000    |
| (-) Cash Price      | 21,60,000    |
| Interest Payable    | 5,40,000     |

This amount of 5,40,000 is apportioned on the basis of Ratio of amount outstanding at the end of each year

## Working Note 3:

| Year        | Amount o/s at the end of the year (Rs.) | Interest divided in ratio of o/s amount | Total interest divided in the ratio of installment due (Rs.) |
|-------------|-----------------------------------------|-----------------------------------------|--------------------------------------------------------------|
| First Year  | 21,60,000                               | 0.5                                     | $5,40,000 \times 0.5 = 2,70,000$                             |
| Second Year | 14,40,000                               | 0.333                                   | $5,40,000 \times 0.333 = 1,80,000$                           |
| Third Year  | 7,20,000                                | 0.167                                   | $5,40,000 \times 0.167 = 90,000$                             |
|             |                                         | 1                                       | 5,40,000                                                     |

## Question 5.

(Dec 22 10M)

A acquire on 1st January, 2021 a machine under a Hire-Purchase agreement which provides for 5



half-yearly instalments of 86,000 each, the first instalment being due on 1st July, 2021. Assuming that the applicable rate of interest is 10 percent per annum, calculate the cash value of the machine. All working should form part of the answer.

**Answer:**

Cash Value of the Machine- Rs. 25,977



**EXERCISE**  
**MULTIPLE CHOICE QUESTIONS**

1. In the hire purchase system interest charged by vendor is calculated on the basis of
  - (a) Outstanding cash Price
  - (b) Hire purchase Price
  - (c) Installment amount
  - (d) None of the above
2. Excess of hire purchase price over cash price is know as
  - (a) Installment
  - (b) Cash down payment
  - (c) Interest
  - (d) Capital value of asset
3. In Hire Purchase system cash price plus interest is know as
  - (a) Capital value of asset
  - (b) Book value of asset
  - (c) Hire purchase price of asset
  - (d) Hire purchase charges
4. Shiva purchased a laptop on hire-purchase system. As per terms, he is required to pay Rs.7,500 down, Rs.10,000 at the end of first year, Rs.7,500 at the end of second year, and Rs.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
  - (a) Rs.900
  - (b) Rs.1,999
  - (c) Rs.804
  - (d) Rs.1,760
5. Arti Ltd. purchased a machine on hire purchase system for a cash price Rs.5,00,000 to be paid as Rs.78,700 cash down and the balance by three equal annual installment of Rs.2,00,000 each. If interest is charged @ 20% per annum then amount of interest payable in second installment will be
  - (a) Rs.1,00,000
  - (b) Rs.61,112
  - (c) Rs.33,328
  - (d) Rs.84,260
6. Shiva purchased a laptop on hire-purchase system. As per terms, he is required to pay Rs.7,500 down, Rs.10,000 at the end of first year, Rs.7,500 at the end of second year, and Rs.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
  - (a) Rs.900
  - (b) Rs.1,999
  - (c) Rs.804
  - (d) Rs.1,760
7. Arti Ltd. purchased a machine on hire purchase system for a cash price Rs.5,00,000 to be paid as Rs.78,700 cash down and the balance by three equal annual installment of Rs.2,00,000 each. If interest is charged @ 20% per annum then amount of interest payable in second installment will be





- (a) Rs.1,00,000  
(b) Rs.61,112  
(c) Rs.33,328  
(d) Rs.84,260

Answer:

|   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|
| 1 | A | 2 | C | 3 | C | 4 | B | 5 | B |
| 6 | b | 7 | b |   |   |   |   |   |   |

### STATE TRUE OR FALSE

- The buyer gets immediate possession but not ownership of the asset under installment payment system on signing of contract.
- The possession and ownership of the asset is immediately transferred to the buyer under Hire-purchase system on signing the contract.
- Down payment plus installments including interest is termed as cash price .
- The Hire-purchaser records the asset at Hire-purchase price .
- Repossession of the asset is done by Hire-vendor due to non-payment of installments in due time.
- Hire purchase price = Cash price + Total Interest
- In hire purchase system, ownership of the goods passes from the seller to the buyer only when the full and final payment is made.
- The difference between the hire purchase price and cash price of the asset is known as Total Interest.
- There is no difference between hire purchase and installment purchase system.
- Each installment is treated as hire charges till the last installment is paid.

