

CMA INTER



**Confidence
Actions
Success**

P6 FINANCIAL ACCOUNTING

QUESTION BANK



FINANCIAL ACCOUNTING - INDEX

1	Accounting Fundamentals	1
2	Bills of Exchange	47
3	Consignment	63
4	Joint Venture	84
5	Preparation of Final Accounts of Commercial Organisations	94
6	Preparation of Final Accounts of Not For Profit Organisations	120
7	Preparation of Final Accounts from Incomplete Records	140
8	Partnership Accounting	168
9	Lease Accounting (AS 19)	265
10	Branch (including Foreign Branch) Accounts	274
11	Departmental Accounts	299
12	Insurance Claim for Loss of Stock and Loss of Profit	312
13	Hire Purchase and Installment Sale Transactions	331
14	Introduction to Accounting Standards	362
15	Disclosure of Accounting (AS 1)	363
16	Property, Plant and Equipment (AS 10)	368
17	The Effects of Changes in Foreign Exchange Rate (AS 11)	371
18	Accounting for Government Grants (AS 12)	374
19	Borrowing Costs (AS 16)	379
20	Accounting for Taxes on Income (AS 22)	382



1. ACCOUNTING FUNDAMENTALS

ILLUSTRATIONS

Illustration 1.

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

2023
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..... To Salary Payable A/c (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 Mar 1	To Balance b/f		20,000	26,000		Mar 2	By Office Equipment A/c		12,000		
Mar 5	To Sales A/c		34,000			Mar 8	By Drawings A/c			22,000	
Mar 7	To Hriday A/c		32,000			Mar 10	By Bank A/c		31,000		
Mar 10	To Cash A/c			31,000		Mar 17	By Rent A/c			2,000	
Mar 17	To Mr. Sen A/c		24,000		500	Mar 19	By Drawings A/c			3,400	
Mar 19	To Mr. Rahul A/c		22,800		200	Mar 24	By Salaries A/c		12,000		
Mar 25	To Sandeep A/c			12,800		Mar 25	By Bank Charges A/c			300	
Mar 25	To Interest A/c			200		Mar 28	By Sandeep A/c (Dishonour of Cheque)			12,800	
						Mar 28	By Sneha A/c		23,700		300
						Mar 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 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 Mar 31	To balance b/d	158280	2023 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 Jan- 31	To Dividend on shares	3,000	2023 Jan- 31	By Balance b/f	2,50,000
	To Bal c/d	2,57,740		By Drawings (Rs.3840 + Rs.2400)	6,240
				By Interest	2500
				By Debtors- discounted bill dishonoured	2000
		2,60,740			2,60,740
			2022 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 = Rs.80,000		Machines - II Cost = Rs.40,000		Machines - III Cost = Rs.20,000	Total 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 & 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)				
				(Further provn. required)				
		27,575			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 (Rs.)	Credit (Rs.)
31.03.23	Bad Debts A/c Dr. To Sundry Debtors A/c (Being Bad Debts)	2,500	2,500
31.03.23	Provision for Bad & Doubtful Debts A/c Dr. To Bad Debts A/c (2500 + 9500) (Being Bad Debts during the year)	12,000	12,000
31.03.23	Profit and Loss A/c Dr. To Provision for Bad & Doubtful Debts A/c (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. (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 [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 [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 [10% on Rs.39,200 (Rs.40,000 - Rs.800)]	3,920	Dec. 31	" Profit & Loss A/c (for the provision required)	2,720
		7,720			7,720



Profit & 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.

- Purchase Plant for Rs.10,000 wrongly passed through Purchase Account.
- Sales Day Book was cast short by Rs.1,000.
- Cash paid to Mr. X for Rs.1,000 was posted to his account as Rs.100.
- Purchase goods from Mr. T for Rs.3,500 was entered in the Purchase Day Book as Rs.500.
- 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 To Purchase A/c 10,000	Plant A/c Dr. 10,000 To Purchase A/c. 10,000	Plant A/c Dr. 10,000 To P&L Adjustment A/c 10,000
(ii)	Sales account will be credited with Rs.1,000	Suspense A/c Dr. 1,000 To Sales A/c 1,000	Suspense A/c Dr. 1,000 To P&L Adjustment A/c 1,000
(iii)	X Account will be debited when Rs.900	X A/c Dr. 900 To Suspense A/c 900	X A/c Dr. 900 To Suspense A/c 900
(iv)	Purchase A/c Dr. 3,000 To T A/c 3,000	Purchase A/c Dr. 3,000 To T A/c 3,000	P&L Adjustment A/c Dr. 3,000 To T's A/c. 3,000
(v)	Salary A/c Dr. 3,000 To Wages A/c 3,000	Salary A/c Dr. 3,000 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:

- Goods brought from Narayan for Rs.5,000 were posted to the credit of Narayan's A/c as Rs.5,500
- 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 To Cash	200	200
	Correct entry	Drawings To cash	200	200
	Rectification entry	Drawings To Trade Expenses	200	200
b.	Wrong Entry	Nathan To Sales	300	300
	Correct entry	Purchases To Nathan	300	300
	Rectification entry	Purchases Sales To Nathan	300 300	600
c.	Wrong Entry	Purchases To Santhanam	100	100
	Correct entry	Santhanam To Sales	100	100
	Rectification entry	Santhanam To Sales To Purchases	200	100 100
d.	Wrong Entry	Cash To Mehrotra	150	150
	Correct entry	Cash To Mehrotra	150	150
	Rectification entry	Mehrotra To Malhotra	150	150
e.	Wrong Entry	Dhawan To cash	375	375
	Correct entry	Salary To cash	375	375
	Rectification entry	Salary To Dhawan	375	375
f.	Wrong Entry	Building Repairs To Cash	2,750	2,750
	Correct entry	Buildings To Cash	2,750	2,750



	Rectification entry	Buildings To Building Repairs	2,750	2,750
g.	Wrong Entry	No entry passed		
	Correct entry	Sales Returns To Akashdeep	500	500
	Rectification entry	Sales Returns To Asashdeep	500	500
h.	Wrong Entry	Sethi To Sales	200	200
	Correct entry	Sethi To Furniture	200	200
	Rectification entry	Sales To Furniture	200	200
i.	Wrong Entry	No entry passed		
	Correct entry	Suspense To Sales	100	100
	Rectification entry	Suspense To Sales	100	100
j.	Wrong Entry	Cash To Commission	80	80
	Correct entry	Cash To Interest	80	80
	Rectification entry	Commission 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. Amount (Rs.)	Cr. Amount (Rs.)
(a) 2023 April 1	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Returns outward book was under cast now rectified).		100	100
(b)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Discount received was not recorded, now rectified).		1,500	1,500
(c)	Office Furniture A/c Dr. To Profit & Loss Adjustment A/c (Office furniture purchased wrongly debited to Purchase A/c, now rectified.)		6,000	6,000
(d)	Debtors' A/c Dr. To Suspense A/c (Debtors account was posted Rs.670 in place of Rs.760, now rectified.)		90	90
(e)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Sales account was under casted, now rectified)		10,000	10,000
(f)	Profit & Loss Adjustment A/c Dr. To Closing Stock A/c (Closing Stock was overcastted, now rectified.)		10,000	10,000

Dr.			Suspense Account		Cr.
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (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 (+) (Rs.)	Decrease (-) (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 2nd 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 Singhania Brothers, balance of the Machinery Account appears as Rs.19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at Rs.4,50,000 was disposed 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
Total	292000

- (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
Book Value of Machinery	1633000

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. ₹
	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 Mar 31	Bad Debt A/c Dr To Sundry Debtors A/c (Being the additional bad debts recorded)	10,000	10,000
	Provision for Doubtful Debts A/c Dr To Bad Debts A/c (6,000 + 10,000) (Being the bad debts transferred to Provision for Doubtful Debt Account)	16,000	16,000
	Profit & Loss A/c Dr To Provision for Doubtful Debts A/c (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 31st Mar	To Balance b/d	6,000	2023 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 31st Mar	To Bad Debts A/c	16,000		2023 31st Mar	By Balance b/d	20,000
		To Balance c/d (10% of ₹410,000-10,000)	40,000			By P & L A/c (Balancing Fig.)	36,000
	Total		56,000		Total		56,000

Profit & Loss A/c

Dr.

