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Paper 1: Principles and Practice of Accounting

Paper 2: Business Laws & Business Correspondence and Reporting

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May'2018 to Dec' 2021

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Aug'2018 to March 2022

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PAPER-1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Chapter-1
Theoretical Framework

Q-1 Discuss the limitations which must be kept in mind while evaluating the Financial Statements. **[MTP March '21, 4 Marks]**

Ans. Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

Q-2 Change in accounting policy may have a material effect on the items of financial statements."
Explain the statement with the help of an example. **[MTP April '21, 4 Marks]**

Ans. Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO.

Unless the effect of such change in accounting policy is quantified, the f inancial statements may not help the users of accounts.

Q-3 Distinguish between Provision and Contingent Liability. **[PAST PAPER -NOV '19, 4 Marks]**

Ans. Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

Provision		Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that

	of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

Q-4 Distinguish between Going Concern concept and Cost concept. **[Sugg.-May'19, 4 Marks]**

Ans. **Going Concern concept:** T he financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

Cost concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. It is highly objective and free from all bias.

Q-5 (a) Distinguish between Money measurement concept and matching concept.

(b) Define revenue receipts and give examples. How are these receipts treated? Explain.

[RTP-Nov '19]

Ans.(i) Distinction between Money measurement concept and matching concept As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.]

Q-6 Define Accounting Policies in brief. Identify few areas wherein different accountingpolicies are frequently encountered. **[RTP-May'19]**

Ans. Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management.

Q-7 **(a)** State the advantages of setting Accounting Standards.

(b) Explain Cash and Mercantile system of accounting. **[RTP-Nov'18]**

Ans.(a) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

(b) Cash and mercantile system: Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing trandsactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Q-8 **(a)** Distinguish between Money measurement concept and matching concept.

(b) Define revenue receipts and give examples. How are these receipts treated?Explain.

(c) Change in accounting policy may have a material effect on the items of financialstatements." Explain the statement with the help of an example. **[RTP-May'18]**

Ans.(a) Distinction between Money measurement concept and matching concept As per Money Measurement concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In Matching concept, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.). Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

(c) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the **users of accounts.**

Q-9 Explain the objective of "Accounting Standards" in brief. **[MTP-March '20, 4 Marks]**

Ans. Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

Q-10 Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

[MTP-Oct'19, 4 Marks]

Ans. Limitations which must be kept in mind while evaluating the Financial S tatements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

Q-11 Explain in brief objective and advantages of setting Accounting Standards. **[MTP-April'19, 4 Marks]**

Ans. **Objective and Advantages of Accounting Standards**: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

(i) Reduction in variations.

(ii) Disclosure beyond that required by law.

(iii) Facilities comparison.

Q-12 Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures?

[MTP-April'19, 5 Marks]

Ans. The basic considerations in distinction between capital and revenue expenditures are:

(i) **Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

(ii) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Q-13 Explain in brief objectives of preparing Trial Balance.

Or

What are the rules of posting of journal entries into the Ledger? Explain in brief.

[MTP-Aug.'18, 5 Marks]

Ans. The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting proces ses have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almos t impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Q-14 What services can a Chartered Accountant provide to the society ? **[Sugg.-Nov'20, 4 Marks]**

Ans. The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;
(ii) Statutory audit;
(iii) Internal Audit;
(iv) Taxation;
(v) Management accounting and consultancy services;
(vi) Financial advice and financial investigations etc.
(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Q-15 Classify each of the following transactions into capital or revenue transactions:

-- Legal fees on the acquisition of land.
-- Complete repaint of existing building.
-- Repainting of a delivery van.
-- Providing drainage for a new piece of water-extraction equipment.

-- Carriage costs on a replacement part for a piece of machinery. **(RTP-Nov-'21)**

Ans.

-- Legal fees on acquisition of land: capital
-- Complete repaint: revenue
-- Repainting van: revenue.
-- Drainage for new equipment: capital.
-- Carriage costs on replacement part: revenue.

Q-16

(a) Distinguish between Money measurement concept and matching concept.

(b) Change in accounting policy may have a material effect on the items of financialstatements." Explain the statement with the help of an example. **(RTP-May-'21)**

Ans. (a)

(i) Distinction between Money measurement concept and matching concept As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

Q-17

(i) Employees had taken stock worth ₹ 25,000 (Cost price ₹ 22,500) on the eve ofDeepawali and the same was deducted from their salaries in the subsequentmonth.

(ii) Wages paid for erection of Machinery ₹ 16,000.

(iii) Income tax liability of proprietor ₹ 3,400 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 20,000. He allowed 10% trade discount, ₹ 500 cash discount was also allowed for quick payment.

(RTP-May-'21)

Ans.

	Particulars	**Dr. Amount(₹)**	**Cr. Amount(₹)**
(i)	Salaries A/c	22,500	
	To Purchase A/c		22,500
	(Being entry made for stock taken byemployees)		
(ii)	Machinery A/c	16,000	
	To Cash A/c		16,000
	(Being wages paid for erection of machinery)		

(iii)	Drawings A/c	3,400	
	To Petty Cash A/c		3,400
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	18,000	
	To Cash A/c		17,500
	To Discount Received A/c		500
	(Being the goods purchased from Naveen for ₹ 20,000 @ 10% trade discount and cashdiscount of ₹ 500)		

Q-18 Classify each of the following transactions into capital or revenue transactions:

- Inauguration expenses of a new manufacturing unit in an existing Business.
- Installation of a new central heating system.
- Repainting of a delivery van.
- Providing drainage for a new piece of water-extraction equipment.
- Legal fees on the acquisition of land.
- Carriage costs on a replacement part for a piece of machinery. **(RTP-May-'21)**

Ans.

- Inauguration expenses of new unit of existing business: revenue.
- Installation of new heating system: capital.
- Repainting van: revenue.
- Drainage for new equipment: capital.
- Legal fees on acquisition of land: capital
- Carriage costs on replacement part revenue.

Q-19 Write short notes on:

(i) Fundamental Accounting Assumptions.
(ii) Retirement of bills of exchange.
(iii) Noting Charges.
(iv) Over-riding Commission. **(RTP-May-'21)**

Ans.

(i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underline 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. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) ***Going Concern*****:** The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) ***Consistency*****:** It is assumed that accounting policies are consistent from one period to another.

(iii) ***Accrual*****:** Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(ii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iii) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

Q-20 Explain Cash and Mercantile system of accounting. **(RTP-Nov-'21)**

Ans. **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner¡¦s fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities.

Q-21 State the advantages of setting Accounting Standards. **(RTP-Nov-'21)**

Ans. The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

Q-22 M/s Shyam Textiles & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

(i) A purchase of ₹ 4,700 from M/s Timber & Co. was recorded in the accounts of M/s Ginger & Co. as ₹ 7,400. Day Book entry has also been passed incorrectly.

(ii) A sale of ₹ 9,500 to M/s Aman Bros. was recorded in M/s Manan Bros account as ₹ 5,900. Day Book entry has also been incorrectly passed.

(iii) Discount allowed ₹ 230 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 320, because discount allowed of ₹ 90 to M/s Aman Bros. has been omitted.

(iv) A cheque of ₹ 6,400 drawn by M/s Aman Bros. has been dishonoured, but wrongly debited to M/s Manan Bros.

How will the above errors impact trial balance? **(RTP-Nov-'21)**

Ans. **Journal Proper of Shyam Textiles & Co.**

Rectification Entries

Particulars		**Dr. Amount ₹**	**Cr. Amount ₹**
(i)	M/s Ginger & Co. A/c	7,400	
	To M/s Timber & Co. A/c		4,700
	To Purchases A/c		2,700
	(Rectification of purchase entry for ₹ 4,700 dated .... as ₹ 7,400 in M/s Ginger & Co A/c in place of M/s. Timber & Co.'s A/c).		
(ii)	M/s Aman Bros. A/c	9,500	
	To Sales A/c		5,900
	To M/s Manan Bros. A/c		3,600
	(Rectification of sale entry for ₹ 9,500 dated ..... as ₹ 5,900 in M/s Manan Bros A/c in place of M/s Aman Bros. A/c).		
(iii)	Discount Allowed A/c	320	
	To Commission A/c		230
	To M/s Aman Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated.....).		
(iv)	M/s Aman Bros. A/c	6,400	
	To Manan Bros A/c		6,400
	(Wrong posting for the dishonoured cheque dated¡K. is being rectified).		

Since all the errors are two-sided in nature, Trial Balance will tally even if the rectifications are not done.

Q-23 Write short notes on any three of the following:

(i) Double entry system.

(ii) Journal.

(iii) Importance of bank reconciliation to an industrial unit.

(iv) Bill of exchange and the various parties to it. **(RTP-Nov-'21)**

Ans.

(i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

(iii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iv) 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 to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

Q-24 Distinguish between fundamental accounting assumption and accounting policies. **[RTP-May'22]**

Ans.

Fundamental Accounting Assumption	**Accounting Policies**
There are 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.

No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
If fundamental accounting assumption is not followed, it is to be disclosed in the financial statements together with the reasons.	If the policy is changed in subsequent year, the effect of such change should be disclosed in the financial statements.
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

Q-25 Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example. **[RTP-May'22]**

Ans. Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

Q-26 You are required to pass necessary journal entries in the books of Kewal:

(i) Cheque amounting ' 9,000 from Hari Krishan in full settlement of his account for ' 10,000.

(ii) Withdrawn for personal use: Goods (Sales Price ' 8,000, Cost ' 6,000), cash '1,000

(iii) Goods costing ' 3,000 (Sale price '4,000) distributed as free samples.

(iv) Received commission ' 10,000, half of which does not relate of current year and is received in advance.

(v) Purchased second hand machinery from Jawahar for '30,000 against a cheque. Goods of ' 12,000 (Cost ' 9,000) used in repairs of this machinery which is necessary to make it ready for working.

[RTP-May'22]

Ans.

In the books of Kewal

Journal entries

Particulars			**Dr. Amount ' **	**Cr. Amount ' **
(i)	Bank A/c	Dr.	9,000	
	Discount allowed A/c	Dr.	1,000	
	To Hari Krishan A/c			10,000
	(Amount received from Hari Krishan after allowing discount of 1,000).			
(ii)	Drawings	Dr.	7,000	
	To Purchases A/c			6,000
	To Cash A/c			1,000
	(Goods and cash withdrawn for personal use).			
(iii)	Free Samples/Sales promotion A/c	Dr.	3,000	
	To Purchases A/c			3,000
	(Being the goods distributes as free samples).			

(iv)	Bank A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Commission received).			
	Commission A/c	Dr.	5,000	
	To Commission received in Advance A/c			5,000
	(Commission received in advance adjusted).			
(v)	Machinery A/c	Dr.	30,000	
	To Bank A/c			30,000
	(Machinery purchased from Jawahar)			
	Machinery A/c	Dr.	9,000	
	To Purchases A/c			9,000
	(Goods used in repairs of Machinery).			

Q-27 Classify the following expenditures as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area.

(ii) Amount spent on painting the factory.

(iii) Payment of wages for building a new office extension.

(iv) Amount paid for removal of stock to a new site.

(v) Rings and Pistons of an engine were changed to get full efficiency. **[RTP-May'22]**

Ans.

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.

(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.

(v) Expenditure incurred for changing Rings and Pistons of an engine is a 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.

Q-28 Write short notes on:

(i) Noting Charges.

(ii) Objective of Accounting Standards.

(iii) Retirement of bills of exchange.

(iv) Over-riding Commission. **[RTP-May'22]**

Ans.(i) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(ii) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(iii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) **Over-riding Commission:** In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

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NOTES

Chapter-2
Accounting Process

Q-1 The following errors were committed by the Accountant of Hari Om Toys.

(i) Purchase of Rs. 1620 from Anupam & Co. passed through Sales Day Book as Rs. 1260

(ii) Credit sale of Rs. 1600 to Soni & Co. was posted to the credit of their account.

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts. **[MTP March '21, 4 Marks]**

Ans.

(i) **Purchase of Rs. 1,620 is wrongly recorded through sales day book as Rs. 1,260.**

Correct Entry			**Entry Made Wrongly**		
Purchase A/c	Dr. 1,620		Anupam & Co.	Dr. 1,260	
To Anupam & Co.		1,620	To Sales		1,260

Rectification Entry

Before Trial Balance			**After Trial Balance**			**After Final Accounts**		
Sales A/c	Dr. 1,260		Sales A/c	Dr. 1,260		Profit & Loss Adj. A/c	Dr. 2,880	
Purchase A/c	Dr. 1,620		Purchase A/c	Dr. 1,620		To Anupam & Co.		2,880
To Anupam & Co.		2,880	To Anupam & Co.		2,880			

(ii) This is one sided error. Soni & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (Rs. 3200) will be taken.

Before Trial Balance	**After Trial Balance**		**After Final Accounts**	
No Entry	Soni & Co. A/c	Dr. 3200	Soni & Co. A/c	Dr. 3200
Debit Soni A/c with Rs.3200	To Suspense A/c	3200	To Suspense A/c	3200

Q-2 Which subsidiary books are normally used in a business? **[MTP March '21, 5 Marks]**

Ans. Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Q-3 The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Ram.

(ii) Cash received from Manan was debited to Tapan Rs. 7,500.

(iii) General expenses Rs. 2600 was posted in the General Ledger as Rs. 6200.

(iv) Sales Day Book was overcast by Rs. 5,000.

(v) Legal Expenses Rs. 7,670 paid to Mr. Gupta was debited to her personal account.

(vi) A sale of Rs. 25,000 to Tina was wrongly debited to the Account of Hina.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,690 was written as Rs. 1,960.

(viii) Rs 7,000 due to Mr. Somdev was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books. **[MTP April '21, 10 Marks]**

Ans.

(i)	Bills Receivables A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Ram A/c			3,100
	(Correction of error by which Bills Receivable account of Rs 1,550 was wrongly posted through Bills Payable book)			
(ii)	Suspense A/c	Dr.	15,000	
	To Manan			7,500
	To Tapan			
	(Removal of wrong debit to Tapan and giving credit to Manan from whom cash was received)			7,500
(iii)	Suspense A/c	Dr.	3,600	
	To P & L Adjustment A/c			3,600
	(Correct of error by which general expenses of Rs. 2,600 was wrongly posted as Rs. 6,200)			
(iv)	P&L Adjustment A/c	Dr.	5,000	
	To Suspense			5,000
	(Correction of error by which Sales account was overcast last year)			
(v)	P & L Adjustment A/c	Dr.	7,670	
	To Mr. Gupta			7,670
	(Correction of error by which legal expenses paid to Mr. Gupta was wrongly debited to her personal account)			
(vi)	Tina	Dr.	25,000	
	To Hina			25,000
	(Correction of error by which sale of Rs. 25,000 to Tina was wrongly debited to Hina's account)			
(vii)	Suspense A/c	Dr.	270	
	To P&L Adjustment A/c			270
	(Correction of error by which Purchase A/c was excess debited by Rs.270 i.e. Rs.1,960 – Rs.1,690)			

(vii) Trade Receivable A/c Dr. 7,000

To Suspense A/c 7,000

(Rs. 7,000 due by Mr. Somdev not taken into trial balance now rectified)

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	3,600	By P & L Adjustment A/c	5,000
To Manan	7,500	By Trade Receivable (Mr. Somdev)	7,000
To Tapan	7,500	By Difference in Trial Balance (Balancing figure)	6,870
To P&L Adjustment A/c	270		
	18,870		**18,870**

Q-4 Following information is provided for M/s. Ritu Manufacturers for the year ended 31st Dec, 2020:

	Rs.
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Ritu Manufacturers.

[MTP April '21, 5 Marks]

Ans. **Journal Proper in the Books of M/s. Ritu Manufacturers**

Date	Particulars		Amount Rs.	Amount Rs.
2020				
Dec. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c			2,16,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c			3,00,000
	(Being the transfer of returns to sales account)			
	Sales A/c	Dr.	30,00,000	
	To Trading A/c			30,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c			3,00,000
	To Purchases A/c			18,00,000
	To Wages A/c			1,50,000
	To Carriage Inwards A/c			90,000
	(Being the transfer of balances of opening inventory, purchases, carriage inwards and wages accounts)			

Closing Inventory A/c	Dr.	6,00,000	
To Trading A/c			6,00,000
(Being the incorporation of value of closing Inventory)			
Trading A/c	Dr.	12,60,000	
To Gross Profit			12,60,000
(Being the amount of gross profit)			
Gross profit	Dr.	12,60,000	
To Profit and Loss A/c			12,60,000
(Being the transfer of gross profit to Profit and Loss Account)			

Q-5 Double entry system.

[MTP April '21, 5 Marks]

Ans. Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

Q-6 Define the following terms:

(i) Capital Commitment

(ii) Expired Cost

(iii) Floating Charge

(iv) Obsolescence **[Sugg. Jan '21, 4 Marks]**

Ans.

(i) **Capital commitment**: **Future liability** for capital expenditure in respect of which contracts have been made.

(ii) **Expired cost**: The portion of the expenditure from which no further benefit is expected. Also termed as expense.

(iii) **Floating charge**: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.

(iv) **Obsolescence**: **Diminution in the value of an asset** by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

Q-7 Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

(iii) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Senu, ₹ 895 was posted to debit of Sethu.

(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.

(vii) ₹ 600 due from Mr. Q was omitted to be taken ·to the trial balance.

(viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly. **[Sugg. Jan '21, 10 Marks]**

Ans.

Journal Entries

	Particulars		**L.F.**	**Dr.** ₹	Cr. ₹
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	(Correction of error by which Purchase Account was over debited last year- ₹5,615 carried forward instead of ₹6,551)				
(ii)	Profit & Loss Adjustment A/c	Dr.		540	
	Customer's Account	Dr.		1,102	
	To Suspense Account				1,642
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)				
(iii)	Suspense Account	Dr.		590	
	To Profit & Loss Adjustment A/c				590
	(Correction of error by which Returns Inward Account was debited by ₹295 instead of Returns Outwards Account being credited by ₹295)				
(iv)	Suspense Account	Dr.		1,790	
	To Senu				895
	To Sethu				895
	(Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)				
(v)	Customer's Account	Dr.		1,400	
	To Profit & Loss Adjustment A/c				1,400
	(Rectification of the error arising from nonpreparation of invoice for goods delivered)				
(vi)	Profit & Loss Adjustment A/c	Dr.		1600	
	To Customer's Account				1,600
	(The Customer's A/c credited with goods not yet purchased by him)				
(vii)	Inventory A/c	Dr.		1280	
	To Profit & Loss Adjustment A/c				1280
	(Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)				
(viii)	Trade receivable/ Q's Account	Dr.		600	
	To Suspense Account				600
	(₹600 due by Q not taken into trial balance, now rectified)				

(ix)	R's account/Trade receivable	Dr.	3,000	
	To Profit & Loss Adjustment A/c			3,000
	(Sales to R omitted, now rectified)			
(x)	Profit & Loss Adjustment A/c	Dr.	5,066	
	To Joshi's Capital Account			5,066
	(Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)			

Q-8 Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:

(1) The sales book has been totalled ₹ 2,100 short.

(2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.

(3) Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.

(4) Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.

(5) Discount received from Black and White ₹ 1,200 has not been entered in the books.

(6) Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

[Sugg.-Nov'19, 10 Marks]

Ans.(i) If a Suspense Account is not opened.

(a) Since sales book has been cast ₹ 2,100 short, the Sales Account has been similarly credited ₹2,100 short. The correcting entry is as follows:

Sales A/c

Dr.	Date	Particulars	₹	Date	Particulars	₹ Cr.
					By Wrong Totaling of Sales Book	2,100

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav & Co. credited. The entry is:

Returns Inward Account	Dr.	₹1,800	
To Gaurav & Co.			₹1,800
(Goods returned by the firm, previously omitted from the Returns Inward Book)			

(c) Sen Brothers have been debited ₹2,250 instead of being credited. This account should now be credited by ₹4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	₹	Date	Particulars	₹
				By errors in posting	4,500

(d) By this error Purchases Account has to be debited by ₹15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account	Dr	₹15,000	
To Purchases Account			₹15,000
(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)			

(e) The discount of ₹1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White	Dr.	₹1,200	
To Discount Account			₹1,200
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)			

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	₹	Date	Particulars	₹
	To Omission entry in the Cash Book	180			

(ii) **If a Suspense Account is opened:**

Particulars			L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		2,100	
	To Sales Account				2,100
	(Being the correction arising from under-casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		1,800	
	To Gaurav & Co				1,800
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		4,500	
	To Sen Brothers				4,500
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2,250).				
(d)	Furniture Account	Dr.		15,000	
	To Purchases Account				15,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Black & White	Dr.		1,200	
	To Discount Account				1,200
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		180	
	To Suspense Account				180
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly)				

Q-9 An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	250	-
Cash Credit Account	1,654	-
Capital	-	4,591
Trade payables	-	1,637
Due from customers	2,983	-
Discount Received	252	-
Discount Allowed	-	733
Drawings	1,200	-

Office Furniture	2,155	-
Carriage Inward	-	829
Purchases	10,923	-
Returns Inward	-	330
Rent & Rates	314	-
Salaries	2,520	-
Sales	-	16,882
Inventory	2,418	-
Provision for Depreciation on Furniture	364	-
Total	**25,033**	**25,002**

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account.

[Sugg.-Nov'19, 5 Marks]

Ans. **Trial Balance as on 31st March, 2019**

Heads of Accounts	**Dr. ₹**	**Cr. ₹**
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	____
Total	**25,630**	**25,630**

***** considered as opening inventory.

Q-10 Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance:

(i) An amount of ₹ 4,500 received on account of Interest was credited to Commission account.

(ii) A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at ₹ 2,670.

(iii) ₹ 35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.

(iv) Goods returned by customer for ₹5,000. The same have been taken into stock but no entry passed in the books of accounts. **[Sugg.-May'19, 4 Marks]**

Ans.

S. No.			Debit (₹)	Credit (₹)
1	Commission A/c	Dr.	4,500	
	To Interest Received			4,500
	(Correcting wrong entry of interest received into commission ac count)			
2	M/s Sobhag T raders A/c	Dr.	90	
	To Suspense A/c			90
	(Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobhag T raders A/c less by 90, now rectified)			
3	Drawing A/c	Dr.	35,000	
	To Machinery A/c			35,000
	(Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)			
4	Return Inward A/c	Dr.	5,000	
	To Debtors (Personal) A/c			5,000
	(Correction of omission to record return of goods by customers)			

Q-11 The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by ₹ 1,000.

(ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.

(iii) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.

(iv) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.

(v) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.

(vi) Cash received from Ram was debited to Shyam ₹ 1,500.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books. **[Sugg.-Nov'18, 10 Marks]**

Ans.

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	
	To Y			5,000
	(Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			
(iii)	Suspense A/c		Dr.	630
	To P & L Adjustment A/c			630
	(Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)			

(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500
	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P & L Adjustment A/c			90
	(Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)			

Suspense A/c

	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram	1,500	By Difference in Trial	
To Shyam	1,500	Balance (Balancing figure)	2,720
To P&L Adjustment A/c	90		
	3,720		**3,720**

Q-12 Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference tothe profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

(i) Purchase account was undercast by ₹ 8,000.

(ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.

(iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 1,800.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries. **[Sugg.-May'18, 10 Marks]**

Ans. **Journal Entries in the books of Miss Daisy**

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	8,000	
	To Suspense*A/c			8,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	2,500	
	To Profit & Loss Adjustment A/c			2,500

	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anbu's Account	Dr.	1,200	
	To Asok's Account			1,200
	(Amount received from Asok wrongly posted to the account of Anbu; now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	1,800	
	To Machinery A/c			1,800
	(Repairs to machinery was wrongly debited to machinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. Paul Account			6,000
	Credit purchase of goods from Mr. Paul sale lastyear, now rectified)			
(vii)	Daisy's Capital A/c	Dr.	13,750	
	To Profit and Loss Adjustment Account			13,750
	(Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	8,450	
	To Daisy's Capital A/c			8,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

*Considering that the difference was posted to Suspense account.

Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c	
To Machinery A/c	1,800	(Bal. Transfer)	13,750
To Mr. Paul's A/c	6,000		
	16,250		**16,250**

2. Suspense Account

	₹		₹
To Daisy's Capital A/c(Balance Transfer)	8,450	By P & L Adj. A/c	8,000
		By P & L Adj. A/c	450
	8,450		**8,450**

Q-13(a) Give journal entries (narrations not required) to rectify the following:

(i) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.

(ii) A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.

(iii) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.

(iv) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Money spent to reduce working expenses.

(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

(iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.

(iv) Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement. **[RTP-May '20]**

Ans. (a) Journal Entries

Particulars		*L.F.*	*Dr. (₹)*	*Cr. (₹)*
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

(b)

(i) Capital expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

Q-14(a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2019			**₹**
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600

	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	2,000
	30	Paid rent by cheque	800

(b) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by ₹ 1,000.

(ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.

(iii) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.

(iv) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.

(v) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.

(vi) Cash received from Ram was debited to Shyam ₹ 1,500.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

Find out the amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books. **[RTP-May '20]**

Ans. (a) Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2019			₹	₹	₹	2019			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b)

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	
	To Y			5,000
	(Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			
(iii)	Suspense A/c	Dr.	630	
	To P & L Adjustment A/c			630
	(Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500
	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c			90
	(Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)			

		₹		₹
To	P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To	Ram 1,500			
To	Shyam	1,500	By Difference in Trial Balance	
			(Balancing figure)	2,720
To	P&L Adjustment A/c	90		
		3,720		**3,720**

Q-15 (a) Pass a journal entry in each of the following cases :

(i) A running business was purchased by Mohan with following assets and liabilities: Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

(ii) Goods distributed by way of free samples, ₹ 1,000.

(iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the direc tors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition. **[RTP-Nov'19]**

Ans.(a)

(i)		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by Mohan by taking over a running business).

(ii)	Advertisement Expenses A/c	Dr.	1,000	
	To Purchases A/c			1,000
(iii)	Cash A/c	Dr.	300	
	Bad Debts A/c	Dr.	300	
	To Rahim Revenue Expenditure.			₹ 600

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure

(v) Capital Expenditure

Q-16 Prepare a Petty Cash Book on the Imprest System from the following:

2019		₹
April 1	Received ₹ 20,000 for petty cash	
" 2	Paid auto fare	500
" 3	Paid cartage	2,500
" 4	Paid for Postage & Telegrams	500
" 5	Paid wages	600
" 5	Paid for stationery	400
" 6	Paid for the repairs to machinery	1,500
" 6	Bus fare	100
" 7	Cartage	400
" 7	Postage and Telegrams	700
" 8	Cartage	3,000
" 9	Stationery	2,000
" 10	Sundry expenses	5,000

[RTP-Nov'19,MTP-April '19, 10 Marks]

Ans. **PETTY CASH BOOK**

Receipts ₹ 2019	Date	V.No	Particulars	Total ₹	Conveyance ₹	Cartage ₹	Stationery ₹	Postage & Telegrams ₹		Wages ₹	Sundries ₹
20,000	April 1		To Cash								
	2	1	By Conveyance	500	500						
	3	2	By Cartage	2,500		2,500					
	4	3	By Postage and Telegrams	500					500		
	5	4	By Wages	600							600
	5	5	By Stationery	400	400						
	6	6	By Repairs tomachine	1,500							1,500
	6	7	By Conveyance	100	100						
	7	8	By Cartage	400			400				
	7	9	By Postage andTelegrams	700				700			
	8	10	By Cartage	3,000			3,000				
	9	11	By Stationery	2,000				2,000			
	10	12	By Sundry Expenses	5,000	5,000						
				17,200	600	5,900	2,400	1,200	600	6,500	
			By Balance c/d	2,800							
				20,000						20,000	
2800			To Balance b/d								
17,200	11		To Cash								

Q-17 The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240 How would you rectify the errors assuming that :

(a) they are detected before preparation of Trial Balance.

(b) they are detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they are detected after preparing Final Accounts. **[RTP-Nov'19]**

Ans.(i) This is one sided error. Trivedi & Co. account is credited instead of debit.

Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	After Trial Balance			After Final Accounts		
No Entry	Trivedi & Co. A/c	Dr.	800	Trivedi & Co. A/c	Dr.	800
Debit Trivedi A/c with ₹ 800	To Suspense A/c		800	To Suspense A/c		800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry			Entry Made Wrongly		
Purchase A/c	Dr.	420	Mantri & Co.	Dr.	240
To Mantri & Co.		420	To Sales		240

Rectification Entry

Before Trial Balance			After Trial Balance			After Final Accounts		
Sales A/c	Dr.	240	Sales A/c	Dr.	240	Profit & Loss Adj. A/c	Dr.	660
Purchase A/c	Dr.	420	Purchase A/c	Dr.	420	To Mantri & Co.		660
To Mantri & Co.		660	To Mantri & Co.					660

Q-18 M/s Suman & Co. find the following errors in their books of account beforepreparation of Trial Balance. You are required to pass necessary journal entries:

(i) A purchase of ₹ 5,600 from M/s Minu & Co. was recorded in the acc ounts of M/s Mintu & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.

(ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.

(iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of of ₹ 90 to M/s Bantu Bros. has been omitted.

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, butwrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors? **[RTP-May'19]**

Ans. Journal Proper of Suman & Co.

Rectification Entries

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	M/s Mintu & Co. A/c	6,500	
	To M/s Minu & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated….as ₹ 6,500 in M/s Mintu & Co.'s Account inplace of M/s Minu & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for ₹ 9,800 dated ….as ₹ 8,900 in M/s Bindu & Co.'s Account in place ofM/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Bantu Bros. A/c		90
	(Rectification of wrong posting of discount incommission account and omission of discount transaction dated….).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated…. is being rectified)		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications are not done.

Q-19 Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire. **[RTP-May'19]**

Ans. (i) Capital expenditure (ii) Revenue receipt. (iii) Capital expenditure.
(iv) Capital receipt

Q-20 Write out the Journal Entries to rectify the following errors, using a SuspenseAccount.

(1) Goods of the value of ₹ 10,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹ 15,000 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹ 20,000 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 2,000;

(4) Bad Debts aggregating ₹ 45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2018 amounting to ₹ 25,000 was not posted. **[RTP-May'19]**

Ans. **JOURNAL**

	Particulars		L.F.	Dr.₹	Cr.₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam andwrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during September, 2018 not posted from the Cash Book; error now rectified)				

Q-21 Pass a journal entry in each of the following cases.

(i) A running business was purchased by Mohan with following assets and liabilities:
Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

(ii) Goods distributed by way of free samples, ₹ 1,000.

(iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Ans.

			₹	₹
(i)				
	Cash A/c	Dr.	2,000	
	Land A/c	Dr.	4,000	
	Furniture A/c	Dr.	1,000	
	Stock A/c	Dr.	2,000	
	To Creditors			1,000
	To Bank overdraft			2,000
	To Capital A/c			6,000
	(Being commencement of business by mohan by taking over a running business).			
(ii)	Advertisement Expenses A/c	Dr.	1,000	
	To Purchases A/c			1,000
(iii)	Cash A/c	Dr.	300	
	Bad Debts A/c	Dr.	300	
	To Rahim			₹ 600

Q-22 Classify each of the following transactions into capital or revenue transactions:

— Complete repaint of existing building.
— Installation of a new central heating system.
— Repainting of a delivery van.
— Providing drainage for a new piece of water-extraction equipment.
— Legal fees on the acquisition of land.
— Carriage costs on a replacement part for a piece of machinery. **[RTP-Nov'18]**

Ans. Complete repaint: revenue.

— Installation of new heating system: capital.
— Repainting van: revenue.
— Drainage for new equipment: capital.
— Legal fees on acquisition of land: capital
— Carriage costs on replacement part: revenue.

Q-23 Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30
14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

[RTP-Nov'18]

Ans. **Triple Column Cash Book**

Dr. Date 2017	Particulars	Discount ₹	Cash ₹	Bank ₹	Date 2017	Particulars	Discount ₹	Cash ₹	Cr. Bank ₹
April 1	To Balance b/d		4,500	18,000	April 2	By Bank (C)		1,500	
April 2	To Cash (C)			1,500	April 5	By Furniture A/c			2,250
April 12	To Mr. K	30	1,470		April 8	By Purchase A/c		750	
April 14	To Sales A/c			7,500	April 16	By Mr. P	75		2,175
April 19	To Cash (C)			750	April 19	By Bank (C)		750	
April 24	To Mr.B (Note 2)		30	2,145	April 23	By Drawings A/c			900
April 26	To Cash (C)			2,145	April 26	By Bank (C)		2,145	
April 28	To Bank (C)		3,000		April 28	By Cash (C)			3,000
					April 30	By Rent A/c			1,200
		___	___	___	April 30	By Balance c/d	___	13,470	12,870
		60	18,615	22,395			75	18,615	22,395
May 1	To Balance b/d		13,470	12,870					

Note:

(1) Discount allowed and discount received ₹ 60 and ₹ 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Q-24 Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ₹ 4,500 from M not recored in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

[RTP-Nov'18]

Ans. (i) Error of Principle. (ii) Error of Omission.

(iii) Error of Commission. (iv) Error of Omission. (v) Error of Commission

Q-25 Prepare Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve ofDeepawali and the same was deducted from their salaries in the subsequentmonth.

(ii) Wages paid for erection of Machinery ₹ 8,000.

(iii) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment.

[RTP-May'18, MTP-March '19 4 Marks]

Ans. **Journal Entries in the books of Gamma Bros.**

	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken byemployees)		

(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection ofmachinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid outof business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveenfor ₹ 2,000 @ 10% trade discount and cashdiscount of ₹ 50)		

Q-26 Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply withGovernment orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capitalassets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into workingcondition.**[RTP-May'18]**

Ans. (i) Revenue Expenditure. (ii) Capital Expenditure. (iii) Revenue Expenditure. (iv) Revenue Expenditure. (v) Capital Expenditure.

Q-27 Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017 Nov.		**₹**
1	Cash in hand	3,000
1	Cash at bank	12,000
2	Paid into bank	1,000
5	Bought furniture and issued cheque	1,500
8	Purchased goods for cash	500
12	Received cash from Mohan	980
	Discount allowed to him	20
14	Cash sales	5,000
16	Paid to Amar by cheque	1,450
	Discount received	50
19	Paid into Bank	500
23	Withdrawn from Bank for Private expenses	600
24	Received cheque from Parul	1,430
	Allowed him discount	20
26	Deposited Parul's cheque into Bank	
28	Withdrew cash from Bank for Office use	2,000
30	Paid rent by cheque	800

[RTP-May'18]

Ans. **Triple Column Cash Book**

Dr. Date 2017	**Particulars**	**Discount ₹**	**Cash ₹**	**Bank ₹**	**Date 2017**	**Particulars**	**Discount ₹**	**Cash ₹**	**Cr. Bank ₹**
Nov. 1	To Balance b/d	-	3,000	12,000	Nov. 2	By Bank (C)		1,000	
Nov. 2	To Cash (C)		-	1,000	Nov. 5	By Furniture A/c			1,500
Nov. 12	To Mohan	20	980		Nov. 8	By Purchase A/c		500	

Nov. 14 To Sales A/c		5,000		Nov. 16 By Amar	50		1,450
Nov. 19 To Cash (C)			500	Nov. 19 By Bank (C)		500	
Nov. 24 To Parul(Note 2)	20	1,430		Nov. 23 By Drawings A/c			600
Nov. 26 To Cash (C)			1,430	Nov. 26 By Bank (C)		1,430	
Nov. 28 To Bank (C)		2,000		Nov. 28 By Cash (C)			2,000
				Nov. 30 By Rent A/c			800
				Nov. 30 By Balance c/d		8,980	8,580
	40	**12,410**	**14,930**		**50**	**12,410**	**14,930**
Dec. 1 To Balance b/d		8,980	8,580				

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Q-28 The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts. **[RTP-May'18]**

Ans.(i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before TrialBalance	**After Trial Balance**	**After Final Accounts**
No Entry	Trivedi & Co. A/c Dr. 800	Trivedi & Co. A/c Dr. 800
Debit Trivedi A/c with ₹ 800	To Suspense A/c 800	To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	**Entry Made Wrongly**
Purchase A/c Dr. 420	Mantri & Co. Dr. 240
To Mantri & Co. 420	To Sales 240

Rectification Entry

Before Trial Balance	**After Trial Balance**	**After Final Accounts**
Sales A/c Dr. 240	Sales A/c Dr. 240	Profit & Loss Adj. A/c Dr.660
Purchase A/c Dr. 420	Purchase A/c Dr. 420	To Mantri & Co. 660
To Mantri & Co. 660	To Mantri & Co. 660	

Q-29 Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth Rs. 500 from M not recor ded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

(v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500.

[MTP-Oct'19, 4 Marks]

Ans. (i) Error of Principle. (ii) Error of Omission.
(iii) Error of Commission. (iv) Error of Omission.
(v) Error of Commission

Q-30 Prepare Journal Entries for the following transactions in the books of Gamma Bros. **(4 Marks)**

(i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
(ii) Wages paid for erection of Machinery Rs. 8,000.
(iii) Income tax liability of proprietor Rs. 1,700 was paid out of petty cash.
(iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment. **[MTP-March'19, 4 Marks]**

Ans. **Journal Entries in the books of Gamma Bros.**

	Particulars	Dr. Amount(Rs.)	Cr. Amount(Rs.)
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of businessmoney)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for Rs. 2,000@ 10% trade discount and cash discount of Rs. 50)		

Q-31 Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	30,00,000	5,00,000	?
(b)	?	3,00,000	1,50,000
(c)	29,00,000	?	27,50,000
(d)	1,14,00,000	(5,60,000)	?

[MTP-Aug.'18, 4 Marks]

Ans. Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 25,00,000

(ii) 4,50,000

(iii) 1,50,000

(iv) 1,19,60,000

Q-32 The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.

(i) Sold to M/s. Ashok & Mukesh on Credit :
40 Shirts @ ₹ 900 per shirt
30 trousers @ ₹ 1,000 per trouser
Less: Trade discount @ 10%

(ii) Sold furniture to M/s. XYZ & Co. on credit ₹ 8,000

(iii) Sold 15 shirts to Aman @ ₹ 750 each for cash. **[Sugg.-Nov'20, 4 Marks]**

Ans. **SALES BOOK**

Date	Particulars	Details ₹	L.F. Amount ₹
31.03.2020	M/s. Ashok & Mukesh		
	40 shirts @ ₹ 900 per shirt	36,000	
	30 Trousers @ ₹1,000 per trouser	30,000	
		66,000	
	Less : 10% Trade Discount	(6,600)	
	(Sales as per invoice no. dated .....)		59,400

Note:

1. Cash sale entered in cash book and sale of furniture are entered in journal not in Sales Book.
2. It has been assumed that M/s Kamal & Sons is in business of selling shirts and trousers.

Q-33 M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st March, 2020 and have raised a suspense account for the difference. Next year the following errors were discovered:

(i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.

(ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.

(iii) Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.

(iv) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.

(v) A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes. **[Sugg.-Nov'20, 5 Marks]**

Ans. **Rectification entries in the books of M/s Applied Laboratories**

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr.		12,500	
	To Building Account			12,500
	(Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)			
2.	Profit and Loss Adjustment Account Dr.		1,500	
	To Suspense Account			1,500
	(Addition of freight column in purchase journal was under casted, now rectification entry made)			
3.	Suspense Account Dr.		2,100	
	To Rani & Co.			2,100

	(Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)			
4.	Profit and Loss Adjustment Account	Dr.	30,000	
	To Furniture account			30,000
	(Being sale of furniture wrongly entered in sales book, now rectified)			
5.	Raja & Co.	Dr.	20,000	
	To Bills receivable account			20,000
	(Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)			

Q-34 The following mistakes were located in the books of a concern after its books were closed and aSuspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by Rs. 5,000.

(ii) A sale of Rs. 25,000 to Ram was wrongly debited to the Account of Shyam.

(iii) General expenses Rs. 360 was posted in the General Ledger as Rs. 630.

(iv) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Hari.

(v) Legal Expenses Rs. 2,910 paid to Mrs. Neetu was debited to her personal account.

(vi) Cash received from Aman was debited to Vimal Rs. 3,200.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,235 was written as Rs. 1,325.

Find out the nature and amount of the Suspense Account and Pass entries for the rectification of the above errors in the subsequent year's books.

(Mtp-Nov'21) (10 Marks)

Ans.

	Particulars		**Dr. Rs.**	**Cr. Rs.**
(i)	P & L Adjustment A/c	Dr.	5,000	
	To Suspense A/c			5,000
	(Correction of error by which sales account wasovercast last year)			
(ii)	Ram A/c	Dr.	25,000	
	To Shyam A/c			25,000
	(Correction of error by which sale of Rs. 25,000 toRam was wrongly debited to Shyam's account)			
(iii)	Suspense A/c	Dr.	270	
	To P & L Adjustment A/c			270
	(Correct of error by which general expenses of Rs.360 was wrongly posted as Rs. 630)			

(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To Hari			3,100
	(Correction of error by which bill receivable of Rs. 1,550 was wrongly passed through Bills Payablebook)			
(v)	P & L Adjustment A/c	Dr.	2,910	
	To Mrs. Neetu			2,910
	(Correction of error by which legal expenses paid toMrs. Neetu was wrongly debited to her personalaccount)			
(vi)	Suspense A/c	Dr.	6,400	
	To Aman A/c			3,200
	To Vimal A/c			3,200
	(Removal of wrong debit to Vimal and giving credit toAman from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c			90
	(Correction of error by which Purchase A/c wasexcess debited by Rs.90/-, i.e.: Rs.1,325 – Rs.1,235)			

Suspense A/c

	Rs.		Rs.
To P & L Adjustment A/c	270	By P & L Adjustment A/c	5,000
To Ram A/c	3,200	By Difference in Trial	
To Shyam A/c	3,200	Balance (Balancing figure)	1,760
To P&L Adjustment A/c	90		
	6,760		**6,760**

Q-36 Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

(i) Wages paid for construction of office building debited to wages account ₹ 20,000.

(ii) A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.

(iii) An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

(iv) Goods (Cost being ₹ 5,000 and Sales price being ₹ 6,000) distributed as free samples amount prospective customers were not recorded anywhere.

(v) Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.

(Sugg. Dec.21, 5 Marks)

Ans.

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Building A/c	Dr.	20,000	
	To Wages A/c			20,000
	(Correction of wrong debit in the wages A/c of the construction of office building)			
(2)	Ramesh	Dr.	2,400	
	To Purchases A/c			1,200
	To Sales A/c			1,200
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Ramesh)			
(3)	Mahesh Chand	Dr.	2,000	
	To Bad Debts Recovered A/c			2,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(4)	Advertisement expenses or Sales Promotion or Free Samples A/c	Dr.	5,000	
	To Purchases A/c			5,000
	(Entry of the goods distributed as free samples omitted from records)			
(5)	Returns Inwards /Sales Return A/c	Dr.	1,500	
	To Green			1,500
	(Entry of goods returned by Green omitted from records)			

Q-37 Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(i) Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.

(ii) Purchase account was over cast by ₹ 1,00,000.

(iii) A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.

(iv) Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.

(v) Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.

(vi) ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.

(vii) Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.

(viii) Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries. **[Sugg.-July'21](10 Marks)**

Ans.

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Scooter Account	Dr.	27,000	
	To Profit and Loss Adjustment A/c			27,000
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹27,000, i.e., ₹ 30,000 less 10% depreciation)			
(2)	Suspense Account	Dr.	1,00,000	
	To Profit & Loss Adjustment A/c			1,00,000
	(Purchase Account overcast in the previous year error now rectified).			
(3)	Profit & Loss Adjustment A/c	Dr.	40,000	
	To X's Account			40,000
	(Credit purchase from X ₹ 20,000, entered as sales last year, now rectified)			
(4)	Bhaskar's Account	Dr.	10,000	
	To Anand's Account			10,000
	(Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)			
(5)	Suspense Account	Dr.	10,000	
	To Chandu's Account			10,000
	(₹5,000 received from Chandu wrongly debited to his account; now rectified)			
(6)	Trade receivables (Ramesh) / Ramesh	Dr.	5,000	
	To Suspense Account			5,000
	('5,000 due by Mr. Ramesh not taken into trial balance now rectified)			
(7)	Ram's Account	Dr.	20,000	
	To Profit & Loss Adjustment A/c			20,000
	(Sales to Ram omitted last year; now adjusted)			
(8)	Suspense Account	Dr.	1,980	
	To Profit & Loss Adjustment A/c			1,980
	(Excess posting to purchase account last year, ₹ 25,930, instead of ₹23,950, now adjusted)			
(9)	Profit & Loss Adjustment A/c	Dr.	1,08,980	
	To Ratan's Capital Account			1,08,980
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)			
(10)	Ratan's Capital Account	Dr.	1,06,980	
	To Suspense Account			1,06,980
	(Balance of Suspense Account transferred to Capital Account)			

Q-38 Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;

(3) A sale of ₹20,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 2,000;

(4) Bad Debts aggregating ₹15,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹12,500 was not posted. **(RTP-May-'21)**

Ans.

	Particulars	**L.F.**	**Dr.** ₹	**Cr.** ₹
(1)	Sales Account	Dr.	5,000	
	Sales Returns Account	Dr.	5,000	
	To Suspense Account			10,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)			
(2)	Suspense Account	Dr.	15,000	
	To Mr. Hari			15,000
	(Wrong debit to Mr. Hari for goods returned by him, now rectified)			
(3)	Mr. Amit	Dr.	20,000	
	To Mr. Sumit			2,000
	To Suspense Account			18,000
	(Omission of debit to Mr. Amit and wrongcredit to Mr. Sumit for sale of ₹20,000, nowrectified)			
(4)	Bad Debts Account	Dr.	15,000	
	To Suspense Account			15,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)			
(5)	Discount Account	Dr.	12,500	
	To Suspense Account			12,500
	(The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified)			

Q-44 Prepare a Triple Column Cash Book from the following transactions and bring downthe balance for the start of next month:

2020			₹
Sep.	1	Cash in hand	6,000
	1	Cash at bank	24,000
	2	Paid into bank	2,000
	5	Bought furniture and issued cheque	3,000
	8	Purchased goods for cash	1,000
	12	Received cash from Mohan	1,960
		Discount allowed to him	40
	14	Cash sales	10,000
	16	Paid to Amar by cheque	2,900
		Discount received	100
	19	Paid into Bank	1,000
	23	Withdrawn from Bank for Private expenses	1,200
	24	Received cheque from Parul	2,860
		Allowed him discount	40
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	4,000
	30	Paid rent by cheque	1,600

(Rtp-May-'21)

Ans. **Triple Column Cash Book**

Dr. Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Cr. Bank
2020			₹	₹	₹	2020			₹	₹	₹
Sep. 1	To	Balanceb/d	-	6,000	24,000	Sep. 2	By	Bank (C)		2,000	
Sep. 2	To	Cash (C) A/c		-	2,000	Sep. 5	By	Furniture			3,000
Sep. 12	To	Sapna	40	1,960		Sep. 8	By	PurchaseA/c		1,000	
Sep. 14	To	Sales A/c		10,000		Sep. 16	By	Amar	100		2,900
Sep. 19	To	Cash (C)			1000	Sep. 19	By	Bank (C)		1,000	
Sep. 24	To	Parul(Note 2)	40	2,860		Sep. 23	By	DrawingsA/c			1,200
Sep. 26	To	Cash (C)			2,860	Sep. 26	By	Bank (C)		2,860	
Sep. 28	To	Bank (C)		4,000		Sep. 28	By	Cash (C)			4,000
						Sep. 30	By	Rent A/c			1,600
						Sep. 30	By	Balance c/d		17,960	17,160
			80	**24,820**	**29,860**				**100**	**24,820**	**29,860**
Oct. 1	To	Balanceb/d		17,960	17,160						

Note:

(1) Discount allowed and discount received ₹ 80 and ₹ 100 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

Q-45 Prepare a Petty Cash Book on the Imprest System from the following:

2021			₹
June	1	Received ₹ 1,00,000 for petty cash	
"	2	Paid taxi fare	2,000
"	3	Paid cartage	10,000
"	4	Paid for courier	2,000
"	5	Paid wages	2,400
"	5	Paid for stationery	1,600
"	6	Paid for the repairs to machinery	6,000
"	6	Auto fare	400
"	7	cartage	1,600
"	7	Paid for courier	2,800
"	8	Cartage	12,000
"	9	Stationery	8,000
"	10	Sundry expenses	20,000

(RTP-Nov-'21)

Ans. **PETTY CASH BOOK**

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Courier ₹	Wages ₹	Sundries ₹
1,00,000	June1		To Cash							
	2	1	By Conveyance	2,000	2,000					
	3	2	By Cartage	10,000		10,000				
	4	3	By Courier	2,000				2,000		
	5	4	By Wages	2,400					2,400	
	5	5	By Stationery	1,600			1,600			
	6	6	By Repairs to machine	6,000						6,000
	6	7	By Conveyance	400	400					
	7	8	By Cartage	1,600		1,600				
	7	9	By Courier	2,800				2,800		
	8	10	By Cartage	12,000		12,000				
	9	11	By Stationery	8,000			8,000			
	10	12	By Sundry Expenses	20,000						20,000
				68,800	2,400	23,600	9,600	4,800	2400	26,000
			By Balance c/d	31,200						
1,00,000				1,00,000						
31,200			To Balance b/d							
68,800	11		To Cash							

Q-46 Prepare a Petty Cash Book on the Imprest System from the following:

2021			₹
April	1	Received ₹ 40,000 for petty cash	
"	2	Paid auto fare	1,000
"	3	Paid cartage	5,000
"	4	Paid for Courier	1,000
"	5	Paid wages	1,200
"	5	Paid for stationery	800
"	6	Paid for the repairs to machinery	3,000
"	6	Bus fare	200
"	7	Cartage	800
"	7	Courier	1,400
"	8	Cartage	6,000
"	9	Stationery	4,000
"	10	Sundry expenses	10,000

[RTP-May'22]

Ans. **PETTY CASH BOOK**

Receipts ₹	Date 2021	V. No.	Particulars ₹	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Courier ₹	Wages ₹	Sundries ₹
₹40,000	April 1		To Cash							
	2	1	By Conveyance	1,000						
					1,000					
	3	2	By Cartage	5,000		5,000				
	4	3	By Courier	1,000				1,000		
	5	4	By Wages	1,200					1,200	
	5	5	By Stationery	800			800			
	6	6	By Repairs to machine	3,000						3,000
	6	7	By Conveyance	200						
					200					
	7	8	By Cartage	800		800				
	7	9	By Courier	1,400				1,400		
	8	10	By Cartage	6,000		6,000				
	9	11	By Stationery	4,000		4,000				
	109	12	By Sunsry Expenses	10,000						10,000
				34,400	1,200	11,800	4,800	2,400	1,200	13,000
			By Balance c/d	5,600						
40,000				40,000						
5,600			To Balance b/d							
28,800		11	To Cash							

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Chapter-3
Bank Reconciliation Statement

Q-1 On 30th September, 2020, the bank account of Sameer, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 16,248. On the same date the bank statement showed a credit balance of Rs. 83,032 in favour of Sameer. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 52,56,000 deposited on 29th September, 2020 was credited by the bank only on 3rd October, 2020
2. A payment by cheque for Rs. 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2020, the bank credited an amount of Rs. 4,69,600 received from a customer of Sameer, but the advice was not received by Sameer until 1st October, 2020.
4. Bank charges amounting to Rs. 2,320 had not been entered in the Cash Book.
5. On 6th September, 2020, the bank credited Rs. 80,000 to Sameer in error.
6. A bill of exchange for Rs. 5,60,000 was discounted by Sameer with his bank. This bill was dishonoured on 28th September, 2020 but no entry had been made in the books of Sameer.
7. Cheques issued upto 30th September, 2020 but not presented for payment upto that date totalled Rs. 53,04,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Sameer, to arrive at the correct balance on 30th September, 2020 and

(b) to prepare a bank reconciliation statement as on that date.

[MTP April '21, 10 Marks]

Ans. **(i) Cash Book (Bank Column)**

Date 2020	Particulars	Amount Rs.	Date 2020	Particulars	Amount Rs.
Sept.30			Sept.30		
	To Party A/c	64,000		By Balance b/d	16,248
	To Customer A/c			By Bank charges	2,320
	(Direct deposit)	4,69,600		By Customer A/c	5,60,000
	To Balance c/d	44,968		(B/R dishonoured)	
		5,78,568			**5,78,568**

(ii) Bank Reconciliation Statement as on 30th September, 2020

Particulars	Amount Rs.
Overdraft as per Cash Book	44,968
Add: Cheque deposited but not collected upto 30th Sept., 2020	52,56,000
	53,00,968

Less: Cheques issued but not presented for payment upto 30th Sept., 2020		(53,04,000)
Credit by Bank erroneously on 6th Sept.		(80,000)
Credit balance as per bank statement		83,032

Note: Bank has credited Sameer by 80,000 in error on 6th September, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 53,04,000 resulting in credit balance of Rs. 3,032 as per pass-book.

Q-2 Importance of bank reconciliation to an industrial unit. **[MTP April '21, 5 Marks]**

Ans. Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

Q-3 Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020 :

Particulars	**₹**
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	4,000

[Sugg. Jan '21, 4 Marks]

Ans.

Adjusted Cash Book as on 31st December, 2020

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000
	2,98,000		**2,98,000**

Bank Reconciliation Statement as on 31st December, 2020

Particulars		**₹**	**₹**
Balance as per adjusted cash book			2,59,000
ADD:	Cheque issued but not presented	45,000	
	Payment not effected by bank	4,000	
			49,000
			3,08,000
LESS:	Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass book			2,83,000

Q-4 On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

(i) A cheque for ₹ 11,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.

(ii) A payment by cheque for ₹ 18,000 has been entered twice in the Cash book.

(iii) On 29th September, 2018, the bank credited an amount of ₹ 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2018.

(iv) Bank charges amounting to ₹ 280 had not been entered in the cash book.

(v) On 6th September 2018, the bank credited ₹ 30,000 to XYZ in error.

(vi) A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.

(vii) Cheques issued upto 30th September,2018 but not presented for payment upto that date totalled ₹ 13,46,000.

(viii) A bill payable of ₹ 2, 00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

You are required:

To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on that date. **(10 Marks)**

Ans.(a) Cash Book (Bank Column)

Date ***2018***	**Particulars**	**Amount ₹**	**Date** ***2018***	**Particulars**	**Amount ₹**
Sept. 30	To Party A/c	18,000	Sept. 30	By Balance b/d	8,062
	To Customer A/c			By Bank charges	280
	(Direct deposit)	1,15,400		By Customer A/c	
	To B/R collected	59,000		(B/R dishonoured)	1,60,000
	To Balance c/d	1,75,942		By Bills payable	2,00,000
		3,68,342			**3,68,342**

Bank Reconciliation Statement as on 30th September, 2018

Particulars	**Amount ₹**
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30thSept., 2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	(30,000)
Balance as per bank statement	86,058

Q-5 Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below :

(i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2018.

(ii) A cheque worth ₹ 400 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2018.

(iv) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2018, ₹ 14,000

(2) Cheques collected on 10th July, 2018, ₹ 4,000

(3) Cheques collected on 12th July, 2018, ₹ 2,000.

(vi) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.

(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by ₹ 2,000.

[Sugg.-May'19, 10 Marks, MTP-March'20, 20 Marks]

Ans. **Bank Reconciliation Statement as on 30th June 2018**

	Particulars	**Amount**	**Amount**
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented ₹ (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Overdraft as per Cash Book		25,210

Q-6 Prepare a bank reconciliation statement from the following particulars as on 31st March, 2018.

Particulars	**(₹)**
Debit balance as per bank column of the cash book	18,60,000
Cheque issued to creditors but not yet presented to the Bank for payment	3,60,000
Dividend received by the bank but not entered in the Cash book	2,50,000
Interest allowed by the Bank	6,250
Cheques deposited into bank for collection but not collected by bank up to this date	7,70,000
Bank charges not entered in Cash book	1,000
A cheque deposited into bank was dishonoured, but no intimation received	1,60,000
Bank paid house tax on our behalf, but no intimation received form bank in this connection	1,75,000

[Sugg.Nov'18, 10 Marks, RTP-May '20]

Ans. **Bank Reconciliation Statement as on 31st March, 2018**

Particulars	Details ₹	Amount ₹
Debit balance as per Cash Book		18,60,000
Add: Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	6,250	6,16,250
		24,76,250
Less: Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	1,75,000	(11,06,000)
Credit balance as per Pass Book		13,70,250

Q-7 The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found thefollowing:

(i) A Cheque of ₹ 1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on herbehalf, but the same has not been entered in her cash book.

(iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.

(vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(vii) A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.

(viii) A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018. **[Sugg.-May'18, 10 Marks]**

Ans. **Bank Reconciliation Statement**

as on 31st March, 2018

	Particulars	₹
	Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(i)	No adjustment required as there would be no difference on31.3.18	
(ii)	Add: No entry in Cash book for interest collection by Bank	2,800
(iii)	Less: Amount debited in cash book for pending cheques incollection	

	but not credited in Pass Book	(7,500)
(iv)	Add: Cheque credited in cash book but not debited in pass book	2,500
(v)	Add: Reversal of wrong Credit	500
	Less: Reversal of wrong debit	(300)
(vi)	Less: Cheque of ₹ 1,0000 entered in cash book but omitted to bebanked	(1,000)
(vii)	Less: Discounted dishonored but no entry in Cash book	(5,200)
(viii)	Add: Rebate on bill retired not entered in cash book	175
(viii)	Add: Cheques deposited in bank not yet recorded in cash book	2,400
	Balance (Cr. i.e. overdraft) as per Cash book	27,950

Note: A cheque of ₹ 1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31st March, 2018.

Q-8 On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2019, the bank credited an amount of ₹ 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
6. A bill of exchange for ₹ 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled ₹ 26,52,000.

You are required:

(a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and

(b) to prepare a bank reconciliation statement as on that date.

[MTP-Oct'19, 10 Marks, MTP-Aug.'18, 10 Marks, RTP-Nov'19]

Ans. Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2019		₹	**2019**		
Sept.30			Sept.30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	_____
		2,89,284			**2,89,284**

(ii) Bank Reconciliation Statement as on 30th September, 2019

Particulars	Amount ₹
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2019	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept.,2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

Q-9 On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examinationof the two records showed the following errors:

(i) The debit side of the Cash Book was undercast by ₹ 400.

(ii) A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from thestatement, the cheque was debited to another customer's Account.

(iii) A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.

(iv) A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

(v) The Bank had debited a cheque for ₹ 150 to Mr. Hari's Account by mistake, itshould have been debited by them to Mr. Kar's Account.

(vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.

(vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.

(viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.

(ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 30th November, 2018.

[RTP-May'19]

Ans. Bank Reconciliation Statement as on 30th November, 2018

Particulars		₹	₹
Bank Overdraft as per Bank Statement			3,200
Add:	(i) Debit side of the Cash Book was undercast	400	
	(ii) Cheque issued but debited by the Bank to another customer's account by mistake	1,600	
	(vi) Dividend directly collected by the Bank but not entered in the Cash Book	100	
	(vii) Cheque issued but yet to be presented for payment	1,300	3,400
			6,600
Less:	(iii) Cheque issued for ₹ 172 posted in the Cash Book as ₹ 127	45	
	(iv) Cheque dishonoured but not recorded in the Cash Book	425	
	(v) Wrong debit by the Bank to Hari's A/c	150	
	(viii) Cheque deposited but yet to be credited	1,200	
	(ix) Interest debited by the Bank and yet to be entered in the Cash Book	300	2,120
	Bank overdraft as per the Cash Book (Cr.)		4,480

Q-10 Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2018:

(i) Balance as per Pass Book is ₹ 10,000.

(ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

(iv) Withdrawal column of the Pass Book undercast by ₹ 100.

(v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

(vi) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Hari (another customer of the bank). **[RTP-Nov'18]**

Ans. **Bank Reconciliation Statement as at 31.03.2018**

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

Q-11 The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March,2017. But this does not agree with balance as per the Bank Statement. On scrutinyfollowing discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but notadvised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered inCash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

(ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

[RTP-May'18]

Ans. Bank Reconciliation Statement on 31st March, 2017

			₹
Bank Balance as per Cash Book			27,570
Add:			
(i)	Subsidy from government received directly by the banknot recorded in the Cash Book	10,250	
(iii)	Debit balance of ₹2,156 brought forward as credit balance on 20th March, 2017 in the Cash Book	4,312	
(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
			43,857
Less:			
(ii)	Cash Book under cast on 15th March, 2017	350	
(iv)	Discount allowed to a customer, however entry made atgross amount in the Cash Book	100	
(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	200	
(vii)	Insurance Premium paid directly by bank understanding instructions	756	
(viii)	Discounted B/R dishonoured; not entered in Cash Book	1,530	
(ix)	Bank recorded short cash deposit	45	2,981
	Balance as per Bank Statement		40,876

Q-12 On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹98,700. On comparison he finds the following :

(1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

(2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

(5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.

(7) The bank allowed interest on deposit ₹ 1,000.

(8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020. **[Sugg.-Nov'20, 10 Marks]**

Ans.(a) (i) Adjusted Cash Book as on 31-03-2020

Particulars	₹	Particulars	₹
To Interest on deposit	1,000	By balance b/d	98,700
To Customer a/c- Cheque returned	1,500	By bank charges & interest (35 + 2,860)	2,895
To Balance c/d	1,03,595	By customer a/c - cheque dishonoured	500
		By Discount allowed (1,00,000 -96,000)	4,000
	1,06,095		**1,06,095**

Q-13 On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018**.** **[MTP-April'19, 10 Marks]**

Ans.

	Balance as per Cash Book (49,350)			
Add :	Cheques issued but not presented for payment		3,700	
	Crossed Cheque issued to Abdul not presented for payment		750	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	150		
	Insurance claim	800		
		950		
	(-) Bank Commission	15	935	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		500	5885
				(43,465)
Less :	Cheques deposited in the bank but no cleared (Rs. 1,300 + Rs. 250)		1550	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	320		
	Premium	160		
	Second call	600	1,080	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		300	(2,930)
	Overdraft as per Pass Book			46,395

Q-14 On 30th June. 2021, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:

(a) Out of cheques drawn on 26th June, those for ₹ 14,800 were cashed by the bankers on 2nd July.

(b) A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.

(c) Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th June., but cheques worth ₹ 5,200 were cleared by the Bank on 1st July., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.

(d) According to Suman's standing instructions, the bankers have on 30th June, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.

(e) Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2021.

(MTP March 22) (10 + 10 = 20 Marks)

Ans.

	Balance as per Cash Book			(1,97,400)
Add :	Cheques issued but not presented for payment		14,800	
	Crossed Cheque issued to Abdul not presented for payment		3,000	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	600		
	Insurance claim	3,200		
		3,800		
	(-) Bank Commission	400	3,400	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		2,000	23,200
				(1,74,200)
Less :	Cheques deposited in the bank but no cleared (₹ 5,200 + ₹ 1,000)		6,200	
	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	1,280		
	Premium	640		
	Second call	2,400	4,320	
Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c			1,200	(11,720)
Overdraft as per Pass Book				1,85,920

Q-15 From the following particulars, prepare a Bank Reconciliation Statement for Ayodhya Ltd. as on 31.3.2021

(1) Balance as per cash book is Rs. 3,60,000.

(2) Cheques issued but not presented in the bank amounts to Rs. 2,04,000.

(3) Bank charges amounts to Rs. 900.

(4) Interest credited by bank amounts to Rs. 4,500. **(MTP-Nov'21) (4 Marks)**

Ans.

Ayodhya Ltd.

Bank Reconciliation Statement as on 31.3.2021

Particulars	**Rs.**
Balance as per cash book	3,60,000
Add : Cheque issued but not presented	2,04,000
Interest credited	4,500
	5,68,500
Less : Bank charges	(900)
Balance as per pass book	5,67,600

Q-16 According to the cash-book of G there was balance of ₹ 4,45,000 in his bank on 30th June, 2021 On investigation you find that :

(i) Cheques amounting to 60,000 issued to creditors have not been presented for payment till the date

(ii) Cheques paid into bank amounting to 1,10,500 out of which cheques amounting to ₹ 55,000 only collected by bank up to 30th June 2021

(iii) A dividend of ₹ 4,000 and rent amounting to 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2020) paid by the bank ₹ 2,700 not entered in the cash book.

(v) The payment side of the cash book had been under cast by ₹ 500

(vi) Bank charges ₹ 150 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book. **(Sugg. Dec.21, 10 Marks)**

Answer

In the Books of G

Cash Book (Bank Column)

Receipts	₹	**Payments**	₹
To Balance b/d	4,45,000	By Insurance premium A/c	2,700
To Dividend A/c	4,000	By Correction of errors	500
To Rent A/c	60,000	By Bank charges	150
To Bill receivable A/c	5,900	By Bill payable	20,000
		By Balance c/d	4,91,550
	5,14,900		**5,14,900**

Bank Reconciliation Statement as on 30th June, 2021

	₹
Adjusted balance as per cash book	4,91,550
Add: Cheques issued but not presented for payment till 30th June, 2021	60,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2021	(55,500)
Balance as per pass book	4,96,050

Q-17 From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:

(i) Debit balance as per Bank Pass Book ₹ 3,500. **[Sugg.-July'21](5 Marks)**

(ii) A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.

(iii) During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in *the Cash Book.*

(iv) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.

(v) A Cheque for ₹ 1,500 was debited twice in the cash book.

Ans. Bank Reconciliation Statement as on 31st March,2021

Particulars		**Amount ₹**
Balance as per Pass Book (Dr.)		(3,500)
Add:	Cheques deposited but returned on 24th March,2021 Discounted bill	2,500
	from Mr. Balaji dishonoured Wrong debit in passbook	5,000
		1,500
		5,500
Less:	Bill discounted by bank (2,500+500)	(3000)
Balance as per Cash book (Dr. / Favourable)		2,500

Q-18 From the following information (as on 31.3.2020), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	32,50,000
Cheques deposited, but not yet credited	44,75,000
Cheques issued but not yet presented for payment	35,62,000
Bank charges debited by bank but not recorded in the cash-book	12,500
Dividend directly collected by the bank	1,25,000
Insurance premium paid by bank as per standing instruction notintimated	15,900
Cash sales wrongly recorded in the Bank column of the cash-book	2,55,000
Customer's cheque dishonoured by bank not recorded in the cash-book	1,30,000
Wrong credit given by the bank	1,50,000

Also show the bank balance that will appear in the trial balance as on 31.3.2020. **(RTP-May-'21)**

Ans. (i) **Cash Book as on 31.3.2020**

(After making necessary adjustments)

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	32,50,000	By Bank charges	12,500
To Dividend	1,25,000	By Insurance premium	15,900
		By Trade receivables (chequedishonoured)	1,30,000
		By Cash A/c (wrongly recorded cashsales)	2,55,000
		By Balance c/d	29,61,600
	33,75,000		33,75,000

Bank Reconciliation Statement as on 31.3.2020

Particulars	Details	Amount₹
Bank balance as per the cash book		29,61,600
Add: Cheques issued but not yet presented forpayment	35,62,000	
Wrong credit given by bank	1,50,000	37,12,000
		66,73,600
Less: Cheques deposited but not yet credited bybank		(44,75,000)
Balance as per the pass book		21,98,600

The bank balance of ₹ 29,61,600 will appear in the trial balance as on 31st March, 2020.

Note: Cash sales should have been recorded by passing the following entry:

Cash A/c Dr 2,55,000

To Sales A/c 2,55,000

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

Cash A/c Dr. 2,55,000

To Bank A/c 2,55,000

Q-19 On 31st March, 2021 the pass-book of a trader showed a credit balance of ₹ 15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹ 3,84,000 were not yet presented for payment.

Bank charged ₹ 350 for bank charges and 'Z' directly deposited ₹ 1,816 into the bank account, which were not entered in the cash book.

Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2021 although they were banked on 25.03.2021.

Interest allowed by bank ₹ 4,500.

Prepare a bank reconciliation statement as on 31st March, 2021. **(RTP-Nov-'21)**

Ans. **Bank Reconciliation Statement as on 31st March, 2021**

Particulars	Details ₹	₹	Amount ₹
Credit balance as per the pass book			15,65,000
Add: Cheques deposited into bank but not yet collected	A: 5,15,000		
	B: 12,500	5,27,500	
Bank charges debited by the bank		350	5,27,850
Less: Cheques issued but not presented for payment	X: 60,000		20,92,850
	Y: 3,84,000	4,44,000	
Direct deposit of cash in bank by Z		1,816	
Interest allowed by the bank		4,500	(4,50,316)
Debit balance as per the cash book			16,42,534

Q-20 From the following particulars of M/s Swapnil enterprises, prepare a Bank reconciliation statement:

(1) Bank overdraft as per Pass Book as on 31st March, 2021 was ₹ 8,800

(2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.

(3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.

(4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.

(5) Amount transferred from fixed deposit A/c into the current A/c ₹2,000 appeared only in Pass Book

(6) Interest on overdraft ₹ 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2021.

(7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.

(8) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass Book only.

[RTP-May'22]

Ans. **Bank Reconciliation Statement as on 31st March, 2021**

Particulars			Amount ₹
Overdraft as per Pass Book			8,800
Add: (i)	Cheques issued but not presented till 31st March	5,800	
(ii)	Transfer from fixed deposit	2,000	
(iii)	Direct deposit by M/s Rajesh Trader 400	8,200	
			17,000
Less: (i)	Cheques deposited but not cleared (5,800 - 2,000)	3,800	
(ii)	Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
(iii)	Interest on overdraft debited in Pass Book only	930	
(iv)	Corporation tax paid appeared in Pass Book only	1200	6,200
Overdraft as per Cash Book			10,800

Q-35 Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31stMarch,2021, but you find that it does not agree with the balance as per Pass Book. After checking

you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/-
2. A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.
5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ' 20,000 paid by it were not recorded in the cash book.
6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.
11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ₹ 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

(Mtp-Oct-'21)

Ans. **Bank Reconciliation Statement of Satyam Traders as on 31st March, 2021**

Particulars	Amount	Amount
Balance as per Cash Book		4,12,200
Add:		
Mistake in bringing forward ₹18,500/-debit	37,000	
Balance as credit balance on 22nd March		
Cheques issued but not presented	13,500	
Issued = ₹42,000 less cashed ₹ 28,500		
= ₹13,500/-		
Dividend directly collected but not entered in cash book	35,000	
Cheques recorded twice in the cash book	1,29,000	
Wrongly credited cheque by bank	25,000	
Discount amount wrongly entered in bank column	500	
TOTAL		2,40,000

Less:		
Wrong casting in cash book on12th March, 2021	12,000	
Cheque issued and not entered in the Bank Column	85,000	
Fire Insurance premium paid directly by bank	20,000	
Cheque dishonored not recorded in books	5,000	
Credit card payment not recorded in cash book	2,500	
Cheque wrongly deposited by bank in savings account	2,000	
Bank charges debited not recorded in cash book	200	
TOTAL		1,26,700
Balance as per the Passbook		5,25,500

No effects of cheque deposit directly and dishonored in the same Month. Alternatively figure of ₹ 32,000/- can be added as well as deducted from balance as per cash book.

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NOTES

Chapter-4
Inventories

Q-1 Universe Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 31st December, 2020 and some other information is available to you:

(i) The cost of stock on 31st December, 2020 as shown by the inventory sheet was Rs. 2,40,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of Rs. 15,000 had been carried to summary sheet as Rs. 18,000.

(b) The total of a page had been undercast by Rs. 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2021 totalled Rs. 2,10,000. Out of this Rs. 9,000 related to goods received prior to 31st December, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totalled Rs. 12,000.

(iv) Sales invoiced to customers totalled Rs. 2,70,000 from January to March, 2021. Of this Rs. 15,000 related to goods dispatched before 31st December, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totalled Rs. 12,000.

(v) During the final quarter, credit notes at invoiced value of Rs. 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

[MTP March '21, 10 Marks]

Ans. Valuation of Physical Stock as at March 31, 2021

			Rs.
Stock at cost on 31.12.2020			2,40,000
Add:	(1) Undercasting of a page total	600	
	(2) Goods purchased and delivered during January – March, 2021		
	Rs. (2,10,000 – 9,000 + 12,000)	2,13,000	
	(3) Cost of sales return Rs. (3,000 – 600)	2,400	
			2,16,000
			4,56,000
Less:	(1) Overcasting of a page total Rs. (18,000 – 15,000)	3,000	
	(2) Goods sold and dispatched during January – March, 2021		
	Rs. (2,70,000 – 15,000 + 12,000) 2,67,000		
	Less: Profit margin 2,67,000 / 25/125 x 53,400	2,13,600	(2,16,600)
Value of stock as on 31st March, 2021			2,39,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 12,000 goods delivered

in March 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

Q-2 From the following particulars ascertain the value of inventories as on 31st March, 2020 :

Inventory as on 1st April, 2019	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	₹ 18,50,000
Manufacturing Expenses	₹ 1,00,000
Selling and Distribution Expenses	₹ 50,000
Administration Expenses	₹ 80,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20 on sales.

[Sugg. Jan '21, 5 Marks]

Ans. **Statement of Inventory in trade as on 31st March, 2020**

		₹	₹
Inventory as on 31st March, 2019		3,50,000	
Less:	Book value of abnormal inventory (₹ 55,000 - ₹ 20,000)	35,000	3,15,000
Add:	Purchases		12,00,000
	Manufacturing Expenses		1,00,000
			16,15,000
Less:	Cost of goods sold:		
	Sales as per books	18,50,000	
	Less: Sales of abnormal item	50,000	
		18,00,000	
Less:	Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2020			1,75,000

Q-3 Distinguish between Periodic Inventory System and Perpetual Inventory System.

[Sugg.-Nov'19](5 Marks)

Ans.

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information aboutinventory and cost of goods sold at aparticular date	It provides continuous informationabout inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residualfigure.	It directly determines cost of goodssold and computes inventory asbalancing figure.
4.	Cost of goods sold includes loss ofgoods as goods not in inventory areassumed to be sold.	Closing inventory includes loss ofgoods as all unsold goods areassumed to be in Inventory

5.	Under this method, inventory control isnot possible.	Inventory control can be exercisedunder this system.
6.	This system is simple and lessexpensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined withoutaffecting the operations of the business.

Q-4 Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at ₹ 1,25,000. It has been found that;

(i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.

(ii) Purchases are entered in the Purchase Book on the day the Invoices are received.

(iii) Sales between 1st April 2019 to 9th April 2019 amounting to ₹ 20,000 as per Sales Day Book.

(iv) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.

(v) Purchases during 1st April 2019 to 9th April 2019 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2019 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost.

Ascertain the value o f Stock a s on 31st March 2019. **[Sugg.May'19, 5 Marks]**

Ans. Statement of Valuation of Physical Stock as on 31st March,2019

		₹	₹
Value of stock as on 10th April, 2019			1,25,000
Add: Cost of sales during the intervening period			
	Sales made between 1.4.2019 and 9.4.2019	20,000	
	Less: Gross profit @20% on sales	(4,000)	16,000
	Free sample		4,000
			1,45,000
Less:	Purchases actually received during the intervening period:		
	Purchases from 1.4.2019 to 9.4.2019	10,000	
	Less: Goods not received upto 9.4.2019	(2,000)	(8,000)
			1,37,000
Add:	Purchases during March, 2019 but not recorded in stock		20,000
	Value of physical stock as on 31.3.2019		1,57,000

Q-5 Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was ₹ 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

(b) The total of a page had been undercast by ₹ 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled ₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. Transfer of ownership takes place at the time of delivery of goods.

[RTP-Nov '18, RTP-May '20, MTP-Oct '19, 4 Marks]

Ans. **Valuation of Physical Stock as at March 31, 2018**

				₹
Stock at cost on 31.12.2017				80,000
Add: (1)	Undercasting of a page total		200	
(2)	Goods purchased and delivered during January – March, 2018 ₹ (70,000 – 3,000 + 4,000)		71,000	
(3)	Cost of sales return ₹ (1,000 – 200)		800	72,000
				1,52,000
Less:(1)	Overcasting of a page total ₹ (6,000 – 5,000)		1,000	
(2)	Goods sold and dispatched during January – March, 2018 ₹ (90,000 – 5,000 + 4,000)	89,000		
	Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$	17,800	71,200	72,200
Value of stock as on 31st March, 2018				79,800

Q-6 Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2019.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

[RTP-Nov'19]

Ans. **Statement showing the valuation of stock as on 31st March, 2019**

		₹
A	Value of Stock as on 10th April, 2019	1,67,500
B	*Add:* Cost of sales after 31st March, till stock taking(₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2019	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

Q-7 A trader prepared his accounts on 31st March, each year. Due to some unavoidablereasons, no stock taking could be possible till 15th April, 2018 on which date the total costof goods in his godown came to ₹ 50,000. The following facts were established between31st March and 15th April, 2018.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale onconsignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2018.

[MTP-March'20, 10 Marks, RTP-May'19, MTP-April '19, 4 Marks]

Ans. Statement of Valuation of Stock on 31st March, 2018

	₹	₹
Value of stock as on 15th April, 2018		50,000
Add: Cost of sales during the period from 31st March, 2018		
to 15th April, 2018 Sales (₹ 41,000 – ₹ 1,000)	40,000	
Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
		86,800
Less: Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034	
Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
		79,366

Q-8 M/s Kedar, Profit and loss account showed a net profit of Rs. 8,00,000, after considering the closingstock of Rs. 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017. **[MTP-March'19, 10 Marks]**

Ans. **Profit and Loss Adjustment Account**

	Rs.		Rs.
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to		By Samples	80,000
be taken as April sales)		By Stock (Purchases of March	5,00,000
To Adjusted net profit	16,80,000	not included in stock)	
		By Sales (goods sold in Marchwrongly	
		taken as April sales)	4,00,000
		By Stock (goods sent on	
		approval basisnot included in stock)	1,50,000
	19,60,000		**19,60,000**

Calculation of value of inventory on 31stMarch, 2017

	Rs.
Stock on 31st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	1,50,000
	14,00,000

Q-9 Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 :

(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.

(2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.

(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.

(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

Determine the value of stock on 29th February, 2020. **[Sugg.-Nov'20, 10 Marks]**

Ans. **Statement of Valuation of Stock on 29thFebruary, 2020**

	₹	₹
Value of stock as on 23rd February, 2020	28,00,000	
Add: Unsold stock out of the goods sent on consignment	2,30,000	
Purchases during the period from 23rd February, 2020 to29th February, 2020	1,80,000	
Goods in transit on 29th February, 2020	1,20,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	6,58,000
		34,58,000
Less: Cost of sales during the period from 23rd February, 2020 to 29th February, 2020		
Sales (₹ 13,60,000-₹ 1,60,000)	12,00,000	
Less: Gross profit	1,20,000	
		10,80,000
Value of stock as on 29th February, 2020		23,78,000

Working Notes:

1.	Calculation of normal sales:		
	Actual sales		13,60,000
	Less: Abnormal sales	1,50,000	
	Return of goods sent on approval	1,60,000	3,10,000
			10,50,000
2.	Calculation of gross profit:		
	Gross profit on normal sales 20/100 x		2,10,000
			₹ 10,50,000
	Less: Loss on sale of particular (abnormal) goods(₹ 2,40,000 - ₹ 1,50,000)		90,000
	Gross profit		1,20,000

Q-10 Write short notes on:

(i) Adjusted Selling Price method of determining cost of stock.

(ii) Principal methods of ascertainment of cost of inventory.

(MTP March 22, 10 + 5 + 5 = 20 Marks)

Ans.

(i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is est imated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

(ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Q-11 The following are the details of the spare parts of an Oil Mill:

1-1-2021	Opening Inventory	Nil
1-1-2021	*Purchases*	*10 units @ ₹ 300 per unit*
15-1-2021	Issued for consumption	5 units
1-2-2021	*Purchases*	*20 units @ ₹ 400 per unit*
15-2-2021	Issued for consumption	10 units
20-2-2021	Issued for consumption	10 units

Find out the value of Inventory as on 31.3.2021,if the company follows Weighted Average Method.

(Sugg. Dec.21, 4 Marks)

Ans. **Oil Mill**

Calculation of the value of Inventory as on 31-3-2021

	Receipts			Issues			Balance		
Date	**Units**	**Rate** ₹	**Amount** ₹	**Units**	**Rate** ₹	**Amount** ₹	**Units**	**Rate** ₹	**Amount** ₹
1-1-2021	Balance							Nil	
1-1-2021	10	300	3,000				10	300	3,000
15-1-2021				5	300	1,500	5	300	1,500
1-2-2021	20	400	8,000				25	380	9,500
15-2-2021				10	380	3,800	15	380	5,700
20-2-2021				10	380	3,800	5	380	1,900

Therefore, the value of Inventory as on 31-3-2021 = 5 units @ ₹380 = ₹1,900

Q-12 From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	- ₹ 5,00,000
Sales during the year	- ₹ 7,50,000
Opening Inventory	Nil
Closing Inventory at selling price	- ₹ 1,00,000

[Sugg.-July'21](5 Marks)

Ans.

Sales	7,50,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale:	8,50,000
Less: Cost of goods available for sale	5,00,000
Gross margin	3,50,000

Rate of gross margin = $\frac{3,50,000}{8,50,000} \times 100 = 41.18\%$

Cost of closing inventory = 1,00,000 less 41.18% of ₹1,00,000 = ₹ 58,820

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹58,824

OR as 41.17% in that case, the closing inventory will be valued at ₹ 58,830.

Q-13 Closing stock is valued by Zebra Stores on generally accepted accounting principles.

Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2020.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020 **(RTP-May-'21)**

Ans. **Statement showing the valuation of stock as on 31st March, 2020**

		₹
A	Value of Stock as on 10th April, 2020	5,02,500
B	*Add:* Cost of sales after 31st March, till stock taking(₹ 20,625 – ₹ 5,156)	15,469
C	*Less*: Purchases for the next period (net)	(24,300)
D	*Less*: Cost of Sales Returns (900-675)	(675)
E	*Less*: Loss on revaluation of slow moving inventories	(1800)
F	*Less*: Reduction in value on account of default	(900)
G	Value of Stock on 31st March, 2020	4,90,294

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

Q-14 Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

(i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was ₹ 2,40,000.

(ii) On 30th September, stock sheet showed the following discrepancies:

(a) A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.

(b) The total of a page had been undercast by ₹ 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30thSeptember, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled ₹12,000.