Answers:

|   |       |   |       |   |       |   |       |    |      |
|---|-------|---|-------|---|-------|---|-------|----|------|
| 1 | False | 2 | False | 3 | False | 4 | False | 5  | True |
| 6 | True  | 7 | True  | 8 | True  | 9 | False | 10 | True |

### FILL IN THE BLANKS

- Selling price under Hire-purchase basis is \_\_\_\_\_ than selling price under cash basis.
- In case of a Hire-purchase sale the act of revival of custody of the asset is called \_\_\_\_\_
- The buyer gets possession and ownership of the asset under \_\_\_\_\_ system right from signing the contract.
- Under Hire- purchase system ownership of the asset is transferred as soon as \_\_\_\_\_ last installment is paid.
- Every installment paid under Hire-purchase system consists of partly \_\_\_\_\_ and partly interest charge.
- A machinery was purchased on Hire Purchase System. Its cash price was Rs.5,20,000 which was payable in annual installments of Rs.1,80,000 each including interest @ 15 per cent per annum. The amount of interest included in 2nd installment would be \_\_\_\_\_
- The persons who obtained delivery of possession of goods from the owner under the hire purchase agreement is known as \_\_\_\_\_.
- The difference between the net hire purchase price and net cash price of the goods is termed as \_\_\_\_\_
- When an asset is acquired on hire purchase system, the asset account is debited with \_\_\_\_\_ of the asset in the book of the hire purchaser.
- The initial amount paid in hire purchase system is called \_\_\_\_\_

**Answer:**

|   |                 |    |                       |
|---|-----------------|----|-----------------------|
| 1 | more            | 2  | repossession          |
| 3 | installment     | 4  | last                  |
| 5 | capital payment | 6  | Rs.62,700             |
| 7 | Hirer           | 8  | Hire purchase charges |
| 9 | Cash price      | 10 | Down payment          |



# 14. INTRODUCTION TO ACCOUNTING STANDARDS

## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 5M)

Briefly explain merits of IND AS.

**Answer:**

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.
- 5) 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



# 15. DISCLOSURE OF ACCOUNTING POLICIES

## (AS 1)

### ILLUSTRATIONS

#### Illustration 1.

Jivandeep Ltd. had made a right issue in 2021. In the offer document to its members, it had projected a surplus of Rs.40 crores during the accounting year to be 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 Rs.10 crores. The Board, in consultation with the Managing Director, decided on the following:

- (i) Value year-end inventory at works cost (Rs.50 crores) instead of the hitherto method of valuation of inventory at Prime Cost (Rs.30 crores).
- (ii) Provide depreciation for the year on straight line basis or account of substantial additions in gross block during the year, instead of on the Reducing Balance Method, which had been hitherto adopted. As a consequence, the charge for depreciation at Rs.27 crores is lower than the amount of Rs.45 crores -which would have been provided had the old method been followed-by Rs.18 crores.
- (iii) Not to provide for "after-sales expenses" during the warranty period. Till the last year, provision at 2% on sales 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 expenses as and when actually incurred. Sales during the year total to Rs.600 crores.
- (iv) Provide for permanent fall in the value of investment-which fall had taken place over the past 5 years-the provision being Rs.10 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:

According to AS 1: "in the case of a change in accounting policies which has a material effect in the current period should be disclosed, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable wholly or in part, the fact should be indicated." Naturally, the Notes on Accounts must disclose the change.

#### Notes on Accounts

- (i) Till last year, it was the practice of valuing inventory at prime cost but during the year the same was valued at works cost. Due to this change the closing inventory was valued at Rs.50 crores and, accordingly, profit was increased by Rs.20 crores (i.e. Rs.50 crores - Rs.30 crores) due to the change of the method of valuation.
- (ii) During the year the company decided to change the method of providing for depreciation from reducing balance method to straight line method. Due to this change, the amount of depreciation was undercharged i.e., instead of charging Rs.45 crores it was charged by Rs.27 crores and, as a consequence, the profit was increased by Rs.18 crores (i.e., Rs.45 crores minus Rs.27 crores).
- (iii) It was the practice of the company to make provision of @ 2% on sales for 'After-Sales expenses' during the warranty period. It may be assumed that as a result of improved techniques and methods in production the possibility of defects became very rare. Consequently, the company took decision not to make any provision for after -sales expense' during warranty period. As a result of this change, the profit would be increased by Rs.12 crores.



- (iv) As a result of permanent fall in the value of investments which took place over the last 5 years the company decided to make provision to the extent of Rs.10 crores. Due to this effect the profit would be reduced by Rs.10 crores.

#### Illustration 2.

Which one is the correct one? Fundamental accounting assumptions as per AS 1 are:

- (a) Going Concern, Matching and Consistency;
- (b) Money Measurement, Going Concern and Prudence;
- (c) Accounting Period, Going Concern and Entity Concept; and
- (d) Going Concern, Consistency and Accruals.

#### Solution:

As per AS 1, the fundamental accounting assumptions are: Going Concern, Consistency and Accruals.

#### Illustration 3.

Explain, in short, the relevant Disclosures of Accounting Policies as per AS 1.

#### Solution:

As per AS 1, the Disclosures of Accounting Policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. 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 statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

If the fundamental accounting assumptions, viz, Going Concern, Consistency and Accruals, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

#### Illustration 4.

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

#### Solution:

The major considerations 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 recoverable, number of warranty claims that may occur. Prudence means making of estimates that are 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.