Cr.

Particulars	₹	Particulars	₹
To Bad Debt	6,000		
Add: Further Bad Debt	10,000		
Total	16,000		
Add: Provision For Doubtful Debt (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 31st 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 & 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. To Expense A/C (Being the mistake in totaling of Expenses A/C rectified)	150	150
Suspense A/C Dr. To Sales A/C (Being the mistake in totaling of Sales A/C rectified)	200	200
Supplier's A/C Dr. To Suspense A/C (Being the mistake in posting from Purchases Book to ledger rectified)	325	325
Sales Return A/C Dr. To Suspense A/C (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 (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 (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 1st April	To Bank A/c (7,20,000 + 20,000 + 15,000 + 30,000 + 15,000)	8,00,000	2020 31st Mar	By Depreciation A/c (8,00,000 - 50,000) / 15	50,000
		8,00,000		By balance c/d	7,50,000
2020 1st April	To Balance b/d	7,50,000	2021 31st Mar	By Depreciation A/c	50,000
		7,50,000		By Balance c/d	7,00,000
2021 1st April	To Balance b/d	7,00,000	2021 1st Oct	By Bank A/c	6,10,000
1st Oct	To Bank A/c	15,00,000		By Depreciation A/c (50,000 * 6/12)	25,000
				By P&LA/C (loss on sale)	65,000
			2022 31st Mar	By Depreciation A/C (15,00,000-1,20,000) 10	1,38,000
		22,00,000		By balance c/d	13,62,000
2022 1st 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. To Sales A/c (Being goods sold to Y's on credit)		20,000	20,000
January 1	Bills Receivable A/c Dr. To Y's A/c (Being received Y's acceptance payable after three months)		20,000	20,000



April 4	Bank A/c Dr. To Bills Receivable A/c (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. To Sales A/c (Sold goods to Y's)		20,000	20,000
January 1	Bills Receivable A/c Dr. To Y's A/c (Received Y's acceptance three months)		20,000	20,000
January 1	Bank A/c Dr. Discount A/c (Rs.20,000 × 12% × 3/12) Dr. To Bills Receivable A/c (Y's acceptance discounted with the bank)		19,400 600	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. To Sales A/c (Sold goods to Y's on credit)		20,000	20,000
January 1	Bills Receivable A/c Dr. To Y's A/c (Received Y's acceptance for three months)		20,000	20,000
January 1	Z's A/c Dr. To Bills Receivable A/c (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. To Sales A/c (Sold goods to Y's on credit)		20,000	20,000
Jan. 01	Bills Receivable A/c Dr. To Y's A/c (Received Y's acceptance payable after three months)		20,000	20,000
Mar. 31	Bills Sent for Collection A/c Dr. To Bills Receivable A/c (Bills sent for collection)		20,000	20,000
Apr. 05	Bank A/c Dr. To Bills sent for collection A/c (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.)
2023				
Jan. 01	Purchases A/c Dr. To X's A/c (Purchases goods from X on credit)		20,000	20,000
Jan. 01	X's A/c Dr. To Bill's Payable A/c (Accepted bill drawn by X payable after three months)		20,000	20,000
Apr. 04	Bills payable A/c Dr. To Bank A/c (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.)
2023				
Jan. 01	Y's A/c Dr. To Sales A/c (Sold goods to Y)		15,000	15,000
Jan. 01	Bills Receivable A/c Dr. To Y's A/c (Received Y's acceptance)		15,000	15,000
Apr. 04	Y's A/c Dr. To Bills Receivable A/c Dr. To Cash A/c (Y dishonoured his acceptance and paid Rs.50 as noting charges)		15,050	15,000 50

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

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2023				
Jan. 01	Y's A/c Dr. 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 (Received Y's acceptance payable after three months)			15,000
Jan. 01	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Y's acceptance discounted)		14,550 450	15,000
Apr. 04	Y's A/c To Bank A/c Dr. (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 Jan. 01	Y's A/c Dr. To Sales A/c (Sold goods to Y)		15,000	15,000
Jan. 01	Bill's Receivable A/c Dr. To Y's A/c (Received Y's acceptance)		15,000	15,000
Jan. 01	Z's A/c Dr. To Bills Receivable A/c (Y's acceptance endorsed in favour of Z)		15,000	15,000
Apr. 04	Y's A/c Dr. To Z's A/c (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 Jan.01	Purchases A/c Dr. To X's A/c (Purchase goods from X)		15,000	15,000
Jan. 01	X's A/c Dr. To Bills Payable A/c (Accepted X's draft)		15,000	15,000
Apr. 04	Bills Payable A/c Dr. Noting charges A/c Dr. To X's A/c (Acceptance in favour of X dishonoured)		15,000 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 Feb. 01	Y's A/c Dr. To Sales A/c (Sold goods to Y)		18,000	18,000
Feb. 01	Cash A/c Dr. Bills Receivable A/c Dr. To Y's A/c (Received Rs.3,000 in cash from X and an acceptance for the balance)		3,000 15,000	18,000
May 04	Y's Account Dr. To Bills Receivable A/c To Interest A/c ($\text{Rs.}15,000 \times 12\% \times 2 / 12$) (Cancelled old bill on renewal Rs.300 as interest)		15,300	15,000 300
May 04	Bill's Receivable A/c Dr. Cash A/c Dr. To Y's A/c (Received new acceptance from Y)		15,000 300	15,300
Jul. 07	Bank A/c Dr. To Bills Receivable A/c (Y met his new acceptance)		15,000	15,000

In the Books of Y Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2023 Feb. 01	Purchases A/c Dr. To X A/c (Purchased goods from X)		18,000	18,000
Feb.01	X's A/c Dr. To Cash's A/c To Bills Payable A/c (Received cash from X and his acceptance)		18,000	3,000 15,000
May 04	Bill Payable A/c Dr. Interest A/c Dr. To X A/c (Old bill cancelled on renewal, Rs.300 charged as interest)		15,000 300	15,300
May 04	X's A/c Dr. To Bills Payable A/c To Cash A/c (Accepted new bill and paid cash for interest)		15,300	15,000 300
Jul. 07	Bill Payable A/c Dr. To Bank A/c (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. To Sales A/c (Sold goods to Y)		10,000	10,000
January 1	Bills Receivable A/c Dr. To Y's A/c (Received Y's acceptance for three months)		10,000	10,000
March 4	Bank A/c Dr. Rebate on bills A/c (Rs.10,000 × 12% × $\frac{1}{12}$) Dr. To Bills Receivable A/c (Y retired her acceptance and rebate allowed to him)		9,950 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 Jan. 01	To Sales A/c		10,000	2023 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 Jan. 01	To Y A/c		10,000	2023 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. To X A/c (Purchased goods from X)		10,000	10,000
January 1	X's A/c Dr. To Bills Payable A/c (Accepted X's draft payable after three months)		10,000	10,000
March 4	Bill Payable A/c Dr. To Cash A/c		10,000	9,950



	To Rebate on bills A/c (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 Jan. 01	To Bills Payable A/c		10,000	2023 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 Jan. 01	To Cash A/c		9,950	2023 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. To Y A/c (Accommodation bill drawn and acceptance received)		6,000	6,000
	Bank A/c Dr. Discount on Bills A/c (Rs.6,000 × 6% × 3/12) Dr. To Bills Receivable A/c (The bill discounted with the bank @ 6%)		5,910 90	6,000
	Y A/c Dr. To Bank A/c To Discount on Bills A/c (1/3rd of the proceeds remitted and proportionate discount charged)		2,000	1,970 30
01.07.2023	Y A/c (Rs.6,000 × $\frac{2}{3}$) Dr. To Bank A/c (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. To Bills Payable A/c (Acceptance give to the Accommodation bill)		6,000	6,000