(iv) Sales invoiced to customers totaled ₹2,70,000 from September,2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled ₹ 12,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

(RTP-Nov-'21)

Ans. **Valuation of Physical Stock as at March 31, 2021**

				₹
Stock at cost on 30.09.2020				2,40,000
Add:	(1)	Undercasting of a page total	600	
	(2)	Goods purchased and delivered during September March, 2021 ₹ (2,10,000 - 9,000 + 12,000)	2,13,000	
	(3)	Cost of sales return ₹ (3,000 - 600)	2,400	2,16,000
				4,56,000

Less: (1)	Overcasting of a page total ₹ (16,000 - 15,000)		1,000	
(2)	Goods sold and dispatched during January - March, 2021			
	₹ (2,70,000 - 15,000 +12,000)	2,67,000		
	Less: Profit margin $\left(2,67,000 \times \frac{25}{125}\right)$	53,400	2,13,600	2,14,600
Value of stock as on 31st March, 2021				2,41,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 1,20,000 goods delivered in March, 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

Q-15 A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2021 on which date the total cost of goods in his godown came to ₹ 1,50,000. The following facts were established between 31st March and 15th April, 2021.

(i) Sales ₹ 1,23,000 (including cash sales ₹ 30,000)

(ii) Purchases ₹ 15,102 (including cash purchases ₹ 5970)

(iii) Sales Return ₹ 3,000.

(iv) On 15th March, goods of the sale value of ₹ 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 24,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2021. **[RTP-May'22]**

Ans. **Statement of Valuation of Stock on 31st March, 2021**

Value of stock as on 15th April, 2021			1,50,000
Add:	Cost of sales during the period from 31st March, 2021		
	to 15th April, 2021 Sales (₹ 1,23,000 – ₹ 3,000)	1,20,000	
	Less: Gross Profit (20% of ₹ 1,20,000)	24,000	96,000
	Cost of goods sent on approval basis (80% of ₹ 18,000)		14,400
			260400
Less:	Purchases during the period from 31st March, 2021 to 15th April, 2021	15,102	
	Unsold stock out of goods received on consignment basis (30% of ₹ 24,000)	7,200	22,302
			2,38,098

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Chapter-5
Depreciation

Q-1 M/s. JP Wires Co. purchased a second-hand machine on 1st January, 2017 for Rs. 3,20,000.

Overhauling and erection charges amounted to Rs. 80,000.

Another machine was purchased for Rs. 1,60,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

[MTP March '21, 10 Marks]

Ans. **In the books of M/s. JP Wires Co.**

Machinery Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.1.2017	To Bank A/c	3,20,000	31.12.2017	By Depreciation A/c	96,000
	To Bank A/c	80,000		(Rs.80,000+ Rs. 16,000)	
	(Erection charges)		31.12.2017	By Balance c/d	4,64,000
1.7.2017	To Bank A/c	1,60,000		(Rs.3,20,000+	
				Rs.1,44,000)	
		5,60,000			**5,60,000**
01.01.18	To Balance b/d	4,64,000	31.12.2018	By Depreciation A/c	
				(Rs.80,000+ Rs. 32,000)	1,12,000
			31.12.2018	By Balance c/d	3,52,000
				(Rs.2,40,000+Rs.	
				1,12,000)	
		4,64,000			**4,64,000**
01.01.19	To Balance b/d	3,52,000	01.07.2019	By Bank A/c	1,60,000
30.9.19	To Bank A/c	60,000		By Profit and Loss A/c	40,000
				(Loss on Sale – W.N.)	
			31.12.2019	By Depreciation A/c	75,000
				(Rs. 40,000 + Rs.	
				32,000 + Rs. 3,000)	
				By Balance c/d	1,37,000
				(Rs. 80,000 + Rs.	
				57,000)	
		4,12,000			**4,12,000**

01.01.20	To Balance b/d	1,37,000	31.12.2020	By Depreciation A/c (Rs. 12,000 + Rs. 8,550)	20,550
				By Balance c/d (Rs. 68,000 + Rs. 48,450)	1,16,450
		1,37,000			**1,37,000**

Working Notes:

Book Value of machines (Straight line method)

	Machine I Rs.	Machine II Rs.	Machine III Rs.
Cost	4,00,000	1,60,000	60,000
Depreciation for 2017	80,000	16,000	
Written down value as on 31.12.2017	3,20,000	1,44,000	
Depreciation for 2018	80,000	32,000	
Written down value as on 31.12.2018	2,40,000	1,12,000	
Depreciation for 2019	40,000	32,000	3,000
Written down value as on 31.12.2019	2,00,000	80,000	57,000
Sale proceeds	1,60,000		
Loss on sale	40,000		

Q-2 A Plant & Machinery costing Rs. 40,00,000 is depreciated on straight line basis assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 1,60,000. The remaining useful life was reassessed at 8 years.

Calculate Depreciation for the fifth year. **[MTP April '21, 4 Marks]**

Ans. **Calculation of depreciation for 5th year**

Depreciation per year charged for four years = Rs. 40,00,000 / 10 = Rs. 4,00,000

WDV of the machine at the end of fourth year = Rs. 40,00,000 – Rs. 4,00,000 × 4 = Rs. 24,00,000.

Depreciable amount after revaluation = Rs. 24,00,000 + Rs. 1,60,000 = Rs. 25,60,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 25,60,000 / 8 = Rs. 3,20,000.

Q-3 M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year.

Give the motor truck account for two years ending 31st December, 2020.

[Sugg. Jan '21, 10 Marks]

Ans. **Truck A/c**

Date 2019	Particulars	Amount	Date 2019	Particulars	Amount
Jan-01	To balance b/d	35,000,000	Oct-01	By bank A/c	35,00,000
Oct-01	To Profit & Loss A/c Profit on settlement of Truck (W.Note 1)	7,50,000	Oct-01	By Depreciation on lost assets	7,50,000

Oct-01	To Bank A/c	60,00,000	Dec-31	By Depreciation A/c (W Note 3)	93,00,000
		_____	Dec-31	By balance c/d	2,82,00,000
		4,17,50,000			**4,17,50,000**
2020			2020		
Jan-01	To balance b/d	2,82,00,000	Dec-31	By Depreciation A/c (W Note 3)	1,02,00,000
		_____	Dec-31	By balance c/d	1,80,00,000
		2,82,00,000			**2,82,00,000**

Working Note:

1.

Profit on settlement of truck	
Original cost as on 1.7.2017	50,00,000
Less: Depreciation for 2017 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2017	10,00,000
	35,00,000
Less: Depreciation for 2019 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of truck	7,50,000

2. Calculation of WDV of 10 trucks as on 01.01.2018

	Amount
WDV of 1 truck as on 31.12.2017 (Refer W.N 1)	35,00,000
WDV of 10 trucks as on 01.01.2018	3,50,00,000

3. Calculation for Depreciation for 2018 and 2019

	Amount
Depreciation for 2018	
On 9 trucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2019	
On 9 tucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (Rs 60,00,000 x 1 x 20%)	12,00,000
	1,02,00,000

Q-4 A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2015 and spent ₹ 3,000 on its overhauling. On 1st July 2016, another machine was purchased for ₹ 10,000. On 1st July 2017, the machinery which was purchased on 1st January 2015, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2018, the machine which was purchased on 1st July, 2016 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2016 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery accoun t for four years from 1st January, 2015. **[Sugg.-May'19, 10 Marks]**

Ans. **In the books of Firm**

Machinery Account

			₹			₹
1.1.2015	To	Bank A/c	37,000	31.12.2015	By Depreciation A/c	4,000
	To	Bank A/c (overhauling charges)	3,000	31.12.2015	By Balance c/d	36,000
			40,000			**40,000**
1.1.2016	To	Balance b/d	36,000	31.12.2016	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2016	To	Bank A/c	10,000	31.12.2016	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
			46,000			**46,000**
1.1.2017	To	Balance b/d	39,850	1.7.2017	By Bank A/c(sale)	28,000
1.7.2017	To	Bank A/c	25,000	1.7.2017	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
				31.12.2017	By Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
					By Balance c/d (₹ 7,862 + ₹ 23,125)	30,987
			64,850			**64,850**
1.1.2018	To	Balance b/d	30,987	1.7.2018	By Bank A/c (sale)	2,000
				1.7.2018	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
				31.12.2018	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
				31.12.2018	By Balance c/d	19,656
			30,987			**30,987**

Working Note:

Book Value of machines

	Machine I ₹	**Machine II** ₹	**Machine III** ₹
Cost of all machinery (Machinery cost for 2015)	40,000	10,000	25,000
Depreciation for 2015	4,000		
Written down value as on 31.12.2015	36,000		
Purchase 1.7.2016 (6 months)		10,000	
Depreciation for 2016	5,400	750	
Written down value as on 31.12.2016	30,600	9,250	
Depreciation for 6 months (2017)	2,295		
Written down value as on 1.7.2017	28,305		
Sale proceeds	28,000		
Loss on sale	**305**		

Purchase 1.7.2017		25,000
Depreciation for 2017 (6 months)	1,388	1,875
Written down value as on 31.12.2017	7,862	23,125
Depreciation for 6 months in 2018	590	
Written down value as on 1.7.2018	7,272	
Sale proceeds	2,000	
Loss on sale	**5,272**	
Depreciation for 2018		3,469
Written down value as on 31.12.2018		**19,656**

Q-5 A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year. **[RTP-May'20]**

Ans. **In the books of Firm**

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – (₹ 1,00,000 × 4) = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

Q-6 M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2015.

On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000.

Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost.

However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

[RTP-Nov'18, RTP-Nov'19]

Ans. **Machinery Account in the books of M/s. Green Channel Co.**

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)	31.12.2015		By Balance c/d	2,56,000
1.7.2015	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	_____
		2,80,000			2,80,000
1.1.2016	To Balance b/d	2,56,000	31.12.2016	By Depreciation A/c	
				(₹ 20,000 + ₹ 8,000)	28,000
			31.12.2016	By Balance c/d	2,28,000
		_____		(₹ 1,60,000 + ₹ 68,000)	_____
		2,56,000			2,56,000
1.1.2017	To Balance b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000

30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c	
				(Loss on Sale – W.N. 1)	50,000
			31.12.2017	By Depreciation A/c	
				(₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d	89,250
				(₹ 60,000 + ₹ 29,250)	
		2,58,000			**2,58,000**
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c	
				(₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d	75,862.5
				(₹ 51,000 + ₹ 24,862.5)	
		89,250			**89,250**

Working Notes:

Book Value of machines (Straight line method)

	***Machine* I** ₹	***Machine* II** ₹	***Machine* III** ₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

Q-7 The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the motor truck account for two year ending 31 Dec, 2017. Bill of exchange

[MTP-March'19, 20 Marks, MTP-Aug.'18, 10 Marks, RTP-May'18]

Ans.

Motor Truck A/c

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c	4,50,000	Oct-01	By Depreciation	
	(Profit on settlement of Truck)			on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By DepreciationA/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**

2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note :

To find out loss on Profit on settlement of truck	₹
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

Q-8 A Plant & Machinery costing Rs. 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by Rs. 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year. **[MTP-March'20, 5 Marks]**

Ans. **Calculation of depreciation for 5th year**

Depreciation per year charged for four years = Rs. 10,00,000 / 10 = Rs. 1,00,000

WDV of the machine at the end of fourth year = Rs. 10,00,000 – Rs. 1,00,000 × 4 = Rs. 6,00,000.

Depreciable amount after revaluation = Rs. 6,00,000 + Rs. 40,000 = Rs. 6,40,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 6,40,000 / 8 = Rs. 80,000.

Q-9 M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	**Quantity of Mineral extracted**
2016	4,000 tonnes
2017	20,000 tonnes
2018	30,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

[MTP-Oct'19,5 Marks]

Ans. **Quarry Lease Account**

Dr. **Cr.**

Rs.					**Rs.**
2016			**2016**		
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c [(4,000/4,00,000) × Rs. 2,00,00,000]	2,00,000
			Dec. 31	By Balance c/d	1,98,00,000
		2,00,00,000			**2,00,00,000**

2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			**1,98,00,000**
2018			**2018**		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			**1,88,00,000**

Depreciation Account

Dr. **Cr.**

		Rs.			Rs.
2016			**2016**		
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			**2017**		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			**10,00,000**
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			**15,00,000**

Q-10 Discuss the factors taken into consideration for calculation of depreciation. **[Sugg.-Nov'20,5 Marks]**

Ans. **Following factors are taken into consideration for calculation of depreciation.**

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.
2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.
3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Q-11 A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year. **[Sugg.-Nov'18, 4 Marks]**

Ans. **Calculation of depreciation for 5th year**

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – ₹ 1,00,000 × 4 = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

Q-12 M/s Krishna took lease of a quarry on 1-1-2019 for ₹ 6,00,00,000. As per technical estimate the total quantity of mineral deposit is 12,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2019	12,000 tonnes
2020	60,000 tonnes
2021	90,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

(MTP March 22)

Ans. **Quarry Lease Account**

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2019			**2019**		
Jan.	To Bank A/c	6,00,00,000	Dec. 31	By Depreciation A/c [(12,000/12,00,000) × ₹ 6,00,00,000]	6,00,000
		_____	Dec. 31	By Balance c/d	5,94,00,000
		6,00,00,000			**6,00,00,000**
2020				**2020**	
Jan. 1	To Balance b/d	5,94,00,000	Dec. 31	By Depreciation A/c	30,00,000
Dec. 31	By Balance c/d	5,64,00,000			_____
		5,94,00,000			**5,94,00,000**
2021				**2021**	
Jan. 1	To Balance b/d	5,64,00,000	Dec. 31	By Depreciation A/c	45,00,000
		_____	Dec. 31	By Balance c/d	5,19,00,000
		5,64,00,000			**5,64,00,000**

Depreciation Account

Dr. **Cr.**

2019		**₹**	**2019**		**₹**
Dec. 31	To Quarry lease A/c	6,00,000	Dec. 31	By Profit & Loss A/c	6,00,000
		6,00,000			**6,00,000**
2020			**2020**		
Dec. 31	To Quarry lease A/c	30,00,000	Dec. 31	By Profit & Loss A/c	30,00,000
		30,00,000			**30,00,000**
2021			**2021**		
Dec. 31	To Quarry lease A/c	45,00,000	Dec. 31	By Profit & Loss A/c	45,00,000
		45,00,000			**45,00,000**

Q-13 Anirudh and Associates purchased an old Machinery for Rs. 74,000 on 1st January, 2017 and spent Rs. 6,000 on its overhauling. On 1st July 2018, another machine was purchased for Rs. 20,000. On 1st July 2019, the machinery which was purchased on 1st January 2017, was sold for Rs. 56,000 and the same day a new machinery costing Rs. 50,000 was purchased. On 1st July, 2020, the machine which was purchased on 1st July, 2018 was sold for Rs. 4,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2018 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2017.

(MTP-Nov'21, 10 Marks +10 Marks= 20 Marks)

Ans.

In the books of Anirudh and Associates

Machinery Account

			Rs.				Rs.
1.1.2017	To	Bank A/c	74,000	31.12.2017	By	Depreciation A/c	8,000
	To	Bank A/c (overhauling charges)	6,000	31.12.2017	By	Balance c/d	72,000
			80,000				80,000
1.1.2018	To	Balance b/d	72,000	31.12.2018	By	Depreciation A/c (Rs. 10,800 + Rs. 1,500)	12,300
1.7.2018	To	Bank A/c	20,000	31.12.2018	By	Balance c/d (Rs. 61,200 + Rs. 18,500)	79,700
			92,000				92,000
1.1.2019	To	Balance b/d	79,700	1.7.2019	By	Bank A/c(sale)	56,000
1.7.2019	To	Bank A/c	50,000	1.7.2019	By	Profit and LossA/c - (Loss onSale – W.N. 1)	610
				31.12.2019	By	Depreciation A/c (Rs. 4,590 +Rs.2,775 + Rs.3,750)	11,115
					By	Balance c/d (Rs. 15,725 +Rs. 46,250)	61,975
			1,29,700				1,29,700
1.1.2020	To	Balance b/d	61,975	1.7.2020	By	Bank A/c (sale)	4,000
				1.7.2020	By	Profit and LossA/c (Loss on Sale – W.N. 1)	10,545
				31.12.2020	By	Depreciation A/c (Rs. 1,180 + Rs.6,938)	8,118
				31.12.2020	By	Balance c/d	39,312
			61,975				**61,975**

Working Note:

Book Value of machines

	Machine I Rs.	Machine II Rs.	Machine III Rs.
Cost of all machinery	80,000	20,000	50,000
(Machinery cost for 2017)			
Depreciation for 2017	8,000		
Written down value as on 31.12.2017	72,000		
Purchase 1.7.2018 (6 months)		20,000	
Depreciation for 2018	10,800	1500	
Written down value as on 31.12.2018	61,200	18,500	
Depreciation for 6 months (2019)	4,590	-	
Written down value as on 1.7.2019	56,610		
Sale proceeds	56,000		
Loss on sale	610		
Purchase 1.7.2019			50,000
Depreciation for 2019 (6 months)		2,775	3,750
Written down value as on 31.12.2019		15,725	46,250
Depreciation for 6 months in 2020		1180	
Written down value as on 1.7.2020		14,545	
Sale proceeds		4,000	
Loss on sale		10,545	
Depreciation for 2020			6,938
Written down value as on 31.12.2020			39,312

Q-14 A Plant & Machinery costing ₹ 50,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 2,00,000. The remaining useful life was reassessed at 8th year. Calculate Depreciation for the fifth year. **(MTP-Oct-'21, 15 Marks +5 Marks= 20 Marks)**

Ans. Calculation of depreciation for 5th year

Depreciation per year charged for four years = ₹ 50,00,000 / 10 = ₹ 5,00,000

WDV of the machine at the end of fourth year = ₹ 50,00,000 – ₹ 5,00,000 × 4 = ₹ 30,00,000.

Depreciable amount after revaluation = ₹ 30,00,000 + ₹ 2,00,000 = ₹ 32,00,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 32,00,000 / 8 = ₹ 4,00,000.

Q-15 On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000.

The Company charges Depreciation @ 20% per annum under the WDV Method.

Calculate the amount of depreciation for the year ended 31st March, 2021 and gain or loss on the destroyed Bus. **(Sugg. Dec.21, 5 Marks)**

Ans. Calculation of Gain/Loss on Bus damaged by Fire

Particulars	**₹**
Original cost as on 1.1.2019	8,00,000
Less: Depreciation for 2018-19 (3 months)	(40,000)
WDV as on 31st March,2019	7,60,000
Less: Depreciation for 2019-20	(1,52,000)
WDV as on 31st March,2020	6,08,000
Less: Depreciation for 2020-21 (3 months)	(30,400)
WDV as on 1st July,2020	5,77,600
Less: Amount received from Insurance company	(6,00,000)
Gain on Bus damaged by Fire	22,400

Calculation of depreciation for the year ended 31st March,2021

	Machine I damaged on 1st July,2020 (8,00,000) ₹	**Machine II Purchased on 1st July,2020 (10,00,000) ₹**
Book value as on 1st April,2020	6,08,000	
Purchased on 1st July,2020		10,00,000
Depreciation @20% Machines	30,400 (for 3 months)	1,50,000 (for 9 months)
Total depreciation ₹ **1,80,400**		

Q-16 The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54;000. Out of this, a plant having book value of ₹ 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off@ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

[Sugg.-July'21](4 Marks)

Ans. Calculation of depreciation for the year ended 31.3.21

	Machine I (28,54,000 - 2,16,000) ₹	**Machine II Purchased on 1st July ₹**	**Machine III Purchased on 1st Nov ₹**	**Depreciation on sold machine IV ₹**
Book value as on 1st April, 2020	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @ 15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)
Total depreciation (I + II + III + IV)				'4,92,800

Q-17 M/s Roxy purchased a brand new machinery on 1st January 2017 for ₹ 3,20,000 and also incurred ₹ 80,000 on its installation. Another machinery was purchased on 1st July 2017 for ₹ 1,60,000. On 1st July 2019, the machinery purchased on 1st January 2017 was sold for ₹ 2,50,000. Another machinery was purchased and installed on 30th September 2019 for ₹ 60,000.

Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2020 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2019 and 2020 considering the books of accounts are closed on 31st December each year. **(RTP-May-'21)**

Ans. **In the books of M/s Roxy**

Machinery A/c

Date	Account	(in ₹)	Date	Account	(in ₹)
01.01.2019	To Balance b/d	4,56,000	1.07.2019	By Bank A/c	2,50,000
			31.12.2019	By P&L A/c – Loss on Sale	50,000
30.09.2019	To Bank A/c	60,000		By Depreciation	37,500
		_____		By Balance c/d	1,78,500
		5,16,000			**5,16,000**
01.01.2020	To Balance b/d	1,78,500	31.12.2020	By Depreciation	26,775
		_____	31.12.2020	By Balance c/d	1,51,725
		1,78,500			**1,78,500**

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1 (in ₹)	Machine 2 (in ₹)	Machine 3 (in ₹)
Date of Purchase	01.01.2017	01.07.2017	30.09.2019
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2017 (SLM)	(40,000)	(8,000)	
WDV on 31.12.2017	3,60,000	1,52,000	
Depreciation for 2018 (SLM)	(40,000)	(16,000)	
WDV on 31.12.2018	3,20,000	1,36,000	
Depreciation for 2019 (SLM)	(20,000)	(16,000)	(1,500)
WDV on 31.12.2019 (30th June for Machine 1)	3,00,000	1,20,000	58,500
Sale Proceeds	(2,50,000)		
Loss on Sale	50,000		
Depreciation for 2020 (WDV @ 15%)	-	(18,000)	(8,775)
WDV on 31.12.2020	-	**1,02,000**	**49,725**

Q-18 The M/s Nishant Transport purchased 10 Buses at ₹ 15,00,000 each on 1st April 2017. On October 1st, 2019, one of the Buses is involved in an accident and is completely destroyed and ₹ 7,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 18,00,000. The company write off 10% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the buses account for two year ending 31 Dec, 2020. **(RTP-Nov-'21)**

Ans. **Buses A/c**

Date 2019	Particulars	Amount	Date 2019	Particulars	Amount
Jan-01	To balance b/d	1,23,75,000	Oct-01	By bank A/c	7,00,000
Oct-01	To Bank A/c	18,00,000	Oct-01	By Depreciation on lost assets	1,12,500
				By Profit & Loss A/c (Loss on settlement of Bus)	4,25,000
			Dec-31	By Depreciation A/c	13,95,000
			Dec-31	By balance c/d	1,15,42,500
		1,41,75,000			**1,41,75,000**
2020			**2020**		
Jan-01	To balance b/d	1,15,42,500	Dec-31	By Depreciation A/c	15,30,000
			Dec-31	By balance c/d	1,00,12,500
		1,15,42,500			1,15,42,500

Working Note :

1. To find out loss/Profit on settlement of Bus	₹
Original cost as on 1.4.2017	15,00,000
Less: Depreciation for 2017	1,12,500
	13,87,500
Less: Depreciation for 2018	1,50,000
	12,37,500
Less: Depreciation for 2019 (9 months)	1,12,500
	11,25,000
Less: Amount received from Insurance company	7,00,000
Loss on Settlement of Bus	4,25,000

Q-19 M/s. Seven Seas purchased a second-hand machine on 1st April, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st Oct, 2017.

On 1st Oct, 2019, the machine installed on 1st April, 2017 was sold for ₹ 1,00,000. Another machine for ₹30,000 was purchased and was installed on 31st December, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from 1st April,2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2021. **[RTP-May'22]**

Ans. **Machinery Account in the books of M/s. Seven Seas**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2017	To Bank A/c	1,60,000	31.03.2018	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.03.2018	By Balance c/d	2,56,000
1.10.2017	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.4.2018	To Balance b/d	2,56,000	31.03.2019	By Depreciation A/c	
				(₹ 20,000 + ₹ 8,000)	28,000
			31.03.2019	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			2,56,000
1.4.2019	To Balance b/d	2,28,000	1.10.2019	By Bank A/c	1,00,000
31.12.2019	To Bank A/c	30,000	1.10.2019	By Profit and Loss A/c	
				(Loss on Sale – W.N. 1)	50,000
			31.03.2020	By Depreciation A/c	
				(₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
			31.03.2020	By Balance c/d	89,250
				(₹ 60,000 + ₹ 29,250)	
		2,58,000			2,58,000
1.4.2020	To Balance b/d	89,250	31.3.2021	By Depreciation A/c	
				(₹ 9,000 + ₹ 4,387.5)	13,387.5
			31.3.2021	By Balance c/d	75,862.5
				(₹ 51,000 + ₹ 24,862.5)	
		89,250			**89,250**

Working Notes:

Book Value of machines (Straight line method)

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	2,00,000	80,000	30,000
Depreciation for 2017-18	20,000	4,000	
Written down value as on 31.03.2018	1,80,000	76,000	
Depreciation for 2018-19	20,000	8,000	
Written down value as on 31.03.2019	1,60,000	68,000	
Depreciation for 2019-20 (Mach I- 6 months)	10,000	8,000	750
Written down value as on 01.10.2019			
Written down value as on 31.03.2020	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

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NOTES

Chapter-6
Accounting for Special Transactions

Unit-1 Bills of exchange

Q-1 Mr. Z accepted a bill for Rs. 50,000 drawn on him by Mr. Y on 1st August, 2020 for 3 months. This was for the amount which Z owed to Y. On the same date Mr. Y got the bill discounted at his bank for Rs. 49,000. On the due date, Z approached Y for renewal of the bill. Mr. Y agreed on condition that Rs. 10,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Z should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Z became insolvent and his estate paid 40%.
Prepare Journal Entries in the books of Mr. Y. **[MTP March '21, 10 Marks]**

Ans. **Journal Entries in the Books of Mr. Y**

Date 2020		Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
August	1	Bills Receivable A/c	Dr.	50,000	
		To Z A/c			50,000
		(Being the acceptance received from Z to settle his account)			
August	1	Bank A/c	Dr.	49,000	
		Discount A/c	Dr.	1,000	
		To Bills Receivable			50,000
		(Being the bill discounted for Rs. 49,000 from bank)			
November	4	Z A/c	Dr.	50,000	
		To Bank Account			50,000
		(Being the Z's acceptance is to be renewed)			
November	4	Z A/c	Dr.	1,200	
		To Interest Account			1,200
		(Being the interest due from Z for 3 months i.e., 40,000x3/12 x 12%=12,000)			
November	4	Cash A/c	Dr.	11,200	
		Bills Receivable A/c	Dr.	40,000	
		To Z A/c			51,200
		(Being amount and acceptance of new bill received from Z)			
December	31	Z A/c	Dr.	40,000	
		To Bills Receivable A/c			40,000
		(Being Z became insolvent)			
December	31	Cash A/c	Dr.	16,000	
		Bad debts A/c	Dr.	24,000	
		To Z A/c			40,000
		(Being the amount received and written off on Z's insolvency)			

Q-2 Bill of exchange and the various parties to it.

[MTP April '21, 5 Marks]

Ans. 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 to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

Q-3 Retirement of bills of exchange.

[MTP April '21, 5 Marks]

Ans. **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the a cceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

Q-4 On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000.

The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay. **[RTP-May'20, Sugg.-May '19]]**

Ans. **Journal Entries in the books of Akshay**

2018			**Dr. (₹)**	**Cr. (₹)**
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			

March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

Q-5 Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months.

These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. A **[RTP-Nov'19, RTP May '18]**

Ans. **Journal Entries in the Books of Mr. A**

Date 2017	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
August	1 Bills Receivable A/c	Dr.	10,000	
	To B			10,000
	(Being the acceptance received from B to settle his account)			

August	1	Bank A/c	Dr.	9,800	
		Discount A/c	Dr.	200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 frombank)			
November	4	B Dr. 10,000			
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B	Dr.	240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12? 12%=240)			
November	4	Cash A/c	Dr.	2,240	
		Bills Receivable A/c	Dr.	8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c	Dr.	8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			
December	31	Cash A/c	Dr.	3,200	
		Bad debts A/c	Dr.	4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

Q-6 Rita owed ₹ 1,00,000 to Siriman. On 1st October, 2018, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹ 99,000 on 3rd October, 2018. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹ 50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman. **[RTP-May'19]**

Ans. **In the books of Siriman**

Journal Entries

Particulars	**L.F.**	**Dr.** ₹	**Cr.** ₹
Bills Receivable A/c	Dr.	1,00,000	
To Rita			1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)			
Bank A/c	Dr.		99,000
Discount A/c	Dr.		1,000
To Bills Receivable A/c			1,00,000
(Being the bill discounted)			
Rita	Dr.	1,00,000	
To Bank A/c			1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)			

Rita	Dr.	1,500	
To Interest A/c			1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)			
Bank A/c	Dr.	51,500	
To Rita			51,500
(Being the receipt of a portion of the amount due on the bill together with interest)			
Bills Receivable A/c	Dr.	50,000	
To Rita			50,000
(Being the new bill drawn for the balance)			
Rita	Dr.	50,000	
To Bills Receivable A/c			50,000
(Being the dishonour of the bill due to Rita's insolvency)			
Bank A/c	Dr.	20,000	
Bad Debts A/c	Dr.	30,000	
To Rita			50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)			

Q-7 Prepare Journal entries for the following transactions in K. Katrak's books.

(i) Katrak's acceptance to Basu for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) D. Dalal retires a bill for ₹ 2,000 drawn on him by Katrak for ₹ 10 discount.

(iv) Katrak's acceptance to Patel for ₹ 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount. **[RTP-Nov'18, MTP-Oct '19, 5 Marks]**

Ans.

Books of K. Katrak

Journal Entries

			Dr. ₹	**Cr.** ₹
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of ₹ 1,000 and a new bill for ₹1,550 including ₹ 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			

(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

Q-8 Mr. B accepted a bill for Rs. 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for Rs. 9,800. On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs. 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A **[MTP-March'19, 10 Marks]**

Ans. **Journal Entries in the Books of Mr. A**

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2017				
August 1	Bills Receivable A/c	Dr.	10,000	
	To B			10,000
	(Being the acceptance received from B to settlehis account)			
August 1	Bank A/c	Dr.	9,800	
	Discount A/c		Dr.	200
	To Bills Receivable			10,000
	(Being the bill discounted for Rs. 9,800 from bank)			
November 4	B	Dr.	10,000	
	To Bank Account			10,000
	(Being the B's acceptance is to be renewed)			
November 4	B	Dr.	240	
	To Interest Account			240
	(Being the interest due from B for 3 months i.e.,8000x3/12 ₹12%=240)			
November 4	Cash A/c	Dr.	2,240	
	Bills Receivable A/c	Dr.	8,000	
	To B			10,240
	(Being amount and acceptance of new bill received from B)			
December 31	B A/c	Dr.	8,000	
	To Bills Receivable A/c			8,000
	(Being B became insolvent)			

December 31	Cash A/c	Dr.	3,200	
	Bad debts A/c		Dr.	4,800
	To B			8,000
	(Being the amount received and written off on B'sinsolvency)			

Q-9 Suresh draws a bill for ₹ 15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2020.

Pass necessary Journal entries for the above transactions in the books of Suresh.

[Sugg.-Nov'20, 5 Marks]

Ans. **In the books of Suresh**

Journal Entries

Date 2020	**Particulars**		**Debit Amount** ₹	**Credit Amount** ₹
April 15	Bills receivable account	Dr.	15,000	
	To Anup's account			15,000
	(Being acceptance received from Anup formutual accommodation)			
April 18	Bank account	Dr.	14,700	
	Discount account	Dr.	300	
	To Bills receivable account			15,000
	(Being bill discounted with bank)			
April 18	Anup's account	Dr.	5,000	
	To Bank account			4,900
	To Discount account			100
	(Being one-third proceeds of the bill sent toAnup)			
July 18	Anup's account	Dr.	17,500	
	To Bills payable account			17,500
	(Being Acceptance given)			
July 18	Bank account	Dr.	2,825	
	Discount account (400x/3/4)	Dr.	300	
	To Anup's account			3,125
	(Being proceeds of second bill received fromAnup)			
Oct.21	Bills payable account	Dr.	17,500	
	To Anup's account			17,500
	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (10,000+3,125)	Dr.	13,125	
	To Bank account			6,562.50
	To Deficiency account			6,562.50
	(Being insolvent, only 50% amount paid to Anup)			

Q-10 Attempt any ONE of the following two sub-parts i.e. either (i) or (ii).

Amar accepted the following bills drawn by Pawan.

On 8th March, 2021 Rs. 16,000 for 4 months.

On 16th March,2021 Rs. 20,000 for 3 months.

On 7th April, 2021 Rs. 24,000 for 5 months.

On 17th May, 2021 Rs. 20,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Amar wants to save Rs. 628 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 628.

(Mtp-Nov'21, 5 Marks)

Ans. Taking 19.6.2021 as a Base date

Transaction Date	Due Date	Amount	No of days	Amount
8.3.2021	11.7.2021	16,000	22	3,52,000
16.3.2021	19.6.2021	20,000	0	0
7.4.2021	10.9.2018	24,000	83	19,92,000
17.5.2021	20.8.2018	20,000	62	12,40,000
		80,000		**35,84,000**

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

= 19.6.2021 + Rs. 35,84,000/Rs.80,000

= 19.6.2021 + 44.8 days (or 45 days approximately)

= 3.8.2021

Amar wants to save interest of Rs. 628. The yearly interest is Rs. 80,000 ? 18%

= Rs. 14,400.

Assume that days corresponding to interest of Rs. 628 are Y.

Then, 14,400 * Y/365 = Rs. 628

or Y = 628 ₹ 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if Amar wants to save Rs. 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2021 (3.8.2021 – 16 days)

Q-11 Mr. Q accepted a bill for ₹ 10,000 drawn on him by Mr. P on 1st August, 2020 for 3 months. Thiswas for the amount which Q owed to P. On the same date Mr. P got the bill discounted at his bank for ₹ 9,800.

On the due date, Q approached P for renewal of the bill. Mr. P agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Q should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Q became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. P

(Mtp-Oct-'21, 10 Marks)

Ans. Journal Entries in the Books of Mr. P

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2020				
August 1	Bills Receivable A/c	Dr.	10,000	
	To Q			10,000
	(Being the acceptance received from Q to settle hisaccount)			
August 1	Bank A/c Dr.		9,800	
	Discount A/c	Dr.	200	
	To Bills Receivable			10,000
	(Being the bill discounted for ₹ 9,800 from bank)			
November 4	Q	Dr.	10,000	
	To Bank Account			10,000
	(Being the Q's acceptance is to be renewed)			
November 4	Q	Dr.	240	
	To Interest Account			240
	(Being the interest due from Q for 3 months i.e.,8000x3/12? 12%=240)			
November 4	Cash A/c	Dr.	2,240	
	Bills Receivable A/c	Dr.	8,000	
	To Q			10,240
	(Being amount and acceptance of new bill receivedfrom Q)			
December 31	Q A/c	Dr.	8,000	
	To Bills Receivable A/c			8,000
	(Being Q became insolvent)			
December 31	Cash A/c	Dr.	3,200	
	Bad debts A/c	Dr.	4,800	
	To Q			8,000
	(Being the amount received and written off on Q's insolvency)			

Q-12 On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2020 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

(Sugg. Dec.21, 10 Marks)

Ans.

Journal Entries in the books of Mr. A

2020			(₹)	(₹)
May.12	B's A/c	Dr.	36,470	
	To Sales account			36,470
	(Being goods sold to B on credit)			
May.12	Bills receivable (No. 1) A/c	Dr.	16,470	
	Bills receivable (No. 2) A/c	Dr.	20,000	
	To B's A/c			36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)			
	OR			
	Bills receivable A/c	Dr.	36,470	
	To B's A/c			36,470
	(Being acceptances received from B, one for ₹ 16,470 at one month and other for ₹ 20,000 at 3 months)			
June.5	Bills for Collection A/c	Dr.	36,470	
	To Bills receivable (No.1) A/c			16,470
	To Bills receivable (No.2) A/c			20,000
	(Being both the bills sent to bank for collection)			
	OR			
	Bills for Collection A/c	Dr.	36,470	
	To Bills receivables A/c			36,470
	(Being B's acceptances sent for collection on due dates)			
June.15	Bank A/c	Dr.	16,470	
	To Bills for Collection A/c			16,470
	(Being amount received on retirement of Bills receivable No. 1)			
Aug.14	B's A/c	Dr.	20,020	
	To Bills for Collection a/c			20,000
	To Noting Charges or Bank Charges			20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)			

Aug. 16	B's A/c	Dr.	480	
	To Interest a/c			480
	(Being interest due)			
Aug. 16	Bank/Cash A/c			
	To B's A/c	Dr.	8,020	
				8,020
	(Being cash received)			
Aug. 16	Bills receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			12,480
	(Being Bills receivable (No. 3) drawn accepted by B)			
	OR			
	Alternatively combined entry may be given for the above two entries:			
	Bank/Cash a/c	Dr.	8,020	
	Bills receivable a/c	Dr.	12,480	
	To B's A/c			20,500
	(Being cash and new acceptance at 3 months received from B)			
Aug.16	Bills for Collection A/c	Dr.	12,480	
	To Bills receivable (No.3) A/c			12,480
	(Being Bills receivable (No.3) sent to bank for collection)			
	OR			
	Bills for collection A/c	Dr.	12,480	
	To Bills receivable A/c			12,480
	(Being new acceptance sent to bank for collection on due date)			
Oct. 1	Bank A/c	Dr.	12,240	
	Rebate A/c	Dr.	240	
	To Bills for Collection			12,480
	(Being amount received on retirement of Bills receivable (No.3))			

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug.16	Bank/ Cash A/c	Dr.	8,020	
	Bills Receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			20,020
	To interest A/c			480
	(Being the ₹ 8,020 paid in cash and new bill			
	(Bills receivable No. 3) accepted for 3 months)			

Q-13 Prepare Journal entries for the following transactions in Samarth's books.

(i) Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500and a new bill for the balance plus ₹ 25 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.

(iv) Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount. **(RTP-May-'21)**

Ans.

Books of S. Samarth

Journal Entries

				Dr. ₹	Cr. ₹
(i)	Bills Payable Account		Dr.	1,250	
	Interest Account		Dr.	25	
	To Cash A/c				500
	To Bills Payable Account				775
	(Bills Payable to Aarav discharged by cash payment of ₹ 500 and a new bill for ₹1,250 including ₹ 25 as interest)				
(ii)	(a) G. Gupta		Dr.	4,020	
	To Sahni				4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to Sahni dishonoured, ₹ 20 paid by Sahni as noting charges)				
	(b) Sahni		Dr.	4,020	
	To Bank Account				4,020
	(Payment to Sahni on withdrawal of bill earlier received from Mr. G. Gupta)				
(iii)	Bank Account		Dr.	4,980	
	Discount Account		Dr.	20	
	To Bills Receivable Account				5,000
	(Payment received from Harshad against his acceptance for ₹ 5,000. Allowed him a discount of ₹ 20)				
(iv)	Bills Payable Account		Dr.	19,000	
	To Bills Receivable Account				19,000
	(Bills Receivable from Patel endorsed to Sandeep in settlement of bills payable issued to him earlier).				

Q-14 Prepare Journal entries for the following transactions in David's books.

(i) David's acceptance to Samuel for ₹ 5,000 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 100 for interest.

(ii) Samantha's acceptance for ₹ 8,000 which was endorsed by David to Flex was dishonoured. Flex paid ₹ 50 noting charges. Bill withdrawn against cheque.

(iii) Simon retires a bill for ₹ 2,000 drawn on him by David for ₹ 20 discount.

(iv) David's acceptance to Ralph for ₹ 20,000 discharged by Ralph's Kent's acceptance to David for a similar amount. **(RTP-Nov-'21)**

Ans. **Books of David**

Journal Entries

			Dr. ₹	Cr. ₹
(i)	Bills Payable Account	Dr.	5,000	
	Interest Account	Dr.	100	
	To Cash A/c			1,000
	To Bills Payable Account			4,100
	(Bills Payable to Samuel discharged by cash payment of ₹ 1,000 and a new bill for ₹4,100 including ₹ 100 as interest)			
(ii)	(a) Samantha	Dr.	8,050	
	To Flex			8,050
	(Samantha's acceptance for ₹ 8050 endorsed to Flex dishonoured, ₹ 20 paid by Flex as noting charges)			
	(b) Flex	Dr.	8,050	
	To Bank Account			8,050
	(Payment to Flex on withdrawal of bill earlier received from Mr. Samantha)			
(iii)	Bank Account	Dr.	1,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			2,000
	(Payment received from Simon against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	20,000	
	To Bills Receivable Account			20,000
	(Bills Receivable from Kent endorsed to Ralph in settlement of bills payable issued to him earlier)			

Q-15 On 1st January 2021, Swapnil draws two bills of exchange for ₹ 32,000 and ₹ 50,000.

The bill of exchange for ₹ 32,000 is for two months while the bill of exchange for ₹ 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2021, Vishal requests Swapnil to renew the first bill with interest at 15% p.a. for a period of two months. Swapnil agreed to this proposal. On 25th March, 2021, Vishal retires the acceptance for ₹ 50,000, the interest rebate i.e. discount being ' 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Swapnil. **[RTP-May'22]**

Ans. **Journal Entries in the books of Swapnil**

2021			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	
	Bills receivable (No. 2) A/c	Dr.	50,000	
	To Vishal A/c			82,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2021 and bills receivable No. 2 due for maturity on 4.4.2021)			

March 4	Vishal's A/c	Dr.	32,000	
	To Bills receivable (No.1) A/c			32,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	32,800	
	To Interest A/c	800		
	To Vishal 's A/c			32,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2021 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	49,500	
	Discount A/c	Dr.	500	
	To Bills receivable (No. 2) A/c		50,000	
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	32,800	
	To Bills receivable (No. 3) A/c			32,800
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	16,400	
	To Vishal's A/c			16,400
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	16,400	
	To Vishal's A/c			16,400
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

Unit-2 Sale of goods on approval

Q-1 On 31st March, 2021 goods sold at a sale price of Rs. 30,000 were lying with customer, Sapan to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Sapan, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 25%. Present market price is 20% less than the cost price.

[MTP March '21, 5 Marks]

Ans. **Journal Entries**

Date 2021	**Particulars**		**Dr. Rs.**	**Cr. Rs.**
31st March	Sales A/c	Dr.	30,000	
	To Sapan A/c			30,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	19,200	
	To Trading A/c			19,200
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.30,000
Less: Profit (30,000 x 25/125)	Rs. 6,000
Cost of goods	Rs.24,000

Market price = 24,000 - (24,000 x 20%) = Rs. 19,200.

Q-2 A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During October,2020 the following are the details of goods sent:

Date (Oct)	2	8	12	18	20	27
Customers	U	V	W	X	Y	Z
Value (Rs.)	10,000	15,000	18,000	5,500	2,000	21,000

Within the stipulated time, U and W returned the goods and V, X and Y signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer W for Sale or Return Account as on 15th November 2020. **[MTP April '21, 5 Marks]**

Ans. **Sale or Return Account**

Date **2020**	***Particulars***	**Rs.**	***Date*** **2020**	***Particulars***	**Rs.**
Oct 31	To Sundries: Sales	22,500	Oct 31	By Sundries	
Nov 15	To Sundries: Returned	28,000		(Goods sent on sale or return basis)	71,500
Nov 15	To Balance c/d	21,000			
		71,500			**71,500**
			Nov 16	By Balance b/d	21,000

W's Account

Date 2020	*Particulars*	Rs.	*Date* 2020	*Particulars*	Rs.
Oct 31	To Sale or Return A/c	18,000	Nov 15	By Sale or Return A/c	18,000

Q-3 A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (₹)	17,000	22,000	25,000	5,500	2,000	28,000

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer Q for Sale or Return Account as on 15th June 2019. **[Sugg.-Nov'19, 5 Marks]**

Ans.

Sale or Return Account

Date 2018	**Particulars**	**₹**	**Date** 2018	**Particulars**	**₹**
May 31	To Sundries: Sales	29,500	May	By Sundries	
June 15	To Sundries: Returned	42,000	31	(Goods sent on sale orreturn basis)	99,500
June 15	To Balance c/d	28,000			
		99,500			99,500
			June 16	By Balance b/d	28,000

Q's Account

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2018			2018		
May 31	To Sale or Return A/c	25,000	June 15	By Sale or Return A/c	25,000

Q-4 X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	**Party's name**	**Amount ₹**	**Remarks**
10.12.2019	M/s ABC Co.	10,000	No information till 31.12.2019
12.12.2019	M/s DEF Co	15,000	Returned on 16.12.2019
15.12.2019	M/s GHI Co	12,000	Goods worth ₹2,000 returned on 20.12.2019
20.12.2019	M/s DEF Co	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s ABC Co	11,000	Good Retained on 28.12.2019
30.12.2019	M/s GHI Co	13,000	No information till 31.12.2019

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account. **[RTP-May'18, RTP-Nov'19]**

Ans. **Goods on sales or return, sold and returned day book in the books of 'X'**

Date 2019	Party to whom goods sent	L.F	Amount ₹	Date 2019	Sold ₹	Returned ₹
Dec.10	M/s ABC		10,000	Dec. 25	10,000	Dec.12
	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-	_____	_____
			77,000	-	47,000	17,000

Goods on Sales or Return Total Account

2019	Amount	₹	2019	Amount	₹
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			_____
		77,000			**77,000**

Q-5 On 31st December, 2018 goods sold at a sale price of ₹ 3,000 were lying withcustomer, Ritu to whom these goods were sold on 'sale or return basis' wererecorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.**[RTP-May'19]**

Ans. **Journal Entries**

Date 2018	Particulars		Dr. ₹	Cr. ₹
31st Dec.	Sales A/c	Dr.	3,000	
	To Ritu's A/c			3,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	2,250	
	To Trading A/c			2,250
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approva	₹ 3,000
Less: Profit (3,000 x 20/120)	₹ 500
Cost of goods	₹2,500

Market price = 2,500 - (2,500 x 10%) = ₹ 2,250.

Q-6 Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2019.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - Rs. 80,000

December 10th - Goods returned by customers Rs. 35,000

December 17th - Received letters from customers for approval Rs. 35,000

December 23rd - Goods with customers awaiting approval Rs. 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2019. Considered that the transaction values are at involve price (including profit margin).

[Sugg.-May '18, MTP-March'20, 5 Marks]

Ans. **In the books of Mr. Badhri**

Journal Entries

Date	Particulars	L.F.	Dr. (in Rs.)	Cr. (in Rs.)
2019				
Dec. 2	Trade receivables A/c	Dr.	80,000	
	To Sales A/c 80,000			
	(Being the goods sent to customers on sale or return basis)			
Dec. 10	Return Inward A/c (Note 1)	Dr.	35,000	
	To Trade receivables A/c			35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)			
Dec. 23	Sales A/c	Dr.	15,000	
	To Trade receivables A/c 15,000			
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)			
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.	12,000	
	To Trading A/c (Note 3)			12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)			

Working Note:

1 No entry is required for receiving letter of approval from customer.

2 Cost of goods with customers = Rs. 15,000 x 100/125 = Rs. 12,000

Q-7 Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ₹ 75,000 which included ₹ 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to-

Mr. Adhitya ₹ 3,900 and Mr. Bakkiram ₹ 2,600.

Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000. **[RTP-May'20]**

Ans. **In the Books of Mr. Ganesh**

Journal Entries

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2018	Sales A/c	Dr.	6,500	
March 31	To Trade receivables A/c			6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)			

March 31	Inventories with Customers on Sale or Return A/c	Dr.	5,000	
	To Trading A/c (Note 1)			5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)			
April 25	Trade receivables A/c	Dr.	3,900	
	To Sales A/c			3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)			

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	**₹ Assets**	₹	₹
	Trade receivables (₹ 75,000 - ₹ 6,500)		68,500
	Inventories-in-trade	50,000	
	Add: Inventories with customers on Sale or Return	5,000	55,000
			1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x ₹ 6,500 = ₹ 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Q-8 Mr. Somnath sends goods to his customers on Sale or Return. The following transactions took place during the month of December, 2021.

December 12th - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 1,60,000

December 20th - Goods returned by customers ₹ 70,000

December 22nd - Received letters from customers for approval ₹ 70,000

December 27th - Goods with customers awaiting approval ₹ 30,000

Mr. Somnath records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Somnath assuming that the accounting year closes on 31st Dec., 2021. Considered that the transaction values are at involve price (including profit margin)

(MTP March 22)(10 + 5 + 5 = 20 Marks)

Ans. **In the books of Mr. Somnath**

Journal Entries

Date	**Particulars**		**L.F.**	**Dr.** *(in ₹)*	**Cr.** *(in ₹)*
2021					
Dec. 12	Trade receivables A/c	Dr.		1,60,000	
	To Sales A/c				1,60,000
	(Being the goods sent to customers on sale or return basis)				

Dec. 20	Return Inward A/c	Dr.	70,000	
	To Trade receivables A/c			70,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)			
Dec. 27	Sales A/c	Dr.	30,000	
	To Trade receivables A/c			30,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)			
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.	24,000	
	To Trading A/c (Note 2)			24,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)			

Working Note:

(1) No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = ₹ 30,000 x 100/125 = ₹ 24,000

Q-9 On 31st December, 2020 goods sold at a sale price of Rs. 18,000 were lying with customer, Mansi towhom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Mansi, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

(MTP-Nov'21, 5 Marks)

Ans. **Journal Entries**

Date 2020	**Particulars**		**Dr. Rs.**	**Cr. Rs.**
31st Dec.	Sales A/c		Dr.	18,000
	To Mansi's A/c			18,000
	(Being cancellation of entry for sale of goods, notyet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	13,500	
	To Trading A/c			13,500
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer	
Sale price of goods sent on approval	Rs.18,000
Less: Profit (3,000 x 20/120)	Rs. 3000
Cost of goods	Rs.15,000
Market price = 15,000 - (15,000 x 10%) = Rs.13,500	

Q-10 ABC Limited supplied goods on sale or return basis to customers.

Goods are to be returned within 15 days from the date of dispatch, failing which it is treated as sales. The books of BC Limited are closed on 31st March, 2021. The particulars of the same are as under:

Date of Dispatch	Party Name	Amount	Remarks
10.03.2021	PQR	25,000	No information till 31.03 .2021
12.03.2021	DEF	15,000	Returned on 16.03.2021
15.03.2021	*GHI*	*40,000*	*Goods worth ' 8,000 Returned on 20.03.2021*
20.03.2021	DEF	10,000	Goods Retained on 24.03.2021
25.03.2021	PQR	22,000	Goods Retained on 28.03.2021
30.03.2021	XYZ	35,000	No information till 31.03.2021

You are required to prepare the following accounts in the books of ABC Limited:

(i) Goods on sale or return, sold and returned day books

(ii) Goods on sales or return total account **(Sugg.-July'21, 5 Marks)**

Ans. **In the books of 'ABC'**

Goods on sales or return, sold and returned day book

Date 2021	Party to whom goods sent	L.F	Amount ₹	Date 2021	Sold ₹	Returned ₹
Mar.10	M/s PQR		25,000	Mar. 25	25,000	-
Mar.12	M/s DEF		15,000	Mar. 16	-	15,000
Mar.15	M/s GHI		40,000	Mar. 20	32,000	8,000
Mar.20	M/s DEF	10,000	Mar. 24	10,000	-	
Mar.25	M/s PQR	22,000	Mar. 28	22,000	-	
Mar.30	M/s GHI	35,000	-	_____	_____	
		1,47,000		89,000	23,000	

Goods on Sales or Return Total Account

Date 2021	Particulars	Amount ₹	Date	Particulars	*Amount* ₹
Mar. 31	To Returns	23,000	2021	By Goods sent	
	To Sales	89,000	Mar. 31	on sales or return	1,47,000
	To Balance c/d	35,000			_____
		1,47,000			**1,47,000**

Q-11 Ms. Madhu has supplied goods on sale or return basis to customers, the particulars of which are as under.

Date of dispatch	Party's name	Amount ₹	Remarks
01.03.2020	M/s. Piya	20,000	Awaiting approval from customers ason 31.03.2020
08.03.2020	M/s. Riya	25,000	Returned on 16.03.2020
15.03.2020	M/s. Ciya	24,000	Goods worth ₹ 4,000 returned on 20.03.2020
19.03.2020	M/s. Diya	22,500	Goods accepted on 24.03.2020
25.03.2020	M/s. Tiya	18,250	Good accepted on 28.03.2020
30.03.2020	M/s. Bhavya	23,000	Awaiting approval from customers ason 31.03.2020

Goods are sent on the terms of 10 days return window from the date of dispatch, failing which it will be treated as sales. The books of Madhu are closed on the 31st March, 2020.

Prepare the following accounts in the books of Madhu.

(a) Goods on "sales or return, sold and returned day books".

(b) Goods on sales or return total account. **(RTP-May-'21)**

Ans. **In the books of 'Madhu'**

Goods on sales or return, sold and returned day book.

Date 2020	Party to whom goods sent	L.F	Amount ₹	Date 2020	Sold ₹	Returned ₹
Mar 01	M/s. Priya		20,000	Mar 11	20,000	-
Mar 08	M/s. Riya		25,000	Mar. 16	-	25,000
Mar 15	M/s. Chiya		24,000	Mar. 20	20,000	4,000
Mar 19	M/s. Diya		22,500	Mar. 24	22,500	-
Mar 25	M/s. Tiya		18,250	Mar. 28	18,250	-
Mar 30	M/s. Bhavya		23,000	Pending approval		
			1,32,750		**80,750**	**29,000**

Goods on Sales or Return Total Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2020			2020		
Mar. 31	To Returns	29,000	Mar.31	By Goods sent on sales or return	1,32,750
	To Sales	80,750			Mar. 31
	To Balance c/d	23,000			
		1,32,750			**1,32,750**

Q-12 On 31st December, 2020 goods sold at a sale price of ₹ 6,000 were lying with customer, Sapna to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Sapna, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

(RTP-Nov-'21)

Ans. **Journal Entries**

Date 2020	Particulars		Dr. ₹	Cr. ₹
31st Dec.	Sales A/c	Dr.	6,000	
	To Sapna's A/c			6,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	4,500	
	To Trading A/c			4,500
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹6,000
Less: Profit (6,000 x 20/120)	₹ 1,000
Cost of goods	₹5,000

Market price = 5,000 - (5,000 x 10%) = ₹ 4,500.

Q-13 S Ltd. sells goods on Sale or Return basis. Customers having the choice of returning the goods within 15 days. During April 2021, the following are the details of the goods sent:

Date of dispatch	Party's name	Amount ₹
April 2	M/s G	20,000
4	M/s H	36,000
16	M/s I	50,000
20	M/s J	16,000
24	M/s K	42,000
28	M/s L	60,000

Within the stipulated time G and I returned the goods while H, J and K informed that they have accepted the goods. Prepare the following in the books of 'S'.

(i) Goods on "sales or return, sold and returned day books".

(ii) Goods on sales or return total account. **[RTP-May'22]**

Ans.(i) Goods on sales or return, sold and returned day book in the books of 'S'

Date 2021	Party to whom goods sent	L.F	Amount ₹	Date 2021	Sold ₹	Returned ₹
Apr. 2	M/s G		20,000	Apr. 17	20,000	
Apr. 4	M/s H		36,000	Apr. 19	36,000	
Apr. 16	M/s I		50,000	May 1	50,000	
Apr. 20	M/s J		16,000	May 5	16,000	-
Apr. 24	M/s K		42,000	May 9	42,000	-
Apr. 28	M/s L		60,000	May 13		
			2,24,000		**94,000**	**70,000**

(ii) **In the books of S Ltd.**

Goods on Sales or Return Total Account

2021		Amount ₹	2021		Amount ₹
Apr.	To Customers for		May. 31	By Goods sent on sales or return	
	Sale on Approval A/c			M/s G	20,000
2	Returned by G	20,000			
4	Sold to H	36,000		M/s H	36,000
				M/s I	50,000
16	Returned by I	50,000		M/s J	16,000
20	Sold to J	16,000		M/s K	42,000
24	Sold to K	42,000		M/s L	60,000
30	To bal c/d	60,000			
		2,24,000			**2,24,000**

Q-14 Mr. Somnath sends goods to his customers on Sale or Return. The following transactions took place during the month of December, 2021.

December 12th - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 1,60,000

December 20th - Goods returned by customers ₹ 70,000

December 22nd - Received letters from customers for approval ₹ 70,000

December 27th - Goods with customers awaiting approval ₹ 30,000

Mr. Somnath records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Somnath assuming that the accounting year closes on 31st Dec., 2021. Considered that the transaction values are at involve price (including profit margin)

(MTP March 22, 10 + 5 + 5 = 20 Marks)

Ans. **In the books of Mr. Somnath**

Journal Entries

Date	**Particulars**		**L.F.**	**Dr.** *(in ₹)*	**Cr.** *(in ₹)*
2021					
Dec. 12	Trade receivables A/c	Dr.		1,60,000	
	To Sales A/c				1,60,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 20	Return Inward A/c	Dr.		70,000	
	To Trade receivables A/c				70,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 27	Sales A/c	Dr.		30,000	
	To Trade receivables A/c				30,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		24,000	
	To Trading A/c (Note 2)				24,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

(1) No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = ₹ 30,000 x 100/125 = ₹ 24,000

Q-15 On 31st December, 2020 goods sold at a sale price of Rs. 18,000 were lying with customer, Mansi towhom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Mansi, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

(Mtp-Nov'21) (5 Marks)

Ans. **Journal Entries**

Date	Particulars			Dr.	Cr.
2020				**Rs.**	**Rs.**
31st	Sales A/c			Dr.	18,000
Dec.	To Mansi's A/c				18,000
	(Being cancellation of entry for sale of goods, notyet approved)				
	Inventories with customers A/c (Refer W.N.)		Dr.	13,500	
	To Trading A/c				13,500
	(Being Inventories with customers recorded at market price)				

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs.18,000
Less: Profit (3,000 x 20/120)	Rs. 3000
Cost of goods	Rs.15,000

Market price = 15,000 - (15,000 x 10%) = Rs.13,500

Q-16 ABC Limited supplied goods on sale or return basis to customers.

Goods are to be returned within 15 days from the date of dispatch, failing which it is treated as sales. The books of BC Limited are closed on 31st March, 2021. The particulars of the same are as under:

Date of Dispatch	Party Name	Amount	Remarks
10.03.2021	PQR	25,000	No information till 31.03 .2021
12.03.2021	DEF	15,000	Returned on 16.03.2021
15.03.2021	*GHI*	*40,000*	*Goods worth ₹ 8,000 Returned on 20.03.2021*
20.03.2021	DEF	10,000	Goods Retained on 24.03.2021
25.03.2021	PQR	22,000	Goods Retained on 28.03.2021
30.03.2021	XYZ	35,000	No information till 31.03.2021

You are required to prepare the following accounts in the books of ABC Limited:

(i) Goods on sale or return, sold and returned day books

(ii) Goods on sales or return total account **[Sugg.-July'21, 5 Marks]**

Ans. **In the books of 'ABC'**

Goods on sales or return, sold and returned day book

Date 2021	Party to whom goods sent	L.F	Amount ₹	Date 2021	Sold ₹	Returned ₹
Mar.10	M/s PQR		25,000	Mar. 25	25,000	-
Mar.12	M/s DEF		15,000	Mar. 16	-	15,000
Mar.15	M/s GHI		40,000	Mar. 20	32,000	8,000
Mar.20	M/s DEF	10,000	Mar. 24	10,000	-	
Mar.25	M/s PQR	22,000	Mar. 28	22,000	-	
Mar.30	M/s GHI	35,000	-	_____	_____	
		1,47,000		**89,000**	**23,000**	

Goods on Sales or Return Total Account

Date 2021	Particulars	Amount ₹	Date	Particulars	*Amount* ₹
Mar. 31	To Returns	23,000	2021	By Goods sent	
	To Sales	89,000	Mar. 31	on sales or return	1,47,000
	To Balance c/d	35,000			
		1,47,000			**1,47,000**

Q-17 Ms. Madhu has supplied goods on sale or return basis to customers, the particulars of which are as under.

Date of dispatch	Party's name	Amount ₹	Remarks
01.03.2020	M/s. Piya	20,000	Awaiting approval from customers ason 31.03.2020
08.03.2020	M/s. Riya	25,000	Returned on 16.03.2020
15.03.2020	M/s. Ciya	24,000	Goods worth ₹ 4,000 returned on 20.03.2020
19.03.2020	M/s. Diya	22,500	Goods accepted on 24.03.2020
25.03.2020	M/s. Tiya	18,250	Good accepted on 28.03.2020
30.03.2020	M/s. Bhavya	23,000	Awaiting approval from customers ason 31.03.2020

Goods are sent on the terms of 10 days return window from the date of dispatch, failing which it will be treated as sales. The books of Madhu are closed on the 31st March, 2020.

Prepare the following accounts in the books of Madhu.

(a) Goods on "sales or return, sold and returned day books".

(b) Goods on sales or return total account. **(RTP-May-'21)**

Ans. **In the books of 'Madhu'**

Goods on sales or return, sold and returned day book.

Date 2020	Party to whom goods sent	L.F	Amount ₹	Date 2020	Sold ₹	Returned ₹
Mar 01	M/s. Priya		20,000	Mar 11	20,000	-
Mar 08	M/s. Riya		25,000	Mar. 16	-	25,000
Mar 15	M/s. Chiya		24,000	Mar. 20	20,000	4,000
Mar 19	M/s. Diya		22,500	Mar. 24	22,500	-
Mar 25	M/s. Tiya		18,250	Mar. 28	18,250	-
Mar 30	M/s. Bhavya		23,000	Pending approval		
			1,32,750		**80,750**	**29,000**

Goods on Sales or Return Total Account

Date 2020	Particulars	Amount ₹	Date 2020	Particulars	Amount ₹
Mar. 31	To Returns	29,000	Mar.31	By Goods sent on sales or return	1,32,750
	To Sales	80,750			Mar. 31
	To Balance c/d	23,000			
		1,32,750			**1,32,750**

Q-18 On 31st December, 2020 goods sold at a sale price of ₹ 6,000 were lying with customer, Sapna to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Sapna, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

(RTP-Nov-'21)

Ans. **Journal Entries**

Date 2020	Particulars		Dr. ₹	Cr. ₹
31st Dec.	Sales A/c	Dr.	6,000	
	To Sapna's A/c			6,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	4,500	
	To Trading A/c			4,500
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹6,000
Less: Profit (6,000 x 20/120)	₹ 1,000
Cost of goods	₹5,000

Market price = 5,000 - (5,000 x 10%) = ₹ 4,500.

Q-19 S Ltd. sells goods on Sale or Return basis. Customers having the choice of returning the goods within 15 days. During April 2021, the following are the details of the goods sent:

Date of dispatch	Party's name	Amount ₹
April 2	M/s G	20,000
4	M/s H	36,000
16	M/s I	50,000
20	M/s J	16,000
24	M/s K	42,000
28	M/s L	60,000

Within the stipulated time G and I returned the goods while H, J and K informed that they have accepted the goods. Prepare the following in the books of 'S'.

(i) Goods on "sales or return, sold and returned day books".

(ii) Goods on sales or return total account. **[RTP-May'22]**

Ans.(i) Goods on sales or return, sold and returned day book in the books of 'S'

Date 2021	Party to whom goods sent	L.F	Amount ₹	Date 2021	Sold ₹	Returned ₹
Apr. 2	M/s G		20,000	Apr. 17	20,000	
Apr. 4	M/s H		36,000	Apr. 19	36,000	
Apr. 16	M/s I		50,000	May 1	50,000	
Apr. 20	M/s J		16,000	May 5	16,000	-
Apr. 24	M/s K		42,000	May 9	42,000	-
Apr. 28	M/s L		60,000	May 13	_____	_____
			2,24,000		**94,000**	**70,000**

(ii) **In the books of S Ltd.**

Goods on Sales or Return Total Account

2021		Amount ₹	2021		Amount ₹
Apr.	To Customers for		May. 31	By Goods sent on sales or return	
	Sale on Approval A/c			M/s G	20,000
2	Returned by G	20,000			
4	Sold to H	36,000		M/s H	36,000
				M/s I	50,000
16	Returned by I	50,000		M/s J	16,000
20	Sold to J	16,000		M/s K	42,000
24	Sold to K	42,000		M/s L	60,000
30	To bal c/d	60,000			_____
		2,24,000			**2,24,000**

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Unit-3 Consignments

Q-1 Mr. Devender of Dehradun sent on 16th February, 2020 a consignment of 500 Pen drives to Mr. Satender of Bengal costing Rs. 100 each. Expenses of Rs. 750 were met by the consignor.
Satender spent Rs. 1,500 for clearance and selling expenses were Rs. 20 per Pen Drive.
Satender sold on 15th March, 2020, 300 Pen drives @ Rs. 160 per Pen drive and again on 20th May, 2020, 150 Pen drives @ Rs. 170 each.
Satender is entitled to a commission of Rs. 25 per Pen drive sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per Pen drive sold. Satender sent the amount due to Devender on 30th September, 2020.
You are required to prepare the consignment account and Satender's account in the books of Devender.
[MTP April '21, 5 Marks]

Ans. **In the books of Devender**

Consignment Account

Dr. **Cr.**

2020		Amount Rs.	2020		Amount Rs.
Feb. 16	To Goods sent on consignment account	50,000	March 15	By Satender's account (Sales) (300 x Rs. 160)	48,000
Feb. 16	To Cash/Bank account (Expenses)	750	May 20	By Satender's account (Sales) (150 x Rs. 170)	25,500
Feb. 16	To Satender's account (Clearance charges)	1,500	Sep 30	By Consignment Stock (Working note 2)	5,225
Sep 30	To Satender's account: Selling expenses (450 x Rs. 20)	9,000			
	Commission (Working note 1)	12,450			
Sep 30	To Profit and loss account (profit on consignment transferred)	5,025			
		78,725			**78,725**

Satender's Account

Dr. **Cr.**

2020		Amount Rs.	2020		Amount Rs.
March 15	To Consignment account (Sales)	48,000	Feb 16	By Consignment account (Clearance charges)	1,500
May 20	To Consignment account (Sales)	25,500	Sep 30	By Consignment account: Selling expenses	9,000
				Commission	12,450
			Sep 30	By Cash/Bank account	50,550
		73,500			**73,500**

Working Notes:

1. Calculation of total commission:

Let total commission be *x*

$$x = 450 \times Rs.\ 25 + \frac{1}{4}\ [(Rs.\ 48,000 + Rs.\ 25,500) - x - (450 \times Rs.\ 125)]$$

$$x = Rs.\ 11,250 + \frac{1}{4}\ [Rs.\ 73,500 - x - Rs.\ 56,250]$$

$$x = Rs.\ 11,250 + \frac{1}{4}\ [Rs.\ 17,250 - x]$$

$4x + x = Rs.\ 45,000 + Rs.\ 17,250$

$5x = Rs.\ 62,250$

$x = Rs.\ 12,450$

2. Valuation of consignment stock:

	Rs.
50 Pen Drives @ Rs. 100 each	5,000
Add: Proportionate expenses of Satender $\frac{(₹1,500 \times 50)}{500}$	
Proportionate expenses paid by Devender $\frac{(₹700 \times 50)}{500}$	75
	5,225

Q-2 A Products Limited of Kolkata has given the following particulars regarding tea sent on consignment to C Stores of Mumbai:

	Cost price	Selling price	Qty consigned
5 Kg. Tin	₹ *100 each*	₹ *150 each*	*1,000 Tins*
10 Kg. Tin	₹ *180 each*	₹ *250 each*	*1,000 Tins*

(i) The consignment was booked on freight "To Pay" basis. The freight was charged @ 5% of selling value.

(ii) C Stores sold 500, 5 kg Tins and 800, 10 kg Tins. It paid insurance of ₹ 10,000 and storage charges of ₹ 20,000.

(iii) C Stores is entitled to a fixed commission @ 10% on Sales.

(iv) During transit 50 quantity of 5 kg Tin and 20 quantity of 10 kg Tin got damaged and the transporter paid ₹ 5,000 as damage charge.

Prepare the Consignment Account in the books of A Products Limited.

[Sugg. Jan '21, 10 Marks]

Ans. **A Products Ltd.**

Dr. **Consignment to Mumbai Account** **Cr.**

Particulars			₹	Particulars		₹
To	Goods sent on Consignment A/c			By C Stores		
	1,000 5 kg. tins @ Rs 100		1,00,000	500, 5 kg. tins @ ₹ 150	75,000	
	1,000 10 kg. tins. @ ₹ 180	1,80,000	2,80,000	800,10 kg. tins. @ ₹ 250	2,00,000	2,75,000
To	C Stores:			By Bank A/c (Damage charges)		5,000
	Freight	20,000		By Profit & Loss A/c		
	Insurance	10,000		abnormal loss (Net)		4,225
	Storage charge	20,000				
	Commission	27,500	77,500	By Inventory on consignment A/c		83,025
To	Profit & Loss A/c – Profit		9,750			
			3,67,250			**3,67,250**

Working Notes:

(i)	Calculation of Freight	
	Sale value of total consignment:	
	1,000 5 kg. tins @ ₹ 150	1,50,000
	1,000 10 kg. tins @ ₹ 250	2,50,000
		4,00,000
	Freight @ 5% of above	20,000
(ii)	Inventories at the end:	
	450, 5 kg. tins @ ₹ 100 (Selling Price ₹ 67,500)	45,000
	180,10 kg. tins. @ ₹ 180 (Selling Price ₹ 45,000)	32,400
		77,400
	Add: Freight 5% of (Selling Price ₹ 1,12,500)	5,625
		83,025
(iii)	Loss in transit:	
	Cost of 50,5 kg. tins @ ₹ 100 & 20, 10 kg tins @ 180	8,600
	Freight @ 5% of Selling Price ₹ 12,500	625
	Gross abnormal Loss	9,225
	Less : Damage charges received	(5,000)
	Net abnormal Loss	4,225

Q-3 Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were ₹ 12,000. The account sales received by Anand shows that Raj has effected sales amounting to ₹1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹9,600 10% of consignment goods of the value of ₹15,000 were destroyed in fire at the Pune godown and the insurance company paid ₹ 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and ·the account of Raj in the books of Anand along with the necessary calculations. **[Sugg.-Nov'19, 10 Marks]**

Ans.(a) **Books of Anand**

Consignment to Raj (Pune) Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Goods sent onConsignment A/c	1,50,000	By Goods sent on ConsignmentA/c (loading)	30,000
To Cash A/c	12,000	By Abnormal Loss (out of which ₹ 12,000 received frominsurance co.)	13,200
To Raj (Expenses)	9,600	By Raj (Sales)	1,20,000
To Raj (Commission)	13,125	By Inventories on ConsignmentA/c	24,300
To Inventories ReserveA/c	4,500	By General Profit & Loss A/c	1,725
	1,89,225		**1,89,225**

Raj's Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Consignment A/c	1,20,000	By Consignment A/c	9,600
		By Consignment A/c	13,125
		By Bank A/c	97,275
	1,20,000		**1,20,000**

Working Notes:

1. Calculation of Loading of goods sent on consignment:
   Abnormal Loss at Invoice price = ₹15,000.
   Abnormal Loss as a percentage of total consignment = 10%.
   Hence the value of goods sent on consignment = ₹15,000 x 100/ 10 = ₹1,50,000.
   Loading of goods sent on consignment = ₹1,50,000 X 25/125 = ₹30,000.
2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price	=	₹15,000
Abnormal Loss at cost = ₹15,000 x 100/125	=	₹12,000
Proportionate expenses of Anand (10 % of ₹12,000)	=	₹ 1,200
		₹13,200

3. Calculation of closing Inventories (15%):
   Anand's Basic Invoice price of consignment = ₹1,50,000

Anand's expenses on consignment	=	₹ 12,000 ₹1,62,000
Value of closing Inventories = 15% of ₹1,62,000	=	₹24,300
Loading in closing Inventories	=	₹4,500 (30,000 x 15%)

4. Calculation of commission:
   Invoice price of the goods sold = 75% of ₹1,50,000 = ₹1,12,500
   Excess of selling price over invoice price = (₹1,20,000- ₹1,12,500) = 7,500
   Total commission = 10% of ₹1,12,500 + 25% of ₹7,500
   = ₹11,250 + ₹1,875
   = ₹13,125

Note: Abnormal loss is calculated at cost and value of inventories is valued at invoice price as invoice price is given.

Q-4 Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales. **[Sugg.Nov'18,MTP March '18, 10 Marks]**

Ans. **Consignment Account**

	₹			₹
To Goods sent on consignment		By Consignee's A/c-		
A/c (15,000 kg x ₹ 30)	4,50,000	Sales (7,500 kg x ₹ 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c		
		(Insurance claim - WN)	9,000	
To Consignee's A/c:		Add: Abnormal Loss (WN)	5,000	14,000
Advertisement & Recurring expenses	33,000	(Profit and Loss Account)		
Commission @ 5% on ₹ 4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c				
(Profit on Consignment)	1,30,190			
	7,10,690			**7,10,690**

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ₹ 30)	12,000
Add: expenses incurred by the consignor @ ₹ 5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	**Amount** (₹)
Total Cost (15,000 kg x ₹ 30)	15,000	4,50,000
Add: Expenses incurred by the consignor	75,000	
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of ghee sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

Q-5 Ganpath of Nagpur consigns 500 cases of goods costing ₹ 1,500 each to Rawat of Jaipur. Ganpath pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	15,000
Freight	45,000
Loading Charges	15,000
Rawat sells 350 cases at ₹ 2,100 per case and incurs the following expenses:	
Clearing charges	18,000
Warehousing and Storage charges	25,000
Packing and selling expenses	7,000

It is found that 50 cases were lost in transit (which is an abnormal loss) and another 50 cases were in transit. Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Ganpath. **[Sugg.-May'18, 10 Marks, RTP-May'20]**

Ans.

In the books of Ganpath

Consignment to Rawat of Jaipur Account

Particulars		₹	**Particulars**		₹
To	Goods sent on Consignment	7,50,000	By	Rawat (Sales)	7,35,000
To	Bank				
	(Expenses: 15,000+45,000+15,000)	75,000	By	Goods lost in Transit 50 cases	
				@ ₹ 1,650 each (WN1)	82,500
To	Rawat (Expenses:	50,000	By	Consignment Inventories:	
	18,000+25,000+7,000)			In hand 50 @ ₹ 1,695 each (WN2)	84,750
To	Rawat (Commission)	73,500	By	Consignment Inventories:	
To	Profit on Consignment				
	ts/f to Profit & Loss A/c	36,250		In transit 50 @ ₹ 1,650 each (WN3)	82,500
		9,84,750			**9,84,750**

Rawat's Account

Particulars		₹	**Particulars**		₹
To	Consignment to Jaipur A/c	7,35,000	By	Consignment A/c (Expenses)	50,000
			By	Consignment A/c(Commission)	73,500
		_____	By	Balance c/d	6,11,500
		7,35,000			**7,35,000**

Working Notes:

1. Consignor's expenses on 500 cases amounts to ₹ 75,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case i.e. 1,500+150.
2. Rawat has incurred ₹ 18,000 on clearing 400 cases, i.e., ₹ 45 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent i.e. 1,500+150+45.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 1,500+150 =1,650.
4. It has been assumed that balance of ₹ 6,11,500 is not yet paid.

Q-6 Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations. **[RTP-Nov'19, MTP April '19, 10 Marks]**

Ans. **Consignment to Jaipur Account in the Books of Manoj**

Particulars	₹	Particulars	₹
To Goods sent onConsignment A/c	1,87,500	By Goods sent onConsignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories onConsignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		**2,36,531**

Working Notes:

1. Calculation of value of goods sent on consignment:
   Abnormal Loss at Invoice price Abnormal Loss as a percentage of total consignment = ₹ 18,750= 10%.
   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10
   = ₹ 1,87,500Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500
2. Calculation of abnormal loss (10%):Abnormal Loss at Invoice price = ₹ 18,750.
   Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000
   Add: Proportionate expenses of Manoj (10 % of ₹ 15,000) = ₹ 1,500
   ₹ 16,500
3. **Calculation of closing Inventories (15%):**
   Manoj's Basic Invoice price of consignment = ₹ 1,87,500
   Manoj's expenses on consignment = ₹ 15,000
   ₹ 2,02,500

   Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375
   Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625
   Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.
4. **Calculation of commission:**
   Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625
   Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)
   Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375
   = ₹ 14,062.5 + ₹ 2,343.75 = ₹ 16,406

Q-7 Mr. Green of New Delhi purchased, 10,000 pieces of sarees at ₹ 100 per saree. Out of these 6,000 sarees were sent on consignment to Mr. White of Calcutta at the selling price of ₹ 120 per saree. The consignor paid ₹ 3,000 for packing and freight.

Mr. White sold 5,000 sarees at ₹ 125 per saree and incurred ₹ 1,000 for selling expenses and remitted ₹ 5,00,000 to New Delhi on account. Mr. White is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Green and Mr. Green's account in the books of agent Mr. White. **[RTP-May'19]**

Ans.

In the Books of Mr. Green

Consignment A/c

	₹		₹
To Goods sent on Consignment A/c		By White's A/c – Sales	
(6,000 x ₹ 120)	7,20,000	(5000 x ₹ 125)	6,25,000
To Bank A/c – Packing, Freight charges	3,000	By Goods sent on Consignment	
To White's A/c – Selling expenses	1,000	A/c (6000 x ₹ 20)	1,20,000
To White's Account – Commission		By Consignment stock account	1,20,500
5% on ₹ 6,25,000 =31,250		(Refer working note)	
20% on ₹ 25,000 = 5,000	36,250		
To Stock reserve A/c (1000 x ₹ 20)	20,000		
To Profit and Loss account	85,250		
	8,65,500		**8,65,500**

In the Book of Mr. White

Mr. Green's Account

	₹		₹
To Bank – Selling expense	1,000	By Sales – debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		**6,25,000**

Working Note:

Closing Stock valuation:

	₹
Cost price of 1000 sarees	1,20,000
1000 x 120 =1,20,000	
Add: Proportionate expenses (3,000 x 1,000/6,000)	500
	1,20,500

Q-8 On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill. **[RTP-Nov'18]**

Ans. **In the books of Mr. Jill**

Consignment Account

Date 2018	Particulars	₹	Date 2018	Particulars	₹
Jan. 1	To Goods sent on Consignment A/c (Invoice price)	1,50,000	Jan. 1	By Goods sent on Consignment A/c (Loading) ₹ (1,50,000 – 1,00,000)	50,000
	To Bank A/c – Consignor's Expenses	10,000	Mar.31	By Jack – Sales	1,20,000
Mar.31	To Jack – Expenses – Commission* (0.05 x ₹ 1,20,000)	3,000 6,000		By Stock on Consignment A/c 1/5 x ₹(1,50,000+10,000+3,000)	32,600
Mar.31	To Stock Reserve A/c (₹ 50,000 x 1/5)	10,000			
	To Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600			
		2,02,600			**2,02,600**

*Invoice price of goods sold: = 4/5 of ₹ 1,50,000 = ₹ 1,20,000.

The goods were sold for ₹ 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack.

Jack's Account

Particulars	₹	Particulars	₹	₹
To Consignment A/c – Sales	1,20,000	By Consignment A/c:		
		Expenses	3,000	
		Commission	6,000	9,000
		By Bills Receivable A/c		1,00,000
		By Bank A/c (Balancing figure)		11,000
	1,20,000			**1,20,000**

Q-9 Mr. A of Assam sent on 18th February, 2017 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

B sold on 15th March, 2017, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2017, 300 DVD players @ ` 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2017.

You are required to prepare the consignment account and B's account in the books of A.**[RTP-May'18]**

Ans. **In the books of A**

Consignment Account

Dr. **Cr.**

2017		Amount ₹	2017		Amount ₹
Feb.18	To Goods sent on consignment account	1,00,000	March 15	By B's account(Sales) (600 x ₹ 160)	96,000
Feb.18	To Cash/Bankaccount(Expenses)	1,500	May 20	By B's account(Sales) (300 x ₹ 170)	51,000
Feb.18	To B's account (Clearancecharges)	3,000	June 30	By Consignment Stock (Working note 2)	10,450
June30	To B's account: Selling expenses (900 x ₹ 20)	18,000			
	Commission (Working note 1)	24,900			
June30	To Profit and lossaccount (profit onconsignment transferred)	10,050			
		1,57,450			**1,57,450**

B's Account

Dr. **Cr.**

2017		Amount ₹	2017		Amount ₹
March 15	To Consignment account(Sales)	96,000	Feb 18	By Consignmentaccount (Clearance charges)	3,000
May20	To Consignment account (Sales)	51,000	June 30	By Consignmentaccount: Selling expenses	18,000
				Commission	24,900
			June30	By Cash/Bank account	1,01,100
		1,47,000			**1,47,000**

Working Notes:

1. Calculation of total commission:

Let total commission be *x*

$$x = 900 \times ₹\,25 + \frac{1}{4}\,[(₹\,96,000 + ₹\,51,000) - x - (900 \times ₹\,125)]$$

$$x = ₹\,22,500 + \frac{1}{4}\,[₹\,1,47,000 - x - ₹\,1,12,500]$$

$$x = ₹\,22,500 + \frac{1}{4}\,[₹\,34,500 - x]$$

$4x + x = ₹\,90,000 + ₹\,34,500$

$5x = ₹\,1,24,500$

$x = ₹\,24,900$

2. Valuation of consignment stock:

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹1,500\times100)}{1,000}$	150
Proportionate expenses paid by B $\frac{(₹3,000\times100)}{1,000}$	300
	10,450

Q-10 Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000
Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:	
Clearing charges	17,000
Warehousing and storage charges	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been l ost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

[MTP-Aug.'18, 10 Marks, MTP-Oct'19, 10 Marks]

Ans. **In the books of Gagan**

Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
		By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Kumar (Expenses)	63,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			**25,93,000**

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		**19,60,000**

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.

(ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

Q-11 Maya consigned 400 boxes of shaving brushes, each box containing 100 shaving brushes. Cost price of each box was ₹ 3,000. Maya spent ₹ 500 per box as cartage, freight, insurance and forwarding charges. One box was lost on the way and Maya lodged claim with insurance company and could get 2,700 as claim on average basis.

Consignee took delivery of the rest of the boxes and spent ₹ 1,99,500 as non recurring expenses and ₹ 1,12,500 as recurring expenses. He sold 370 boxes at the rate of ₹ 65 per shaving brush. He was entitled to 2% commission on sales plus 1% del-credere commission.