**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.



### QUESTIONS FROM PYP'S

**Question 1.**

**(Jun 23 1M)**

**What is meant by 'substance over form' as per AS 1?**

**Answer:**

**Substance over form**

It means that transactions should be accounted for in accordance with actual happening and economic relity 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 of the transaction is ignored and the transaction is accounted as per as substance.

**Question 2.**

**(Jun 23 3M)**

**Explain in short, relevant Disclosures of Accounting policies as per AS 1.**

**Answer:**

As per AS 1, the Disclosures of Accounting Policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. 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 statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

If the fundamental accounting assumptions, viz, Going Concern, Consistency and Accruals, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

**Question 3.**

**(Dec 22 154M)**

**(a) State your views with reasons whether the following statements are in line with the provisions of AS-1.**

- (1) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.**
- (2) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.**
- (3) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.**
- (4) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.**
- (5) There is no single list of accounting policies which are applicable to all circumstances.**



**Answer:**

- (1) False; As per AS 1, "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (2) False; As per AS 1, if the fundamental accounting assumptions, viz. Going concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (3) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.
- (4) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (5) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable

**Question 4.****(Dec 23 5M)****Explain the methods/criteria for the selection and application of Accounting Policies****Answer:**

Factors governing the selection and application of accounting policies are:

**Prudence:** Generally the maker of a 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 a 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 the last instalment. Therefore the legal form of 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 the reader or/user of the 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 judgement, varies from one entity to another and over one period to a

**Question 5.****(Jun 23 15M)**

Give any four points of difference between Fundamental Accounting Assumptions and Accounting Policies.

**Answer:**

| Basic                         | Fundamental Accounting Assumptions                                                                                                        | Accounting Policies                                                                                                                                                             |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Number                     | There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual                                       | There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises |
| 2. Disclosure if followed     | No disclosure is required if all the fundamental assumptions have been followed                                                           | Disclosure is required if a particular accounting has been followed                                                                                                             |
| 3. Disclosure if not followed | In case the fundamental assumptions are not followed: the fact has to be disclosed in the financial statements together with the reasons. | In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.                                   |
| 4. Choice                     | There is no choice                                                                                                                        | The firm has a choice to select a particular policy                                                                                                                             |

**Question 6.**

Write a short notes Meaning and Implications of Going Concern Assumption.

**Answer:**

The Going Concern Assumption is a fundamental concept in accounting. It assumes that a business will continue to operate indefinitely, with no intention of liquidation or significant curtailment of operations in the foreseeable future. This assumption has important implications: •

**Financial Statements:** The assumption influences the preparation of financial statements. Assets and liabilities are recorded at their historical cost or fair market value, assuming the company will continue as a going concern.

**Asset Valuation:** Under the going concern assumption, long-term assets are depreciated and intangible assets are amortized over their useful lives. If the company was not assumed to be a going concern, assets might need to be valued at their liquidation value, impacting their recorded amounts.

**Disclosures:** If there are any uncertainties or events that could cast doubt on the going concern assumption, these must be disclosed in the financial statements. This enables stakeholders to make informed decisions about the company's future prospects.

In conclusion, the Going Concern Assumption plays a significant role in financial reporting, affecting the preparation of financial statements, asset valuation, and requiring transparency through relevant disclosures



## 16. PROPERTY PLANT AND EQUIPMENT (AS 10)

### ILLUSTRATIONS

#### Illustration 1.

Machineries which appeared in the books of Dee Ltd. at Rs.86,00,000 has been revalued at Rs.90,00,000. The accumulated depreciation associated was Rs.28,00,000. The accountant suggested that revaluation should be accounted for by adjusting accumulated depreciation account. You are required to discuss the treatment as per AS 10.

#### Solution:

The suggestion of the accountant of Dee Ltd. is incorrect. As per AS 10, when fixed assets are revalued upwards, the increase on account of revaluation should be credited to Revaluation Surplus Account.

#### Illustration 2.

Jay Ltd., a chemical producing company changed a semi-automatic component in an existing machine with a fully-automatic component incurring Rs.85,000. This new component would result in increasing the output by 150%. The component changing exercise required the company to dismantle a part of the machine and also re-erect the same for which the company incurred Rs.38,000. How should the costs be treated as per AS 10?

#### Solution:

Cost of new component: As the new component results in increased output, it would result in increasing the future benefits from the machine. So, the cost incurred Rs.85,000 should be capitalised.

Cost of dismantling and re-erection: Rs.38,000 incurred towards dismantling and re-erection should be charged to the Statement of Profit and Loss.



### QUESTIONS FROM PYP'S

**Question 1.**

**(Jun 24 7M)**

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

**Answer:**

#### **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:

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

**Question 2.**

**(Dec 23 7M)**

**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.?**

**Answer:**

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, judgement 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 capitalised 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 3.