01.04.2023	Bank A/c Discount A/c Dr. To X A/c (1/3rd of the proceed received and proportionate discount allowed)	Dr.		1,970 30	2,000
01.07.2023	Bank A/c To X A/c (X's share received)	Dr.		4,000	4,000
	Bills Payable A/c To Bank A/c (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 To Y A/c (Being on 1st bill drawn on Y for mutual accommodation)	Dr.	1,200	1,200
	Bank A/c Discount on Bills A/c To Bills Receivable A/c (Being the bill discounted with the banker for 1110)	Dr. Dr.	1,110 90	1,200
	Y A/c (Rs.1,200 × $\frac{1}{2}$) To Bank A/c To Discount on Bills A/c (Rs.90 × $\frac{1}{3}$) (Being 1/3rd of the proceeds remitted to Y - the loss on discount shared proportionately)	Dr.	400	370 30
	Y A/c To Bills Payable A/c (Being the bill drawn on X by Y)	Dr.	1,800	1,800
	Bank A/c Discount on Bills A/c To Y A/c (Rs.1,200 × $\frac{1}{3}$) (Being the net amount remitted to X by Y)	Dr. Dr.	360 40	400
	Bank A/c To Y A/c (Being the balance amount of the 2nd bill remitted by Y)	Dr.	600	600



	Bills Payable A/c To Bank A/c (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 To Bills Payable A/c (Being a bill drawn on Y by X for mutual accommodation)	Dr.	1,200	1,200
	Bank A/c Discount on Bills A/c Dr. To X A/c (Being 1/3rd of the proceed received and the loss on discount shared proportionately)	Dr.	370 30	400
	Bills Receivable A/c To X A/c (Being the bill drawn on X)	Dr.	1,800	1,800
	Bank A/c Discount on Bills A/c (Bal. fig.) To Bills Receivable A/c (Being the bill discounted with the banker for Rs.1,740)	Dr. Dr.	1,740 60	1,800
	X A/c To Bank A/c To Discount on Bills A/c (Being 1/3rd of the proceeds remitted to X - the loss on discount shared proportionately)	Dr.	400	360 40
	Bills Payable A/c To Bank A/c (Being the 1st bill honoured at maturity)	Dr.	1,200	1,200
	X A/c To Bank A/c (Being the balance amount of the 2nd bill remitted to X)	Dr.	600	600

Note: Before the due date of the 1st bill, X was to remit 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. To Anand's A/c (Being bill drawn on Anand)		60,000	60,000
	Bank A/c Dr. Discount A/c Dr. To Bills Receivables A/c (Being discounting of bill)		56,400 3,600	60,000
	Anand's A/c Dr. To Bank A/c To Discount A/c (Being 1/3rd proceeds paid to Anand)		20,000	18,800 1,200
	Anand's A/c Dr. To Bills payable A/c (being acceptance of bill)		84,000	84,000
	Bank A/c Dr. Discount A/c Dr. To Anand's A/c (Being proceeds of discounting 2nd bill)		14,400 1,600	16,000
	Bills Payable A/c Dr. To Anand's A/c (Being dishonour of bill)		84,000	84,000
	Anand's A/c Dr. To Bank A/c To Deficiency A/c (Being payment of 50% & balance proved to be bad)		56,000	28,000 28,000



Dr.

Anand's Account

Cr.

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



	(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. To Bills Payable A/c (Bill accepted for mutual accommodation)		3,000	3,000
	Bank A/c Dr. Discount A/c Dr. To Rahim A/c (1/3 proceeds received from Rahim including discount)		975 25	1,000
	Bills Receivable A/c Dr. To Rahim A/c (Bill drawn and accepted by Rahim)		3,750	3,750
	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bill discounted)		3,625 125	3,750
	Rahim A/c Dr. To Bank A/c To Discount A/c (Proceeds remitted to Rahim including discount)		250	175 75
	Rahim A/c Dr. To Bank A/c (Bill honoured at maturity)		3,750	3,750
	Bills Payable A/c Dr. To Bank A/c (Bill honoured at maturity)		3,000	3,000
	Bank A/c Dr. Bad Debt A/c Dr. To Rahim A/c (Amount realised from the official liquidator of Rahim @ 80 paise in the rupee and the balance proved bad)		1,800 450	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 1,33,000	5.1.23	By Cheque for Collection A/c [Final remittance]	1,50,000 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 [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 [1,33,000 - 260]	1,32,740 1,32,740	9.1.23	By Balance c/f	1,32,740 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 [5,000 × Rs.32]	1,60,000	By M. Ltd. A/c [Sale]	1,65,000	
To Bank A/c [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 [Expenses incurred by consignee]				
- Clearing Charges	6,100			
- Godown Rent	300			
- Salesman's Salaries	900			
To M. Ltd. A/c [Commission due]				
- Ordinary Commission [1,65,000 × 6%]	9900			
- Del credere Commission [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

Dr.	Consignment Account		Cr.
Particulars	(Rs.)	Particulars	(Rs.)
To Goods sent on Consignment A/c [100 × Rs.190]	19,000	By A A/c [Sale] [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 [Profit on consignment transferred]	3,764		
	26,105		26,105

Dr.		Goods Damaged Account		Cr.	
Particulars		(Rs.)	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
			[Net loss transferred - B/Fig.]		
		198			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] To RG Cellular A/c (Being goods received from Jupiter)	Dr.	25,00,000	25,00,000
	Consignment Inward A/c To Bank A/c (Rs.2,000 + Rs.10,300 + Rs.24,000) (Being expenses paid for consignment)	Dr.	36,300	36,300
	Bank A/c To Consignment Inward A/c (80 × Rs.30,000) (Being goods received on consignment sold)	Dr.	24,00,000	24,00,000
	Consignment Inward A/c To Commission A/c (Being commission due from Jupiter)	Dr.	85,000	85,000
	RG Cellular A/c To Consignment Inward A/c (Being stock lying unsold)	Dr.	5,05,000	5,05,000
	Consignment Inward A/c To RG Cellular A/c (Being balance of Consignment Inward A/c transferred to Jupiter account)	Dr.	2,83,700	2,83,700
	RG Cellular A/c To Bank A/c (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 [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 [Expenses incurred]		By Consignment Debtors A/c [Credit sales - WN:1]	66,000
- Freight and other Forwarding Charges	4,000	By Goods sent on Consignment A/c [Loading on goods sent: Rs.1,32,000 × 20%]	26,400
To Shri H A/c [Expenses paid by consignee]		By Consignment Stock A/c [WN: 2]	40,600
- Establishment Charges [2,000 × 3/12] 500			
- Godown Rent and Insurance 1,000	1,500		
To Shri H A/c [Commission due: 1,32,000 × 5%]	6,600		
To Consignment Debtors A/c [Bad debt written off]	10,000		
To Stock Reserve A/c [WN:2]	6,600		
To P/L A/c [Profit on consignment transferred]	11,900		
	1,99,000		1,99,000

Dr. Shri H Account		Cr.	
Particulars	(Rs.)	Particulars	(Rs.)
To Consignment to Amritsar A/c [Sales]	66,000	By Consignment to Amritsar A/c [Expenses incurred]	1,500
To Consignment Debtors A/c [Collection made by consignee: (Rs.66,000 - 10,000)]	56,000	By Consignment to Amritsar A/c [Commission due]	6,600
		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 [Amount recovered by consignee]	56,000
		By Consignment to Amritsar A/c [Bad debt written off]	10,000
	66,000		66,000

Dr. Goods sent on Consignment Account		Cr.	