You are required to prepare Consignment Account.

[Sugg.-Nov'20, 5 Marks]

Ans. (a) Consignment Account

Particulars	Amount ₹	Particulars	Amount ₹
To Goods sent onconsignment A/c (400x ₹3,000)	12,00,000	By Consignee's A/c-Sales (370 x100x 65)	24,05,000
To Cash A/c (expenses 400x'500)	2,00,000	By Insurance Co./ CashA/c (insurance claim)	2,700
To Consignee's A/c:		By Profit and loss account	
Recurring expenses	1,12,500	(abnormal loss)	800
Non-recurring expenses	1,99,500	By Consignment stock A/c	1,16,000
Commission @ 2% on ₹24,05,000	48,100		
Del-credere commission @ 1% on ₹ 24,05,000	24,050		
To Profit and loss A/c (profit on consignment)	7,40,350		
	25,24,500		**25,24,500**

Working note:

	₹
Abnormal loss:	
Cost of boxes lost during transit	3,000
Add: Expenses incurred by Maya	500
Gross Abnormal loss	3,500
Less: Insurance claim received	(2,700)
Net Abnormal loss	800

Closing inventories	No. of Boxes
Boxes consigned	400
Less: Boxes lost in transit	(1)
	399
Less: Boxes sold	370
Closing inventories	29
Cost of inventories at the end:	₹
29 boxes @ ₹3,000	87,000
Add: Expenses incurred by Maya (29 x ₹500)	14,500
Add: Proportionate (non-recurring) expenses incurred by theconsignee (29/399 x ₹1,99,500)	14,500
	1,16,000

Q-12 Nishant of Noida consigned 15,000 kgs of Sugar at ₹ 30 per kg to his agent Raja at Gurgaon. He spent ₹ 5 per kg as freight and insurance for sending the Sugar at Gurgaon. On the way 100 kgs. of sugar was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of sugar was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Raja sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Raja is entitled to 5% commission on sales. **(MTP March 22)**

Ans.

In the Books of Nishant

Consignment Account

		₹		₹
To	Goods sent on consignment A/c		By Consignee's A/c-Sales	4,50,000
	(15,000 kg x ₹ 30)	4,50,000	(7,500 kg x ₹ 60)	
To	Cash A/c			
	(Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (WN-1)	5,000
			By Insurance claim	9,000
To	Consignee's A/c:		By Consignment Stock A/c (WN-2)	2,46,690
	Advertisement & Recurring expenses	33,000		
	Commission @ 5% on ₹ 4,50,000	22,500		
To	Profit and loss A/c	1,30,190		
	(Profit on Consignment)			
		7,10,690		**7,10,690**

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ₹ 30)	12,000
Add: expenses incurred by the consignor @ ₹5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (₹)
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of Sugar sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

Q-13 Deepankar of Vijay Nagar consigns 500 cases of goods costing Rs. 3,000 each to Sandeep of Udaipur. Deepankar pays the following expenses in connection with the consignment:

Particulars	**Rs.**
Carriage	30,000
Freight	90,000
Loading Charges	30,000
Sandeep sells 350 cases at Rs. 4,200 per case and incurs the following expenses:	
Clearing charges	36,000
Warehousing and Storage charges	50,000
Packing and selling expenses	14,000

It is found that 50 cases were lost in transit and another 50 cases were in transit. Sandeep is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sandeep's Account in the books of Deepankar. **(MTP-Nov'21, 10 Marks)**

Ans. **In the books of Deepankar**

Consignment to Sandeep of Udaipur Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods sent on Consignment	15,00,000	By Sandeep (Sales)	14,70,000
To Bank (Expenses: 30,000+90,000+30,000)	1,50,000	By Goods lost in Transit 50 cases @ Rs. 3,300 each (WN1)	1,65,000
To Sandeep (Expenses: 36,000+Rs.50,000+14,000)	1,00,000	By Consignment Inventories: In hand 50 @ Rs. 3,390 each	

		(WN2)	1,69,500
To Sandeep (Commission)	1,47,000	By Consignment Inventories:	
To Profit on Consignment	72,500	In transit 50 @ Rs. 3,300each	
transfered to Profit &		(WN3)	1,65,000
Loss A/c			
	19,69,500		**19,69,500**

Sandeep's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to	14,70,000	By Consignment A/c	1,00,000
Udaipur A/c		(Expenses)	
		By Consignment A/c	1,47,000
		(Commission)	
		By Balance c/d	12,23,000
	14,70,000		**14,70,000**

Working Notes:

1. Consignor's expenses on 500 cases amounts to Rs.1,50,000; it comes to Rs. 300 per case.
   The cost of cases lost will be computed at Rs. 3,300 per case i.e. 3,000+300.
2. Sandeep has incurred Rs. 36,000 on clearing 400 cases, i.e., Rs. 90 per case; while valuing closing inventories with the agent Rs. 90 per case has been added to cases in hand with the agent i.e. 3,000+300+90.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 3,000+300 =3,300.
4. It has been assumed that balance of Rs. 12,23,000 is not yet paid.

Q-14 Max Chemical Works consigned 700 boxes of medicines to Raja Medical Stores at an invoice price of ₹ 1,68,000 which was·20% above the actual cost price and paid ₹ 14,000 for Insurance and freight. In the course of transit, 50 boxes were lost and the transporter paid ₹ 22,000 for the loss. The Consignee took the delivery of the remaining boxes and incurred ₹ 9,750 for carriage. The Consignee sold 500 boxes for ₹ 1,60,000 and incurred ₹ 6,000 for selling expenses. The Consignee is entitled to a commission of 6% on gross sales.

Show the Consignment Account. **[Sugg.-July'21](10 Marks)**

Ans. **Books of Max Chemical works**

Consignment to Raja Medical store Account

Particulars		₹	₹	Particulars		₹
To	Goods sent on Consignment A/c (700 box)		1,68,000	By Goods sent on Consignment A/c (loading)		28,000
To	To Cash A/c		14,000	By	Abnormal Loss (50 box)	11,000
To	Raja Medial Store - Carriage Expenses on 650 box (Sales- 500 box)		9,750	By	Raja medical store	1,60,000

	Selling exp	6,000			
To	Commission	9,600	By	Inventories on	
				Consignment A/c	41,250
To	Inventories Reserve A/c	6,000			
To	General Profit & Loss A/c	26,900			
		2,40,250			**2,40,250**

Working Notes:

1. Calculation of value of goods sent on consignment
   Value of goods sent on consignment = 1,68,000
   Loading of goods sent on consignment 1,68,000 X 20 / 120 =28,000
2. Calculation of abnormal loss (50 boxes in transit):
   Abnormal Loss paid by transporter = ₹ 22,000.
   Abnormal Loss at Invoice price = ₹ 1,68,000 / 700 * 50 = ₹ 12,000
   Abnormal Loss at cost = 12,000/120*100 = ₹ 10,000
   Add: Proportionate expenses of Max chemical works (' 14,000/700X50) = ₹ 1,000
   ₹ 11,000
3. Calculation of closing Inventories (700-50-500 boxes = 150 box):
   Invoice price per box =1,68,000 / 700= ₹240
   Max chemical works Basic Invoice price of consignment (150 x240) 36,000
   Add: consigner expenses 14,000/700X 150 3000
   Add: consignee expenses 9,750/650X150 2,250
   Closing Inventory 41,250
   Loading in closing Inventories = ₹28,000 / 700 x 150 = ₹6,000
   Where ₹ 36,000 (150/700 of ₹ 1,68,000) is the basic invoice price of the goods sent on consignment remaining unsold.

Note :

1. In the above solution, abnormal loss has been shown at the full amount of cost ₹ 11,000 without considering the amount of ₹ 22,000 received from transporter. Otherwise, there would have been gain of ₹ 11,000 (Money received from transporter ₹ 22,000 less cost of boxes lost ₹ 11,000)
2. Consignment account given above has been prepared at the loaded price. The alternative way of preparing the consignment account at cost is also possible.

Q-15 Mr. Divik of Jaipur purchased, 5,000 pieces of sarees at ₹ 500 per saree. Out of these 3,000 sarees were sent on consignment to Mr. Manoj of Pillani at the selling price of ₹ 600 per saree. The consignor paid ₹ 30,000 for packing and freight. Mr. Manoj sold 2,500 sarees at ₹ 625 per saree and incurred ₹ 10,000 for selling expenses and remitted ₹ 5,00,000 to Jaipur on account of Mr. Divik. Mr. Manoj is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Divik and Mr. Divik's account in the books of agent Mr. Manoj. **(RTP-May-'21)**

Ans.

In the Books of Mr. Divik

Consignment A/c

		₹			₹
To	Goods sent on Consignment A/c (3,000 . ₹ 600)	18,00,000	By	Manoj's A/c – Sales (2500 . ₹ 625)	15,62,500
To	Bank A/c – Packing, Freight charges	30,000	By	Goods sent on Consignment A/c (3000 x ₹ 100)	3,00,000
To	Manoj's A/c – Selling expenses	10,000			
To	Manoj's Account – Commission		By	Consignment stock account	3,05,000
	5% on ₹ 15,62,500= 78,125			(Refer working note)	
	20% on ₹ 62,500= 12,500	90,625			
To Stock reserve A/c (500 x ₹ 100)		50,000			
To Profit and Loss account		1,86,875			
		21,67,500			**21,67,500**

In the Book of Mr. Manoj

Mr. Divik's Account

	₹		₹
To Bank – Selling expense	10,000	By Sales	15,62,500
To Commission	90,625		
To Bank	5,00,000		
To Balance c/d	9,61,875		
	15,62,500		**15,62,500**

Working Note:

Closing Stock valuation:

	₹
Cost price of 500 sarees (500 x 600)	3,00,000
Add: Proportionate expenses (30,000 x 500/3,000)	5,000
	3,05,000

Q-16 Shikha of Delhi consigned to Reema of Mumbai, goods to be sold at invoice price which represents 125% of cost. Reema is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Shikha were ₹ 45,000. The account sales received by Shikha shows that Reema has effected sales amounting to ₹ 4,50,000 in respect of 75% of the consignment. Her selling expenses to be reimbursed were ₹ 36,000. 10% of consignment goods of the value of ₹ 56,250 were destroyed in fire at the Mumbai godown. Reema remitted the balance in favour of Shika.

You are required to prepare consignment account in the books of Shikha along with the necessary calculations.

(RTP-Nov-'21)

Ans. **Consignment to Mumbai Account in the Books of Shikha**

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	5,62,500	By Goods sent on Consignment A/c (loading)	1,12,500
To Cash A/c	45,000	By Abnormal Loss	49,500
To Reema(Expenses)	36,000	By Reema(Sales)	4,50,000
To Reema(Commission)	49,219	By Inventories on Consignment A/c	91,125
To Inventories Reserve A/c	16,875	By General Profit & Loss A/c	6,469
	7,09,594		**7,09,594**

Working Notes:

1. Calculation of value of goods sent on consignment:

Abnormal Loss at Invoice price	= ₹ 56,250
Abnormal Loss as a percentage of total consignment	= 10%.
Hence the value of goods sent on consignment = ₹ 56,250 X 100/ 10	= ₹ 5,62,500
Loading of goods sent on consignment = ₹ 5,62,500 X 25/125	= ₹ 1,12,500

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price = ₹ 56,250.	
Abnormal Loss at cost = ₹ 56,250 X 100/125	= ₹ 45,000
Add: Proportionate expenses of Shikha (10 % of ₹ 45,000)	= ₹ 4,500
	₹ 49,500

3. **Calculation of closing Inventories (15%):**

Shikha's Basic Invoice price of consignment	= ₹ 5,62,500
Shikha's expenses on consignment	= ₹ 45,000
	₹ 6,07,500

Value of closing Inventories = 15% of ₹ 6,07,500 = ₹ 91,125

Loading in closing Inventories = ₹ 1,12,500 x 15/100 = ₹ 16,875

Where ₹ 84,375 (15% of ₹ 5,62,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 5,62,500 = ₹ 4,21875

Excess of selling price over invoice price = ₹ 28,125 (₹ 4,50,000 - ₹ 4,21,875)

Total commission = 10% of ₹ 4,21,875 + 25% of ₹ 28,125

= ₹ 42187.5 + ₹ 7,031.25 = ₹ 49218.75

Q-17 On 1.1.2021, Mr. Sam of Kerala consigned to Mr. Alex of Chennai goods for sale at invoice price. Mr. Alex is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 5,00,000 were consigned to Chennai at the invoice price of ₹ 7,50,000. The direct expenses of the consignor amounted to ₹ 50,000. On 31.3.2021, an account sales was received by Mr. Sam from Mr. Alex showing that he had effected sales of ₹ 6,00,000 in respect of 4/5th of the quantity of goods consigned to him. Mr. Alex's direct expenses were ₹ 15,000. Mr. Alex accepted a bill drawn by Mr. Sam for ₹ 5,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Alex in the books of Mr. Sam. **[RTP-May'22]**

Ans. **In the books of Mr. Sam**

Consignment Account

Date 2021	Particulars	Amount ₹	Date 2021	Particulars	Amount ₹
Jan. 1	To Goods sent on Consignment A/c (Invoice price)	7,50,000	Jan. 1	By Goods sent on Consignment A/c (Loading) (7,50,000 – 5,00,000)	2,50,000
	To Bank A/c – Consignor's Expenses	50,000	Mar.31	By By Alex – Sales Stock on Consignment A/c	6,00,000
Mar.31	To Alex – Expenses – Commission*	15,000		1/5 x ₹ (7,50,000 + 50,000 + 15,000)	1,63,000
	(0.05 x ₹ 6,00,000)	30,000			
Mar.31	To Stock Reserve A/c (₹ 2,50,000 x 1/5)	50,000			
	To Profit on Consignment A/c (transferred to Profit and Loss A/c)	1,18,000			
		10,13,000			**10,13,000**

*Invoice price of goods sold: = 4/5 of ₹ 7,50,000 = ₹ 6,00,000.

The goods were sold for ₹ 6,00,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Alex.

Alex's Account

Particulars	Amount ₹	Particulars	₹	Amount ₹
To Consignment A/c – Sales	6,00,000	By Consignment A/c:		
		Expenses	15,000	
		Commission	30,000	45,000
		By Bills Receivable A/c		5,00,000
		By Bank A/c (Balancing figure)		55,000
	6,00,000			6,00,000

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Unit-4 Average Due date

Q-1 Meera purchases goods on credit. His due dates for payments are given below. You are required to calculate average due date.

Transaction Date	Rs.	Due Date
August 5	600	Sept. 08
Sept. 15	400	Oct. 18
Oct. 10	550	Nov. 13
Nov. 5	800	Dec. 10

[MTP March '21, 5 Marks)]

Ans. Calculation of average due date (Base date: 8th September)

Due Date	Amount Rs.	No. of days from base date	Product Rs.
8th September	600	0	0
18th October	400	40	16,000
13th November	550	66	36,300
10th December	800	93	74,400
	2,350		1,26,700

$$\text{Average due date} = \text{Base date} \pm \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th September + 1,26,700/2,350

= 8th September + 54 days = 1st November

Q-2 Hari accepted the following bills drawn by Vinny:

On 8th March, 2020 Rs. 12,000 for 4 months.

On 16th March, 2020 Rs. 15,000 for 3 months.

On 7th April, 2020 Rs. 18,000 for 5 months.

On 17th May, 2020 Rs. 15,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Hari wants to save Rs. 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 471.

[MTP April '21, 5 Marks]

Ans. **Taking 19.6.2020 as a Base date**

Transaction Date	Due Date	Amount	Days	Amount
8.3.2020	11.7.2020	12,000	22	2,64,000
16.3.2020	19.6.2020	15,000	0	0
7.4.2020	10.9.2020	18,000	83	14,94,000
17.5.2020	20.8.2020	15,000	62	9,30,000
		60,000		**26,88,000**

Average Due Date = Base date + $\frac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2020 + Rs. 26,88,000/Rs.60,000

= 19.6.2020 + 44.8 days (or 45 days approximately)

= 3.8.2020

Hari wants to save interest of Rs. 471. The yearly interest is Rs. 60,000 x 9% = Rs. 5,400.

Assume that days corresponding to interest of Rs. 471 are Y.

Then, 5,400 x Y/365 = Rs. 471 or Y = 471 x 365/5,400 = 31.8 days or 32 days (Approx.)

Hence, if Hari wants to save Rs. 471 by way of interest, he should prepone the payment of amount involved by 32 days from the Average Due Date. Hence, he should make the payment on 2.7.2020 (3.8.2020 – 32 days).

Q-3 Mahesh had the following bill receivables and bills payables against Rajesh.

Calculate the average due date, when the payment can be received or made without any loss of interest.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
12-06-20	5,000	3 months	27-05-20	3,700	3 months
10-07-20	6,200	1 month	07-06-20	4,000	3 months
15-07-20	3,500	3 months	10-07-20	5,000	1 month
12-06-20	1,500	2 months			
28-06-20	2,500	2 months			

15th August, 2020 was Public holiday. However, 10th September, 2020 was also suddenly declared as holiday. **[Sugg. Jan '21, 5 Marks]**

Ans. **Let us take 13.08.2020 as Base date.**

Bills receivable

Bill Date	Tenure	*Due date*	*No. Of days* from 13.08.2020	Amount	Product
12/06/19	3 months	15/09/2020	33	5,000	1,65,000
10/07/19	1 month	13/8/2020	0	6,200	0
15/07/19	3 months	18/10/2020	66	3,500	2,31,000
12/06/19	2 months	14/08/2020	1	1,500	1,500
28/06/19	2 months	31/8/2020	18	2,500	45,000
				18,700	4,42,500

Bills payable

Bill Date	Tenure	*Due date*	*No. Of days* from 13.08.2020	Amount	Product
27/05/19	3 months	30/08/2020	17	3,700	62,900
07/06/19	3 months	11/09/2020	29	4,000	1,16,000
10/07/19	1 month	13/08/2020	0	5,000	0
				12,700	1,78,900

Excess of products of bills receivable over bills payable = 4,42,500 - 1,78,900= 2,63,600

Excess of bills receivable over bills payable = 18,700 – 12,700 = 6,000

Number of days from the base date to the date of settlement is 2,63,600 /6,000 = 43.94 (approx.)

Hence date of settlement of the balance amount is 44 days after 13.08.2020 i.e. 26th September, 2020.

On **26th September, 2020**, Rajesh has to pay Mahesh ₹ 6,000 to settle the account.

Q-4 Attempt any one of the following two sub-parts i.e. either (i) or (ii)

(i) The following amounts are due to X by Y. Y wants B to pay on 10th July,2019.

Interest rate of 9% p.a. is taken into consideration.

Due dates	**₹**
10th January	750
26th January (Republic Day)	1,200
23rd March	3,300
18th August (Sunday)	4,100

Determine average due date and the amount to be paid on 10th July, 2019. Assume 10th January as base date. **[Sugg.-Nov'19, 5 Marks]**

***Ans*.(i) Taking 10th January as the base date**

Due Date (Normal)	**Due Date (Actual)**	**No. of days from 10th January.**	**Amount ₹**	**Product**
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

$$\text{Average Due Date} = \text{10th Jan.} + \frac{11,53,500}{9,350}$$

= 10th Jan + 124 days (rounded off upward) = 14th May

(b) If the payment is deferred to 10th July, interest is to be paid from 14th May to 10th July i.e., for 17 + 30 + 10 = 57 days.

$$\text{Interest} = 9,350 \times \frac{9}{100} \times \frac{57}{365} = 131.41$$

The amount to be paid on 10th July: ₹9,350+ 131.41 = ₹9481.41

Q-5 Attempt any one of the following two sub-parts i.e. either (i) or (ii).

Two Traders Yogesh and Yusuf buy goods from one another, each allowing the others, one month's credit. At the end of 3 months the accounts rendered are as follows:

	Goods sold by Yogesh to Yusuf		**Goods sold by Yusuf to Yogesh**
	(₹)		**(₹)**
April,18	12,000	April, 23	10,600
March, 15	14,000	May, 24	10,000
June, 16	16,000		

Calculate the date upon which the balance should be paid so that no interest is due either to Yogesh or Yusuf. **[Sugg.May'19, 5 Marks]**

Ans. **Taking May 21 as the zero or base date**

For Yusuf's payments:

Date of Transactions (1)	Due Date (2)	Amount (3)	No. of days from the base date (4)	Products (5)
April 18	May 21	12,000	0	0
May 15	June 18	14,000	28	3,92,000
June 16	July 19	16,000	59	9,44,000
Amount Due to Yogesh		42,000	Sum of products	13,36,000

For Yogesh's payments

Taking same base date i.e. May 21

Date of Transactions (1)	Due Date (2)	Amount (3)	No. of days from the base date (4)	Products (5)
April 23	May 26	10,600	5	53,000
May 24 J	une 27	10,000	37	3,70,000
AmountDue to Y		20,600	Sum of products	4,23,000

Excess of Yusuf's products over Yogesh's = ₹ 13,36,000 – ₹ 4,23,000

= ₹ 9,13,000

Excess amount due to Yogesh ₹ 42,000 –₹ 20,600 = ₹ 21,400

Number of days from the base date to the date of settlement is

9,13,000/ 21,400= 42.66 days i.e. 43 days

Hence the date of settlement of the balance amount is 43 days after May 21 i.e., on 3rd July . Yusuf has to pay Yogesh, ₹ 21,400 to clear the account.

Note: Due date is calculated after considering 3 day of grace period.

Q-6 Karan purchased goods from Arjun, the average due date for payment in cash is 10.08.23018 and the total amount due is ₹ 1,75,800. How much amount should be paid by Karan to Arjun, if total payment is made on following dates and interest is to be considered at the rate of 15% p.a.

(i) On average due due(ii) On 28th August, 2018

(iii) On 29th July, 2018 **[Sugg.-Nov'18, 5 Marks]**

Ans.

A B	C	D = B ±C
Principal Amount	Interest from Average Due Date to Actual date of Payment	Total amount to be paid
(i) Payment on average due date		
₹ 1,75,800	₹ 1,75,800 x 15/100 x 0/365 =0	₹ 1,75,800
(ii) Payment on 28th Aug. 2018		
₹ 1,75,800	₹ 1,75,800 x 15/100 x 18/365 = 1,300 Interest to be charged for period of 18 days from 10th August 2018 to 28th Aug. 2018	₹ 1,77,100
(iii) Payment on 29th July, 2018		
₹ 1,75,800	₹ 1,75,800 x 15/100 x (12)/365= (867) Rebate has been allowed for unexpired credit period of 12 days from 29.7.2018 to 10.8.2018	₹ 1,74,933

Q-7 Mr. Alok owes Mr. Chirag ₹ 650 on 1st January 2018. From January to March, the following further transactions took place between Alok and Chirag

January 15	Alok buys goods	₹ 1,200
February 10	Alok buys goods	₹ 850
March 7	Alok received Cash loan	₹ 1,500

Alok pays the whole amount on 31st March, 2018 together with interest @ 6% per annum.
Calculate the interest by average due date method. **[Sugg.-May'18, 5 Marks]**

Ans. Calculation of average due date

Alok pays the whole amount on 31st March, 2018 together with interest at 6% per annum.

Due Date 2018	**Amount** ₹	**No. of days from Jan. 1**	**Product**
Jan. 1	650	0	0
Jan. 15	1,200	14	16,800
Feb. 10	850	40	34,000
March 7	1,500	65	97,500
	4,200		**1,48,300**

Average due date = Base date + days equal to $\frac{\text{Sum of Products}}{\text{Sum of amounts the}}$

= Jan. 1 + $\left[\frac{1,48,300}{4,200}\right]$

= Jan. 1 + 35.31*days

= Feb. 6

Interest therefore has been calculated on ₹ 4,200 from 6thFeb. to 31st March, i.e., for 54 days.
4,200 x 6% x 54/365= ₹ 37.28

Q-8 Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:

Date of bill	**Amount**	**Usance of bill**
9th April 2018	₹ 3,000	for 4 months
18th April 2018	₹ 5,500	for 3 months
25th May 2018	₹ 3,000	for 6 months
5th June 2018	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2018-2019.
[RTP-May'20]

Ans. Calculation of Average Due Date
Taking Base Date 21.07.2018

Date of bill	**Period**	**Due Date**	**Amount** ₹	**Number of Days from Base Date**	**Product** ₹
9.4.2018	4 months	12.08.2018	3,000	22	66,000
18.4.2018	3 months	21.07.2018	5,500	0	0
25.5.2018	6 months	28.11.2018	3,000	130	3,90,000
5.6.2018	3 months	8.09.2018	6,000	49	2,94,000
			17,500		**7,50,000**

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500} = 21.7.2018 + 43\text{DAYS} = 2.09.2018.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2018 + 4 months = 4.11.2018;

Second Bill- 1.7.2018+ 6 months = 4.1.2019.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2018 to 4.11.2018)

= ₹ 10,000 x 10% x 63/365 = ₹ 172.60

2nd bill (2.09.2018 = Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days to 4.1.2019)

= ₹ 7,500 x 10% x 124/365 = ₹ 254.80.

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

Q-9 Ram purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	Due Date
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 10

Calculate Average due date. **[RTP-May'19, RTP-Nov'18]**

Ans. Calculation of average due date (Base date: 8th April)

Due Date	Amount ₹	No. of days from base date	Product ₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
10th July	400	93	37,200
	1,175		**63,350**

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th April + 63,350/1,175

= 8th April + 54 days = 1st June

Q-10 Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2017	2 months	4,000
10th March, 2017	3 months	3,000
5th April, 2017	2 months	2,000
23rd April, 2017	1 months	3,750
10th May, 2017	2 months	5,000

[RTP-May'18]

Ans. **Calculation of Average Due Date**

(Taking 4th May, 2017 as the base date)

Date of bill	Term	Due date	Amount ₹	No. of days from the base date i.e. May 4, 2017	Product ₹
2017		**2017**			
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
23rd April	1 month	26th May	3,750	22	82,500
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,22,500

Average due date = Base date + Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

= 4th May, 2017 + $\frac{₹6,22,500}{17,750}$ = 4th May, 2017 + 35 days = 8th June, 2017

Q-11 From the following details calculate the avera ge due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2018	5,000	1 month
20th March, 2018	4,000	2 months
12th July, 2018	7,000	1 month
10th August, 2018	6,000	2 months

[MTP-Oct'19, 5 Marks]

Ans. **Calculation of Average Due Date**

(Taking 3rd March, 2018 as base date)

Date of bill 2018	Term	Due date 2018	Amount (Rs.)	No. of days from the base date i.e. 3rd March,2018 (Rs.)	Product (Rs.)
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1 month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		**28,16,000**

Average due date = Base date + Days equal to Sum of Products/Sum of Amounts

= 3rd March, 2018 + 28,16,000/22,000

= 3rd March, 2018 + 128 days = 9th July, 2018

Working Note:

Bill dated 12th July, 2018 has the maturity peri od of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

Q-12 Rakesh had the following bills receivable and bills payable against Mukesh.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
1st June	3,400	3 month	29th May	2,500	2 month
5th June	2,900	3 month	3rd June	3,400	3 month
9th June	5,800	1 month	9th June	5,700	1 month
12th June	1,700	2 month			
20th June	1,900	3 month			

15th August was a public holiday. However, 6th September, was also declared as sudden holiday. Calculate the average due date, when the payment can be received or made without any loss of interest to either party. **[Sugg.-Nov'20, 5 Marks]**

Ans. Let us take 12.07.2020 as Base date**.**

Bills receivable

Due date	No. of days from 12.07.2020	Amount	Product
04/09/2020	54	3,400	1,83,600
08/09/2020	58	2,900	1,68,200
12/07/2020	0	5,800	0
14/08/2020	33	1,700	56,100
23/09/2020	73	1,900	1,38,700
		15,700	**5,46,600**

Bills payable

Due date	No. of days from 12.07.2020	Amount	Product
01/08/2020	20	2,500	50,000
07/09/2020	57	3,400	1,93,800
12/07/2020	0	5,700	0
		11,600	**2,43,800**

Excess of products of bills receivable over bills payable = 5,46,600 -2,43,800 = 3,02,800

Excess of bills receivable over bills payable = 15,700 – 11,600 = 4,100

Number of days from the base date to the date of settlement is $\frac{3,02,800}{4,100}$

= 73.85 (appox.)

Hence date of settlement of the balance amount is 74 days after 12th July i.e. 24th September.

On 24thSeptember, 2020 Mukesh has to pay Rakesh ₹4,100 to settle the account.

Q-13 Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2021	2 months	20,000
10th March, 2021	3 months	15,000
5th April, 2021	2 months	10,000
23rd April, 2021	1 months	18,750
10th May, 2021	2 months	25,000

(Mtp-Oct-'21, 5 Marks)

Ans. **Calculation of Average Due Date**

(Taking 4th May, 2021 as the base date)

Date of bill	Term	Due date	Amount ₹	No. of days fromthe base date i.e.May 4, 2021	Product
2021		2021			
1st March	2 months	4th May	20,000	0	0
10th March	3 months	13th June	15,000	40	6,00,000
5th April	2 months	8th June	10,000	35	3,50,000
23rd April	1 month	26th May	18,750	22	4,12,500
10th May	2 months	13th July	25,000	70	17,50,000
			88,750		31,12,500

$$\text{Average due date} = \text{Base date} + \text{Days equal to } \frac{\text{Total of products}}{\text{Total amount}}$$

$$= \text{4th May, 2021} + \frac{₹31,12,500}{88,750} = \text{4th May, 2021 + 35 days = 8th June, 2021}$$

Q-14 Mr. Grow and Mr. Green had the following mutual dealings. They desired to settle their account on the average due date:

Purchases by Grow from Green:	₹
6th January, 2021	60,000
2nd February, 2021	28,000
31st March, 2021	20,000
Sales by Grow to Green:	
6th January, 2021	66,000
9th March, 2021	24,000
20th March, 2021	5,000

You are asked to ascertain the average due date taking base date as 6th January 2021.

(Sugg. Dec.21, 5 Marks)

Ans. **Taking 6th January, 2021 as base date**

Due date	Amount ₹	No. of days from the base date i.e. 6th Jan. 2021	Product
For Grow's payments 2021			
6th January	60,000	0	0
2nd February	28,000	27	7,56,000
31st March	20,000	84	16,80,000
Total	**1,08,000**		**24,36,000**

For Green's payment			
2021			
6th January	66,000	0	0
9th March	24,000	62	14,88,000
20th March	5,000	73	3,65,000
Total	**95,000**		**18,53,000**

Excess of Grow's products over Green's = ₹ 24,36,000 – ₹ 18,53,000 = ₹ 5,83,000

= ₹ 1,08,000 – ₹ 95,000 = ₹ 13,000

Number of days from the base date to the date of settlement is ₹5,83,000 / ₹13,000 = 45 days (approx)

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February. On 20th February, 2021, Grow has to pay Green ₹ 13,000 to settle the account.

Q-15 Ramesh lent ₹ 1,50,000 to Deepak on 1st January, 2016 at the rate of 12% per annum. The loan is repayable as under:

(i) ₹ 10,000 on 1st January, 2017
(ii) ₹ 20,000 on 1st January, 2018
(iii) ₹ 30,000 on 1st January, 2019
(iv) ₹ 40,000 on 1st January, 2020
(v) ₹ 50,000 on 1st January, 2021

You are required to determine the average due date for settling all the above installments by a single payment and compute interest.

[Sugg.-July'21, 5 Marks]

Ans.

Due date	Amount (in ₹)	No. of months from 1.1.2016	Products
1st January 2017	10,000	12	1,20,000
1st January 2018	20,000	24	4,80,000
1st January 2019	30,000	36	10,80,000
1st January 2020	40,000	48	19,20,000
1st January 2021	50,000	60	30,00,000
	1,50,000		66,00,000

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of product}}{\text{Total of amount}}$$

$$1^{st}\ \text{January 2016} + \frac{66,00,000}{1,50,000} = 44\ \text{months}$$

Average due date= 1st January 2016+ 44 months = 1st September 2019.

$$\text{Interest for the 44 months} = \frac{1,50,000 \times 12 \times 44/12}{100} = ₹\,66,000$$

*may be considered as 3.67 years, in this case, interest will be calculated as ₹ 66,060.

Q-16 From the following details calculate the average due date:

Date of Bill	Amount (₹)	Usance of Bill
28th January, 2020	2,500	1 month
20th March, 2020	2,000	2 months
12th July, 2020	3,500	1 month
10th August, 2020	3,000	2 months

(RTP-May-'21)

Ans. **Calculation of Average Due Date**

(Taking 3rd March, 2020 as base date)

Date of bill 2020	Term	Due date 2020	Amount (₹)	No. of days from the base date i.e. 3rd March,2020 (₹)	Product (₹)
28th January	1 month	3rd March	2,500	0	0
20th March	2 months	23rd May	2,000	81	1,62,000
12th July	1 month	14th Aug.	3,500	164	5,74,000
10th August	2 months	13th Oct.	3,000	224	6,72,000
			11,000		**14,08,000**

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2020 + $\frac{14,08,000}{11,000}$

= 3rd March, 2020 + 128 days = 9th July, 2020

Working Note: Bill dated 12th July, 2020 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2020. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2020. **Note:** 365 days are taken for calculation.

Q-17 Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2021	2 months	20,000
10th March, 2021	3 months	15,000
5th April, 2021	2 months	10,000
23rd April, 2021	1 months	18,750
10th May, 2021	2 months	25,000

(RTP-Nov-'21)

Ans. **Calculation of Average Due Date**

(Taking 4th May, 2021 as the base date)

Date of bill 2021	Term	Due date 2021	Amount ₹	No. of days from the base date i.e. May 4, 2021	Product ₹
1st March	2 months	4th May	20,000	0	0
10th March	3 months	13th June	15,000	40	6,00,000
5th April	2 months	8th June	10,000	35	3,50,000
23rd April	1 month	26th May	18,750	22	4,12,500
10th May	2 months	13th July	25,000	70	17,50,000
			88,750		31,12,500

Average due date = Base date+ Days equal to $\frac{\text{Total amount}}{\text{otal of products}}$

= 4th May, 2021 + $\frac{₹3,11,2500}{88,750}$ = 4th May, 2021 + 35 days = 8th June, 2021 .

Q-18 Sunder purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	Due Date
March 5	1,200	April 08
April 15	800	May 18
May 10	1,100	June 13
June 5	1,600	July 10

Calculate Average due date. **[RTP-May'22]**

Ans. **Calculation of average due date (Base date: 8th April)**

Due Date	Amount ₹	No. of days from base date	Product ₹
8th April	1,200	0	0
18th May	800	40	32,000
13th June	1,100	66	72,600
10th July	1,600	93	1,48,800
	4,700		**2,53,400**

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th April + 2,53,400/4,700

= 8th April + 54 days = 1st June

Unit-5 Account Current

Q-1 From the following particulars prepare an account current, as sent by Mr. Amit to Mr. Piyush as on 31st December, 2020 by means of product method charging interest @ 8% p.a.

Date	***Particulars***	₹
01-09-2020	Balance due from Piyush	900
15-10-2020	Sold goods to Piyush	1,450
20-10-2020	Goods returned by Piyush	250
22-11-2020	Piyush paid by Cheque	1,200
15-12-2020	Received cash from Piyush	600

[Sugg. Jan '21, 5 Marks]

Ans.

Piyush in Account Current with Amit
for the period ending on 31st December, 2020

Date	*Particulars*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Amount*	*Days*	*Products*
2020		₹			2020		₹		
Sept. 1	To Balance b/d	900	122	1,09,800	Oct. 20	By Sales Returns	250	72	18,000
Oct. 15	To Sales A/c	1,450	77	1,11,650	Nov. 22	By Bank A/c	1,200	39	46,800
Dec. 31	To Interest A/c	32			Dec. 15	By Cash A/c	600	16	9,600
					Dec. 31	By Balance of products			1,47,050
						By Balance c/d	332		
		2,382		2,21,450			2,382		2,21,450

Calculation of interest:

Interest = 1,47,050/ 366 days x 8% = ₹ 32 (Rounded off)

Note: 366 days taken for interest calculation since 2020 is a leap year. Alternatively,365 days can also be taken. In that case amount of interest will be ₹ 32.23 (Rounded off ₹ 32) and amount of balance c/d will be ₹ 332.23 (Rounded off ₹ 332).

Q-2 Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:

Date	**Amount (₹)**
14-07-2018	1,23,000
18-08-2018	21,000

He withdrew the following amounts:

Date	Amount (₹)
29-07-2018	92,000
09-09-2018	11,500

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method. **[Sugg.-Nov'19, 5 Marks]**

Ans. Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	Particulars	Dr. (₹)	Cr. (₹)	Balance (₹)	Dr.or Cr.	Days (₹)	Dr. Product	Cr. Product(₹)
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						
30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				38,90,000	5,70,000

Interest Calculation:

On ₹ 38,90,000 x 10% x 1/365 = On ₹ 5,70,000 x 8% x 1/365 = Net interest to be debited = 1,066 ₹ 125 ₹ 941

Q-3 Attempt any one of the following two sub-parts i.e. Either (i) or (ii).

(i) From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2018 by means of product method charging interest @ 5% p.a.

Date	Particulars	(₹)
1st July	Balance due from XY	1,500
20th August	Sold goods to XY	2,500
28th August	Goods returned by XY	400
25th September	XY paid by cheque	1,600
20th October	Received cash form XY	1,000

[Sugg.-Nov'18, 5 Marks]

Ans. XY in Account Current with AB as on 31st Oct, 2018

		(₹)	Days	Product (₹)			(₹)	Days	Product (₹)
01.07.18	To Bal.b/d	1,500	123	1,84,500	28.08.18	By Sales Returns	400	64	25,600
20.8.18	To Sales	2,500	72	1,80,000	25.09.18	By Bank	1,600	36	57,600
31.10.18	To Interest	37			20.10.18	By Cash	1,000	11	11,000
					20.10.18	By Balance of Products			2,70,300
					31.10.18	By Bal. c/d	1,037		
		4,037		**3,64,500**			**4,037**		**3,64,500**

Note: Interest = ₹ 2, 70,300 x $\frac{5}{100} \times \frac{1}{365}$ = ₹ 37 (approx.)

Q-4 From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount (₹)
2018 January 1	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh paid by cheque	1,000
February 20	Bhuvanesh accepted a bill drawn byAvinash for one month	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received cash from Bhuvanesh	800

[Sugg.May'18, 5 Marks]

Ans.

Bhuvanesh

in Account Current with Avinash

for the period ending on 31st March 2018

Date 2018	Particulars	Amount ₹	Days	Products	Date 2018	Particulars	Amount ₹	Days	Products
Jan.1	To Balanceb/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb.12	By Bank A/c	1,000	47	47,000
Mar,11	To Sales A/c								
Mar,31	To Interest A/c	72024	20	14,400	Feb.20	By B/R A/c (due date: March 23)	1,500	8	12,000
					Mar,14	By Cash A/c	800	17	13,600
					Mar,31	By Balance of products			1,75,050
						By Balancec/d	94		
		4,044		**2,96,400**			**4,044**		**2,96,400**

***Calculation of interest**

Interest = (1,75,050 x 5%)/365= ₹ 24

*Opening day considered in calculation of no. of days.

Q-5 From the following transactions in the books of Mr. Perfact, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2019. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2019		₹
January 1	Balance in Smart's Account (Credit)	3,500
January 12	Sold goods to Smart (due 1st February)	30,000
January 31	Sold goods to Smart (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Smart	7,000
March 25	Cash received	6,500

[RTP-May'20]

Ans.

In the books of Mr. Perfact

Mr. Smart in Account Current with Mr. Perfact

(Interest to 31st March, 2019 @ 12% p.a.)

(By means of product)

Date 2019	Particulars	Due Date	Amount ₹	Days	Product	Date 2019	Particulars	Due Date	Amount ₹	Days	Product
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365 $\times \frac{12}{100}$					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			64,500		29,50,000				64,500		29,50,000

Q-6 Mr. A owed ₹ 4,000 on 1st January, 2019 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2019 Mr. X sold goods to Mr. A	2,230
29 January, 2019 Mr. X bought goods from Mr. A	1,200
10 February, 2019 Mr. A paid cash to Mr. X	1,000
13 March, 2019 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2019.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace. Assume 1 year = 366 Days. **[RTP-Nov'19]**

Ans. **Mr. A in Account Current with Mr. X**

(Interest upto 15th March, 2019 @ 10% p.a.)

Dr.											Cr.
Date		Particulars	Amount	Days	Product	Date		Particulars	Amount	Days	Product
2019						2019					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{₹4,02,600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

Q-7 The following are the transactions that took place between G and H during theperiod from 1st October, 2017 to 31st March, 2018:

2017	₹
Oct.1 Balance due to G by H	3,000
Oct 18 Goods sold by G to H	2,500
Nov. 16 Goods sold by H to G (invoice dated November, 26)	4,000
Dec.7 Goods sold by H to G (invoice dated December, 17)	3,500
2018	₹
Jan. 3 Promissory note given by G to H, at three months	5,000
Feb. 4 Cash paid by G to H	1,000
Mar. 21 Goods sold by G to H	4,300
Mar.28 Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2018 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee. **[RTP-May'19]**

Ans.

In the books of G

H in Account Current with G

(interest to 31st March,2018@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.18	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.18	Amt.	Product
2017	2017			₹	₹	2017	2017			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18, 2018	Oct 18 2018	To Sales	164	2,500	4,10,000	Dec 7 2018	Dec. 17 2018	By Purchases	104	3,500	3,64,000
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d	5,650		
Mar 31	Mar 31	To Interest		50	-						
				15,850	**10,24,000**				**15,850**		**10,24,000**

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

Q-8 From the following particulars prepare an Account Current to be rendered by A to B at 31st December, reckoning interest @ 10% p.a.

2017		₹	**2017**		₹
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
July 17	Goods sold to B	50	Oct.22	Goods bought from B	30
Aug. 1	Cash received from B	650	Nov. 12	Goods sold to B	20
Aug. 19	Goods sold to B	700	Dec. 14	Cash received from B	80
Aug. 30	Goods sold to B	40			
Sept. 1	Cash received from B	350			

[RTP-Nov'18]

Ans. **B in Account Current with A**

(Interest from Due Date to Dec.31, 2017 @ 10% p.a.)

Dr. Date	**Particulars**	**Due Date**	**Amount (₹)**	**Days**	**Product**	**Date**	**Particulars**	**Due Date**	**Amount (₹)**	**Days**	**Cr. Product**
July 1	To Balance b/d	July 1	600	184	1,10,400	Aug. 1	By Cash A/c	Aug. 1	650	152	98,800
July 17	To Sales A/c	July 17	50	167	8,350	Sept. 1	By Cash A/c	Sept. 1	350	121	42,350
Aug. 19	To Sales A/c	Aug 19	700	134	93,800	Sept. 1	By Bills Receivable A/c	Dec. 4	250	27	6,750
Aug.30	To Sales A/c	Aug. 30	40	123	4,920	Oct. 22	By Purchases A/c	Oct. 22	30	70	2,100
Nov.12	To Sales A/c	Nov. 12	20	49	980	Dec. 14	By Cash A/c	Dec.14	80	17	1,360
Dec.31	To Interest A/c ₹ (67,090 x 0.1 / 365)	18.38				Dec. 31	By Balance c/d		68.38		67,090
		1428.38			**2,18,450**				**1428.38**		**2,18,450**

Q-9 Mr. A owed ₹ 4,000 on 1st January, 2016 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2016 Mr. X sold goods to Mr. A	2,230
29 January, 2016 Mr. X bought goods from Mr. A	1,200
10 February, 2016 Mr. A paid cash to Mr. X	1,000
13 March, 2016 Mr. A accepted a bill drawn by Mr. X for onemonth	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2016.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace. **[RTP-May'18]**

Ans. **Mr. A in Account Current with Mr. X**

(Interest upto 15th March, 2016 @ 10% p.a.)

Dr. **Cr.**

Date 2016	Particulars	Amount	Days	Product	Date 2016	Particulars	Amount	Days	Product
Jan. 01	To Balance b/d	4,000	75	3,00,000	Jan. 29	By Purchase account	1,200	46	55,200
Jan. 15	To Sales account	2,230	60	1,33,800	Feb. 10	By Cash account	1,000	34	34,000
Mar. 13	To Red Ink product (₹ 2,000 x 29)			58,000	Mar. 13	By Bills Receivable account	2,000		
Mar. 15	To Interest account $\left(\frac{₹4,02,600\times10\times1}{100\times366}\right)$				Mar. 15	By Balance of product			4,02,600
						By Balance c/d (amount to be paid)	2,140		
		6,340		**4,91,800**			**6,340**		**4,91,800**

Q-10 On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			Rs.
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promisso ry note from X due after 3 mont h s	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returne d goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum.

Calculate interest to the nearest multiple of a rupee. **[MTP-March'19, 10 Marks]**

Ans. **In the books of Y**

X in Account Current with Y

(Interest to 31st March, 2018 @ 10% p.a)

Date 2018	Particulars	Amount Rs.	Days	Product Rs.	Date 2018	Particulars	Amount Rs.	Days	Product Rs.
Jan.1	To Balanceb/d	5,000	90	4,50,000	Jan.24	By Promissiory Note (due date 27th April)	5,000	(27)	(1,35,000)

Jan.11	To Sales	6,000	79 4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55 4,51,000	Feb. 7	By SalesReturn	1,000	52	52,000
Mar.18	To Sales	9,200	13 1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar.31	To Interest	219		Mar.23	By Purchases	4,000	8	32,000
				Mar.31	By Balance of Products			7,97,600
				Mar.31	By Bank			3,019
		28,619	**14,94,600**			**28,619**		**14,94,600**

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{7,97,600}{365} \times \frac{10}{100} = \text{Rs. 219 (approx.)}$$

Q-11 Attempt any ONE of the following two sub-parts i.e. **either (i) or (ii).** **[Sugg.-Nov'20, 5 Marks]**

From the following particulars prepare an account current, as sent by Mr. Raju toMr. Sunil as on 31st October 2020 by means of product method charging interest @ 12% p.a.

2020	Particulars	Amount (₹)
1st July	Balance due from Sunil	840
15th August	Sold goods to Sunil	1,310
20th August	Goods returned by Sunil	240
22nd September	Sunil paid by cheque	830
15th October	Received cash from Sunil	560

Ans.(i)

Mr. Sunil in Account Current with Mr. Raju

for the period ending on 31stOctober, 2020

Date 2020	Particulars	Amount ₹	Days	Products	Date 2020	Particulars	Amount ₹	Days	Products
July1	To Balance b/d	840	123	1,03,320	Aug. 20	By Sales Returns	240	72	17,280
Aug 15	To Sales A/c	1,310	77	1,00,870	Sept. 22	By Bank A/c	830	39	32,370
Oct. 31	To Interest A/c	47.73							
					Oct. 15	By Cash A/c	560	16	8,960
					Oct .31	By Balance of products			1,45,580
					Oct.31	By Balance c/d	567.73		
		2,197.73		**2,04,190**			**2,197.73**		**2,04,190**

Calculation of interest:

Interest = 1,45,580/366 X 12 % = ₹ 47.73

Note: Year 2020 is a leap year; hence 366 days are taken for interest calculation.

On the assumption of 365 days interest will be as below:-

Interest = 1,45,580/355 x 12% = ₹47.86 (or) ₹48.

Note: The alternative answer based on backward method i.e. Epoque method is also possible.

Q-12 On 1st January, 2021, Aditi account in Deepti ledger showed a debit balance of ₹ 7,500. The following transactions took place between Deepti and Aditi during the quarter ended 31st March, 2021:

2021			**₹**
Jan.	11	Deepti sold goods to Aditi	9,000
Jan.	24	Deepti received a promissory note from Aditi due after 3 months	7,500
Feb.	01	Aditi sold goods to Deepti	15,000
Feb.	04	Deepti sold goods to Aditi	12,300
Feb.	07	Aditi returned goods to Deepti	1,500
March	01	Aditi sold goods to Deepti	8,400
March	18	Deepti sold goods to Aditi	13,800
March	23	Aditi sold goods to Deepti	6,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Deepti to Aditi as on 31st March, 2021, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(MTP March 22)**

Ans.

In the books of Deepti

Aditi in Account Current with Deepti

(Interest to 31st March, 2021 @ 10% p.a)

Date *2021*	**Particulars**	**Amount** ₹	**Days**	**Product** ₹	**Date** *2021*	**Particulars**	**Amount** ₹	**Days**	**Product** ₹
Jan.1	To Balance b/d	7,500	90	6,75,000	Jan.24	By Promissor Varun Note (due date 27th April)	7,500	(27)	(2,02,500)
Jan. 11	To Sales	9,000	79	7,11,000	Feb. 1	By Purchases	15,000	58	8,70,000
Feb. 4	To Sales	12,300	55	6,76,500	Feb. 7	By Sales Return	1,500	52	78,000
Mar. 18	To Sales	13,800	13	1,79,400	Mar. 1	By Purchases	8,400	30	2,52,000
Mar. 31	To Interest	328			Mar.23	By Purchases	6,000	8	48,000
					Mar.31	By Balance of Products			11,96,400
					Mar.31	By Bank	4,528		
		42,928		**22,41,900**			**42,928**		**22,41,900**

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{11,96,400}{365} \times \frac{10}{100} = ₹\ 328 \text{ (approx.)}$$

(ii) The following are the transactions that took place between A and B during the period from 1st October, 2020 to 31st March, 2021:

2020		**Rs.**
Oct.1	Balance due to A by B	3,000
Oct 18	Goods sold by A to B	2,500

Nov. 16	Goods sold by B to A (invoice dated November, 26)	4,000
Dec.7	Goods sold by B to A (invoice dated December, 17)	3,500
2021		**Rs.**
Jan. 3	Promissory note given by A to B, at three months	5,000
Feb. 4	Cash paid by A to B	1,000
Mar. 21	Goods sold by A to B	4,300
Mar.28	Goods sold by B to A (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2021 to be rendered by A to B, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

(Mtp-Nov'21)

(ii) In the books of A

B in Account Current with A

(interest to 31st March, 2021 @ 10% p.a.)

Date	Due date	Particulars	No. of day still 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of day still 31.3.21	Amt.	Product
2020	2020			Rs.	Rs.	2020	2020			Rs.	Rs.
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov16	Nov 26	By Purchases	125	4,000	5,00,000
Oct18,	Oct18	To Sales	164	2,500	4,10,000	Dec7	Dec.17	By Purchases	104	3,500	3,64,000
2021	2021					2021	2021				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar31	Mar 31	By Balance of product			1,81,600
Mar21	Mar.21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar31	Mar31	ToInterest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period $= \frac{1,81,600 \times 10 \times 1}{100 \times 365} = \text{Rs.}50\left(\text{approx.}\right)$

(b) Mr. Lalit owed ₹ 4,000 on 1st January, 2021 to Mr. Sumit. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2021 Mr. Sumit sold goods to Mr. Lalit	2,230
29 January, 2021 Mr. Sumit bought goods from Mr. Lalit	1,200
10 February, 2021 Mr. Lalit paid cash to Mr. Sumit	1,000
13 March, 2021 Mr. Lalit accepted a bill drawn by Mr.Sumitfor one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2021.

Prepare Mr. Lalit in Account Current with Mr. Sumit and ascertain the amount to be paid. Ignore days of grace. **(Mtp-Oct-'21) (5 Marks)**

Ans. **Mr. Lalit in Account Current with Mr. Sumit**

(Interest upto 15th March, 2021 @ 10% p.a.)

Dr.									Cr.
Date 2021	**Particulars**	**Amount**	**Days**	**Product**	**Date 2021**	**Particulars**	**Amount**	**Days**	**Product**
Jan.01	To Balance b/d	4,000	74	2,96,000	Jan.29	By Purchaseaccount	1,200	45	54,000
Jan.15	To Sales account	2,230	59	1,31,570	Feb.10	By Cashaccount	1,000	33	33,000
Mar.13	To Red Ink product				Mar.13	By Bills Receivable			
	(' 2,000 ? 29)			58,000		account	2,000		
Mar.15	To Interest account				Mar.15	By Balance of product			3,98,570
	$\left(\frac{₹3,98,570\times10\times1}{100\times365}\right)$	109				By Balancec/d (amount			
						to be paid)	2,139		
		6,339		**4,85,570**			**6,339**		**4,85,570**

Q-13 Attempt any ONE of the following two sub-parts i.e. either (i) or (ii):

(i) From the following details, prepare an account current, as sent by A to B on 30th June, 2021 by means of products method charging interest @ 6% p.a:

2021	**Particulars**	**Rs.**
January 1	Balance due from B	600
January 11	Sold due from B	520
January 18	B returned goods	125
February 11	B paid by cheque	400
February 14	B accepted a bill drawn by A for one month	300
April 29	Goods sold to B	615
May 15	Received cash from B	700

(ii) A, B and C are partners in a firm. On 1st April 2019 their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.

As per the provision of partnership deed:

(1) C was entitled for a salary of 5,000 p.a.

(2) All the partners were entitled to interest on capital at 5% p.a.

(3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March,2021 of ₹ 45,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

(Sugg. Dec.21, 5 Marks)

Answer

(c) (i) **B in Account Current with A**

(Interest to 30th June 2021, @ 6% p.a.)

Date 2021	**Particulars**	**Amount ₹**	**Days**	**Products**	**Date 2021**	**Particulars**	**Amount ₹**	**Days**	**Products**
Jan.1	To Balance b/d	600	181	1,08,600	Jan.18	By Sales Returns	125	163	20,375

Jan. 11	To Sales A/c	520	170	88,400	Feb. 11	By Bank A/c	400	139	55,600
Apr. 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c (due	300	105	31,500
June 30	To Interest A/c	15.69				date: March 17)			
					May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of			
						products			95,455
						₹' By Balance c/d	225.69		
			1750.69	**2,35,130**			**1750.69**		**2,35,130**

Calculation of interest:

$$\text{Interest} = \frac{95,455}{365} \times \frac{6}{100} = ₹15.69$$

OR

(ii)

Particulars	**A**	**B**	**C**	**Total Profit of firm**
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:				
C's Salary (2019-20,2020-21)			10,000	
Interest on Capital (2019-20,2020-21)	5,000	2,500	2,500	
Share of Profit	29,000	14,500	14,500	58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	**Debit (₹)**	**Credit (₹)**
B's Current A/c	9,000	
To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

Q-14 On 1st January, 2020, Kamal 's account in Vimal's ledger showed a debit balance of ₹ 15,000. The following transactions took place between Vimal and Kamal during the quarter ended 31st March, 2020:

2020			₹
Jan.	11	Vimal sold goods to Kamal	18,000
Jan.	24	Vimal received a promissory note from Kamal dueafter 3 months	15,000
Feb.	01	Kamal sold goods to Vimal	30,000
Feb.	04	Vimal sold goods to Kamal	24,600

Feb.	07	Kamal returned goods to Vimal	3,000
March	01	Kamal sold goods to Vimal	16,800
March	18	Vimal sold goods to Kamal	27,600
March	23	Kamal sold goods to Vimal	12,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Vimal to Kamal as on 31st March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(RTP-May-'21)**

Ans. **In the books of Vimal**

Kamal in Account Current with Vimal

(Interest to 31st March, 2020 @ 10% p.a.)

Date 2020	Particulars	Amount ₹	Days	Product ₹	Date 2020	Particulars	Amount ₹	Days	Product ₹
Jan.1	To Balance b/d	15,000	91	13,65,000	Jan.24	By Promissory Note (due date 26th April)	15,000	(26)	(3,90,000)
Jan.11	To Sales	18,000	80	14,40,000	Feb. 1	By Purchases	30,000	59	17,70,000
Feb. 4	To Sales	24,600	56	13,77,600	Feb. 7	By Sales Return	3,000	53	1,59,000
Mar.18	To Sales	27,600	13	3,55,800	Mar. 1	By Purchases	16,800	30	5,04,000
Mar.31	To Interest	442			Mar.23	By Purchases	12,000	8	96,000
					Mar.31	By Balance of Products			16,19,400
					Mar.31	By Bank	8,842		
		85,642		**45,38,400**			**85,642**		**45,38,400**

Working Note: Calculation of interest:

Interest = = 16,19,400/366 x 10/100 = ₹442.45 (approx.)

Note: 366 days are taken for calculation since year 2020 is a leap year.

Q-15 Mr. P owed ₹ 12,000 on 1st January, 2021 to Mr. Q. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2021 Mr. Q sold goods to Mr. P	6,690
29 January, 2021 Mr. Q bought goods from Mr. P	3,600
10 February, 2021 Mr. P paid cash to Mr. Q	3,000
13 March, 2021 Mr. P accepted a bill drawn by Mr. Q for one month	6,000

They agree to settle their complete accounts by one single payment on 15th March, 2021.

Prepare Mr. P in Account Current with Mr. Q and ascertain the amount to be paid. Ignore days of grace.

(RTP-Nov-'21)

Ans. **Mr. P in Account Current with Mr. Q**

(Interest upto 15th March, 2021 @ 10% p.a.)

Dr. **Cr.**

Date 2021	Particulars	Amount	Days	Product	Date 2021	Particulars	Amount	Days	Product
Jan. 01	To Balance b/d	12,000	74	8,88,000	Jan. 29	By Purchase account	3,600	45	1,62,000
Jan. 15	To Sales account	6,690	59	3,94,710	Feb. 10	By Cash account	3,000	33	99.000
Mar. 13	To Red Ink product (₹ 6,000 x 29)			1,74,000	Mar. 13	By Bills Receivable account	6,000		
Mar. 15	To Interest account $\left(\frac{11,95,710 \times 10 \times 1}{100 \times 365}\right)$	328			Mar. 15	By Balance of product			11,95,710
						By Balance c/d (amount to be paid)	6,418		
		19,018		**14,56,710**			**19,018**		**14,56,710**

Q-16 The following are the transactions that took place between X and Y during the period from 1st October, 2020 to 31st March, 2021:

2020		₹
Oct.1	Balance due to X by Y	3,000
Oct 18	Goods sold by X to Y	2,500
Nov. 16	Goods sold by Y to X (invoice dated November, 26)	4,000
Dec.7	Goods sold by Y to X (invoice dated December, 17)	3,500
2021		₹
Jan. 3	Promissory note given by X to Y, at three months	5,000
Feb. 4	Cash paid by X to Y	1,000
Mar. 21	Goods sold by X to Y	4,300
Mar.28	Goods sold by Y to X (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2021 to be rendered by X to Y, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee. **[RTP-May'22]**

Ans. **In the books of G**

H in Account Current with G

(interest to 31st March,2021@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product
2020	2020			`		2020	2020				
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2021	2021	2021	2021								
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	_____					_____	_____
				15,850	**10,24,000**					**15,850**	**10,24,000**

$$\text{Interest for the period} = \frac{1,81,600 \times 10 \times 1}{100 \times 365} = ₹\ 50(\text{approx.})$$

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Chapter-7
Final accounts of Sole Proprietors

Q-1 The following are the balances as at 31st March, 2021 extracted from the books of Mr. Vijay.

Particulars	Rs.	Particulars	Rs.
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on debtors	2,750	Printing and Stationery	2,500
Sundry Debtors	2,40,000	Cash in hand	2,900
Sundry Creditors	95,000	Cash at bank	6,250
Bad debts	2,200	Office Expenses	20,320
		Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of Rs. 5,150 and sales include purchases return of Rs. 3,450.
2. Free samples distributed for publicity costing Rs. 1,650.
3. Goods withdrawn by Mr. Vijay for own consumption Rs. 7,000 included in purchases.
4. Wages paid in the month of April for installation of plant and machinery amounting to Rs. 900 were included in wages account.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Closing stock as on 31st March, 2021 is Rs. 2,50,000.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date.

[MTP March '21, 12 Marks]

Ans.

Trading and Profit and Loss Account of Mr. Vijay
for the year ended 31st March, 2021

Dr. Cr.

	Particulars	Rs.	Amount Rs.	Particulars	Rs.	Amount Rs.
To	Opening stock		64,500	By Sales	4,27,150	
To	Purchases	3,06,200		Less: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By Closing stock		2,50,000
To	Carriage inward		2,250			
To	Wages		23,430			
To	Gross profit c/d		2,79,070			
			6,72,000			**6,72,000**

To	Salaries		45,100	By Gross profit b/d	2,79,070
To	Rent		8,600	By Bad debts recovered	900
To	Advertisement expenses		8,350		
To	Printing and stationery		2,500		
To	Bad debts		2,200		
To	Carriage outward		2,700		
To	Provision for doubtful debts				
	5% of Rs. 2,40,000	12,000			
	Less: Existing provision	6,400	5,600		
To	Provision for discount on debtors				
	2.5% of Rs. 2,28,000	5,700			
	Less: Existing provision	2,750	2,950		
To	Depreciation:				
	Plant and machinery	6,000			
	Furniture and fittings	2,050	8,050		
To	Office expenses		20,320		
To	Interest on loan		6,000		
To	Net profit				
	(Transferred to capital account)		1,67,600		
			2,79,970		**2,79,970**

Balance Sheet of Mr. Vijay as on 31st March, 2021

Liabilities	**Rs.**	**Amount Rs.**	***Assets***	**Rs.**	**Amount Rs.**
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		Less: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	Less: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	Less: Provision for doubtful debts	12,000	
			Less: Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			**5,34,500**

Q-2 Mr. Surya runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2021.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ Rs. 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ Rs. 0.80 per unit manufactured and @ Rs. 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Surya for the year ended 31-03-2021.

[MTP April '21, 5 Marks]

Ans.

In the Books of Mr. Surya

Manufacturing Account for the Year ended 31.03.2021

Particulars		**Units**	**Amount Rs.**	**Particulars**	**Units**	**Amount Rs.**
To	Opening Workin-Process	27,000	78,000	By Closing Workin-Process	42,000	1,44,000
To	Raw Materials Consumed:			By Trading A/c – Cost of finished goods transferred	15,00,000	58,00,800
	Opening Inventory	7,80,000				
	Add: Purchases	24,60,000				
		32,40,000				
	Closing Inventory	(9,60,000)	22,80,000			
To	Direct Wages – W.N. (1)		12,16,800			
To	Direct expenses: Hire charges on Machinery – W.N. (2)		10,50,000			
To	Indirect expenses: Hire charges of Factory		7,80,000			
	Repairs & Maintenance		5,40,000			
			59,44,800			**59,44,800**

Working Notes:

(1)	Direct Wages – 1,500,000 units @ Rs.0.80	= Rs.12,00,000
	42,000 units @ Rs.0.40	= Rs. 16,800
		Rs. 12,16,800
(2)	Hire charges on Machinery – 15,00,000 units @ Rs.0.70	= Rs.10,50,000

Q-3 The balance sheet of Mittal on 1st January, 2018 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	16,00,000	Plant & Machinery	31,00,000
Expenses payable	2,50,000	Furniture & Fixture	4,00,000
Capital	51,00,000	Trade receivables	14,50,000
		Cash at bank	7,00,000
		Inventories	13,00,000
	69,50,000		**69,50,000**

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

(i) Interest on capital @ 6% p.a.

(ii) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..

(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year.

[Sugg.-Nov'19, 10 Marks]

Ans. Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
To Net profit	13,50,000	By Prepaid insurance	25,000
	15,35,000		**15,35,000**

Balance Sheet of Mittal

as on 31st December,2018

Liabilities	₹		Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000
Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		Less: Provision for		
			doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant andMachinery	31,00,000	
	58,30,000		Less: Depreciation	(3,10,000)	27,90,000
Add: Interest oncapital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstandingexpenses	1,85,000		Less: Depreciation	(20,000)	3,80,000
Trade payables	13,84,000		Inventories		19,95,000
			Prepaid insurance		25,000
	77,05,000				**77,05,000**

Q-4 Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Particulars	Amount	Particulars	Amount
Debit Balances:	₹	**Credit Balances:**	₹
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		**35,000**

Other information :

(i) Closing stock was valued at ₹ 4,500

(ii) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.

(iii) Commission received in advance is ₹ 100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

(vi) Reserve for bad debts is to be kept at ₹ 1,000

(vii) Depreciation on furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments. **[Sugg.-May'19, 10 Marks]**

Ans. **Trading & Profit and Loss Account of**

Mr. Sandeep for the year ended 31 st December, 2018

	Particulars	₹	₹	Particulars		₹	₹
To	Opening Stock		1,400	By Sales			9,000
To	Purchase	12,000			Less: Sales return	(1,000)	8,000
	Less: Purchase return	(2,000)	10,000	By	Closing stock		4,500
To	Gross Profit		1,100				
			12,500				**12,500**
To	Salary	2,500		By	Gross Profit		1,100
	Add: Outstanding salary	100	2,600	By	Commission	500	
					Less: Advance	(100)	400
To	Tax & Insurance	500		By	Accrued interest		210
	Add: Outstand ing	200		By	Net Loss		2,500
	Prepaid insurance	(50)	650				
To	Bad debt	500					
	Opening provision	(1,000)					
	Closing provision	1,000	500				
To	Interest on overdraft		300				
To	Depreciation on furniture		160				
			4,210				**4,210**

Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	₹	₹	Particulars	₹	₹
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		Less: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500			
Outstanding expenses:			Less: Provision on bad debts	(1,000)	4,000
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			**18,700**

Q-5 Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	22,00,000	By Sales	45,00,000
To Gross Profit C/d	?		45,00,000
		By Gross Profit B/d	?
To Salaries paid	12,00,000	By Other Income	45,000
To General Expenses	6,00,000		
To Selling Expenses	?		
To Commission to Manager			
(On net profit before			
charging such commission)	1,00,000		
To Net Profit	?		
	?		?

Selling expenses amount to 1% of total Sales

You are required to compute the missing figures. **[Sugg.-Nov'18]**

Ans. **Trading and P&L A/c for the year ended 31st March 2018**

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries A/c	12,00,000	By Gross Profit b/d	23,00,000
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission to Manager (on Net			
Profit before charging such commission)	1,00,000		
To Net Profit	4,00,000		
	23,45,000		**23,45,000**

Q-6 The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Building	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	**30,73,400**	**30,73,400**

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017

(e) Provision for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

[RTP-May'20]

Ans.

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		*Less:* Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock	4,10,000	
To Freight		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			**18,86,000**

M/s Raghuram & Associates

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

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To Salaries	72,000		By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount		
To Provision for Doubtful			received		12,000
Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses					
(Repairs)		13,000			
To Net Profit transferred to					
Capital A/c		8,700			
		3,34,000			**3,34,000**

Balance Sheet of M/s Raghuram & Associates

as at 31st March 2018

Liabilities	Details	Amount ₹	Assets	Details	Amount ₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		*Less:* Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	*Less:* Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	*Less:* Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	*Less:* Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			**14,85,200**

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $\left(\frac{6,000}{15}\times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% x 9/12	= 4,500
Less: interest as per Trial Balance	= (4,400)
Amount (Outstanding)	100

(4) Provision for bad debts A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d	14,000	By P&L A/c	16,200
(5% of 2,80,000)	**26,200**		**26,200**

Q-7 The following is the Trial Balance of T on 31st March, 2018 :

	Dr.₹	Cr.₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	**31,19,000**

Stock on 31st March, 2018 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amountwithdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto31.03.2018, but the goods were included in stock.

(iii) Purchase returns of ₹1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2018.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2018. **[RTP-May'19]**

Ans. **Journal Entries**

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			

(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000
	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T
for the year ending 31st March, 2018

Dr. **Cr.**

		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
		16,16,000	By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			**22,02,000**
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000				
Add:Further Depreciation	10,000	24,000	By Interest on Investments		20,000
$\left(2,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$			$\left(2,00,000 \times \frac{12}{100} \times \frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			**6,36,000**

Balance Sheet as on 31st March, 2018

Liabilities		₹	**Assets**		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	Less: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors Investments	2,50,000	2,50,000
Overdraft		8,000	Interest accrued	20,000	
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			**13,30,000**

Q-8 The following is the trial balance of Hari as at 31st December, 2017:

	Dr. ₹	Cr. ₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	**5,11,330**

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 400 had been omitted from the books.

(8) Stock on 31.12.2017 was ₹ 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017. **[RTP-Nov'18]**

Ans. **Trading and Profit and Loss Account of Mr. Hari**
for the year ended 31st December, 2017

	₹	₹		₹	₹
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		*Less:* Returns	8,600	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			**4,59,600**
To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings	500				
To Net profit		34,503			
		81,940			**81,940**

Balance Sheet of Hari as at 31st December, 2017

Liabilities	₹	₹	**Assets**	₹	₹
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		*Less:* Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 30,000			& doubtful debts (W.N.2)	1,150	
Goods 600	30,600	80,593		21,850	
Bank loan		20,000	*Less:* Provision for		
Bank interest due		1,700	discount (W.N.2)	437	21,413
Sundry creditors (W.N.3)		14,200	Stock		78,600
			Prepaid expenses:		
			Printing & stationary		3,600
			Bank balance		8,000
			Cash balance		380
		1,16,493			**1,16,493**

Working Notes:

(1)	**Sundry debtors**	
	Balance as per trial balance	24,000
	Less: Due to Ram	1,000
		23,000
(2)	**Provision for bad & doubtful debts:**	
	@ 5% on ₹ 23,000	1,150
	Provision for discount:	
	2% on ₹ 21,850 (23,000 -1,150)	437
(3)	**Sundry creditors**	
	Balance as per trial balance	14,800
	Less: Set off in respect of Ram	1,000
		13,800
	Add: Purchase invoice omitted	400
		14,200

Q-9 Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2020.

Particulars	Amount	Particulars	Amount
Debit Balances:	**Rs.**	**Credit Balances:**	**Rs.**
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		**35,000**

Other information :

(i) Closing stock was valued at Rs. 4,500.

(ii) Salary of Rs. 100 and Tax of Rs. 200 are outstanding whereas insurance Rs. 50 is prepaid.

(iii) Commission received in advance is Rs. 100.

(iv) Interest accrued on investment is Rs. 210.

(v) Interest on overdraft is unpaid Rs. 300.

(vi) Provision for bad debts is to be kept at Rs. 1,000 .

(vii) Depreciation on furniture is to be charged @ 10%.

You are required to prepare the final accounts after making above adjustments.

[MTP-March'20, 12 Marks]

Ans. **Trading & Profit and Loss Account of**

Mr. Sandeep for the year ended 31st December, 2020

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		1,400	By Sales	9,000	
To Purchase	12,000		*Less*: Sales return	(1,000)	8,000
Less: Purchase return	(2,000)	10,000	By Closing stock		4,500
To Gross Profit		1,100			
		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	
Less: Advance				(100)	400
To Tax & Insurance	500		By Accrued interest		210
Add: Outstanding	200		By Net Loss		2,500
Prepaid insurance	(50)	650			
To Bad debt	500				
Opening provision	(1,000)				
Closing provision	1,000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4,210			**4,210**

Balance Sheet of Mr. Sandeep as on 31.3.2020

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		*Less*: Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	*Add:* accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable Outstanding		2,500	*Less:* Provision on bad	(1,000)	4,000
expenses:			debts		
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in		100	Prepaid insurance		50
advance					
		18,700			**18,700**

Q-10 Following information is provided for M/s. Kumar Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Kumar Trade.

[MTP-March'20, 5 Marks]

Ans. **Journal Proper in the Books of M/s. Kumar Traders**

Date 2019	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
	Sales A/c	Dr.	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	7,80,000	
	To Opening Inventory A/c			1,00,000
	To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	(Being the transfer of balances of opening inventory, purchases and wages accounts)			
	Closing Inventory A/c	Dr.	2,00,000	
	To Trading A/c			2,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	4,20,000	
	To Gross Profit			4,20,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	4,20,000	
	To Profit and Loss A/c			4,20,000
	(Being the transfer of gross profit to Profit and Loss Account)			

Q-11 From the below mentioned information, prepare a Trading Account of M/s. Ketan Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,50,000
Purchases	10,08,000
Carriage Inwards	45,000
Wages	75,000
Sales	16,50,000
Returns inward	1,50,000
Returns outward	1,08,000
Closing Inventory	3,00,000

[MTP-Oct'19, 4 Marks]

Ans. **In the books of M/s. Ketan Traders**

Trading Account for the year ended 31st March, 2019

Particulars	Rs.	Amount Rs.	Particulars	Rs.	Amount Rs.
To Opening Inventory		1,50,000	By Sales	16,50,000	
To Purchases	10,08,000		Less: Returns Inward	(1,50,000)	15,00,000
Less: Returns outward	(1,08,000)	9,00,000	By Closing Inventory		3,00,000
To Carriage Inwards		45,000			
To Wages		75,000			
To Gross profit		6,30,000			
		18,00,000			**18,00,000**

Q-12 Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each. On 1 July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate :

(i) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2019.

(ii) Amount actually paid as salaries during 2019.

(iii) Outstanding salaries as on 31st December, 2019. **[Sugg.-Nov'20, 5 Marks]**

Ans. **(i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2019**

Employees	= 9 x ₹ 44,000 x 12	= ₹ 47,52,000
Trainees	= 2 x ₹ 21,000 x 6	= ₹ 2,52,000
Salaries charged to P & L A/c		₹50,04,000

(ii) Amount actually paid as salaries during 2019

Employees	= 9 x ₹ 44,000 x 11 + 9 x ₹ 40,000	= ₹ 47,16,000
Trainees	= 2 x ₹21,000 x 5	= ₹ 2,10,000

Amount paid as salaries ₹ 49,26,000

(iii) Outstanding salaries as on 31.12.2019

Employees	= 9 x ₹ 44,000	= ₹ 3,96,000
Trainees	= 2 x ₹ 21,000	= ₹ 42,000
Outstanding salaries		₹ 4,38,000

Q-13 Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		

Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
to Direct Expenses	2,49,000		

(i) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

(ii) Wages include the following:

Paid to factory workers - ₹3,15,000

Paid to labour at office - ₹ 50,000

(iii) Direct expenses included the following :

Electricity charges - ₹80,000 of which 25% pertained to office

Fuel charges - ₹25,000

Freight inwards - ₹32,000

Delivery charges to customers - ₹ 22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c. **[Sugg.-Nov'20, 10 Marks]**

Ans. Manufacturing A/c

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		**18,32,000**

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Balancing Figure)	6,52,000
	15,67,000		**15,67,000**

Working Notes:

(1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.

So, depreciation omitted from being charged = 12,00,000 x 15%

= ₹ 1,80,000

Correct total depreciation expense = ₹ (2,15,000 + 1,80,000)

= 3,95,000

(2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹3,15,000 will be shown in manufacturing account.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	22,000
Total expenses not part of Direct Expenses	42,000

=> Revised Direct Expenses = ₹ (2,49,000 - 42,000)

= ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(42,000)
Revised balance to be transferred	**18,32,000**

(5) Creditors A/c

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Raw Materials A/c (Bal. figure)	14,40,000
	30,10,000		**30,10,000**

Q-14 The trial balance of Sahil as at 31st March, 2021 is as follows:

	Dr. ₹	Cr. ₹
Sahil's capital account	-	1,91,725
Stock 1st April, 2020	1,17,000	-
Sales	-	9,74,000
Returns inward	21,500	-
Purchases	8,04,250	-
Returns outward	-	14,500
Carriage inwards	49,000	-
Rent & taxes	11,750	-
Salaries & wages	23,250	-
Sundry debtors	60,000	-
Sundry creditors	-	37,000
Bank loan @ 14% p.a.	-	50,000
Bank interest	2,750	-
Printing and stationary expenses	36,000	-
Bank balance	20,000	-
Discount earned	-	11,100
Furniture & fittings	12,500	-
Discount allowed	4,500	-
General expenses	28,625	-
Insurance	3,250	-
Postage & telegram expenses	5,825	-
Cash balance	950	-
Travelling expenses	2,175	-
Drawings	75,000	-
	12,78,325	**12,78,325**

The following adjustments are to be made:

(1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(2) Personal purchases of Sahil amounting to ₹ 1,500 had been recorded in the purchases day book.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Included amongst the debtors is ₹ 7,500 due from Sunder and included among the creditors ₹ 2,500 due to him.

(5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(6) Credit purchase invoice amounting to ₹ 1,000 had been omitted from the books.

(7) Stock on 31.03.2021 was ₹ 1,96,500.

(8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & profit and loss account for the year ended 31. 03.2021.

(MTP March 22)

Ans. **Trading and Profit and Loss Account of Mr. Sahil**
for the year ended 31st March, 2021

	₹	₹		₹	₹
To Opening stock		1,17,000	By Sales	9,74,000	
To Purchases	8,04,250		*Less:* Returns	21,500	9,52,500
Add: Omitted	1,000		By Closing stock		1,96,500
invoice	8,05,250				
Less: Returns	14,500				
	7,90,750				
Less: Drawings	1,500	7,89,250			
To Carriage Inwards		49,000			
To Gross profit c/d		1,93,750			
		11,49,000			**11,49,000**
To Rent and taxes		11,750	By Gross profit b/d		1,93,750
To Salaries and wages		23,250	By Discount received		11,100
To Bank interest	2,750				
Add: Due	4,250	7,000			
To Printing and					
stationary	36,000				
Less: Prepaid (1/4)	9,000	27,000			
To Discount allowed		4,500			
To General expenses		28,625			
To Insurance		3,250			
To Postage & telegram					
expenses		5,825			
To Travelling expenses		2,175			
To Provision for bad					
debts [W.N.]		2,875			
To Provision for discount					
on debtors [W.N.]		1,093			
To Depreciation on		1,250			
furniture & fittings					
To Net profit		86,257			
		2,04,850			**2,04,850**

Working Note:

Provision for bad & doubtful debts:

@ 5% on ₹ 57,500 **2,875**

Provision for discount:

2% on ₹ 54,625 (57,500 -2,875) **1,093**

Q-15 On 31st March, 2021 the Trial Balance of Mr. Black was as follows:

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2020		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		**30,28,000**

The following additional information is available:

Stocks on 31st March,2021 were:

Raw material	₹ 1,62,000
Finished goods	₹ 1,81,000
Work-in-progress	₹ 78,000

Salaries and wages unpaid for the year ended 31st March,2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and off ice furniture by 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March,2021. **(Sugg. Dec.21, 15 Marks)**

Ans. **In the books of Mr. Black**

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	78,000
To Opening Stock of Raw Materials	2,10,000		By Sale of Scrap	25,000
Add: Purchases	8,50,000		By Cost of goods Manufactured (Transferred to Trading Account)	11,90,000
Less: Closing Stock	1,62,000	8,98,000		
To Opening Stock of WIP		95,000		
To Wages	1,30,000			
Add: Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
To Depreciation of Plant		70,000		
		12,93,000		**12,93,000**

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,08,000		
	18,53,000		**18,53,000**

Profit and Loss Account for the year ended 31st March, 2021

Particulars			₹ Particulars	₹
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation of furniture		7,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts: Required (1% of ₹1,67,200)	16,720			
Less: Existing Provision	16,500	220		
To Net Profit		3,47,780		
		5,12,500		**5,12,500**

Q-16 Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020 - ₹ 15,000 principal+ ₹ 9,000 interest

30th September, 2020 - ₹ 15,000 principal+ ₹ 8,550 interest

31st December, 2020 - ₹ 15,000 principal+ ₹ 8,100 interest

31st March, 2021 - ₹ 15,000 principal+ ₹ 7,650 interest.

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

(i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

[Sugg.-July'21, 10 Marks)

Ans.

(a) **In the books of M/s Designer wear**

Trading and Profit & Loss Account (for the year ending 31.3.2021)

			₹			₹
To	Purchases		17,00,000	By	Sales	20,00,000
To	Gross profit		8,50,000	By	Closing stock	5,50,000
			25,50,000			**25,50,000**
To	Interest					
	(9,000+8,550+8,100+7,650)	33,300		By	Gross profit	8,50,000
To	Telephone charges	50,000				
To	Travelling expenses	45,000				
To	Maintenance expenses	25,000				
To	Entertainment expenses	5,000				

To	Electricity exp	40,000			
	Add: outstanding	20,000	60,000		
To	Carriage outward	60,000			
To	Depreciation				
	Building 5%	30,000			
	Furniture 10%	1,000	31,000		
To	Misc. exp		15,000		
To	Net profit		5,25,700		
			8,50,000		**8,50,000**

Balance Sheet as on 31st March, 2021

LIABILITIES	₹	₹	**ASSETS**	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	5,25,700	9,65,700	Less: dep	1,000	9,000
Bank Loan	3,00,000		Security deposit-		
			Telephone	7,000	
Less: repayment	60,000	2,40,000	Bank	89,700	
outstanding					
electricity exp		20,000	Closing stock		5,50,000
		12,25,700			**12,25,700**

Working note:

Bank Account

Particulars		**Rs.**	**Particulars**	**Rs.**
To	Capital	3,00,000	By Building	6,00,000
To	Further capital	2,00,000	By Furniture	10,000
To	Bank loan	3,00,000	By Bank loan repaid	60,000
To	Sales	20,00,000	By Interest	33,300
			By Security deposit	7,000
			By Drawings	60,000
			By Purchase	17,00,000
			By Telephone charges	50,000
			By Travelling expenses	45,000
			By Maintenance expenses	25,000
			By Entertainment expenses	5,000
			By Electricity	40,000
			By Carriage outward	60,000
			By Misc. expenses	15,000
			By Balance c/d	89,700
		28,00,000		**28,00,000**

Q-17 PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information:

(1) Liability for Income Tax ₹ 40,000
(2) Retained Profit ₹ 2,00,000
(3) Proposed Dividend ₹ 20,000
(4) Increase in Provision for Doubtful Debts ₹ 25,000
(5) Bad Debts written off ₹ 20,000

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves. **[Sugg.-July'21]**

Ans.(a) Transfer to provisions - (i), (iv)

(b) Transfer to reserves - (ii)

(c) Neither related to provisions nor reserves - (iii), (v).

Q-18 Following particulars are extracted from the books of Mr. Vaid for the year ended 31st March, 2021.

Particulars	**Amount**	**Particulars**	**Amount**
Debit Balances:	**Rs.**	**Credit Balances:**	**Rs.**
Cash in hand	3,000	Capital	32,000
Purchase	24,000	Bank overdraft	4,000
Sales return	2,000	Sales	18,000
Salaries	5,000	Purchase return	4,000
Tax and Insurance	1,000	Provision for Bad debts	2,000
Bad debts	1,000	Creditors	4,000
Debtors	10,000	Commission	1,000
Investments	8,000	Bills payable	5,000
Opening stock	2,800		
Drawings	4,000		
Furniture	3,200		
Bills receivables	6,000		
	70,000		**70,000**

Other information :

(i) Closing stock was valued at Rs. 9,000.