(Dec 22 154M)

- (1) Entity A carried plant and machinery in its books at 2,00,000 which were destroyed in a fire. These machines were insured 'New for Old' and were replaced by the insurance company 314 Licensed to with new machines of fair value 20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same.
- (2) Omega Ltd, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers. Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS-10 Property Plant & Equipment.

#### Answer:

- (i) Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer
- (ii) The expenditure in remodeling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodeling can be measured reliably, therefore, it should be capitalized in line with AS 10.





# 17. THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE (AS 11)

## ILLUSTRATIONS

### Illustration 1.

During the financial year 2022-23, Zeds Ltd., an e-commerce firm entered into a foreign currency transaction relating to fees for technical services paid to a Lucas Ltd., an Atlanta based organisation in the USA. The transaction was for \$24,000, which was entered into on 07.12.2022. The payment for the same was made on 20.05.2023. Given that the exchange rates are: on 07.12.2022: \$1 = Rs.73.80; on 01.01.2023: \$1 = Rs.73.95; on 31.03.2023: \$1 = Rs.75.45; on 20.05.2023: \$1 = Rs.76.50.

You are required to:

- ascertain the amount at which the transaction would get recognised in the books; and
- calculate amount of foreign exchange gain/ loss to be recorded in the financial statement for the years 2022-23 and 2023-24.

### Solution:

- (a) As per AS 11, a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

∴ Fees for technical services \$24,000 would be recorded on 07.12.2022 applying the exchange rate existing on that date =  $24,000 \times \text{Rs.}73.80 = \text{Rs.}17,71,200$ .

- (b) For 2022-23:

On 31.03.2023, Outstanding fess for technical services should be reflected in the balance sheet using the closing rate (\$1 = Rs.75.45) i.e.  $24,000 \times \text{Rs.}75.45 = \text{Rs.}18,10,800$ .

∴ Exchange loss to be charged to the Statement of Profit and Loss =  $\text{Rs.}(18,10,800 - 17,71,200) = \text{Rs.}39,600$ . For 2023-24:

On 20.05.2023, Outstanding fess for technical services paid should be recognised using the existing rate (\$1 = Rs.76.50) i.e.  $24,000 \times \text{Rs.}76.50 = \text{Rs.}18,36,000$ .

∴ Exchange loss on settlement to be charged to the Statement of Profit and Loss =  $\text{Rs.}(18,36,000 - 18,10,800) = \text{Rs.}25,200$ .

### Illustration 2.

Subhash Ltd. purchased a machine costing Rs.224 lakhs on 1.4.2022 and the same was fully financed by foreign currency loan (US \$) payable in three annual equal instalments. Exchange rates were \$1 = Rs.70.00 and Rs.72.95 as on 1.4.2022 and 31.03.2023 respectively. First instalment was paid on 31.03.2023. The entire difference in foreign exchange has been capitalized. Advice how the exchange gain/ loss should be accounted for by the company.

### Solution:

Cost of machine (in US\$) =  $\text{Rs.}224,00,000 / 70.00 = \$3,20,000$ .

∴ Exchange loss on payment of first instalment =  $3,20,000 \times \text{Rs.}(72.95 - 70.00) = \text{Rs.}9,44,000$ .

This entire loss due to exchange differences amounting Rs.9,44,000 should be charged to the Statement of Profit and Loss.



**Illustration 3.**

| Particulars                                                            | Exchange Rate |
|------------------------------------------------------------------------|---------------|
| Goods purchased on 24.02.2022 of US\$ 10000                            | ₹76.60        |
| Exchange rate on 31.03.2022                                            | ₹77.00        |
| Date of actual payment 5.06.2023                                       | ₹77.50        |
| Calculate the loss / gain for the financial years 2021-22 and 2023-24. |               |

**Solutions:**

As per AS-11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore goods purchased on 24.02.2022 and corresponding creditor would be recorded at ₹76.60 = US\$1, i.e.  $10,000 \times 76.60 = ₹7,66,000$

As per AS-11 at the balance sheet date all monetary items should be reported using the closing rate therefore creditors of US\$10000 outstanding on 31.3.2023 will reported.

$$10,000 \times ₹77.00 = ₹7,70,000$$

Exchange loss ₹(7,70,000 - 7,66,000) i.e. ₹4,000 should be debited in profit and loss account for 2021-22.

As per As-11 exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss therefore  $10000 \times ₹77.50 = ₹7,75,000 - ₹7,70,000 = ₹5000$  will be be debited to profit or loss for the year 2023-24.

**Illustration 4.**

MM Ltd. purchased fixed assets for US\$50 lakhs costing ₹3,825 lakhs on 01.04.2022 and the same was fully financed by the foreign currency loan [i.e. US Dollars] repayment in five equal instalments annually. [Exchange rate at the time of purchase was 1 US Dollar = ₹76.50]. as on 31.03.2023 the first instalment was paid when 1 US Dollar fetched ₹81.50. The entire loss on exchange was included in cost of goods sold etc. MM Ltd. normally provided depreciation on fixed assets at 20% on WDV basis.