Particulars	(Rs.)	Particulars	(Rs.)
To Consignment to Amritsar A/c [Loading on goods sent]	26,400	By Consignment to Amritsar A/c [Invoice price of goods sent]	1,58,400
To Purchases/Trading A/c [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 = 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	
	75691		75691

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 (Rs.)	Load (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 th 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 [Unsold stock]	25,000	By Stock Reserve A/c	5,000
To Goods sent on Consignment A/c [sent at IP]	1,25,000	[Load on opening stock: 25,000 × 25/125]	
To Bank A/c [Expenses incurred]		By Anand A/c	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: 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 stock - WN: 1]	3,750		
To P/L A/c [Profit on consignment transferred]	14,262		
	1,92,300		1,92,300



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

Dr.	Goods Damaged-in-Transit Account		Cr.
Particulars	(Rs.)	Particulars	(Rs.)
To Consignment A/c [Goods damaged]	19,275	By Consignment A/c [Load on goods damaged]	3,750
To Anand A/c [Commission on sale of damaged goods - Rs.5,750 × 5%]	288	By Anand A/c [Insurance claim received]	6,750
		By Anand A/c [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 × 30/200]	200	1,28,500
Load on Goods Damaged-in-Transit: Total load × 30/200 = Rs.25,000 × 30/200 = Rs.3,750	30	19,275
∴ Value of goods received by consignee	170	1,09,225
Unsold Stock = [40 + 200 - 30 - (80 + 100)] = 30 units		
∴ Value of unsold stock of 30 units	Rs.1,09,225 × 30 / 170 = Rs.19,275	
Load on unsold stock: Total load × 30/200 = Rs.25,000 × 30/200 = 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

Dr.	Consignee Account		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 [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 [Rectification - WN:1]	40,000	By Consignment Debtors A/c [Credit Sale]	45,000		
To Mr. D's A/c [Consignor's expenses - rectified]		By Consignment Stock A/c [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 [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 [Credit Sale: WN:1]	4,50,000
- Goods sent at IP [WN:2]		By Goods sent on Consignment A/c [Loading on unsold stock - WN:2]	1,00,000
To Bank A/c [Expenses incurred]	2,400	By Consignment Stock A/c [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: 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)

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

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

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

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

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

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

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

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

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

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

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

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

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

$$\text{Goods sent on consignment (at invoice price)} = \text{Cost of goods sent} + \text{Loading @ 25\%}$$

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

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

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 (packing & dispatching)	4,000	By Joint Venture with Lodha A/c (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, 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.			Cr.		
for the year ended 31st March 2023					
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 & 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	
	1,61,000		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	3,44,000	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
Total		4,30,000	Total		4,30,000

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.		2,55,000			
- Gross Profit transferred					
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 (at cost less depreciation)		2,12,500
Add: Net Profit	1,46,030		Furniture & Fixtures (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			
Total		6,97,500	Total		6,97,500
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			
Total		1,70,000	Total		1,70,000

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 ²	
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:

- (i) 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%
- (ii) 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.
- (iii) 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.
- (iv) Sundry Debtors include Rs.4,000 as due from Mr. Trivedi and Sundry Creditors include Rs.7,000 as payable to him.
- (v) 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.
- (vi) 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					
		8,53,200			8,53,200
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			
Total		1,88,200	Total		1,88,200

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	
Amount payable to Reddy (Rs.60,000 - Rs.6,000)		54,000	Less: Sold	56,000	
Outstanding Liabilities:				1,20,000	
Salaries	2,500		Less: Depreciation	24,000	96,000
Rent	6,000	8,500	Stock		75,000
			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 (Rs.)	Y (Rs.)	Particulars	X (Rs.)	Y (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 [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 [WN: 2]	<u>1,600</u>	
8% Loan from Mr. Kumar Creditors	90,000	60,000	Less : Depreciation [WN: 4]	<u>7,820</u>	75,580
Less: Creditors for Furniture [WN: 2]	4,600		Stock-in-Trade [WN: 1]		40,000
	85,400		Hire Purchase Stock [WN: 3]		8,100
Less: Set-off Creditors for Furniture [WN: 2]	6,000		Debtors	1,26,000	
Bills Payable			Less: Hire Purchase Debtors	<u>10,800</u>	
Outstanding Salaries			[Rs.36,000 × 30%]	1,15,200	
Outstanding Interest on Loan			Less: Set-off	<u>6,000</u>	
				1,09,200	
			Less : Provision for Bad 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
		4,88,620			4,88,620

Working Notes:		(Rs.)	(Rs.)
1.Exchange of Furniture - Rectification Entry Creditors A/c	Dr.	4,600	
Depreciation A/c	Dr.	600	
Loss on Exchange A/c	Dr.	5,600	
(New) Furniture A/C 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	54,000
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
		8,87,400			8,87,400

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 = $\text{Rs.} 40,000 \times 100/125 = \text{Rs.} 32,000$	

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 31st 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 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)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		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
Total	80,550	Total		80,550

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. Sports Equipment Account		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. Furniture Account		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 31st 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 (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
	1,79,500		1,79,500

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
	4,40,000		4,40,000

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
		5,30,400			5,30,400

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
	8,00,000		8,00,000

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

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 4,000		92,000	By Hire of Lecture Hall		20,000
To Salaries 66,000			By Interest on Securities 8,000		
Add: Outstanding 3,000		69,000	Add. Accrued Interest 500		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 22,500		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 16,700	7,98,800	Accrued Interest	500
Outstanding Expenses:		Cash at Bank Cash in Hand	20,000
Rent 4,000			11,300
Salaries 3,000	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 31st March, 2023 and the Balance Sheet as on 31st 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 31st 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	Less: Depreciation	(37,800)	2,14,200
Creditors for Medicine Supply		91,000	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			
		1,650			1,650



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 31st 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 1st 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 31st 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
		62,830			62,830

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		
	34,200		34,200

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		
		30,100		30,100

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 430000		(-) for 2020-21	(1,00,000)
(-) for 2020-21 (40000)		(+) O/s for 21-22	70,000
(+) O/s for 21-22 45000	4,35,000	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>	
		41,24,240			41,24,240

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 (₹)	31-3-2021 (₹)
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 20212-2023, it was found that full years interest t 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 (Rs.)	31.03.2023 (Rs.)	Particulars	31.03.2022 (Rs.)	31.03.2023 (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 (Rs.)	31.03.2023 (Rs.)	Particulars	31.03.2022 (Rs.)	31.03.2023 (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 (Rs.)	31.03.2023 (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 31st 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 (Rs.)	Bank (Rs.)	Particulars	Cash (Rs.)	Bank (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 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				
	1,12,635				1,12,635

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		
	1,46,025				1,46,025



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		
	63,350		63,350		

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		
	1,54,075		1,54,075		

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		
	62,825		62,825		

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				
	1,25,300		1,25,300		

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				
	1,59,775		1,59,775		

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				
	47,140		47,140		



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 31st 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 (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 (W.N.1)	1,000		
To new Profit	14,000		
	65,000		65,000

Balance sheet As AT 31st 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 1st 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 31st 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 31st 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 31st 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 (o/s in the begening)	12,000
To Outstanding Exp. A/C (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 1st 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.)
Assets:		
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
Liabilities:		
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 & 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 To Pluto's Capital A/c (Being cash brought in by Pluto as his share of capital)	Dr.	37,500	37,500
Cash A/c To Pluto's Capital A/c (Being cash brought by Pluto for his share of goodwill)	Dr.	3,190.50	3,190.50
Pluto's Capital A/c To Sun's Loan A/c To Moon's Loan A/c (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 1st 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 = $\text{Rs.4,27,500} \times \frac{1}{5} = \text{Rs.85,500}$; it excess over above(i)

$$= \text{Rs.85,500} - \text{Rs.77,500} = \text{Rs.8,000} \text{ which to be borne by Q}$$