(ii) Goods withdrawn by Mr. Vaid for own consumption Rs. 4000 included in purchases.

(ii) Salary of Rs. 200 and Tax of Rs. 400 are outstanding whereas insurance Rs. 100 is prepaid.

(iii) Commission received in advance is Rs. 200.(iv) Interest accrued on investment is Rs. 420.

(v) Interest on overdraft is unpaid Rs. 600.

(vi) Provision for bad debts is to be kept at Rs. 2,000.(vii) Depreciation on furniture is to be charged @ 10%.You are required to prepare the final accounts after making above adjustments.

(MTP-Nov'21, 10 Marks)

Ans.

Trading & Profit and Loss Account of
Mr. Vaid for the year ended 31st March, 2021

	Particulars	**Rs.**	**Rs.**	**Particulars**		**Rs.**	**Rs.**
To	Opening Stock		2,800	By	Sales	18,000	
To	Purchase	20,000			Less: Sales return	(2,000)	16,000
	Less: Purchase return	(4,000)	16,000	By	Closing stock		9,000
To	Gross Profit		6,200				
			25,000				25,000
To	Salary	5,000		By	Gross Profit	6,200	
	Add: Outstanding salary	200	5,200	By	Commission	1,000	
					Less: Advance	(200)	800

To	Tax & Insurance	1000		By	Accrued interest	420
	Add: Outstanding	400		By	Net Loss	1,000
	Prepaid insurance	(100)	1,300			
To	Bad debt	1000				
	Opening provision	(2,000)				
	Closing provision	2,000	1,000			
To	Interest on overdraft		600			
To	Depreciation on furniture		320			
			8,420			**8,420**

Balance Sheet of Mr. Vaid as on 31.3.2021

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**	**Rs.**
Capital	32,000		By Furniture	3,200	
Less: drawing	(8,000)		Less: Depreciation	(320)	2,880
Net loss	(1,000)	23,000	Bill receivable	6,000	
Bank overdraft	4,000		Investment	8,000	
Add: interest	600	4,600	Add: accrued interest	420	8,420
Creditors		4,000	Debtors	10,000	
Bills payable Out standingexpenses:		5,000	Less: Provision on bad debts	(2,000)	8,000
Salary	200		Closing stock		9,000
Tax	400	600	Cash in hand		3,000
Commission received in advance	200		Prepaid insurance		100
		37,400			**37,400**

Q-19 The following is the trial balance of Manan as at 31st March 2020:

	Dr. ₹	**Cr.** ₹
Manan's capital account	-	1,53,380
Stock 1st April, 2019	93,600	-
Sales	-	7,79,200
Returns inward	17,200	-
Purchases	6,43,400	-
Returns outward	-	11,600
Carriage inwards	39,200	-
Rent & taxes	9,400	-
Salaries & wages	18,600	-
Sundry debtors	48,000	-
Sundry creditors	-	29,600
Bank loan @ 14% p.a.	-	40,000
Bank interest	2,200	-
Printing and stationary expenses	28,800	-
Bank balance	16,000	-

Discount earned	-	8,880
Furniture & fittings	10,000	-
Discount allowed	3,600	-
General expenses	22,900	-
Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1740	-
Drawings	60,000	
	10,22,660	**10,22,660**

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 6,000 due from Rahul and included among the creditors ₹ 2,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Manan amounting to ₹ 1200 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 800 had been omitted from the books.

(8) Stock on 31st March 2020 was ₹ 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.3.2020 and (ii) Balance sheet as on 31st March, 2020. **(RTP-May-'21)**

Ans.

Trading and Profit and Loss Account of Mr. Manan

for the year ended 31st March,2020

Particulars	₹	**Amount** ₹		**Amount** ₹	₹
To Opening stock		93,600	By Sales	7,79,200	
To Purchases	6,43,400		Less: Returns	17,200	7,62,000
Add: Omitted invoice	800		By Closing stock		1,57,200
	6,44,200				
Less: Returns	11,600				
	6,32,600				
Less: Drawings	1,200	6,31,400			
To Carriage		39,200			
To Gross profit c/d		1,55,000			
		9,19,200			**9,19,200**
To Rent and taxes		9,400	By Gross profit b/d		1,55,000
To Salaries and wages		18,600	By Discount		8,880
To Bank interest	2,200				
Add: Due	3,400	5,600			

To Printing and stationary	28,800			
Less: Prepaid (1/4)	7,200	21,600		
To Discount allowed		3,600		
To General expenses		22,900		
To Insurance		2,600		
To Postage & telegram expenses		4,660		
To Travelling expenses		1,740		
To Provision for bad debts [W.N.(2)]		2,300		
To Provision for discount on debtors [W.N.(2)]		874		
To Depreciation on furniture & fittings		1,000		
To Net profit		69,006		
		1,63,880		**1,63,880**

Balance Sheet of Manan as at 31st March,2020

Liabilities	₹	₹	***Assets***	₹	₹
Capital	1,53,380		Furniture & fittings	10,000	
Add: Net profit	69,006		*Less:* Depreciation	1000	9,000
	2,22,386		Sundry debtors (W.N.1)	46,000	
Less: Drawings:			*Less:* Provision for bad		
Cash	60,000		& doubtful debts (W.N.2)	2,300	
Goods 1,200	61,200	1,61186	43,700		
Bank loan		40,000	*Less:* Provision for		
Bank interest due		3,400	discount (W.N.2)	874	42,826
Sundry creditors (W.N.3)		28,400	Stock		1,57,200
			Prepaid expenses:		
			Printing & stationary		7,200
			Bank balance		16,000
			Cash balance		760
		2,32,986			**2,32,986**

Working Notes:

(1)	**Sundry debtors**	
	Balance as per trial balance	48,000
	Less: Due to Rahul	2,000
		46,000
(2)	**Provision for bad & doubtful debts:**	
	@ 5% on ₹ 46,000	2,300
	Provision for discount:	
	2% on ₹ 43,700 (46,000 -2,300)	874
(3)	**Sundry creditors**	
	Balance as per trial balance	29,600
	Less: Set off in respect of Rahul	2,000
		27,600
	Add: Purchase invoice omitted	800
		28,400

Q-20 Classify the following errors under the three categories ¡V Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Machinery sold on credit to Mohan recorded in Journal Properly but omitted to be posted.

(iii) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

(iv) Purchase worth ₹ 4,500 from Mr. X not recorded in subsidiary books.

(v) Credit sale wrongly passed through the Purchase Book. **(RTP-Nov-'21)**

Ans.

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

Q-21 The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200
Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400
Wages	48,660	Sales	8,61,200
Provision for doubtful debts	12,800	Advertisement Expenses	13,400
Provision for Discount on debtors	5,500	Printing and Stationery	5,000
Sundry Debtors	4,80,000	Cash in hand	5,800
Sundry Creditors	1,90,000	Cash at bank	12,500
Bad debts	4,400	Office Expenses	40,640
		Interest paid on loan	12,000

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 3,300.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries. **(RTP-Nov-'21)**

Ans. **Rectification Entries**

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Returns inward account	Dr.	10,300	
	Sales account	Dr.	6,900	
	To Purchases account			10,300
	To Returns outward account			6,900
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	14,000	
	To Purchases account			14,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	1,800	
	To Wages account			1,800
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	3,300	
	To Purchases account			3,300
	(Being free samples distributed for publicity out of purchases, now rectified)			

Trading and Profit and Loss Account of Mr. Satendra
for the year ended 31st March, 2021

Dr. **Cr.**

		₹	Amount ₹		₹	Amount ₹
To	Opening stock		1,29,000	By Sales	8,54,300	
To	Purchases	6,12,400		Less: Sales return	10,300	8,44,000
	Less: Purchases return	6,900	6,05,500	By Closing stock		
To	Carriage inward		4,500	$₹3,20,000 \times \frac{100}{80} \times \frac{100}{80}$		5,00,000
To	Wages		46,860			
To	Gross profit c/d		5,58,140			
			13,44,000			**13,44,000**
To	Salaries		90,200	By Gross profit b/d		5,58,140
To	Rent		17,200	By Bad debts		1800
To	Advertisement expenses		16,700	recovered		
To	Printing and stationery		5,000			
To	Bad debts		4,400			

To	Carriage outward	5,400		
To	Provision for doubtful debts			
	5% of ₹ 4,80,000 24,000			
	Less: Existing provision 12,800	11,200		
To	Provision for discount on debtors			
	2.5% of ₹ 4,56,000 11,400			
	Less: Existing provision 5,500	5,900		
To	Depreciation:			
	Plant and machinery 16,000			
	Furniture and fittings 4,100	20,100		
To	Office expenses	40,640		
To	Interest on loan	12,000		
To	Net profit			
	(Transferred to capital account)	3,31,200		
		5,59,940		5,59,940

Balance Sheet of Mr. Satendra as on 31st March, 2021

		Amount			Amount
Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
Capital account	2,60,000		Plant and machinery	80,000	
Add: Net profit	3,31,200		Less: Depreciation	16,000	64,000
	5,91,200		Furniture and fittings	41,000	
Less: Drawings	46,000	5,45,200	Less: Depreciation	4,100	36,900
Bank overdraft		3,20,000	Closing stock		5,00,000
Sundry creditors		1,90,000	Sundry debtors	4,80,000	
Payable salaries		9,800	Less: Provision for doubtful debts	35,400	4,44,600
			Prepaid rent		1,200
			Cash in hand		5800
			Cash at bank		12,500
		10,65,000			**10,65,000**

Q-22 The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

(i) Return outward book was under cast by ₹ 100.

(ii) ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.

(iii) ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.

(iv) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers' A/c. in the sales ledger.

(v) The Sales of ₹ 10,000 was omitted to be recorded.

Pass rectification entries in the next year. **[RTP-May'22]**

Ans. **In the Books of Dime Ltd.**

Particulars			**Dr. Amount**	**Cr. Amount**
2021			₹	₹
(i)	Suspense A/c	Dr.	100	
	To Profit & Loss Adjustment A/c			100
	(Returns outward book was under cast now rectified).			
(ii)	Suspense A/c	Dr.	1,500	
	To Profit & Loss Adjustment A/c			1,500
	(Discount received was not recorded, now rectified)			
(iii)	Office Furniture A/c	Dr.	6000	
	To Profit & Loss Adjustment A/c			6000
	(Office furniture purchased wrongly debited to Purchase A/c. now rectified.)			
(iv)	Debtors A/c	Dr.	90	
	To Suspense A/c			90
	(Debtors account was posted ₹ 670 in place of 760 now rectified.)			
(v)	Debtors A/c	Dr.	10,000	
	To Profit & Loss Adjustment A/c			10,000
	(Sales of ₹ 10,000 omitted to be recorded, now rectified)			

Q-23 Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:

Particulars	**Dr.** ₹	**Cr.** ₹
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-
Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-

Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	____
	46,505	**68,665**

Adjustments:

1. Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
2. Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.
3. Depreciation to be provided on furniture at 10% per annum. **[RTP-May'22]**

Ans. **Redrafted Trial Balance of Mr. Bansal as on 31st March,2021**

Particulars	**Dr.** ₹	**Cr.** ₹
Capital	-	16,000
Opening stock	17,500	-
Drawings	3,305	-
Returns inward	550	-
Carriage inward	1,240	-
Deposit with X	1,400	-
Returns outward	-	840
Carriage outward	725	-
Rent paid	800	-
Rent outstanding	-	150
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	48,190	**48,190**

Trading and Profit and Loss Account of Mr. Bansal

for the year ended 31st March,2021

Dr. **Cr.**

Particulars	₹	Amount₹	Particulars	₹	Amount₹
To Opening stock	17,500		By Sales	29,000	
To Purchases	13,000		*Less:* Returns inward	(550)	28,450
Less: Returns outward	(840)	12,160	By Stock destroyed		
			by fire		2,000
To Wages		850	By Closing stock		18,790
To Carriage inward	1,240				
To Gross profit	17,490				
	49,240				**49,240**
To Carriage outward	725		By Gross profit		17,490
To Rent	800				
To Advertisement	950				
To Bad debts	600				
To Provision for doubtful debts					
(5% of ₹ 4,400)	220				
To Loss of stock by fire	500				
To Depreciation on furniture					
(10% of ₹1,500)	150				
To Net profit	13,545				
	17,490				**17,490**

Balance Sheet of Mr. Bansal

as at 31st March,2021

Liabilities		₹	Assets		₹
Capital	16,000				
Add: Net profit	13,545		Furniture	1,500	
	29,545		Less: Depreciation	150	1,350
Less: Drawings	3,305	26,240	Deposit with X		1,400
Sundry creditors		2,200	Closing Stock		18,790
Outstanding rent		150	Sundry debtors	5,000	
			Less: Bad debts	600	
				4,400	
			Less: Provision for Doubtful Debts	220	4,180
			Insurance claim receivable		1,500
			Cash		1,370
		28,590			**28,590**

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NOTES

Chapter-8
Partnership Accounts

Q-1 The following is the Balance Sheet of M/s. Krishna Bros as at 31st March, 2021, they share profit and losses equally:

Balance Sheet as at 31st March, 2021

Liabilities		Rs.	Assets		Rs.
Capital	Amit	24,600	Machinery		30,000
	Lalit	24,600	Furniture		16,800
	Sumit	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for		
		_____	Doubtful debts	1,800	25,200
		99,300			**99,300**

Sumit died on 1st April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to Rs. 35,100; Furniture to Rs. 13,800; Inventory to Rs. 4,500.

(b) Goodwill was valued at Rs. 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) Rs. 6,000 is to be paid to the executors of the dead partner on 5th April, 2021.

(d) After death of Sumit, Amit and Lalit share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

[MTP March '21 , 8 Marks]

Ans.

(i) Journal Entry in the books of the M/s Krishna

Date	Particulars		Dr. Rs.	Cr. Rs.
April, 1	Amit's Capital A/c	Dr.	3,000	
2021	Lalit's Capital A/c	Dr.	3,000	
	To Sumit's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To	Furniture A/c (Rs. 16,800 – 13,800)	3,000	By Machinery A/c (Rs. 35,100 - 30,000)	5,100
To	Inventory A/c (Rs 5,700 – 4,500)	1,200		
To	Partners' Capital A/cs 900 (Amit - Rs. 300, Lalit - Rs. 300, Sumit - Rs. 300)			
		5,100		**5,100**

Partners' Capital Accounts

Particulars	Amit	Lalit	Sumit	Particulars	Amit	Lalit	Sumit
To Sumit (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance C/d	24,900	24,900	–	By Amit (Goodwill)	–	–	3,000
				By Lalit (Goodwill)	–	–	3,000
	27,900	**27,900**	**36,300**		**27,900**	**27,900**	**36,300**

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Amit	Lalit	Sumit
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Q-2 Alpha and Beta are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Alpha and Beta as on 1.1.2021 was as follows:

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry Creditors		25,800	Building		52,000
Bill Payable		8,200	Furniture		11,600
Bank Overdraft		18,000	Stock-in-Trade		42,800
Capital Account:			Debtors	70,000	
Alpha	88,000		Less: Provision	400	69,600
Beta	72,000	1,60,000	Investment		5,000
			Cash		31,000
		2,12,000			**2,12,000**

'Gama' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 50,000.

(ii) The new profit sharing ratio of Alpha, Beta and Gama will be 3 : 2 : 1 respectively.

(iii) 'Gama' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'Gama's share in the profits and the capital contribution made by him to the firm.
Later, the goodwill was written off among all the partners in the new profit sharing ratio.

(iv) Furniture is to be written down by Rs. 1,740 and Stock to be depreciated by 10%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 3,120. The value of Buildings having appreciated be brought upto Rs. 58,400.
The value of investment is increased by Rs. 900.

(v) It is found that the creditors included a sum of Rs. 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'Gama'.

[MTP April '21, 15 Marks]

Ans. (i) Revaluation Account

		Rs.			Rs.
To	Furniture	1,740	By	Building	6,400
To	Stock	4,280	By	Sundry creditors	2,800
To	Provision of doubtful debts (Rs. 3,500 – Rs. 400)	3,100	By	Investment	900
			By	Revaluation Loss	2,140
To	Outstanding wages	3,120			
		12,240			**12,240**

(ii) Partners' Capital Accounts

		Alpha Rs.	Beta Rs.	Gama Rs.			Alpha Rs.	Beta Rs.	Gama Rs.
To	Revaluation Loss	1,284	856		By	Balance b/d	88,000	72,000	–
To	Goodwill	45,000	30,000	15,000	By	Cash A/c	–	–	50,000
To	Balance c/d	95,716	77,144	35,000	By	Goodwill A/c (Working Note)	54,000	36,000	
		1,42,000	**1,08,000**	**50,000**			**1,42,000**	**1,08,000**	**50,000**

(iii) Balance Sheet of New Partnership Firm (after admission of Gama) as on 1.1.21

Liabilities		Rs.	Assets		Rs.
Capital Accounts:					
Alpha	95,716		Building (52,000 + 6,400)		58,400
Beta	77,144		Furniture (11,600 – 1,740)		9,860
Gama	35,000	2,07,860	Stock-in-trade (42,800 – 4,280)		38,520
Bills Payable		8,200	Debtors	70,000	
Bank Overdraft		18,000	Less: Provision for bad debts	(3,500)	66,500
Sundry creditors (25,800-2,800)		23,000	Investment (5,000 + 900)		5,900
Outstanding wages		3,120	Cash (31,000 + 50,000)		81,000
		2,60,180			**2,60,180**

Working Note:

Calculation of goodwill

Gama's contribution of Rs. 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be Rs. 50,000 × 6 = Rs. 3,00,000.

But combined capital of Alpha, Beta and Gama amounts Rs. 88,000 + 72,000 + 50,000 = Rs.2,10,000.

Thus Hidden goodwill is Rs. 90,000 (Rs. 3,00,000 – Rs. 2,10,000).

Q-3 The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017 Profit	₹ 29,340
2018 Profit	₹ 26,470
2019 Loss	₹ 8,320
2020 Profit	₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years. **[Sugg. Jan '21, 10 Marks]**

Ans. **P's Capital Account**

2020		₹	2020		₹
Sep.30	To Current A/c	25,000	Jan.1	By Balance b/d	30,000
	(30,000 - 5000)		Dec.31	By Profit and Loss A/c :	
Dec.31	To Profit and Loss Adjt.	3,000		Interest on Capital	2,400
	(Unrecorded Liability)		Dec.31	Share of Profit	4,735
Dec.31	To Balance	38,465		Q&R (Goodwill)	11,830
	Transferred to P's				
	Executor's A/c		Dec. 31	Insurance Policies A/c	17,500
		66,465			**66,465**

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	47,490	12,000	35,490

	₹
Average	11,830
Goodwill at two years purchase of average net profits	23,660
Share of P in the goodwill	11,830

(ii) Profit on Separate Life Policy:

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	10,000
	35,000
Share of P (1/2)	17,500

(iii) Share in profit for 2020:

Profit for the year	13,470
Less : Interest on capitals	(4,000)
	9,470
P's share in profit (1/2)	4,735

Q-4 Discuss the rules if there is no Partnership Agreement. **[Sugg. Jan '21, 5 Marks]**

Ans. As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

Q-5 Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:
Arup: One-half; Swarup: One-third and -Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Dra w up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account.

[Sugg.-Nov'19, 10 Marks]

Ans.(i) Ascertainment of Swarup'sShare of Profit

2016	51,000
2017	39,000
2018	45,000
Total Profit	1,35,000
Average Profit	45,000
4 months' Profit	15,000
Swarup's Share in Profit (2/5th of ₹15,000)	6,000

(ii) Ascertainment of Value of Goodwill

2016	51,000
2017	39,000
2018	45,000
Total Profit for 3 years	1,35,000
Average Profit	45,000
Goodwill - 3 years	
Purchase of AverageProfit	1,35,000
Swarup's Share ofgoodwill (2/5 of ₹1,35,000)	54,000

Working Note:

Profit sharing ratio between Arup and Swarup = ½; 1/3; = 3: 2, Therefore Swarup's share of Profit = 2/5

Swarup's Executors

Date 2019	Particulars	₹	Date 2019	Particulars	₹
May 1	To Swarup'sLoan A/c	1,38,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of ₹45,000)	18,000
			May 1	By Arup's Capital A/c (Share of goodwill)	54,000
			May 1	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			**1,38,000**

Q-6 Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities		(₹)	Assets	(₹)
Trade payables		22,500	Land & Buildings	37,000
Outstanding Liabilities		2,200	Furniture & Fixtures	7,200
General Reserve		7,800	Closing stock	12,600
Capital Accounts:			Trade Receivables	10,700
Dinesh	15,000			
Ramesh	15,000			
Naresh	10,000	40,000		
			Cash in hand	2,800
			Cash at Bank	2,200
		72,500		**72,500**

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

(i) Suresh shall bring ₹ 8,000 towards his capital.

(ii) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.

(iv) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.

(v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh. **[Sugg.-Nov'18, RTP-May'20]**

Ans. **Revaluation Account**

2018		₹	2018		₹
April 1	To Provision for bad and doubtful debts	535	April 1	By Inventory in trade	1,400
	To Furniture and fittings	720		By Land and Building	5,600
	To Capital A/cs: (Profit on revaluation transferred)				
	Dinesh 2,872.50				
	Ramesh 1,915.00				
	Naresh 957.50	5,745			
		7,000			**7,000**

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
& Ramesh					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	**21,015**	**12,257.50**	**8,000**		**26,972.50**	**21,015**	**12,257.50**	**8,000**

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹ 18,000)	Dr.	1,500	
Suresh (6/24 of ₹ 18,000)	Dr.	4,500	
To Dinesh (6/24 od ₹ 18,000)			4,500
To Ramesh (2/24 of ₹18,000)			1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	₹	₹	Assets	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners :			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		Less: Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			**86,245**

Q-7 A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities		**₹**	**Assets**		**₹**
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for		
			Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			**23,50,000**

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock isreduced to ₹ 2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit whichwere:

Year	**₹**
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement. **[Sugg.-May'18, 10 Marks]**

Ans.

Revaluation Account

		₹		**₹**
To Furniture A/c		40,000	By Office equipment A/c	47,000
To Stock A/c		50,000	By Building A/c	5,00,000
To Joint life policy		10,000	By Provision for	
To Partners' capital A/cs :			doubtful debts	15,000
A	2,31,000			
B	1,54,000			
C	77,000	4,62,000		
		5,62,000		**5,62,000**

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B'sloan A/c		8,14,000		By GeneralReserve	1,80,000	1,20,000	60,000
ToBalancec/d	11,21,000		5,07,000	By revaluationreserve	2,31,000	1,54,000	77,000
				By A's capitalA/c		90,000	
				By C's capitalA/c		30,000	
	12,11,000	**8,14,000**	**5,37,000**		**12,11,000**	**8,14,000**	**5,37,000**

Balance Sheet as on 1.4.2018 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account	8,14,000		Stock		2,00,000
Sundry creditors	3,70,000		Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000
			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			**28,12,000**

Working Notes:

Calculation of goodwill:

1. **Average of last 4 year's profit**
   = (90,000+1,40,000+1,20,000+1,30,000)/4
   = ₹ 1,20,000
2. **Goodwill at three years' purchase**
   ₹ 1,20,000 x 3 = ₹ 3,60,000

	Goodwill adjustment		
	Share of goodwill (Old ratio)	**Share of goodwill (New ratio)**	**Adjustment**
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Q-8 J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

[RTP-May '18, RTP-May '20]

Ans.(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 1,50,000}{20} = ₹\ 7,50,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed
= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]
Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000
Average Profit = ₹ 1,50,000
Super Profit = Average profit – Normal Profit
=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000
Goodwill = Super Profit x Number of years' purchase
= ₹ 50,000 x 2 = ₹ 1,00,000

Q-10 Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2019 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		**6,55,000**

The partnership earned profit ₹ 2,00,000 in 2019 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

(b) J and K are partners in a firm. Their capitals are: ₹ 3,00,000 and K ₹ 2,00,000.

During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000.

Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

[RTP-Nov'19, RTP-Nov'18]

Ans. Valuation of Goodwill:

		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2019	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2019	(1,00,000)
		6,00,000
(2)	Super Profit :	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

(b)

(i) Capitalisation Method:

$$\text{Total Capitalised Value of the firm} = \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 1,50,000 \times 100}{20} = ₹\ 7,50,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed = ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)] Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

Q-11 The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	**Assets**		₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtfuldebts	600	8,400
		33,100			**33,100**

N died on 3rd January, 2018 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without usinga Goodwill Account.

(c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January,2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners. **[RTP-Nov'19]**

Ans. (i) Journal Entry in the books of the M/s LMN

Date	**Particulars**		₹	₹
Jan 3	L's Capital A/c	Dr.	1,000	
2018	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400	(₹ 11,700 - 10,000)	
To Partners' Capital A/cs	300		
(L - ₹ 100, M - ₹ 100, N - ₹ 100)			
	1,700		**1,700**

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General			
				Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation			
				A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	**9,300**	**12,100**		**9,300**	**9,300**	**12,100**

Working Note:

Statement showing the Required Adjustment for Goodwill Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Q-12 The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss ₹ 17,000, 2017 Profit ₹ 50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%.

The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

[RTP-May'18]

Ans. Total Profit for 3 years = (₹ 17,000) + ₹ 50,000 + ₹ 75,000 = ₹ 1,08,000.

$$\text{Average profits} = \frac{\text{TotalProit}}{\text{No. of years}} \times \frac{₹\,1,08,000}{3} = ₹\,36,000$$

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit=Interest on Capital employed

= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000

Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 = ₹ 20,000

Q-13 A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities		Amount ₹	Assets		Amount ₹
Sundry Creditors		12,900	Building		26,000
Bill Payable		4,100	Furniture		5,800
Bank Overdraft		9,000	Stock-in-Trade		21,400
Capital Account:			Debtors	35,000	
A	44,000		Less: Provision	200	34,800
B	36,000	80,000	Investment		2,500
			Cash		15,500
		1,06,000			**1,06,000**

'C' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'. **[RTP-May'19]**

Ans.

Revaluation Account

	₹		₹
To Furniture	870	By Building	3,200
To Stock	1,070	By Sundry creditors	1,400
To Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By Investment	450
To Outstanding wages	1,560		
	5,050		**5,050**

(ii)

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To Balance c/d	71,000	54,000	25,000	By Balance b/d	44,000	36,000	–
				By Cash A/c	–	–	25,000
				By Goodwill A/c (Working Note)	27,000	18,000	
	71,000	**54,000**	**25,000**		**71,000**	**54,000**	**25,000**

(iii) **Balance Sheet of New Partnership Firm**
(after admission of C) as on 1.1.18

Liabilities		₹	Assets		₹
Capital Accounts:			Goodwill		45,000
A	71,000		Building (26,000 + 3,200)		29,200
B	54,000		Furniture (5,800 – 870)		4,930
C	25,000	1,50,000	Stock-in-trade (21,400 – 1,070)		20,330
Bills Payable		4,100	Debtors	35,000	
Bank Overdraft		9,000	Less: Provision for bad debts	(1,750)	33,250
Sundry creditors (12,900-1,400)		11,500	Investment (2,500 + 450)		2,950
Outstanding wages		1,560	Cash (15,500 + 25,000)		40,500
		1,76,160			**1,76,160**

Working Note:
Calculation of goodwill
C's contribution of ₹ 25,000 consists only 1/6th of capital.
Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.
But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.
Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 – ₹ 1,05,000).

Q-14 A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively. Profits for the year ending 31.12.2019 before providing for interest on partners capital was ₹ 1,59,000. You required to prepare the Profit and Loss Appropriation Account.

[RTP-May'18, RTP-May'20]

Ans. **Profit and Loss Appropriation Account**
for the year ended 31st December, 2019

Dr. **Cr.**

		₹	₹		₹
To	Interest on capital			By Net profit b/d	1,59,000
	A (5% of ₹ 3,20,000)	16,000			
	B (5% of ₹ 2,00,000)	10,000			
	C (5% of ₹ 1,60,000)	8,000	34,000		
To	Partners' capital accounts:				
	[profit (₹ 1,59,000 – ₹ 34,000) transferred]				
	A $\left(\frac{5}{10}\text{ of ₹ } 1,25,000\right)$	62,500			
	Less: Transferred to C	5,000	57,500		
	B $\left(\frac{3}{10}\text{ of ₹ } 1,25,000\right)$		37,500		
	C $\left(\frac{2}{10}\text{ of ₹ } 1,25,000\right)$	25,000			
	Add: Transferred from A	5,000	30,000		
			1,59,000		**1,59,000**

Q-16 On 31st March, 2017, the Balance Sheet of P, Q and R sharing profits and losses inproportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		**80,000**

On 1st April, 2017, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹10,000.

(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2017. **[RTP-May'18]**

Ans.(a) Revaluation Account

Date 2017	Particulars		₹	Date 2017	Particulars	₹
April	To Plant & Machinery		6,000	April	By Land andbuilding	6,000
	To Stock of goods		2,000		By Sundrycreditors	2,000
	To Provision for bad and				By Cash & Bank -Joint life	
					Policysurrendered	7,550
	To Capital accounts(profit on		550			
	revaluationtransferred)					
	Mr. P (2/7)	2,000				
	Mr. Q (3/7)	3,000				
	Mr. R (2/7)	2,000	7,000			
			15,550			**15,550**

(b) **Partners' Capital Accounts**

Dr. **Cr.**

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To P's CapitalA/c - goodwill	-	1,000	3,000	By Balance b/d	20,000	30,000	20,000
To Cash & bankA/c	-						
(50%dues paid)	13,000	-	-	By Revaluation A/c	2,000	3,000	2,000
To P's Loan A/c				By Q & R's Capital A/c			
- (50%transfer)	13,000	-	-	s- goodwill	4,000	-	-
To Balance c/d	-	35,000	35,000	By Cash & bankA/c	-		
				amountbrought in			
				(Balancingfigures)	-	3,000	16,000
	26,000	**36,000**	**38,000**		**26,000**	**36,000**	**38,000**

(c) **Cash and Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	7,000	By P's Capital A/c - 50% dues paid	13,000
To Revaluation A/c –		By Balance b/d	20,550
surrender value of joint life policy	7,550		
To Q's Capital A/c	3,000		
To R's Capital A/c	16,000		
	33,550		**33,550**

(d) **Balance Sheet of M/s Q & R as on 01.04.2017**

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		Add: Appreciation20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	Less:Depreciation30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less:revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less:Provision for		
			bad debts 5%	550	10,450
			Cash & Bankbalances		20,550
		91,000			**91,000**

Working Notes:

Adjustment for Goodwill:

Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000

Gaining ratio of Q & R;

Q = ½ - 3/7 = 1/14

R = ½ - 2/7 = 3/14

Q:R = 1:3

Therefore, Q will bear – ¼ x 4000 or ₹1,000

R will bear = ¾ x 4000 or ₹3,000

Q-17 Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally.

Zoya died on 30th June 2020. The Balance Sheet of Firm as at 31st March 2020 stood as

Liabilities	Amount	Assets		Amount
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade 15,000		
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Provision for		
		doubtful debt	(2,000)	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			**2,82,000**

In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) Land and Building be valued at Rs. 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at Rs. 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2020, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 1st March were:

2020	2019	2018	2017	2016
25,000	20,000	22,500	35,000	28,750

You are required to prepare: (1) Revaluation account and (2) Capital accounts of the partners as at 1st July 2020. **[Sugg. May '19, MTP-March'20, 8 Marks]**

Ans.

Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Stock	1,500	By Land & Building	25,000
To Partners:		By Provision for doubtful debt	2,000
(Revaluation Profit)			
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		**27,000**

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's	-	-	98,125	By General			
				reserve	4,000	4,000	4,000
Executor				By Monika &			
				Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss	-	-	1,875
				Adjustment*			
				(suspense) A/c			
				By Revaluation A/c	8,500	8,500	8,500
	1,12,500	**87,500**	**98,125**		**1,12,500**	**87,500**	**98,125**

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

Working Note:

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2016	28,750
31.3.2017	35,000
31.3.2018	22,500
31.3.2019	20,000
31.3.2020	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = Rs. 26,250 x 1 = Rs. 26,250

Zoya's Share of Goodwill = Rs. 26,250 x 1/3

= Rs. 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = Rs. 8,750 x 1/2 = Rs. 4,375

Yedhant = Rs. 8,750 x 1/2 = Rs. 4,375

Q-18 A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		**Rs.**
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		**5,50,000**

From 1st January, 2019 they agreed to alter their profit -sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of R s. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet. **[MTP-oct'19, 20 Marks]**

Ans. **In the books of M/s ABC**

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr.(Rs.)
2019	Fixed assets A/c	Dr.	51,000	
January 1	To Revaluation A/c			51,000
	(Revaluation of fixed assets)			
	Revaluation A/c	Dr.	11,000	
	To Stock A/c			8,000
	To Provision for doubtful debts A/c			3,000
	(Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)			
	B's capital A/c	Dr.	10,500	
	C's capital A/c	Dr.	21,000	
	To A's capital A/c			31,500
	(Adjustment for goodwill and joint life policy (W.N.1))			
	Revaluation A/c	Dr.	40,000	
	To A's capital A/c			20,000
	To B's capital A/c			12,500
	To C's capital A/c			7,500
	(Transfer of profit on revaluation)			
	General reserve A/c	Dr.	80,000	
	To A's capital A/c			40,000
	To B's capital A/c			25,000
	To C's capital A/c			15,000
	(Transfer of general reserve)			

Balance Sheet (revised)
as on 1st January, 2019

Liabilities		Amount Rs.	Assets		Amount Rs.
Sundry creditors		1,50,000	Cash		40,000
Partners' loan A/cs:			Bills receivable		50,000
A	40,000		Sundry debtors	60,000	
B	30,000	70,000	Less: Provision	3,000	57,000
Partners' capital A/cs:			Stock		1,12,000
(W.N.2)			Fixed assets		3,31,000
A	1,91,500				
B	1,07,000				
C	71,500	3,70,000			
		5,90,000			**5,90,000**

Working Notes:

(1) Adjustment for goodwill and joint life policy

	Rs.
Average profit of last five years	20,000
Add: Insurance premium per annum	10,000
Average profit before charging premium	30,000
Value of goodwill (3x Rs. 30,000)	90,000
Add: Surrender value of joint life policy	78,000
T otal amount for adjustment	1,68,000

	A Rs.	B Rs.	C Rs.
Raised in old profit sharing ratio (8:5:3)	84,000	52,500	31,500
Written off in new profit sharing ratio (5:6:5)	52,500	63,000	52,500
Net effect in capital accounts	31,500 (Cr.)	10,500 (Dr.)	21,000 (Dr.)

Alternatively, the net effect in partners' capital accounts due to adjus tment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

A = (8/16) - (5/16) = 3/16

B = (5/16) - (6/16) = (1/16)

C = (3/16) - (5/16) = (2/16)

T herefore, adjustments in partner's capital account:

A = 3/16 x Rs. 1,68,000 = Rs. 31,500 (Cr.)

B = (1/16) x Rs. 1,68,000 = Rs. 10,500 (Dr.)

C = (2/16) x Rs. 1,68,000 = Rs. 21,000 (Dr.)

(2) Partners' Capital Accounts

2019		A Rs.	B Rs.	C Rs.	2019		A Rs.	B Rs.	C Rs.
Jan 1	To A' capital A/c	-	10,500	21,000	Jan 1	By Balance b/d	1,00,000	80,000	70,000
	To Balance c/d	1,91,500	1,07,000	71,500		By B and C's capital A/c (as per contra)	31,500	-	-
						By Revaluation A/c (revaluation profit)	20,000	12,500	7,500
						By General reserve	40,000	25,000	15,000
		1,91,500	**1,17,500**	**92,500**			**1,91,500**	**1,17,500**	**92,500**

Q-19 The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B whowere sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2018 was as follows:

Liabilities	Rs.	Assets	Rs.
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		**9,06,800**

On the above date, C was admitted as a partner on the following terms:

(a) C should get 1/5th of share of profits.

(b) C brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of Rs. 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after C's admission, Goodwill brought by him would be adjusted among oldpartners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C. **[MTP-March'19, 10 Marks]**

Ans.

Revaluation Account

	Rs.		Rs.
To Plant & Machinery(1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts(60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		**1,52,000**

Capital Accounts of Partners

	A	B	C		A	B	C
To A's CapitalA/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's CapitalA/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's CurrentA/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	**4,28,062**	**2,72,000**		**6,00,000**	**4,28,062**	**2,72,000**

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

A's Share = 5/8 x 4/5 = 20/40 = 5/10

B's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of AB & Co. as on 31.3.2018

Liabilities		Rs.	Assets		Rs
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	25,500	1,44,500
C	2,40,000	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	3,000	57,000
			Cash at Bank		3,14,060
			A's current A/c		26,562
		13,28,862			**13,28,862**

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

C's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

A's Capital = 12,00,000 x 5/10 = 6,00,000 and

B's Capital = 12,00,000 x 3/10 = 3,60,000

Q-20 Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2019 is as under:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		**6,64,000**

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2019. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs.15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be Rs. 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and **[RTP-Nov'18, MTP-April'19, 10 Marks]**

Ans. **Revaluation Account**

	Rs.			Rs.
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	P	30,400	
		Q	18,240	
		R	12,160	60,800
	63,800			**63,800**

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	**56,000**	**1,12,160**	**60,000**		**1,10,400**	**56,000**	**1,12,160**	**60,000**

Bank Account

	Rs.		Rs.
T o P's capital A/c	10,400	By Bank Overdraft A/c	44,000
T o R's capital A/c	78,160	By Balance c/d	1,04,560
T o T's capital A/c	60,000		
	1,48,560		**1,48,560**

Q-21 Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013 .

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	**2014**	**2015**	**2016**	**2017**
	Rs.	**Rs.**	**Rs.**	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		**5,90,000**

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin. **[MTP-Aug.'18, 20 Marks]**

Ans.(i) **Profit and Loss Adjustment Account**

	Rs.		Rs.
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		**1,10,000**

(ii) **Partners' Capital Accounts**

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	**2,11,500**	**63,800**		**2,11,500**	**2,11,500**	**63,800**
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) **Balance Sheet of LH & Co.**
as on 1.4.2017
(After admission of Chaplin)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		**7,19,800**

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	3,60,000
Total Profit		10,80,000

	Laurel Rs.	Hardy Rs.	Total Rs.
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. Capital brought in by Chaplin

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

Q-22 M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	Amount(₹)	Assets	Amount(₹)
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000
	10,77,000		**10,77,000**

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

(c) In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes. **[Sugg.-Nov'20, 10 Marks]**

Ans.(a) Revaluation Account

2020	₹	2020		₹
July 1 To Building	11,000	July 1 By Investments	4,000	
To Plant and Machinery	80,000	(46,000 - 42,000)		
To Trade receivable (Bad Debts)	23,850	By Partners' Capital A/cs		
(loss on revaluation)				
		A (3/10)	33,255	
		B (2/10)	22,170	
		C (5/10)	55,425	1,10,850
	1,14,850			**1,14,850**

Dr. Partners' Capital Accounts Cr.

	A	B	C	D		A	B	C	D
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-
To B's and C's capital A/cs	–	–	–	90,000	By D's Capital A/c (W.N.1)	–	60,000	30,000	–
To Investments A/c	–	46,000	–	–	By Bank A/c	29,255	–	25,425	2,10,000
To B's loan A/c	–	87,830	–	–					
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	**1,56,000**	**2,15,425**	**2,10,000**		**1,53,255**	**1,56,000**	**2,15,425**	**2,10,000**

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at ₹ 3 lakhs

Sacrificing ratio:

A 3/10 - 3/10 = 0

B 2/10 - 0 = 2/10

C 5/10 - 4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

		₹
B:	90,000 x 2/3 = 60,000	
C:	90,000 x 1/3 = 30,000	90,000

2. Capital of partners in the reconstituted firm:

	₹
Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

Q-23 Amal, Kamal and Tamal are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2021 was as follows:

Particulars	**Amount₹**	***Particulars***	**Amount₹**
Sundry creditors	3,00,000	Cash	80,000
General reserve	1,60,000	Bills receivable	1,00,000
Partners' loan accounts:		Sundry debtors	1,20,000
Amal	80,000	Stock	2,40,000
Kamal	60,000	Fixed assets	5,60,000
Partners' capital accounts:			
Amal	2,00,000		
Kamal	1,60,000		
Tamal	1,40,000		
	11,00,000		**11,00,000**

From 1st January, 2022 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) The fixed assets should be valued at ₹ 6,62,000;

(b) A provision of 5% on sundry debtors to be made for doubtful debts;

(c) Goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) Stock be reduced to ₹ 2,24,000.

There is a joint life insurance policy for ₹ 4,00,000 for which an annual premium of ₹ 20,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2021 was ₹ 1,56,000.

The net profits of the firm for the last five years were ₹ 28,000, ₹ 34,000, ₹ 40,000, ₹ 44,000 and ₹ 54,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet.

(MTP March 22, 20 Marks)

Q-24 **In the books of M/s Amal, Kamal and Tamal**

Journal Entries

Date	*Particulars*		*Dr. (₹)*	*Cr.(₹)*
2022	Fixed assets A/c	Dr.	1,02,000	1,02,000
January 1	To Revaluation A/c			
	(Revaluation of fixed assets)			
	Revaluation A/c	Dr.	22,000	
	To Stock A/c			16,000
	To Provision for doubtful debts A/c			6,000
	(Reduction in the value of stock and provision @			
	5% on sundry debtors created for doubtful debts)			
	Kamal's capital A/c	Dr.	21,000	
	Tamal's capital A/c	Dr.	42,000	
	To Amal's capital A/c			63,000
	(Adjustment for goodwill and joint life policy (W.N.1))			
	Revaluation A/c	Dr.	80,000	
	To Amal's capital A/c			40,000
	To Kamal's capital A/c			25,000
	To Tamal's capital A/c			15,000
	(Transfer of profit on revaluation)			
	General reserve A/c	Dr.	1,60,000	
	To Amal's capital A/c			80,000
	To Kamal's capital A/c			50,000
	To Tamal's capital A/c			30,000
	Transfer of general reserve)			

Balance Sheet (revised)

as on 1st January, 2021

Liabilities		**Amount** ₹	**Assets**		**Amount** ₹
Sundry creditors		3,00,000	Cash		80,000
Partners' loan A/cs:			Bills receivable		1,00,000
Amal	80,000		Sundry debtors	1,20,000	
kamal	60,000	1,40,000	*Less:* Provision	6,000	1,14,000
Partners' capital A/cs:			Stock		2,24,000
(W.N.2)					
			Fixed assets		6,62,000
Amal	3,83,000				
Kamal	2,14,000				
Tamal	1,43,000	7,40,000			
		11,80,000			**11,80,000**

Working Notes:

(1) Adjustment for goodwill and joint life policy

	₹
Average profit of last five years	40,000
Add: Insurance premium per annum	20,000
Average profit before charging premium	60,000
Value of goodwill (3x ₹ 60,000)	1,80,000
Add: Surrender value of joint life policy	1,56,000
Total amount for adjustment	3,36,000

	Amal	Kamal	Tamal
	₹	₹	₹
Raised in old profit sharing ratio (8:5:3)	1,68,000	1,05,000	63,000
Written off in new profit sharing ratio (5:6:5)	1,05,000	1,26,000	1,05,000
Net effect in capital accounts	63,000	21,000	42,000
	(Cr.)	(Dr.)	(Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

Amal = (8/16) - (5/16) = 3/16

Kamal = (5/16) - (6/16) = (1/16)

Tamal = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

Amal = 3/16 x ₹ 3,36,000 = ₹ 63,000 (Cr.)

Kamal = (1/16) x ₹ 3,36,000 = ₹ 21,000 (Dr.)

Tamal = (2/16) x ₹ 3,36,000 = ₹ 42,000 (Dr.)

(2) Partners' Capital Accounts

2021		₹	Amal ₹	Kamal ₹	Tamal ₹	2021		Amal ₹	Kamal ₹	Tamal ₹
Jan 1	To Amal's capital A/c	-	21,000	42,000		Jan 1	By Balance b/d	2,00,000	1,60,000	1,40,000
	To Balance c/d		3,83,000	2,14,000	1,43,000		By Kamal and Tamal's capital A/c (as per contra)	63,000	-	-
							By Revaluation A/c (revaluation profit)	40,000	25,000	15,000
							By General reserve	80,000	50,000	30,000
			3,83,000	**2,35,000**	**1,85,000**			**3,83,000**	**2,35,000**	**1,85,000**

Q-25 Moscow and Danial are partners of the firm MD & Co., from 1.4.2017. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2021 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2017.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	**2018**	**2019**	**2020**	**2021**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Profit as per accounts prepared and finalized	70,000	1,30,000	1,60,000	1,80,000
Expenses not provided for (as at 31st March)	15,000	10,000	18,000	12,000
Incomes not taken into account (as at 31st March)	9,000	7,500	6,000	10,500

The partners decided to admit Spinny as a partner with effect from 1.4.2021. It was decided that Spinny would be allotted 20% share in the firm and he must bring 20% of the combined capital of Moscow and Danial.

Following is the Balance sheet of the firm as on 31.3.2021 before admission of Spinny and before adjustment of revised profits between Moscow and Danial.

Balance Sheet of MD & Co. as at 31.3.2021

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital Accounts:		Plant and machinery	30,000
Moscow	1,05,750	Cash on hand	5,000
Danial	75,750	Cash at bank	2,500
Trade Payables	1,13,500	Stock in trade	1,55,000
		Trade Receivables	1,02,500
	2,95,000		**2,95,000**

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Spinny. **(Mtp-Nov'21) (20 Marks)**

Ans. **Profit and Loss Adjustment Account**?

	Rs.		**Rs.**
To Expenses not provided for (years 2018-2021)	55,000	By Income not considered (for years 2018-2021)	33,000
		By Partners' capital accounts (loss)	
		Moscow	11,000
		Danial	11,000
	55,000		**55,000**

(ii) Partners' Capital Accounts

		Moscow Rs.	Danial Rs.	Spinny Rs.			Moscow Rs.	Danial Rs.	Spinny Rs.
To	P & L Adjustment A/c	11,000	11,000	-	By	Balance b/d	1,05,750	75,750	-
To	Danial	30,000			By	Moscow	-	30,000	-
To	Balance c/d	64,750	94,750	31,900	By	Cash	-	-	31,900
		1,05,750	**1,05,750**	**31,900**			**1,05,750**	**1,05,750**	**31,900**
					By	Balance b/d	64,750	94,750	31,900

(iii) Balance Sheet of MD & Co. as on 1.4.2021

(After admission of Spinny)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	30,000
Moscow	64,750	Trade receivables	1,02,500
Danial	94,750	Stock in trade	1,55,000
Spinny	31,900	Accrued income	33,000
Trade payables	1,13,500	Cash on hand (5,000 + 31,900)	36,900
Outstanding expenses	55,000	Cash at bank	2,500
	3,59,900		**3,59,900**

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2018	70,000
	31.3.2019	1,30,000
	31.3.2020	1,60,000
	31.3.2021	1,80,000
Total Profit		**5,40,000**

	Moscow Rs.	Danial Rs.	Total Rs.
Profit shared in old ratio i.e 5:4	3,00,000	2,40,000	5,40,000
Profit to be shared as per new ratio i.e. 1:1	2,70,000	2,70,000	5,40,000
Excess share	30,000		
Deficit share		(30,000)	

Moscow to be debited by Rs. 30,000 and Danial to be credited by Rs.30,000.

2. Capital brought in by Spinny

	Rs.
Capital to be brought in by Spinny must be equal to 20% of the combined capital of Moscow and Danial	
Capital of Moscow (1,05,750 – 11,000 – 30,000)	64,750
Capital of Danial (75,750 – 11,000 + 30,000)	94,750
Combined Capital	1,59,500
20% of the combined capital brought in by Spinny (20% of Rs. 1,59,500)	31,900

Q-26 Superior & Co. is a partnership firm with partners Mr. Sam, Mr. Tim and Mr. Lee, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2020 is as under:

Liabilities		₹	**Assets**	₹
Capitals:			Land	10,000
Mr. Sam	80,000		Buildings	2,00,000
Mr. Tim	20,000		Plant and machinery	1,30,000
Mr. Lee	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		**6,64,000**

It was mutually agreed that Mr. Tim will retire from partnership and in his place Mr. Ben will be admitted as a partner with effect from 1st April, 2020. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively.Investments are to be taken over by the retiring partner at ₹15,000. Provision of 20% is to bemade on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr.Sam, Mr. Lee and Mr. Ben in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts; and

(c) Bank account;

(MTP-Oct-'21, 15 Marks)

Ans. **Revaluation Account**

	₹			₹
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	Sam	30,400	
		Tim	18,240	
		Lee	12,160	60,800
	63,800			**63,800**

Capital Accounts of Partners

Particulars	Sam ₹	Tim ₹	Lee	Ben ₹	Particulars	Sam ₹	Tim ₹	Lee ₹	Ben ₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Tim LoanA/c	-	22,760	-	-	By Lee and Ben Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c	20,000	20,000			By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	₹		₹
To Sam's capital A/c	10,400	By Bank Overdraft A/c	44,000
To Lee's capital A/c	78,160	By Balance c/d	1,04,560
To Ben's capital A/c	60,000		
	1,48,560		**1,48,560**

Q-27 A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B.

Balance Sheet as at 31st March, 2021

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital accounts			Cash in hand	1,15,000
A	2,85,000		Cash at bank	1,10,000
B	1,55,000	4,40,000	Sundry Debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		**8,75,000**

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.

(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.

(iii) Stock and Furniture to be reduced by 10%.

(iv) A provision @ 5% for doubtful debts to be created on debtors.

(v) Land and building to be appreciated by 20%.

(vi) Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts. **(Sugg. Dec.21, 10 Marks)**

Ans

Revaluation Account

Particulars		Amount ₹	Particulars	Amount ₹
To	Furniture	1,000	By Land and Building	50,000
To	Stock	20,000		
To	Provision for doubtful debts	8,000		
To	Revaluation Profit	21,000		
	A (21,000 x ¾) 15,750			
	B (21,000 x ¼) 5,250			
		50,000		**50,000**

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To 'B's Current A/c (bal fig)	-	45,250	-	By Balance b/d	2,85,000	1,55,000	–
To Balance c/d	4,20,000	1,40,000	1,40,000	By General reserve	45,000	15,000	-
				By Revaluation Profit	15,750	5,250	
				By Bank A/c	-	-	1,40,000
				By C's Current A/c (Goodwill)	30,000	10,000	-
				By As Current A/c (bal fig)	44,250	-	-
	4,20,000	**1,85,250**	**1,40,000**		**4,20,000**	**1,85,250**	**1,40,000**

Working Notes:

1. Calculation of total Capital

C's capital contribution of ₹ 1,40,000 consists of 1/5th of capital.

Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000

Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by A and B in the ratio of 3:1

i.e., A's capital ₹ 4,20,000 and B's capital ₹ 1,40,000

2. Calculation of New Profit Sharing ratio

A = ¾ x 4/5 = 12/20 = 3/5

B = 1 /4 X 4/ 5 = 4/20 = 1/5

C = 1/5= 4/20 = 1/5 or 3 : 1 : 1

OR

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	3/5	3/4	-3/20	-
B	1/5	1/4	-1/20	-
C	1/5	-	-	1/5

3. Goodwill

C's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through C's Current Account because capitals of old partners are also adjusted on the basis of C's Capital.

Therefore, Journal entry for goodwill will be

C's Current A/c	Dr.	40,000	
To A's Capital A/c			30,000
To B's Capital A/c			10,000

Q-28 Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2017	Nil
2018	₹ 900
2019	₹ 2,000
2020	₹ 3,600

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis). **[Sugg.-July'21,5 Marks]**

Ans. **Joint Life Policy Account**

Date	Particulars	₹	Date	Particulars	₹
10th June, 2017	To Bank Account	3,000	31st Dec., ₹17	By Profit and Loss A/c	3,000
10th June, 2018	To Bank Account	3,000	31st Dec., ₹18	By Profit and Loss A/c	2,100
		____		By Balance c/d	900
		3,000			**3,000**
1st Jan, 2019	To Balance b/d	900	31st Dec., ₹19	By Profit and Loss A/c	1,900
10th June, 2019	To Bank Account	3,000		By Balance c/d	2,000
		3,900			**3,900**

1st Jan.,					
2020	To Balance b/d	2,000	31st Dec., ₹20	By Profit and Loss A/c	1,400
10th June,					
2020	To Bank Account	3,000		By Balance c/d	3,600
		5,000			5,000
1st Jan.					
2021	To Balance b/d	3,600	15th April, ₹21	By Bank	**3,600**
		3,600			**3,600**

Q-29 It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

- 31st March, 2017	₹ 70,400
- 31st March, 2018	₹ 56,320
- 31st March, 2019	₹ 48,160
- 31st March, 2020·	₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor. **[Sugg.-July'21, 10 Marks]**

Ans.

Ram's Capital Account

Date	**Particulars**	₹	**Date**	**Particulars**	₹
2020			2020		
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			**1,02,722**

Ram's executor Account

Date 2020	**Particulars**	₹	**Date 2020**	**Particulars**	₹
31.3.'21	To Bank A/c (25,200.50+2,520)	27,720.50	1.10.'20	By Capital A/c	1,00,802.00
			31.3.'21	By Interest (1,00,802 x 2.5%)	2,520.00
	To Balance c/d	75,601.50			
		1,03,322.00			**1,03,322**

30.9.'21	To bank A/c	27,090.50	1.4.'21	By Balance b/d	75,601.50
	(25,200.50+1,890)		30.9.'21	By Interest	1,890.00
31.3.'22	To bank A/c	26,460.50		(75,601.50 x 2.5%)	
	(25,200.50+1,260)		30.3.'22	By Interest	1,260.00
31.3.'22	To balance c/d	25,200.50		(25,200.50 x 2) x 2.5%	
		78,751.50			**78,751.50**
30.9.'22	To bank A/c	25,830.50	1.4.'22	By balance b/d	25,200.50
	(25,200.50+630)		30.9.22	By Interest	630.00
				(25,200.50 x 2.5%)	
		25,830.50			**25,830.50**

Working notes

1. **Ascertainment of Value of Goodwill**

2017	70,400
2018	56,320
2019	48,160
2020	17,408
Total Profit for 4 years	1,92,288
Average Profit	48,072
Goodwill - 3 years	
Purchase of Average Profit	1,44,216
Ram's Share of goodwill	
(9/16 of ₹1,44,216)	81,122

* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

2. Calculation of amount of each instalment (without interest) = ₹1,00,802 / 4 = 25,200.50.

Q-30 Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum.

Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus.

Partners drawings during the year were Rose ₹ 40,000/-Lilly ₹ 30,000/- Lotus ₹ 20,000/-. Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

(RTP-May-'21)

Ans. **Profit and Loss Appropriation Account**

for the year ended 31st December, 2020

Dr. **Cr.**

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	79,500
	X (6% of ₹ 1,60,000)	9,600				
	Y (6% of ₹ 1,00,000)	6,000				
	Z (6% of ₹ 80,000)	4,800	20,400			
To	Partners' capital accounts:					
	[profit (₹ 79,500 – ₹ 20,400)					
	transferred]					
	X (5/10 of 59,100)	29,550				
	Less: Transferred to Z	3,180	26,370			
	Y (3/10 of ₹ 59,100)		17,730			
	Z (2/10 of ₹ 59,100)	11,820				
	Add: Transferred from X	3,180	15,000			
			79,500			**79,500**

Q-31 The profits and losses for the previous years are: 2017 Profit ₹ 5,000, 2018 Loss ₹ 8,500, 2019 Profit ₹ 25,000, 2020 Profit ₹ 37,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a.

Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

(RTP-May-'21)

Ans. **In the Books of Rose, Lilly and Lotus**

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

	Particulars		**₹**	**Particulars**			**₹**
To	Salary to Lotus		50,000	By Net Profit b/d		3,34,600	
To	Interest on capital			Add: Drawings of			
	Rose	24,000		Lotus wrongly debited			
	Lilly	36,000		as salaries		10,000	3,44,600
	Lotus	48,000					
			1,08,000	By Interest on drawings			
To	Net Profit transferred to			Rose	2,400		
	Rose	50,000		Lilly	1,800		
	Lilly	64,000		Lotus	1,200		5,400
	Lotus	78,000	1,92,000				
			3**,50,000**				**3,50,000**

Partners' Capital Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
				By Bank	2,00,000	3,00,000	4,00,000
To Balance c/d	2,00,000	3,00,000	4,00,000				
	2,00,000	**3,00,000**	**4,00,000**		**2,00,000**	**3,00,000**	**4,00,000**
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary	50,000		
To Interest on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By balance b/d	31,600	68,200	1,44,800

(b) Total Profit for 4 years = ₹ 5000+ ₹ (8,500) +₹ 25,000+₹ 37,500= ₹ 59,000.

$$\text{Average profits} = \frac{\text{Total Profit}}{\text{No of Years}} = \frac{₹59,000}{4} = ₹14,750$$

Average Profits for Goodwill = ₹ 14,750 – Proprietor Remuneration

= ₹ 14,750 – ₹ 3,000 = ₹ 11,750

Normal Profit = Interest on Capital employed

= ₹ 10,000 (i.e. ₹ 1,00,000 x10/100) = ₹ 10,000

Super Profit = Average Profit-Normal Profit = ₹ 11,750 – ₹ 10,000 = ₹ 1,750

Goodwill = Super Profit x No of years purchases = ₹ 1,750 x 3 =₹ 5,250

Q-32 Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital : Land & Building	1,50,000		
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		**5,06,000**

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.

6. Furniture to be reduced to ₹40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission **(RTP-May-'21)**

Ans. **In the books of Ramu, Mamu and Damu**

Revaluation A/c

Particulars		₹	Particulars	₹
To machinery		36,000	By Building	75,000
To Bad debts		2,800		
To Reserve for Bad debts		2,000		
To Furniture		4,000		
To Inventory		5,200		
To Profit on revaluation				
Ramu	15,000			
Mamu	10,000	25,000		
		75,000		**75,000**

Partner's Capital A/cs

Particulars		Ramu	Mamu	Damu	Particulars		Ramu	Mamu	Damu
					By	Balance b/d	2,10,000	1,90,000	
To	Ramu, Mamu			50,000	By	bank			1,50,000
					By	Damu	25,000	25,000	
To	Bank (b/f)	36,000	99,000		By	General reserve	36,000	24,000	
To	balance c/d								
	(working note)	2,50,000	1,50,000	1,00,000	By	revaluation	15,000	10,000	
		2,86,000	**2,49,000**	**80,000**			**2,86,000**	**2,49,000**	**1,50,000**

Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		**1,74,000**

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities		₹	Assets		₹
Capital Accounts:			Land & Building		2,25,000
Ramu		2,50,000	Machinery		1,44,000
Mamu		1,50,000	Furniture		40,000
Damu		1,00,000	Trade Receivables	40000	
Loan from HDFC bank		25,000	Reserve for Bad debts	2,000	38,000
Trade Payables		21,000	Inventory		60,000
			Bank		39,000
		5,46,000			**5,46,000**

Working Note:

Partner	Old Share		Sacrificed Share		New Share
Ramu	3/5	-	1/10	=	5/10
Mamu	2/5	–	1/10	=	3/10
Damu			– 2/10 (gain)	=	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share- The closing balances will be fixed first as follows-

Capital and goodwill brought in by Damu - ₹ 1,50,000

His share of goodwill- 2,50,000 x 1/5 ₹ (50,000)

Amount brought in as capital ₹1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = ₹ 5,00,000

Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio

Closing capital of Ramu (5/10th share) = 5,00,000 x 5/10 = 2,50,000

Closing capital of Mamu (3/10th share) = 5,00,000 x 3/10 = 1,50,000

Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books.

Q-33 X, Y and Z entered into partnership on 1.1.2020 to share profits and losses in the ratio of 5:3:2. X personally guaranteed that Z's share of profit after charging interest on capitals at 6 % p.a. would not be less than ₹ 15,000 in any year. Capitals of X, Y and Z were ₹ 1,60,000, ₹ 1,00,000 and ₹ 80,000 respectively.

Profits for the year ending 31.12.2020 before providing for interest on partners capital was ₹ 79,500.

You are required to prepare the Profit and Loss Appropriation Account.

Ans.

Profit and Loss Appropriation Account

for the year ended 31st December, 2020

Dr.						**Cr.**
		₹	₹			₹
To	Interest on capital			By	Net profit b/d	79,500
	X (6% of ₹ 1,60,000)	9,600				
	Y (6% of ₹ 1,00,000)	6,000				
	Z (6% of ₹ 80,000)	4,800	20,400			
To	Partners' capital accounts:					
	[profit (₹ 79,500 - ₹ 20,400) transferred]					
	X (5/10 of ₹ 59,100)	29,550				
	Less: Transferred to Z	3,180	26,370			
	Y (3/10 of ₹ 59,100)		17,730			
	Z (2/10 of ₹ 59,100)	11,820				
	Add: Transferred from X	3,180	15,000			
			79,500			**79,500**

Q-34 Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows:

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	**₹**	**Assets**	**₹**
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	60,000		
	13,10,000		**13,10,000**

The partnership earned profit ₹ 4,00,000 in 2020 and the partners withdrew ₹ 3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose calculate super profit using average capital employed. **(RTP-Nov-'21)**

Ans. Valuation of Goodwill:

		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2020	12,50,000
	Add: 1/2 of the amount withdrawn by partners	1,50000
		14,00,000
	Less: 1/2 of the profit earned in 2020	(2,00,000)
		12,00,000
(2)	Super Profit :	
	Profit of M/s Amar, Akbar ,Anthony	4,00,000
	Normal profit @ 30% on ₹ 12,00,000	3,60,000
	Super Profit	40,000
(3)	Value of Goodwill	
	3 Years' Purchase of Super profit (₹ 40,000 x 3) = ₹ 1,20,000	

Q-35 The following is the Balance Sheet of M/s. TMR as at 31st March,2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities		**₹**	**Assets**		**₹**
Capital	Tina	24,600	Machinery		30,000
	Meena	24,600	Furniture		16,800
	Rita	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for Doubtful debts	1800	25,200
		99,300			**99,300**

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.

(b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.

(d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment. **(RTP-Nov-'21)**

Ans.(i) Journal Entry in the books of the M/s TMR

Date	Particulars		Dr. ₹	Cr. ₹
April,5	Tina's Capital A/c	Dr.	3,000	
2021	Meena's Capital A/c	Dr.	3,000	
	To Rita's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. **Cr.**

	Particulars	₹		Particulars	₹
To	Furniture A/c	3,000	By	Machinery A/c	
	(₹ 16,800-13,800)			(₹ 35,100 - 30,000)	5,100
To	Inventory A/c				
	(₹ 5,700 - 4,500)	1,200			
To	Partners' Capital A/cs	900			
	(Tina - ₹ 300, Meena - ₹ 300, Rita - ₹ 300)				
		5,100			**5,100**

Partners' Capital Accounts

		Tina	Meena	Rita		Tina	Meena	Rita
To	Rita (Goodwill)	3,000	3,000	-	By Balance b/d	24,600	24,600	27,000
To	Cash A/c	-	-	6,000	By General Reserve A/c	3,000	3,000	3,000
To	Executors A/c	-	-	30,300	By Revaluation A/c (Profit)	300	300	300
To	Balance c/d	24,900	24,900	-	By Tina (Goodwill)	-	-	3,000
					By Meena (Goodwill)	-	-	3,000
		27,900	**27,900**	**36,300**		**27,900**	**27,900**	**36,300**

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Tina	Meena	RIta
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Q-36 A and B are partners in a firm sharing profits and losses equally. On 1st April, 2020 the balance of their Capital Accounts were : A ₹ 50,000 and B ₹ 40,000. On that date the balances of their Current Accounts were: A ₹ 10,000 (credit) and B ₹ 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2020. B is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of A and B during the year were ₹ 1,000 and ₹ 2,000 respectively. The profit for the year ended 31st March, 2021 before charging interest on capital but after charging B's salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year. **[RTP-May'22]**

Ans.(a) **Profit and Loss Appropriation Account**

for the year ended 31st March, 2021

		₹	₹		₹
To	Salary - B		3,000		
To	Interest on Capitals:				
	A	2,500			
	B	2,000	4,500	By Net profit	73,000
To	Reserve (10% of 65,500)				
To	Partners' current accounts:	6,550			
	A	29,475			
	B	29,475	58,950		
			73,000		**73,000**

Partners' Capital Accounts

Date	A	B	Date	A	B
31.03.21 To Balance c/d	50,000	40,000	01.04.20 By Balance b/d	50,000	40,000
	50,000	40,000		50,000	40,000

Partners' Current Accounts

Date		A	B	Date		A	B
01.04.20	To Balance b/d	-	3,000	01.04.20	By Balance b/d	10,000	
31.03.21	To Drawings A/c	1,000	2,000	31.03.21	By Interest on Capital	2,500	2,000
31.03.21	To Balance c/d	40,975	29,475	31.03.21	By Salary	3,000	
				31.03.21	By Profit and		
					Loss App A/c	29,475	29,475
		41,975	**34,475**			**41,975**	**34,475**

Note: Profit before charging interest on Capital and Salary to B = 70,000+3,000 =73,000

Q-37 Tina and Rita are partners in a firm. Their capitals are: Tina ₹ 6,00,000 and Rita ₹ 4,00,000. During the year ended 31st March, 2021 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 3 years purchase of Super Profit. **[RTP-May'22]**

Ans. **(i)** **Capitalisation Method:**

Total Capitalised Value of the firm

$= \frac{\text{Average Profit}}{\text{Normal Rate of Return}} = \frac{₹\,3,00,000}{20} = ₹\,15,00,000$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 15,00,000 – ₹ 10,00,000 [i.e., ₹ 6,00,000 + ₹ 4,00,000]

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

= ₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years purchase

= ₹1,00,000 x 3 = ₹ 3,00,000

Q-38 Acme & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2021 is as under:

Liabilities	₹		**Assets**	₹
Capitals:			Land	30,000
Mr. A	2,40,000		Buildings	6,00,000
Mr. B	60,000		Plant and machinery	3,90,000
Mr. C	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)	60,000		Inventories	3,90,000
Long Term Debt	9,00,000		Trade receivables	4,17,000
Bank Overdraft	1,32,000			
Trade payables	5,10,000			
		19,92,000		**19,92,000**

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. F will be admitted as a partner with effect from 1st April, 2021. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. A, Mr. B and Mr. C in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2021. **[RTP-May'22]**

Ans.

Revaluation Account

Particulars	Amount₹	Particulars		Amount ₹
To Buildings A/c	30,000	By Investments A/c		9,000
To Plant and Machinery A/c	78,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	83,400	A	91,200	
		B	54,720	
		C	36,480	1,82,400
	1,91,400			**1,91,400**

Particulars	A ₹	B ₹	C ₹	F ₹	Particulars	A ₹	B ₹	C ₹	F ₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To B's Loan A/c	-	68,280	-	-	By C and F's Capital A/c	30,000	90,000	-	-
To A and B's Capital A/c	60,000	60,000			By Bank A/c				
					(balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000					
	3,31,200	**1.68,000**	**3,36,480**	**1,80,000**		**3,31,200**	**1,68,000**	**3,36,480**	**1,80,000**

Bank Account

Particulars	Amount₹	Particulars	Amount₹
To A's capital A/c	31,200	By Bank Overdraft A/c	1,32,000
To C's capital A/c	2,34,480	By Balance c/d	3,13,680
To F's capital A/c	1,80,000		
	4,45,680		**4,45,680**

Balance Sheet of Acme & Co.

as at 1st April, 2021

Liabilities	₹	Assets	₹
Capital Accounts:	Land	30,000	
A	2,40,000	Buildings	5,70,000
C	2,40,000	Plant and Machinery	3,12,000
F 1,20,000	6,00,000	Furniture	1,29,000
Long Term Debts	9,00,000	Inventories	3,90,000
Trade payables	5,10,000	Trade receivables 4,17,000	
Q's Loan Account	68,280	*Less:* Provision for	
		Doubtful Debts (83,400)	3,33,600
		Balance at Bank	
	20,78,280		**20,78,280**

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NOTES

Chapter-9
Financial Statements of Not-for-Profit Organizations

Q-1 From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the New Max Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

	RECEIPTS		Rs.		PAYMENTS		Rs.
To	Balance b/d			By	Salaries:		
	Cash	400			(Rs. 3,600 for 2019)		15,600
	Bank	2,600	3,000	By	Hospital Equipment		8,500
To	Subscriptions:			By	Furniture purchased		3,000
	For 2019	2,550		By	Additions to Building		25,000
	For 2020	12,250					
	For 2021	1,200		By	Printing and Stationery		1,200
				By	Diet expenses		7,800
To	Government Grant:		40,000	By	Rent and rates (Rs. 150 for		
	For building				2021)		1,000
	For maintenance		10,000	By	Electricity and water charges		1,200
	Fees from sundry		2,400	By	Office expenses		1,000
	Patients			By	Investments		10,000
To	Donations (not to be capitalized)		4,000	By	Balances:		
To	Net collections from				Cash	700	
	benefit shows		3,000		Bank	3,400	4,100
			78,400				**78,400**

Additional information :	**Rs.**
Value of building under construction as on 31.12.2020	70,000
Value of hospital equipment on 31.12.2020	25,500
Building Fund as on 1.1. 2020	40,000
Subscriptions in arrears as on 31.12.2019	3,250

Investments in 8% Govt. securities were made on 1st July, 2020.

[MTP March '21, 20 Marks]

Ans.

New Max Hospital

Income & Expenditure Account

for the year ended 31 December, 2020

Expenditure		(Rs.)	Income	(Rs.)
To	Salaries	12,000	By Subscriptions	12,250
To	Diet expenses	7,800	By Govt. Grants (Maintenance)	10,000
To	Rent & Rates	850	By Fees, Sundry Patients	2,400
To	Printing & Stationery	1,200	By Donations	4,000
To	Electricity & Water-charges	1,200	By Benefit shows (net collections)	3,000
To	Office expenses	1,000	By Interest on Investments	400
To	Excess of Income over expenditure transferred to Capital Fund	8,000		
		32,050		**32,050**

Balance Sheet as at 31st Dec., 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund :			Building :		
Opening balance	24,650		Opening balance	45,000	
Excess of Income			Addition	25,000	70,000
Over Expenditure	8,000	32,650	Hospital Equipment :		
Building Fund :			Opening balance	17,000	
Opening balance	40,000		Addition	8,500	25,500
Add : Govt. Grant	40,000	80,000	Furniture		3,000
Subscriptions received in advance		1,200	Investments - 8% Govt. Securities		10,000
			Subscriptions receivable		700
			Accrued interest		400
			Prepaid expenses (Rent)		150
			Cash at Bank		3,400
			Cash in hand		700
		1,13,850			**1,13,850**

Working Notes:

(1) **Balance sheet as at 31st Dec., 2019**

Liabilities	Rs.	Assets	Rs.
Capital Fund (Balancing Figure)	24,650	Building	45,000
		Equipment	17,000
Building Fund	40,000	Subscription Receivable	3,250
Creditors for Expenses :		Cash at Bank	2,600
Salaries payable	3,600	Cash in hand	400
	68,250		**68,250**

(2)	**Value of Building**	**Rs.**
	Balance on 31st Dec. 2020	70,000
	Paid during the year	(25,000)
	Balance on 31st Dec. 2019	45,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2020	25,500
	Paid during the year	(8,500)
	Balance on 31st Dec. 2019	17,000
(4)	Subscription due for 2019	
	Receivable on 31st Dec. 2019	3,250
	Received in 2020	2,550
	Still Receivable for 2019	700

Q-2 From the following information supplied by New Punjabi Bagh Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2021.

	01.04.2020 Rs.	**31.03.2021** Rs.
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to Rs. 1,50,000/-. Salaries paid Rs. 30,000. Face value of the Investment was Rs. 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs. 7,000. Furniture was sold for Rs. 4000 at the beginning of the year.

Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: Rs. 25,000

Rent: Rs. 12,000 out of which Rs. 1,000 outstanding

Misc. Expenses: Rs. 2,500 **[MTP April '21, 15 Marks]**

Ans. (a) Receipts and Payments Account for the year ended 31-03-2021

Receipts		**Rs.**	**Payments**		**Rs.**
To	balance b/d		By	Salaries	30,000
	Cash and bank	55,000	By	Purchase of sports goods	5,000
To	Subscription received (W.N.1)	1,22,500		Rs. (12,500-7,500)	
To	Sale of investments (W.N.2)	35,000	By	Purchase of machinery	5,000
To	Interest received on investment	7,000		Rs. (10,000-5,000)	
To	Sale of furniture	4,000	By	Sports expenses	25,000
			By	Rent paid	11,000
				Rs. (12,000 -1,000)	
			By	Miscellaneous expenses	2,500
			By	Balance c/d	
				Cash and bank	1,45,000
		2,23,500			**2,23,500**

Income and Expenditure account for the year ended 31-03-2021

Expenditure		Rs.	Rs.	Income		Rs.	Rs.
To	Salaries	30,000		By	Subscription	1,50,000	
	Add: Outstanding for 2021	9,000		By	Interest on Investment		
		39,000			Received	7,000	
	Less: Outstanding for 2020	(7,500)	31,500		Accrued (W.N.5)	1,750	8,750
To	Sports expenses		25,000				
To	Rent		12,000				
To	Miscellaneous exp.		2,500				
To	Loss on sale of furniture (W.N.3)		3,000				
To	Depreciation (W.N.4)						
	Furniture	700					
	Machinery	750					
	Sports goods	1,125	2,575				
To	Surplus		82,175				
			1,58,750				**1,58,750**

Working Notes:

1.

Calculation of Subscription received during the year 2020-21	**Rs.**
Subscription due for 2020-21	1,50,000
Add: Outstanding of 2020	70,000
Less: Outstanding of 2021	(1,00,000)
Add: Subscription of 2021 received in advance	15,000
Less: Subscription of 2020 received in advance	(12,500)
	1,22,500

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: Rs. 87,500 × 50% = Rs. 43,750

Sales price: Rs. 43,750 × 80% = Rs. 35,000

Cost price of investment sold: Rs. 70,000 × 50% = Rs. 35,000

Profit/loss on sale of investment: Rs. 35,000 - Rs. 35,000 = NIL

3. Loss on sale of furniture

	Rs.
Value of furniture as on 01-04-2020	14,000
Value of furniture as on 31-03-2021	7,000
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	(4,000)
Loss on sale of furniture	3,000

4. Depreciation

Furniture - Rs.7,000 × 10% = 700

Machinery - Rs.5,000 × 15% = 750

Sports goods - Rs.7,500 × 15% = 1,125

5. Interest accrued on investment

	Rs.
Face value of investment on 01-04-2020	87,500
Interest @ 10%	8,750
Less: Interest received during the year	(7,000)
Interest accrued during the year	1,750

Note: It is assumed that the sale of investment has taken place at the end of the year.

Q-3 Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below: On 1st April, 2019 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21- During the year 2019-20 he made cash sales of ₹ 7,50,000.

You are required to compute :

(i) Total income for the year 2019-20.

(ii) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000.

[Sugg. Jan '21, 5 Marks]

Ans. (i) Computation of Income for the year 2019-20:

	₹
Money received during the year related to 2019-20	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

(ii) Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2019	By Balance b/d	3,00,000
				By Bank A/c	1,80,000
31.3.20	To Balance c/d	2,55,000		(Balancing Figure)	
		4,80,000			**4,80,000**

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

Q-4 From the following Income and Expenditure Account and additional information of A TK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	*Income*	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000

To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		**8,40,000**

Additional Information:

Particulars	**As on 31st March, 2019**	**As on 31st March, 2020**
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

[Sugg. Jan '21, 10 Marks]

Ans.

ATK Club

Receipts and Payments Account

for the year ended 31st March, 2020

RECEIPTS	₹	₹	**PAYMENTS**	₹	₹
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N.2)		4,72,000
To Subscriptions Received (W.N.1)		6,53,600	By Audit fee (W.N. 3)		8,000
To Entrance Fees		16,000			
To Misc. Income		1,44,000	By Telephone		6,000
			By Stationery & Printing		24,000
			By Postage		2000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000
			By Sports Equipment's (W.N.4)		72,000
			By Balance c/d		1,14,000
		8,68,000			**8,68,000**

Balance Sheet of ATK Club as at March 31, 2020

Liabilities	₹	₹	**Assets**	₹	₹
Capital Fund :			Club Premises		7,60,000
Balance as per			Sport Equipment		2,52,000
previous			Subscription		
Balance Sheet	8,82,400		Outstanding		72,000
Add: Surplus	1,20,000	10,02,400	Cash in hand		1,14,000
for 2020					

Bank Loan	1,20,000		
Subscription received in advance	33,600		
Audit Fee Outstanding	10,000		
Salaries Outstanding	32,000		
	11,98,000		**11,98,000**

Balance Sheet of ATK Club as at 31st March, 2019

Liabilities	₹	**Assets**	₹
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	8,82,400		
	10,86,400		**10,86,400**

Working Notes:

1.	Subscription received in 2019-20	
	Add: Subscription for 2019-20 on accrual basis	6,80,000
	Add: Amount received in advance on 31.03.2020	33,600
	Outstanding as on 01.04.2019 received in 2019-20	64,000
		7,77,600
	Less: Outstanding to be received on 31.03.2020	72,000
	Amount of 2019-20 received in 2018-19	52,000
		Rs 6,53,600
2.	Salary paid in 2019-20	
	Salary for 2019-20 on accrual basis	4,80,000
	Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
	Less: Outstanding to be paid on 31.03.2020	32,000
		Rs .4,72,000
3.	Audit Fees paid in 2019-20	
	Audit Fees for 2019-20 on accrual basis	10,000
	Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
	Less: Outstanding to be paid on 31.03.2020	10,000
		₹ 8,000
4.	Sports Equipment purchased during 2019-20	
	WDV as on 31.03.2020	2,52,000
	Add: Depreciation	28,000
	Less: WDV as on 31.03.2019	2,08,000
		Rs 72,000

Q-5 From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:

Income & Expenditure Account for the year 2018-19

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		**25,960**

Balance sheet as at 31st March 2019

Liabilities		₹	Assets	₹
Subscription in advance(2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018-19.

(ii) One fourth of entrance fee has been capitalized by transfer to General Fund.

(iii) Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.

(iv) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.

(v) Furniture was purchased during the year. **[Sugg.-Nov'19, 10 Marks]**

Ans. Receipts and Payments Account

for the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d		By Upkeep of Ground	
(Balancing figure)	16,126	(11,000+660)	11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund	1,100	By Salaries	11,100
Investments		By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	1,650	By Rent	1,660
To Entrance Fee	2,860	By Prizes	2,200
To Sale of Newspapers (old)	286	By Balance c/d	2,530
To Misc. Income	440		
	41,514		**41,514**

Note:

₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

		₹			₹
2018			2018	By Subscription	
April	To SubscriptionOutstanding				
	(2017-18)	880	April 1	in Advance (2017-18)	220
	To Subscription			By Subscription	
	In Advance (2018-19)	110		Outstanding (2018-19)	770
				By Cash (Balancing figure)	9,052
2019					
March	To Income &				
	Expenditure A/c	19,052			
		20,042			**20,042**

Q-6 From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	01.04.2018 ₹	**31.03.2019** ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value.

Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at t he last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 50,000

Rent: ₹ 24,000 out of which ₹ 2,000 outstanding

Misc. Expenses: ₹ 5,000 **[Sugg.-May-19, 10 Marks]**

Ans. **Receipts and Payments Account for the year ended 31-03-2019**

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods	10,000
To Subscription received (W.N.1)	2,45,000	₹ (25,000- 15,000)	
To Sale of investmen ts (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000	₹ (20,000- 10,000)	
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid	22,000
		₹ (24,000 - 2,000)	
		By Miscellaneo us expenses	5,000
		By Balance c/d	
		Cash and bank	2,90,000
	4,47,000		**4,47,000**

Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on		
			Investment		
	78,000		Received	14,000	
Less: Outstanding for 2018	(15,000)	63,000	Accrued (W.N.5)	3,500	17,500
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of		6,000			
furniture (W.N.3)					
To Depreciation (W.N.4)					
Furniture	1,400				
Machinery	1,500				
Sports goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			**3,17,500**

Working Notes:

1. Calculation of Subscription received during the year 2018 -19

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500
Sales price: ₹ 87,500 × 80% = ₹ 70,000
Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000
Profit/loss on sale of investment: ₹ 70,000 - ₹ 70,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. Depreciation

Furniture - ₹14,000 × 10% =	1,400
Machinery - ₹10,000 × 15% =	1,500
Sports goods – ₹15,000 × 15% =	2,250

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

Note: It is assumed that the sale of investment has taken place at the end of the year.

Q-7 You are provided with the following:

Balance Sheet as on 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advance	6,000	Outstanding Subscription	3,800
Outstanding Expenses	14,000	Outstanding Locker Rent	2,400
Loan	40,000	Cash in hand	20,000
Sundry Creditors	10,000		
Total	**1,76,200**		**1,76,200**

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts		(₹)	Payment		(₹)
To Balance b/d			By Expenses:		
Cash in Hand		20,000	For 2017	12,000	
To Subscriptions:			For 2018	20,000	32,000
For 2017	2000		By Land		40,000
For 2018	21,000		By Interest		4,000
For 2019	1,000	24,000	By Miscellaneous Expenses		4,700
To Entrance Fees		38,000	By Balance c/d		
To Locker Rent		7,000	Cash in Hand		18,300
To Sale proceeds of old newspapers		1,000			
To Miscellaneous Income		9,000			
		99,000			**99,000**

You are required to prepare Income and Expenditure account for the year ended 31st March, 2018 and a Balance Sheet as at 31st March, 2018 (Workings should form part of your answer).

[Sugg.-Nov'18, 10 Marks]

Ans. **Income and Expenditure Account for the year ended 31st March, 2018**

Expenditure	₹	Income	₹
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old newspapers	1,000
To Surplus	12,900	By Misc. income	9,000
	41,600		**41,600**

Balance Sheet as at 31st March, 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017)	1,800
Add: Entrance fee	38,000		(3,800 – 2,000)	
Add: Surplus	12,900	1,57,100		
Loan		40,000	Cash in hand	18,300
Creditors		10,000		
Outstanding expenses (2017)				
(14,000-12,000)		2,000		
Subscription received in advance		1,000		
		2,10,100		**2,10,100**

Note: Entrance fees have been capitalized in the above solution.