**Solution:**

In this case AS-11 will be applicable on Accounting for effects of changes in Foreign Exchange rates, as the transaction in foreign currency has been entered into by the reporting enterprises before 01.04.2023. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets, should be adjusted in the carrying amount of the respectively fixed assets. The carrying amount of such fixed assets to the extent not already so adjusted or otherwise accounted for, also to be adjusted to account for any increase or decrease in the liability of the enterprise, as expressed in the reporting currency by applying the closing rate, for making payments towards the whole or a part of the cost of the assets or for repayment of the whole or a part of the monies borrowed by the enterprise from any person directly or indirectly, in foreign currency specifically for the purpose of acquiring those assets.

Thus the entire exchange loss due to variation of ₹ 50 lakhs on 31.03.2023 on payment of US\$ 10 lakhs should be added to the carrying amount of fixed assets and not to the cost of goods sold.

Further, depreciation on the unamortised depreciable amount should also be provided, in accordance with AS-10.

Calculate Exchange loss:

$$\text{Foreign currency loan} = \frac{\text{Rs } 3,825 \text{ Lakhs}}{\text{Rs } 76.50 \text{ Lakhs}} = 50 \text{ Lakhs US DOLLARS}$$

Exchange loss on outstanding loan on 31.03.2023 =  $40 \text{ lakhs US\$} \times ₹(81.50 - 76.50) = ₹200 \text{ lakhs}$  should also be added to cost of fixed asset with corresponding credit to outstanding loan.

Calculation of additional depreciation on account of increase in the depreciable amount of fixed assets:  $20\% \text{ of } ₹250 \text{ lakhs} = ₹50 \text{ lakhs}$ .



## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 14M)

(a) (i) 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:

- (i) Salaries & Wages;
- (ii) Depreciation on Furniture; and
- (iii) Machineries carried at fair value.

(b)

(ii) List out comparative provisions between AS 11 and IND AS 21

Answer:

(a)

- (i) 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:**

- (i) Salaries & Wages: They should be translated using the actual rate prevailing on the date of transaction; however, average rate may also be applied.
- (ii) Depreciation on Furniture: It should be translated using the exchange rate which existed on the date of purchase of the furniture.
- (iii) 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

(b)

(ii) Comparative Provision between Ind AS 11 and Ind AS 21

| Ind AS 21                                                                    | IND AS 11                                                                                                                         |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Forward Exchange contracts are not covered.                                  | Forward exchange contracts are included within its scope                                                                          |
| Accounting of foreign operations is based on a functional currency approach. | Accounting for foreign operations is based on an integral and non- integral approach                                              |
| No specific guidance provided.                                               | Options to recognise exchange differences arising on translation of certain long-term monetary items over the period is available |
| Presentation currency could be different from the local currency.            | No such specifications provided                                                                                                   |



# 18. ACCOUNTING FOR GOVERNMENT GRANTS

## (AS 12)

### ILLUSTRATIONS

#### Illustration 1.

Dee Ltd. received Rs.80,00,000 from the Central Government as subsidy for setting up a factory in a backward area.

How would you treat the transaction in the financial statement of the company?

#### Solution:

When government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants. These are credited directly to shareholders' funds. So, Dee Ltd.

should credit the amount of Rs.80,00,000 to capital reserve and the same would get reflected in the Balance Sheet.

#### Illustration 2.

Big Box Ltd., a start-up purchased on April 1, 2020, a machine worth Rs.44,85,000 in relation to which it received Rs.7,35,000 as grant from Government of India. The company decided to treat this grant as a capital receipt. It is estimated that the realizable value of the machine at the end of its useful life of 4 years will be Rs.15,36,000. During the financial year 2022-23, the grant became refundable as the start-up company failed to comply with the necessary terms and conditions of the grant.

You are required to calculate the amount of depreciation that is to be charged to the statement of profit and loss for the years 2022-23 and 2023-24 given that the company follows straight line method of charging depreciation.

#### Solution:

As per AS 12, the amount refundable in respect of government grant is related to specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In case the book value of the asset is increased, depreciation is provided on the revised book value.

Calculation of Depreciation for the years 2022-23 and 2023-24 Rs.'000

|                                                                    |         |
|--------------------------------------------------------------------|---------|
| Cost of machine on 01.01.2020                                      | 4,485   |
| Less: Grant from Government of India                               | 735     |
| Net cost of machine                                                | 3,750   |
| Estimated useful life                                              | 4 years |
| Depreciation p.a. under straight line method $[3,750 - 1,536 / 4]$ | 553.5   |
| Depreciation charged during 2020-21 and 2021-22 $[553.5 \times 2]$ | 1,107   |
| Book value of machine on 01.04.2022 $[3,750 - 1,107]$              | 2,643   |
| Add: Refund of government grant during 2022-23                     | 735     |
| Revised Book value of machine                                      | 3,378   |
| Remaining useful life of machine                                   | 2 years |
| Revised depreciation p.a. $[3,378 - 1,536 / 2]$                    | 921     |

**Illustration 3.**

Z Ltd. has set up its business in designated backward area which entitles it to receive as per a public scheme announced by the Government of India, a subsidy of 25% of the cost of investment. Having fulfilled the conditions laid down under the scheme, the company on its investment of ₹100 lakhs in capital assets during its accounting year ending on 31st March, 2023, received a subsidy of ₹ 25 lakhs in January, 2023 from the Government of India. The Accountant of the company would like to record the receipt as an item of revenue and to reduce the losses on the Profit and Loss Account for the year ended 31st March, 2023. Is his action justified?