(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) A = Rs.14,000 B = Rs.7,000	21,000		
	1,11,000		1,11,000
To Building	1,11,000	By Stock A/c By Plant & Machinery A/c By Unrecorded liability A/c By Loss transferred to Partners' Capital A/c s (in new ratio) A = Rs.9,000 B = Rs.6,000 P = Rs.3,000 Q = Rs.3,000	30,000 50,000 10,000 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 1/5th 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	1,06,720	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 March 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 (Rs.)	B (Rs.)	C (Rs.)	Date	Particulars	A (Rs.)	B (Rs.)	C (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. (Rs.)	Cr. (Rs.)
31.3.2023	Reserve A/c Dr. To Compass' Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Reserve transferred to the capital accounts of the partners in 3 : 2 : 1)		30,000	15,000 10,000 5,000
	Machinery A/c Dr. To Revaluation A/c (Value of the machinery increased on Cone's retirement)		3,000	3,000
	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Provision for Bad Debts A/c To Outstanding Expenses A/c (Value of the assets reduced on Cone's retirement)		2,700	1,000 400 1,000 300
	Revaluation A/c Dr. To Compass' Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Profit on revaluation transferred to the capital accounts of the partners)		300	150 100 50
	Compass's Capital A/c Dr. Circle's Capital A/c Dr. To Cone's Capital A/c (Cone's share of goodwill to be adjusted against remaining partner's capital accounts in the gaining ratio of 3 : 7)		2,400 5,600	8,000
	Profit and Loss Suspense A/c Dr. To Compass' Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Estimated profit transferred to the capital accounts of the partners)		18,000	9,000 6,000 3,000
	Bank Account Dr. To Profit and Loss Suspense Account (Assumed that cash has been generated due to profit accrued in this three months)		18,000	18,000
	Cone's Capital A/c Dr. To Bank A/c (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 (Rs.)	Cone (Rs.)	Circle (Rs.)	Particulars	Compass (Rs.)	Cone (Rs.)	Circle (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 31st 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			
		10,000			10,000
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 (Rs.)	Credit (Rs.)
2023 April 1	Goodwill A/c Dr. Fixed Asset A/c Dr. Prov. for Depreciation A/c Dr. To Revaluation A/c (Increased value of assets transferred to Revaluation A/c)		20,000 20,000 12,000	52,000
2023 April 1	Revaluation A/c Dr. To Gita's Capital A/c ,, Mita's Capital A/c (Profit on revaluation transferred)		52,000	26,000 26,000
	Gita's Capital A/c Dr. To Bank A/c (Amount paid to Gita)		1,30,000	1,30,000
	Bank A/c Dr. To Mita's Capital A/c ,, Lata's Capital A/c (Additional cash to be brought in to make their capital in proportion).		1,27,000	42,000 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 (Rs.)	Y (Rs.)	Z (Rs.)	Particulars		X (Rs.)	Y (Rs.)	Z (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.				Partners' Capital Account				Cr.			
Particulars		Y (Rs.)	Z (Rs.)	R (Rs.)	Particulars		Y (Rs.)	Z (Rs.)	R (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		
	20,000		20,000
To Reversal of Items b/d 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>
	20,000		10,500
			20,000

Dr.

Partners' Capital Account

Cr.

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	X (Rs.)	Particulars	P (Rs.)	Q (Rs.)	R (Rs.)	X (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 (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 31st 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 & Loss Appropriation Account

Dr.

Cr.

Particulars	01.04.21 To 30.09.22	01.10.21 to 31.03.23	Particulars	01.04.21 to 30.09.22	01.10.21 to 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 (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 (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (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>		
„ Bank - Expenses	270	C: Sundry Assets		14,200	
„ Capital Account		By Bank: Collection from Debtors		8,000	
C- Interest on loan	30	By Loss on realization:		2,100	
		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 (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (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 (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	
			Unrecorded Assets (Sold)	1,300	
To Y's Cap. A/c [Salary 400×4]			Bad Debt Recovered	800	98,100
To Partner's Capital A/c (Profit on Realization)					
X [$\frac{2}{5}$]	9,960				
Y [$\frac{2}{5}$]	9,960				
Z [$\frac{1}{5}$]	4,980	24,900			
		1,38,100			1,38,100

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 2023	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Date 2023	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
	To Balance b/d	-	-	2,000		By Balance b/d	40,000	30,000	-
	To Realization A/c	6,000	-	-		By Reserve Fund [2:2:1]	4,000	4,000	2,000
	To Bank A/c (Balance withdrawn)	47,960	55,560	4,980		By Realization A/c (Profit)	9,960	9,960	4,980
						By Realization A/c (Creditors)	-	10,000	-
						By Realization A/c (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 & 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 (Rs.)	Rahim (Rs.)	Robert (Rs.)	Particulars	Ram (Rs.)	Rahim (Rs.)	Robert (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 (Rs.)	Rahim (Rs.)	Robert (Rs.)	Particulars	Ram (Rs.)	Rahim (Rs.)	Robert (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	40,000		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 (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 (Assets realised)	3,00,000
				By Partners' Capital A/c	70,000
				(P: 28,000: Q: 7,000; 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 (Trade Credit discharged)	—	—	3,00,000	—
To Realisation A/c (Loss)	28,000	7,000	14,000	21,000	By Bank/Cash A/c (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.)
Capitals		Fixed Assets	1,00,000
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 (loss on realisation)			
		P: 20,000			
		Q: 12,000			
		R: 8,000	40,000		
	1,00,000		1,00,000		

Dr.				Partners' Capital Accounts				Cr.			
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 (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 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 30th September		41,500	25,400	9,600
G. Loss on Realisation (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 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 Capital as Base Capital	—	4,500	3,000
K Excess of Surplus Capital over Revised 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 (Rs.)	August (Rs.)	September (Rs.)
A Opening Balance	6,500	8,000	2,500
B Add : Net amount realised (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 (Rs.)	August (Rs.)	September (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 (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 (Rs.41,000 - Rs.39,100)		760	570	570
I Amount Distributed (Including Machinery Taken by 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 (Rs.)	K (Rs.)	J (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 (Rs.)	June (Rs.)	August (Rs.)	September (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.)
Capitals:		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 th July	Rs.	12,600
On 30 th August	Rs.	30,000
On 15 th 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 (Rs.)	Mohit's Loan (Rs.)	Atrik (Rs.)	Mohit (Rs.)	Rupa (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 (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 th	August	10,380
20 th	September	27,900
16 th	October	3,600
	North took over investment as follows at a value of:	
15 th	November	1,260
18 th	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 (Rs.)	Loan (Rs.)	East (Rs.)	South (Rs.)	North (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 (Rs.)	South (Rs.)	North (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 (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 (Rs.)	Creditors (Rs.)	Partners' Loans (Rs.)	Partners' Capital (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 (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 (Rs.)	Expenses (Rs.)
31 st July	84,000	7,000
31 st August	1,26,000	5,400
30 th September	70,000	4,900
31 st October	77,000	3,500



30 th 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 (Rs.)	Rahul (Rs.)	Roshan (Rs.)	Rohan (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.)
Capitals Accounts :		Machinery	1,54,000
E 1,13,100		Furniture and Fittings	25,800
F 35,400		Investments	5,400
G 31,500	1,80,000	Stock	97,700
Current Accounts :		Debtors	56,400
E 26,400		Bank	29,700
G 6,000	32,400	Current Account : F	18,000
Reserves	1,08,000		
Loan Account : G	15,000		
Creditors	51,600		
	3,87,000		3,87,000

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 (Rs.)		Capital Accounts			
			E (Rs.)	F (Rs.)	G (Rs.)	Total (Rs.)
A Balance due [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 (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 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 (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 (Rs.)	March (Rs.)	April (Rs.)	May (Rs.)	June (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 Apr.1	Realisation A/c Dr. To Stock-in-trade A/c To Sundry Debtors A/c To Cash at bank A/c To Cash in hand A/c To Furniture & Fixture A/c To Investments A/c (Transfer of different Assets to Realisation A/c)	2,76,250	1,70,000 89,000 13,000 987 2,750 513
	Creditors for Goods A/c Dr. Creditors for Expenses A/c Dr. Bills Payable A/c Dr. To Realisation A/c (Transfer of different liabilities to Realisation A/c)	1,10,000 750 12,500	1,23,250
	AB & Co. A/c (Note 1) Dr. To Realisation A/c (Purchase consideration due)	1,18,987	1,18,987
	Capital A/c Dr. To Realisation A/c (Realisation loss transferred to Capital A/c)	34,013	34,013
	Capital in AB & Co. A/c Dr. To AB & Co. A/c (Settlement of purchase consideration)	1,18,987	1,18,987
	Capital A/c Dr. To Capital in AB & Co. A/c (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 Apr.1	Realisation A/c Dr. To Stock-in-trade A/c To Sundry Debtors A/c To Cash at bank A/c To Cash in hand A/c To Furniture & Fixture A/c (Transfer of different Assets to Realisation A/c)	1,44,500	98,000 37,000 7,500 234 1,766
	Creditors for Goods A/c Dr. Creditors for Expenses A/c Dr. To Realisation A/c	47,000 2,000	49,000



	(Transfer of different liabilities to Realisation A/c)		
	AB & Co. A/c Dr.	1,01,750	
	To Realisation A/c		1,01,750
	(Purchase consideration due)		

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Realisation A/c Dr.	6,250	
	To Capital A/c		6,250
	(Realisation Profit transferred to Capital A/c)		
	Capital in AB & Co. A/c Dr.	1,01,750	
	To AB & Co. A/c		1,01,750
	(Settlement of purchase consideration)		
	Capital A/c Dr.	1,01,750	
	To Capital in AB & Co. A/c		1,01,750
	(Final adjustment to close the books of account)		

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**Realisation Account**

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 & 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 & Y

Journals Dr. Cr.