Q-8 From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the year ended 31 December, 2019

RECEIPTS			₹	PAYMENTS			₹
To	Balance b/d			By	Salaries:		
	Cash	800			(₹ 7,200 for 2018)		31,200
	Bank	5,200	6,000	By	Hospital Equipment		17,000
To	Subscriptions:			By	Furniture purchased		6,000
	For 2018	5,100		By	Additions to Building		50,000
	For 2019		2,400				
	For 2020		24,500	By	Printing andStationery	2,400	
To	Government Grant:			By	Diet expenses	15,600	
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2020)	2,000	
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges	2,400	
To	Donations (not to be		8,000	By	office expenses	2,000	
	capitalized)			By	Investments	20,000	
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				**1,56,800**

Additional information:	₹
Value of building under construction as on 31.12.2019	1,40,000
Value of hospital equipment on 31.12.2019	51,000
Building Fund as on 1.1. 2019	80,000
Subscriptions in arrears as on 31.12.2018	6,500

Investments in 8% Govt. securities were made on 1st July, 2019. **[RTP-Nov'19]**

Ans.

Jeevan Hospital

Income & Expenditure Account

for the year ended 31 December, 2019

Expenditure		(₹)	**Income**		(₹)
To	Salaries	24,000	By	Subscriptions	24,500
To	Diet expenses	15,600	By	Govt. Grants (Maintenance)	20,000
To	Rent & Rates	1,700	By	Fees, Sundry Patients	4,800
To	Printing & Stationery	2,400	By	Donations	8,000
To	Electricity & Water-charges	2,400	By	Benefit shows (net collections)	6,000
To	Office expenses	2,000	By	Interest on Investments	800
To	Excess of Income over expenditure transferred to Capital Fund	16,000			
		64,100			**64,100**

Balance Sheet as at 31st Dec., 2019

Liabilities	₹	₹	**Assets**	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess ofIncome			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture	6,000	
Subscriptions			Investments		
received in advance	2,400		8% Govt. Securities		20,000
			subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)	300	
			Cash at Bank	6,800	
			Cash in hand	1,400	
		2,27,700			**2,27,700**

Working Notes:

(1) Balance sheet as at 31st Dec., 2019

Liabilities	₹	**Assets**	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	7,200	Cash in hand	800
	1,36,500		**1,36,500**

(2)	**Value of Building**	₹
	Balance on 31st Dec. 2019	1,40,000
	Paid during the year	50,000
	Balance on 31st Dec. 2018	90,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2019	51,000
	Paid during the year	(17,000)
	Balance on 31st Dec. 2018	34,000
(4)	**Subscription due for 2018**	
	Receivable on 31st Dec. 2018	6,500
	Received in 2019	5,100
	Still Receivable for 2018	1,400

Q-9 The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

Receipts	₹	**Amount ₹**	**Payments**	**Amount ₹**
To Balance b/d		450	By Expenses	
To Annual Income from			(including Payment	
Subscription	4,590		for sportsmaterial ₹ 2,700)	6,300
Add: Outstanding of			By Loss on Sale of Furniture	
last year receivedthis year	180		(cost price ₹ 450)	180
	4,770		By Balance c/d	90,450
Less: Prepaid of lastyear	90	4,680		
To Other fees		1,800		
To Donation for Building		90,000		
		96,930		96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹ 1,800; Investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2018 : Subscription Receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date. **[RTP-May'19]**

Ans. **Corrected Receipts and Payments Account of Trustwell Club**

for the year ended 31st March, 2018

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		450	By Expenses (₹ 6,300 – ₹ 2,700)	3,600
To Subscription			By Sports Material	2,700
Annual Income	4,590		By Balance c/d	
Less: Receivable as on 31.3.2018	270		(Cash in Hand and at Bank)	90,720
Add: Advance received for				
the year 2018–2019	90			
Add: Receivable as on 31.3.2017	180			
Less: Advance received				
as on 31.3.2017	90	4,500		
To Other Fees		1,800		
To Donation for Building		90,000		
To Sale of Furniture		270		
		97,020		**97,020**

Income and Expenditure Account of Trustwell club

for the year ended 31st March, 2018

Expenditure		Amount ₹	Income	Amount ₹
To Sundry Expenses		3,600	By Subscription	4,590
To Sports Material			By Other fees	1,800
Balance as on 1.4.2017	6,660		By Interest on investment	1,350
To *Add*: Purchases	2,700		(5% on ₹ 27,000)	
Less: Balance as on 31.3.2018			By Deficit: Excess of	
Loss on sale of	1,800	7,560	Expenditure over Income	3,600
Furniture		180		
		11,340		11,340

Balance Sheet of Trustwell club

as on 31st March, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure			Less: Sold	450	1,350
over Income	3,600	32,400	5% Investment		27,000
Building Fund		90,000	Interest Accrued		
Subscription Received		90	on Investment		1,350
in Advance			Sports Material		1,800
			Subscription		270
			Receivable		
			Cash in Hand and at Bank		90,720
		1,22,490			**1,22,490**

Working Note:

Balance Sheet of Trustwell Club
as on 1st April, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Subscription Received in Advance	90	Furniture	1,800
Capital Fund (Balancing Figure)	36,000	Investment	27,000
		Sports Material	6,660
		Subscription Receivable	180
		Cash in Hand and at Bank	450
	36,090		**36,090**

Q-10 The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	As on 01-04-2017 (₹)	As on 31-3-2018 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018. **[RTP-Nov'18]**

Ans. **Subscription for the year ended 31.3.2018**

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
3,58,500		
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

Q-11 Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment 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, 2018 is given below:

		₹		₹
To Balance b/d			By Electric charges	7,200
Cash at bank	25,000		By Postage and stationary	5,000
Cash in hand	25,000	50,000	By Telephone charges	5,000
To Entrance fee		30,000	By Books purchased	60,000
To Membership subscription		2,00,000	By Outstanding expensespaid	7,000
To Sale proceeds of oldpapers		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	
			Cash at bank	20,000
			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, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 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 1.10.2017 for ₹ 40,000.

[MTP-April '19, 20 Marks, RTP-May'18, MTP-March'20, 15 Marks]

Ans.

Smith Library Society
Income and Expenditure Account
for the year ended 31st March, 2018

Dr. **Cr.**

Expenditure	₹	₹	**Income**	₹	₹
To Electric charges		7,200	By Entrance fee		
To Postage and stationary		5,000	(25% of₹ 30,000)		7,500
To Telephone charges		5,000	By Membership	2,00,000	
To Rent	88,000		subscription	10,000	1,90,000
Add: Outstanding	4,000	92,000	Less: Received in advance		
To Salaries	66,000		By Sale proceeds of old		
Add: Outstanding	3,000	69,000	papers		1,500
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities	8,000	
Furniture	5,000		(W.N.2)		
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit- excess of		
			expenditure overincome		16,700
		2,44,200			**2,44,200**

Balance Sheet of Smith Library Society
as on 31st March, 2018

Liabilities	₹	₹	**Asset**	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrancefees	22,500		Less: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure			Less: Depreciation	(5,000)	
overincome	(16,700)	7,98,800	Books	4,60,000	45,000
Out standing expenses:			Less Depreciation		
Rent	4,000		Investment:	(46,000)	4,14,000
Salaries	3,000	7,000	Securities	1,90,000	
Membership			Accrued interest	500	1,90,500
subscription in			Cash at bank		20,000
advance		10,000	Cash in hand		11,300
		8,15,800			**8,15,800**

Working Notes:

1. Depreciation

	₹
Electrical fittings 10% of ₹ 1,50,000	15,000
Furniture 10% of ₹ 50,000	5,000
Books 10% of ₹ 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500
Less: Received Receivable		(8,000)
		500

Q-12 From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2018 and its balance sheet as on that date:

Receipts	**Rs.**	**Payments**	**Rs.**
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		**33,700**

Information:

1. Subscriptions in arrear for 2018 Rs. 900 and subscriptions in advance for 2019 Rs. 350.
2. Insurance premium outstanding Rs. 40.
3. Misc. expenses prepaid Rs. 90.
4. 50% of donation is to be capitalized.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for fiv e months.
7. Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

[MTP-Oct'19, 10 Marks]

Ans.

Income and Expenditure Account of Mumbai Club
for the year ended 31st December, 2018

Dr.				**Cr.**			
Expenditure	**Rs.**	**Rs.**		**Income**	**Rs.**	**Rs.**
To Salary		2,000	By	Donation	5,000	
To Repair expenses		500		Less: Capitalised (50%)	2,500	2,500
To Misc . expenses	500		By	Subscriptions	12,000	
Less: Prepaid	90	410		Add: Outstanding	900	
To Insurance premium	200	12,900				
Add: Outstanding	40	240		Less: Advance for 2019	350	12,550
To Paper, ink etc .		150	By	Entrance fees		1,000
To Drama expenses		500	By	Interest on investment		300
To Surplus-excess of						
income over expenditure		14,150		[100+8/100x6,000x5/12]		
			By	Interest received from bank		400
			By	Sale of old newspapers		150
			By	Sale of drama tickets		1,050
		17,950				**17,950**

Balance Sheet of Mumbai Club
as on 31st December, 2018

Liabilities	Rs.	Rs.	Assets	Rs.
Capital fund			Billiard table	30,000
Opening balance		36,000	Furniture	6,000
Add: Surplus		14,150	Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		**53,040**

Working Note:

Balance Sheet of Mumbai Club as on 31st December, 2017

Liabilities	Rs.	Assets	Rs
Capital fund	36,000	Billiard table	30,000
(balancing figure)		Cash in hand	4,000
Creditors for billiard table	8,000	Cash at bank	10,000
	44,000		**44,000**

Q-13 From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund	19,10,000	
Tuition Fee Received	8,10,000	
Government Grants	5,01,000	
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)	2,05,000	
College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-

Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :	-	
Building	-	*4,90,000*
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000
Cash at Bank	3,16,000	-
Library	3,20,000	
	75,45,000	**75,45,000**

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching	₹ 52,000.
Research -	₹ 1,45,000
Students Welfare -	₹ 78,000
Games or Sports -	₹ 24,000

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

[Sugg.-Nov'20, 10 Marks]

Ans.

AS College

Income and Expenditure Account

for the year ending 31st March, 2020

Expenditure	₹	₹	**Income**	₹	₹
To Salaries: Teaching		8,75,000	By Tutions & other fee	92,000	
Research		1,25,000	By Govt. Grants		5,01,000
To Material & Supplies Consumed			By Income from Investments		1,75,000
Teaching		52,000	By Hostel room Rent		1,65,000
Research		1,45,000	By Mess Receipts		2,05,000
			By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	24,000	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	78,000	1,15,000			
To Scholarships	85,000				

To Depreciation:				
Building	77,500			
Plant & Equipment	85,000			
Furniture	54,000			
Motor Vehicle	48,000			
To Excess of Income over Expenditure	3,14,500			
	20,52,000			**20,52,000**

AS College

Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	**Assets**	₹	₹
			Fixed Assets:		
Capital Fund			Land		1,50,000
Opening balance	13,08,000		Building Cost	15,50,000	
Add: Excess of Income over Expenditure	3,14,500	16,22,500	Less: Dep.	(5,67,500)	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	(5,90,000)	2,60,000
Outstanding Expenses		2,35,000	Furniture &		
Security Deposit		1,55,000	Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			**39,22,500**

Working Notes:

(1)

Material & Supplies-Closing Stock	₹	₹
Opening Stock		3,10,000
Purchases		8,20,000
		11,30,000
Less: Cost of Goods Sold	6,46,000	
Material Consumed	2,99,000	(9,45,000)
Balance		1,85,000

(2) Provisions for Depreciation

Equipment	Building	Plant & & Fitting	Furniture
	₹	₹	₹
Opening Balance	4,90,000	5,05,000	3,26,000
Addition	77,500	85,000	54,000
Closing Balance	5,67,500	5,90,000	3,80,000

Q-14 The following information of M/s. Badminton Club are related for the year ended 31st March, 2021:

(1)

Balances	As on 01-04-2020 (₹)	As on 31-3-2021 (₹)
Stock of Sports Material	4,50,000	6,75,000
Amount due for Sports Material	4,05,000	5,85,000
Subscription due	67,500	99,000
Subscription received in advance	54,000	31,500

(2) Subscription received during the year ₹ 22,50,000

(3) Payments for Sports Material during the year ₹ 13,50,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(MTP March 22, 15 + 5 = 20 Marks)

Ans. Subscription for the year ended 31.3.2021

		₹
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2020	67,500	
Less: Subscription received in advance on 31.3.2021	31,500	(99,000)
		21,51,000
Add: Subscription receivable on 31.3.2020	99,000	
Add: Subscription received in advance on 1.4.2021	54,000	1,53,000
Amount of Subscription appearing in Income & Expenditure Account		23,04,000

Sports material consumed during the year end 31.3.2021

	₹
Payment for Sports material	13,50,000
Less: Amounts due for sports material on 1.4.2020	(4,05,000)
	9,45,000
Add: Amounts due for sports material on 31.3.2021	5,85,000
Purchase of sports material	15,30,000

Sports material consumed:	
Stock of sports material on 1.4.2020	4,50,000
Add: Purchase of sports material during the year	15,30,000
	19,80,000
Less: Stock of sports material on 31.3.2021	(6,75,000)
Amount of Sports Material appearing in Income & Expenditure Account	13,05,000

Balance Sheet of M/s Badminton Club For the year ended 31st March, 2021 (An extract)

Liabilities	₹	***Assets***	₹
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

Q-15 The following information of M/s. Missionary Club are related for the year ended 31st March, 2021:

(1)

Balances	**As on 01-04-2020(Rs.)**	**As on 31-3-2021(Rs.)**
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year Rs. 11,25,000

(3) Payments for Sports Material during the year Rs. 6,75000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(Mtp-Nov'21, 10 Marks)

Ans. Subscription for the year ended 31.3.2021

		Rs.
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2020	33,750	
Less: Subscription received in advance on 31.3.2021	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2021	49,500	
Add: Subscription received in advance on 1.4.2020	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2021

	Rs.
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2020	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2021	2,92,500
Purchase of sports material	7,65,000

Sports material consumed:	
Stock of sports material on 1.4.2020	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2021	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

Balance Sheet of M/s Missionary Club For the year ended 31st March, 2021(An extract)

Liabilities	Rs.	Assets	Rs.
Unearned Subscription	15,750	Subscription receivable	49,500
Amount due for sports material	2,92,500	Stock of sports material	3,37,500

Q-16 From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the Rex Speciality Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

	RECEIPTS	₹			PAYMENTS	₹	₹
To	Balance b/d			By	Salaries:		
	Cash	1,600			(₹ 14,400 for 2019)		62,400
	Bank	10,400	12,000	By	Hospital Equipment		34,000
To	Subscriptions:			By	Furniture purchased		12,000
	For 2019		10,200	By	Additions to Building		1,00,000
	For 2020		49,000	By	Printing and		4,800
	For 2021		4,800		Stationery		
To	Government Grant:			By	Diet expenses		31,200
	For building		1,60,000	By	Rent and rates		
	For maintenance		40,000		(' 600 for 2021)		4,000
	Fees from sundry			By	Electricity and water		
	Patients		9,600		charges		4,800
To	Donations (not to be		16,000	By	office expenses		4,000
	capitalized)			By	Investments		40,000
To	Net collections from			By	Balances:		
	benefit shows		12,000		Cash	2,800	
					Bank	13,600	16,400
			3,13,600				**3,13,600**

Additional information : ₹

Value of building under construction as on 31.12.2020	2,80,000
Value of hospital equipment on 31.12.2020	1,02,000
Building Fund as on 1.1. 2020	1,60,000
Subscriptions in arrears as on 31.12.2019	13,000

Investments in 8% Govt. securities were made on 1st July, 2020.

(MTP-Oct-'21, 20 Marks)

Ans.

Rex Speciality Hospital

Income & Expenditure Account

for the year ended 31 December, 2020

Expenditure	(₹)	Income	(₹)
To Salaries	48,000	By Subscriptions	49,000
To Diet expenses	31,200	By Govt. Grants (Maintenance)	40,000
To Rent & Rates	3,400	By Fees, Sundry Patients	9,600
To Printing & Stationery	4,800	By Donations	16,000
To Electricity & Water-charges	4,800	By Benefit shows (netcollections)	12,000
To Office expenses	4,000	By Interest on Investments	1,600
To Excess of Income over expenditure transferred to Capital Fund	32,000		
	1,28,200		**1,28,200**

Balance Sheet as at 31st Dec., 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	
Excess of Income			Addition	1,00,000	2,80,000
Over Expenditure	32,000	1,30,600	Hospital Equipment :		
Building Fund :			Opening balance	68,000	
Opening balance	1,60,000		Addition	34,000	1,02,000
Add : Govt. Grant	1,60,000	3,20,000	Furniture		12,000
Subscriptions received in advance		4,800	Investments- 8% Govt. Securities		40,000
			Subscriptions receivable		2,800
			Accrued interest		1,600
			Prepaid expenses (Rent)		600
			Cash at Bank		13,600
			Cash in hand		2,800
		4,55,400			**4,55,400**

Working Notes:

(1) Balance sheet as at 31st Dec., 2020

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	98,600	Building	1,80,000
Building Fund	1,60,000	Equipment	68,000
Creditors for Expenses :		Subscription Receivable	13,000
Salaries payable	14,400	Cash at Bank	10,400
	2,73,000	Cash in hand	1,600
			2,73,000

(2)	**Value of Building**	**₹**
	Balance on 31st Dec. 2020	2,80,000
	Paid during the year	1,00,000
	Balance on 31st Dec. 2019	1,80,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2020	1,02,000
	Paid during the year	(34,000)
	Balance on 31st Dec. 2019	78,000
(4)	**Subscription due for 2019**	
	Receivable on 31st Dec. 2019	13,000
	Received in 2020	10,200
	Still Receivable for 2019	2,800

Q-17 The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows.

Expenditure	**₹**	**Income**	**₹**
To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for Annual Dinner	10,000
To Secretary's honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationary and Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest and bank charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		**95,000**

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2020	6,000
Subscription received in advance on 31st December,2020	4,500
Subscription received in advance on 31st December, 2021	2,700
Subscription outstanding on 31st December,2021	7,500

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000 The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹27,000. In the year 2020, the Club had raised a bank loan of ₹20,000.This was outstanding throughout the year 2021.On 31st December, 2021 in hand was ₹ 16,000.

You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date.

(Sugg. Dec.21, 10 Marks)

Answer.

(a) **The Women Club**

Receipts and Payments Account for the year ended 31st December, 2021

	Receipts	**₹**	**₹**		**Payments**	**₹**	**₹**
To	Balance b/d (balancing figure)	13,900		By	Salaries (W.N.2)		47,000
To	Subscriptions (W.N.1)	71,700		By	General Expenses	5,000	
To	Entrance Fees		2,500		*Add*: Paid for 2022	600	5,600
To	Contribution for annual dinner		10,000		By Audit fee (2021)		2,000
To	Annual sport meet receipt		7,500	By	Secy. Honorarium		10,000
				By	Stationery & Printing		4,500
				By	Annual Dinner Expenses		15,000
				By	Interest & Bank Charges		1,500
				By	Sports Equipment's [27,000 – (26,000 – 3,000)] (W.N.3)		4,000
				By	Balance c/d		16,000
			1,05,600				**1,05,600**
To	Balance b/d		16,000				

Balance Sheet of Women Club as on December 31, 2021

Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
Subscription received in advance		2,700	Freehold Ground		1,00,000
Audit Fee Outstanding		2,500	Sport Equipment:		
Salaries Outstanding		4,500	As per last Balance Sheet	26,000	
Bank Loan		20,000	Additions	4000	
Capital Fund:				30,000	
Balance as per previous Balance Sheet	1,15,400		Less: Depreciation	(3,000)	27,000
Add: Surplus for 2021	6,000	1,21,400	Subscription Outstanding		7,500
			Insurance Prepaid		600
			Cash in hand		16,000
		1,51,100			**1,51,100**

Balance Sheet of Women Club as on 31st December, 2020

Liabilities	₹	Assets	₹
Subscriptions received in advance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions Outstanding	6,000
Bank Loan	20,000	Cash in hand	13,900
Capital Fund (balancing figure)	1,15,400		
	1,45,900		**1,45,900**

Working Note 1 :

Calculation of Subscription received during the year ended 31st December, 2021

	₹
Subscription as per Income & Expenditure account	75,000
Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31.12.2021	2,700
	83,700
Less: Subscription received in advance on 31.12.2020	(4,500)
Less: Subscription outstanding on 31.12.2021	(7,500)
	71,700

Working Note 2:

Salaries as per income & expenditure	47,500
Add: Opening outstanding	4,000
Less: Closing outstanding	(4,500)
Total Salary paid	47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

Q-18 Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	01.04.2020	31.03.2021
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000

Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4,80,000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021 **[Sugg.-July'21, 10 Marks)**

Ans. **In the books of AMA society**

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

Working Note:

(i)	**Subscription for the year ended 31st March, 2021** Particulars	**Amount**
	Subscription Received during the year	5,00,000
	Less: Subscription outstanding as on 1" April, 2020	(15,000)
	Add: Subscription outstanding as on 31" March, 2021	22,000
	Add: Subscription received in advance as on 1" April, 2020	12,000
	Less: Subscription received in advance as on 31°' March, 2021	(7,000)
	Total	**5,12,000**
(ii)	**Medicines purchased during the year ended 31st March, 2021**	
	Particulars	**Amount**
	Opening due for medical supply	90,000
	Less: Payment made during the year	(3,00,000)
	Less: Closing due for medical supply	(1,30,000)
	Medicines purchased during the year	3,40,000
(iii)	**Medicines consumed during the year ended 31st March, 2021**	
	Particulars	**Amount**
	Opening stock	1,00,000
	Add: Purchase during the year	3,40,000
	Less: Closing Stock	(1,50,000)
	Medicines consumed during the year	2,90,000
(iv)	**Depreciation on Equipment**	
	Particulars	**Amount**
	Opening Balance	2,10,000
	Add: Purchase during the year	1,50,000
	Less: Closing Balance	(3,00,000)
	Depreciation for the year	60,000

Q-19 The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Dr Receipts and payments A/c for the year ended on 31st march 2020 Cr

Receipts	Amount(₹)	Payments	Amount(₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		**84,000**

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:
   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480
   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250
2. Following are the assets and liabilities on 31st March, 2020-
   Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180
   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850
3. 50% of the entrance fees to be capitalized.
4. Interest on the investments is being received in full, and the investments have been made on 1.4.2018

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club. **(RTP-May-'21)**

Ans. **In the books of Rotary Club**

Dr Income and expenditure Account for the year ended on 31st March, 2020 Cr

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		**45,850**

Balance sheet as on 31st March, 2020

Liabilities		Amount (₹)	Assets	Amount (₹)
Opening capital fund	1,13,880		Sports Equipment	50,500
Less: Deficit	(2,550)	1,11,330	Furniture	11,180
Entrance fees		13,000	7% Investments	65,000
Outstanding electricity charges		3,800	Subscription in arrears	5,200
Subscription in advance		4,850	Cash	1,100
		1,32,980		**1,32,980**

Working notes

1. Investments made- $\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$

2. Balance sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	**1,25,530**		**1,25,530**

3. Computation of depreciation-

Sports equipment

Particulars	Amt (Rs)
Sports equipment as on 31st, March 2019	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2020	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2020	9,000

Furniture

Particulars	Amt (₹)
Furniture as on 31st, March 2019	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2020	(11,180)
Depreciation on furniture for the year ended 31st, March 2020	1,300

Total Depreciation = ₹10,300 (9,000+1,300)

4. Subscription to be credited to income and expenditure account for the year 2020

Dr **Subscription A/c (year ended on 31st March, 2020)** **Cr**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2019)	7,600	By Advance at the beginning (2019)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2021)	4,850	By Outstanding at the end (2020)	5,200
	34,450		**34,450**

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
Electricity charges to be debited to Income and Expenditure A/c	14,000

Q-20 The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	₹	Amount ₹
To Balance b/d		900	By Expenses (including		12,600
Annual Income from			Payment for sports material		
Subscription	9,180		₹ 5,400)		
To Add: Outstanding of last			By Loss on Sale of Furniture		
year received this year	360		(cost price ₹ 900)		360
	9,540				
			By Balance c/d		1,80,900
Less: Prepaid of last year	180	9,360			
To Other fees		3,600			
To Donation for Building		1,80,000			
		1,93,860			**1,93,860**

Additional information:

Peppapig club had balances as on 1.4.2020 : -

Furniture ₹ 3,600; Investment at 5% ₹ 54,000;

Sports material ₹ 13,320;

Balance as on 31.3.2021 : Subscription Receivable ₹ 540;

Subscription received in advance ₹ 180;

Stock of sports material ₹ 3,600.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date. **(RTP-Nov-'21)**

Ans.

Corrected Receipts and Payments Account of Peppapig Club for the year ended 31st March, 2021

Receipts	₹	Amount ₹	Payments	₹	Amount ₹
To Balance b/d		900	By Expenses		
To Subscription			(₹ 12,600 - ₹ 5,400)		7,200
Annual Income	9,180		By Sports Material		5,400
Less: Receivable as on			By Balance c/d		1,81,440
31.3.2020	540		(Cash in Hand and at Bank)		
Add: Advance received for					
the year 2020-2021	180				
Add: Receivable as on					
31.3.2020	360				
Less: Advance received					
as on 31.3.2020	180	9,000			
To Other Fees		3,600			
To Donation for Building		1,80,000			
To Sale of Furniture		540			
		1,94,040			**1,94,040**

Income and Expenditure Account of Peppapig club

for the year ended 31st March, 2021

Expenditure			Amount ₹	Income		Amount ₹
To	Sundry Expenses		7,200	By Subscription		9,180
To	Sports Material			By Other fees		3,600
	Balance as on 1.4.2020	13,320		By Interest on investment		2,700
To	Add: Purchases	5,400		(5% on ₹ 54,000)		
	Less: Balance as on 31.3.2021	3,600	15,120	By Deficit: Excess of		
To	Loss on sale of			Expenditure over Income		7,200
	Furniture		360			
			22,680			**22,680**

Balance Sheet of Peppapig club

as on 31st March, 2021

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	72,000		Furniture	3,600	
Less: Excess of Expenditure			Less: Sold	900	2,700
over Income	7,200	64,800	5% Investment		54,000
Building Fund		1,80,000	Interest Accrued		
			on Investment		2,700
Subscription Received in					
Advance		180	Sports Material		3,600
			Subscription Receivable		540
			Cash in Hand and at Bank		1,81,440
		2,44,980			**2,44,980**

Working Note :

Balance Sheet of Peppapig Club

as on 1st April, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Subscription		Furniture	3,600
Received in Advance	180	Investment	54,000
Capital Fund	72,000	Sports Material	13,320
(Balancing Figure)		Subscription Receivable	360
		Cash in Hand and at Bank	900
	72,180		**72,180**

Q-21 From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	**₹**	**Payments**	**₹**
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500
		Cash in hand (closing)	2,650
	_____	Cash at bank (closing)	7,200
	33,700		**33,700**

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 ₹ 900 and subscriptions in advance for 2021-22 ₹ 350.
2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid '90.
3. 50% of donation is to be capitalized.
4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹ 22,000 were paid for it.

[RTP-May'22]

Ans.

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

Dr. **Cr.**

Expenditure	**₹**	**₹**	**Income**	**₹**	**₹**
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	2,500
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium	200		By Interest on investment [8/100x6,000x5/12]		200
Add: Outstanding	40	240	By Interest received from bank		500
To Stationary		150	By Sale of old newspapers		150
To Drama expenses		500	By Sale of drama tickets		1,050
To Surplus-excess of income over expenditure		14,150			
		17,950			**17,950**

Balance Sheet of Pune Club

as on 31st March,2021

Liabilities	₹	₹	Assets	₹
Capital fund (WN-1)			Snooker table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus		14,150	Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid Misc. expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		**53,040**

Working Note:

1. **Balance Sheet of Pune Club**

as on 31st March,2020

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
Cash at bank	10,000		
	44,000		**44,000**

2. Subscriptions

	₹
Subscription as per Receipt and Payment A/c	12,000
Add: Outstanding for year 2020-21	900
	12,900
Less: Advance for year 2021-22	(350)
	12,550

Q-22 The following information of M/s. Badminton Club are related for the year ended 31st March, 2021:

(1)

Balances	As on 01-04-2020 (₹)	As on 31-3-2021 (₹)
Stock of Sports Material	4,50,000	6,75,000
Amount due for Sports Material	4,05,000	5,85,000
Subscription due	67,500	99,000
Subscription received in advance	54,000	31,500

(2) Subscription received during the year ₹ 22,50,000

(3) Payments for Sports Material during the year ₹ 13,50,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(MTP March 22, 15 + 5 = 20 Marks)

Ans. Subscription for the year ended 31.3.2021

		₹
Subscription received during the year		22,50,000
Less: Subscription receivable on 1.4.2020	67,500	
Less: Subscription received in advance on 31.3.2021	31,500	(99,000)
		21,51,000
Add: Subscription receivable on 31.3.2020	99,000	
Add: Subscription received in advance on 1.4.2021	54,000	1,53,000
Amount of Subscription appearing in Income & Expenditure Account		23,04,000

Sports material consumed during the year end 31.3.2021

	₹
Payment for Sports material	13,50,000
Less: Amounts due for sports material on 1.4.2020	(4,05,000)
	9,45,000
Add: Amounts due for sports material on 31.3.2021	5,85,000
Purchase of sports material	15,30,000
Sports material consumed:	
Stock of sports material on 1.4.2020	4,50,000
Add: Purchase of sports material during the year	15,30,000
	19,80,000
Less: Stock of sports material on 31.3.2021	(6,75,000)
Amount of Sports Material appearing in Income & Expenditure Account	13,05,000

Balance Sheet of M/s Badminton Club For the year ended 31st March, 2021 (An extract)

Liabilities	₹	***Assets***	₹
Unearned Subscription	31,500	Subscription receivable	99,000
Amount due for sports material	5,85,000	Stock of sports material	6,75,000

Q-23 The following information of M/s. Missionary Club are related for the year ended 31st March, 2021:

(1)

Balances	**As on 01-04-2020(Rs.)**	**As on 31-3-2021(Rs.)**
Stock of Sports Material	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year Rs. 11,25,000

(3) Payments for Sports Material during the year Rs. 6,75000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2021 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2021.

(MTP-Nov'21, 10 Marks)

Ans. (a)Subscription for the year ended 31.3.2021

		Rs.
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2020	33,750	
Less: Subscription received in advance on 31.3.2021	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2021	49,500	
Add: Subscription received in advance on 1.4.2020	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2021

	Rs.
Payment for Sports material	6,75,000
Less: Amounts due for sports material on 1.4.2020	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2021	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2020	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2021	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

Balance Sheet of M/s Missionary Club For the year ended 31st March, 2021(An extract)

Liabilities	Rs.	Assets	Rs.
Unearned Subscription	15,750	Subscription receivable	49,500
Amount due for sports material	2,92,500	Stock of sports material	3,37,500

Q-24 From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2020, and Balance Sheet as at that date of the Rex Speciality Hospital:

Receipts and Payments Account for the year ended 31 December, 2020

	RECEIPTS	'		PAYMENTS		'
To	Balance b/d			By Salaries:		
	Cash	1,600		(' 14,400 for 2019)		62,400
	Bank	10,400	12,000	By Hospital Equipment		34,000
To	Subscriptions:			By Furniture purchased		12,000
	For 2019		10,200	By Additions to Building		1,00,000
	For 2020		49,000	By Printing and		4,800
	For 2021		4,800	Stationery		
To	Government Grant:			By Diet expenses		31,200
	For building		1,60,000	By Rent and rates		
	For maintenance		40,000	(' 600 for 2021)		4,000
	Fees from sundry			By Electricity and water		
	Patients		9,600	charges		4,800
To	Donations (not to be		16,000	By office expenses		4,000
	capitalized)			By Investments		40,000
To	Net collections from			By Balances:		
	benefit shows		12,000	Cash	2,800	
				Bank	13,600	16,400
			3,13,600			3,13,600

Additional information : '

Value of building under construction as on 31.12.2020	2,80,000
Value of hospital equipment on 31.12.2020	1,02,000
Building Fund as on 1.1. 2020	1,60,000
Subscriptions in arrears as on 31.12.2019	13,000

Investments in 8% Govt. securities were made on 1st July, 2020.

(MTP-Oct-'21, 20 Marks)

Ans.

Rex Speciality Hospital

Income & Expenditure Account

for the year ended 31 December, 2020

Expenditure		(')	Income		(')
To	Salaries	48,000	By	Subscriptions	49,000
To	Diet expenses	31,200	By	Govt. Grants (Maintenance)	40,000
To	Rent & Rates	3,400	By	Fees, Sundry Patients	9,600
To	Printing & Stationery	4,800	By	Donations	16,000
To	Electricity & Water-		By	Benefit shows (netcollections)	12,000
	charges	4,800			
To	Office expenses	4,000	By	Interest on Investments	1,600
To	Excess of Income over expenditure transferred to Capital Fund	32,000			
		1,28,200			**1,28,200**

Balance Sheet as at 31st Dec., 2020

Liabilities	‘	‘	Assets	‘	‘
Capital Fund :			Building :		
Opening balance	98,600		Opening balance	1,80,000	
Excess of Income			Addition	1,00,000	2,80,000
Over Expenditure	32,000	1,30,600	Hospital Equipment :		
Building Fund :			Opening balance	68,000	
Opening balance	1,60,000		Addition	34,000	1,02,000
Add : Govt. Grant	1,60,000	3,20,000	Furniture		12,000
Subscriptions			Investments-		
received in advance		4,800	8% Govt. Securities		40,000
			Subscriptions receivable		2,800
			Accrued interest		1,600
			Prepaid expenses (Rent)		600
			Cash at Bank		13,600
			Cash in hand		2,800
		4,55,400			4,55,400

Working Notes:

(1) Balance sheet as at 31st Dec., 2020

Liabilities	‘	Assets	‘
Capital Fund		Building	1,80,000
(Balancing Figure)	98,600	Equipment	68,000
Building Fund	1,60,000	Subscription Receivable	13,000
Creditors for Expenses :		Cash at Bank	10,400
Salaries payable	14,400	Cash in hand	1,600
	2,73,000		2,73,000

		‘
(2)	**Value of Building**	
	Balance on 31st Dec. 2020	2,80,000
	Paid during the year	1,00,000
	Balance on 31st Dec. 2019	1,80,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2020	1,02,000
	Paid during the year	(34,000)
	Balance on 31st Dec. 2019	78,000
(4)	**Subscription due for 2019**	
	Receivable on 31st Dec. 2019	13,000
	Received in 2020	10,200
	Still Receivable for 2019	2,800

Q-25 The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows.

Expenditure	₹	*Income*	₹
To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for Annual Dinner	10,000
To Secretary's honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationary and Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest and bank charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		**95,000**

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2020	6,000
Subscription received in advance on 31st December,2020	4,500
Subscription received in advance on 31st December, 2021	2,700
Subscription outstanding on 31st December,2021	7,500

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000 The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹27,000. In the year 2020, the Club had raised a bank loan of ₹20,000.This was outstanding throughout the year 2021.On 31st December, 2021 in hand was ₹ 16,000.

You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date.

(Sugg. Dec.21, 10 Marks)

Ans **The Women Club**

Receipts and Payments Account for the year ended 31st December, 2021

	Receipts	₹	₹		**Payments**	₹	₹
To	Balance b/d (balancing figure)	13,900		By	Salaries (W.N.2)		47,000
To	Subscriptions (W.N.1)	71,700		By	General Expenses	5,000	
To	Entrance Fees		2,500		*Add*: Paid for 2022	600	5,600
To	Contribution for annual dinner		10,000		By Audit fee (2021)		2,000

To	Annual sport meet receipt	7,500	By	Secy. Honorarium	10,000
			By	Stationery & Printing	4,500
			By	Annual Dinner Expenses	15,000
			By	Interest & Bank Charges	1,500
			By	Sports Equipment's [27,000 – (26,000 – 3,000)] (W.N.3)	4,000
			By	Balance c/d	16,000
		1,05,600			**1,05,600**
To Balance b/d		16,000			

Balance Sheet of Women Club as on December 31, 2021

Liabilities	₹	₹	**Assets**	₹	₹
Subscription received			Freehold Ground		1,00,000
in advance		2,700	Sport Equipment:		
Audit Fee Outstanding		2,500	As per last		
Salaries Outstanding		4,500	Balance Sheet	26,000	
Bank Loan		20,000	Additions	4000	
Capital Fund:				30,000	
Balance as per previous			Less: Depreciation	(3,000)	27,000
Balance Sheet	1,15,400		Subscription Outstanding		7,500
Add: Surplus for 2021	6,000	1,21,400	Insurance Prepaid		600
			Cash in hand		16,000
		1,51,100			**1,51,100**

Balance Sheet of Women Club as on 31st December, 2020

Liabilities	₹	**Assets**	₹
Subscriptions received in advance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions Outstanding	6,000
Bank Loan	20,000	Cash in hand	13,900
Capital Fund (balancing figure)	1,15,400		
	1,45,900		**1,45,900**

Working Note 1 :

Calculation of Subscription received during the year ended 31st December, 2021

	₹
Subscription as per Income & Expenditure account	75,000
Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31.12.2021	2,700
	83,700
Less: Subscription received in advance on 31.12.2020	(4,500)
Less: Subscription outstanding on 31.12.2021	(7,500)
	71,700

Working Note 2:

Salaries as per income & expenditure	47,500
Add: Opening outstanding	4,000
Less: Closing outstanding	(4,500)
Total Salary paid	47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

Q-26 Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	01.04.2020	31.03.2021
Subscription due	15,000	22,000
Subscription received in advance	12,000	7,000
Stock of medicine	1,00,000	1,50,000
Amount due for medicine supply	90,000	1,30,000
Value of equipment	2,10,000	3,00,000
Value of building	5,00,000	4,80,000
Cash Balance	80,000	90,000
Opening Balance of Capital Fund	18,03,000	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021 **(Sugg.-July'21, 10 Marks)**

Ans. **In the books of AMA society**

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

Working Note:

(i)	**Subscription for the year ended 31st March, 2021** Particulars	Amount
	Subscription Received during the year	5,00,000
	Less: Subscription outstanding as on 1" April, 2020	(15,000)
	Add: Subscription outstanding as on 31" March, 2021	22,000
	Add: Subscription received in advance as on 1" April, 2020	12,000
	Less: Subscription received in advance as on 31°' March, 2021	(7,000)
	Total	**5,12,000**

(ii)	**Medicines purchased during the year ended 31st March, 2021**	
	Particulars	**Amount**
	Opening due for medical supply	90,000
	Less: Payment made during the year	(3,00,000)
	Less: Closing due for medical supply	(1,30,000)
	Medicines purchased during the year	3,40,000
(iii)	**Medicines consumed during the year ended 31st March, 2021**	
	Particulars	**Amount**
	Opening stock	1,00,000
	Add: Purchase during the year	3,40,000
	Less: Closing Stock	(1,50,000)
	Medicines consumed during the year	2,90,000
(iv)	**Depreciation on Equipment**	
	Particulars	**Amount**
	Opening Balance	2,10,000
	Add: Purchase during the year	1,50,000
	Less: Closing Balance	(3,00,000)
	Depreciation for the year	60,000

Q-27 The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Dr Receipts and payments A/c for the year ended on 31st march 2020 Cr

Receipts	**Amount(₹)**	**Payments**	**Amount(₹)**
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		**84,000**

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:
   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480
   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250
2. Following are the assets and liabilities on 31st March, 2020-
   Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180
   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850
3. 50% of the entrance fees to be capitalized.

4. Interest on the investments is being received in full, and the investments have been made on 1.4.2018

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club. **(RTP-May-'21)**

Ans. **In the books of Rotary Club**

Dr Income and expenditure Account for the year ended on 31st March, 2020 Cr

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000
To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		**45,850**

Balance sheet as on 31st March, 2020

Liabilities		Amount (₹)	Assets	Amount (₹)
Opening capital fund	1,13,880		Sports Equipment	50,500
Less: Deficit	(2,550)	1,11,330	Furniture	11,180
Entrance fees		13,000	7% Investments	65,000
Outstanding electricity charges		3,800	Subscription in arrears	5,200
Subscription in advance		4,850	Cash	1,100
		1,32,980		**1,32,980**

Working notes

1. Investments made- $\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$

2. **Balance sheet as on 31st March, 2019**

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	**1,25,530**		**1,25,530**

3. Computation of depreciation-

Sports equipment

Particulars	Amt (Rs)
Sports equipment as on 31st, March 2019	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2020	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2020	9,000

Furniture

Particulars	Amt (₹)
Furniture as on 31st, March 2019	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2020	(11,180)
Depreciation on furniture for the year ended 31st, March 2020	1,300
Total Depreciation = ₹10,300 (9,000+1,300)	

4. Subscription to be credited to income and expenditure account for the year 2020

Dr Subscription A/c (year ended on 31st March, 2020) Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2019)	7,600	By Advance at the beginning (2019)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2021)	4,850	By Outstanding at the end (2020)	5,200
	34,450		**34,450**

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
Electricity charges to be debited to Income and Expenditure A/c	14,000

Q-28 The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		900	By Expenses (including	12,600
Annual Income from			Payment for sports material	
Subscription	9,180		₹ 5,400)	
To Add: Outstanding of last			By Loss on Sale of Furniture	
year received this year	360		(cost price ₹ 900)	360
	9,540			
			By Balance c/d	1,80,900
Less: Prepaid of last year	180	9,360		
To Other fees		3,600		
To Donation for Building		1,80,000		
		1,93,860		**1,93,860**

Additional information:

Peppapig club had balances as on 1.4.2020 : -

Furniture ₹ 3,600; Investment at 5% ₹ 54,000;

Sports material ₹ 13,320;

Balance as on 31.3.2021 : Subscription Receivable ₹ 540;

Subscription received in advance ₹ 180;

Stock of sports material ₹ 3,600.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date. **(RTP-Nov-'21)**

Ans. **Corrected Receipts and Payments Account of Peppapig Club**

for the year ended 31st March, 2021

Receipts		₹	**Amount** ₹	**Payments**		**Amount** ₹
To	Balance b/d		900	By	Expenses	
To	Subscription				(₹ 12,600 - ₹ 5,400)	7,200
	Annual Income	9,180		By	Sports Material	5,400
	Less: Receivable as on			By	Balance c/d	1,81,440
	31.3.2020	540			(Cash in Hand and at Bank)	
	Add: Advance received for					
	the year 2020-2021	180				
	Add: Receivable as on					
	31.3.2020	360				
	Less: Advance received					
	as on 31.3.2020	180	9,000			
To	Other Fees		3,600			
To	Donation for Building		1,80,000			
To	Sale of Furniture		540			
			1,94,040			**1,94,040**

Income and Expenditure Account of Peppapig club

for the year ended 31st March, 2021

Expenditure			**Amount** ₹	**Income**		**Amount** ₹
To	Sundry Expenses		7,200	By	Subscription	9,180
To	Sports Material			By	Other fees	3,600
	Balance as on 1.4.2020	13,320		By	Interest on investment	2,700
To	Add: Purchases	5,400			(5% on ₹ 54,000)	
	Less: Balance as on 31.3.2021	3,600	15,120	By	Deficit: Excess of	
To	Loss on sale of				Expenditure over Income	7,200
	Furniture		360			
			22,680			**22,680**

Balance Sheet of Peppapig club

as on 31st March, 2021

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	72,000		Furniture	3,600	
Less: Excess of Expenditure			Less: Sold	900	2,700
over Income	7,200	64,800	5% Investment		54,000
Building Fund		1,80,000	Interest Accrued		
			on Investment		2,700
Subscription Received in					
Advance		180	Sports Material		3,600
			Subscription Receivable		540
			Cash in Hand and at Bank		1,81,440
		2,44,980			**2,44,980**

Working Note :

Balance Sheet of Peppapig Club

as on 1st April, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Subscription		Furniture	3,600
Received in Advance	180	Investment	54,000
Capital Fund	72,000	Sports Material	13,320
(Balancing Figure)		Subscription Receivable	360
		Cash in Hand and at Bank	900
	72,180		**72,180**

Q-29 From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	₹	Payments	₹
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		**33,700**

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.
2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.
3. 50% of donation is to be capitalized.
4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹22,000 were paid for it.

[RTP-May'22]

Ans. **Income and Expenditure Account of Pune Club**

for the year ended 31st March,2021

Dr. **Cr.**

Expenditure	**₹**	**₹**	**Income**	**₹**	**₹**
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	2,500
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium	200		By Interest on investment		200
			[8/100x6,000x5/12]		
Add: Outstanding	40	240	By Interest received from bank		500
To Stationary		150	By Sale of old newspapers		150
To Drama expenses		500	By Sale of drama tickets		1,050
To Surplus-excess of					
income over expenditure		14,150			
		17,950			**17,950**

Balance Sheet of Pune Club

as on 31st March,2021

Liabilities	**₹**	**₹**	**Assets**	**₹**
Capital fund (WN-1)			Snooker table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance				
premium		40	Prepaid Misc. expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		**53,040**

Working Note:

1. **Balance Sheet of Pune Club**

as on 31st March,2020

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
Cash at bank	10,000		
	44,000		**44,000**

2. Subscriptions

	₹
Subscription as per Receipt and Payment A/c	12,000
Add: Outstanding for year 2020-21	900
	12,900
Less: Advance for year 2021-22	(350)
	12,550

Q-9 Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

[RTP-May'20]

Ans.

Income and Expenditure Account

for the year ended 31st March, 2019

		₹		₹
To Medicines consumed			By Prescription fees	3,30,000
Purchases	1,22,500		By Visiting fees	1,25,000
Less: Closing Stock	(47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)		40,000		
To Salaries (₹ 52,500 – ₹ 15,000)		37,500		
To Rent for clinic		30,000		
To General charges		24,500		
To Interest on loan		18,000		
To Excess of Income over expenditure		2,42,000		
		4,67,000		**4,67,000**

Capital Account

for the year ended 31st March, 2019

		₹			₹
To	Drawings:		By	Cash/bank	1,00,000
	Motor car expenses	20,000	By	Cash/bank (pension)	1,50,000
	Household expenses	90,000	By	Net income from practice	2,42,000
	Marriage expenses	1,07,500		(derived from income	
To	Salary of domestic servants	15,000		and expenditure a/c)	
To	Household furniture	12,500			
To	Balance c/d	2,47,000			
		4,92,000			**4,92,000**

Balance Sheet as on 31st March, 2019

Liabilities	₹	**Assets**	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		**3,97,000**

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NOTES

Chapter-10
Company Accounts

Q-1 Deepak Chemicals Ltd. invited applications for 10 lakhs shares of Rs. 100 each payable as follows:

	Rs.
On Application	10
On Allotment (on 1st June, 2020)	30
On First Call (on 1st Nov., 2020)	30
On Final Call (on 1st March., 2021)	30

All the shares were applied for and allotted. A shareholder holding 15,000 shares paid the whole of the amount due along with allotment.

You are required to prepare the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2021.

[MTP March '21, 10 Marks]

Ans. **Journal of Deepak Chemicals Ltd.**

2020			Dr. Rs. in lakhs	Cr. Rs. in lakhs
June 1	Bank A/c	Dr.	100	
	To Shares Application A/c			100
	(Receipt of applications for 10 lakh shares along with application money of Rs. 10 per share.)			
June 1	Share Application and Allotment A/c	Dr.	100	
	Share Allotment A/c	Dr.	300	
	To Share Capital A/c			400
	(The allotment of 10 lakh shares : payable on application Rs. 10 share and Rs. 30 on allotment as per Directors' resolution no... dated...)			
	June 1 Bank A/c	Dr.	309	
	To Shares Allotment A/c			300
	To Calls in Advance A/c			9
	[Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 30) on 15,000 shares.]			
Nov. 1	Share First Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on 10 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	295.5	
	Calls in Advance A/c	Dr.	4.5	
	To Share First Call A/c			300
	(Receipt of the first call on 9.85 lakh shares, the balance having been previously received and now debited to call in advance account.)			

2021

March 1	Share Final Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on Final Call on 10 lakh shares @ Rs. 30 per share, as per Directors' resolution no... dated...)			
March1	Bank A/c	Dr.	295.5	
	Calls in Advance A/c	Dr.	4.5	
	To Share Final Call A/c			300
	(Receipt of the moneys due on final call on 9.85 lakhs shares, the balance having been previously received.)			
March 1	Interest on calls in Advance A/c	Dr.	0.63	
	To Shareholder A/c			0.63
	(Being interest on call in advance made due)			
March 1	Shareholder A/c	Dr.	0.63	
	To Bank A/c			0.63
	(Being interest paid)			

Working Note:

The interest on calls in advance paid @ 12% on :	**Rs.**
Rs. 4,50,000 (first call) from 1st June to 1st Nov., 2020–5 months	22,500
Rs. 4,50,000 (final call) from 1st June to 1st March., 2021–9 months	40,500
Total Interest Amount Due	63,000

Q-2 Tim Tim Limited issued 10,000 8% Debentures of the nominal value of Rs.10,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of Rs. 5,00,000.

(b) To a vendor for purchase of fixed assets worth Rs. 2,00,000 – Rs. 2,50,000 nominal value.

(c) To the banker as collateral security for a loan of Rs. 2,00,000 – Rs. 2,50,000 nominal value.

You are required to prepare necessary Journal Entries.

[MTP March '21, 5 Marks]

Ans. **In the books of Tim Tim Ltd.**

Journal Entries

Date	**Particulars**		**Dr. Rs.**	**Cr. Rs.**
(a)	Bank A/c	Dr.	4,50,000	
	To Debentures Application A/c			4,50,000
	(Being the application money received on 5,000 debentures @ Rs. 90 each)			
	Debentures Application A/c	Dr.	4,50,000	
	Discount on issue of Debentures A/c	Dr.	50,000	
	To 8% Debentures A/c			5,00,000
	(Being the issue of 5,000 8% Debentures @			

	90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	2,00,000	
	To Vendor A/c			2,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	2,00,000	
	Discount on Issue of Debentures A/c	Dr.	50,000	
	To 8% Debentures A/c			2,50,000
	(Being the issue of debentures of Rs. 2,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	2,00,000	
	To Bank Loan A/c (See Note)			2,00,000
	(Being a loan of Rs. 2,00,000 taken from bank by issuing debentures of Rs.2,50,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

Q-3 Daniel Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 20 each.

The amounts were payable as follows:

On application	- Rs. 6 per share
On allotment	- Rs. 10 per share
On first and final call	- Rs. 4 per share

Applications were received for 1,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Daniel Ltd.

[MTP April '21 ,10 Marks]

Ans. **In the books of Daniel Ltd.**

Journal Entries

		Dr. Rs.	**Cr. Rs.**
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 1,50,000 shares at Rs. 6 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (1,00,000 x Rs. 6)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 1,00,000 shares and excess adjusted towards allotment)			

Equity Share Allotment A/c		Dr.	10,00,000	
To Equity Share Capital A/c				10,00,000
(Being allotment amount due on 1,00,000 equity shares at Rs. 10 per share as per Directors' resolution no... dated...)				
Bank A/c		Dr.	7,00,000	
To Equity Share Allotment A/c				7,00,000
(Being balance allotment money received for 1,00,000 shares)				
Equity Share first and final call A/c		Dr.	4,00,000	
To Equity Share Capital A/c				4,00,000
(Being first and final call amount due on 1,00,000 equity shares at Rs. 4 per share as per Directors' resolution no... dated...)				
Bank A/c		Dr.	3,88,000	
Calls in arrears A/c			12,000	
To Equity Share first and final call A/c				4,00,000
(Being final call received on 97,000 shares)				
Share capital A/c (3,000 x Rs. 20)		Dr.	60,000	
To Forfeited shares A/c (3,000 x Rs. 16)				48,000
To Calls in arrears A/c (3,000 x Rs. 4)				12,000
(Being forfeiture of 3,000 shares of Rs. 20 each fully called-up for non payment of first and final call @ Rs. 4 as per Directors' resolution no... dated..)				
Bank A/c (2,500 x Rs.16)		Dr.	40,000	
Forfeited shares A/c (2,500 x Rs.4)			10,000	
To Equity Share Capital A/c (2,500 x Rs. 20)				50,000
(Being re-issue of 2,500 shares @ Rs. 16)				
Forfeited share A/c (2,500 x Rs. 12)			30,000	
To capital reserve A/c (2,500 x Rs. 12)				30,000
(Being profit on re-issue transferred to capital reserve)				

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			**Rs.**
Forfeited amount per share	= 48,000/3,000	=	16
Loss on re issue (20-16)			4
Surplus per share			12
Transfer to capital reserve	Rs. 12 x 2,500	Rs. 30,000	

Q-4 On 1st January 2020 Pigeon Ltd. issued 12% debentures of the face value of Rs. 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass necessary journal entries for the accounting year 2020. **[MTP April '21, 5 Marks]**

Ans. **Journal Entries**

			Dr. (*Rs.*)	***Cr. (*Rs.*)***
1-1-2020	Bank A/c	Dr.	36,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	4,00,000	
	To 12% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(For issue of debentures at discount redeemable at premium)			

30-6-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	4,80,000	
	To Debenture holders A/c			4,32,000
	To Tax Deducted at Source A/c			48,000
	(For interest payable)			
	Debenture holders A/c	Dr.	4,32,000	
	Tax Deducted at Source A/c	Dr.	48,000	
	To Bank A/c			4,80,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	9,60,000	
	To Debenture Interest A/c			9,60,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	80,000	
	To Discount/Loss on issue of debenture A/c			80,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 4,00,000 x 1/5)			

Q-5 A Limited is a company with' an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

(i) ₹ 2 per share payable on application, to be received by 31st May, 2020;

(ii) Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);

(iii) The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 5,00,000 shares 'received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited.

[Sugg. Jan '21, 15 Marks]

Ans. **Journal of A Limited**

Date 2020	*Particulars*		Dr. ₹	Cr. ₹
May 31	Bank A/c (Note 1 – Column 3)	Dr.	11,20,000	
	To Equity Share Application A/c			11,20,000
	(Being application money received on 5,60,000 shares @ ₹ 2 per share)			
June 10	Equity Share Application A/c	Dr.	11,20,000	
	To Equity Share Capital A/c			2,70,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			5,50,000
	To Bank A/c (Note 1–Column 6)			3,00,000
	(Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	6,75,000	
	To Equity Share Capital A/c			1,35,000
	To Securities Premium a/c			5,40,000
	(Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	1,25,000	
	To Equity Share Allotment A/c			1,25,000
	(Being balance allotment money received)			
Dec. 31	Equity Share Final Call A/c	Dr.	9,45,000	
	To Equity Share Capital A/c			9,45,000
	(Being final call money due on 1,35,000 shares @₹ 7 per share as per Board's Resolution No…..dated….)			
	Bank A/c	Dr.	9,45,000	
	To Equity Share Final Call A/c			9,45,000
	(Being final call money on 1,35,000 shares @ ₹ 7 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

Q-6 B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company. **[Sugg.-Nov'19, 15 Marks]**

Ans. **In the books of B Ltd.**

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
	Bank A/c	Dr.	1,50,000	
	To Equity Share Application A/c			1,50,000
	(Application money on 50,000 shares @ ₹ 3 per share received.)			
	Equity Share Application A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)			
	Equity Share Allotment A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium A/c			1,00,000
	(Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per shareincluding premium ₹ 2 per share as per Directorsresolution no… dated…)			
	Bank A/c	Dr.	2,45,000	
	To Equity Share Allotment A/c			2,45,000
	(Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2per share.)			
	OR			
	Bank A/c	Dr.	2,45,000	
	Calls in Arrear A/c	Dr.	5,000	
	To Equity Share Allotment A/c			2,50,000
	(Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2per			

share. X, holding 1,000 shares failed to payallotment money.)			
Equity Share Call A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Amount due from members in respect of call on50,000 shares @ ₹ 4 per share as per Directorsresolution no… dated…)			
Bank A/c	Dr.	1,88,000	
To Equity Share Call A/c			1,88,000
(Amount received against the call on 47,000 shares @ ₹ 4 per share.			
'OR'			
Bank A/c	Dr.	1,88,000	
Calls in Arrear A/c	Dr.	12,000	
To Equity Share Call A/c			2,00,000
(Amount received against the call on 47,000 shares @ ₹ 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay callmoney.)			
Equity Share Capital A/c (3,000 x ₹ 10)	Dr.	30,000	
Securities Premium A/c (1,000 x ₹ 2)	Dr.	2,000	
To Equity Share Allotment A/c (1,000 X ₹ 5)			5,000
To Equity Share Call A/c (3,000 X ₹ 4)			12,000
To Forfeited Shares A/c			15,000
(Being forfeiture of 3,000 equity shares for non payment of allotment and call money on 1,000 shares and for non-payment of call money on2,000 shares as per Board's ResolutionNo…..dated ….)			
'OR'			
Equity Share Capital A/c (3,000 x ₹ 10)	Dr.	30,000	
Securities Premium A/c (1,000 x ₹ 2)	Dr.	2,000	
To Calls in Arrear A/c(₹ 5,000 + ₹ 12,000)			17,000
To Forfeited Shares A/c			15,000
(Being forfeiture of 3,000 equity shares for nonpayment of allotment and call money on 1,000shares and for non-payment of call money on 2,000shares as per Board's Resolution No… dated…)			
Bank A/c	Dr.	20,000	
Forfeited Shares A/c	Dr.	5,000	
To Equity Share Capital A/c			25,000
(Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	7,000	
To Capital Reserve A/c			7,000
(Being profit on re-issue transferred to CapitalReserve)			

Balance Sheet of B Limited as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		6,03,000
*(5,83,000 +20,000)		
Notes to accounts		
	₹	₹
1. Share Capital		
Equity share capital		
Issued share capital		
50,000 Equity shares of ₹ 10 each	5,00,000	
Subscribed, called up and paid up share capital		
49,500 Equity shares of ₹ 10 each	4,95,000	
Add: Forfeited shares	3,000	4,98,000
2. Reserves and Surplus		
Securities Premium	98,000	
Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4
Transferred to Capital Reserve: X share (1,000 x ₹ 1)			₹ 1,000
Y's Share (1,500 x ₹ 4)			₹ 6,000
Total			₹ 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment	=	1,00,000
less: Amount reversed on forfeiture	=	(2,000)
Balance remaining	=	98,000

Q-7 Bhagwati Ltd. invited applications for issuing 2,00, 000 equity shares of ₹ 10 each.

The amounts were payable as follows:

On application	- ₹ 3 per share
On allotment	- ₹ 5 per share
On first and final call	- ₹ 2 per share

Applications were received for 3,00,000 shares and pro -rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid -up @ ₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

[RTP-May'20, Sugg.-May'19, 10 Marks]

Ans. **In the books of Bhagwati Ltd.**

Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			

Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x ₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6)	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10)			
(Being re-issue of 2,500 shares @6)			25,000
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A /c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note :

Calculation of amount to be transferred to Capital reserve A/c	**₹**
Forfeited amount per share = 24,000/3,000 =	8
Loss on re issue (8-4)	4
Surplus per share	4
Transfer to capital reserve 4 x 2,500 ₹ 10,000	

Q-8 On 1st January 2018·Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium. Pass necessary journal entries for the accounting year 2018. **[Sugg.-May'19, 5 Marks]**

Ans. **Journal Entries**

			Dr. (₹)	**Cr. (₹)**
1-1-2018	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			

31-12-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To T ax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	60,000	
	To Discount/Loss on issue of debenture A/c			60,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)			

Q-9 (a) Give necessary journal entries for the forfeiture and re-issue of shares :

(i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

(iii) X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 share. **[Sugg.-Nov'18, 10 Marks]**

(b) Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.

Calculate the amount of discount to be written-off in each of the 5 years.

[Sugg.-Nov'18, 5 Marks, RTP-May'20, MTP-March'20]

Ans.(a) (i) Journal Entries in the books of X Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x ₹ 3)			900
	To Equity Share Final Call A/c (300 x ₹ 4)			1,200
	To Forfeited Shares A/c (300 x ₹ 3)			900
	(Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…….dated……..)			

(b)	Bank Account (300 x 8)	Dr.	2,400	
	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Suresh as per Board's resolution No…….dated……..)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			**Dr. ₹**	**Cr.₹**
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹ 7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No……. dated……)			
(b)	Bank Account	Dr.	900	
	Forfeited Shares Account	Dr.	600	
	To Equity Share Capital Account			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No.…… dated……..)			
(c)	Forfeited Shares Account	Dr.	150	
	To Capital Reserve Account			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹ 750
Less: Forfeiture of 150 shares	(₹ 600)
Profit on re-issue of shares	₹ 150

(iii)

Date			**Dr.₹**	**Cr.₹**
(a)	Equity Share Capital A/c (100 x ₹ 6)	Dr.	600	
	To Equity Share Final Call A/c (100 x ₹ 3)			300
	To Discount on issue of shares (100 x ₹ 1)			100
	To Forfeited Shares A/c (100 x ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No…….dated…….)			
(b)	Bank Account (80 x ₹ 6)	Dr.	480	
	Discount on issue of shares (80 x ₹ 1)	Dr.	80	
	Forfeited Shares A/c (80 x ₹1)	Dr.	80	
	To Equity Share Capital Account (80 x ₹ 8)			640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No……dated…….)			

(c)	Forfeited Shares Account	80	
	To Capital Reserve Account		80
	(Being the profit on re-issue, transferred to capital reserve)		

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2)	₹ 200.00
Forfeited shares balance for 80 shares	₹ 160
Less: Forfeiture of 80 shares	(₹ 80.00)
Profit on re-issue of shares	₹ 80.00

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.

(b) Total amount of discount comes to ₹ 60,000 (₹ 0.6 x 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end Outstanding	Debentures	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

Q-10 Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

(i) ₹ 2 per share payable on application, to be received by 1st July, 2018;

(ii) Allotment to be made on 10th July, 2018 and a further ₹ 5 per share (including the premium) to be payable;

(iii) The final call for the balance to be made, and the money received by 30th April, 2019.

Applications were received for 4,20,000 shares and were dealt with as follows:

(1) Applicants for 20,000 shares received allotment in full;

(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited.

[Sugg.-May'18, 10 Marks, RTP-May'20]

Ans. **Journal of Piyush Limited**

Date			Dr.	Cr.
2018	**Particulars**		₹	₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No…..dated….)			
2019				
April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for (1)	No. of Shares Allotted (2)	Amount Received on Application (1 x ₹ 2) (3)	Amount Required on Application (2 x ₹ 2) (4)	Amount adjusted on Allotment (5)	Refund [3-4-5] (6)	Amount due on Allotment (7)	Amount received on Allotment (8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

Q-11 On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows: ₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15 th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018. **[RTP-Nov'19]**

Ans.

Pehal Ltd.

Journal

2017			Dr. ₹	Cr. ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no..... dated .....)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no..... dated .....)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			

Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

Q-12 Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions. **[RTP-May'19]**

Ans.

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	19,250	

Calls-in-Arrears A/c		Dr.	2,000	
To Equity Share First Call A/c				20,000
To Calls-in-Advance A/c				1,250
(First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)				

Q-13 Suvidha Ltd. purchased machinery worth ₹ 1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹ 100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium. **[RTP-May'19]**

Ans. **Books of Suvidha Ltd.**

Journal

Machinery A/c	Dr.	1,98,000	
To Hemant Ltd.			1,98,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,98,000
(12% Debentures issued to Hemant Ltd.)			
Case(ii) When debentures are issued at 10% discount:			
Hemant Ltd.	Dr.	1,98,000	
Discount on Issue of Debentures A/c	Dr.	22,000	
To 12% Debentures A/c			2,20,000
(12% Debentures issued to Hemant Ltd. at 10% discount)			
Case(iii) When debentures are issued at 10% premium:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,80,000
To Premium on Issue of Debentures A/c			18,000
(12% Debentures issued to Hemant Ltd. at 10% premium)			

Workings:

(a) Number of debentures issued in case of 10% discount:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	90
₹ 1,98,000/90	= 2,200 Debentures

(b) Number of debentures issued in case of 10% premium:

	(₹)
Face value	100
Add: Premium 10%	10
Value at which issued	110
₹ 1,98,000/ 110	= 1,800 Debentures

Q-14 A Ltd. issued 3,50,000, 12% Debentures of ₹ 100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company. **[RTP-Nov'18]**

Ans. **In the books of A Limited**

Date	Particulars		₹000	₹000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No…..dated…)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No….dated…)			

Q-15 Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

(b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

(c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominalvalue.

You are required to prepare necessary journal entries Journal Entries.

[MTP-March'19, 5 Marks, RTP-May'18]

Ans. **In the books of Riya Company Ltd.**

Journal Entries

	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures@ 90% as per Board's ResolutionNo….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets fromvendor)			
	Vendor A/c		Dr.	20,00,000
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken frombank by issuing debentures of ₹25,00,000 ascollateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

Q-16 Give necessary journal entries for the forfeiture and re-issue of shares:

(i) X Ltd. forfeited 300 shares of Rs. 10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were re-issued to Suresh for Rs. 8 per share.

(ii) Mr. P, who was the holder of 2,500 preference shares of Rs. 100 each, on which Rs. 70 per share has been called up, could not pay his dues on Allotment and First call each at Rs. 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at Rs. 60 per share paid-up as Rs. 70 per share. **[MTP-March'20, 10 Marks, RTP-Nov'18]**

Ans. (i) Journal Entries in the books of X Ltd.

	Particulars		**Dr. Rs.**	**Cr. Rs.**
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x Rs. 3)			900
	To Equity Share Final Call A/c (300 x Rs. 4)			1,200
	To Forfeited Shares A/c (300 x Rs. 3)			900
	(Being the forfeiture of 300 equity shares of Rs. 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…….dated……..)			
(b)	Bank Account (300 x 8)	Dr.	2,400	
	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @ Rs. 8 each as fully paid up to Suresh as per Board's resolution No…….dated……..)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

		Dr. Rs.	**Cr. Rs.**
Preference Share Capital A/c (2,500 x Rs. 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x Rs. 20)			50,000
To Preference Share First Call A/c (2,500 x Rs. 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares Rs. 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			

Bank A/c (2,000 x Rs.60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x Rs.10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at Rs. 60 per share paidup as Rs. 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 75,000/2500	=	Rs. 30
Loss on re-issue =Rs. 70 – Rs. 60	=	Rs. 10
Surplus per share re-issued		Rs. 20
Transferred to capital Reserve Rs. 20 x 2000	=	Rs. 40,000

Q-17 On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2017; and

Rs. 25 on 1st February, 2018.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allot ment were received on 15th July those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2018.

[MTP-Oct'19, 10 Marks]

Ans.

A Ltd.

Journal

2017			**Dr. Rs.**	**Cr. Rs.**
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no..... dated .....)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at Rs. 30 per share. Directors' resolution no..... dated .....)			

July 15	Bank Account	Dr.	12,00,000	
	To Share Application and Allotment A/c			12,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	10,00,000	
	T o Share Capital Account			10,00,000
	(Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received a gainst the final call on shares at Rs.25 per share.)			40,000

Q-18 Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessar y Journal Entries (including cash transactions) in the books of the company. **[MTP-Oct'19, 5 Marks]**

Ans. **In the books of Simmons Limited**

Date	Particulars		Rs. '000	Rs. '000
April 1	Bank A/c	Dr.	11,000	
	To 12% Debentures Application A/c			11,000
	(Being money received on 1,10,000 de bentures)			
April 7	12% Debentures Application A/c	Dr.	1,000	
	To Bank A/c			1,000
	(Being money on 10,000 debentures refunded as per Board's Resolution No…..dated…)			
April 7	12% Debentures Application A/c	Dr.	10,000	
	To 12% Debentures A/c			10,000
	(Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No….dated…)			

Q-19 Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 40 on application

₹ 50 on allotment

You are required to give necessary journal entries regarding issue of debenture.

[RTP-May'18, RTP-Nov'19]

Ans. **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	
To 9% Debentures A/c			30,00,00,000
(Amount due on allotment)			
Bank A/c	Dr.	25,00,00,000	
To Debenture Allotment A/c			25,00,00,000
(Money received consequent upon allotment)			

Q-20 Mohan Ltd. invited applications for 15 lakhs shares of Rs. 100 each payable as follows :

Rs.20

On Application

On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

[MTP-March'19, 10 Marks]

Ans. **Journal of Mohan Ltd.**

2017			Dr. Rs. in lakhs	Cr. Rs. in lakhs
June 1	Bank A/c	Dr.	300	
	To Shares Application A/c			300
	(Receipt of applications for 15 lakh shares along with application money of Rs. 20 per share.)			
June 1	Share Application and Allotment A/c	Dr.	300	
	Share Allotment A/c	Dr.	450	
	To Share Capital A/c			750

	(The allotment of 15 lakh shares : payable on application Rs. 20 share and Rs. 30 on allotment as per Directors' resolution no... dated...)			
June 1	Bank A/c	Dr.	465	
	To Shares Allotment A/c			450
	To Calls in Advance A/c			15
	[Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 20) on 30,000 shares.]			
Nov. 1	Share First Call A/c	Dr.	450	
	To Share Capital A/c			450
	(The amount due on 15 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	441	
	Calls in Advance A/c	Dr.	9	
	To Share First Call A/c			450
	(Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)			
2018				
March 1	Share Final Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on Final Call on 15 lakh shares @ Rs. 20 per share, as per Directors' resolution no... dated...)			
March1	Bank A/c	Dr.	294	
	Calls in Advance A/c	Dr.	6	
	To Share Final Call A/c			300
	(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)			
March 1	Interest on calls in Advance A/c	Dr.	0.99	
	To Shareholder A/c			
	(Being interest on call in advance made due)			0.99
Feb 1	Shareholder A/c	Dr.	0.99	
	To Bank A/c			0.99
	(Being interest paid)			

Working Note:

The interest on calls in advance paid @ 12% on :	**Rs.**
Rs. 9,00,000 (first call) from 1st June to 1st Nov., 2017 –5 months	45,000
Rs. 6,00,000 (final call) from 1st June to 1st March., 2018 –9 months	54,000
Total Interest Amount Due	99,000

Q-21 Abhijeet who was the holder of 4,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at Rs. 65 per share paid-up as Rs.75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. **[RTP-May'18, RTP-Nov'19, MTP-April'19, 10 Marks]**

Ans.

Journal		Dr. Rs.	Cr. Rs.
Preference Share Capital A/c (4,000 x Rs.75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x Rs.65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x Rs.10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 1,00,000/4,000	=	Rs. 25
Loss on re-issue =Rs. 75 – Rs. 65	=	Rs. 10
Surplus per share re-issued		Rs. 15
Transferred to capital Reserve Rs. 15 x 3,000	= Rs. 45,000	

[MTP-April'19, 5 Marks]

Q-22 Pihu Ltd. issued 300 lakh 8% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : Rs. 50 on application and Rs. 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures.

[MTP-April'19, 5 Marks)]

Ans. **Books of Pihu Ltd.**

Journal Entries

Date	Particulars	L.F.	Debit Amount (Rs.₹ Lakhs)	Credit Amount (Rs.₹ Lakhs)
	Bank A/c	Dr.	15,000	
	To Debenture Application A/c			15,000
	(Debentures application money received)			
	Debenture Application A/c	Dr.	15,000	
	To 8% Debentures A/c			15,000
	(Application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	13,200	
	Loss on issue of debenture A/c	Dr.	3,300	
	To 8% Debentures A/c			15,000
	To Debenture redemption premium A/c			1,500
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	13,200	
	To Debenture Allotment A/c			13,200
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 300 lakh

= (Rs. 6 + Rs. 5) x 300 lakh

= Rs. 3,300 lakh

Q-23 On 1st June, 2017, Suraj Ltd. issued 86,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 20 on allotment;

First call of Rs. 30 on 1st Dec, 2017; and

Second and final call of Rs. 30 on 1st March, 2018.

By 20th July, 80,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 2 0th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2018.

[MTP-Aug.'18, 10 Marks]

Ans. **Suraj Ltd.**

Journal

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account	Dr.	16,00,000	
	To Share Application A/c			16,00,000
	(Application money on 80,000 shares at Rs. 20 per share received.)			
Aug 1	Share Application A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no..... dated .....)			
	Share Allotment A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(Being share allotment made due at Rs. 20 per share. Directors' resolution no..... dated .....)			
Sept 15	Bank Account	Dr.	16,00,000	
	To Share Allotment A/c			16,00,000
	(The sums due on allotment received.)			
Dec. 1	Share First Call Account	Dr.	24,00,000	
	To Share Capital Account			24,00,000
	(Amount due from members in respect of first call -on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)			
Dec. 20	Bank Account	Dr.	24,00,000	
	To Share First Call Account			24,00,000
	(Receipt of the amounts due on first call.)			
2018				
March 1	Share Second and Final Call A/c	Dr.	24,00,000	
	To Share Capital A/c			24,00,000
	(Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	24,00,000	
	To Share Second & Final Call A/c			24,00,000
	(Amount received against the final call on 80,000 shares at Rs. 30 per share.)			

Q-24 Pihu Ltd. issued 50,00,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

Rs. 40 on application

Rs. 50 on allotment

Record necessary journal entries regarding issue of debenture. **[MTP-Aug.'18, 5 Marks]**

Ans. **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	
To 9% Debentures A/c			30,00,00,000
(Amount due on allotment)			
Bank A/c	Dr.	25,00,00,000	
To Debenture Allotment A/c			25,00,00,000
(Money received consequent upon allotment)			

Q-25 ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

[Sugg.-Nov'20, 10 Marks]

Ans.

1.	Bank A/c	Dr.	40,000	
	To Equity Share Application A/c			40,000
	(Being the application money received for 20,000 shares at ₹ 2 per share)			
2.	Equity Share Application A/c	Dr.	40,000	
	To Equity Share Capital A/c			40,000
	(Being share allotment made for 20,000 shares at ₹ 2 per share)			
3.	Equity Share Allotment A/c	Dr.	60,000	
	To Equity Share Capital A/c			60,000
	(Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... dated...)			

4.	Bank A/c	Dr.	60,000	
	To Equity Share Allotment A/c			60,000
	(Being allotment money received for 20,000 equity shares at ₹ 3 per share)			
5.	Equity Share First Call Account	Dr.	80,000	
	To Equity Share Capital A/c			80,000
	(Being first call money due on 20,000 equity shares @ Rs. 4 per share)			
6.	Bank Account	Dr.	78,800	
	To Equity Share First Call Account			78,800
	(Being full amount of first call money received except on 300 shares)			
	OR			
	Bank Account	Dr.	78,800	
	Calls in Arrear A/c	Dr.	1,200	
	To Equity Share First Call Account			80,000
	(Being full amount of first call money received except on 300 shares)			
7.	Equity Share Final Call Account			
	To Equity Share Capital A/c	Dr.	20,000	
	(Being first call and final call money due)			20,000
8.	Bank Account	Dr.	19,700	
	To Equity Share Final Call Account			19,700
	(Being full amount of final call money received except on 300 shares) OR Bank Account Calls in Arrear A/c			
	To Equity Share Final Call Account			
	(Being full amount of final call money received except on 300 shares)			
9.	Equity Share Capital A/c (300 x ₹ 10)	Dr.	3,000	
	To Equity Share First Call Account			1,200
	To Equity Share Final Call Account			300
	To Forfeited Shares A/c			1,500
	Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No…..dated ….)			
	OR			
	Equity Share Capital A/c	Dr.	3,000	
	To Forfeited Shares A/c			1,500
	To Calls in Arrears			1,500
	(Being 300 shares forfeited on which first call and final call money was unpaid.)			

10.	Bank A/c (300 x ₹ 8)	Dr.	2,400	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			3,000
	Being re-issue of 300 shares @ '8 each as per Board's Resolution No…..dated….)			
11.	Forfeited Shares A/c	Dr	900	
	To Capital Reserve A/c			900
	(Being profit on re-issue transferred to Capital Reserve)			

Q-26 X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ 9 per share (including premium) on application and allotment
- Balance on the First and Final Call

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ' 4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

[Sugg.-July'21, 15 Marks)

Ans.

			Dr. ₹	**Cr. ₹**
1	Bank Account	Dr.	27,00,000	
	To Share Application & Allotment A/c			27,00,000
	(Being Application money on 3,00,000 shares			
	at ₹ 9 per share received.)			
2	Share Application & Allotment A/c	Dr.	27,00,000	
	To Share Capital A/c (75,000 x ₹ 4)			3,00,000
	To Securities premium A/c (75,000 x ₹ 5)			3,75,000
	To Bank A/c (2,00,000 x ₹ 9)			18,00,000
	To Share First & Final Call A/c			2,25,000
	(Being application money transferred)			
3	Share First & Final Call A/c (75,000 x6)	Dr.	4,50,000	
	To Share Capital Account			4,50,000
	(Amount First & Final Call A/c due from members			
	as per Directors, resolution no..... dated.....)			
4	Bank Account A/c	Dr.	2,21,625	
	Calls in arrear A/c	Dr.	3,375	
	To Share First & Final Call Account			2,25,000
	(Being Receipt of the amounts due on first call.)			
5	Equity share capital A/c	Dr.	11,250	
	To Share forfeiture A/c			7,875
	To Calls in arrear A/c			3,375
	(Being 1,125 shares forfeited for non payment of final call.)			

6	Bank Account A/c (1,125 x ₹ 6)	Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4)		4,500	
	To Share Capital Account (1,125 x ₹ 10)			11,250
	(Being forfeited shares reissued at ₹ 4 discount)			
7	Share forfeiture A/c		3,375	
	To Capital reserve A/c			3,375
	(Being share forfeiture transferred to capital reserve*)			

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital@ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00000		18,00,000	-	-	-	-	-	18,00,0000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,25,000	-
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

* ₹ 4,50,000 less ₹ 3,375

2. **Number of shares allotted to Mr. Raj** = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. Calculation of calls in arrear

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first and final call		3,375
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

Q-27 Alankit Limited issued at par 2,00,000 Equity shares of ₹ 100 each payable ₹ 25 on application; ₹ 30 on allotment; ₹ 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan.

You are required to prepare journal entries to record these transactions. **(RTP-May-'21)**

Ans. **Book of Alankit Limited**

Journal

Date	*Particulars*	*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Bank A/c	Dr.	50,00,000	
	To Equity Share Application A/c			50,00,000
	(Money received on applications for 2,00,000 shares @₹ 25 per share)			
	Equity Share Application A/c	Dr.	50,00,000	
	To Equity Share Capital A/c			50,00,000
	(Transfer of application money on 2,00,000 shares to share capital)			
	Equity Share Allotment A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			60,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 30 per share)			
	Bank A/c	Dr.	60,00,000	
	To Equity Share Allotment A/c			60,00,000
	(Allotment money received)			
	Equity Share First Call A/c	Dr.	40,00,000	
	To Equity Share Capital A/c			40,00,000
	(Being first call made due on 2,00,000 shares at ₹ 20 per share)			
	Bank A/c	Dr.	50,00,000	
	To Equity Share First Call A/c			40,00,000
	To Calls in Advance A/c			10,00,000
	(Being first call money received along with calls in advance on 2,00,000 shares at ₹25 per share)			
	Equity Share Final Call A/c	Dr.	50,00,000	
	To Equity Share capital A/c			50,00,000
	(Being final call made due on 2,00,000 shares at ₹25 each)	Dr.	39,00,000	
	Bank A/c	Dr.	10,00,000	
	Calls in Advance A /C	Dr.	1,00,000	
	Calls in Arrears A/c			
	(Being final call received for 1,56,000 shares and calls in advance for 40,000 shares adjusted)			50,00,000
	Interest on Calls in Advance A/c	Dr.	30,000	
	To shareholders A/c			30,000

Being interest made due on calls in advance of ₹10,000,00 at the rate of 12% p.a.)			
Shareholders A/c	Dr.	30,000	30,000
To bank A/c			
(Being payment of Interest made to shareholders)			
Shareholders A/c	Dr.	1,667	
To Interest on Calls in Arrears A/c			1,667
(Being interest on calls in arrears made due at the rate of 10%)			
Bank A/c	Dr.	1,01,667	
To Calls in Arrears A/c			1,00,000
To Shareholders A/c			1,667
(Being money received from shareholder for calls in arrears and interest thereupon)			

Q-28 Samuel who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Robort at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. **(RTP-May-'21)**

Ans.

Particulars		**Dr.** ₹	**Cr.** ₹
Preference Share Capital A/c (12,000 x ₹75)	Dr.	9,00,000	
To Preference Share Allotment A/c			3,00,000
To Preference Share First Call A/c			3,00,000
To Forfeited Share A/c			3,00,000
(Being the forfeiture of 12,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (10,000 x ₹65)	Dr.	6,50,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			7,50,000
(Being re-issue of 10,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	1,50,000	
To Capital Reserve A/c (Working Note)			1,50,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve	
Forfeited amount per share =₹ 3,00,000/12,000 =	₹ 25
Loss on re-issue =₹ 75 – ₹ 65 =	₹ 10
Surplus per share re-issued	₹ 15

Transferred to capital Reserve ₹ 15 x 10,000 = ₹ 1,50,000.

Q-29 On 1st April, 2020, States Ltd. issued 1,80,000 shares of ₹ 10 each payable as follows:

₹ 2 on application, ₹ 3 on allotment, ₹ 2 on First call 1st October, 2020; and ₹ 3 on Final call 1st February, 2021.

By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2021. **(RTP-Nov-'21)**

Ans. **States Ltd.**

Journal

2020			Dr. ₹	Cr. ₹
May 20	Bank Account	Dr.	3,00,000	
	To Share Application A/c			3,00,000
	(Application money on 1,50,000 shares at ₹ 2 per share received.)			
June 1	Share Application A/c	Dr.	3,00,000	
	To Share Capital A/c			3,00,000
	(The amount transferred to Capital Account on 1,50,000 shares ₹ 2 on application. Directors' resolution no..... dated .....)			
	Share Allotment A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000
	(Being share allotment made due at ₹ 3 per share. Directors' resolution no..... dated .....)			
July 15	Bank Account	Dr.	4,50,000	
	To Share Allotment A/c			4,50,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	3,00,000	
	To Share Capital Account			3,00,000
	(Amount due from members in respect of first call-on 1,50,000 shares at ₹ 2 as per Directors, resolution no... dated...)			