**Solution:**

As per AS-12, the Government grants related to depreciable fixed assets to be treated as deferred income which should be recognized in the Profit and Loss Account on a systematic and rational basis over the useful life of the asset. Such grants should be allocated to income over the periods and in proportions in which depreciation on those assets is charged.

The company has received ₹ 25 lakhs subsidy for investment in capital assets which are depreciable in nature. In view of the provisions under AS-12, the subsidy amount ₹ 25 lakhs received should not be credited to the Profit and Loss Account for the year ended 31st March, 2023. the subsidy should be recognized and credited to the Profit and Loss Account in the proportion of depreciation charge over the life of the subsidized assets.

**Illustration 4.**

Explain the treatment of the following:

- (i) A firm acquired a fixed asset for ₹550 lakhs on which the Government grant received was 40%.
- (ii) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant ₹600 lakhs, subsidy received ₹150 lakhs.
- (iii) ₹125 lakhs received from the local authority for providing medical facilities to the employees.

**Solution:**

- (i) The total cost of the fixed asset is ₹550 lakhs and the grant is 40% i.e., ₹220 lakhs. In the balance sheet, the asset will be shown at the net amount (₹550 lakhs - ₹220 lakhs) i.e., ₹330 lakhs only. This will be depreciated over the life of the asset.
- (ii) 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., ₹150 lakhs be added to the Capital Reserves and the plant should be shown at ₹600 lakhs.

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.



### QUESTIONS FROM PYP'S

Question 1.

(Dec 24 14M)

(b)

(i) As per AS-12, explain the treatment of the following:

- (i) A firm acquired a fixed asset for 850 lakhs on which the Government grant received was 40%.
- (ii) 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 Rs.250 lakhs.
- (iii) Rs.225 lakhs received from the local authority for providing medical facilities to the employees.

**Answer:**

- (a) The total cost of the fixed asset is 8850 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

Question 2.

(Jun 24 7M)

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

**Answer:**

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 3.****(Dec 23 7M)**

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) Rs 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
  - (iii) 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) Rs 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?

**Answer:**

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 charge



## 19. BORROWING COSTS (AS 16)

### ILLUSTRATIONS

#### Illustration 1.

T&L Ltd. is a large construction company which is presently involved in the construction of a railway bridge over the Ganga river at Patna. The project cost is Rs.125 crores, 40% of which is financed by borrowing from Asian Development Bank at an interest of 3%. There has been a delay in the completion of the project, and the project manager of the railway bridge construction site has identified that delay construction of the railway bridge has happened due to high water levels during the monsoon months of July to September. Ms. Sonali Mathur, the accountant of T&L Co. has not suspended the capitalisation of the borrowing cost and reflected the same in the cost of the qualifying asset.

You are required to comment on the treatment

#### Solution:

In this case, the work got suspended due to temporary delay which is a necessary part of the construction process. Capitalisation of borrowing cost would continue during the extended period during which high water levels delay construction of the railway bridge, as such high water levels are common during the monsoon period in the geographic region involved.

So, the treatment done by Ms. Mathur, the company accountant is correct.

#### Illustration 2.

On 14.08.2022, Pushkar Ltd. obtained a loan from RAR Bank of Rs.65 lakhs to be utilised as under:

|                                           |               |
|-------------------------------------------|---------------|
| Purchase of equipment:                    | Rs.19,50,000; |
| Construction of factory shed:             | Rs.26,00,000; |
| Advance for purchase of delivery vehicle: | Rs.6,50,000   |
| Working capital:                          | Rs.13,00,000. |

In March, 2023 installation of the machinery was completed and also construction of factory shed was completed and the machinery installed. However, the truck was not delivered within 31.03.2023. Total interest charged by the bank for the year ending 31.3.2023 was Rs.11.70 lakhs. Discuss how the interest amount would be treated in the financial statements of the company as per AS 16.