Date	Particulars	L.F	(Rs.)	(Rs.)
	Building A/c To Revaluation A/c (Increase in the Value of Building)	Dr.	15,000	15,000
	Revaluation A/c To Stock A/c To Provision for Bad Debt A/c (Decrease in the value of assets)	Dr.	1,000	800 200
	Revaluation A/c To X Capital A/c To Y Capital A/c (Profit on revaluation transferred)	Dr.	14,000	10,500 3,500
	Goodwill A/c To X Capital A/c To Y Capital A/c (Goodwill raised in the books)	Dr.	10,000	7,500 2,500
	Goodwill A/c Stock A/c Bills Receivable A/c Debtors A/c To Loan A/c To Creditors A/c To Provision for Bad Debt A/c To Z Capital A/c (Assets and liabilities taken over)	Dr. Dr. Dr. Dr.	1,500 16,800 5,000 6,000	5,000 13,000 300 11,000

Balance Sheet of X, Y & 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. (Rs.)	CD & Co. (Rs.)	Assets	AB & Co. (Rs.)	CD & Co. (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 & 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 To Cash A/c (Being the bank loan repaid)	Dr.	10,000	10,000
	Goodwill A/c To A's Capital A/c To B's Capital A/c (Being the goodwill raised)	Dr.	16,000	8,000 8,000



Stock A/c Machinery A/c To Revaluation A/c (Being increase in the value of assets)	Dr. Dr.	8,000 24,000	32,000
Revaluation A/c To Furniture A/c (Being the decrease in the value of furniture)	Dr.	800	800
Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (Being the profit on revaluation transferred to Partners' Capital A/cs in the profit-sharing ratio)		31,200	15,600 15,600
Goodwill A/c Dr. Machinery A/c Dr. Furniture A/c Dr. Stock A/c Dr. Debtors A/c Dr. Cash A/c Dr. To Bills Payable A/c To C's Capital A/c To D's Capital A/c (Being the introduction of capital by C & D)		12,000 28,000 5,400 22,000 30,000 26,000	40,000 47,700 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. To Goodwill A/c To Stock-in-trade A/c To Sundry Debtors A/c (Different Assets transferred)		20,000	5,000 5,000 10,000
	Sundry Creditors A/c Dr. To Realisation A/c (Sundry creditors transferred)		9,500	9,500
	RW & Co. A/c Dr. To Realisation A/c (Purchase consideration due)		5,000	5,000
	C's Capital A/c Dr. D's Capital A/c Dr. To Realisation A/c (Loss on realisation transferred to Capital Account equally)		2,750 2,750	5,500
	Cash A/c Dr. To D's Capital A/c (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. D's Capital A/c Dr. To RW & Co. A/c To Cash A/c (Capital accounts of the partners closed by transfer to RW & Co. and balance paid by cash) Alternatively Shows: C's Capital A/c Dr. To Cash A/c (Being the C's Capital is paid off)		7,250 4,000 6,250	5,000 6,250
	C's Capital A/c Dr. D's Capital A/c Dr. To RW & Co. A/c (Being the Partner's Capital transferred to RW & Co.)		1,000 4,000	5,000



Dr.

Realization Account

Cr.

Particulars	R & Co. (Rs.)	W & Co. (Rs.)	Particulars	R & Co. (Rs.)	W & Co. (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 & Co.

Cr.

Date	Particulars	A (Rs.)	B (Rs.)	Date	Particulars	A (Rs.)	B (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 & Co.

Cr.

Date	Particulars	C (Rs.)	D (Rs.)	Date	Particulars	C (Rs.)	D (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:

- (a) The capital of the partnership would be Rs.3 lakhs which would be contributed by them in the ratio of 2 : 1.
- (b) 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) 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.
- (d) 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 (Profit on realisation transferred to Capital Account)			75,600
Loan from X To X Capital (Loan Balance transferred)	Dr.	2,10,000	2,10,000
X Capital A/c To Y Capital A/c (Adjustment for compensation)	Dr.	30,000	30,000
X Capital A/c To Share in P Ltd To Debenture in P Ltd. To Bank A/c (Final settlement of accounts of X)	Dr.	4,13,400	1,53,000 1,80,000 80,400
Y Capital A/c To Shares in P Ltd. To Bank (Final settlement of accounts of Y)	Dr.	45,600	27,000 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 To Bank A/c (Realization Expenses) (Being transfer of Assets To, Realization A/c)			6,34,800 1,17,300
(b)	Unsecured loan A/c Current liabilities A/c To Realisation A/c (Being transfer of liabilities To, Realization A/c)	Dr. Dr.	2,30,000 3,45,000	5,75,000
(c)	Suchandra's Capital A/c Ashmita's Capital A/c Kasturi's Capital A/c To Realisation A/c (Being transfer of realization losses To, partner's Capital A/c)	Dr. Dr. Dr.	46,920 46,920 23,460	1,17,300
(d)	TT (P) Ltd. A/c To Realisation A/c (Being purchase consideration due)	Dr. W.N. (3)	19,57,300	19,57,300
(e)	Goodwill A/c To Suchandra's Capital A/c To Ashmita's Capital A/c To Kasturi's Capital No (Being transfer of goodwill To, parties Capital A/c)	Dr. W.N. (2)	6,34,800	2,53,920 2,53,920 1,26,960
(f)	Suchandra's Current A/c Kasturi's Current A/c To Suchandra's Capital A/c To Kasturi's Capital A/c (Being transfer of Current A/c balances To, Capital A/c)	Dr. Dr.	1,38,000 92,000	
(g)	Suchandra's Capital A/c . To Bank A/c (Being amount of Capital paid To, Suchandra)	Dr.	10,35,000	10,35,000
(h)	Ashmita's Capital A/c To Kasturi's Capital A/c (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 Shares in TT (P) Ltd. A/c To TT (P). Ltd. A/c (Being amount received, amount shares in Tata (P) Ltd. distributed for Purchase consideration)	Dr. Dr.	8,64,800 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) (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	₹
Capital Accounts:		Fixed Assets:	
A	1,38,000	Leasehold Building	80,000
B	1,52,000	Plant and Machinery	1,80,000
Bank Loan	40,000	Furniture	20,000
Current Liabilities:		Current Assets:	
Sundry Creditors	70,000	Stock	60,000
Bills Payable	10,000	Book Debts	68,000
		Cash at Bank	2,000
	4,10,000		4,10,000



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

Leasehold Building 10% per annum

Plant and Machinery 10% per annum

Furniture 10% per annum

Meanwhile Sundry Creditors were reduced by 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 30th 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 = -1/10 (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	$1/8 + 3/8 = 4/8 = 24/72 = 1/3$