Oct. 20	Bank Account	Dr.	3,00,000	
	To Share First Call Account			3,00,000
	(Receipt of the amounts due on first call.)			
2021				
Feb. 1	Share Second and Final Call A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000
	(Amount due on 1,50,000 share at ₹ 3 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	4,50,000	
	To Share Second & Final Call A/c			4,50,000
	(Amount received against the final call on 1,50,000 shares at ₹3 per share.)			

Q-30 Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. **(RTP-Nov-'21)**

Ans. **In the books of Company**

Journal

Particulars		**Dr.** ₹	**Cr.** ₹
Preference Share Capital A/c (12,000 x ₹60)	Dr.	7,20,000	
To Preference Share Allotment A/c			2,40,000
To Preference Share First Call A/c			2,40,000
To Forfeited Share A/c			2,40,000
(Being the forfeiture of 12,000 preference shares ₹ 60 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (10,000 x ₹50)	Dr.	5,00,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			6,00,000
(Being re-issue of 10,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No..dated...)			
Forfeited Shares A/c	Dr.	1,00,000	
To Capital Reserve A/c (Note 1)			1,00,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 2,40,000/1,20,000 =	₹ 20
Loss on re-issue =₹ 60 - ₹ 50 =	₹ 10
Surplus per share re-issued	₹ 10

Transferred to capital Reserve ₹ 10 x 10,000 = ₹ 1,00,000.

Q-31 On 1st June, 2020, Suraj Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application;

₹ 20 on allotment;

First call of ₹ 30 on 1st Dec, 2020; and

Second and final call of ₹ 30 on 1st March, 2021.

By 20th July, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2021

[RTP-May'22]

Ans. **In the books of Suraj Ltd.**

Journal Entries

2020			**Dr. ₹**	**Cr. ₹**
July 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at ₹ 20 per share received.)			
Aug 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares ₹ 20 on application. Directors' resolution no..... dated .....)			
	Share Allotment A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(Being share allotment made due at ₹ 20 per share. Directors' resolution no..... dated .....)			
Sept 15	Bank Account	Dr.	8,00,000	
	To Share Allotment A/c			8,00,000
	(The sums due on allotment received.)			
Dec. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 80,000 shares at ₹ 30 as per Directors, resolution no... dated...)			

Dec. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2021				
March 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Amount due on 40,000 share at ₹ 30 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 40,000 shares at ₹ 30 per share.)			

Q-32 Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non-payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record the journal entries for forfeiture and reissue of shares. **[RTP-May'22]**

Ans. **In the Books of Delta Ltd.**

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1.	Share capital A/c (600 × ₹ 10)	Dr.		6,000	
	Securities Premium A/c (600 × ₹ 1)	Dr.		600	
	To Calls-in-arrears A/c (600 × ₹ 3)				1,800
	To forfeited Shares A/c (600 × ₹ 8)				4,800
	(Being 600 shares forfeited for non-payment of call money)				
2.	Bank A/c (400 × ₹ 9)	Dr.		3,600	
	Forfeited Shares A/c (400 × ₹ 1)	Dr.		400	
	To Share Capital A/c (400 × ₹ 10)				4,000
	(Being 400 shares re-issued as fully paid-up for ₹ 9 per share)				
3.	Forfeited Shares A/c	Dr.		2,800	
	To Capital Reserve A/c				2,800
	(Being the transfer of profit on re-issue of 400 shares to Z)				
4.	Bank A/c (100 × ₹ 11)	Dr.		1,100	
	To Share Capital A/c (100 × ₹ 10)				1,000
	To Securities Premium A/c (100 × ₹ 1)				100
	(Being 100 shares re-issued to X as fully paid-up for ₹ 11 per share)				

5.	Forfeited Shares A/c			
	(₹ 4,800 × 100/600)	Dr.	800	
	To Capital Reserve A/c			800
	(Being the transfer of profit on re-issue of 100 shares to X)			

Q-33 Priya Ltd. issued 25,00,000, 12% debentures of ₹ 10 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 4 on application

₹ 5 on allotment

Record necessary journal entries regarding issue of debenture. **(RTP-May-'21)**

Ans. **Books of Priya Ltd.**

Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c	Dr.	1,00,00,000	
To Debenture Application A/c			1,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	1,00,00,000	
To 12% Debentures A/c			1,00,00,000
(Application money transferred to 12% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	1,25,00,000	
Discount on issue of debentures A/c	Dr.	25,00,000	
To 12% Debentures A/c			15,000,000
(Amount due on allotment)			
Bank A/c	Dr.	1,25,00,000	
To Debenture Allotment A/c			125,00,000
(Money received consequent upon allotment)			

Q-34 Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 20 % discount; and (iii) Debentures are issued at 20% premium. **(RTP-Nov-'21)**

Ans. **Books of Avantika Ltd.**

Journal

Machinery A/c	Dr.	9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			

Avneet Ltd.	Dr.	9,90,000	
Discount on Issue of Debentures A/c	Dr.	2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			
Case(iii) When debentures are issued at 20% premium:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			8,25,000
To Premium on Issue of Debentures A/c			1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)			

Workings:

(a)	Number of debentures issued in case of 20% discount:	
		(₹)
	Face value	100
	Less: Discount 20%	20
	Value at which issued	80
	₹ 9,90,000/80 = 12,375 Debentures	
(b)	Number of debentures issued in case of 20% premium:	
		(₹)
	Face value	100
	Add: Premium 20%	20
	Value at which issued	120
	₹9,90,000/ 120	= 8,250 Debentures

Q-35 On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

[RTP-May'22]

Ans. **Journal Entries**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020	Sundry Assets A/c	Dr.		4,50,000	
April	Goodwill A/c (Bal. fig)	Dr.		50,000	
	To Himalayan Ltd. A/c				4,40,000
	To Sundry Liabilities A/c				60,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 4,40,000)				

	Himalyan Ltd. A/c	Dr.	4,40,000	
	To 8% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000
	(Being 4000; 8% Debenture of ₹ 100 each issued at a premium of 10%)			
	Bank A/c	Dr.	90,000	
	To Debenture Application A/c			90,000
	(Being the application money received for 3000, 8% Debenture)			
	Debenture Application A/c	Dr.	90,000	
	To 8% Debenture A/c			90,000
	(Being 3000; 8% Debenture allotted)			
	Debentures allotment A/c	Dr.	1,80,000	
	Loss on issue of debenture A/c	Dr.	45,000	
	To 8% Debentures A/c			2,10,000
	To Premium on redemption of debentures A/c			15,000
	(Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)			
	Bank A/c	Dr.	1,80,000	
	To Debentures Allotment A/c			1,80,000
	(Being the allotment money received)			
2021				
Mar,31	Profit and Loss A/c	Dr.	45,000	
	To Loss on issue of Debenture A/c			45,000
	(Being the Loss on issue of debenture written off)			

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Chapter-11
Theory

Q-1 State with reasons, whether the following statements are true or false:

1. The balance in petty cash book represents an asset.
2. Finished goods are normally valued at cost or market price whichever is higher.
3 Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
4. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
5. Discount at the time of retirement of a bill is a gain for the drawee.
6. Bills receivable and bills payable books are type of subsidiary books.

[MTP March '21, 12 Marks]

Ans.

i. **True -** The balance represents the cash physically in existence and is therefore an asset.

ii. **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

iii. **False -** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.

iv. **False -** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

v. **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

vi. **True -** Yes they are types of subsidiary books which is alternate to the journals.

Q-2 State with reasons whether the following statements are True or False:

i. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

ii. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

iv. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

v. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

vi. Net income in case of persons practicing vocation is determined by preparing profit and loss account. **[MTP April '21, 12 Marks]**

Ans.

(i) **True:** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(ii) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(iv) **False:** According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) **False:** Debenture interest is payable before the payment of any dividend on shares.

(vi) **False**: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

Q-3 **State with reasons, whether the following statements are True or False :**

(i) Re-issue of forfeited shares is allotment of shares but not a sale.

(ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.

(iii) The Sale Book is kept to record both the cash and credit sales.

(iv) There are two ways of preparing an account current.

(v) Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.

(vi) Accounting Standards for non-corporate entities in India are issued by the Central Government.

[Sugg. Jan '21, 12 Marks]

Ans. (i) **False**; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.

(ii) **True;** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(iii) **False**; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

(iv) **False;** There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.

(v) **True;** Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.

(vi) **False;** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

Q-4 **State with reasons, whether the following statements are True or False:**

(i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

(ii) M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.

(iii) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

(iv) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.

(v) A Partnership firm cannot own any Assets.

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. **[Sugg.-Nov'19, 12 Marks)**

Ans.(i) False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Q-5 State with reasons, whether the following statements are true or false:

(i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

(ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.

(iii) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(iv) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red -Ink interest.

(v) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

(vi) The relationship between sales and fixed assets is expressed a s working capital ratio.

[Sugg.-May'19, 6 Statements x 2 Marks = 12 Marks)

Ans.(i) True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) False: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

(iii) False: In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. T he consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(iv) True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red -Ink" in the appropriate side of the 'Account current'. This interest is called Red -Ink interest.

(v) False: T he provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

(vi) False: T he relationship between sales and fixed assets is expressed as fixed assets turnover ratio.

Q-6 State with reasons, whether the following statements are true or false:

(i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.

(ii) Depreciation is a non-cash expense and does not result in any cash outflow.

(iii) Fees received for Life Membership is a revenue receipt as it is of recurring nature.

(iv) If Closing Stock appears in the Trial Balance:
The closing inventory in then not entered in Trading Account. It is shown only in the balance sheet.

(v) Inventory Turnover Ratio is also known as Stock Turnover Ratio.

(vi) If del-creders commission is paid to consignee, the loss of bad debts is to be borne by the consignor.

[Sugg.-Nov'18, 6 x 2 = 12 Marks]

Ans.(i) False: Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

(ii) True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

(iii) False: Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

(iv) True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.

(v) True: Inventory Turnover Ratio is also known as Stock Turnover Ratio. It establishes the relationship between the cost of goods sold during the year and average inventory held during the year.

(vi) False: To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

Q-7 State with reasons, whether the following statements are true or false :

(i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

(ii) Re-issue of forfeited shares is allotment of shares but not a sale.

(iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

(iv) There are two ways of preparing an account current.

(v) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

(vi) Interest coverage ratio indicates the firm's ability to pay off current interest and installments.

[Sugg.-May'18, 12 Marks]

Ans.(i) False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

(ii) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) **False:** There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.

(v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

(vi) **False:** Interest coverage ratio is computed as Earnings before interest and taxes divided by Interest. This indicates the firm's ability to meet only the interest and other fixed-charges obligations and not instalments.

Q-8 State with reasons, whether the following statements are true or false:

(i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

(ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity .

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

(v) When shares are forfeited, the share capital account is debited wit h called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

[RTP-Nov'2019]

Ans.(i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) False: When shares are forfeited, the share capital account is debited with calledup capital of shares forfeited and the share forfeiture account is credited withamount received on shares forfeited.

Q-9 State with reasons, whether the following statements are true or false :

(i) The results and position disclosed by final accounts are not exact.

(ii) The rationale behind the opening of a suspense account is to tally the trial balance.

(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(iv) Accounting can be viewed as an information system which has its input processing methods and output.

(v) The value of human resources is generally shown as assets in the Balance Sheet.

(vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) The debit notes issued are used to prepare Sales Return Book.

(viii) In Account Current, Red Ink Interest is treated as negative interest.

(ix) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles. **[RTP-May'19]**

Ans.(i) **True:** They are prepared on the basis of assumptions, conventions, concepts andpersonal judgements of the person who prepare them.

(ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

(iii) **True:** In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously.

Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iv) **True**: Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

(v) **False**: The value of human resources cannot be measured in monetary terms, thusit will not be shown in the balance sheet.

(vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) **False**: The debit notes issued are used to prepare purchases return book.

(viii) **Tru**e: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.

(ix) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

Q-10 State with reasons, whether the following statements are true or false :

(i) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

(ii) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

(iii) Consignment account is of the nature of real account.

(iv) The balance in petty cash book represents an asset.

(v) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

(vi) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

(vii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

(viii) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet. **[RTP-Nov'18]**

Ans.(i) **False**: Net income is determined by preparing income and expenditure in case of persons practicing vacation.

(ii) **True**: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

(iii) **False**: Consignment account is a nominal-cum-personal account.

(iv) **True**: The balance represents the cash physically in existence and is therefore an asset.

(v) True: Because it depicts that one aspect of the double entry has been completed.

(vi) **True**: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

(vii) **True**: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(viii) **True**: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.

Q-11 State with reasons, whether the following statements are true or false :

(a) Accrual concept implies accounting on cash basis.

(b) The Sales book is kept to record both cash and credit sales.

(c) Bank reconciliation statement is prepared to arrive at the bank balance.

(d) Finished goods are normally valued at cost or market price whichever is higher.

(e) Reducing balance method of depreciation is followed to have a uniform charge fordepreciation and repairs and maintenance together.

(f) Discount at the time of retirement of a bill is a gain for the drawee.

(g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

(h) Partners can share profits or losses in their capital ratio, when there is noagreement.

(i) Receipts and Payments Account highlights total income and expenditure.

(j) Debenture interest is payable after the payment of preference dividend but beforethe payment of equity dividend.

(k) Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupeeof long term investment. **[RTP-May'18]**

Ans.(a) False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) False - The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) False - Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) False - Finished goods are normally valued at cost or net realizable value whichever is lower.

(e) True - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(i) False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(j) False - Debenture interest is payable before the payment of any dividend on shares.

(k) False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

Q-12 State with reasons, whether the following statements are true or false:

(i) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

(ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

(iii) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(iv) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

(v) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

(vi) Re-issue of forfeited shares is allotment of shares but not a sale.

[MTP-March'20, 12 Marks)

Ans.(i) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(iii) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(iv) **True**: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

(v) **True**: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

(vi) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

Q-13 State with reasons whether the following statements are True or False:

i. Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash - Current Liabilities.

ii. Consignment account is of the nature of real account.

iii. The Sales book is kept to record both cash an d credit sales.

iv. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

v. If a partner retires, then other partners have a gain in their profit sharing ratio.

vi. Net income in case of persons practicing voc ation is determined by preparing profit and loss account. **[MTP-Oct'19, 12 Marks]**

Ans.

(i) False- T he right hand side of the equation includes cash twice - once as a part of current assets and another separately. T he basic accounting equation is Equity + Long T erm Liabilities = Fixed Assets + Current Assets - Current Liabilities

(ii) False- Consignment account is a nominal account

(iii) False- T he Sales book is a register specially kept to record credit sales of goo ds dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iv) False- While calculating the average due date, any transaction date may be taken as the base date.

(v) **True-** If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(vi) **False**- Net income is determined by preparing income and expenditure in case of persons practicing vocation.

Q-14 State with reasons whether the following statements are True or False:

(i) When shares are forfeited, the share capital account is debited with c alled up capital of shares for feited and the share forfeiture account is credited with calls in arrear of shares forfeited.

(iii) Accrual concept implies accounting on cash basis.

(iii) Finished goods are normally valued at cost or market price whichever is higher.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

(v) Partners can share profits or losses in their capital ratio, when there is no agreement.

(vi) Receipts and Payments Account highlights total income and expenditure.

[MTP-March'19, 12 Marks]

Ans.(i) **False**- When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(ii) **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(iii) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(iv) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(vi) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

Q-15 State with reasons whether the following statements are True or False:

(i) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

(v) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

(vi) Quick ratio is also known as Cash Ratio. **[MTP-April'19, 12 Marks]**

Ans. (i) **False** - Debenture interest is payable before the payment of any dividend on shares.

(ii) **True**: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) **False**: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) **False:** According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) **False**: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(vi) **False**: Quick ratio is known as Acid Test Ratio and not Cash Ratio.

Q-16 State with reasons whether the following statements are True or False:

i. Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

ii. The Sales book is kept to record both cash and credit sales.

iii. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

iv. If a partner retires, then other partners have a gain in their profit sharing ratio.

v. When shares are forfeited, the share capital account is debited with c alled up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

vi. Accrual concept implies accounting on cash basis. **[MTP-Aug.'18, 12 Marks]**

Ans.

(i) **False** - Inventory Turnover Ratio measures the efficiency of the firm to manage its inventory Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

(ii) **False-** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iii) **False-** While calculating the average due date, any transaction date may be taken as the base date.

(iv) **True**- If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(v) **False-** When shares are forfeited, the share capital account is debited with c alled up capital of shares forfeited and the share forfeiture account is credited with a mount received on shares forfeited.

(vi) **False**- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they acc rue irrespective of actual receipts or payments.

Q-17 State with reasons, whether the following statements are True or False.

(i) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

(ii) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.

(iii) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

(iv) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.

(v) A Limited is sending goods costing ₹ 50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.

(vi) A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date. **[Sugg.-Nov'20, 12 Marks]**

Ans.

(i) **False;** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(ii) **True;** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

(iii) **True**; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

(iv) **False;** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

(v) **False;** Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.

(vi) **False;** If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

Q-18 State with reasons, whether the following statements are true or false:

(i) Wages paid for erection of machinery are debited to Profit and Loss Account.

(ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) In the calculation of average due date, only the due date of first transaction must be taken as the base date.

(v) The business of partnership must be carried on by all the partners.

(vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend. **(MTP March 22, 6 Statements x 2 Marks = 12 Marks)**

Ans.

(i) **False:** Such wages being related to capital Asset should be debited to the machinery account.

(ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(iii) **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) **False:** Due date may be the due date of the first transaction or the due date of the last transaction or any other due date between the first and the last but preferably earlier due date may be taken.

(v) **False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.

(vi) **False**: Debenture interest is payable before the payment of any dividend on shares.

Q-19 State with reasons, whether the following statements are true or false:

(i) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

(ii) The rationale behind the opening of a suspense account is to tally the trial balance.

(iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(iv) A partnership firm can acquire fixed assets in the name of the firm.

(v) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

(vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) The debit notes issued are used to prepare Sales Return Book.

(viii) Bills receivable and bills payable books are type of subsidiary books.

(ix) The results and position disclosed by final accounts are not exact. **(RTP-Nov-'21)**

Ans. **(i)** **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

(ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

(iii) **True:** In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iv) **False**: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.

(v) **False:** It shall be disclosed as a current liability in the opening balance sheet.

(vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) **False:** The debit notes issued are used to prepare purchases return book.

(viii) **True:** Yes, they are types of subsidiary books which is alternate to the journals.

(ix) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

Q-20 State with reasons whether the following statements are True or False:

(i) The concept of conservatism when applied to the balance sheet results in understatementof assets.

(ii) Reducing balance method of depreciation is followed to have a uniform charge fordepreciation and repairs and maintenance together.

(iii) Discount at the time of retirement of a bill is a gain for the drawee.

(iv) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.

(v) When shares are forfeited, the share capital account is debited with called up capital of sharesforfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

(vi) Goods worth ‘ 600 taken by the proprietor for personal use should be credited to Capital Account.

(Mtp-Oct-’21)(6 statements x 2 Marks = 12 Marks)

Ans.

(i) **True -** Conservatism states that the accountant / entity should not anticipate any future income.However, they should provide for all possible / probable losses. Imprudent use of concept ofconservatism may lead to understatement of income and assets.

(ii) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset

(iii) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(iv) **False** -If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.

(v) **False -**When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

(vi) **False** -Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

Q-21 State with reasons, whether the following statements are True or False:

(i) Any amount spent to minimize the working expenses is revenue expenditure.

(ii) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.

(iii) The provision for bad debts is debited to sundry debtors account.

(iv) Non-participating preference shareholders enjoy voting rights.

(v) There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.

(vi) Discount column of the cash book is never balanced. **(Sugg. Dec.21, 6 x 2 = 12 Marks)**

Ans.

(i) **False**: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

(ii) **True**: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.

(iii) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(iv) **False:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights**.**

(v) **True**: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.

(vi) **True:** Discount column is totalled and transferred to the discount allowed or received account.

Q-22 State With reasons, whether the following statements are True or False:

(i) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,

(ii) A Company is not allowed to issue shares at a discount to the public in general.

(iii) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

(iv) A person holding preference shares of a company cannot hold equity shares of the same company.

(v) Business of partnership comes to an end on death of a partner.

(vi) Cash book is a subsidiary book as well as a principal book. **[Sugg.-July'21](6 x 2 = 12 Marks)**

Ans.

(i) **False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

(ii) **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

(iii) **False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting **the** inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

(iv) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

(v) **False:** Surviving partners may continue to carry on the business in case of partnership.

(vi) **True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.

Q-23 State with reasons, whether the following statements are true or false:

(i) Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of theamount in cash. The amount appearing in the purchase book is ₹36,005.

(ii) All the personal & real accounts are recorded in P&L A/c.

(iii) Amount spent on the replacement of worn out part of machine is Capital Expenditure.

(iv) When closing inventory is overstated, net income for the accounting period will be understated.

(v) The additional commission to the consignee who agrees to bear the loss on accountof bad debts is called overriding commission.

(vi) Goodwill is intangible asset therefore it cannot be valued.

(vii) Interest on calls in arrears is payable by company to shareholders.

(viii) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

(ix) Debenture holders enjoy the voting rights in the company. **(RTP-May-'21)**

Ans.

(i) **True**: the trade discount is to be deducted from the total value of ₹ 75,800. Theamount paid in cash includes cash purchases and only the credit purchasewill be shown in the purchases book- 36,005 (72,010 x 50%).

(ii) **False**: All the personal & real account are recorded in balance sheet.

(iii) **False**: Amount spent for replacement of any worn out part of a machine is revenue expense since it is a part of its maintenance cost.

(iv) **False**: When closing inventory is overstated, net income for the accounting period will be overstated.

(v) **False**: The additional commission to the consignee who agrees to bear the loss onaccount of bad debts is called del credere commission.

(vi) **False**: Even though Goodwill is intangible asset it can be valued in terms of money.

It can be measured in terms of physical units.

(vii) **False**: Interest on calls in arrears is payable by shareholders to company.

(viii) **False**: It shall be disclosed as a current liability in the opening balance sheet.

(ix) **False**: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

Q-24 State with reasons, whether the following statements are true or false:

(i) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.

(ii) Sale of office furniture should be credited to Profit and Loss Account.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) A partnership firm can acquire fixed assets in the name of the firm.

(v) Debenture holders enjoy the voting rights in the company. **[RTP-May'22]**

Ans.

(i) **True:** The profit on sale of capital assets should not be added to revenue to ascertain profit since it has not been earned due to normal business operations.

(ii) **False**: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

(iii) **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del-credere commission.

(iv) **False:** A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.

(v) **False:** Debenture holders do not enjoy voting rights in company.

Short Notes

Q-1 **Write short notes on :**

(i) Noting Charges.

(ii) Fundamental Accounting Assumptions.

(iii) Retirement of bills of exchange.

(iv) Over-riding Commission. **[RTP-May'19]**

Ans.(i) **Noting Charges:** It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(ii) **Fundamental Accounting Assumptions:** 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. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) Going Concern: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) Consistency: It is assumed that accounting policies are consistent from oneperiod to another.

(iii) Accrual: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(iii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the

bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity.

The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) **Over-riding Commission:** In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be delcredere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducingand creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in aparticular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

Q-2 **Write short notes on any three of the following :**

(i) Double entry system.

(ii) Importance of bank reconciliation to an industrial unit.

(iii) Bill of exchange and the various parties to it.

(iv) Joint venture account.

(v) Journal. **[RTP-Nov'18]**

Ans.(i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses

might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) 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 to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) A joint venture account is a nominal account prepared by the co-venturers involved in the joint ventures. The objective of preparing a joint venture account is to ascertain the profit or loss arising out of the joint venture business. The joint venture account is debited with the value of goods or stores bought or used on account of joint venture. It is also debited with expenses incurred. The credit will be to the trading account or cash account or to the party which has supplied the goods or incurred the expenses. When the sale proceeds are received, the party receiving it will debit bank account (or sundry debtors) and credit the joint venture account. The other party will debit the party which has received the sale proceeds and credit the joint venture account.

Thus, joint venture account will reflect profit or loss, which must be transferred to the profit and loss account and the other party's account in agreed proportions.

(v) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

Q-3(i) **Fundamental Accounting Assumptions:** 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. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. **Going concern:** The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. **Consistency**: It is assumed that accounting policies are consistent from one period to another.

3. **Accrual:** Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that

represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

1 Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total of Machine}}{\text{Estimated of Machine}} = \frac{₹\,10,00,000}{50,000\,\text{hours}} = ₹\,20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours x ₹ 20 = ₹ 40,000.

(v) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In anaccommodation bill however, the amount may be shared by the drawer and thedrawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

Q-4 Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

[MTP-March'20, 5 Marks]

Ans.(i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

Q-5 State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **[MTP-Oct'19, 5 Marks]**

Ans. The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hun dies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

Q-6 Write short notes on the following:

(i) Accounting conventions.

(ii) Trade bill vs. Accommodation bill.

(iii) Measurement.

(iv) Advantages of subsidiary books. **[RTP-May'20]**

Ans.(i) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time.

These conventions are derived by usage and practice. The accounta ncy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(ii) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some considera tion while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action o n a trade bill.

In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(iii) Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Any measurement discipline deals with three basic elements of measurement viz., identification of objects and events to be measured, selection of standard or scale to be used, and evaluation of dimension of measurement standards or scale.

Kohler defined measurement as the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquiry or apparatus of observations in accordance with logical or mathematical rules.

Three important elements of measurement are:

(1) Identification of objects and event s to be measured;

(2) Selection of standard or scale to be used;

(3) Evaluation of dimension of measurement standard or scale.

(iv) Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages :

(i) Division of work

(ii) Specialisation and efficiency

(iii) Saving of the time
(iv) Availability of information's
(v) Facility in checking

Q-7 Write **short notes** on the following:

(i) Objectives of preparing Trial Balance.
(ii) Rules of posting of journal entries into Ledger.
(iii) Importance of bank reconciliation statement to an industrial unit.
(iv) Bill of exchange and various parties to it.
(v) Fundamental Accounting Assumptions.
(vi) Accounting conventions.
(vii) Machine Hour Rate method of calculating depreciation. **[RTP-Nov'19]**

Ans.(i) Preparation of trial balance serves the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(ii) Rules regarding posting of entries into ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(iii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iv) 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 to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

(v) Fundamental Accounting Assumptions: 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. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

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2. Consistency: It is assumed that accounting policies are consistent from one period to another.
3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(vi) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(vii) Machine Hour Rate method of calculating depreciation: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹\ 10,00,000}{50,000\ \text{hours}} = ₹\ 20\ \text{per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours $\times$ ₹ 20 = ₹ 40,000.

Q-8 What services can a Chartered Accountant provide to the society? **(MTP March '22, 4 Marks)**

Ans. The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Q-9 Calculate the missing amount for the following.

	Assets	**Liabilities**	**Capital**
(a)	45,00,000	7,50,000	?
(b)	?	4,50,000	2,25,000
(c)	43,50,000	?	41,25,000
(d)	1,71,00,000	(8,40,000)	?

(MTP March 22, 4 Marks)

Ans. Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 37,50,000

(ii) 6,75,000

(iii) 2,25,000

(iv) 1,79,40,000

Q-10 State with reasons whether the following statements are True or False:

(i) Amount spent for the construction of temporary huts, which were necessary for constructionof the Cinema House and were demolished when the Cinema House was ready, is capitalexpenditure.

(ii) Finished goods are normally valued at cost or market price whichever is higher.

(iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

(iv) The firm will receive surrender value of the joint life policy on the death of the partner.

(v) Where a non profit organisation separate trading activity, the profit/loss from the tradingaccount shall be transferred to Income Expenditure Account at the time of consolidation.

(vi) Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

(MTP-Nov'21, 12 Marks)

Ans.

(i) True: Since the temporary huts were necessary for the construction, their cost should beadded to the cost of the cinema hall and thus capitalised.

(ii) False: Finished goods are normally valued at cost or net realizable value whichever is lower.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: The firm will receive full value of sum assured of the joint life policy on the death of the partner.

(v) True: When in case of trading activities for a Non- Profit -Organisation, the profit/loss fromsuch activity is to be transferred to the Income Expenditure Account at the time of consolidation.

(vi) False: The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

Q-11 Differentiate between provision and contingent liability. **(MTP-Nov'21, 4 Marks)**

Ans.

Provision	Contingent liability
(1) Provision is a present liability of uncertain amount, which can bemeasured reliably by using asubstantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallisede pending on the occurrence or nonoccurrence of one or more uncertainfuture events.
(2) A provision meets the recognitioncriteria.	A contingent liability fails to meet thesame.
(3) Provision is recognized when (a) anenterprise has a present obligationarising from past events; an outflowof resources embodying economicbenefits is probable, and (b) a reliableestimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of thoseobligations will require outflow ofeconomic benefits, or the amountcannot be reliably estimated.
(4) If the management estimates that it isprobable that the settlement of anobligation will result in outflow ofeconomic benefits, it recognises aprovision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle theobligation, it discloses the obligation asa contingent liability.

Q-12 Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(MTP-Oct-'21, 4 Marks)**

Ans. The basic considerations in distinction between capital and revenue expenditures are:

(i) **Nature of business:** For a trader dealing in furniture, purchase of furniture is revenueexpenditure but for any other trade, the purchase of furniture should be treated as capitalexpenditure and shown in the balance sheet as asset.

(ii) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normalmaintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Q-13 Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ₹ 500 from M not recorded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth ₹ 5000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

(MTP-Oct-'21, 4 Marks)

Ans. (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

Q-14 Explain in brief objectives of preparing Trial Balance.

Ans.

The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required

Q-15 What are the rules of posting of journal entries into the Ledger? Explain in brief. **(5 Marks)**

Ans.

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Q-16 Explain the followings:

(i) Accrual Basis of Accounting

(ii) Amortisation

(iii) Contingent Assets

(iv) Contingent Liabilities **(Sugg. Dec.21, 4 Marks)**

Ans.

1. Accrual Basis of Accounting

The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

2. Amortisation

The gradual and systematic writing off of an asset or an account over an appropriate period.

3. Contingent Asset

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

4. Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Q-17 From the following information, draw up a Trial Balance in the books of Shri M as on 31st March,2021:

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return Outwards	700
Rent and Taxes	1,200	Plant and Machinery	80,700
Stock on 1st April 2020	15,500	Sundry Debtors	20,200
Sundry Creditors	12,000	Investments	3,600
Commission Received	1,800	Cash in Hand	100
Cash at bank	10,100	Motor Cycle	34,600
Stock on 31st March, 2021	20,500		

(Sugg. Dec.21, 5 Marks)

Ans. **Trial Balance of Shri. M as on 31st March, 2021**

Particulars	**Dr. Amount ₹**	**Cr. Amount ₹**
Capital		1,40,000
Purchases	36,000	
Discount Allowed	1,200	
Carriage Inward	8,700	
Carriage Outwards	2,300	
Sales		60,000
Return Inward	300	
Return Outwards		700
Rent and taxes	1,200	
Plant and Machinery	80,700	
Stock on 1st April,2020	15,500	
Sundry Debtors	20,200	

Sundry Creditors		12,000
Investments	3,600	
Commission Received		1,800
Cash in Hand	10	
Cash at Bank	10,100	
Motor Cycle	34,600	
	2,14,500	2,14,500

Note : Stock as on 31st March,2021 will not appear in trail balance.

Q-18 Discuss the following:

(i) What do you mean by principal books of accounts?

(ii) What are the rules of posting of journal entries into the Leger?

(Sugg. Dec.21, 5 Marks)

Ans.

(i) Ledger is known as principal books of accounts as it provides full information regarding all the transactions pertaining to any individual account.

Ledger contains all set of accounts (viz. personal, real and nominal accounts)

(ii) Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Q-19 Discuss the basic considerations in distinguishing between capital and revenue expenditure.

(Sugg.-July'21, 4 Marks)

Ans. The basic considerations in distinction between capital and revenue expenditures are:

(a) **Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criterion in separating expenditure between capital and revenue.

(b) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

(c) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(d) **Effect on revenue generating capacity of business:** The expenses which help to generate income/ revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.

(e) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Q-20 From the following information prepare the Purchase. Book of Mis. Shyam & Company:

(i) Purchased from Red & Company on credit:
10 pairs of black shoes.@ ₹ 800 per Pair.
5 pairs of brown shoes @ 900 per pair
Less: Trade Discount @ 10%

(ii) Purchased Computer from M/s. Rahul. Enterprises on credit for ₹ 40,000.

(iii) Purchased from Blue & Company in cash:
5 pairs of black shoes @ ₹ 700 per pair
15 pairs of brown shoes@ ₹ 100 per pair
Less: Trade Discount @ 15% **(Sugg.-July'21, 5 Marks)**

Ans. **Purchases Book**

Date	Particulars	L.F.	Amount ₹
(i)	Red & Co.		
	10 pair of black shoes @ ₹ 800		8,000
	5 pair of Brown shoes @ ₹ 900		4,500
			12,500
	Less: 10% trade discount		(1,250)
			11,250

Note:

1. Purchases made in cash are entered in cash book not in purchase book.

2. Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

Q-21 What are the advantages of Subsidiary Books ? **(Sugg.-July'21, 5 Marks)**

Ans. **Advantages of Subsidiary Books**

The use of subsidiary books affords the under mentioned advantages:

(i) **Division of work**: Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) **Specialization and efficiency**: When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

(iii) **Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) **Availability of information**: Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) **Facility in checking**: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

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Chapter-1
The Indian Contract Act, 1872

Q-1 X found a wallet in a restaurant. He enquired of all the customers present there but the true owner could not be found. He handed over the same to the manager of the restaurant to keep till the true owner is found. After a week he went back to the restaurant to enquire about the wallet. The manager refused to return it back to X, saying that it did not belong to him.

In the light of the Indian Contract Act, 1872, can X recover it from the Manager?**[Sugg.-Nov'19, 4 Marks]**

Ans. **Provision of Law:**

- This question relates to the concept of finder of goods under Indian Contract Act,1872.
- As per the provision of Contract Act, the person who finds the goods belonging to other is known as finder of goods.
- Finder of goods has an authority to keep the goods with him until and unless the true owner is found and has a duty to find true owner and return him the goods.

Facts of case:

- X found a wallet in restaurant he inquired in restaurant but true owner could not be found he handed it to manager of restaurant to keep it until true owner is found. After a week he went back to restaurant to inquire about the wallet. The manager refused to return it back to him.

Conclusion:

- Here in this case as a finder of goods X has a right to recover the wallet from manager.

Q-2 Define consideration. What are the legal rules regarding consideration under the Indian Contract Act, 1872? **[Sugg.-Nov'19, 7 Marks]**

Ans. **Consideration [Section 2(d) of the Indian Contract Act, 1872]:** When at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing or promises to do or abstain from doing something, such an act or abstinence or promise is called consideration for the promise.

Legal Rules Regarding Consideration

(i) **Consideration must move at the desire of the promisor:** Consideration must be offered by the promisee or the third party at the desire or request of the promisor. This implies "return" element of consideration.

(ii) **Consideration may move from promisee or any other person**: In India, consideration may proceed from the promisee or any other person who is not a party to the contract. In other words, *there can be a stranger to a consideration but not stranger to a contract*.

(iii) **Executed and executory consideration:** A consideration which consists in the performance of an act is said to be executed. When it consists in a promise, it is said to be executory. The promise by one party may be the consideration for an act by some other party, and vice versa.

(iv) **Consideration may be past, present or future:** It is a general principle that consideration is given and accepted in exchange for the promise. The consideration, if past, may be the motive but

cannot be the real consideration of a subsequent promise. But in the event of the services being rendered in the past at the request or the desire of the promisor, the subsequent promise is regarded as an admission that the past consideration was not gratuitous.

(v) **Consideration need not be adequate:** Consideration need not to be of any particular value. It need not be approximately of equal value with the promise for which it is exchanged but it must be something which the law would regard as having some value.

(vi) **Performance of what one is legally bound to perform:** The performance of an act by a person who is legally bound to perform the same cannot be consideration for a contract. Hence, a promise to pay money to a witness is void, for it is without consideration. Hence such a contract is void for want of consideration.

But where a person promises to do more that he is legally bound to do, such a promise provided it is not opposed to public policy, is a good consideration. It should not be vague or uncertain.

(vii) **Consideration must be real and not illusory:** Consideration must be real and must not be illusory. It must be something to which the law attaches some value. If it is legally or physically impossible it is not considered valid consideration.

(viii) **Consideration must not be unlawful, immoral, or opposed to public policy.** Only presence of consideration is not sufficient it must be lawful. Anything which is immoral or opposed to public policy also cannot be valued as valid consideration.

Q-3 Mr. Sonumal a wealthy individual provided a loan of ₹ 80,000 to Mr. Datumal on 26.02.2019. The borrower Mr. Datumal asked for a further loan of ₹ 1,50,000. Mr. Sonumal agreed but provided the loan in parts at different dates. He provided ₹ 1,00,000 on 28.02.2019 and remaining ₹ 50,000 on 03.03.2019.

On 10.03.2019 Mr. Datumal while paying off part ₹ 75,000 to Mr. Sonumal insisted that the lender should adjusted ₹ 50,000 towards the loan taken on·03.03.2019 and balance as against the loan on 26.02.2019.

Mr. Sonumal objected to this arrangement and asked the borrower to adjust in the order of date of borrowal of funds.

Now you decide:

(i) Whether the contention of Mr. Datumal correct or otherwise as per the provisions of the Indian Contract Act, 1872?

(ii) What would be the answer in case the borrower does not insist on such order of adjustment of repayment?

(iii) What would the mode of adjustment/appropriation of such part payment in case neither Mr. Sonumal nor Mr. Datumal insist any order of adjustment on their part? **[Sugg.-Nov'19, 6 Marks]**

Ans. Provision of Law:

- This question relates to the provision of Appropriation of payment under Indian Contract Act, 1872.
- As per the provisions of Indian Contract Act when there are more than one debt due from same debtor and he makes a part payment then the amount so paid should be first appropriated in the manner determined by the debtor if he cannot decide then creditor can appropriate against any debt and if creditor also cannot decide then it should be appropriated in the time ratio i.e earlier debt will be relieved first and it can also be a time barred debt.

Facts of the case:

- In this case Mr.Sonumal provided a loan of Rs.80,000 to Mr.Datumal on 26.02.2019.Further loan of Rs.1,00,000 on 28.02.2019 and Rs.50,000 on 03.03.2019. On 10.03.2019 Mr.Datumal paid Rs.75,000 with a direction to appropriate Rs.50,000 towards the loan of 03.03.2019 and the balance against loan on 26.02.2019.Mr.Sonumal objected the same and asked borrower to adjust in accordance with time.

Conclusion:

1. As per the act the appropriation should be first according to the direction of debtor therefore contention of Mr.Sonumal is not correct in this case.
2. If the borrower does not insist on order of adjustment of repayment then Mr.Sonumal can appropriate it against any debt which he deems fit.
3. If neither Mr.Sonumal nor Mr.Datumal insist on any order of adjustment of their part then it should be appropriated in order of time i.e. earlier debt will be relieved first.

Q-4 Explain the term 'Coercion" and what are the effects of coercion under Indian Contract Act, 1872.

[RTP-May'18, Sugg.-Nov'19, 5 Marks]

Ans. **Coercion (Section 15 of the Indian Contract Act, 1872):** "Coercion' is the committing, or threatening to commit, any act forbidden by the Indian Penal Code or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement."

Effects of coercion under section 19 of Indian Contract Act, 1872

(i) Contract induced by coercion is voidable at the option of the party whose consent was so obtained.

(ii) As to the consequences of the rescission of voidable contract, the party rescinding a void contract should, if he has received any benefit, thereunder from the other party to the contract, restore such benefit so far as may be applicable, to the person from whom it was received.

(iii) A person to whom money has been paid or anything delivered under coercion must repay or return it.

Q-5 Mr. Sohanlal sold 10 acres of his agricultural land to Mr. Mohanlal on 25th September *2018 for ₹ 25 Lakhs.* The Property papers mentioned a condition, amongst other details,that whosoever purchases the land is free to use 9 acres as per his choice but the remaining 1 acre has to be allowed to be used by Mr. Chotelal, son of the seller for carrying out farming or other activity of his choice. On 12th October, 2018, Mr. Sohanlal died leaving behind his son and life. On 15th October, 2018 purchaser started construction of an auditorium on the whole 10 acres of land and denied any land to the son.

Now Mr. Chotelal wants to file a case against the purchaser and get a suitable redressed. Discuss the above in light of provisions of Indian Contract Act, 1872 and decide upon Mr. Chotelal 's plan of action?

[Sugg.-May'19, 4 Marks)]

Ans. **Provision of Law:**

- This question relates to the provision of Stranger for Consideration.
- As per the provisions of this act the stranger to contract cannot sue but stranger to consideration can sue the parties to contract as the consideration may be given by promise or any other person.
- Moreover, it is provided in the law that "in case covenant running with the land, where a person purchases land with notice that the owner of the land is bound by certain duties affecting land, the covenant affecting the land may be enforced by the successor of the seller."

Facts of the case:

- Mr.Sohanlal sold the land of 10 acres to Mr.Mohanlal on 25th September,2018 for Rs.25 lacs. The property papers mentioned a condition that whoever purchases the land is free to use 9 acres as per his choice but remaining 1 acre has to be allowed to be used by Mr.Chotelal, son of seller for carrying out farming activity of their choice. On 12th October,2018 Mr.Sohanlal died leaving behind his son. Mr.Mohanlal started construction of auditorium on whole 10 acres land and denied any land to Mr.Chotelal.

Conclusion:

- Here in this case the consideration was paid to Mr.Mohanlal by Mr.Sohanlal on behalf of Mr.Chotelal and therefore Mr.Mohanlal cannot deny the land to Mr.Chotelal.

Q-6 "Mere silence is not fraud" but there are some circumstances where the "silence is fraud". Explain the circumstances as per the provision of Indian Contract Act, 1872?

[MTP.-March'18, MTP-April'19, RTP.-Nov'18,Sugg.-May'19, Sugg.-May'18, 7 Marks]

Ans. Mere silence is not fraud

Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak, or unless his silence is, in itself, equivalent to speech.

It is a rule of law that mere silence does not amount to fraud. A contracting party is not duty bound to disclose the whole truth to the other party or to give him the whole information in his possession affecting the subject matter of the contract.

The rule is contained in explanation to Section 17 of the Indian Contract Act which clearly states the position that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud.

Silence is fraud:

1. **Duty of person to speak:** Where the circumstances of the case are such that it is the duty of the person observing silence to speak.

   Following contracts come within this category:

   (a) Fiduciary Relationship: Here, the person in whom confidence is reposed is under a duty to act with utmost good faith and make full disclosure of all material facts concerning the agreement, known to him.

   (b) Contracts of Insurance: In contracts of marine, fire and life insurance, there is an implied condition that full disclosure of material facts shall be made, otherwise the insurer is entitled to avoid the contract.

   (c) Contracts of marriage: Every material fact must be disclosed by the parties to a contract of marriage.

   (d) Contracts of family settlement: These contracts also require full disclosure of material facts within the knowledge of the parties.

   (e) Share Allotment contracts: Persons issuing 'Prospectus' at the time of public issue of shares/ debentures by a joint stock company have to disclose all material facts within their knowledge.

Q-7 Mr. Rich aspired to get a self-portrait made by an artist. He went to the workshop of Mr. C an artist and asked whether he could sketch the former's portrait on oil painting *canvass. Mr. C agreed to the offer and asked for ' 50,000 as full advance payment for* the above creative work. Mr. C clarified that the painting shall be completed in 10 sittings and shall take 3 months.

On reaching to the workshop for the 6th sitting, Mr. Rich was informed that Mr. C became paralyzed and would not be able to paint for near future. Mr. C had a son Mr. K who was still pursuing his studies and had not taken up his father's profession yet?

Discuss in light of the Indian Contract Act, 1872?

(i) Can Mr. Rich ask Mr. K to complete the artistic work in lieu of his father?

(ii) Could Mr. Rich ask Mr. K for refund of money paid in advance to his father?

[Sugg.-May'19, 6 Marks]

Ans. Provision of law:

- ➲ This question relates to the concept of discharge of contract due to operation of law.
- ➲ It is provided in the act that if the contract was dependent upon personal skill or confidence and Promisor dies then such contract will be discharged due to the death of Promisor.

Facts of the case:

- Mr.Rich aspired to get a self-portrait made by an artist. He went to workshop of Mr.C an artist and asked whether he could sketch the portrait of Mr.Rich Mr.C agreed and asked for Rs.50,000 as full advance payment for the above creative work. The contract was to complete the painting in 10 sittings and will take 3 months. On reaching to the workshop for 6th sitting ,Mr.Rich was informed that Mr.C became paralyzed and would not be able to paint for near future.

Conclusion:

- In this case the contract was depending upon personal skill of Mr.C and it will become void due to his paralysis.

1. Mr.Rich cannot ask Mr.K to complete the artistic work in lieu of his father as it was depending upon personal skill and as per contract act if the contract is based on personal skill then it should be performed by promisor only.
2. Mr.Rich will be able to recover the amount from Mr.K the amount already paid as the contract of portrait becomes void due to paralysis of Mr.C and as per contract act if the contract becomes void then any party who has received any benefit under a void contract is liable to return it to the other party.

Q-8 Discuss the essentials of Undue Influence as per the Indian Contract Act, 1872. **[Sugg.-May'19, 5 Marks]**

Ans. The essentials of Undue Influence as per the Indian Contract Act, 1872 are the following:

(1) Relation between the parties: A person can be influenced by the other when a near relation between the two exists.

(2) Position to dominate the will: Relation between the parties exist in such a manner that one of them is in a position to dominate the will of the other. A person is deemed to be in such position in the following circumstances:

(a) Real and apparent authority: Where a person holds a real authority over the other as in the case of master and servant, doctor and patient and etc.

(b) Fiduciary relationship: Where relation of trust and confidence exists between the parties to a contract. Such type of relationship exists between father and son, solicitor and client, husband and wife, creditor and debtor, etc.

(c) Mental distress: An undue influence can be used against a person to get his consent on a contract where the mental capacity of the person is temporarily or permanently affected by the reason of mental or bodily distress, illness or of old age.

(d) Unconscionable bargains: Where one of the parties to a contract is in a position to dominate the will of the other and the contract is apparently unconscionable i.e., unfair, it is presumed by law that consent must have been obtained by undue influence. Unconscionable bargains are witnessed mostly in money lending transactions and in gifts.

(3) The object must be to take undue advantage: Where the person is in a position to influence the will of the other in getting consent, must have the object to take advantage of the other.

(4) Burden of proof: The burden of proving the absence of the use of the dominant position to obtain the unfair advantage will lie on the party who is in a position to dominate the will of the other.

Q-9 Mr. X and Mr. Y entered into a contract on 1st August, 2018, by which. Mr. X had to supply 50 tons of sugar to Mr. Y at a certain price strictly within a period of 10 days of the contract. Mr. Y also paid an amount of ₹ 50,000 towards advance as per the terms of the above contract. The mode of transportation available between their places is roadway only. Severe flood came on 2nd August, 2018 and the only road connecting their places was damaged and could not be repaired within fifteen days. Mr. X offered to supply sugar on 20th August, 2018 for which Mr. Y did not agree. On 1st September, 2018, Mr. X claimed

compensation of ₹ 10,000 from Mr. Y for refusing to accept the supply of sugar, which was not there within the purview of the contract. On the other hand, Mr. Y claimed for refund of ₹ 50.000 which he had paid as advance in terms of the contract. Analyse the above situation in terms of the provisions of the Indian Contract Act, 1872 and decide on Y's contention. **[Sugg.-Nov'18, 4 Marks]**

Ans. Provision of law:

- This question relates to the provision of Supervening Impossibility under Indian Contract Act, 1872.
- As per the provisions of Indian Contract Act,1872 if after entering into a valid contract some event happens which makes the performance impossible then such contract becomes void due to Supervening Impossibility and any party receiving any benefit is bound to restore it to others because of Supervening Impossibility.

Facts of the case:

- Mr.X and Mr.Y entered into contract on 1st August,2018 where Mr.X had to supply 50 tons of Sugar to Mr.Y at a certain price strictly within 10 days. Mr.Y also paid advance of Rs.50,000 as per the terms. The only mode available for transportation was damaged and could not be repaired within 15 days. Mr.X offered to supply sugar on 20-08-2018 to which Mr.Y did not agree. On 1st September Mr.X claimed Rs.10000 from Mr.Y for refusing to accept sugar which was not in terms of contract. On the other hand Mr.Y claimed refund of Rs.50000 paid in advance.

Conclusion:

- In this case the contract becomes void due to Supervening Impossibility as the only mode of transportation was damaged and therefore Y cannot claim damages of Rs.10,000 and he will also be under obligation to refund advance of Rs.50000 received under void contract.

Q-10 What is Contingent Contract? Discuss the essentials of Contingent Contract as per the Indian Contract Act, 1872. **[Sugg.-Nov'18, 7 Marks]**

Ans. **According to section 31 of the Indian** Contract Act, 1872, contingent contract means a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

Example: Contracts of Insurance, indemnity and guarantee.

Essentials of a contingent contract

(a) **The performance of a contingent contract would depend upon the happening or non-happening of some event or condition.**The condition may be precedent or subsequent.

(b) **The event referred to, is collateral to the contract.** The event is not part of the contract. The event should be neither performance promised nor a consideration for a promise.

(c) **The contingent event should not be a mere 'will' of the promisor.** The event should be contingent in addition to being the will of the promisor.

(d) **The event must be uncertain.** Where the event is certain or bound to happen, the contract is due to be performed, then it is a not contingent contract.

Q-11 Mr. Ramesh promised to pay ` 50,000 to his wife Mrs. Lali so that she can spend the sum on her 30th birthday. Mrs. Lali insisted her husband to make a written agreement if he really loved her. Mr. Ramesh made a written agreement and the agreement was registered under the law. Mr. Ramesh failed to pay the specified amount to his wife Mrs. Lali. Mrs. Lali wants to file a suit against Mr. Ramesh and recover the promised amount. Referring to the applicable provisions of the Contract Act, 1872, advise whether Mrs. Lali will succeed. **[Sugg.-Nov'18, 3 Marks]**

Ans. Provision of law:

- This question relates to the provision of Natural love and affection under Indian Contract Act,1872.
- Usually the contract to be valid requires consideration from both the parties otherwise as per the

rule of "No Consideration no contract" the agreement will be void. But there are certain exceptions to this rule, one of such exception is Natural Love and affection.

- In case of Natural Love and affection the contract without consideration is also valid if following conditions are satisfied:
  - It is in writing
  - It is registered.
  - It is between parties having immediate relation.
  - It is out of natural love and affection.

Facts of case:

- In this case Mr.Ramesh promised to pay Rs.50,000 to his wife Mrs.Lali Mrs.Lali insisted to make the promise in writing and registered if he really loved her and accordingly the promise was made. Mr.Ramesh failed to pay the amount.

Conclusion:

- Here in this case promise made by Mr.Ramesh fulfills all the above conditions and therefore it is valid under Natural love and affection and Mrs.Lali can file a suit against Mr.Ramesh and recover the promised amount.

Q-12 A shop-keeper displayed a pair of dress in the show-room and a price tag of ₹ 2,000 was attached to the dress. Ms. Lovely looked to the tag and rushed to the cash counter. Then she asked the shop-keeper to receive the payment and pack up the dress. The shop-keeper refused to hand-over the dress to Ms. Lovely in consideration of the price stated in the price tag attached to the Ms. Lovely seeks your advice whether she can sue the shop-keeper for the above cause under the Indian Contract Act, 1872.

[Sugg.-Nov'18, 3 Marks)]

Ans. Provision of Law:

- This question relates to the topic of Invitation to offer under Indian Contract Act, 1872.
- When the goods are displayed with a price tag in a showroom it is an Invitation to offer, when a customer takes it to cash counter for purchasing the same then it will be offer and when shopkeeper accepts and makes a bill then it is an acceptance.

Facts of Case:

- A shop keeper displayed a pair of dress in show room and a price tag of Rs.2000 was attached to the dress. Ms.Lovely took the dress to the counter. The shop-keeper refused to hand over the dress to Ms.Lovely.

Conclusion:

- Here in this case the display of goods with price tag is considered as Invitation to offer when Ms.Lovely took it to counter she made an offer and contract could not be made till the shop-keeper accepts the same and therefore shopkeeper has a right to refuse the same.

Q-13 Explain the modes of revocation of an offer as per the Indian Contract Act, 1872.

[Sugg.-Nov'18, 5 Marks)]

Ans. Modes of revocation of Offer

(i) By notice of revocation

(ii) **By lapse of time:** The time for acceptance can lapse if the acceptance is not given within the specified time and where no time is specified, then within a reasonable time.

(iii) **By non-fulfillment of condition precedent:** Where the acceptor fails to fulfill a condition precedent to acceptance the proposal gets revoked.

(iv) **By death or insanity:** Death or insanity of the proposer would result in automatic revocation of the proposal but only if the fact of death or insanity comes to the knowledge of the acceptor.

(v) By counter offer

(vi) By the non- acceptance of the offer according to the prescribed or usual mode

(vii) By subsequent illegality

Q-14 State the exceptions to the rule "An agreement without consideration is void".

[Sugg.-Jan'21, MTP.-March'18, MTP.-April'19, RTP.-May'19,RTP-Nov'19 ,Sugg.-May'18, 5 Marks]

Ans. The general rule is that an agreement made without consideration is void (Section 25 of the Indian Contract Act, 1872). However, the Indian Contract Act contains certain exceptions to this rule. In the following cases, the agreement though made even without consideration, will be valid and enforceable.

1. **Natural Love and Affection:** Any written and registered agreement made on account of love and affection between the parties standing in near relationship to each other.
2. **Compensation for past voluntary services:** A promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor.
3. **Promise to pay time barred debt:** A promise in writing signed by the person making it or by his authorized agent, made to pay a debt barred by limitation.
4. **Agency:** According to Section 185 of the Indian Contract Act, 1872, no consideration is necessary to create an agency.
5. **Completed gift:** In case of completed gifts, the rule no consideration no contract does not apply. Explanation (1) to Section 25 states "nothing in this section shall affect the validity as between the donor and donee, of any gift actually made." Thus, gifts do not require any consideration.
6. **Bailment:** No consideration is required to effect the contract of bailment (Section 148).
7. **Charity:** If a promisee undertakes the liability on the promise of the person to contribute to charity, there the contract shall be valid**.**

Q-15 Examine with reason that the given statement is correct or incorrect "Minor is liable to pay for the necessaries supplied to him". **[Sugg.-May'18, 2 Marks]**

Ans. **Minor is liable to pay for the necessaries supplied to him:** This statement is incorrect**.** The case of necessaries supplied to a minor or to any other person whom such minor is legally bound to support is governed by section 68 of the Indian Contract Act, 1872. A claim for necessaries supplied to a minor is enforceable by law, only against minor's estate, if he possesses. But a minor is not liable for any price that he may promise and never for more than the value of the necessaries. There is no personal liability of the minor, but only his property is liable.

Q-16 Distinguish between wagering agreement and contract of insurance. **[Sugg.-May'18, 2 Marks)**]

Ans. **Distinction between Wagering Agreement and Contract of Insurance**

	Basis	Wagering Agreement	Contracts of Insurance
1.	**Meaning**	It is a promise to pay money or money's worth on the happening or non happening of an uncertain event.	It is a contract to indemnify the loss.
2.	**Consideration**	There is no consideration between the two parties. There is just gambling for money.	The crux of insurance contract is the mutual consideration (premium and compensation amount).
3.	**Insurable Interest**	There is no property in case of wagering agreement. There is betting on other's life and properties.	Insured party has insurable interest in the life or property sought to be insured.

4.	**Contract of Indemnity**	Loser has to pay the fixed amount on the happening of uncertain event.	Except life insurance, the contract of insurance indemnifies the insured person against loss
5.	**Enforceability**	It is void and unenforceable agreement.	It is valid and enforceable
6.	**Premium**	No such logical calculations are required in case of wagering agreement.	Calculation of premium is based on scientific and actuarial calculation of risks.
7.	**Public Welfare**	They have been regarded as against the public welfare.	They are beneficial to the society.

Q-17 M Ltd., contract with Shanti Traders to make and deliver certain machinery to them by 30.6.2017 for ₹ 11.50 lakhs. Due to labour strike, M Ltd. could not manufacture and deliver the machinery to Shanti Traders. Later, Shanti Traders procured the machinery from another manufacturer for ₹ 12.75 lakhs. Due to this Shanti Traders was also prevented from performing a contract which it had made with Zenith Traders at the time of their contract with M Ltd. and were compelled to pay compensation for breach of contract. Advise Shanti Traders the amount of compensation which it can claim from M Ltd., referring to the legal provisions of the Indian Contract Act, 1872. **[Sugg.-May'18, 6 Marks]**

Ans. Provision of law:

- This question relates to the provision of breach of contract and damages.
- If there is a breach of contract then aggrieved party is entitled to claim damages from defaulting parties and the damages recovered can be in the nature of ordinary damages(available as a direct loss) amounting to the difference of contract price and market price. If there are special circumstances affecting the case then aggrieved party can claim special damages too provided the aggrieved party has informed about the circumstances in advance.

Facts of the case:

- M Ltd. Contract with Shanti Traders to make and deliver certain machinery to them by 30.06.2017 for Rs.11.50 lacs. Due to labour strike, M Ltd. Could not manufacture and deliver to Shanti Traders. Later Shanti Traders procured the machinery from another manufacturer for 12.75 lacs and they were also prevented from performing a contract which it made with Zenith Traders and were also liable to pay compensation to them.

Conclusion:

- Here in this case M Ltd. Could not manufacture and deliver due to labor strike. Labor Strike cannot be considered as absolute impossibility so it will be considered as breach of contract and he will be liable to following damages.
- Ordinary damages of 1.25 lacs (12.75 lacs-11.5 lacs) and if M Ltd. was informed about the contract with Zenith Traders then Shanti Traders would also be entitled to recover the compensation paid to Zenith Limited as Special Damages.

Q-18 Explain the type of contracts in the following agreements under the Indian Contract Act, 1872:

(i) A coolie in uniform picks up the luggage of A to be carried out of the railway station without being asked by A and A allows him to do so.

(ii) Obligation of finder of lost goods to return them to the true owner

(iii) A contracts with B (owner of the factory) for the supply of 10 tons of sugar, but before the supply is effected, the fire caught in the factory and everything was destroyed. **[RTP.-May '20]**

Ans.(i) It is an implied contract and A must pay for the services of the coolie.

Implied Contracts: Implied contracts come into existence by implication. Most often the implication is by law and or by action. Section 9 of the Indian Contract Act, 1872 contemplates such implied contracts when it lays down that in so far as such proposal or acceptance is made otherwise than in words, the promise is said to be implied.

(ii) Obligation of finder of lost goods to return them to the true owner cannot be said to arise out of a contract even in its remotest sense, as there is neither offer and acceptance nor consent. These are said to be quasi-contracts.

Quasi-Contract: A quasi-contract is not an actual contract but it resembles a contract. It is created by law under certain circumstances. The law creates and enforces legal rights and obligations when no real contract exists. Such obligations are known as quasi-contracts. In other words, it is a contract in which there is no intention on part of either party to make a contract but law imposes a contract upon the parties.

(iii) The above contract is a void contract.

Void Contract: Section 2 (j) of the Act states as follows: *"A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable"*. Thus, a void contract is one which cannot be enforced by a court of law.

Q-19 "Only a person who is party to a contract can sue on it". Explain this statement and describe its exceptions, if any. **[RTP-May'18, RTP May '20]**

Ans. Though under the Indian Contract Act, 1872, the consideration for an agreement may proceed from a third party, the third party cannot sue on contract. Only a person who is party to a contract can sue on it. Thus, the concept of stranger to consideration is valid and is different from stranger to a contract.

The aforesaid rule, that **stranger to a contract cannot sue is known as a "doctrine of privity of contract"**, is however, subject to certain exceptions. In other words, even a stranger to a contract may enforce a claim in the following cases:

(1) **In the case of trust,** a beneficiary can enforce his right under the trust, though he was not a party to the contract between the settler and the trustee.

(2) **In the case of a family settlement,** if the terms of the settlement are reduced into writing, the members of family who originally had not been parties to the settlement may enforce the agreement.

(3) **In the case of certain marriage contracts,** a female member can enforce a provision for marriage expenses made on the partition of the Hindu Undivided Family.

(4) **In the case of assignment of a contract,** when the benefit under a contract has been assigned, the assignee can enforce the contract.

(5) **Acknowledgement or estoppel –** where the promisor by his conduct acknowledges himself as an agent of the third party, it would result into a binding obligation towards third party.

(6) **In the case of covenant running with the land,** the person who purchases land with notice that the owner of land is bound by certain duties affecting land, the covenant affecting the land may be enforced by the successor of the seller.

(7) **Contracts entered into through an agent:** The principal can enforce the contracts entered by his agent where the agent has acted within the scope of his authority and in the name of the principal.

Q-20 Explain the circumstances in which the person is deemed to be in a position to dominate the will of the other person under the Indian Contract Act, 1872. **[RTP.-May '20]**

Ans. **Position to dominate the will:** A person is deemed to be in such position in the following circumstances:

(a) **Real and apparent authority:** Where a person holds a real authority over the other as in the case of master and servant, doctor and patient and etc.

(b) Fiduciary relationship: where relation of trust and confidence exists between the parties to a contract. Such type of relationship exists between father and son, solicitor and client, husband and wife, creditor and debtor, etc.

(c) Mental distress: An undue influence can be used against a person to get his consent on a contract where the mental capacity of the person is temporarily or permanently affected by the reason of mental or bodily distress, illness or of old age.

(d) Unconscionable bargains: Where one of the parties to a contract is in a position to dominate the will of the other and the contract is apparently unconscionable i.e., unfair, it is presumed by law that consent must have been obtained by undue influence. Unconscionable bargains are witnessed mostly in money-lending transactions and in gifts.

Q-21 What is a wagering agreement? Describe the transactions which resembles with wagering transactions but are not void. **[RTP.-May '20]**

Ans. **Wagering agreement (Section 30 of the Indian Contract Act, 1872):** An agreement by way of a wager is void. It is an agreement involving payment of a sum of money upon the determination of an uncertain event. The essence of a wager is that each side should stand to win or lose, depending on the way an uncertain event takes place in reference to which the chance is taken and in the occurrence of which neither of the parties has legitimate interest.

For example, A agrees to pay ₹ 50,000 to B if it rains, and B promises to pay a like amount to A if it does not rain, the agreement will be by way of wager. But if one of the parties has control over the event, agreement is not a wager.

Transactions resembling with wagering transaction but are not void

(i) Chit fund: Chit fund does not come within the scope of wager (Section 30). In case of a chit fund, a certain number of persons decide to contribute a fixed sum for a specified period and at the end of a month, the amount so contributed is paid to the lucky winner of the lucky draw.

(ii) Commercial transactions or share market transactions: In these transactions in which delivery of goods or shares is intended to be given or taken, do not amount to wagers.

(iii) Games of skill and Athletic Competition: Crossword puzzles, picture competitions and athletic competitions where prizes are awarded on the basis of skill and intelligence are the games of skill and hence such competition are valid. According to the Prize Competition Act, 1955 prize competition in games of skill are not wagers provided the prize money does not exceed ₹ 1,000.

(iv) A contract of insurance: A contract of insurance is a type of contingent contract and is valid under law and these contracts are different from wagering agreements.

Q-22 "The basic rule is that the promisor must perform exactly what he has promised to perform." Explain stating the obligation of parties to contracts. **[RTP.-May '20]**

Ans. **Obligations of parties to contracts (Section 37 of the Indian Contract Act, 1872)**

The parties to a contract must either perform, or offer to perform, their respective promises unless such performance is dispensed with or excused under the provisions of the Contract Act or of any other law.

Promises bind the representatives of the promisor in case of death of such promisor before performance, unless a contrary intention appears from the contract.

Example 1: A promises to deliver goods to B on a certain day on payment of ₹ 1,00,000. A dies before that day. A's representatives are bound to deliver the goods to B, and B is bound to pay ₹ 1,00,000 to A's representatives.

Example 2: A promises to paint a picture for B by a certain day, at a certain price. A dies before the day. The contract cannot be enforced either by A's representatives or by B because it involves use of personal skill.

Analysis of Section 37

A contract being an agreement enforceable by law, creates a legal obligation, which subsists until discharged. Performance of the promise or promises remaining to be performed is the principal and most usual mode of discharge.

The basic rule is that the promisor must perform exactly what he has promised to perform. The obligation to perform is absolute. Thus, it may be noted that it is necessary for a party who wants to enforce the promise made to him, to perform his promise for himself or offer to perform his promise. Only after that he can ask the other party to carry out his promise. This is the principle which is enshrined in Section 37. Thus, it is the primary duty of each party to a contract to either perform or offer to perform his promise. He is absolved from such a responsibility only when under a provision of law or an act of the other party to the contract, the performance can be dispensed with or excused.

Thus, from above it can be drawn that performance may be actual or offer to perform.

Q-23 What do you mean by Quantum Meruit and state the cases where the claim for Quantum Meruit arises?

[RTP.-May '20]

Ans. **Quantum Meruit*:*** Where one person has rendered service to another in circumstances which indicate an understanding between them that it is to be paid for although no particular remuneration has been fixed, the law will infer a promise to pay. *Quantum Meruit* i.e. as much as the party doing the service has deserved. It covers a case where the party injured by the breach had at time of breach done part but not all of the work which he is bound to do under the contract and seeks to be compensated for the value of the work done. For the application of this doctrine, two conditions must be fulfilled:

(1) It is only available if the original contract has been discharged.

(2) The claim must be brought by a party not in default.

The object of allowing a claim on *quantum meruit* is to recompensate the party or person for value of work which he has done. Damages are compensatory in nature while quantum meruit is restitutory. It is but reasonable compensation awarded on implication of a contract to remunerate.

The claim for quantum meruit arises in the following cases:

(a) when an agreement is discovered to be void or when a contract becomes void.

(b) When something is done without any intention to do so gratuitously.

(c) Where there is an express or implied contract to render services but there is no agreement as to remuneration.

(d) When one party abandons or refuses to perform the contract.

(e) Where a contract is divisible and the party not in default has enjoyed the benefit of part performance.

(f) When an indivisible contract for a lump sum is completely performed but badly the person who has performed the contract can claim the lump sum, but the other party can make a deduction for bad work.

Q-24 Explain the meaning of 'Contingent Contracts' and state the rules relating to such contracts.

[RTP.-May'19, RTP.-May '20]

Ans. **Essential characteristics of a contingent contract:** A contract may be absolute or contingent. A contract is said to be absolute when the promisor undertakes to perform the contract in all events. A contingent contract, on the other hand "is a contract to do or not to do something, if some event, collateral to such contract does or does not happening (Section 31). It is a contract in which the performance becomes due only upon the happening of some event which may or may not happen.

For example, A contracts to pay B ' 10,000 if he is elected President of a particular association. This is a contingent contract. The essential characteristics of a contingent contract may be listed as follows:

(i) There must be a contract to do or not to do something,

(ii) The performance of the contract must depend upon the happening or non-happening of some event.

(iii) The happening of the event is uncertain.

(iv) The event on which the performance is made to depend upon is an event collateral to the contract i.e. it does not form part of the reciprocal promises which constitute the contract. The event should neither be a performance promised, nor the consideration for the promise.

(v) The contingent event should not be the mere will of the promisor. However, where the event is within the promisor's will, but not merely his will, it may be a contingent contract.

The rules regarding the contingent contract are as follows:

(1) Contingent contract dependent on the happening of an uncertain future cannot be enforced until the event has happened. If the event becomes impossible, such contracts become void. (Section 32).

(2) Where a contingent contract is to be performed if a particular event does not happening performance can be enforced only when happening of that event becomes impossible (Section 33).

(3) If a contract is contingent upon, how a person will act at an unspecified time, the event shall be considered to become impossible; when such person does anything which renders it impossible that he should so act within any definite time or otherwise than under further contingencies. (Section 34 and 35).

(4) The contingent contracts to do or not to do anything if an impossible event happens, are void whether or not the fact is known to the parties (Section 36).

Q-25 Explain the concept of 'misrepresentation' in matters of contract. Sohan induced Suraj to buy his motorcycle saying that it was in a very good condition. After taking the motorcycle, Suraj complained that there were many defects in the motorcycle. Sohan proposed to get it repaired and promised to pay 40% cost of repairs After a few days, the motorcycle did not work at all. Now Suraj wants to rescind the contract. Decide giving reasons whether Suraj can rescind the contract?

[March'21, MTP.-May '20, RTP.-May'19, RTP.-May '20, 3 Marks]

Ans. Provision of Law:

- This question relates to the provision of Misrepresentation under Indian Contract Act,1872.
- As per Indian Contract Act,1872, When the contract is entered by way of Fraud or Misrepresentation then the aggrieved party has an option either to rescind the contract or to enforce the performance of the same but if the party ratifies i.e validates the contract once then afterwards he does not have an option to rescind contract.

Facts of Case:

- In this case Sohan induced Suraj to buy his motorcycle by saying it is in very good condition , Suraj complained that there were many defects in the motorcycle then Sohan proposed to bear 40% expenses of repair which Suraj accepts. After a few days motorcycle did not work at all.

Conclusion:

- When an aggrieved party to a voidable contract ratifies i.e. validates the transaction he cannot rescind it later on.
- In this case Suraj accepted the repair expenses by Sohan which amounts to acceptance of voidable contract therefore he will not be able to rescind it now. At the time when Soham offered Repair expenses Suraj had an option to deny and rescind contract but not after he accepted the repair expenses.

Q-26 X, a minor was studying in M.Com. in a college. On 1st July, 2019 he took a loan of ' 1,00,000 from B for payment of his college fees and to purchase books and agreed to repay by 31st December, 2019. X possesses assets worth ' 9 lakhs. On due date, X fails to pay back the loan to B. B now wants to recover the loan from X out of his (X's) assets. Referring to the provisions of Indian Contract Act, 1872 decide whether B would succeed. **[MTP.-March'18, RTP.-May '20, 4 Marks]**

Ans. **Provision of law:**

- ➲ This question relates to supply of necessities to an incapable person or persons dependent on him.
- ➲ As per Indian Contract Act normally the agreement with incapable person is void ab initio and therefore it is not enforceable but if the necessities of life is supplied to incapable person or persons dependent on him then the properties of this incapable person will be liable for the same.

Facts of the Case:

- ➲ Here X, the minor was studying in M.com in a college and on 1st July he took a loan for his college fees and to purchase books. X had assets worth Rs.2 lacs. On due date X fails to pay the loan.

Conclusion:

- ➲ Here in this case X, a minor borrowed funds for his study and books which is known as necessities of life and therefore property of minor will be liable for the same.

Q-27 Define an offer. Explain the essentials of a valid offer. How an offer is different from an invitation to offer? **[RTP-Nov'19]**

Ans. **Definition:** The word Proposal and offer are used interchangeably and it is defined under Section 2(a) of the Indian Contract Act, 1872 as when one person signifies to another his willingness to do or to abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal.

Essentials: The following are important essentials of an offer: -

- Must be capable of creating legal relation.
- Must be certain, definite and not vague.
- Must be communicated.
- Must be made with a view to obtaining the assent of the other party
- May be conditional
- Offer should not contain a term the non compliance of which would amount to acceptance
- May be general or specific
- May be expressed or implied
- A statement of price is not an offer

Offer and an Invitation to an offer: In terms of Section 2(a) of the Act, an offer is the final expression of willingness by the offeror to be bound by the offer should the other party chooses to accept it. On the other hand, offers made with the intention to negotiate or offers to receive offers are known as invitation to offer. Thus, where a party without expressing his final willingness proposes certain terms on which he is willing to negotiate he does not make an offer, but only invites the other party to make an offer on those terms. Hence, the only thing that is required is the willingness of the offeree to abide by the terms of offer.

Q-28 A sends an offer to B to sell his second-car for ₹ 1,40,000 with a condition that if B does not reply within a week, he (A) shall treat the offer as accepted. Is A correct in his proposition? What shall be the position if B communicates his acceptance after one week? **[RTP-Nov'19]**

Ans. Acceptance to an offer cannot be implied merely from the silence of the offeree, even if it is expressly stated in the offer itself. Unless the offeree has by his previous conduct indicated that his silence amount to acceptance, it cannot be taken as valid acceptance.

So in the given problem, if B remains silent, it does not amount to acceptance. The acceptance must be made within the time limit prescribed by the offer. The acceptance of an offer after the time prescribed by the offeror has elapsed will not avail to turn the offer into a contract.

Q-29 X, Y and Z jointly borrowed ₹ 50,000 from A. The whole amount was repaid to A by Y. Decide in the light of the Indian Contract Act, 1872 whether:

(i) Y can recover the contribution from X and Z,

(ii) Legal representatives of X are liable in case of death of X,

(iii) Y can recover the contribution from the assets, in case Z becomes insolvent. **[RTP-Nov'19]**

Ans. Section 42 of the Indian Contract Act, 1872 requires that when two or more persons have made a joint promise, then, unless a contrary intention appears from the contract, all such persons jointly must fulfill the promise. In the event of the death of any of them, his representative jointly with the survivors and in case of the death of all promisors, the representatives of all jointly must fulfill the promise.

Section 43 allows the promisee to seek performance from any of the joint promisors. The liability of the joint promisors has thus been made not only joint but "joint and several". Section 43 provides that in the absence of express agreement to the contrary, the promisee may compel any one or more of the joint promisors to perform the whole of the promise.

Section 43 deals with the contribution among joint promisors. The promisors, may compel every joint promisor to contribute equally to the performance of the promise (unless a contrary intention appears from the contract). If any one of the joint promisors makes default in such contribution the remaining joint promisors must bear the loss arising from such default in equal shares.

As per the provisions of above sections,

(i) Y can recover the contribution from X and Z because X,Y and Z are joint promisors.

(ii) Legal representative of X are liable to pay the contribution to Y. However, a legalrepresentative is liable only to the extent of property of the deceased received byhim.

(iii) Y also can recover the contribution from Z's assets.

Q-30 A student was induced by his teacher to sell his brand new car to the later at less thanthe purchase price to secure more marks in the examination. Accordingly, the car wassold. However, the father of the student persuaded him to sue his teacher. State whether the student can sue the teacher?

[RTP-May'18, RTP-Nov'19]

Ans. **Provision of Law:**

- This question relates to the concept of Undue Influence.
- As per the provisions of Indian Contract Act,1872 if the consent of the parties is taken by the way of Undue Influence then Contract will be considered as voidable at the option of the party whose consent was so caused.
- Contract will be considered as caused due to Undue Influence when one of the parties is under a position to dominate the will of the other party and the party having such a position takes undue advantage of the position to obtain consent of other party.

Facts of the Case:

- In this case a student is induced by his teacher to sell his brand new car at a price lower than Purchase Price to secure more marks.

Conclusion:

➲ As per the provision of Contract Act, The contract was entered by teacher by using Undue Influence and therefore this contract is voidable at the option of Student.

Q-31 Explain the meaning of 'Quasi-Contracts'. State the circumstances which are identified as quasi contracts by the Indian Contract Act, 1872. **[RTP-Nov'19]**

Ans. **Quasi-Contracts:** Even in the absence of a contract, certain social relationships give rise to certain specific obligations to be performed by certain persons. These are known as "quasi-contracts" as they create some obligations as in the case of regular contracts.

Quasi-contracts are based on the principles of equity, justice and good conscience.

The salient features of quasi-contracts are:

(i) such a right is always a right to money and generally, though not always, to aliquidated sum of money;

(ii) does not arise from any agreement between the parties concerned but theobligation is imposed by law and;

(iii) the rights available are not against all the world but against a particular person or persons only, so in this respect it resembles to a contractual right.

Circumstances Identified as Quasi-Contracts:

1. **Claim for necessaries supplied to persons incapable of contracting:** Any person supplying necessaries of life to persons who are incapable of contracting is entitled to claim the price from the other person's property. Similarly, where money is paid to such persons for purchase of necessaries, reimbursement can be claimed.
2. **Payment by an interested person**: A person who has paid a sum of money which another person is obliged to pay, is entitled to be reimbursed by that other person provided that the payment has been made by him to protect his own interest.
3. **Obligation of person enjoying benefits of non-gratuitous act**: Where a person lawfully does anything for another person, or delivers anything to him not intending to do so gratuitously and such other person enjoys the benefit thereof, the latter is bound to pay compensation to the former in respect of, or to restore, the thing so done or delivered.
4. **Responsibility of finder of goods:** A person who finds goods belonging to another person and takes them into his custody is subject to same responsibility as if he were a bailee.
5. **Liability for money paid or thing delivered by mistake or by coercion** : A person to whom money has been paid or anything delivered by mistake or under coercion, must repay or return it.

   In all the above cases contractual liability arises without any agreement between the parties.

Q-32 What is the law relating to determination of compensation, on breach of contract, contained in section 73 of the Indian Contract Act, 1872? **[RTP-Nov'19]**

Ans. **Compensation on Breach of Contract:** Section 73 of the Indian Contract Act, 1872 provides that when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract, compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract, to be likely to result from the breach of it. Such compensation is not given for any remote and indirect loss or damage sustained by reason of the breach. The explanation to the section further provides that in estimating the loss or damage from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account.

Q-33 (i) P sells by auction to Q a horse which P knows to be unsound. The horse appears to be sound but P knows about the unsoundness of the horse. Is this contract valid in the following circumstances:

(a) If P says nothing about the unsoundness of the horse to Q.

(b) If P says nothing about it to Q who is P's daughter who has just come of age.

(c) If Q says to P "If you do not deny it, I shall assume that the horse is sound." P says nothing.

(ii) Comment on the following statements:

(a) Acceptance must be absolute and unqualified.

(b) Acceptance must be in the prescribed mode.

[MTP.-May '20 , MTP-March'21, RTP.-May'19, 3 Marks]

Ans (i) Provision of law:

- This question relates to the concept of Silence amounting to fraud.
- Indian Contract Act, 1872, mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak, or unless his silence is, in itself, equivalent to speech..

Facts of Case:

- P sells by auction to Q a horse which P knows to be unsound. The horse appears to be sound but P knows about the unsoundness of the horse.

Conclusion:

- if P says nothing to Q then also the contract is valid mere silence as to the facts likely to affect the willingness of a person to enter into a contract is not fraud. Here, it is not the duty of the seller to disclose defects.
- If P says nothing about it to Q who is P's daughter who has just come of age then it becomes P's duty to tell Q about the unsoundness of the horse because a fiduciary relationship exists between P and his daughter Q. Here, P's silence amounts to fraud. So the contract is not Valid.
- If Q says to P "If you do not deny it, I shall assume that the horse is sound." P says nothing then P's silence is equivalent to speech and hence amounts to fraud. So the Contract is not Valid.

(ii) (a) **Acceptance must be absolute and unqualified:** As per section 7 of the Indian Contract Act, 1872 acceptance is valid only when it is absolute and unqualified and is also expressed in some usual and reasonable manner unless the proposal prescribes the manner in which it must be accepted. If the proposal prescribes the manner in which it must be accepted, then it must be accepted accordingly.

Example: 'A' enquires from 'B', "Will you purchase my car for ₹ 2 lakhs?" If 'B' replies "I shall purchase your car for ₹ 2 lakhs, if you buy my motorcycle for ₹ 50000/-, here 'B' cannot be considered to have accepted the proposal. If on the other hand 'B' agrees to purchase the car from 'A' as per his proposal subject to availability of valid Registration Certificate / book for the car, then the acceptance is in place though the offer contained no mention of R.C. book. This is because expecting a valid title for the car is not a condition. Therefore, the acceptance in this case is unconditional.

(b) **Acceptance must be in the prescribed mode:**Where the mode of acceptance is prescribed in the proposal, it must be accepted in that manner. But if the proposer does not insist on the proposal being accepted in the manner prescribed after it has been accepted otherwise, i.e., not in the prescribed manner, the proposer is presumed to have consented to the acceptance.

Example: If the offeror prescribes acceptance through messenger and offeree sends acceptance by email, there is no acceptance of the offer if the offeror informs the offeree that the acceptance is not according to the mode prescribed. But if the offeror fails to do so, it will be presumed that he has accepted the acceptance and a valid contract will arise.

Q-34(i) Sohan induced Suraj to buy his motorcycle saying that it was in a very good condition. After taking the motorcycle, Suraj complained that there were many defects in the motorcycle. Sohan proposed to get it repaired and promised to pay 40% cost of repairs. After a few days, the motorcycle did not work at all. Now Suraj wants to rescind the contract. Decide giving reasons.

(ii) X received certain goods from Y and promised to pay ₹60,000. Later on, X expressed his inability to make payment. Z, who is known to X, pays ₹ 40,000 to Y on behalf of X. however, X was not aware of the payment. Now Y is intending to sue X for the amount of ₹ 60,000. Can Y do so? Advise. **[RTP-May'19]**

Ans.(i) In the instant case, the aggrieved party, in case of misrepresentation by the other party, can avoid or rescind the contract [Section 19, Indian Contract Act, 1872]. The aggrieved party loses the right to rescind the contract if he, after becoming aware of the misrepresentation, takes a benefit under the contract or in some way affirms it. Accordingly, in the given case, Suraj could not rescind the contract, as his acceptance to the offer of Sohan to bear 40% of the cost of repairs impliedly amount to final acceptance of the sale.

(ii) As per section 41 of the Indian Contract Act, 1872, when a promisee accepts performance of the promise from a third person, he cannot afterwards enforce it against the promisor. That is, performance by a stranger, accepted by the promisee, produces the result of discharging the promisor, although the latter has neither authorised nor ratified the act of the third party. Therefore, in the instant case, Y can sue X only for the balance amount i.e. ₹ 20,000 and not for the whole amount.

Q-35 (i) Ramaswami proposed to sell his house to Ramanathan. Ramanathan sent his acceptance by post. Next day, Ramanathan sends a telegram withdrawing his acceptance. Examine the validity of the acceptance according to the Indian Contract Act, 1872 in the light of the following:

(a) The telegram of revocation of acceptance was received by Ramaswami before the letter of acceptance.

(b) The telegram of revocation and letter of acceptance both reached together.

(ii) "An anticipatory breach of contract is a breach of contract occurring before the time fixed for performance has arrived". Discuss stating also the effect of anticipatory breach on contracts.