#### Solution:

In this case, only the factory shed is a Qualifying Asset (QA) as per AS 16. The amount of interest on borrowings and its treatment is presented below:

| Particulars                              | Nature of asset | Interest capitalised       | Interest charged to Income Statement |
|------------------------------------------|-----------------|----------------------------|--------------------------------------|
| Purchase of equipment                    | Not a QA        |                            | 3,51,000<br>[11.7 × 19.5/65]         |
| Construction of factory shed             | QA              | 4,68,000<br>[11.7 × 26/65] |                                      |
| Advance for purchase of delivery vehicle | Not a QA        |                            | 1,17,000<br>[11.7 × 6.5/65]          |
| Working capital                          | Not a QA        |                            | 2,34,000<br>[11.7 × 13/65]           |
| Total                                    |                 | 4,68,000                   | 7,02,000                             |

**Illustration 3.**

|                                                                | Amount (Rs.) |
|----------------------------------------------------------------|--------------|
| Expenditure incurred till 31.03.2023                           | 5,00,000     |
| Interest cost capitalized for the financial year 2022-23 @ 13% | 26,000       |
| Amount borrowed till 31.03.23 is                               | 2,00,000     |
| Assets transferred to construction during 2023-24              | 1,00,000     |
| Cash payment during 2023-24                                    | 75,000       |
| Progress payment received                                      | 3,70,000     |
| New borrowing during 2023-24 @ 13%                             | 2,00,000     |

Calculate the amount of borrowing cost to be capitalized.

**Solution:**

Total borrowing cost =  $4,00,000 \times 13/100 = \text{Rs.}52,000$

|                                                                                          | Amount (Rs.) |
|------------------------------------------------------------------------------------------|--------------|
| Expenditure incurred including previously capitalized borrowing cost (5,00,000 + 26,000) | 5,26,000     |
| Cash payment during 2023-24                                                              | 75,000       |
| Asset transferred during 2023-24                                                         | 1,00,000     |
|                                                                                          | 7,01,000     |
| Less: Progress payment received                                                          | 3,70,000     |
|                                                                                          | 3,31,000     |

Money borrowed including previously capitalized interest cost  $4,00,000 + 26,000 = 4,26,000$

Borrowing cost to be capitalized =  $\frac{3,31,000}{4,26,000} \times 52,000 = 40,404$

**Illustration 4.**

On 30-04-2023 MM Ltd. obtained a loan from the bank for Rs.200 lakhs to be utilized as under:

|                               |             |
|-------------------------------|-------------|
| Construction of a shed        | Rs.80 lakhs |
| Purchase of Machinery         | Rs.60 lakhs |
| Working Capital               | Rs.40 lakhs |
| Advance for Purchase of truck | Rs.20 lakhs |

In March 2024 construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ending 31-03-2024 was Rs.36 lakhs.

Show the treatment of interest under As-16.

**Solution:**

As per As-16 borrowing cost (interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. In other words, asset acquired must be qualifying asset and borrowing cost should be directly attributable to the acquisition, construction or production of qualifying asset.

In the question Rs.200 lakhs borrowed from Bank was utilized for -

Construction of a shed Rs.80 lakhs

Purchase of Machinery Rs.60 lakhs

Purchase of Machinery Rs.40 lakhs

Advance for Purchase of truck Rs.20 lakhs

Out of the above four payments only construction of a shed of Rs.80 lakhs is a qualifying asset as per AS-16, other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the



construction of a shed should only be capitalized which will be equal to  $\text{Rs.}36 \text{ lakhs} \times 80/200 = \text{Rs.}14.40 \text{ lakhs}$ . The balance of  $\text{Rs.}21.6 \text{ lakhs}$  ( $\text{Rs.}36 \text{ lakhs} - \text{Rs.}14.4 \text{ lakhs}$ ) should be expensed and debited to Profit and Loss Account.



## 20. ACCOUNTING FOR TAXES ON INCOME (AS 22)

### ILLUSTRATIONS

#### Illustration 1.

Classify the following as Timing Difference and Permanent Difference and also state whether they would result in Deferred Tax Asset or Deferred Tax Liability:

(a) Unabsorbed depreciation

(b) Income tax penalty

(c) Interest on loan taken from scheduled bank accounted in the books, but not paid till the date of filing Return of Income.

**Solution:**

| Particulars                                                                                                               | Nature of difference | DTA/ DTL                          |
|---------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------|
| Unabsorbed depreciation                                                                                                   | Timing Difference    | DTA                               |
| Income tax penalty                                                                                                        | Permanent Difference | Neither DTA nor DTL to be created |
| Interest on loan taken from scheduled bank accounted in the books, but not paid till the date of filing Return of Income. | Permanent Difference | Neither DTA nor DTL to be created |

#### Illustration 2.

Parshuram Ltd., which commenced its operations in 2019-20, provides the following details:

| Financial year | Profit before tax (Rs.) | Timing Difference (Rs.) | Permanent Difference (Rs.) | Corporate tax rate | Remarks               |
|----------------|-------------------------|-------------------------|----------------------------|--------------------|-----------------------|
| 2019-20        | 28,00,000               | + 3,15,000              | + 3,50,000                 | 40%                | Reversible in 2022-23 |
| 2020-21        | 31,50,000               | + 2,10,000              | + 2,80,000                 | 38%                | Reversible in 2021-22 |
| 2021-22        | 35,00,000               | - 70,000                | + 3,15,000                 | 35%                | Reversible in 2022-23 |
| 2022-23        | 24,50,000               | Nil                     | + 4,20,000                 | 30%                | --                    |

You are required to calculate the amount of Current Tax for the four financial years.