New ratio of X & 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 (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 (Rs.)	Bimal (Rs.)	Kamal (Rs.)	Particulars	Amal (Rs.)	Bimal (Rs.)	Kamal (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 (Rs.)	Cash receipts (Rs.)	Finance (Rs.)	Capital recovery reduced from receivable (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		By Stock Reserve A/c	1,600
Stock [at IP]	8,000	[Load on opening Stock Reserve: Rs.8,000×20%]	
Debtors	1,00,000	By Goods sent to branch A/c	1,20,000
To Goods sent to branch A/c	6,00,000	[Load on goods sent: 6,00,000×20%]	
[goods sent at IP: Rs.4,80,000 × 100/80]		By Goods sent to branch A/c	40,000
To Goods sent to branch A/c	8,000	[Returns by Branch to H.O: at IP]	
[Load on goods returned: Rs.40,000 × 20%]		By Bank A/c	
To Bank A/c	1,50,000	[Remittance from branch]	
[Remittance for branch expenses]		Cash sales	Rs.1,10,000
To Stock Reserve A/c	1,700	Receipt from customers Rs.6,50,000	7,60,00
[Load on closing Stock Reserve: 8500×20%]		By Balance c/f	
To General P/L A/c	1,54,400	Stock [at IP]	8,500
[Branch NP transferred]		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 31st 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 & 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 & 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 & 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 To Agra Branch A/c (Being the goods returned by customer of Agra Branch to Delhi Branch)	Dr.		20,000	20,000
(e) Agra Branch A/c To Delhi Branch A/c (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 To Goods sent to Branch A/c (Being the goods supplied to Agra Branch)	Dr.	50,000	50,000
(b) Bills Receivable A/c To Kolkata H.O. A/c (Being the acceptance of a B/R received from Agra Branch)	Dr.	40,000	40,000
(c) Cash A/c To Kolkata H.O. A/c (Being the cash received from Agra Branch)	Dr.	10,000	10,000
(d) Goods Sent to Branch A/c To Kolkata H.O. A/c (Being the goods received from a customer of Agra Branch)	Dr.	20,000	20,000
(e) Kolkata H.O. A/c To Debtors A/c (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 To Kolkata H.O. A/c (Being the goods received from Delhi Branch)	Dr.		50,000	50,000
(b) Kolkata H.O. A/c To Bill Payable A/c (Being a B/P accepted for Delhi Branch)	Dr.		40,000	40,000
(c) Kolkata H.O. A/c To Cash A/c (Being cash paid to Delhi Branch)	Dr.		10,000	10,000
(d) Kolkata H.O. A/c To Debtors A/c (Being the goods returned by customer of Delhi Branch)	Dr.		20,000	20,000
(e) Cash A/c To Kolkata H.O. A/c (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. (Rs.)	Cr. (Rs.)
31.03.23	Branch Trading A/c To Branch A/c (Items of Br. Trading incorporated) Rs.12,000 + Rs.35,600 + Rs.18,000)	Dr.	65,600	
				65,600
	Branch A/c To Branch Trading A/c (Items of Br. Trading incorporated i.e., Rs.76,000 + Rs.12,000 + Rs.5,400)	Dr.	93,400	
				93,400
	Branch Trading A/c To Branch Profit & Loss A/c (Gross Profit transferred) [Rs.93,400 - Rs.65,600]	Dr.	27,800	
				27,800
	Branch Profit and Loss A/c To Branch A/c (Item of Branch Profit & Loss incorporated i.e., Rs.3,000 + Rs.1,920 + Rs.940)	Dr.	5,860	
				5,860
	Branch Profit and Loss A/c To General Profit & Loss A/c (Net Profit Transferred) [Rs.27,800 - Rs.5,860]	Dr.	21,940	
				21,940
	Goods-in-Transit A/c To Branch A/c (Goods-in-Transit adjusted)	Dr.	5,000	
				5,000
	Remittance (Cash)-in-Transit A/c To Branch A/c (Remittance-in-Transit adjusted)	Dr.	2,400	
				2,400
	Branch Asset A/c To Branch A/c (Branch Asset incorporated) [Rs.2,800 + Rs.5,400 + Rs.7,400 + Rs.3,560]	Dr.	19,160	
				19,160
	Branch A/c To Branch Liabilities A/c (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 (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. To Head Office A/c (Depreciation on fixed assets maintained in head office books @ 10% on Machinery and 15% on Furniture)		2,650	2,650
	Rent A/c Dr. To Outstanding Rent A/c (Rent Outstanding)		150	150
	Cash-in-Transit A/c Dr. To Head Office A/c (Cash remitted to H.O. but not received within 31st December)		4,000	4,000
	Head Office A/c Dr. To Opening Stock ,, Purchases ,, Wages ,, Manufacturing Expenses ,, Rent (Rs.1,700 + Rs.150) ,, Salaries ,, General Expenses ,, Goods received from H.O. ,, Depreciation (Above items transferred to H.O. A/c)		50,150	8,200 12,800 6,550 3,400 1,850 5,500 2,000 7,200 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 (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 Dec. 31	Depreciation A/c Dr. To Head Office A/c (Depreciation on fixed assets @ 10% Monthly and @ 15% or Furniture in H.O. Books.)		2,650	2,650
	Rent A/c Dr. To Outstanding Rent A/c (Rent Outstanding)		150	150
	Cash-in-Transit A/c Dr. To Head Office A/c (Cash remitted to H.O. but in transit)		4,000	4,000
	Head Office A/c Dr. To Profit & Loss A/c (Net Loss Transferred.) [Rs.50,150 - Rs.49,750]		400	400
	Head Office A/c Dr. To Closing Stock „ Debtors „ Cash at Bank „ Cash-in-Transit (Asset transferred to H.O. A/c)		23,100	14,350 4,000 750 4,000
	Creditors A/c Dr. Outstanding Rent A/c Dr. To Head Office A/c (Various Liabilities transferred to H.O. A/c)		2,700 150	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. (Rs.)	Branch (Rs.)	Particulars	H.O. (Rs.)	Branch (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. (NZ \$)	Cr. (NZ \$)	Dr. (Rs.)	Cr. (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 & 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 (Sundry expenses)	9,46,000
		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 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. (Rs.)	Manufacturing Dept. (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 [Goods received]:			Purchased goods	6,000	5,000
Purchased goods	5,000	6,000	Finished goods	20,000	35,000



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 [7,000 × 20%]	Rs.1,600 [8,000 × 20%]
Less: Unrealised profits included in closing stock	Rs.490 [1,400 × 35%]	Rs.400 [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.)	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.



Dr.

Profit and Loss Appropriation Account

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 (loss)	25,200 (profit)	36,000 (profit)
Inter-departmental transfers included at loaded price in the departmental stocks	---	32,500	2,100
		(Rs.10,500 from Spares and 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 [10,500 × 5/105]	191 [Rs.2,100 × 10/110]	691
	Repairs	2,000 [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 (₹)	Dept B (₹)	Dept C (₹)	Particulars	Dept A (₹)	Dept B (₹)	Dept C (₹)
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 -	$720,000 \times \frac{1}{3} = 240,000 \times \frac{1}{6}$ = 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	$= 790,000 \times \frac{2}{3}$ = Rs 84,80,000
Share of Dept A: $4,80,000 \times \frac{7}{20}$	= Rs 1,68,000
Share of Dept B	
Calculation: $4,80,000 \times \frac{6}{20}$	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 (Rs.)	Last Year (Rs.)	Particulars	Current Year (Rs.)	Last Year (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 (Rs.)	Normal Selling Price (Rs.)	Cost (2/3 of Selling Price) (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	90,000	4,800	94,800				
(25% on Normal Sales)							
	4,78,000	10,800	4,88,800		4,78,000	10,800	4,88,800

∴ Amount of Claim	(Rs.)
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
∴ Actual Loss of Stock	60,000

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
∴ Gross Claim	16,080

∴ Net Claim (under "Average clause") = Gross Claim × Policy Value

Insurable Value

= Rs.16,080 × 80,000 / 1,19,680

= Rs.10,749 (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

Rate of Turnover change = $\frac{\text{Turnover of the current year} - \text{Turnover of the previous year}}{\text{Turnover of the previous year}} \times 100$

For 2022 = $\frac{5,28,000 - 4,80,000}{4,80,000} \times 100 = 10\%$

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
∴ Insured Gross Profit	1,05,600

Sales of 2022 = Rs.5,28,000 (as computed above)