(ii) Anticipatory Breach & its effects.

[MTP.-April'21, MTP.-March'19, MTP.-Oct'19, RTP.-Nov'18, 7 Marks]

Ans. (i) Provision of law:

- This question relates to Communication of Acceptance and Revocation under The Indian Contract Act,1872
- Acceptance can be revoked at anytime before communication of acceptance is complete as against acceptor but not afterwards

Facts:

(a) The telegram of revocation of acceptance was received by Ramaswami before the letter of acceptance.

(b) The telegram of revocation and letter of acceptance both reached together.

Conclusion:

- In this case the telegram is posted before letter of acceptance is received so, revocation is valid.
- In Second case also teelegram is posted before letter of acceptance is received so, revocation is valid.

(ii) An anticipatory breach of contract is a breach of contract occurring before the time fixed for performance has arrived. When the promisor refuses altogether to perform his promise and signifies his unwillingness even before the time for performance has arrived, it is called Anticipatory Breach.

Section 39 of the Indian Contract Act, 1872 deals with anticipatory breach of contract and provides as follows: "When a party to a contract has refused to perform or disable himself from performing, his promise in its entirety, the promisee may put an end to the contract, unless he has signified, but words or conduct, his acquiescence in its continuance.

" Effect of anticipatory breach: The promisee is excused from performance or from further performance. Further he gets an option:

(1) To either treat the contract as "rescinded and sue the other party for damages from breach of contract immediately without waiting until the due date of performance; or

(2) He may elect not to rescind but to treat the contract as still operative, and wait for the time of performance and then hold the other party responsible for the consequences of non-performance. But in this case, he will keep the contract alive for the benefit of the other party as well as his own, and the guilty party, if he so decides on re-consideration, may still perform his part of the contract and can also take advantage of any supervening impossibility which may have the effect of discharging the contract.

Q-36 (i) Mr. Balwant, an old man, by a registered deed of gift, granted certain landed property to Ms. Reema, his daughter. By the terms of the deed, it was stipulated that an annuity of ₹ 20, 000 should be paid every year to Mr. Sawant, who was the brother of Mr. Balwant. On the same day Ms. Reema made a promise to Mr. Sawant and executed in his favour an agreement to give effect to the stipulation. Ms. Reema failed to pay the stipulated sum. In an action against her by Mr. Sawant, she contended that since Mr. Sawant had not furnished any consideration, he has no right of action.

Examining the provisions of the Indian Contract Act, 1872, decide, whether the contention of Ms. Reema is valid?

(ii) A coolie in uniform picks up the luggage of R to be carried out of the railway station without being asked by R and R allows him to do so. Examine whether the coolie is entitled to receive money from R under the Indian Contact Act, 1872 **[RTP-Nov'18]**

Ans. (i) **Provision of law:**

- This question relates to the concept of Stranger to Consideration under Indian Contract Act, 1872.
- As per the provisions of Indian Contract Act Consideration may move from promisee or any other person that means Stranger to Consideration can enforce the rights under contract.

Facts of case:

- In this case Mr.Balwant by a gift deed transferred his property to his daughter Ms.Reema. Ans Ms.Reema agreed to pay Rs.20000 every year to Mr.Sawant, brother of Mr.Balwant. Ms.Reema failed to pay the amount and claimed that she is not liable to pay the amount as there was no consideration from side of Mr.Sawant.

Conclusion:

- As per the provision consideration may move from promise or any other person.
- Here in this case too consideration has been furnished to Ms.Reema by Mr.Balwant on behalf of his brother Mr.Sawant. Therefore in this case Ms.Reema is bound to pay.]

(ii) **Provision of law:**

- Contract can be created by express words or it can be implied from conduct of the parties and contract created by conduct is also considered as valid.

Fact of the case:

- In this case coolie picks up the luggage of R without being asked to so but still R allowed the act.

Conclusion:

- Here in this case Coolie by his behavior made an offer and R allowed him to do so. In this way there is an implied contract between coolie and R and R is bound to pay.

Q-37 (i) Point out with reason whether the following agreements are valid or void:

(a) Kamala promises Ramesh to lend ₹ 500,000 in lieu of consideration that Ramesh gets Kamala's marriage dissolved and he himself marries her.

(b) Sohan agrees with Mohan to sell his black horse. Unknown to both the parties, the horse was dead at the time of agreement.

(c) Ram sells the goodwill of his shop to Shyam for ₹ 4,00,000 and promises not to carry on such business forever and anywhere in India.

(d) In an agreement between Prakash and Girish, there is a condition that they will not institute legal proceedings against each other without consent.

(e) Ramamurthy, who is a citizen of India, enters into an agreement with an alien friend.

(ii) Ajay, Vijay and Sanjay are partners of software business and jointly promises to pay ₹ 6,00, 000 to Kartik. Over a period of time Vijay became insolvent, but his assets are sufficient to pay one-fourth of his debts. Sanjay is compelled to pay the whole. Decide whether Sanjay is required to pay whole amount himself to Kartik in discharging joint promise under the Indian Contract Act, 1872.

[Sugg.-May-18, MTP.-April'19, March'21, RTP-Nov'18, 4 Marks]

Ans. (i) Validity of agreements

(a) Void Agreement: As per Section 23 of the Indian Contract Act, 1872, an agreement is void if the object or consideration is against the public policy.

(b) Void Agreement: As per Section 20 of the Indian Contract Act, 1872 the contracts caused by mistake of fact are void. There is mistake of fact as to the existence of subject-matter.

(c) Void Agreement: As per Section 27 of the Indian Contract Act, 1872 an agreement in restraint of trade is void. However, a buyer can put such a condition on the seller of good will, not to carry on same business. However, the conditions must be reasonable regarding the duration and the place of the business.

(d) Void Agreement: An agreement in restraint of legal proceedings is void as per Section 28 of the Indian Contract Act, 1872.

(e) Valid Agreement: An agreement with alien friend is valid, but an agreement with alien enemy is void.

(ii) **Provision of Law:**

- This question relates to rights and liabilities of Joint Promisors.
- It is provided under the act that liability of Joint promisors is joint as well as several and in case of insolvency of one of the joint promisors the loss due to such insolvency will be borne by remaining Joint Promisors in equal shares.

Facts of case:

- In this case Ajay, Vijay and Sanjay jointly promised to pay Rs.600000 to Kartik. Over a period of time Vijay became insolvent and his assets are sufficient to pay only one fourth of his debts. Sanjay is required to pay whole debt.

Conclusion:

- Here in this case Sanjay being a joint promisor is liable to pay the whole amount to Kartik but he will after paying Sanjay will be able to recover from other too joint promisors and loss due to Vijay's insolvency will be borne equally by Ajay and Sanjay.

Q-38 Define consideration. State the characteristics of a valid consideration.

[MTP-April'21, MTP-March'19, RTP-Nov'18, 5 Marks]

Ans. Definition of Consideration- Section 2((d) of the Indian Contract Act, 1872

"When at the desire of the promisor, the promisee or any other person has done, or abstained from doing, or does or abstains from doing or promises to do or abstain from doing something, such an act or

abstinence or promise is called consideration for the promise."

The essential characteristics of a valid consideration are as follows:

(1) Consideration must move at the desire of the promisor (Durga Prasad v. Baldeo)

(2) It may proceed from the promisee or any other person on his behalf.

(3) It may be executed or executory.

(4) It may be past, present or future.

(5) Consideration need not be adequate

(6) Performance of what one is legally bound to perform

(7) Consideration must be real and not illusory

Q-39 'X' agreed to become an assistant for 2 years to 'Y' who was practicing Chartered Accountant at Jodhpur. It was also agreed that during the term of agreement 'X' will not practice as a Chartered Accountant on his own account within 20 kms of the office of 'Y' at Jodhpur. At the end of one year, 'X' left the assistantship of 'Y' and started practice on his own account within the said area of 20 kms.

Referring to the provisions of the Indian Contract Act, 1872, decide whether 'X' could be restrained from doing so? **[RTP-May'18]**

Ans. Provision of law:

- This question relates to the topic of restraint of trade under Indian Contract Act,1872
- Agreement where the person is restricted from any lawful trade, occupation or profession then such restraint is opposed to public policy and void.
- There are certain exceptions to this rule like a restraint can be made in case of sale of goodwill, restraint can be made in case of partnership and restraint can be made in terms of employment subject to they are reasonable.

Facts of the case:

- In this case X was appointed as an assistant for 2 years to Y who was practicing Chartered Accountant at Jodhpur. It was agreed in terms of the terms of agreement that during the term of employment X will not practice as a Chartered Accountant within 20 kms of Y's office. At the end of the year X left the job and started practice of his own within area of 20 kms of Y's office.

Conclusion:

- As per the contract Act restraint on trade can be valid during an employment.
- Here the X has left the employment and therefore the restraint on him will also not be valid. Therefore, X cannot be restrained.

Q-40 PM Ltd., contracts with Gupta Traders to make and deliver certain machinery to them by 30th June 2017 for ₹ 21.50 Lakhs. Due to labour strike, PM Ltd. could not manufacture and deliver the machinery to Gupta Traders. Later Gupta Traders procured the machinery from another manufacturer for ₹ 22.75 lakhs. Gupta Traders was also prevented from performing a contract which it had made with Zenith Traders at the time of their contract with PM Ltd. and were compelled to pay compensation for breach of contract. Calculate the amount of compensation which Gupta Traders can claim from PM Ltd., referring to the legal provisions of the Indian Contract Act, 1872. **[RTP-May'18]**

Ans. (i) Provision of law:

- This question relates to the provision of breach of contract under Indian Contract Act,1872.
- As per the Contract Act in case there is a breach of contract the aggrieved party can claim for damages. Ordinary damages can be recovered in case of normal circumstances and Special damages can be recovered in case when the other party has the notice about special circumstances.

Facts of the case:

- Here in this case PM Ltd entered into contract with Gupta Traders to make and deliver certain machinery to them by 30th June,2017.Due to labour strike , PM limited could not manufacture and deliver the machinery to Gupta Traders. Gupta Traders purchased it from market at a higher price and they were also prevented from performing a contract which they entered with Zenith Traders.

Conclusion:

- Here in this case Gupta Traders will be able to recover the damages of 1.25 lacs(22.75 lacs Market Price – 21.5 lacs Contract Price)from PM Limited for breach of contract as labour strike cannot be considered as Supervening impossibility
- Secondly Gupta Traders will not be able to claim compensation paid to Zenith Traders as it was not communicated to PM Ltd at the time of making contracts.

Q-41(ii) "Though a minor is not competent to contract, nothing in the Contract Act prevents him from making the other party bound to the minor". Discuss. **[RTP-May'18]**

Ans.(ii) Minor can be a beneficiary or can take benefit out of a contract: Though a minor is not competent to contract, nothing in the Contract Act prevents him from making the other party bound to the minor.

For example: A promissory note duly executed in favour of a minor is not void and can be sued upon by him, because he though incompetent to contract, may yet accept a benefit.

A minor cannot become partner in a partnership firm. However, he may with the consent of all the partners, be admitted to the benefits of partnership (Section 30 of the Indian Partnership Act, 1932).

Q-42 Decide with reasons whether the following agreements are valid or void under the provisions of the Indian Contract Act, 1872:

(i) Vijay agrees with Saini to sell his black horse for ₹ 3,00,000. Unknown to both the Parties, the horse was dead at the time of the agreement.

(ii) Sarvesh sells the goodwill of his shop to Vikas for ₹ 10,00,000 and promises not to carry on such business forever and anywhere in India.

(iii) Mr. X agrees to write a book with a publisher. After few days, X dies in an accident. **[RTP-May'18]**

Ans (i) As per Section 20 of the Indian Contract Act, 1872, an agreement under by mistake of fact are void. In this case, there is mistake of fact as to the existence of the subject-matter, i.e., with respect to the selling of horse which was dead at the time of the agreement. It is unknown to both the parties. Therefore, **it is a void agreement**.

(ii) As per Section 27 of the Indian Contract Act, 1872, an agreement in restraint of trade is void. However, a buyer can put such a condition on the seller of goodwill, not to carry on same business, provided that the conditions must be reasonable regarding the duration and place of the business. Since in the given case, restraint to carry on business was forever and anywhere in India, so **the agreement in question is void**.

(iii) As per section 2(j) of the Contract Act, "A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable". In the present case, Mr. X agrees to write a book with a publisher. After few days, X dies in an accident. Here **the contract becomes void** due to the impossibility of performance of the contract.

Q-43 Mr. Sooraj sold 10 acres of his agricultural land to Mr. Murli on 25th September 2019 for Rs. 25 Lakhs. The Property papers mentioned a condition, amongst other details, that whosoever purchases the land is free to use 9 acres as per his choice but the remaining 1 acre has to be allowed to be used by Mr. Chander, son of the seller for carrying out farming or other activity of his choice. On 12th October, 2019, Mr. Sooraj died leaving behind his son and wife. On 15th October, 2019 Mr. Murli started construction of an auditorium on the whole 10 acres of land and denied any land to Mr. Chander.

Now Mr. Chander wants to file a case against Mr. Murli and get a suitable remedy. Discuss the above in light of provisions of Indian Contract Act, 1872 and decide upon Mr. Chander's plan of action?

[MTP-May '20, 4 Marks]

Ans. Problem as asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in section 2(d) and on the principle 'privity of consideration'. Consideration is one of the essential elements to make a contract valid and it can flow from the promisee or any other person. In view of the clear language used in definition of 'consideration' in Section 2(d), it is not necessary that consideration should be furnished by the promisee only. A promise is enforceable if there is some consideration for it and it is quite immaterial whether it moves from the promisee or any other person. The leading authority in the decision of the *Chinnaya Vs. Ramayya*, held that the consideration can legitimately move from a third party and it is an accepted principle of law in India.

In the given problem, Mr. Sooraj has entered into a contract with Mr. Murli, but Mr. Chander has not given any consideration to Mr. Murli but the consideration did flow from Mr. Sooraj to Mr. Murli on the behalf of Mr. Chander and such consideration from third party is sufficient to enforce the promise of Mr. Murli to allow Mr. Chander to use 1 acre of land. Further the deed of sale and the promise made by Mr. Murli to Mr. Chander to allow the use of 1 acre of land were executed simultaneously and therefore they should be regarded as one transaction and there was sufficient consideration for it.

Moreover, it is provided in the law that "in case covenant running with the land, where a person purchases land with notice that the owner of the land is bound by certain duties affecting land, the covenant affecting the land may be enforced by the successor of the seller."

In such a case, third party to a contract can file the suit although it has not moved the consideration.

Hence, Mr. Chander is entitled to file a petition against Mr. Murli for execution of contract.

Q-44 State the grounds upon which a contract may be discharged under the provisions of the Indian Contract Act, 1872. **[MTP-April'19, MTP.-May '20, MTP-March'21, 7 Marks]**

Ans. **Discharge of a Contract:** A Contract may be discharged either by an act of parties or by an operation of law which may be enumerated as follows:

(1) **Discharge by performance** which may be actual performance or attempted performance. Actual performance is said to have taken place, when each of the parties has done what he had agreed to do under the agreement. When the promisor offers to perform his obligation, but the promisee refuses to accept the performance, it amounts to attempted performance or tender.

(2) **Discharge by mutual agreement**: Section 62 of the Indian Contract Act, 1872 provides that if the parties to a contract agree to substitute a new contract for it or to refund or remit or alter it, the original contract need not to be performed. Novation, Rescission, Alteration and Remission are also the same ground of this nature.

(3) **Discharge by impossibility of performance**: The impossibility may exist from its initiation. Alternatively, it may be supervening impossibility which may take place owing to (a) unforeseen change in law (b) The destruction of subject matter (c) The non-existence or non-occurrence of particular state of things (d) the declaration of war.

(4) **Discharge by lapse of time**: A contract should be performed within a specific period as prescribed in the Law of Limitation Act, 1963. If it is not performed the party is deprived of remedy at law.

(5) **Discharge by operation of law**: It may occur by death of the promisor, by insolvency etc.

(6) **Discharge by breach of contract**: Breach of contract may be actual breach of contract or anticipatory breach of contract. If one party defaults in performing his part of the contract on the due date, he is said to have committed breach thereof. When on the other hand, a person repudiates a contract before the stipulated time for its performance has arrived, he is deemed to have committed anticipatory breach.

(7) A promise may dispense with or remit, wholly or in part, the performance of the promise made to him, or may extend the time for such performance or may accept instead of it any satisfaction he thinks fit. In other words, a contract may be discharged by remission.

(8) When a promisee neglects or refuses to afford the promisor reasonable facilities for the performance of the promise, the promisor is excused by such neglect or refusal.

Q-45 "When a party to a contract has refused to perform, or disabled himself from performing his promise in its entirety, the promisee may put an end to the contract". Explain. **[March'21, MTP.-May '20, 5 Marks]**

Ans. **Effect of a Refusal of Party to Perform Promise: According to Section 39,** when a party to a contract has refused to perform, or disabled himself from performing his promise in its entirety, the promisee may put an end to the contract, unless he has signified, by words or conduct, his acquiescence in its continuance.

From language of Section 39, it is clear that in the case under consideration, the following two rights accrue to the aggrieved party, namely, (a) to terminate the contract; (b) to indicate by words or by conduct that he is interested in its continuance.

In case the promisee decides to continue the contract, he would not be entitled to put an end to the contract on this ground subsequently. In either case, the promisee would be able to claim damages that he suffers as a result on the breach.

Q-46 Point out with reason whether the following agreements are valid or void:

(i) Riya promises Samarth to lend Rs. 500,000 in lieu of consideration that Samarth gets Riya's marriage dissolved and he himself marries her.

(ii) Aryan agrees with Mathew to sell his black horse. Unknown to both the parties, the horse was dead at the time of agreement.

(iii) Ravi sells the goodwill of his shop to Shyam for Rs. 4,00,000 and promises not to carry on such business forever and anywhere in India.

(iv) In an agreement between Prakash and Girish, there is a condition that they will not institute legal proceedings against each other without consent. **[MTP-Oct'19, 4 Marks]**

Ans. **Validity of agreements**

(i) Void Agreement: As per Section 23 of the Indian Contract Act, 1872, an agreement is void if the object or consideration is against the public policy.

(ii) Void Agreement: As per Section 20 of the Indian Contract Act, 1872 the contracts caused by mistake of fact are void. There is mistake of fact as to the existence of subject matter.

(iii) Void Agreement: As per Section 27 of the Indian Contract Act, 1872 an agreement in restraint of trade is void. However, a buyer can put such a condition on the seller of good will, not to carry on same business. However, the conditions must be reasonable regarding the duration and the place of the business.

(iv) Void Agreement: An agreement in restraint of legal proceedings is void as per Section 28 of the Indian Contract Act, 1872.

Q-47 Evergreen Ltd., contracts with Shakti Traders to make and deliver certain machinery to them by 30th June, 2004 for Rs. 11.50 lakhs. Due to labour strike, Evergreen Ltd. could not manufacture and deliver the machinery to Shakti Traders. Later, Shakti Traders procured the machinery from another manufacturer for Rs.12.75 lakhs. Shakti Traders was also prevented from performing a contract which it had made with Xylo Traders at the time of their contract with Evergreen Ltd. and were compelled to pay compensation for breach of contract. Advise Shakti Traders the amount of compensation which it can claim from Evergreen Ltd., referring to the legal provisions of the Indian Contract Act, 1872.

[MTP Oct'19, 6 Marks]

Ans. Section 73 of the Indian Contract Act, 1872 provides for consequences of breach of contract. According to it, when a contract has been broken, the party who suffers by such breach is entitled to receive from the party who has broken the contract, compensation for any loss or damage caused to him thereby which naturally arose in the usual course of things from such breach or which the parties knew when they made the contract, to be likely to result from the breach of it. Such compensation is not given for any remote and indirect loss or damage sustained by reason of the breach. It is further provided in the explanation to the section that in estimating the loss or damage from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account.

Applying the above principle of law to the given case, Evergreen Ltd. is obliged to compensate for the loss of Rs.1.25 lakhs (i.e. Rs.12.75 minus Rs.11.50 = Rs. 1.25 lakhs) which had naturally arisen due to default in performing the contract by the specified date.

Regarding the amount of compensation which Shakti Traders were compelled to make to Xylo Traders, it depends upon the fact whether Evergreen Ltd. knew about the contract of Shakti Traders for supply of the contracted machinery to Xylo Traders on the specified date. If so, Evergreen Ltd. is also obliged to reimburse the compensation which Shakti Traders had to pay to Xylo Traders for breach of contract. Otherwise Evergreen Ltd. is not liable.

Q-48 "To form a valid contract, consideration must be adequate". Comment. **[MTP -Oct'19, 5 Marks]**

Ans.(a) The law provides that a contract should be supported by consideration. So long as consideration exists, the Courts are not concerned to its adequacy, provided it is of some value. The adequacy of the consideration is for the parties to consider at the time of making the agreement, not for the Court when it is sought to be enforced **(*Bolton v. Modden*).** Consideration must however, be something to which the law attaches value though it need not be equivalent in value to the promise made.

According to Explanation 2 to Section 25 of the Indian Contract Act, 1872, an agreement to which the consent of the promisor is freely given is not void merely because the consideration is inadequate but the inadequacy of the consideration may be taken into account by the Court in determining the question whether the consent of the promisor was freely given.

Q-49 Shambhu Dayal started "self service" system in his shop. Smt. Prakash entered the shop, took a basket and after taking articles of her choice into the basket reached the cashier for payments. The cashier refuses to accept the price. Can Shambhu Dayal be compelled to sell the said articles to Smt. Prakash? Decide as per the provisions of the Indian Contract Act, 1872.

[MTP-April'21, MTP.-March'19, 4 Marks]

Ans. **Prvision of law:**

- This question relates to the provision of Invitation to offer under Indian Contract Act,1872.
- When a party without expressing final willingness proposes certain terms on which he is willing to negotiate then it is known as Invitation to offer and in case of Invitation to Offer no contract is framed until the offer comes from the other party and the party making Invitation have accepted the same.
- When the Goods are displayed in self service store it is known as Invitation to offer when customer picks up the goods and take it to counter it is known as offer and when cashier accepts the goods and makes bill it will be known as acceptance.

Facts of case:

- Shambhu Dayal started a self service store. Smt.Prakash entered the shop and took a basket and after taking articles of her choice into the basket reached the cashier for payments. Cashier refused to accept the price.

Conclusion:

- When goods are displayed its just an invitation to offer when customer selects its an offer and the shop keeper has an authority to reject the same.
- In this case also Shabhu Dayal can not be comp

Q-50 Mr. X and Mr. Y entered into a contract on 1st August, 2018, by which Mr. X had to supply 50 tons of sugar to Mr. Y at a certain price strictly within a period of 10 days of the contract. Mr. Y also paid an amount of Rs. 50,000 towards advance as per the terms of the above contract. The mode of transportation available between their places is roadway only. Severe flood came on 2nd August, 2018 and the only road connecting their places was damaged and could not be repaired within fifteen days. Mr. X offered to supply sugar on 20th August, 2018 for which Mr. Y did not agree. On 1st September, 2018, Mr. X claimed compensation of Rs. 10,000 from Mr. Y for refusing to accept the supply of sugar, which was not there within the purview of the contract. On the other hand, Mr. Y claimed for refund of Rs. 50,000, which he had paid as advance in terms of the contract. Analyse the above situation in terms of the provisions of the Indian Contract Act, 1872 and decide on Y's contention.

[MTP-April'21, MTP-March'19, 6 Marks]

Ans. Provision of law:

- This question relates to the provision of Supervening Impossibility under Indian Contract Act, 1872.
- As per the provisions of Indian Contract Act,1872 if after entering into a valid contract some event happens which makes the performance impossible then such contract becomes void due to Supervening Impossibility and any party receiving any benefit is bound to restore it to others because of Supervening Impossibility.

Facts of the case:

- Mr.X and Mr.Y entered into contract on 1st August,2018 where Mr.X had to supply 50 tons of Sugar to Mr.Y at a certain price strictly within 10 days. Mr.Y also paid advance of Rs.50,000 as per the terms. The only mode available for transportation was damaged and could not be repaired within 15 days. Mr.X offered to supply sugar on 20-08-2018 to which Mr.Y did not agree. On 1st September Mr.X claimed Rs.10000 from Mr.Y for refusing to accept sugar which was not in terms of contract. On the other hand Mr.Y claimed refund of Rs.50000 paid in advance.

Conclusion:

- In this case the contract becomes void due to Supervening Impossibility as the only mode of transportation was damaged and therefore X cannot claim damages of Rs.10,000 and he will also be under obligation to refund advance of Rs.50000 received under void contract.
- So, Y Can Claim Refund of ₹ 50,000 from X.

Q-51 'X' entered into a contract with 'Y' to supply him 1,000 water bottles @ Rs. 5.00 per water bottle, to be delivered at a specified time. Thereafter, 'X' contracts with 'Z' for the purchase of 1,000 water bottles @ Rs. 4.50 per water bottle, and at the same time told 'Z' that he did so for the purpose of performing his contract entered into with 'Y'. 'Z' failed to perform his contract in due course and market price of each water bottle on that day was Rs. 5.25 per water bottle. Consequently, 'X' could not procure any water bottle and 'Y' rescinded the contract. Calculate the amount of damages which 'X' could claim from 'Z' in the circumstances? What would be your answer if 'Z' had not informed about the 'Y's contract? Explain with reference to the provisions of the Indian Contract Act, 1872.

[MTP-March'18, MTP-April'19, 6 Marks]

Ans. Provision of law:

- This question relates to the provision of breach of contract.
- As per the Contract Act in case there is a breach of contract the aggrieved party can claim for damages. Ordinary damages can be recovered in case of normal circumstances and Special damages can be recovered in case when the other party has the notice about special circumstances.

Facts of the case:

- X entered into a contract with Y to supply 1000 bottles to be delivered at at a specified time. Thereafter X contracts with Z for purchase of the same. Consequently X could not procure any water bottle and Y rescinded the contract.

Conclusion:

- In this case X will be able to claim 0.75 per bottle(Ordinary Damages - 0.25 {5.25-5}+ Special damages -0.5{5-4.5})
- In case Z was not informed about the contract with Y then X will be able to claim Ordinary damages only.

Q-52 Mr. S aged 58 years was employed in a Government Department. He was going to retireafter two years. Mr. D made a proposal to Mr. S to apply for voluntary retirement from his post so that Mr. D can be appointed in his place. Mr. D offered a sum of '10 Lakhs as consideration to Mr. S in order to induce him to retire.

Mr. S refused at first instance but when he evaluated the amount offered as consideration is just double of his cumulative remuneration to be received during the tenure of two years of employment, he agreed to receive the consideration and accepted the above agreement to receive money to retire from his office.

Whether the above agreement is valid? Explain with reference to provision of Indian Contract Act, 1872. **[Sugg-Jan'21, 4 Marks]**

Ans Section 10 of the Indian Contract Act, 1872 provides for the legality of consideration andobjects thereto. Section 23 of the said Act also states that every agreement of which the object or consideration is unlawful is void.

The given problem talks about entering into an agreement for traffic relating to public office, which is opposed to public policy. Public policy requires that there should be no money consideration for the appointment to an office in which the public is interested.

Such consideration paid, being opposed to public policy, is unlawful.

In the given case, Mr. S, who was going to be retired after two years was proposed by Mr. D, to apply for voluntary retirement from his post, in order that he can be appointed in his place. In lieu of that Mr. D offered Mr. S a sum of ₹ 10 lakh as consideration. Mr. S refused initially but later accepted the said offer to receive money to retire from his office.

Here, Mr. S's promise of sale for Mr. D, an employment in the public services is the consideration for Mr. D's promise to pay ₹ 10 lakh. Therefore, in terms of the above provisions of the Indian Contract Act, the said agreement is not valid. It is void, as the consideration being opposed to public policy, is unlawful.

Q-53 Define the term acceptance under the Indian Contract Act, 1872. Explain the legal rules regarding a valid acceptance. **[Sugg-Jan'21, 7 Marks]**

Ans. **Definition of Acceptance:** In terms of Section 2(b) of the Indian Contract Act, 1872 theterm acceptance is defined as *"*When the person to whom the proposal is made signifies his assent thereto, proposal is said to be accepted. The proposal, when accepted, becomes a promise".

Legal Rules regarding a valid acceptance

(1) Acceptance can be given only by the person to whom offer is made. In case of a specific offer, it can be accepted only by the person to whom it is made. In case of a general offer, it can be accepted by any person who has the knowledge of the offer.

(2) Acceptance must be absolute and unqualified: As per section 7 of the Act, acceptance is valid only when it is absolute and unqualified and is also expressed in some usual and reasonable manner unless the proposal prescribes the manner in which it must be accepted. If the proposal prescribes the manner in which it must be accepted, then it must be accepted accordingly.

(3) The acceptance must be communicated: To conclude a contract between the parties, the acceptance must be communicated in some perceptible form. Further when a proposal is accepted, the offeree must have the knowledge of the offer made to him. If he does not have the knowledge, there can be no acceptance. The acceptance must relate specifically to the offer made. Then only it can materialize into a contract.

(4) Acceptance must be in the prescribed mode: Where the mode of acceptance is prescribed in the proposal, it must be accepted in that manner. But if the proposer does not insist on the proposal being accepted in the manner prescribed after it has been accepted otherwise, i.e., not in the prescribed manner, the proposer is presumed to have consented to the acceptance.

(5) Time: Acceptance must be given within the specified time limit, if any, and if no time is stipulated, acceptance must be given within the reasonable time and before the offer lapses.

(6) Mere silence is not acceptance: The acceptance of an offer cannot be implied from the silence of the offeree or his failure to answer, unless the offeree has in any previous conduct indicated that his silence is the evidence of acceptance.

(7) Acceptance by conduct/ Implied Acceptance: Section 8 of the Act lays down that "the performance of the conditions of a proposal, or the acceptance of any consideration for a reciprocal promise which may be offered with a proposal, constitutes an acceptance of the proposal. This section provides the acceptance of the proposal by conduct as against other modes of acceptance i.e. verbal or written communication.

Therefore, when a person performs the act intended by the proposer as the consideration for the promise offered by him, the performance of the act constitutes acceptance.

Q-54 Mr. B makes a proposal to Mr. S by post to sell his house for ' 10 lakhs and posted the letter on 10th April 2020 and the letter reaches to Mr. S on 12th April 2020. He reads the letter on 13th April 2020.

Mr. S sends his letter of acceptance on 16th April 2020 and the letter reaches Mr. B on 20th April 2020. On 17th April Mr. S changed his mind and sends a telegram withdrawing his acceptance. Telegram reaches to Mr. B on 19th April 2020.

Examine with reference to the Indian Contract Act, 1872:

(i) On which date, the offer made by Mr. B will complete?

(ii) Discuss the validity of acceptance.

(iii) What would be validity of acceptance if letter of revocation and letter of acceptance reached together? **[Sugg.-Jan'21, 6 Marks]**

Ans.(i) According to Section 4 of the Indian Contract Act, 1872, "the communication of offer iscomplete when it comes to the knowledge of the person to whom it is made".

When a proposal is made by post, its communication will be complete when the letter containing the proposal reaches the person to whom it is made. Further, mere receiving of the letter is not sufficient, he must receive or read the message contained in the letter.

In the given question, Mr. B makes a proposal by post to Mr. S to sell his house.

The letter was posted on 10th April 2020 and the letter reaches to Mr. S on 12th April 2020 but he reads the letter on 13th April 2020.

Thus, the offer made by Mr. B will complete on the day when Mr. S reads the letter, i.e. 13th April 2020.

(ii) When communication of acceptance is complete: Where a proposal is accepted by a letter sent by the post**,** in terms of Section 4 of the Act, the communication of acceptance will be complete as against the proposer when the letter of acceptance is posted and as against the acceptor when the letter reaches the proposer.

Revocation of Acceptance: The acceptor can revoke his acceptance any time before the letter of acceptance reaches the offeror, if the revocation telegram arrives before or at the same time with the letter of acceptance, the revocation is absolute.

In the given question, when Mr. S accepts Mr. B's proposal and sends his acceptance by post on 16th April 2020, the communication of acceptance as against Mr. B is complete on 16th April 2020, when the letter is posted. As against Mr. S acceptance will be complete, when the letter reaches Mr. B i.e. 20th April 2020.

Whereas, acceptor, will be bound by his acceptance only when the letter of acceptance has reached the proposer.

The telegram for revocation of acceptance reached Mr. B on 19th April 2020 i.e. before the letter of acceptance of offer (20th April 2020). Hence, the revocation is absolute. Therefore, acceptance to an offer is invalid.

(iii) It will not make any difference even if the telegram of revocation and letter of acceptance would have reached on the same day, i.e. the revocation then also would have been absolute. As per law, acceptance can be revoked anytime before the communication of acceptance is complete. Since revocation was made before the communication of acceptance was complete and communication can be considered as complete only when the letter of acceptance reaches the proposer i.e. Mr. B.

Q-55 Mr. X a businessman has been fighting a long drawn litigation with Mr. Y an industrialist.To support his legal campaign he enlists the services of Mr. C a Judicial officer stating that the amount of ₹10 lakhs would be paid to him if he does not take up the brief of Mr. Y.

Mr. C agrees but, at the end of the litigation Mr. X refuses to pay to Mr. C. Decide whether Mr. C can recover the amount promised by Mr. X under the provisions of the Indian Contract Act, 1872?

[Sugg.-Nov'20, 4 Marks]

Ans. The problem as asked in the question is based on Section 10 of the Indian Contract Act, 1872. This Section says that all agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and are not expressly declared to be void. Further, Section 23 also states that every agreement of which the object is unlawful is void.

Accordingly, one of the essential elements of a valid contract in the light of the said provision is that the agreement entered into must not be which the law declares to be either illegal or void. An illegal agreement is an agreement expressly or impliedly prohibited by law. A void agreement is one without any legal effects.

The given instance is a case of interference with the course of justice and results as opposed to public policy. This can also be called as an agreement in restraint of legal proceedings. This agreement restricts one's right to enforce his legal rights. Such an agreement has been expressly declared to be void under section 28 of the Indian Contract Act, 1872. Hence, Mr. C in the given case cannot recover the amount of ₹ 10 lakh promised by Mr. X because it is a void agreement and cannot be enforced by law.

Q-56 In light of provisions of the Indian Contract Act, 1872 answer the following:

(i) Mr. S and Mr. R made contract wherein Mr. S agreed to deliver paper cupmanufacture machine to Mr. R and to receive payment on delivery. On the deliverydate, Mr. R didn't pay the agreed price. Decide whether Mr. S is bound to fulfil his

promise at the time of delivery?

(ii) Mr. Y given loan to Mr. G of INR 30,00,000. Mr. G defaulted the loan on due date and debt became time barred. After the time barred debt, Mr. G agreed to settle the full amount to Mr. Y. Whether acceptance of time barred debt Contract is enforceable in law?

(iii) A & B entered into a contract to supply unique item, alternate of which is not available in the market. A refused to supply the agreed unique item to B. What directions could be given by the court for breach of such contract? **[Sugg.-Nov'20, 6 Marks]**

Ans.(i) As per Section 51 of the Indian Contract Act, 1872, when a contract consists of reciprocal promises to be simultaneously performed, no promisor needs to perform his promise unless the promisee is ready and willing to perform his reciprocal promise.

Such promises constitute concurrent conditions and the performance of one of the promise is conditional on the performance of the other. If one of the promises is not performed, the other too need not be performed.

Referring to the above provisions, in the given case, Mr. S is not bound to deliver goods to Mr. R since payment was not made by him at the time of delivery of goods.

(ii) **Promise to pay time-barred debts - Section 25 (3):** Where there is an agreement, made in writing and signed by the debtor or by his agent, to pay wholly or in part a time barred debt, the agreement is valid and binding even though there is no consideration.

In the given case, the loan given by Mr. Y to Mr. G has become time barred. Thereafter, Mr. G agreed to make payment of full amount to Mr. Y. Referring to above provisions of the Indian Contract Act, 1872 contract entered between parties post time barred debt is valid so, Mr. G is bound to pay the agreed amount to Mr. Y provided the above mentioned conditions of section 25 (3) are fulfilled.

(iii) Where there is a breach of contract for supply of a unique item, mere monetary damages may not be an adequate remedy for the other party. In such a case, the court may give order for specific performance and direct the party in breach to carry out his promise according to the terms of contract. Here, in this case, the court may direct A to supply the item to B because the refusal to supply the agreed unique item cannot be compensated through money.

Q-57 Mr. Shekhar wants to sell his car. For this purpose, he appoints Mr. Nadan, a minor as his agent. Mr. Shekhar instructs Mr. Nadan that car should not be sold at price less than Rs. 1,00,000. Mr. Nadan ignores the instruction of Mr. Shekhar and sells the car to Mr. Masoom for Rs. 80,000. Explain the legal position of contract under the Indian Contract Act, 1872 whether:

(i) Mr. Shekhar can recover the loss of Rs. 20,000 from Mr. Nadan?

(ii) Mr. Shekhar can recover his car from Mr. Masoom? **(MTP-Nov'21, 4 Marks)**

Ans. According to the provisions of Section 11 of the Indian Contract Act, 1872, a minor is disqualified from contracting. A contract with minor is *void-ab-initio* but minor can act as an agent. But he will not be liable to his principal for his acts.

In the instant case, Mr. Shekhar appoints Mr. Nadan, a minor as his agent to sale his car. Mr. Shekhar clearly instructed to Mr. Nadan that the minimum sale price of the car should be Rs. 1,00,000 yet Mr. Nadan sold the car to Mr. Masoom for Rs. 80,000.

(i) Considering the facts, although the contract between Mr. Shekhar and Mr. Nadan is valid, Mr. Nadan will not be liable to his principal for his acts. Hence, Mr. Shekhar cannot recover the loss of Rs. 20,000.

(ii) Further, Mr. Masoom purchased the car from agent of Mr. Shekhar, he got good title. Hence, Mr. Shekhar cannot recover his car from Mr. Masoom.

Q-58 "All contracts are agreements, but all agreements are not contracts". Comment.

(MTP-Nov'21, 4 Marks)

Ans. An agreement comes into existence when one party makes a proposal or offer to the other party and that other party gives his acceptance to it. A contract is an agreement enforceable by law. It means that to become a contract an agreement must give rise to a legal obligation i.e. duly enforceable by law. If an agreement is incapable of creating a duly enforceable by law, it is not a contract. There can be agreements which are not enforceable by law, such as social, moral or religious agreements. The agreement is a wider term than the contract. All agreements need not necessarily become contracts but all contracts shall always be agreements.

All agreements are not contracts: When there is an agreement between the parties and they do not intend to create a legal relationship, it is not a contract.

All contracts are agreements: For a contract there must be two things (a) an agreement and (b) enforceability by law. Thus, existence of an agreement is a pre-requisite existence of a contract. Therefore, it is true to say that all contracts are agreements.

Thus, we can say that there can be an agreement without it becoming a contract, but we can't have a contract without an agreement.

Q-59 Shambhu Dayal started "self service" system in his shop. Smt. Prakash entered the shop, took a basket and after taking articles of her choice into the basket reached the cashier for payments. The cashier refuses to accept the price. Can Shambhu Dayal be compelled to sell the said articles to Smt. Prakash? Decide as per the provisions of the Indian Contract Act, 1872. **(MTP-Nov'21, 3 Marks)**

Ans. **Invitation to offer:** The offer should be distinguished from an invitation to offer. An offer is the final expression of willingness by the offeror to be bound by his offer should the party chooses to accept it. Where a party, without expressing his final willingness, proposes certain terms on which he is willing to negotiate, he does not make an offer, but invites only the other party to make an offer on those terms. This is the basic distinction between offer and invitation to offer.

The display of articles with a price in it in a self-service shop is merely an invitation to offer. It is in no sense an offer for sale, the acceptance of which constitutes a contract. In this case, Smt. Prakash by selecting some articles and approaching the cashier for payment simply made an offer to buy the articles selected by her. If the cashier does not accept the price, the interested buyer cannot compel him to sell.

Q-60 Mr. Murari owes payment of 3 bills to Mr. Girdhari as on 31st March, 2020. (i) ₹ 12,120 which was due in May 2016. (ii) ₹ 5,650 which was due in August 2018 (iii) ₹ 9,680 which was due in May 2019. Mr. Murari made payment on 1st April 2020 as below without any notice of how to appropriate them:

(i) A cheque of ₹ 9,680

(ii) A cheque of ₹ 15,000

Advice under the provisions of the Indian Contract Act, 1872. **(MTP-Nov'21, 6 Marks)**

Ans. If the performance consists of payment of money and there are several debts to be paid, the payment shall be appropriated as per provisions of Sections 59, 60 and 61 of the Indian Contract Act, 1872. The debtor has, at the time of payment, the right of appropriating the payment. In default of debtor, the creditor has option of election and in default of either the law will allow appropriation of debts in order of time.

In the present case, Mr. Murari had made two payments by way of two cheques. One cheque was exactly the amount of the bill drawn. It would be understood even though not specifically appropriated by Mr. Murari that it will be against the bill of exact amount. Hence cheque of Rs. 9,680 will be appropriated against the bill of ₹ 9,680 which was due in May 2019.

Cheque of Rs. 15000 can be appropriated against any lawful debt which is due even though the same is time-barred.

Hence, Mr. Girdhari can appropriate the same against the debt of Rs. 12,120 which was due in 2016 and balance against Rs. 5650 which was due in August 2018.

Q-61 Rahul goes to super market to buy a washing machine. He selects a branded washing machine having a price tag of ₹ 15000 after a discount of ₹ 3000. Rahul reaches at cash counter for making the payment, but cashier says, "Sorry sir, the discount was upto yesterday. There is no discount from today. Hence you have to pay ₹ 18000." Rahul got angry and insists for ₹ 15000. State with reasons whether under Indian Contract Act, 1872, Rahul can enforce the cashier to sale at discounted price i.e. ₹ 15000.

[MTP-Oct'21](4 Marks)

Ans. **An invitation to offer is different from offer**. Quotations, menu cards, price tags, advertisements in newspaper for sale are not offer. These are merely invitations to public to make an offer. An invitation to offer is an act precedent to making an offer. Acceptance of an invitation to an offer does not result in the contract and only an offer emerges in the process of negotiation.

In the instant case, Rahul reaches to super market and selects a washing machine with a discounted price tag of '15000 but cashier denied to sale at discounted price by saying that discount is closed from today and request to make full payment. But Rahul insists to sale at discounted price.

On the basis of above provisions and facts, the price tag with washing machine was not offer. It is merely an invitation to offer. Hence, it is the Rahul who is making the offer not the super market. Cashier has right to reject the Rahul's offer. Therefore, Rahul cannot enforce cashier to sale at discounted price.

Q-62 "An anticipatory breach of contract is a breach of contract occurring before the time fixed for performance has arrived". Discuss stating also the effect of anticipatory breach on contracts.

(MTP-Oct'21, 7 Marks)

Ans. An anticipatory breach of contract is a breach of contract occurring before the time fixed for performance has arrived. When the promisor refuses altogether to perform his promise and signifies his unwillingness even before the time for performance has arrived, it is called Anticipatory Breach. The law in this regard has very well summed up in ***Frost v. Knight and Hochster v. DelaTour.***

Section 39 of the Indian Contract Act deals with anticipatory breach of contract and provides as follows: "When a party to a contract has refused to perform or disable himself from performing, his promise in its entirety, the promisee may put an end to the contract, unless he has signified, but words or conduct, his acquiescence in its continuance."

Effect of anticipatory breach: The promisee is excused from performance or from further performance. Further he gets an option:

(1) To either treat the contract as "rescinded and sue the other party for damages from breach of contract immediately without waiting until the due date of performance; or

(2) He may elect not to rescind but to treat the contract as still operative and wait for the time of performance and then hold the other party responsible for the consequences of non-performance. But in this case, he will keep the contract alive for the benefit of the other party as well as his own, and the guilty party, if he so decides on re-consideration, may still perform his part of the contract and can also take advantage of any supervening impossibility which may have the effect of discharging the contract.

Q-63 Rohan is running a grocery store in Delhi. He sells his grocery business, including goodwill worth ₹ 1,00,000 to Rohit for a sum of ₹ 5,00,000. After the sale of goodwill, Rohit made an agreement with Rohan. As per this agreement, Rohan is not to open another grocery store (similar kind of business) in the whole of India for next ten years. However, Rohan opens another store in the same city two months later. What are the rights available with Rohit regarding the restriction imposed on Rohan with reference to Indian Contract Act, 1872? **(MTP-Oct'21, 6 Marks)**

Ans. Section 27 of the Indian Contract Act, 1872 provides that any agreement that restrains a person from carrying on a lawful trade, profession or business is void agreement. However, there are certain exceptions to this rule. One of the statutory exceptions includes sale of Goodwill. The restraint as to sale of goodwill would be a valid restraint provided-

(i) Where the restraint is to refrain from carrying on a similar business

(ii) The restrain should be within the specified local limits

(iii) The restraint should be not to carry on the similar business after sale of goodwill to the buyer for a price.

(iv) The restriction should be reasonable. Reasonableness of restriction will depend upon number of factors as considered by court.

In the given case, Rohan has sold the goodwill and there is restraint for not carrying on the same business of grocery store. However the restriction imposed on Rohan is unreasonable as he cannot carry similar business in whole of India for next 10 years. The restriction on restraint to similar kind of trade should be reasonable to make it a valid agreement. Therefore, Rohit cannot take any legal action against Rohan as the restriction is unreasonable as per Section 27 of Indian Contract Act, 1872. Hence, the agreement made between Rohan and Rohit in restraint of trade is void agreement.

Q-64 Explain the term "Coercion" and what are the effects of coercion under Indian Contract Act, 1872.

(MTP-Oct'21, 5 Marks)

Ans. Coercion (Section 15)

"Coercion' is the committing, or threatening to commit, any act forbidden by the Indian Penal Code or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement."

Effects of coercion under section 19 of Indian Contract Act, 1872

(i) Contract induced by coercion is voidable at the option of the party whose consent was so obtained.

(ii) As to the consequences of the rescission of voidable contract, the party rescinding a void contract should, if he has received any benefit, thereunder from the other party to the contract, restore such benefit so far as may be applicable, to the person from whom it was received.

(iii) A person to whom money has been paid or anything delivered under coercion must repay or return it. (Section 72)

Q-65 State with reason(s) whether the following agreements are valid or void:

(i) A clause in a contract provided that no action should be brought upon in case of breach.

(ii) Where two courts have jurisdiction to try a suit, an agreement between the parties that the suit should be filed in one of those courts alone and not in the other.

(iii) X offers to sell his Maruti car to Y. Y believes that X has only Wagon R Car but agrees to buy it.

(iv) X, a physician and surgeon, employs Y as an assistant on a salary of ' 75,000 per month for a term of two years and Y agrees not to practice as a surgeon and physician during these two years.

(Sugg-July'21, 4 Marks)

Ans. (a) (i) The given agreement is void.

Reason: As per Section 28 of the Indian Contract Act, 1872, this clause is in restraint of legal proceedings because it restricts both the parties from enforcing their legal rights.

Note: Alternatively, as per Section 23 of the Indian Contract Act, 1872, this clause in the agreement defeats the provision of law and therefore, being unlawful, is treated as void.

(ii) The given agreement is valid.

Reason: An agreement in restraint of legal proceeding is the one by which any party thereto is restricted absolutely from enforcing his rights under a contract through a Court. A contract of this nature is void. However, in the given statement, no absolute restriction is marked on parties on filing of suit. As per the agreement suit may be filed in one of the courts having jurisdiction.

(iii) The said agreement is void.

Reason: This agreement is void as the two parties are thinking about different subject matters so that there is no real consent and the agreement may be treated as void because of mistake of fact as well as absence of consensus.

(iv) The said agreement is valid.

Reason: An agreement by which any person is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void. But, as an exception, agreement of service by which an employee binds himself, during the term of his agreement, not to compete with his employer is not in restraint of trade.

Q-66 Explain the term Contingent Contract with reference to the Indian Contract Act, 1872 with the help of an example. Also discuss the rules relating to enforcement of a contingent contract.

(Sugg-July'21, 7 Marks)

Ans. (a) Definition of 'Contingent Contract' (Section 31 of the Indian Contract Act, 1872): A contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

Example: A contracts to pay B ' 1,00,000 if B's house is burnt. This is a contingent contract.

Rules Relating to Enforcement: The rules relating to enforcement of a contingent contract are laid down in sections 32, 33, 34, 35 and 36 of the Act.

(a) Enforcement of contracts contingent on an event happening: Where a contract identifies happening of a future contingent event, the contract cannot be enforced until and unless the event 'happens'. If the happening of the event becomes impossible, then the contingent contract is void.

(b) Enforcement of contracts contingent on an event not happening: Where a contingent contract is made contingent on non-happening of an event, it can be enforced only when its happening becomes impossible.

(c) A contract would cease to be enforceable if it is contingent upon the conduct of a living person when that living person does something to make the 'event' or 'conduct' as impossible of happening.

(d) Contingent on happening of specified event within the fixed time: Section 35 says that Contingent contracts to do or not to do anything, if a specified uncertain event happens within a fixed time, becomes void if, at the expiration of time fixed, such event has not happened, or if, before the time fixed, such event becomes impossible.

(e) Contingent on specified event not happening within fixed time: Section 35 also says that - "Contingent contracts to do or not to do anything, if a specified uncertain event does not happen within a fixed time, may be enforced by law when the time fixed has expired, and such event has not happened or before the time fixed has expired, if it becomes certain that such event will not happen".

(f) Contingent on an impossible event (Section 36): Contingent agreements to do or not to do anything, if an impossible event happens are void, whether the impossibility of the event is known or not to the parties to the agreement at the time when it is made.

Q-67 X, Y and Z jointly borrowed ' 90,000 from L. Decide each of the following in the light of the Indian Contract Act, 1872:

(i) Whether L can compel only Y to pay the entire loan of ' 90,000?

(ii) Whether L can compel only the legal representatives of Y to pay the loan of ' 90,000, if X, Y and Z died?

(iii) Whether Y and Z are released from their liability to L and X is released from his liability to Y and Z for contribution, if L releases X from his liability and sues Y and Z for payment?

(Sugg-July'21, 6 Marks)

Ans. (i)Yes, L can compel only Y to pay ' 90,000/- since as per Section 43 of the Indian Contract Act, 1872, in the absence of express agreement to the contrary, the promisee may compel any one or more of the joint promisors to perform the whole of the promise.

(ii) As per Section 42, when two or more persons have made a joint promise, then, unless a contrary intention appears by the contract, all such persons, during their joint lives and after the death of any of them, his representative jointly with the survivor or survivors and after the death of last survivor, the representatives of all jointly must fulfill the promise.

In the instant case, if X, Y and Z died then the legal representatives of all (i.e. X, Y and Z) shall be liable to pay the loan jointly. L cannot compel only the legal representatives of Y to pay the loan of ' 90,000.

(iii) According to Section 44, where two or more persons have made a joint promise, a release of one of such joint promisors by the promisee does not discharge the other joint promisor or joint promisors, neither does it free the joint promisors so released from responsibility to the other joint promisor or promisors.

In this case, the release of X does not discharge Y and Z from their liability. Y and Z remain liable to pay the entire amount of ' 90,000 to L. And though X is not liable to pay to L, but he remains liable to pay to Y and Z i.e. he is liable to make the contribution to the other joint promisors.

Q-69 Explain what is meant by 'Supervening Impossibility' as per the Indian Contract Act, 1872 with the help of an example. What is the effect of such impossibility? **(Sugg-July'21, 5 Marks)**

Ans. According to Section 56 of the Indian Contract Act, 1872, the impossibility of performance may be of the two types, namely (a) initial impossibility, and (b) subsequent impossibility.

Subsequent impossibility is also known as Supervening impossibility i.e. becomes impossible after entering into contract. When performance of promise become impossible or illegal by occurrence of an unexpected event or a change of circumstances beyond the contemplation of parties, the contract becomes void e.g. change in law etc. In other words, sometimes, the performance of a contract is quite possible when it is made. But subsequently, some event happens which renders the performance impossible or unlawful. **Such impossibility is called the subsequent or supervening. It is also called the post-contractual impossibility.**

Example: 'A' and 'B' contracted to marry each other. Before the time fixed for the marriage, 'A' became mad. In this case, the contract becomes void due to subsequent impossibility, and thus discharged.

Effect of impossibility: The effect of such impossibility is that it makes the contract void, and the parties are discharged from further performance of the contract.

Q-70 Mr. Murti was travelling to Manali with his wife by bus of Himalya Travels Pvt. Ltd. Due to some technical default in the bus, the driver has to stop the bus in a mid way in cold night. Driver advised the passenger to get the shelter in nearest hotel which was at a distance of only one kilometre from that place. The wife of Mr. Murti caught cold and fell ill due to being asked to get down and she had to walk in cold night to reach hotel. Mr. Murti filed the suit against Himalya Travels Pvt. Ltd. for damages for the personal inconvenience, hotel charges and medical treatment for his wife. Explain, whether Mr. Murti would get compensation for which he filed the suit? **(MTP March '22, 4 Marks)**

Ans. Section 73 of Indian Contract Act, 1872 provides that when a contract has been broken, the party who suffers by such breach is entitled to receive, from the party who has broken the contract, compensation for any loss or damage caused to him thereby, which naturally arose in the usual course of things from such breach, or which the parties knew, when they made the contract, to be likely to result from the breach of it. But such compensation is not to be given for any remote and indirect loss or damage sustained by reason of the breach.

In the instant case, Mr. Murti filed the suit against Himalya Travels Pvt. Ltd. for damages for the personal inconvenience, hotel charges and medical treatment for his wife.

On the basis of above provisions and facts of the case, it can be said that Mr. Murti can claim damages for the personal inconvenience and hotel charges but not for medical treatment for his wife because it is a remote or indirect loss.

Q-71 Explain the term Contingent Contract with reference to the Indian Contract Act, 1872 with the help of an example. Also discuss the rules relating to enforcement of a contingent contract.

(MTP March '22, 7 Marks)

Ans. **Definition of 'Contingent Contract' (Section 31 of the Indian Contract Act, 1872):** A contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

Example: A contracts to pay B Rs. 1,00,000 if B's house is burnt. This is a contingent contract.

Rules Relating to Enforcement: The rules relating to enforcement of a contingent contract are laid down in sections 32, 33, 34, 35 and 36 of the Act.

(i) **Enforcement of contracts contingent on an event happening:** Where a contract identifies happening of a future contingent event, the contract cannot be enforced until and unless the event 'happens'. If the happening of the event becomes impossible, then the contingent contract is void.

(ii) **Enforcement of contracts contingent on an event not happening:** Where a contingent contract is made contingent on non-happening of an event, it can be enforced only when its happening becomes impossible.

(iii) **A contract would cease to be enforceable if it is contingent upon the conduct of a living person when that living person does something to make the 'event' or 'conduct' as impossible of happening.**

(iv) **Contingent on happening of specified event within the fixed time:** Section 35 says that Contingent contracts to do or not to do anything, if a specified uncertain event happens within a fixed time, becomes void if, at the expiration of time fixed, such event has not happened, or if, before the time fixed, such event becomes impossible.

(v) **Contingent on specified event not happening within fixed time:** Section 35 also says that "Contingent contracts to do or not to do anything, if a specified uncertain event does not happen within a fixed time, may be enforced by law when the time fixed has expired, and such event has not happened or before the time fixed has expired, if it becomes certain that such event will not happen".

(vi) **Contingent on an impossible event (Section 36):** Contingent agreements to do or not to do anything, if an impossible event happens are void, whether the impossibility of the event is known or not to the parties to the agreement at the time when it is made.

Q-72 Kapil went to a departmental store to purchase a steel pan. He asked the salesman about the area in departmental store where steel pans are kept. The salesman indicated him the area with instructions that with steel pans, other metal's pans were also kept. Kapil wrongfully picked an aluminium pan in place of steel pan. The salesman watched but said nothing to Kapil. Kapil reached his house and found that pan was not a steel pan but actually an aluminium pan. Kapil filed a suit against departmental store for fraud. Discuss, whether Kapil was eligible to file suit for fraud against departmental store under Indian Contract Act, 1872? **(MTP March '22, 6 Marks)**

Ans. Section 17 of Indian Contract Act, 1872 defines 'Fraud'. According to section, "Fraud" means and includes any of the following acts committed by a party to a contract or by his agent with intent to deceive or to induce a person to enter into the contract:

(i) the suggestion, as a fact, of that which is not true, by one who does not believe it to be true;

(ii) the active concealment of a fact by one having knowledge or belief of the fact;

(iii) a promise made without any intention of performing it;

(iv) any other act fitted to deceive;

(v) any such act or omission as the law specially declares to be fraudulent.

It was also explained that mere silence is not fraud. Silence amounts to fraud where (a) there is a duty to speak or (b) where silence is equivalent to speech.

On the basis of provisions of Section 17 and the facts given above, it was not the duty of salesman to inform Mr. Kapil about his mistake. Hence, there was no fraud and Kapil was not eligible to file suit for fraud against departmental store under Indian Contract Act, 1872.

Q-73 Explain what is meant by 'Supervening Impossibility' as per the Indian Contract Act, 1872 with the help of an example. What is the effect of such impossibility? **(MTP March '22, 5 Marks)**

Ans. According to Section 56 of the Indian Contract Act, 1872, the impossibility of performance may be of the two types, namely (a) initial impossibility, and (b) subsequent impossibility.

Subsequent impossibility is also known as Supervening impossibility i.e. becomes impossible after entering into contract. When performance of promise become impossible or illegal by occurrence of an unexpected event or a change of circumstances beyond the contemplation of parties, the contract becomes void e.g. change in law etc. In other words, sometimes, the performance of a contract is quite possible when it is made. But subsequently, some event happens which renders the performance impossible or unlawful. Such impossibility is called the subsequent or supervening. It is also called the post-contractual impossibility.

Example: 'A' and 'B' contracted to marry each other. Before the time fixed for the marriage, 'A' became mad. In this case, the contract becomes void due to subsequent impossibility, and thus discharged.

Effect of impossibility: The effect of such impossibility is that it makes the contract void, and the parties are discharged from further performance of the contract.

Q-74 A, B, C and D are the four partners in a firm. They jointly promised to pay ' 6,00,000 to F. B and C have become insolvent. B was unable to pay any amount and C could pay only ' 50,000. A is compelled to pay the whole amount to F. Decide the extent to which A can recover the amount from D with reference to the provisions of the Indian Contract Act, 1872. **(Sugg-Dec'21, 4 Marks)**

Ans. Joint promisors (Section 42 of the Indian Contract Act, 1872)

When two or more persons have made a joint promise, then unless a contrary intention appears by the contract, all such persons must jointly fulfil the promise.

Any one of joint promisors may be compelled to perform (Section 43)

As per Section 43 of the Indian Contract Act, 1872, when two or more persons make a joint promise, the promisee may, in the absence of express agreement to the contrary, compel any one or more of such joint promisors to perform the whole of the promise.

If any one of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares.

In the instant case, A, B, C and D have jointly promised to pay ₹ 6,00,000 to F. B and C become insolvent. B was unable to pay any amount and C could pay only ₹ 50,000. A is compelled to pay the whole amount to F.

Hence, A is entitled to receive ₹ 50,000 from C and ₹ 2,75,000 from D, as worked out below:

From C ₹ 50,000= (C's Liability ₹ 1,50,000 Less: Amount he could not pay ₹ **1,00,000).**

From D ₹ 2,75,000= (D's Liability ₹1,50,000+1/2 of liability of B (Loss) (1,50,000*1/2) i.e. ₹ 75,000+1/2 of C's liability (Loss) (1,00,000*1/2) i.e., ₹50,000) In other words, equal proportion i.e., ₹ 5,50,000 (i.e.'6,00,000-'50,000) / 2.

Thus, total amount A can receive from C and D comes to ₹3,25,000 (50,000+2,75,000)

Q-75 Explain any five circumstances under which contracts need not be performed with the consent of both the parties. **(Sugg-Dec'21, 7 Marks)**

Ans. Under following circumstances, the contracts need not be performed with the consent of both the parties:

(i) Novation: Where the parties to a contract substitute a new contract for the old, it iscalled novation. A contract in existence may be substituted by a new contract eitherbetween the same parties or between different parties the consideration mutually being the discharge of old contract. Novation can take place only by mutual agreement between the parties. On novation, the old contract is discharged and consequently it need not be performed. (Section 62 of the Indian Contract Act, 1872)

(ii) Rescission: A contract is also discharged by recission. When the parties to a contract agree to rescind it, the contract need not be performed. (Section 62)

(iii) Alteration: Where the parties to a contract agree to alter it, the original contract is rescinded, with the result that it need not be performed. In other words, a contract is also discharged by alteration. (Section 62)

(iv) Remission: Every promisee may dispense with or remit, wholly or in part, the performance of the promise made to him, or may extend the time for such performance or may accept instead of it any satisfaction which he thinks fit. In other words, a contract is discharged by remission. (Section 63)

(v) Rescinds voidable contract: When a person at whose option a contract is voidable rescinds it, the other party thereto need not perform any promise therein contained in which he is the promisor.

(vi) Neglect of promisee: If any promisee neglects or refuses to afford the promisor reasonable facilities for the performance of his promise, the promisor is excused by such neglect or refusal as to any non-performance caused thereby. (Section 67)

Q-76 Examine the validity of the following contracts as per the Indian Contract Act, 1872 givingreasons.

(i) X aged 16 years borrowed a loan of ₹ 50,000 for his personal purposes. Few months later he had become major and could not pay back the amount borrowed, on due date. The lender wants to file a suit against X.

(ii) J contracts to take in cargo for K at a foreign port. J's government afterwardsdeclares war against the country in which the port is situated and therefore the contract could not be fulfilled. K wants to file a suit against J. **(Sugg-Dec'21, 6 Marks)**

Ans. (i) According to Section 11 of the Indian Contract Act, 1872, every person is competent to contract who is of the age of majority according to the law to which he is subject and therefore, a minor is not competent to contract and any agreement with or by a minor is void from the very beginning. A minor cannot ratify it on attaining the majority as the original agreement is void ab initio.

According to Section 68 of the Act, a claim for necessaries supplied to a minor is enforceable by law.

Necessaries mean those things that are essentially needed by a minor. They cannot include luxuries or costly or unnecessary articles.

In the present case, X, the borrower, was minor at the time of taking the loan, therefore, the agreement was void ab initio. Attaining majority thereafter will not validate the contract nor X can ratify it. The loan was for personal purposes and not for necessaries supplied to him. Hence, the lender cannot file a suit against X for recovery of the loan as it is not enforceable by law.

(ii) As per Section 56 of the Indian Contract Act, 1872 the subsequent or supervening impossibility renders the contract void. Supervening impossibility may take place owing to various circumstances as contemplated under that section, one of which is the declaration of war subsequent to the contract made. In the instant case the contract when made between J and K was valid but afterwards J's government declares war against the country in which the port is situated as a result of which the contract becomes void. Hence, K cannot file a suit against J for performance of the contract.

Q-77 What is meant by 'Quasi-Contract'? State any three salient features of a quasi-contract as per the Indian Contract Act, 1872. **(Sugg-Dec'21, 5 Marks)**

Ans. **Meaning of 'Quasi Contract':** Under certain special circumstances obligation resembling those created by a contract is imposed by law although the parties have never entered into a contract. Such obligations imposed by law are referred to as 'Quasi Contracts'. Such a contract resembles with a contract so far as result or effect is concerned but it has little or no affinity with a contract in respect of mode of creation. These contracts are based on the doctrine that a person shall not be allowed to enrich himself unjustly at the expense of another.

The salient features of Quasi-contract:

1. It does not arise from any agreement of the parties concerned but it is imposed by law.
2. The right under it is always a right to money and generally though not always to a liquidated sum of money.
3. It is a right which is available not against all the world, but against a particular person or persons only, so that in this respect it resembles a contractual right.

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NOTES

Chapter-2
The Sale of Goods Act, 1930

Q-1 State the various essential elements involved in the sale of unascertained goods and its appropriation as per the Sale of Goods Act, 1930. **[Sugg.-Nov'19, 4 Marks]**

Ans. **Sale of unascertained goods and Appropriation (Section 23 of the Sale of Goods Act, 1930):** Appropriation of goods involves selection of goods with the intention of using them in performance of the contract and with the mutual consent of the seller and the buyer.

The essentials are:

(a) There is a contract for the sale of unascertained or future goods.

(b) The goods should conform to the description and quality stated in the contract.

(c) The goods must be in a deliverable state.

(d) The goods must be unconditionally appropriated to the contract either by delivery to the buyer or his agent or the carrier.

(e) The appropriation must be made by:

  (i) the seller with the assent of the buyer; or

  (ii) the buyer with the assent of the seller.

(f) The assent may be express or implied.

(g) The assent may be given either before or after appropriation.

Q-2 What are the rights of an unpaid seller against goods under the Sale of Goods Act, 1930? **[MTP.-April'21, MTP.-March'19, MTP.-Oct'19, RTP.-May'18, Sugg.-Nov'19, 6 Marks]**

Ans. **Rights of an unpaid seller against the goods:** As per the provisions of Section 46 of the Sale of Goods Act, 1930, notwithstanding that the property in the goods may have passed to the buyer, the unpaid seller of goods, as such, has by implication of law-

(a) a lien on the goods for the price while he is in possession of them;

(b) in case of the insolvency of the buyer, a right of stopping the goods in transit after he has parted with the possession of them;

(c) a right of re-sale as limited by this Act. [Sub-section (1)]

Where the property in goods has not passed to the buyer, the unpaid seller has, in addition to his other remedies, a right of withholding delivery similar to and co-extensive with his rights of lien and stoppage in transit where the property has passed to the buyer. [Sub-section (2)]

These rights can be exercised by the unpaid seller in the following circumstances:

(i) **Right of lien (Section 47):** According to sub-section (1), the unpaid seller of goods who is in possession of them is entitled to retain possession of them until payment or tender of the price in the following cases, namely:-

  (a) where the goods have been sold without any stipulation as to credit;

  (b) where the goods have been sold on credit, but the term of credit has expired;

  (c) where the buyer becomes insolvent.

(ii) **Right of stoppage in transit (Section 50):** When the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them in transit,

that is to say, he may resume possession of the goods as long as they are in the course of transit, and may retain them until paid or tendered price of the goods.

(iii) **Right to re-sell the goods (Section 54):** The unpaid seller can exercise the right to re-sell the goods under the following conditions:

1. Where the goods are of a perishable nature
2. Where he gives notice to the buyer of his intention to re-sell the goods
3. Where an unpaid seller who has exercised his right of lien or stoppage in transit resells the goods
4. Are-sale by the seller where a right of re-sale is expressly reserved in a contract of sale
5. Where the property in goods has not passed to the buyer.

Q-3 Mrs. Geeta went to the local rice and wheat wholesale shop and asked for 100 kgs of Basmati rice. The Shopkeeper quoted the price of the same as ₹ 125 per kg to which she agreed. Mrs. Geeta insisted that she would like to see the sample of what will be provided to her by the shopkeeper before she agreed upon such purchase.

The shopkeeper showed her a bowl of rice as sample. The sample exactly corresponded to the entire lot.

The buyer examined the sample casually without noticing the fact that even though the sample was that of Basmati Rice but it contained a mix of long and short grains.

The cook on opening the bags complained that the dish if prepared with the rice would not taste the same as the quality of rice was not as per requirement of the dish.

Now Mrs. Geeta wants to file a suit of fraud against the seller alleging him of selling mix of good and cheap quality rice. Will she be successful?

Explain the basic law on sale by sample under Sale of Goods Act 1930?

Decide the fate of the case and options open to the buyer for grievance redressal as per the provisions of Sale of Goods Act 1930?

What would be your answer in case Mrs. Geeta specified her exact requirement as to length of rice?

[Sugg.-Nov'19, 6 Marks]

Ans. Provision of law:

- This question relates to the provision of sale by sample as well as Caveat Emptor under Sale of Goods Act, 1930.
- As per the provision when the buyer purchases the goods by sample then goods delivered to him must match with sample and buyer must be given an opportunity to compare with the sample.
- Doctrine of Caveat Emptor provides that buyer should be careful while selecting the goods if later on the goods are found defective or unfit for buyer's purpose then he cannot blame seller.

Facts of the case:

- In this case Mrs.Geeta went to the local rice and wheat shop and asked for 100 kgs of Basmati Rice.She also agreed to the price of Rs.125 and insisted to see the sample.The shopkeeper showed her the bowl of rice as a sample the sample was of Basmati rice but it was mix of long and short grains. Mrs.Geeta examined casually without noticing this fact and Rice were delivered to her.

  The rice delivered exactly corresponded to sample. The cook on opening the bags complained that the dish if prepared with the rice would not taste the same as the quality of rice was not as per requirement of the dish. Mrs.Geeta wants to file a case of fraud.

Conclusion:

- ➲ Here in this case rice delivered was matching with sample as well as description and Mrs. Geeta was also given an opportunity to compare the goods with sample and therefore there is no default or breach from the side of seller. It was duty of Mrs.Geeta to check whether the goods are according to her purpose or not and therefore under Caveat Emptor she will be considered as liable.
- ➲ If Mrs.Geeta specified her exact requirement of length of rice then Caveat.

Emptor would not apply as she relied on expertise of seller and therefore she could cancel the contract.

Q-4 Discuss the various types of implied warranties as per the Sales of Goods Act, 1930?

[Sugg.-May'19, 4 Marks]

Ans. Various types of implied warranties

1. Warranty as to undisturbed possession [Section 14(b) of the Sales of Goods **Act, 1930]:** An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.
2. **Warranty as to non-existence of encumbrances [Section 14(c)]:** An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.
3. **Warranty as to quality or fitness by usage of trade [Section 16(3)]:** An implied warranty as to quality or fitness for a particular purpose may be annexed or attached by the usage of trade.
4. **Disclosure of dangerous nature of goods:** Where the goods are dangerous in nature and the buyer is ignorant of the danger, the seller must warn the buyer of the probable danger. If there is a breach of warranty, the seller may be liable in damages.

Q-5 "A non-owner can convey better title to the bonafide purchaser of goods for value." Discuss the cases when a person other than the owner can transfer title in goods as per the provisions of the Sales of Goods Act, 1930? **[Sugg.-Nov'20 , MTP.-May'2020, RTP.-May '20, Sugg.-May'19, 6 Marks]**

Ans. In the following cases, a non-owner can convey better title to the bona fide purchaser of goods for value:

(1) **Sale by a Mercantile Agent:** A sale made by a mercantile agent of the goods for document of title to goods would pass a good title to the buyer in the following circumstances; namely;

(a) If he was in possession of the goods or documents with the consent of the o1wner;

(b) If the sale was made by him when acting in the ordinary course of business as a mercantile agent; and

(c) If the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell (Proviso to Section 27 of the Sale of Goods Act, 1930).

(2) **Sale by one of the joint owners (Section 28):** If one of several joint owners of goods has the sole possession of them by permission of the co-owners, the property in the goods is transferred to any person who buys them of such joint owner in good faith and has not at the time of the contract of sale notice that the seller has no authority to sell.

(3) **Sale by a person in possession under voidable contract:** A buyer would acquire a good title to the goods sold to him by a seller who had obtained possession of the goods under a contract voidable on the ground of coercion, fraud, misrepresentation or undue influence provided that the contract had not been rescinded until the time of the sale (Section 29).

(4) **Sale by one who has already sold the goods but continues in possession thereof:** If a person has sold goods but continues to be in possession of them or of the documents of title to them, he may sell them to a third person, and if such person obtains the delivery thereof in good faith and without notice of the previous sale, he would have good title to them, although the property in the goods had passed to the first buyer earlier. [Section 30(1)]

(5) **Sale by buyer obtaining possession before the property in the goods has vested in him:** Where a buyer with the consent of the seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them [Section 30(2)].

(6) **Effect of Estoppel**: Where the owner is estopped by the conduct from denying the seller's authority to sell, the transferee will get a good title as against the true owner. But before a good title by estoppel can be made, it must be shown that the true owner had actively suffered or held out the other person in question as the true owner or as a person authorized to sell the goods.

(7) **Sale by an unpaid seller:** Where an unpaid seller who had exercised his right of lien or stoppage in transit resells the goods, the buyer acquires a good title to the goods as against the original buyer [Section 54 (3)].

(8) **Sale under the provisions of other Acts**:

(i) Sale by an Official Receiver or Liquidator of the Company will give the purchaser a valid title.

(ii) Purchase of goods from a finder of goods will get a valid title under circumstances [Section 169 of the Indian Contract Act, 1872]

(iii) A sale by pawnee can convey a good title to the buyer [Section 176 of the Indian Contract Act, 1872]

Q-6 M/s Woodworth & Associates, a firm dealing with the wholesale and retail buying and selling of various kinds of wooden logs, customized as per the requirement of the customers. They dealt with Rose wood, Mango wood, Teak wood, Burma wood etc.

Mr. Das, a customer came to the shop and asked for wooden logs measuring 4 inches broad and 8 feet long as required by the carpenter. Mr. Das specifically mentioned that he required the wood which would be best suited for the purpose of making wooden doors and window frames. The Shop owner agreed and arranged the wooden pieces cut into as per the buyers requirements.

The carpenter visited Mr. Das's house next day, and he found that the seller has supplied Mango Tree wood which would most unsuitable for the purpose. The carpenter asked Mr. Das to return the wooden logs as it would not meet his requirements.

The Shop owner refused to return the wooden logs on the plea that logs were cut to specific requirements of Mr. Das and hence could not be resold.

(i) Explain the duty of the buyer as well as the seller according to the doctrine of "Caveat Emptor".

(ii) Whether Mr. Das would be able to get the money back or the right kind of wood as required serving his purpose? **[MTP.-March'21, MTP.-May'20, Sugg.-May'19, 6 Marks]**

Ans. Provision of Law:

This question relates to the provision of Implied Conditions under Sale of Goods Act,1930.

➲ Under the Sale of Goods Act,1930 the goods must be fit for the purpose for which it is purchased and if it is not suitable for the purpose then buyer can reject the same or claim damages or both. This is known as Implied Condition as to quality or Fitness.

- ➲ It is also provided that for this condition to apply buyer must disclose his purpose and seller must be usually dealing into the business of the same.

Facts of Case:

- ➲ In this case Mr.Das went to M/S Woodworth and Associates, a firm dealing with the wholesale and retail buying and selling of various kinds of wooden logs, customized as per the requirement of the customers. They dealt with Rose wood, Mango wood, Teak wood, Burma wood etc. and he required the wood which would be best suited for the purpose of making wooden doors and window frames.

Q-7 Differentiate between Ascertained and Unascertained Goods with example. **[Sugg.-Nov'18, 4 Marks]**

Ans. **Ascertained Goods are** those goods which are identified in accordance with the agreement after the contract of sale is made. This term is not defined in the Act but has been judicially interpreted. In actual practice the term 'ascertained goods' is used in the same sense as 'specific goods.' When from a lot or out of large quantity of unascertained goods, the number or quantity contracted for is identified, such identified goods are called ascertained goods.

Unascertained goods: The goods which are not specifically identified or ascertained at the time of making of the contract are known as 'unascertained goods'. They are indicated or defined only by description or sample.

Q-8 What is the Doctrine of "Caveat Emptor"? What are the exceptions to the Doctrine of "Caveat Emptor"? **[Sugg.-Nov'20, RTP.-May'18,Sugg.-Nov'18, 6 Marks]**

Ans. **Caveat Emptor**

In case of sale of goods, the doctrine 'Caveat Emptor' means '**let the buyer beware'**. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be defective, he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.

Exceptions: Following are the exceptions to the doctrine of Caveat Emptor:

1. **Fitness as to quality or use:** Where the buyer makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill or judgment and the goods are of a description which is in the course of seller's business to supply, it is the duty of the seller to supply such goods as are reasonably fit for that purpose [Section 16 (1) of the Sales of Goods Act, 1930].
2. **Goods purchased under patent or brand name:** In case where the goods are purchased under its patent name or brand name, there is no implied condition that the goods shall be fit for any particular purpose [Section 16(1)].
3. **Goods sold by description:** Where the goods are sold by description there is an implied condition that the goods shall correspond with the description [Section 15]. If it is not so then seller is responsible.
4. **Goods of Merchantable Quality:** Where the goods are bought by description from a seller who deals in goods of that description there is an implied condition that the goods shall be of merchantable quality. The rule of Caveat Emptor is not applicable. But where the buyer has examined the goods this rule shall apply if the defects were such which ought to have not been revealed by ordinary examination [Section 16(2)].
5. **Sale by sample:** Where the goods are bought by sample, this rule of Caveat Emptor does not apply if the bulk does not correspond with the sample [Section 17].
6. **Goods by sample as well as description**: Where the goods are bought by sample as well as description, the rule of Caveat Emptor is not applicable in case the goods do not correspond with both the sample and description or either of the condition [Section 15].

7. **Trade Usage:** An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade and if the seller deviates from that, this rule of Caveat Emptor is not applicable [Section 16(3)].
8. **Seller actively conceals a defect or is guilty of fraud:** Where the seller sells the goods by making some misrepresentation or fraud and the buyer relies on it or when the seller actively conceals some defect in the goods so that the same could not be discovered by the buyer on a reasonable examination, then the rule of Caveat Emptor will not apply. In such a case the buyer has a right to avoid the contract and claim damages.

Q-9 Mr. G sold some goods to Mr. H for certain price by issue of an invoice, but payment in respect of the same was not received on that day. The goods were packed and lying in the godown of Mr. G. The goods were inspected by H's agent and were found to be in order. Later on, the dues of the goods were settled in cash. Just after receiving cash, Mr. G asked Mr. H that goods should be taken away from his godown to enable him to store other goods purchased by him. After one day, since Mr. H did not take delivery of the goods, Mr. G kept the goods out of the godown in an open space. Due to rain, some goods were damaged.

Referring to the provisions of the Sale of Goods Act, 1930, analyse the above situation and decide who will be held responsible for the above damage. Will your answer be different, if the dues were not settled in cash and are still pending? **[MTP.-Oct'19, Sugg.-Nov'18, 6 Marks]**

Ans. **Provision of Law:**

- The question relates to the provision of passing of property and passing of risk under Sale of Goods Act, 1930.
- In case of unconditional contract for specific or ascertained goods in a deliverable state and it is communicated to buyer then property passes as and when the contract is made and it is a provision that the risk will always follow the ownership. The person who is an owner shall bear the risk unless there is default of some other party

Facts of Case:

- Here in this case Mr.G sold some goods to Mr.H and issued invoice but payment was pending for the same. The goods were packed and lying in the warehouse of Mr.G. The goods were inspected by H's agent were found to be proper. Mr.G told Mr.H to take away the goods to enable him to store other goods purchased by him but Mr.H did not take delivery of goods therefore Mr.G kept the goods out of warehouse in open space and due to rain some of the goods were damaged.

Conclusion:

- Here in this case the ownership of the goods was already passed to Mr.H and he was already communicated to take delivery therefore in this situation the loss will fall on Mr.H as ownership was already passed to him and he was already informed to take delivery.
- Answer will remain same if the dues were not settled as it is immaterial whether price is paid or not.

Q-10 What is meant by delivery of goods under the Sale of Goods Act, 1930? State various modes of delivery. **[MTP.-April'21, MTP.-March'19, MTP.-Oct'19, Sugg.-May'18, 4 Marks]**

Ans. **Delivery of goods [section 2(2) of the Sale of Goods Act, 1930]:** Delivery means voluntary transfer of possession from one person to another. As a general rule, delivery of goods may be made by doing anything, which has the effect of putting the goods in the possession of the buyer, or any person authorized to hold them on his behalf.

Modes of delivery: Following are the modes of delivery for transfer of possession:

(i) **Actual delivery:** When the goods are physically delivered to the buyer.

(ii) **Constructive delivery:** When it is effected without any change in the custody or actual possession of the thing as in the case of delivery by attornment (acknowledgement) e.g., where a warehouseman holding the goods of A agrees to hold them on behalf of B, at A's request.

(iii) **Symbolic delivery:** When there is a delivery of a thing in token of a transfer of something else, i.e., delivery of goods in the course of transit may be made by handing over documents of title to goods, like bill of lading or railway receipt or delivery orders or the key of a warehouse containing the goods is handed over to buyer.

Q-11 What is appropriation of goods under the Sale of Goods Act, 1930? State the essentials regarding appropriation of unascertained goods. **[Sugg.-May'18, 6 Marks]**

Ans. **Appropriation of goods:** Appropriation of goods involves selection of goods with the intention of using them in performance of the contract and with the mutual consent of the seller and the buyer.

The essentials regarding appropriation of unascertained goods are:

(a) There is a contract for the sale of unascertained or future goods.

(b) The goods should conform to the description and quality stated in the contract.

(c) The goods must be in a deliverable state.

(d) The goods must be unconditionally (as distinguished from an intention to appropriate) appropriated to the contract either by delivery to the buyer or his agent or the carrier.

(e) The appropriation must be made by:

(i) the seller with the assent of the buyer; or

(ii) the buyer with the assent of the seller.

(f) The assent may be express or implied.

(g) The assent may be given either before or after appropriation.

Q-12 Mr. D sold some goods to Mr. E for ₹ 5,00,000 on 15 days credit. Mr. D delivered the goods. On due date Mr. E refused to pay for it. State the position and rights of Mr. D as per the Sale of Goods Act, 1930.

[MTP.-April'19, Sugg.-May'18, 6 Marks]

Ans. **Provision of Law:**

- This question relates to rights of Unpaid seller under Sale of Goods Act,1930
- A seller will be treated as an unpaid seller if in case of cash sales he has not received the cash or in case cheque or negotiable instrument has been received as conditional payment and condition has not been fulfilled by the reason of dishonor or otherwise.
- Unpaid seller have two types of Rights: 1)Right against goods 2) Right against buyer
- Until the goods are delivered to buyer, buyer can have right against goods but once the goods will be delivered to buyer the right of unpaid seller against goods will cease and unpaid seller will have rights only against buyer.
- In case the seller has delivered the goods on credit and buyer have not paid the price unpaid seller will have a right to sue for price which is known as **Right to sue** and he can also claim the interest on such price till the Price is paid which is also known as **.**

Facts of the Case:

- In this case Mr. D sold some goods to Mr. E for Rs. 5,00,000 on 15 days credit. Mr. D delivered the goods. On due date Mr. E refused to pay for it.