**Solution:**

Calculation of Current Tax (in Rs.Lakhs)

| Particulars                           | 2019-20 | 2020 - 21 | 2021-22 | 2022-23 |
|---------------------------------------|---------|-----------|---------|---------|
| Profit before tax                     | 28.00   | 31.5      | 35.00   | 24.50   |
| Timing Differences                    | 3.15    | 2.10      | (0.70)  | Nil     |
| Permanent Differences                 | 3.50    | 2.80      | 3.15    | 4.20    |
| Taxable Income Corporate tax rate     | 34.65   | 36.40     | 37.45   | 28.70   |
| Current Tax (Taxable Income Tax rate) | 40%     | 38%       | 35%     | 30%     |
|                                       | 13.86   | 13.832    | 13.1075 | 8.61    |

**Illustration 3.**

The following information is available from the records of Vishnu Ltd.:

Depreciation charged to income statement Rs.8,00,000; Depreciation u/s 32 of Income Tax Act Rs.20,00,000; Unamortised preliminary expenditure as per income tax records Rs.1,50,000.

It is communicated that there is adequate evidence of future profit sufficiency. Given that the corporate tax rate is 40%, you are required to ascertain the amount of deferred tax asset/deferred tax liability to be created in this situation.

**Solution:**

Timing Difference = Additional depreciation as per Income Tax Act (-) Preliminary expenditure to be allowed = Rs.(20,00,000 - 8,00,000) - 1,50,000 = Rs.10,50,000.

Deferred Tax Liability = Rs.10,50,000 40% = Rs.4,20,000.

**Illustration 4.**

AB Ltd. has provided depreciation as per accounting records Rs.8,00,000 and as per tax records Rs.14,00,000. Unamortized preliminary expenses, as per tax record is Rs.11,200. There is adequate evidence of future profit sufficiency. How much deferred tax asset / liability should be recognized as transition adjustment. Tax rate is 40%.

**Solution:**

As per AS-22 deferred tax should be recognized for all the timing differences. In the instant case the timing difference i.e., difference between taxable income and accounting income is -

|                                           |                            |                    |
|-------------------------------------------|----------------------------|--------------------|
| Excess depreciation as per tax            | Rs.14,00,000 - Rs.8,00,000 | = Rs.6,00,000      |
| Less: Expenses provided in taxable income |                            | <u>Rs.11,200</u>   |
|                                           |                            | <u>Rs.5,88,800</u> |

As tax expense is more than the current tax due to timing difference of Rs.5,88,800, therefore deferred tax liability = 40% of Rs.5,88,800 = Rs.2,35,520 shall be credited in accounts.





## QUESTIONS FROM PYP'S

Question 1.

(Dec 24 14M)

(ii) While clarifying the scope of AS-22 (Accounting for Taxes on Income), explain the meaning of the following terms related to it.

- (i) Accounting income (loss)
- (ii) Taxable income (tax loss)
- (iii) Tax expense (tax saving)

**Answer:**

- 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.



## Exercise

## MULTIPLE CHOICE QUESTIONS

1. In India, Accounting Standards are governed by
  - (a) The Institute of Cost Accountants of India
  - (b) Financial Accounting Standards Board
  - (c) The Institute of Company Secretaries of India
  - (d) The Institute of Chartered Accountants of India
2. The Full form of GAAP      INTRODUCTION TO AS
  - (a) Generally Accepted Accounting Principles
  - (b) b. Generally Accepted Accountancy Principles
  - (c) Globally Accepted Accounting Principles
  - (d) Global Accounting Accepted Principles
3. In India, the Accounting Standards for non-corporate entities including Small and Medium sized Enterprises, are issued by the \_ of Institute of Chartered Accountants of India
  - (a) Accounting Standards Board
  - (b) National Standard Setters
  - (c) Financial Accounting Standards Board
  - (d) Accounting Standards Committee
4. The IRDA issued a circular under \_ of the Insurance Act, 1938, which mandates insurers to comply with Ind AS and its implementation Roadmap issued by the MCA
  - (a) Section 35
  - (b) Section 34
  - (c) Section 36
  - (d) Section 40
5. Full form of IFRS
  - (a) Indian Financial Reporting Standards
  - (b) International Financial Reporting Standards
  - (c) International Financials Reporting Standards
  - (d) Indian Financial Reporting Standard

Answers:

|   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|
| 1 | d | 2 | a | 3 | a | 4 | b | 5 | b |
|---|---|---|---|---|---|---|---|---|---|





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