∴ 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 st 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

$$\text{Claim Value} = \text{Amount of Loss} \quad \text{Claim value} = \frac{\text{policy value} \times \text{Amount of loss}}{\text{Gross Profit on Annual Adjusted T/o}}$$

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 To Hire Vendor A/c [Cash price]	Dr.	xxxx	xxxx
2.	Hire Vendor A/c To Bank A/c [Down payment]	Dr.	xxxx	xxxx
3.	Interest A/c To Hire Vendor A/c	Dr.	xxxx	xxxx
4.	Hire Vendor A/c To Bank A/c [Installment amount]	Dr.	xxxx	xxxx
5.	P/L A/c To Interest A/c To Depreciation A/c	Dr.	xxxx	xxxx xxxx

Interest Suspense Method:

Particulars			Debit (Rs.)	Credit (Rs.)
1.	Hire Purchase Asset A/c [Cash Price] Interest Suspense A/c [Total Interest] To Hire Vendor A/c [H.P price]	Dr. Dr.	xxxx xxxx	xxxx
2.	Hire Vendor A/c To Bank A/c [Down payment]	Dr.	xxxx	xxxx
3.	Interest A/c To Interest Suspense A/c	Dr.	xxxx	xxxx
4.	Hire Vendor A/c To Bank A/c [Installment amount]	Dr.	xxxx	xxxx
5.	P/L A/c To Interest A/c 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 of Cash Price (Rs.)	Towards Principal (Rs.)	Towards Interest (Rs.)	Installment (Rs.)	Closing balance of Cash Price (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 (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 Jan. 1.	Assets A/c To Mr. Y A/c	Dr.	30,000	30,000
	Mr. Y A/c To Bank A/c	Dr.	4,000	4,000
Dec. 31.	Interest A/c To Mr. Y A/c	Dr.	1,300	1,300
	Mr. Y A/c To Bank A/c	Dr.	6,000	6,000
	Depreciation A/c To Assets A/c	Dr.	6,000	6,000
	Profit & Loss A/c To Interest A/c To Depreciation A/c	Dr.	7,300	1,300 6,000
2020 Dec. 31.	Interest A/c 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 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 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 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.			Asset Account			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 [Rs.1,58,500 + Rs.63,400]	2,21,900	31.12.20	By Interest A/c [(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 [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 [Rs.4,75,500 × 10/100]	47,550
		5,23,050			5,23,050
31.12.22	To Bank A/c [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 [Rs.3,17,000 × 10/100]	31,700
		3,48,700			3,48,700
31.12.23	To Bank A/c [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 [Rs.1,58,500 × 10/100]	15,850
		1,74,350			1,74,350

An Extract of Balance Sheet of A

Liabilities	1st yr (Rs.)	2nd yr (Rs.)	3rd yr (Rs.)	4th yr (Rs.)	Assets	1st yr (Rs.)	2nd yr (Rs.)	3rd yr (Rs.)	4th yr (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	-
						1,58,500	1,90,200	2,47,260	3,24,608

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
		5,23,050			5,23,050



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 (Rs.)	2nd yr (Rs.)	3rd yr (Rs.)	4th yr (Rs.)	Assets	1st yr (Rs.)	2nd yr (Rs.)	3rd yr (Rs.)	4th yr (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 Installment Number	B Closing Balance after the Payment of Installment	C Installment Amount	D = B + C Closing Balance before the payment of Installment	E = D×R/ (100 + R) Interest D× 10/110	F = D - E Opening 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 [Rs.2,00,000 + Rs.80,000]	2,80,000	31.12.21	By Interest A/c [(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 (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 [(Rs.10,00,000 - Rs.2,00,000) × 10/100]	80,000	31.12.21	By Bank A/c (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 [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 Installment Number	B Closing Balance after the payment of Installment	C Installment	D = B+C Closing Balance before the payment of Installment	E = D × R/ (100 + R) Interest D × 10/110	F = D-E Opening 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 (Down payment)	2,00,000
31.12.21	To Interest A/c [(Rs.10,00,000 - Rs.2,00,000) × 10/100]	80,000	31.12.21	By Bank A/c [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 [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) [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 Tempos Account					
Dr.			Cr.		
Date	Particulars	(Rs.)	Date	Particulars	(Rs.)
01.01.21	To Kolkata Motors' A/c (Rs.50,000 × 3)	1,50,000	31.12.21	By Depreciation A/c (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 (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 (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 (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 (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 [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 [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 (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 + 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 [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 (Rs.)	Installment Paid @ 10% Int (Rs.)	Interest Paid (Rs.)	Paid towards Cash Price (Installment-Interest) (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****Cr.**

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 (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 [5,60,000 × 2.5%]	14,000		
31.12.22	To Bank A/c [(20% of 5,60,000 + 14,000)]	1,26,000	30.06.23	By Interest A/c [4,48,000 × 2.5%]	11,200		
30.06.23	To Truck A/c (Value of Truck surrendered)	81,000					
30.06.23	To Balance c/d	3,78,200					
		7,25,200					7,25,200

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 (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		
		7,25,200					7,25,200

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 (expenses)	2,000	30.6.23	By Profit & Loss A/c (Loss on Sale)	3,000		
		83,000					83,000

**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 (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) ×	7,500			
		1,07,500		10%]	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 = [Rs.25,000 + (Rs.30,000 × 3)] - (Rs.20,000 × 5) = 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						

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 × 1/4]	60,000
To H.P. Debtors [1.4.2022]	18,000	By Goods sent on H.P. [Load: 5,28,000 × $\frac{1}{4}$]	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 × 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 1/3% = 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 [Unmatured installments]	12,000
		By Closing Balance [Stock with customers at SP - 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 [Opening Stock at Shop]	30,000	31.3.23	By Goods Sent on H.P A/c [Cost Price of goods sent: Bal. Fig.]	3,96,000
31.3.23	To Purchases A/c	4,08,000	31.3.23	By Balance c/f [Closing 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 [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 [Loading on goods sent: 3,96,000 × 1/3]	1,32,000		[Goods sent at H.P 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 customers at H.P Price]	2,40,000	31.3.23	By H.P. Debtors A/c [Matured Installments]	4,92,000
31.3.23	To Goods sent on H.P A/c [at 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 customers at H.P Price: Bal. 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 [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 [Matured Installments: Bal. Fig]	4,92,000	31.3.23	By Balance c/f [Installments 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 1st April	To Bank A/c (Down Payment)	5,40,000	2019 1st April	By Machinery A/c	21,60,000
2020 31st March	To Bank A/c (7,20,000)	7,20,000	2020 31st March	By Interest A/c (WN3)	2,70,000
	To Balance c/d	11,70,000	2020 1st April		
		24,30,000			24,30,000
2021 31st March	To Bank A/c (7,20,000)	7,20,000	2021 1st April	By Balance c/d By Interest A/c (WN3)	11,70,000 1,80,000
	To Balance c/d	6,30,000			13,50,000
		13,50,000			
2022 31st March	To Bank A/c	7,20,000	2022 1st March	By Balance c/d By Interest A/c (WN3)	6,30,000 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 [11.7 × 19.5/65]
Construction of factory shed	QA	4,68,000 [11.7 × 26/65]	
Advance for purchase of delivery vehicle	Not a QA		1,17,000 [11.7 × 6.5/65]
Working capital	Not a QA		2,34,000 [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



SB VIRTUALS



WINNER!

LEARN
systematically



Let's aim Exemption in Accounting! Yes, it's absolutely achievable, and I'm ready to put in the work for you. But remember, it takes two hands to clap. So, come on—join me! Together, we can conquer this and achieve success.

Wish you
Confidence, Actions, Success

 www.shreshtaforcacma.com  shreshtateam@gmail.com

ABOUT US

A Pioneer Institute in the digital classroom space,
founded by CA Ram Harsha.

He has always catered to serve quality. As a result today, 'SHRESHTA' stands as the most preferred institution among students. We are privileged to provide the highest standard of coaching facility for CA and CMA students at most affordable prices, turning many of our students' dreams into reality.