Conclusion:

- As per the provision position of Mr.D is Unpaid Seller. And he has a right to sue for price as well as interest against Mr.E. He will not have any right against goods as the goods are already delivered.

Q-13 State briefly the essential element of a contract of sale under the Sale of Goods Act, 1930.

[RTP.-Nov'18, RTP.-May '20]

Ans. **Essentials of Contract of Sale**

The following elements must co-exist so as to constitute a contract of sale of goods under the Sale of Goods Act, 1930.

(i) There must be at least two parties
(ii) The subject matter of the contract must necessarily be goods
(iii) A price in money (not in kind) should be paid or promised.
(iv) A transfer of property in goods from seller to the buyer must take place.
(v) A contract of sale must be absolute or conditional [section 4(2)].
(vi) All other essential elements of a valid contract must be present in the contract of sale.

Q-14 What is an Implied Warranty and state the various types of Implied Warranties. **[RTP.-May '20]**

Ans. Prvision of law:

- This question relates to provision of breach of condition under Sale of Goods Act,1930.
- Under Sale of Goods Act, 1930 goods must be of the merchantable quality if not then buyer can cancel the contract and claim damages. Merchantable quality is not defined in act but if a person of ordinary prudence can consider this as merchantable then it will not be a breach of contract.

Facts of Case:

- In this case Mr. Amit was shopping in a self-service Super market. He picked up a bottle of cold drink from a shelf. While he was examining the bottle, it exploded in his hand and injured him. He files a suit for damages against the owner of the market on the ground of breach of condition.

Conclusion:

- Here in this case if Mr.Amit had purchased the bottle and it was exploded in his hand then he could have claimed for breach of condition. But if he was examining it without purchasing then he could not claim any damages for breach of condition.

Q-15 What are the rights of buyer against the seller, if the seller commits a breach of contract under the Sale of Goods Act, 1930? **[RTP.-May '20]**

Ans. If the seller commits a breach of contract, the buyer gets the following rights against the seller:

1. **Damages for non-delivery [Section 57]:** Where the seller wrongfully neglects or refuses to deliver the goods to the buyer, the buyer may sue the seller for damages for non-delivery.
2. **Suit for specific performance (Section 58):** Where the seller commits of breach of the contract of sale, the buyer can appeal to the court for specific performance. The court can order for specific performance only when the goods are ascertained or specific.
3. **Suit for breach of warranty (section 59)**: Where there is breach of warranty on the part of the seller, or where the buyer elects to treat breach of condition as breach of warranty, the buyer is not entitled to reject the goods only on the basis of such breach of warranty. But he may –
   (i) set up against the seller the breach of warranty in diminution or extinction of the price; or
   (ii) sue the seller for damages for breach of warranty.
4. **Repudiation of contract before due date (Section 60):** Where either party to a contract of sale repudiates the contract before the date of delivery, the other may either treat the contract as subsisting and wait till the date of delivery, or he may treat the contract as rescinded and sue for damages for the breach.
5. **Suit for interest:** Nothing in this Act shall affect the right of the seller or the buyer to recover interest or special damages, in any case where by law interest or special damages may be recoverable, or to recover the money paid where the consideration for the payment of it has failed.

In the absence of a contract to the contrary, the court may award interest at such rate as it thinks fit on the amount of the price to the buyer in a suit by him for the refund of the price in a case of a breach of the contract on the part of the seller from the date on which the payment was made.

Q-16 Mr. S agreed to purchase 100 bales of cotton from V, out of his large stock and sent his men to take delivery of the goods. They could pack only 60 bales. Later on, there was an accidental fire and the entire stock was destroyed including 60 bales that were already packed. Referring to the provisions of the Sale of Goods Act, 1930 explain as to who will bear the loss and to what extent? **[RTP-May '20]**

Ans. Provision:

As per Section 21 of Sale of Goods Act 1930, when there a contract for Sale of specific goods which are not in

a deliverable state, property in goods passes to buyer when;

(1) seller puts the goods in deliverable state and

(2) buyer comes to know about deliverable state of goods.

As per Section 26, Risk follows ownership. It means, the risk of loss of goods is borne by the party who has ownership of goods.

Fact of the Case:

In the given question, there was a contract for sale of 100 bales of cotton to be packed and delivered to buyer. However, seller could pack only 60 bales in presence of buyer's agent so its ownership has been passed to buyer, but remaining goods were still not packed so its ownership is not passed to buyer.

Conclusion:

Considering above provisions and explanations, it may be concluded that loss of 60 bales of cotton which were packed will be borne by Mr.Samuel (Buyer) and loss of remaining 20 bales of cotton which were not packed will be borne by Mr.Varun (seller).

Q-17 Mr. Amit was shopping in a self-service Super market. He picked up a bottle of cold drink from a shelf. While he was examining the bottle, it exploded in his hand and injured him. He files a suit for damages against the owner of the market on the ground of breach of condition. Decide under the Sale of Goods Act, 1930, whether Mr. Amit would succeed in his claim? **[RTP.-May '20]**

Ans. Prvision of law:

- This question relates to provision of breach of condition under Sale of Goods Act,1930.
- Under Sale of Goods Act, 1930 goods must be of the merchantable quality if not then buyer can cancel the contract and claim damages. Merchantable quality is not defined in act but if a person of ordinary prudence can consider this as merchantable then it will not be a breach of contract.

Facts of Case:

- In this case Mr. Amit was shopping in a self-service Super market. He picked up a bottle of cold drink from a shelf. While he was examining the bottle, it exploded in his hand and injured him. He files a suit for damages against the owner of the market on the ground of breach of condition.

Conclusion:

- Here in this case if Mr.Amit had purchased the bottle and it was exploded in his hand then he could have claimed for breach of condition. But if he was examining it without purchasing then he could not claim any damages for breach of condition.

Q-18 Classify the following transactions according to the types of goods they are:

(i) A wholesaler of cotton has 100 bales in his godown. He agrees to sell 50 bales andthese bales were selected and set aside.

(ii) A agrees to sell to B one packet of salt out of the lot of one hundred packets lying inhis shop.

(iii) T agrees to sell to S all the oranges which will be produced in his garden this year.**[RTP-Nov '19]**

Ans.(i) A wholesaler of cotton has 100 bales in his godown. He agrees to sell 50 bales and these bales were selected and set aside. On selection the goods becomes ascertained. In this case, the contract is for the sale of ascertained goods, as the cotton bales to be sold are identified and agreed after the formation of the contract.

(ii) If A agrees to sell to B one packet of salt out of the lot of one hundred packets lying in his shop, it is a sale of unascertained goods because it is not known which packet is to be delivered.

(iii) T agrees to sell to S all the oranges which will be produced in his garden this year. It is contract of sale of future goods, amounting to 'an agreement to sell.'

Q-19 Suraj sold his car to Sohan for ₹ 75,000. After inspection and satisfaction, Sohan paid ₹ 25,000 and took possession of the car and promised to pay the remaining amount within a month. Later on Sohan refuses to give the remaining amount on the ground that the car was not in a good condition. Advise Suraj as to what remedy is available to him against Sohan. **[RTP-Nov'19]**

Ans. As per the section 55 of the Sale of Goods Act, 1930 an unpaid seller has a right to institute a suit for price against the buyer personally. The said Section lays down that

(i) Where under a contract of sale the property in the goods has passed to buyer and the buyer wrongfully neglects or refuses to pay for the goods, the seller may sue him for the price of the goods [Section 55(1)].

(ii) Where under a contract of sale the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price. It makes no difference even if the property in the goods has not passed and the goods have not been appropriated to the contract [Section 55(2)].

This problem is based on above provisions. Hence, Suraj will succeed against Sohan for recovery of the remaining amount. Apart from this Suraj is also entitled to:-

(1) Interest on the remaining amount

(2) Interest during the pendency of the suit.

(3) Costs of the proceedings.

Q-20 J the owner of a car wants to sell his car. For this purpose, he hand over the car to P, a mercantile agent for sale at a price not less than ₹ 50,000. The agent sells the car for ₹ 40, 000 to A, who buys the car in good faith and without notice of any fraud. P misappropriated the money also. J sues A to recover the Car. Decide given reasons whether J would succeed. **[RTP.-Nov'19]**

Ans. Provision:

As per Proviso to Section 27 of Sale of goods Act 1930, A Sale made by Mercantile agent to buyer will pass

good title to buyer in following circumstances;

(1) agent was in possession of goods with consent of owner,

(2) the sale was made by agent acting in ordinary course of business and

(3) buyer bought goods in good faith, without having any notice about no authority of seller to sell goods.

Fact of the Case:

In the given question, Y agent of X, sold car to Z (below Rs.500000, instead of instruction by X non to sell below Rs.500000) who bought the goods in good faith, the sale is treated as valid.

Conclusion:

Considering above provisions, X cannot recover Car from Z as Z has got good title over goods because he Purchased from an agent and that too without knowledge of restriction on Agent's authority.

Q-21 What are the implied conditions in a contract of 'Sale by sample' under the Sale of Goods Act, 1930? State also the implied warranties operatives under the said Act.

[MTP-March'19, MTP-April'19, RTP-Nov'19]

Ans. The-following are implied conditions in a contract of sale by sample in accordance with Section 17 of the Sale of Goods Act, 1930;

(a) that the bulk shall correspond with the sample in quality;
(b) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample.
(c) that the goods shall be free from any defect, rendering them unmerchantable, which would not be apparent on a reasonable examination of the sample [Section 17(2)].

Implied Warrants:

1. Warranty of quiet possession [Section 14(b)]: In a contract of sale, unless there is a contrary intention, there is an implied warranty that the buyer shall have and enjoy quiet possession of the goods. If the buyer is in any way distributed in the enjoyment of the goods in consequence of the seller's defective title to sell, he can claim damages from the seller.
2. Warranty as to non-existence of encumbrances [Section 14(c)]: The buyer is entitled to a further warranty that the goods are not subject to any charge or encumbrance in favour of a third party. If his possession is in any way disturbed by reason of the existence of any charge or encumbrances on the goods in favour of any third party, he shall have a right to claim damages for breach of this warranty.
3. Warranty as to quality or fitness by usage of trade [Section 16(3)]. An implied warranty as to quality or fitness for a particular purpose may be annexed by the usage of trade.
4. Warranty to disclose dangerous nature of goods: Where a person sells goods, knowing that the goods are inherently dangerous or they are likely to be dangerous to the buyer and that the buyer is ignorant of the danger, he must warn the buyer of the probable danger, otherwise he will be liable in damages.

Q-22 (i) For the purpose of making uniform for the employees, Mr. Yadav bought dark blue coloured cloth from Vivek, but did not disclose to the seller the purpose of said purchase. When uniforms were prepared and used by the employees, the cloth was found unfit. However, there was evidence that the cloth was fit for caps, boots and carriage lining. Advise Mr. Yadav whether he is entitled to have any remedy under the sale of Goods Act, 1930?

(ii) Ram sells 200 bales of cloth to Shyam and sends 100 bales by lorry and 100 bales by Railway. Shyam receives delivery of 100 bales sent by lorry, but before he receives the delivery of the bales sent by railway, he becomes bankrupt. Ram being still unpaid, stops the goods in transit. The official receiver, on Shyam's insolvency claims the goods. Decide the case with reference to the provisions of the Sale of Goods Act, 1930. **[RTP-May'19]**

Ans.(i) Fitness of Cloth: As per the provision of Section 16(1) of the Sale of Goods Act, 1930, an implied condition in a contract of sale that an article is fit for a particular purpose only arises when the purpose for which the goods are supplied is known to the seller, the buyer relied on the seller's skills or judgement and seller deals in the goods in his usual course of business. In this case, the cloth supplied is capable of being applied to a variety of purposes, the buyer should have told the seller the specific purpose for which he required the goods. But he did not do so. Therefore, the implied condition as to the fitness for the purpose does not apply. Hence, the buyer will not succeed in getting any remedy from the seller under the Sale of Goods Act, 1930.

(ii) Right of stoppage of goods in transit: The problem is based on section 50 of the Sale of Goods Act,1930 dealing with the right of stoppage of the goods in transit available to an unpaid seller. The section states that the right is exercisable by the seller only if the following conditions are fulfilled.

(i) The seller must be unpaid
(ii) He must have parted with the possession of goods
(iii) The goods must be in transit
(iv) The buyer must have become insolvent
(v) The right is subject to the provisions of the Act.

Applying the provisions to the given case, Ram being still unpaid, can stop the 100 bales of cloth sent by railway as these goods are still in transit.

Q-23 (i) State briefly the essential element of a contract of sale under the Sale of Goods Act, 1930.

(ii) Distinguish between a 'Condition' and a 'Warranty' in a contract of sale. When shall a 'breach of condition' be treated as 'breach of warranty' under the provisions of the Sale of Goods Act, 1930? Explain.

[MTP.-March'21, Sugg.-Jan'21 , MTP.-May'20, RTP.-May'19, 4 Marks]

Ans.(i) Essentials of Contract of Sale: The following elements must co-exist so as to constitute a contract of sale of goods under the Sale of Goods Act, 1930.

(i) There must be at least two parties

(ii) The subject matter of the contract must necessarily be goods

(iii) A price in money (not in kind) should be paid or promised.

(iv) A transfer of property in goods from seller to the buyer must take place.

(v) A contract of sale must be absolute or conditional [section 4(2)].

(vi) All other essential elements of a valid contract must be present in the contract of sale.

(ii) Difference between Condition and Warranty

(i) A condition is a stipulation essential to the main purpose of the contract whereas a warranty is a stipulation collateral to the main purpose of the contract.

(ii) Breach of condition gives rise to a right to treat the contract as repudiated whereas in case of breach of warranty, the aggrieved party can claim damage only.

(iii) Breach of condition may be treated as breach of warranty whereas a breach of warranty cannot be treated as breach of condition.

According to Section 13 of the Sale of Goods Act, 1930 a breach of condition may be treated as breach of warranty in following circumstances:

(i) Where a contract of sale is subject to any condition to be fulfilled by the seller, the buyer may waive the condition,

(ii) Where the buyer elects to treat the breach of condition as breach of a warranty.

(iii) Where the contract of sale is non-severable and the buyer has accepted the whole goods or any part thereof.

(iv) Where the fulfillment of any condition or warranty is excused by law by reason of impossibility or otherwise.

Q-24 What are the rules related to Acceptance of Delivery of Goods? **[RTP-May'19]**

Ans. Rules related to acceptance of delivery: Acceptance is deemed to take place when the buyer-

(a) intimates to the seller that he had accepted the goods; or

(b) does any act to the goods, which is inconsistent with the ownership of the seller; or

(c) retains the goods after the lapse of a reasonable time, without intimating to the seller that he has rejected them (Section 42).

Ordinarily, a seller cannot compel the buyer to return the rejected goods; but the seller is entitled to a notice of the rejection. Where the seller is ready and willing to deliver the goods and requests the buyer to take delivery, and the buyer does not take delivery within a reasonable time, he is liable to the seller for any loss occasioned by the neglect or refusal to take delivery, and also reasonable charge for the care and custody of the goods (Sections 43 and 44).

Q-25(i) Ram consults Shyam, a motor-car dealer for a car suitable for touring purposes to promote the sale of his product. Shyam suggests 'Maruti' and Ram accordingly buys it from Shyam. The car turns out to be unfit for touring purposes. What remedy Ram is having now under the Sale of Goods Act, 1930?

(ii) Referring to the provisions of the Sale of Goods Act, 1930, state the rules provided to regulate the "Sale by Auction." **[Sugg.-Jan'21, RTP.-Nov'18 '4 Marks]**

Ans. Provision:

As per Section 16(1) of Sale of Goods Act 1930, ordinarily there is no implied condition as to Quality or fitness for buyer's purpose. However, the condition as to reasonable fitness of goods for particular purpose may be implied if it is made known to seller.

Fact of the Case:

In the given question, Ram bought Maruti car to be fit for touring purpose, on suggestion of Shyam, a motor car dealer. However car to be not fit for touring purpose.

Conclusion:

Considering above provisions and explanation, it may be concluded that Ram may reject Car by cancelling contract and claim price back from Shyam.

(ii) **Rules of Auction sale:** Section 64 of the Sale of Goods Act, 1930 provides following rules to regulate the sale by auction:

(a) **Where goods are sold in lots:** Where goods are put up for sale in lots, each lot is prima facie deemed to be subject of a separate contract of sale.

(b) **Completion of the contract of sale:** The sale is complete when the auctioneer announces its completion by the fall of hammer or in any other customary manner and until such announcement is made, any bidder may retract from his bid.

(c) **Right to bid may be reserved:** Right to bid may be reserved expressly by or on behalf of the seller and where such a right is expressly reserved, but not otherwise, the seller or any one person on his behalf may bid at the auction.

(d) **Where the sale is not notified by the seller:** Where the sale is not notified to be subject to a right to bid on behalf of the seller, it shall not be lawful for the seller to bid himself or to employ any person to bid at such sale, or for the auctioneer knowingly to take any bid from the seller or any such person; and any sale contravening this rule may be treated as fraudulent by the buyer.

(e) **Reserved price:** The sale may be notified to be subject to a reserve or upset price; and

(f) **Pretended bidding:** If the seller makes use of pretended bidding to raise the price, the sale is voidable at the option of the buyer.

Q-26 (i) Referring to the provisions of the Sale of Goods Act, 1930, state the circumstances under which when goods are delivered to the buyer "on approval" or "on sale or return" or other similar terms, the property therein passes to the buyer.

Ms. Preeti owned a motor car which she handed over to Mr. Joshi on sale or return basis. After a week, Mr. Joshi pledged the motor car to Mr. Ganesh. Ms. Preeti now claims back the motor car from Mr. Ganesh. Will she succeed? Referring to the provisions of the Sale of Goods Act, 1930, decide and examine what recourse is available to Ms. Preeti. **[RTP-Nov'18]**

Ans. (i) As per the provisions of section 24 of the Sale of Goods Act, 1930, when goods are delivered to the buyer on approval or "on sale or return" or other similar terms, the property therein passes to the buyer-

(a) when the buyer signifies his approval or acceptance to the seller or does any other act adopting the transaction;

(b) if he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time; or

(c) he does something to the good which is equivalent to accepting the goods e.g. he pledges or sells the goods.

Referring to the above provisions, we can analyse the situation given in the question.

Since, Mr. Joshi, who had taken delivery of the Motor car on Sale or Return basis and pledged the motor car to Mr. Ganesh, has attracted the third condition that he has done something to the good which is equivalent to accepting the goods e.g. he pledges or sells the goods. Therefore, the property therein (Motor car) passes to Mr. Joshi. Now in this situation, Ms. Preeti cannot claim back her Motor Car from Mr. Ganesh, but she can claim the price of the motor car from Mr. Joshi only.

Q-27 (i) "There is no implied warranty or condition as to quality or fitness for any particular purpose of goods supplied under a contract of sale." Discuss the significance and State exceptions, if any.

(ii) Explain the provisions of law relating to unpaid seller's 'right of lien' and distinguish it from the "right of stoppage the goods in transit". **[RTP-Nov'18]**

Ans.(i) The statement given in the question is the fundamental principle of law of sale of goods, sometime expressed by the maxim 'Caveat Emptor' meaning thereby 'Let the buyer be aware'. In other words, it is no part of the seller's duty in a contract of sale of goods to give the buyer an article suitable for a particular purpose, or of particular quality, unless the quality or fitness is made an express terms of the contract. The person who buys goods must keep his eyes open, his mind active and should be cautious while buying the goods. If he makes a bad choice, he must suffer the consequences of lack of skill and judgement in the absence of any misrepresentation or guarantee by the seller.

There are, however, certain exceptions to the rule which are stated as under:

1. **Fitness as to quality or use:** Where the buyer makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill or judgment and the goods are of a description which is in the course of seller's business to supply, it is the duty of the seller to supply such goods as are reasonably fit for that purpose.
2. **Goods purchased under patent or brand name:** In case where the goods are purchased under its patent name or brand name, there is no implied condition that the goods shall be fit for any particular purpose.
3. **Goods sold by description:** Where the goods are sold by description there is an implied condition that the goods shall correspond with the description. If it is not so then seller is responsible.
4. **Goods of Merchantable Quality:** Where the goods are bought by description from a seller who deals in goods of that description there is an implied condition that the goods shall be of merchantable quality. The rule of Caveat Emptor is not applicable. But where the buyer has examined the goods this rule shall apply if the defects were such which ought to have not been revealed by ordinary examination.
5. **Sale by sample:** Where the goods are bought by sample, this rule of Caveat Emptor does not apply if the bulk does not correspond with the sample.
6. **Goods by sample as well as description:** Where the goods are bought by sample as well as description, the rule of Caveat Emptor is not applicable in case the goods do not correspond with both the sample and description or either of the condition.
7. **Trade Usage:** An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade and if the seller deviates from that, this rule of Caveat Emptor is not applicable.
8. **Seller actively conceals a defect or is guilty of fraud:** Where the seller sells the goods by making some misrepresentation or fraud and the buyer relies on it or when the seller actively conceals some defect in the goods so that the same could not be discovered by the buyer on a reasonable examination, then the rule of Caveat Emptor will not apply. In such a case, the buyer has a right to avoid the contract and claim damages.

(ii) Right of lien of an unpaid seller

The legal provisions regarding the right of lien of an unpaid seller has been stated from Sections 47 to 49 of the Sale of Goods Act, 1930 which may be enumerated as follows:

(i) According to Section 47, the unpaid seller of the goods who is in possession of them is entitled to retain possession of them until payment or tender of the price in the following cases namely:
   (a) where the goods have been sold without any stipulation as to credit.
   (b) where the goods have been sold on credit, but the term of credit has expired; or
   (c) where the buyer becomes insolvent.

   The seller may exercise his right of lien not withstanding that he is in possession of the goods as agent or bailee for the buyer.

(ii) Section 48 states that where an unpaid seller has made part delivery of the goods, he may exercise his right of lien on the remainder, unless such part delivery has been made under such circumstances as to show an agreement to waive the lien.

(iii) According to Section 49 the unpaid seller loses his lien on goods:
   (a) when he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods.
   (b) when the buyer or his agent lawfully obtains possession of the goods;
   (c) by waiver thereof.

   The unpaid seller of the goods, having a lien thereon, does not lose his lien by reason only that he has obtained a decree to the price of the goods.

Right of lien and Right to stoppage the goods in transit; distinction:

(i) The essence of a right of lien is to retain possession whereas the right of stoppage in transit is right to regain possession.

(ii) Seller should be in possession of goods under lien while in stoppage in transit (i) Seller should have parted with the possession (ii) possession should be with a carrier and (iii) Buyer has not acquired the possession.

(iii) Right of lien can be exercised even when the buyer is not insolvent, but it is not the case with right of stoppage in transit.

(iv) Right of stoppage in transit begins when the right of lien ends. Thus, the end of the right of lien is the starting point of the right of stoppage the goods in transit.

Q-28(i) Explain the term "Delivery and its form" under the Sale of Goods Act, 1930.

(ii) Describe the consequences of "destruction of goods" under the Sale of Goods Act, 1930, where the goods have been destroyed after the agreement to sell but before the sale is affected.

[RTP.-May'18]

Ans.(i) Delivery and its forms: Delivery means voluntary transfer of possession from one person to another [Section 2(2)]. As a general rule, delivery of goods may be made by doing anything, which has the effect of putting the goods in the possession of the buyer, or any person authorized to hold them on his behalf.

Forms of delivery: Following are the kinds of delivery for transfer of possession:

(a) **Actual delivery:** When the goods are physically delivered to the buyer.

(b) **Constructive delivery:** When it is effected without any change in the custody or actual possession of the thing as in the case of delivery by attornment (acknowledgement) *e.g.*, where a warehouseman holding the goods of A agrees to hold them on behalf of B, at A's request.

(c) **Symbolic delivery:** When there is a delivery of a thing in token of a transfer of something else, i.e., delivery of goods in the course of transit may be made by handing over documents of title to goods, like bill of lading or railway receipt or delivery orders or the key of a warehouse containing the goods is handed over to buyer.

(ii) Destruction of Goods-Consequences: In accordance with the provisions of the Sale of Goods Act, 1930 as contained in Section 7, a contract for the sale of specific goods is void if at the time when the contract was made; the goods without the knowledge of the seller, perished or become so damaged as no longer to answer to their description in the contract, then the contract is *void ab initio*. This section is based on the rule that where both the parties to a contract are under a mistake as to a matter of fact essential to a contract, the contract is void.

In a similar way Section 8 provides that an agreement to sell specific goods becomes void if subsequently the goods, without any fault on the part of the seller or buyer, perish or become so damaged as no longer to answer to their description in agreement before the risk passes to the buyer. This rule is also based on the ground of impossibility of performance as stated above.

It may, however, be noted that section 7 and 8 apply only to specific goods and not to unascertained goods. If the agreement is to sell a certain quantity of unascertained goods, the perishing of even the whole quantity of such goods in the possession of the seller will not relieve him of his obligation to deliver the goods.

Q-29 (i) Explain the "condition as to Merchantability" and "condition as to wholesomeness" under the Sale of Goods Act, 1930. **[RTP -May'18]**

Ans.(ii) Condition as to Merchantability [Section 16(2) of the Sale of Goods Act, 1930]: Where goods are bought by description from a seller who deals in goods of that description (whether he is the manufacturer or producer or not), there is an implied condition that the goods shall be of merchantable quality.

Provided that, if the buyer has examined the goods, there shall be no implied condition as regards defects which such examination ought to have revealed.

The expression "merchantable quality", though not defined, nevertheless connotes goods of such a quality and in such a condition a man of ordinary prudence would accept them as goods of that description. It does not imply any legal right or legal title to sell.

Example: If a person orders motor horns from a manufacturer of horns, and the horns supplied are scratched and damaged owing to bad packing, he is entitled to reject them as unmerchantable.

Condition as to wholesomeness: In the case of eatables and provisions, in addition to the implied condition as to merchantability, there is another implied condition that the goods shall be wholesome.

Example: A supplied F with milk. The milk contained typhoid germs. F's wife consumed the milk and was infected and died. Held, there was a breach of condition as to fitness and A was liable to pay damages.

Q-30 J the owner of a Fiat car wants to sell his car. For this purpose he hand over the car to P, a mercantile agent for sale at a price not less than ₹ 50, 000. The agent sells the car for ₹ 40, 000 to A, who buys the car in good faith and without notice of any fraud. P misappropriated the money also. J sues A to recover the Car. Decide given reasons whether J would succeed. **[RTP-May'18]**

Ans. The problem in this case is based on the provisions of the Sale of Goods Act, 1930 contained in the proviso to Section 27. The proviso provides that a mercantile agent is one who in the customary course of his business, has, as such agent, authority either to sell goods, or to consign goods, for the purpose of sale, or to buy goods, or to raise money on the security of goods [Section 2(9)]. The buyer of goods from a mercantile agent, who has no authority from the principal to sell, gets a good title to the goods if the following conditions are satisfied:

(1) The agent should be in possession of the goods or documents of title to the goods with the consent of the owner.

(2) The agent should sell the goods while acting in the ordinary course of business of a mercantile agent.

(3) The buyer should act in good faith.

(4) The buyer should not have at the time of the contract of sale notice that the agent has no authority to sell.

In the instant case, P, the agent, was in the possession of the car with J's consent for the purpose of sale. A, the buyer, therefore obtained a good title to the car. Hence, J in this case, cannot recover the car from A.

Q-31 Mr. G sold some goods to Mr. H for certain price by issue of an invoice, but payment in respect of the same was not received on that day. The goods were packed and lying in the godown of Mr. G. The goods were inspected by H's agent and were found to be in order. Later on, the dues of the goods were settled in cash. Just after receiving cash, Mr. G asked Mr. H that goods should be taken away from his godown to enable him to store other goods purchased by him. After one day, since Mr. H did not take delivery of the goods, Mr. G kept the goods out of the godown in an open space. Due to rain, some goods were damaged.

Referring to the provisions of the Sale of Goods Act, 1930, analyse the above situation and decide who will be held responsible for the above damage. Will your answer be different, if the dues were not settled in cash and are still pending? **(6 Marks)**

Ans.(i) According to section 44 of the Sales of Goods Act, 1932, when the seller is ready and willing to deliver the goods and requests the buyer to take delivery, and the buyer does not within a reasonable time after such request take delivery of the goods, he is liable to the seller for any loss occasioned by his neglect or refusal to take delivery and also for a reasonable charge for the care and custody of the goods.

The property in the goods or beneficial right in the goods passes to the buyer at appoint of time depending upon ascertainment, appropriation and delivery of goods. Risk of loss of goods *prima facie* follows the passing of property in goods. Goods remain at the seller's risk unless the property there in is transferred to the buyer, but after transfer of property therein to the buyer the goods are at the buyer's risk whether delivery has been made or not.

In the given case, since Mr. G has already intimated Mr. H, that he wanted to store some other goods and thus Mr. H should take the delivery of goods kept in the godown of Mr. G, the loss of goods damaged should be borne by Mr. H.

(ii) If the price of the goods would not have settled in cash and some amount would have been pending then Mr. G will be treated as an unpaid seller and he can enforce the following rights against the goods as well as against the buyer personally:

(a) Where under a contract of sale the property in the goods has passed to the buyer and the buyer wrongfully neglects or refuses to pay for the goods according to the terms of the contract, the seller may sue him for the price of the goods. [Section 55(1) of the Sales of Goods Act, 1930]

(b) Where under a contract of sale the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price although the property in the goods has not passed and the goods have not been appropriated to the contract. [Section 55(2) of the Sales of Goods Act, 1930].

Q-32 Mr. Samuel agreed to purchase 100 bales of cotton from Mr. Varun, out of his large stock and sent his men to take delivery of the goods. They could pack only 60 bales. Later on, there was an accidental fire and the entire stock was destroyed including 60 bales that were already packed. Referring to the provisions of the Sale of Goods Act, 1930 explain as to who will bear the loss and to what extent?

[MTP.-April'21, MTP.-March'19, 6 Marks]

Ans. Provision:

As per Section 21 of Sale of Goods Act 1930, when there a contract for Sale of specific goods which are not in a deliverable state, property in goods passes to buyer when;

(1) seller puts the goods in deliverable state and

(2) buyer comes to know about deliverable state of goods.

As per Section 26, Risk follows ownership. It means, the risk of loss of goods is borne by the party who has ownership of goods.

Fact of the Case:

In the given question, there was a contract for sale of 100 bales of cotton to be packed and delivered to buyer. However, seller could pack only 60 bales in presence of buyer's agent so its ownership has been passed to buyer, but remaining goods were still not packed so its ownership is not passed to buyer.

Conclusion:

Considering above provisions and explanations, it may be concluded that loss of 60 bales of cotton which were packed will be borne by Mr.Samuel (Buyer) and loss of remaining 20 bales of cotton which were not packed will be borne by Mr.Varun (seller).

Q-33 Explain the difference between Sale and Agreement to sell under the Sale of Goods Act, 1930.

[MTP.-March'19, MTP.-April'19, 4 Marks]

Ans. The differences between the sale and agreement to sell is as follows:

Basis of difference	Sale	Agreement to sell
Transfer of property	The property in the goods passes to the buyer immediately.	Property in the goods passes to the buyer on future date or on fulfilment of some condition.
Nature of contract	It is an executed contract. i.e. contract for which consideration has been paid.	It is an executory contract. i .e. contract for which consideration is to be paid at a future date.
Remedies for breach	The seller can sue the buyer for the price of the goods because of the passing of the property therein to the buyer.	The aggrieved party can sue for damages only and not for the price, unless the price was payable at a stated date.
Liability of parties	A subsequent loss or destruction of the goods is the liability of the buyer.	Such loss or destruction is the liability of the seller.
Burden of risk	Risk of loss is that of buyer since risk follows ownership.	Risk of loss is that of seller.
Nature of rights	Creates Jus in rem	Creates Jus in personam
Right of resale	The seller cannot resell the goods.	The seller may sell the goods since ownership is with the seller.

Q- 34 Mr. T was a retail trader of fans of various kinds. Mr. M came to his shop and asked for an exhaust fan for kitchen. Mr. T showed him different brands and Mr. M approved of a particular brand and paid for it. Fan was delivered at Mr. M's house; at the time of opening the packet he found that it was a table fan. He informed Mr. T about the delivery of the wrong fan. Mr. T refused to exchange the same, saying that the contract was complete after the delivery of the fan and payment of price.

(i) Discuss whether Mr. T is right in refusing to exchange as per provisions of Sale of Goods Act, 1930?

(ii) What is the remedy available to Mr. M? **[Sugg.-Jan'21, 6 Marks]**

Ans.(i) According to Section 15 of the Sale of Goods Act, 1930, where the goods are sold by sample as well as by description, the implied condition is that the goods supplied shall correspond to both with the

sample and the description. In case, the goods do not correspond with the sample or with description or vice versa or both, the buyer can repudiate the contract.

Further, as per Section 16(l) of the Sales of Goods Act, 1930, when the buyer makes known to the seller the particular purpose for which the goods are required and he relies on the judgment or skill of the seller, it is the duty of the seller to supply such goods as are reasonably fit for that purpose.

In the given case, Mr. M had revealed Mr. T that he wanted the exhaust fan for the kitchen. Since the table fan delivered by Mr. T was unfit for the purpose for which Mr. M wanted the fan, therefore, T cannot refuse to exchange the fan.

(ii) When one party does not fulfill his obligation according to the agreed terms, the other party may treat the contract as repudiated or can insist for performance as per the original contract. Accordingly, the remedy available to Mr. M is that he can either rescind the contract or claim refund of the price paid by him or he may require Mr. T to replace it with the fan he wanted.

Q-35 What are the implied conditions in a contract of 'Sale by sample' under the Sale of Goods Act, 1930? State also the implied warranties operatives under the said Act. **[MTP-March'21, 6 Marks]**

Ans. The following are implied conditions in a contract of sale by sample in accordance with Section 17 ofthe Sale of Goods Act, 1930;

(a) that the bulk shall correspond with the sample in quality;

(b) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample.

(c) that the goods shall be free from any defect, rendering them unmerchantable, which wouldnot be apparent on a reasonable examination of the sample.

Implied Warrants:

1. Warranty as to undisturbed possession [Section 14(b)]: An implied warranty that the buyer shall have and enjoy quiet possession of the goods. That is to say, if the buyer having got possession of the goods, is later on disturbed in his possession, he is entitled to sue the seller for the breach of the warranty.
2. Warranty as to non-existence of encumbrances [Section 14(c)]: An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time the contract is entered into.
3. Warranty as to quality or fitness by usage of trade [Section 16(3)]. An implied warranty as to quality or fitness for a particular purpose may be annexed by the usage of trade.
4. Warranty to disclose dangerous nature of goods: Where a person sells goods, knowing that the goods are inherently dangerous or they are likely to be dangerous to the buyer and that the buyer is ignorant of the danger, he must warn the buyer of the probable danger, otherwise he will be liable in damages.

Q-36 Ms. R owns a Two Wheeler which she handed over to her friend Ms. K on sale or return basis. Even after a week, Ms. K neither returned the vehicle nor made payment for it. She instead pledged the vehicle to Mr. A to obtain a loan. Ms. R now wants to claim the Two Wheeler from Mr. A. Will she succeed?

(i) Examine with reference to the provisions of the Sale of Goods Act, 1930, what recourse is available to Ms. R?

(ii) Would your answer be different if it had been expressly provided that the vehicle would remain the property of Ms. R until the price has been paid? **[Sugg-Nov'20, 6 Marks]**

Ans. As per the provisions of Section 24 of the Sale of Goods Act, 1930, when goods are delivered to the buyer on approval or "on sale or return" or other similar terms, the property therein passes to the buyer-

(a) when the buyer signifies his approval or acceptance to the seller or does any other act adopting the transaction;

(b) if he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time; or

(c) he does something to the good which is equivalent to accepting the goods e.g. he pledges or sells the goods.

Referring to the above provisions, we can analyse the situation given in the question.

(i) In the instant case, Ms. K, who had taken delivery of the two wheeler on Sale or Return basis pledged the two wheeler to Mr. A, has attracted the third condition that she has done something to the good which is equivalent to accepting the goods e.g. she pledges or sells the goods. Therefore, the property therein (Two wheeler) passes to Mr. A. Now in this situation, Ms. R cannot claim back her two wheeler from Mr. A, but she can claim the price of the two wheeler from Ms. K only.

(ii) It may be noted that where the goods have been delivered by a person on "sale or return" on the terms that the goods were to remain the property of the seller till they are paid for, the property therein does not pass to the buyer until the terms are complied with, i.e., price is paid for.

Hence, in this case, it is held that at the time of pledge, the ownership was not transferred to Ms. K. Thus, the pledge was not valid and Ms. R could recover the two wheeler from Mr. A.

Q-37 "Nemo Dat Quod Non Habet" – "None can give or transfer goods what he does not himself own." State the cases in which the rule does not apply under the provisions of the Sale of Goods Act, 1930.

(MTP-Nov'21, 4 Marks)

Ans. **Exceptions to the Rule *Nemo dat Quod Non Habet*:** The term means, "none can give or transfer goods what he does not himself own". Exceptions to the rule and the cases in which the Rule does not apply under the provisions of the Sale of Goods Act, 1930 are enumerated below:

(i) Sale by a Mercantile Agent: A sale made by a mercantile agent of the goods or document of title to goods would pass a good title to the buyer in the following circumstances, namely.

(a) if he was in possession of the goods or documents with the consent of the owner;

(b) if the sale was made by him when acting in the ordinary course of business as a mercantile agent; and

(c) if the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell. (Proviso to Section 27).

Mercantile agent means an agent having in the customary course of business as such agent authority either to sell goods, or to consign goods for the purposes of sale, or to buy goods, or to raise money on the security of goods. [section 2(9)]

(ii) Sale by one of the joint owners: If one of the several joint owners of goods has the sole possession of them with the permission of the others the property in the goods may be transferred to any person who buys them from such a joint owner in good faith and does not at the time of the contract of sale have notice that the seller has no authority to sell. (Section 28)

(iii) Sale by a person in possession under voidable contract: A buyer would acquire a good title to the goods sold to him by seller who had obtained possession of the goods under a contract voidable on the ground of coercion, fraud, misrepresentation or undue influence provided that the contract had not been rescinded until the time of the sale (Section 29).

(iv) Sale by one who has already sold the goods but continues in possession thereof: If a person has sold goods but continues to be in possession of them or of the documents of title to them, he may sell them to a third person, and if such person obtains the delivery thereof in good faith without notice of the previous sale, he would have good title to them, although the property in the goods had passed to the first buyer earlier. A pledge or other deposition of the goods or documents of title by the seller in possession are equally valid. [Section 30(1)]

(v) Sale by buyer obtaining possession before the property in the goods has vested in him: Where a buyer with the consent of seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them. [Section 30(2)].

(vi) Sale by an unpaid seller: Where on unpaid seller who had exercised his right of lien or stoppage in transit resells the goods, the buyer acquires a good title to the goods as against the original buyer [Section 54(3)].

(vii) Sale under the provisions of other Acts:

(i) Sale by an official Receiver or liquidator of the company will give the purchaser a valid title.

(ii) Purchase of goods from a finder of goods will get a valid title under circumstances.

(iii) Sale by a pawnee under default of pawnor will give valid title to the purchaser.

Q-38 When can an unpaid seller of goods exercise his right of lien over the goods under the Sale of Goods Act? Can he exercise his right of lien even if the property in goods has passed to the buyer? When such a right is terminated? Can he exercise his right even after he has obtained a decree for the price of goods from the court? **(MTP-Nov'21, 6 Marks)**

Ans. A lien is a right to retain possession of goods until the payment of the price. It is available to the unpaid seller of the goods who is in possession of them where-

(i) the goods have been sold without any stipulation as to credit;

(ii) the goods have been sold on credit, but the term of credit has expired;

(iii) the buyer becomes insolvent.

The unpaid seller can exercise 'his right of lien even if the property in goods has passed on to the buyer. He can exercise his right even if he is in possession of the goods as agent or bailee for the buyer.

Termination of lien: An unpaid seller losses his right of lien thereon-

(i) When he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods;

(ii) When the buyer or his agent lawfully obtains possession of the goods;

Yes, he can exercise his right of lien even after he has obtained a decree for the price of goods from the court.

Q-39 Avyukt purchased 100 Kgs of wheat from Bhaskar at Rs. 30 per kg. Bhaskar says that wheat is in his warehouse in the custody of Kishore, the warehouse keeper. Kishore confirmed Avyukt that he can take the delivery of wheat from him and till then he is holding wheat on Avyukt's behalf. Before Avyukt picks the goods from warehouse, the whole wheat in the warehouse has flowed in flood. Now Avyukt wants his price on the contention that no delivery has been done by seller. Whether Avyukt is right with his views under the Sale of Goods Act, 1930. **(MTP-Nov'21, 6 Marks)**

Ans. As per the provisions of the Sale of Goods Act, 1930 there are three modes of delivery, i) Actual delivery, ii) Constructive delivery and iii) Symbolic delivery. When delivery is affected without any change in the custody or actual possession of the things, it is called constructive delivery or delivery by acknowledgement. Constructive delivery takes place when a person in possession of goods belonging to seller acknowledges to the buyer that he is holding the goods on buyer's behalf.

In the instant case, Kishore acknowledges Avyukt that he is holding wheat on Avyukt's behalf. Before picking the wheat from warehouse by Avyukt, whole wheat was flowed in flood.

On the basis of above provisions and facts, it is clear that possession of the wheat has been transferred through constructive delivery. Hence, Avyukt is not right. He cannot claim the price back.

Q-40 Write any four exceptions to the doctrine of Caveat Emptor as per the Sale of Goods Act, 1930.

(MTP-Oct'21, 4 Marks)

Ans. **Caveat Emptor:** In case of sale of goods, the doctrine 'Caveat Emptor' means 'let the buyer beware'. When sellers display their goods in the open market, it is for the buyers to make a proper selection or choice of the goods. If the goods turn out to be defective, he cannot hold the seller liable. The seller is in no way responsible for the bad selection of the buyer. The seller is not bound to disclose the defects in the goods which he is selling.

The doctrine of Caveat Emptor is subject to the following exceptions:

1. **Fitness as to quality or use**: Where the buyer makes known to the seller the particular purpose for which the goods are required, so as to show that he relies on the seller's skill or judgment and the goods are of a description which is in the course of seller's business to supply, it is the duty of the seller to supply such goods as are reasonably fit for that purpose [Section 16 (1) of the Sale of goods Act, 1930].
2. **Goods purchased under patent or brand name:** In case where the goods are purchased under its patent name or brand name, there is no implied condition that the goods shall be fit for any particular purpose [Section 16(1)].
3. **Goods sold by description:** Where the goods are sold by description there is an implied condition that the goods shall correspond with the description [Section 15]. If it is not so, then seller is responsible.
4. **Goods of Merchantable Quality:** Where the goods are bought by description from a seller who deals in goods of that description there is an implied condition that the goods shall be of merchantable quality. The rule of Caveat Emptor is not applicable. But where the buyer has examined the goods, this rule shall apply if the defects were such which ought to have not been revealed by ordinary examination [Section 16(2)].
5. **Sale by sample:** Where the goods are bought by sample, this rule of Caveat Emptor does not apply if the bulk does not correspond with the sample [Section 17].
6. **Goods by sample as well as description:** Where the goods are bought by sample as well as description, the rule of Caveat Emptor is not applicable in case the goods do not correspond with both the sample and description or either of the condition [Section 15].
7. **Trade Usage:** An implied warranty or condition as to quality or fitness for a particular purpose may be annexed by the usage of trade and if the seller deviates from that, this rule of Caveat Emptor is not applicable [Section 16(3)].
8. **Seller actively conceals a defect or is guilty of fraud:** Where the seller sells the goods by making some misrepresentation or fraud and the buyer relies on it or when the seller actively conceals some defect in the goods so that the same could not be discovered by the buyer on a reasonable examination, then the rule of Caveat Emptor will not apply. In such a case the buyer has a right to avoid the contract and claim damages.

Q-41 Explain any six circumstances in detail in which a non-owner can convey better title to the bona fide purchaser of goods for value under the Sale of Goods Act, 1930. **(MTP-Oct'21, 6 Marks)**

Ans. (i) In the following cases, a non-owner can convey better title to the bona fide purchaser of goods for value.

(1) **Sale by a Mercantile Agent:** A sale made by a mercantile agent of the goods for document of title to goods would pass a good title to the buyer in the following circumstances; namely;

(a) If he was in possession of the goods or documents with the consent of the owner;

(b) If the sale was made by him when acting in the ordinary course of business as a mercantile agent; and

(c) If the buyer had acted in good faith and has at the time of the contract of sale, no notice of the fact that the seller had no authority to sell **(Proviso to Section 27).**

Mercantile Agent means an agent having in the customary course of business as such agent authority either to sell goods, or to consign goods for the purposes of sale, or to buy goods, or to raise money on the security of goods [Section 2(9)].

(2) Sale by one of the joint owners (Section 28): If one of several joint owners of goods has the sole possession of them by permission of the co-owners, the property in the goods is transferred to any person who buys them from such joint owner in good faith and has not at the time of the contract of sale notice that the seller has no authority to sell.

(3) Sale by a person in possession under voidable contract: A buyer would acquire a good title to the goods sold to him by a seller who had obtained possession of the goods under a contract voidable on the ground of coercion, fraud, misrepresentation or undue influence provided that the contract had not been rescinded until the time of the sale **(Section 29).**

(4) Sale by one who has already sold the goods but continues in possession thereof: If a person has sold goods but continues to be in possession of them or of the documents of title to them, he may sell them to a third person, and if such person obtains the delivery thereof in good faith and without notice of the previous sale, he would have good title to them, although the property in the goods had passed to the first buyer earlier. A pledge or other disposition of the goods or documents of title by the seller in possession are equally valid **[Section 30(1)].**

(5) Sale by buyer obtaining possession before the property in the goods has vested in him: Where a buyer with the consent of the seller obtains possession of the goods before the property in them has passed to him, he may sell, pledge or otherwise dispose of the goods to a third person, and if such person obtains delivery of the goods in good faith and without notice of the lien or other right of the original seller in respect of the goods, he would get a good title to them **[Section 30(2)].**

However, a person in possession of goods under a 'hire-purchase' agreement which gives him only an option to buy is not covered within the section unless it amounts to a sale.

(6) Effect of Estoppel: Where the owner is estopped by the conduct from denying the seller's authority to sell, the transferee will get a good title as against the true owner. But before a good title by estoppel can be made, it must be shown that the true owner had actively suffered or held out the other person in question as the true owner or as a person authorized to sell the goods.

(7) Sale by an unpaid seller: Where an unpaid seller who had exercised his right of lien or stoppage in transit resells the goods, the buyer acquires a good title to the goods as against the original buyer **[Section 54 (3)].**

(8) Sale under the provisions of other Acts:

(i) Sale by an Official Receiver or Liquidator of the Company will give the purchaser a valid title.

(ii) Purchase of goods from a finder of goods will get a valid title under circumstances [Section 169 of the Indian Contract Act, 1872]

(iii) A sale by pawnee can convey a good title to the buyer [Section 176 of the Indian Contract Act, 1872]

Q-42 Mr. P was running a shop selling good quality washing machines. Mr. Q came to his shop and asked for washing machine which is suitable for washing woollen clothes. Mr. P showed him a particular machine which Mr. Q liked and paid for it. Later on, when the machine was delivered at Mr. Q's house, it was found that it was wrong machine and also unfit for washing woollen clothes. He immediately informed Mr. P about the delivery of wrong machine. Mr. P refused to exchange the same, saying that the contract was complete after the delivery of washing machine and payment of price. With reference to the provisions of Sale of Goods Act, 1930, discuss whether Mr. P is right in refusing to exchange the washing machine? **(MTP-Oct'21, 6 Marks)**

Ans. According to Section 15 of the Sale of Goods Act, 1930, whenever the goods are sold as per sample as well as by description, the implied condition is that the goods must correspond to both sample as well as description. In case the goods do not correspond to sample or description, the buyer has the right to repudiate the contract.

Further under Sale of Goods Act, 1930 when the buyer makes known to the seller the particular purpose for which the goods are required and he relies on his judgment and skill of the seller, it is the duty of the seller to supply such goods which are fit for that purpose.

In the given case, Mr. Q has informed to Mr. P that he wanted the washing machine for washing woollen clothes. However, the machine which was delivered by Mr. P was unfit for the purpose for which Mr. Q wanted the machine.

Based on the above provision and facts of case, we understand that there is breach of implied condition as to sample as well as description, therefore Mr. Q can either repudiate the contract or claim the refund of the price paid by him or he may require Mr. P to replace the washing machine with desired one.

Q-43 "Risk Prima Facie passes with property." Elaborate in the context of the Sales of Goods Act, 1930.

(Sugg-July'21, 4 Marks)

Ans. Risk prima facie passes with property (Section 26 of the Sales of Goods Act, 1930)

According to Section 26, unless otherwise agreed, the goods remain at the seller's risk until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at the buyer's risk whether delivery has been made or not.

It is provided that, where delivery has been delayed because of the fault of either buyer or seller, the goods are at the risk of the party in fault as regards any loss which might not have occurred but for such fault.

Provided also that nothing in this section shall affect the duties or liabilities of either seller or buyer as bailee of the goods of the other party.

Q-44 Discuss the rights of an unpaid seller against the buyer under the Sales of Goods Act, 1930.

(Sugg-July'21, 6 Marks)

Ans.(a) The right against the buyer are as follows:

1. **Suit for price (Section 55 of the Sale of Goods Act, 1930)**
   (a) Where under a contract of sale, the property in the goods has passed to the buyer and the buyer wrongfully neglects or refuses to pay for the goods according to the terms of the contract, the seller may sue him for the price of the goods. [Section 55(1)]
   (b) Where under a contract of sale, the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price although the property in the goods has not passed and the goods have not been appropriated to the contract. [Section 55(2)].
2. **Suit for damages for non-acceptance (Section 56):** Where the buyer wrongfully neglects or refuses to accept and pay for the goods, the seller may sue him for damages for non-acceptance.
3. **Repudiation of contract before due date (Section 60):** Where the buyer repudiates the contract before the date of delivery, the seller may treat the contract as rescinded and sue damages for the breach. This is known as the 'rule of anticipatory breach of contract'.
4. **Suit for interest [Section 61]:** Where there is specific agreement between the seller and the buyer as to interest on the price of the goods from the date on which payment becomes due, the seller may recover interest from the buyer. If, however, there is no specific agreement to this effect, the seller may charge interest on the price when it becomes due from such day as he may notify to the buyer.

In the absence of a contract to the contrary, the Court may award interest to the seller in a suit by him at such rate as it thinks fit on the amount of the price from the date of the tender of the goods or from the date on which the price was payable.

Q-45 Mr. Das, a general store owner went to purchase 200 kg of Basmati Rice of specific length from a whole seller. He saw the samples of rice and agreed to buy the one for which the price was quoted as ' 150 per kg. While examining the sample Mr. Das failed to notice that the rice contained a mix of long and short grain of rice.

The whole seller supplied the required quantity exactly the same as shown in the sample. However, when Mr. Das sold the rice to one of his regular customers she complained that the rice contained two different qualities of rice and returned the rice.

With reference to the provisions of the Sales of Goods Act, 1930, discuss the options open to Mr. Das for grievance redressal. What would be your answer in case Mr. Das specified his exact requirement as to length of rice? **(Sugg-July'21, 6 Marks)**

Ans. As per the provisions of Sub-Section (2) of Section 17 of the Sale of Goods Act, 1930, in a contract of sale by sample, there is an implied condition that:

(a) the bulk shall correspond with the sample in quality;

(b) the buyer shall have a reasonable opportunity of comparing the bulk with the sample.

In the instant case, Mr. Das on examination of the sample on which he agreed to buy, failed to notice that it contained a mix of long and short grain of rice.

In the light of the provisions of Sub-Clause (b) of Sub-Section (2) of Section 17 of the Act, Mr. Das will not be successful as he examined the sample of Basmati rice (which exactly corresponded to the entire lot) without noticing the fact that even though the sample was that of Basmati Rice but it contained a mix of long and short grains. It could have been discovered by Mr. Das, by an ordinary examination of the goods that it contained a mix of long and short grains. This reflects lack of due diligence on part of Mr. Das.

Therefore, Mr. Das, the buyer does not have any option available to him for grievance redressal.

In case Mr. Das specified his exact requirement as to length of rice, then there is an implied condition that the goods shall correspond with the description. If it is not so, then in such case, seller will be held liable.

Q-46 "A breach of condition can be treated as a breach of warranty". Explain this statement as per relevant provisions of the Sale of Goods Act, 1930. **(MTP March '22, 4 Marks)**

Ans. Section 13 of the Sale of Goods Act, 1930 specifies cases where a breach of condition be treated as a breach of warranty. As a result of which the buyer loses his right to rescind the contract and can claim damages only.

In the following cases, a contract is not avoided even on account of a breach of a condition:

(i) Where the buyer altogether waives the performance of the condition. A party may for his own benefit, waive a stipulation. It should be a voluntary waiver by buyer.

(ii) Where the buyer elects to treat the breach of the conditions, as one of a warranty. That is to say, he may claim only damages instead of repudiating the contract. Here, the buyer has not waived the condition but decided to treat it as a warranty.

(iii) Where the contract is non-severable and the buyer has accepted either the whole goods or any part thereof. Acceptance means acceptance as envisaged in Section 72 of the Indian Contract Act, 1872.

(iv) Where the fulfilment of any condition or warranty is excused by law by reason of impossibility or otherwise.

Q-47 Discuss the rights of an unpaid seller against the buyer under the Sales of Goods Act, 1930.

(MTP March '22, 6 Marks)

Ans. The right against the buyer are as follows:

1. **Suit for price (Section 55 of the Sale of Goods Act, 1930)**
   (a) Where under a contract of sale, the property in the goods has passed to the buyer and the buyer wrongfully neglects or refuses to pay for the goods according to the terms of the contract, the seller may sue him for the price of the goods. [Section 55(1)]
   (b) Where under a contract of sale, the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price although the property in the goods has not passed and the goods have not been appropriated to the contract. [Section 55(2)].
2. **Suit for damages for non-acceptance (Section 56):** Where the buyer wrongfully neglects or refuses to accept and pay for the goods, the seller may sue him for damages for non-acceptance.
3. **Repudiation of contract before due date (Section 60):** Where the buyer repudiates the contract before the date of delivery, the seller may treat the contract as rescinded and sue damages for the breach. This is known as the 'rule of anticipatory breach of contract'.
4. **Suit for interest [Section 61]:** Where there is specific agreement between the seller and the buyer as to interest on the price of the goods from the date on which payment becomes due, the seller may recover interest from the buyer. If, however, there is no specific agreement to this effect, the seller may charge interest on the price when it becomes due from such day as he may notify to the buyer.

   In the absence of a contract to the contrary, the Court may award interest to the seller in a suit by him at such rate as it thinks fit on the amount of the price from the date of the tender of the goods or from the date on which the price was payable.

Q-48 Sohan is a trader in selling of wheat. Binod comes to his shop and ask Sohan to show him some good quality wheat. Binod is satisfied with the quality of wheat. Sohan agrees to sell 100 bags of wheat to Binod on 10th June 2021.

The delivery of wheat and the payment was to be made in next three months i.e. by 10th September 2021 by Binod. Before the goods are delivered to Binod, Sohan gets another customer Vikram in his shop who is ready to pay higher price for the wheat. Sohan sells the goods of Binod (which were already lying in his possession even after sale) to Vikram. Vikram has no knowledge that Sohan is not the owner of goods. With reference to Sale of Goods Act,1930, discuss if such a sale made by Sohan to Vikram is a valid sale? **(MTP March '22, 6 Marks)**

Ans. The given question deals with the rule related to transfer of title of goods. Section 27 of the Sale of Goods Act ,1930 specify the general rule " No man can sell the goods and give a good title unless he is the owner of the goods". The latin maxim " NEMO DET QUOD NON HABET". However, there are certain exceptions to this rule. One of the exceptions is given in Section 30 (1) of Sale of Goods Act,1930 wherein the sale by seller in possession of goods even after sale is made, is held to be valid. If the following conditions are satisfied, then it amounts to a valid sale although the seller is no more the owner of goods after sale.

(i) A seller has possession of goods after sale
(ii) with the consent of the other party (i.e. buyer)
(iii) the seller sells goods (already sold) to a new buyer
(iv) the new buyer acts in good faith
(v) The new buyer has no knowledge that the seller has no authority to sell.

In the given question, the seller Sohan has agreed to sell the goods to Binod, but delivery of the goods is still pending. Hence Sohan is in possession of the goods and this is with the consent of buyer i.e. Binod. Now Sohan sell those goods to Vikram, the new buyer. Vikram is buying the goods in good faith and also has no knowledge that Sohan is no longer the owner of goods.

Since all the above conditions given under Section 30 (1) of Sale of Goods Act, 1930 are satisfied, therefore the sale made by Sohan to Vikram is a valid sale even if Sohan is no longer the owner of goods.

Q-49 "A breach of condition can be treated as a breach of warranty". Explain this statement as per relevant provisions of the Sale of Goods Act, 1930. **(Sugg-Dec'21, 4 Marks)**

Ans. Section 13 of the Sale of Goods Act, 1930 specifies cases where a breach of condition be treated as a breach of warranty. As a result of which the buyer loses his right to rescind the contract and can claim damages only.

In the following cases, a contract is not avoided even on account of a breach of a condition:

(i) Where the buyer altogether waives the performance of the condition. A party mayfor his own benefit, waive a stipulation. It should be a voluntary waiver by buyer.

(ii) Where the buyer elects to treat the breach of the conditions, as one of a warranty.
That is to say, he may claim only damages instead of repudiating the contract. Here, the buyer has not waived the condition but decided to treat it as a warranty.

(iii) Where the contract is non-severable and the buyer has accepted either the whole goods or any part thereof. Acceptance means acceptance as envisaged in Section 72 of the Indian Contract Act, 1872.

(iv) Where the fulfilment of any condition or warranty is excused by law by reason of impossibility or otherwise.

Q-50 Distinguish between 'Sale' and 'Hire Purchase' under the Sale of Goods Act, 1930.

(Sugg-Dec'21, 6 Marks)

Ans. The main points of distinction between the 'Sale' and 'Hire-Purchase' are as follows:

Sr. No.	Basis of difference	Sale	Hire-Purchase
1	Time of passing property	Property in the goods is transferred to the buyer immediately at the time of the contract	Property in goods passes to the hirer upon payment of the last installment.
2	Position of the property	The position of the buyer is that of the owner of the goods	The position of the hirer is that of a bailee till he pays the last installment.
3	Termination of contract	The buyer cannot terminate the contract and is bound to pay the price of the goods	The hirer may, if he so likes, terminate the contract by returning the goods to its owner without any liability to pay the remaining installments.
4	Burden of Risk of Insolvency of the buyer	The seller takes the risk of any loss resulting from the insolvency of the buyer	The owner takes no such risk, for if the hirer fails to pay an installment, the owner has right to take back the goods.

5	Transfer of title	The buyer can pass a good title to a bona fide purchaser from him	The hirer cannot pass any title even to a bona fide purchaser.
6	Resale	The buyer in sale can resell the goods	The hire purchaser cannot resell unless he has paid all the installments.

Q-51

(i) TK ordered timber of 1 inch thickness for being made into drums. The seller agreed to supply the required timber of 1 inch. However, the timber supplied by the seller varies in thickness from 1 inch to 1.4 inches. The timber is commercially fit for the purpose for which it was ordered. TK rejects the timber. Explain with relevant provisions of the Sale of Goods Act, 1930 whether TK can reject the timber. **(Sugg-Dec'21, 3 Marks)**

(ii) AB sold 500 bags of wheat to CD. Each bag contains 50 Kilograms of wheat. AB sent 450 bags by road transport and CD himself took remaining 50 bags. Before CD receives delivery of 450 bags sent by road transport, he becomes bankrupt. AB being still unpaid, stops the bags in transit. The official receiver, on CD's insolvency claims the bags. Decide the case with reference to the provisions of the Sale of Goods Act, 1930. **(Sugg-Dec'21, 3 Marks)**

Ans. (i) Condition as to quality or fitness [Section 16(1) of the Sale of Goods Act, 1930]:

The condition as to the reasonable fitness of goods for a particular purpose may be implied if the buyer had made known to the seller the purpose of his purchase and relied upon the skill and judgment of the seller to select the best goods and the seller has ordinarily been dealing in those goods.

There is implied condition on the part of the seller that the goods supplied shall be reasonably fit for the purpose for which the buyer wants them, provided the following conditions are fulfilled:

(a) The buyer should have made known to the seller the particular purpose for which goods are required.

(b) The buyer should rely on the skill and judgement of the seller.

(c) The goods must be of a description dealt in by the seller, whether he be a manufacturer or not.

In the instant case, as the timber supplied by the seller is commercially fit for the purposes for which it was ordered, it means the implied condition on the part of the seller is fulfilled.

Hence, TK cannot reject the timber.

Alternatively, the above answer can also be provided as under:

According to Section 15 of the Sale of Goods Act, 1930 where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description. The buyer is not bound to accept and pay for the goods which are not in accordance with the description of goods.

Thus, it has to be determined whether the buyer has undertaken to purchase the goods by their description, i.e., whether the description was essential for identifying the goods where the buyer had agreed to purchase. If that is required and the goods tendered do not correspond with the description, it would be breach of condition entitling the buyer to reject the goods.

In the instant case, as the timber supplied by seller varies in thickness from 1 inch to 1.4 inches, it does not correspond with the description ordered by TK i.e. of 1 inch, TK may reject the timber.

(ii) Right of stoppage in transit (Section 50 of the Sale of Goods Act, 1930):

Subject to the provisions of this Act, when the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them in transit, that is to say, he may resume possession of the goods as long as they are in the course of transit and may retain them until paid or tendered price of the goods.

When the unpaid seller has parted with the goods to a carrier and the buyer has become insolvent, he can exercise this right of asking the carrier to return the goods back, or not to deliver the goods to the buyer.

In the instant case, CD, the buyer becomes insolvent, and 450 bags are in transit. AB, the seller, can stop the goods in transit by giving a notice of it to CD. The official receiver, on CD's insolvency cannot claim the bags.

❑ ❑ ❑ ❑

NOTES

Chapter-3
The Indian Partnership Act, 1932

Q-1 When the continuing guarantee can be revoked under the Indian Partnership Act, 1932?

[Sugg.-Nov'19, 2 Marks]

OR

What do you mean by Goodwill as per the provisions of Indian Partnership Act,1932?

[Sugg.-Nov'19, 2 Marks]

Ans. **Revocation of continuing guarantee (Section 38 of the Indian Partnership Act, 1932)**

According to section 38, a continuing guarantee given to a firm or to third party in respect of the transaction of a firm is, in the absence of an agreement to the contrary, revoked as to future transactions from the date of any change in the constitution of the firm. Such change may occur by the death, or retirement of a partner, or by introduction of a new partner.

OR

Goodwill: The term "Goodwill" has not been defined under the Indian Partnership Act, 1932. Section 14 of the Act lays down that goodwill of a business is to be regarded as a property of the firm.

Goodwill may be defined as the value of the reputation of a business house in respect of profits expected in future over and above the normal level of profits earned by undertaking belonging to the same class of business.

Q-2 With reference to the provisions of Indian partnership Act, 1932 explain the various effects of insolvency of a partner. **[Sugg.-Nov'19, 4 Marks]**

Ans. **Effects of insolvency of a partner (Section 34 of the Indian Partnership Act, 1932):**

(i) The insolvent partner cannot be continued as a partner.

(ii) He will be ceased to be a partner from the very date on which the order of adjudication is made.

(iii) The estate of the insolvent partner is not liable for the acts of the firm done after the date of order of adjudication.

(iv) The firm is also not liable for any act of the insolvent partner after the date of the order of adjudication,

(v) Ordinarily, the insolvency of a partner results in dissolution of a firm; but the partners are competent to agree among themselves that the adjudication of a partner as an insolvent will not give rise to dissolution of the firm.

Q-3 Master X was introduced to the benefits of partnership of M/s ABC & Co. with the consent of all partners. After attaining majority, more than six months elapsed and he failed to give a public notice as to whether he elected to become or not to become a partner in the firm. Later on, Mr. L, a supplier of material to M/s ABC & Co., filed a suit against M/s ABC & Co. for recovery of the debt due.

In the light of the Indian Partnership Act, 1932, explain:

(i) To what extent X will be liable if he failed to give public notice after attaining majority?

(ii) Can Mr. L recover his debt from X? **[Sugg.-Nov'19,6 Marks)]**

Ans. As per the provisions of Section 30(5) of the Indian Partnership Act, 1932, at any time within six months of his attaining majority, or of his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, such person may give public notice that he has elected to become or that he has elected not to become a partner in the firm, and such notice shall determine his position as regards the firm.

However, if he fails to give such notice, he shall become a partner in the firm on the expiry of the said six months.

If the minor becomes a partner by his failure to give the public notice within specified time, his rights and liabilities as given in Section 30(7) are as follows:

(A) He becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership.

(B) His share in the property and the profits of the firm remains the same to which he was entitled as a minor.

(i) In the instant case, since, X has failed to give a public notice, he shall become a partner in the M/s ABC & Co. and becomes personally liable to Mr. L, a third party.

(ii) In the light of the provisions of Section 30(7) read with Section 30(5) of the Indian Partnership Act, 1932, since X has failed to give public notice that he has not elected to not to become a partner within six months, he will be deemed to be a partner after the period of the above six months and therefore, Mr. L can recover his debt from him also in the same way as he can recover from any other partner.

Q-4 "Dissolution of a firm is different from dissolution of Partnership". Discuss.

[Sugg.-May'18, Sugg.-Nov'19, 4 Marks]

Ans. DISSOLUTION OF FIRM VS. DISSOLUTION OF PARTNERSHIP

S. NO.	BASIS OF DIFFERENCE	DISSOLUTION OF FIRM	DISSOLUTION OF PARTNERSHIP
1.	**Continuation of Business**	It involves discontinuation of business in partnership.	It does not affect continuation of business. It involves only reconstitution of the firm.
2.	**Winding up**	It involves winding up of the firm and requires realization of assets and settlement of liabilities.	It involves only reconstitution and requires only revaluation of assets and liabilities of the firm.
3.	**Order of court**	A firm may be dissolved by the order of the court.	Dissolution of partnership is not ordered by the court.
4.	**Scope**	It necessarily involves dissolution of partnership.	It may or may not involve dissolution of firm.
5.	**Final closure of books**	It involves final closure of books of the firm.	It does not involve final closure of the books.

Q-5 What is the provision related to the effect of notice to an acting partner of the firm as per the Indian Partnership Act, 1932? **(2 Marks)**

OR

Discuss the provisions regarding personal profits earned by a partner under the Indian Partnership Act, 1932? **[Sugg.-May'19, 2 Marks]**

Ans. Effect of notice to an acting partner of the firm

According to Section 24 of the Indian Partnership Act, 1932, notice to a partner who habitually acts in the business of the firm of any matter relating to the affairs of the firm operates as notice to the firm, except in the case of a fraud on the firm committed by or with the consent of that partner.

Thus, the notice to one is equivalent to the notice to the rest of the partners of the firm, just as a notice to an agent is notice to his principal. This notice must be actual and not constructive. It must further relate to the firm's business. Only then it would constitute a notice to the firm.

OR

Personal Profit earned by Partners (Section 16 of the Indian Partnership Act,1932)

According to section 16, subject to contract between the partners:

(a) If a partner derives any profit for himself from any transaction of the firm, or from the use of the property or business connection of the firm or the firm name, he shall account for that profit and pay it to the firm;

(b) If a partner carries on any business of the same nature and competing with that of the firm, he shall account for and pay to the firm all profits made by him in that business.

Q-6 "Whether a group of persons is or is not a firm, or whether a person is or not a partner in a firm." Explain the mode of determining existence of partnership as per the Indian Partnership Act, 1932?

[Sugg.-May'19, 4 Marks]

Ans. Mode of determining existence of partnership (Section 6 of the Indian Partnership **Act, 1932):** In determining whether a group of persons is or is not a firm, or whether a person is or not a partner in a firm, regard shall be had to the real relation between the parties, as shown by all relevant facts taken together.

For determining the existence of partnership, it must be proved.

1. There was an **agreement** between all the persons concerned
2. The agreement was to **share the profits** of a business and
3. the business was **carried on by all or any of them** acting for all.

1. Agreement: Partnership is created by agreement and not by status (Section 5). The relation of partnership arises from contract and not from status; and in particular, the members of a Hindu Undivided family carrying on a family business as such are not partners in such business.

2. Sharing of Profit: Sharing of profit is an essential element to constitute a partnership. But, it is only a *prima facie* evidence and not conclusive evidence, in tat regard. The sharing of profits or of gross returns accruing from property by persons holding joint or common interest in the property would not by itself make such persons partners. Although the right to participate in profits is a strong test of partnership, and there may be cases where, upon a simple participation in profits, there is a partnership, yet whether the relation does or does not exist must depend upon the whole contract between the parties.

3. Agency: Existence of Mutual Agency which is the cardinal principle of partnership law, is very much helpful in reaching a conclusion in this regard. Each partner carrying on the business is the principal as well as an agent of other partners. So, the act of one partner done on behalf of firm, binds all the partners. If the elements of mutual agency relationship exist between the parties constituting a group formed with a view to earn profits by running a business, a partnership may be deemed to exist.

Q-7 M/s XYZ & Associates, a partnership firm with X, Y, Z as senior partners were engaged in the business of carpet manufacturing and exporting to foreign countries. On 25th August, 2016, they inducted Mr. G, an expert in the field of carpet manufacturing as their partner. On 10th January 2018, Mr. G was blamed for

unauthorized activities and thus expelled from the partnership by united approval of rest of the partners.

(i) Examine whether action by the partners was justified or not?

(ii) What should have the factors to be kept in mind prior expelling a partner from the firm by other partners according to the provisions of the Indian Partnership Act, 1932?

[Sugg.-May'19, 6 Marks]

Ans **Expulsion of a Partner (Section 33 of the Indian Partnership Act, 1932):**

A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners.

The test of good faith as required under Section 33(1) includes three things:

- The expulsion must be in the interest of the partnership.
- The partner to be expelled is served with a notice.
- He is given an opportunity of being heard.

If a partner is otherwise expelled, the expulsion is null and void.

(i) Action by the partners of M/s XYZ & Associates, a partnership firm to expel Mr. G from the partnership was justified as he was expelled by united approval of the partners exercised in good faith to protect the interest of the partnership against the unauthorized activities charged against Mr. G. A proper notice and opportunity of being heard has to be given to Mr. G.

(ii) The following are the factors to be kept in mind prior expelling a partner from the firm by other partners:

(a) the power of expulsion must have existed in a contract between the partners;

(b) the power has been exercised by a majority of the partners; and

(c) it has been exercised in good faith.

Q-8 "Indian Partnership Act does not make the registration of firms compulsory nor does it impose any penalty for non-registration." Explain. Discuss the various disabilities or disadvantages that a non-registered partnership fi rm can face in brief?

[MTP-March'21, MTP-March'21, MTP-Oct'19, MTP-May'20, Sugg.-May'18, Sugg.-May'19,4 Marks]

Ans. Under the English Law, the registration of firms is compulsory. Therefore, there is a penalty for non-registration of firms. But the Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration.

The registration of a partnership is optional and one partner cannot compel another partner to join in the registration of the firm. It is not essential that the firm should be registered from the very beginning.

However, **under Section 69**, non-registration of partnership gives rise to a number of disabilities which are as follows:

(i) **No suit in a civil court by firm or other co-partners against third party:** The firm or any other person on its behalf cannot bring an action against the third party for breach of contract entered into by the firm, unless the firm is registered and the persons suing are or have been shown in the register of firms as partners in the firm.

(ii) **No relief to partners for set-off of claim**: If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than ' 100 or pursue other proceedings to enforce the rights arising from any contract.

(iii) **Aggrieved partner cannot bring legal action against other partner or the firm**: A partner of an unregistered firm (or any other person on his behalf) is precluded from bringing legal action against the firm or any person alleged to be or to have been a partner in the firm.

(iv) **Third party can sue the firm:** In case of an unregistered firm, an action can be brought against the firm by a third party.

Q-9. A. "Though a minor cannot be a partner in a firm, he can nonetheless be admitted to the benefits of partnership."

(I) Referring to the previsions of the Indian Partnership Act, 1932, state the rights which can be enjoyed by a minor partner.

[Sugg-Nov'20, MTP-April'21, MTP-March'21, MTP-May'20, March'19], Sugg.-Nov'18, 4 Marks]

(II) A. State the liabilities of a minor partner both:

(i) Before attaining majority and

(ii) After attaining majority. **[Sugg.-Nov'18, 2 Marks)]**

OR

B. State the legal position of a minor partner after attaining majority:

(i) When he opts to become a partner of the same firm.

(ii) When he decide not to become a partner. **[Sugg.-Nov'18, 2 Marks]**

Ans.(a) (I) Rights which can be enjoyed by a minor partner:

(i) A minor partner has a right to his agreed share of the profits and of the firm.

(ii) He can have access to, inspect and copy the accounts of the firm.

(iii) He can sue the partners for accounts or for payment of his share but only when severing his connection with the firm, and not otherwise.

(iv) On attaining majority, he may within 6 months elect to become a partner or not to become a partner. If he elects to become a partner, then he is entitled to the share to which he was entitled as a minor. If he does not, then his share is not liable for any acts of the firm after the date of the public notice served to that effect.

(II) A. (i) **Liabilities of a minor partner before attaining majority:**

(a) The liability of the minor is confined only to the extent of his share in the profits and the property of the firm.

(b) Minor has no personal liability for the debts of the firm incurred during his minority.

(c) Minor cannot be declared insolvent, but if the firm is declared insolvent his share in the firm vests in the Official Receiver/ Assignee.

(ii) **Liabilities of a minor partner after attaining majority:**

Within 6 months of his attaining majority or on his obtaining knowledge that he had been admitted to the benefits of partnership, whichever date is later, the minor partner has to decide whether he shall remain a partner or leave the firm.

Where he has elected not to become partner he may give public notice that he has elected not to become partner and such notice shall determine his position as regards the firm. If he fails to give such notice he shall become a partner in the firm on the expiry of the said six months.

OR

B. (i) **When he becomes partner:** If the minor becomes a partner on his own willingness or by his failure to give the public notice within specified time, his rights and liabilities as given in Section 30(7) of the Indian Partnership Act, 1932, are as follows:

(a) He becomes personally liable to third parties for all acts of the firm done since he was admitted to the benefits of partnership.

(b) His share in the property and the profits of the firm remains the same to which he was entitled as a minor.

(ii) **When he elects not to become a partner:**

(a) His rights and liabilities continue to be those of a minor up to the date of giving public notice.

(b) His share shall not be liable for any acts of the firm done after the date of the notice.

(c) He shall be entitled to sue the partners for his share of the property and profits. It may be noted that such minor shall give notice to the Registrar that he has or has not become a partner.

Q-10 (i) Mr. A. Mr. B and Mr. C were partners in a partnership firm M/s ABC & Co., which is engaged in the business of trading of branded furniture. The name of the partners was clearly written along with the firm name in front of the head office of the firm as well as on letter-head of the firm. On 1st October, 2018, Mr. C passed away. His name was neither removed from the list of partners as stated in front of the head office nor from the letter-heads of the firm. As per the terms of partnership, the firm continued its operations with Mr. A and Mr. B as partners. The accounts of the firm were settled and the amount due to the legal heirs of Mr. C was also determined on 10th October, 2018. But the same was not paid to the legal heirs of Mr. C. On 16th October, 2018, Mr. X, a supplier supplied furniture worth ₹ 20,00,000 to M/s ABC & Co. M/s ABC & Co. could not repay the amount due to heavy losses. Mr. X wants to recover the amount not only from M/s ABC & Co., but also from the legal heirs of Mr. C.

Analyses the above situation in terms of the provisions of the Indian Partnership Act, 1932 and decide whether the legal heirs of Mr. C can also be held liable for the dues towards Mr. X.

[Sugg.-Nov'18 ,3 Marks)]

(ii) Mr. M, Mr. N and Mr. P were partners in a firm, which was dealing in refrigerators. On 1st October, 2018, Mr. P retired from partnership, but failed to give public notice of his retirement. After his retirement, Mr. M, Mr. N and Mr. P visited a trade fair and enquired about some refrigerators with latest techniques. Mr. X, who was exhibiting his refrigerators with the new techniques was impressed with the interactions of Mr. P and requested for the visiting card of the firm. The visiting card also included the name of Mr. P as a partner even though he had already retired. Mr. X. supplied some refrigerators to the firm and could not recover his dues from the firm. Now, Mr. X wants to recover the dues not only from the firm, but also from Mr. P.

Analyse the above case in terms of the provisions of the Indian Partnership Act, 1932 and decide whether Mr. P is liable in this situation. **[Sugg.-Nov'18, 3 Marks)]**

Ans (i) Generally, the effect of the death of a partner is the dissolution of the partnership, but the rule in regard to the dissolution of the partnership, by death of partner, is subject to a contract between the parties and the partners are competent to agree that the death of one will not have the effect of dissolving the partnership as regards the surviving partners unless the firm consists of only two partners. In order that the estate of the deceased partner may be absolved from liability for the future obligations of the firm, it is not necessary to give any notice either to the public or the persons having dealings with the firm.

In the light of the provisions of the Act and the facts of the question, Mr. X (creditor) can have only a personal decree against the surviving partners (Mr. A and Mr. B) and a decree against the partnership assets in the hands of those partners. A suit for goods sold and delivered would not lie against the representatives of the deceased partner. Hence, the legal heirs of Mr. C cannot be held liable for the dues towards Mr. X.

(ii) A retiring partner continues to be liable to third party for acts of the firm after his retirement until public notice of his retirement has been given either by himself or by any other partner. But the retired partner will not be liable to any third party if the latter deals with the firm without knowing that the former was partner.

Also, if the partnership is at will, the partner by giving notice in writing to all the other partners of his intention to retire will be deemed to be relieved as a partner without giving a public notice to this effect.

Also, as per section 28 of the Indian Partnership Act, 1932, where a man holds himself out as a partner, or allows others to do it, he is then stopped from denying the character he has assumed and upon the faith of which creditors may be presumed to have acted.

In the light of the provisions of the Act and facts of the case, Mr. P is also liable to Mr. X.

Q-11 State any four grounds on which Court may dissolve a partnership firm in case any partner files a suit for the same. **[RTP-Nov'18, RTP-May'20, Sugg.-Nov'18, 4 Marks)**]

Ans. **Dissolution by the Court (Section 44 of the Indian Partnership Act, 1932):** Court may, at the suit of the partner, dissolve a firm on any of the following ground:

(1) **Insanity/unsound mind:** Where a partner (not a sleeping partner) has become of unsound mind,the court may dissolve the firm on a suit of the other partners or by the next friend of the insane partner.

(2) **Permanent incapacity**: When a partner, other than the partner suing, has become in any way permanently incapable of performing his duties as partner, then the court may dissolve the firm. Such permanent incapacity may result from physical disability or illness etc.

(3) **Misconduct:** Where a partner, other than the partner suing, is guilty of conduct which is likely to affect prejudicially the carrying on of business, the court may order for dissolution of the firm, by giving regard to the nature of business.

(4) **Persistent breach of agreement**: Where a partner other than the partner suing, wilfully or persistently commits breach of agreements relating to the management of the affairs of the firm or the conduct of its business, or otherwise so conduct himself in matters relating to the business that it is not reasonably practicable for other partners to carry on the business in partnership with him, then the court may dissolve the firm at the instance of any of the partners. Following comes in to category of breach of contract:

- Embezzlement,
- Keeping erroneous accounts
- Holding more cash than allowed
- Refusal to show accounts despite repeated request etc.

(5) **Transfer of interest:** Where a partner other than the partner suing, has transferred the whole of his interest in the firm to a third party or has allowed his share to be charged or sold by the court, in the recovery of arrears of land revenue, the court may dissolve the firm at the instance of any other partner.

(6) **Continuous/Perpetual losses**: Where the business of the firm cannot be carried on except at a loss in future also, the court may order for its dissolution.

(7) **Just and equitable grounds:** Where the court considers any other ground to be just and equitable for the dissolution of the firm, it may dissolve a firm. The following are the cases for the just and equitable grounds-

(i) Deadlock in the management.

(ii) Where the partners are not in talking terms between them.

(iii) Loss of substratum.

(iv) Gambling by a partner on a stock exchange.

Q-12 X, Y and Z are partners in a Partnership Firm. They were carrying their business successfully for the past several years. Spouses of X and Y fought in ladies club on their personal issue and X's wife was hurt badly. X got angry on the incident and he convinced Z to expel Y from their partnership firm. Y was expelled from partnership without any notice from X and Z. Considering the provisions of the Indian Partnership Act, 1932, state whether they can expel a partner from the firm. What are the criteria for test of good faith in such circumstances? **[MTP-March'21, Sugg.-May'18,MTP-April'19, 6 Marks]**

Ans. A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners. It is, thus, essential that:

(i) the power of expulsion must have existed in a contract between the partners;

(ii) the power has been exercised by a majority of the partners; and

(iii) it has been exercised in good faith.

If all these conditions are not present, the expulsion is not deemed to be in bonafide interest of the business of the firm.

The test of good faith as required under Section 33(1) includes three things:

- The expulsion must be in the interest of the partnership.
- The partner to be expelled is served with a notice.
- He is given an opportunity of being heard.

If a partner is otherwise expelled, the expulsion is null and void.

Thus, according to the test of good faith as required under Section 33(1), expulsion of Partner Y is not valid.

Q-13 What is the conclusive evidence of partnership? State the circumstances when partnership is not considered between two or more parties. **[Sugg.-May'18,MTP-March'19,MTP-Oct'19, 4 Marks]**

Ans. **Conclusive evidence of partnership:** Existence of Mutual Agency which is the cardinal principle of partnership law is very much helpful in reaching a conclusion with respect to determination of existence of partnership. Each partner carrying on the business is the principal as well as an agent of other partners. So, the act of one partner done on behalf of firm, binds all the partners. If the element of mutual agency relationship exists between the parties constituting a group formed with a view to earn profits by running a business, a partnership may be deemed to exist.

Circumstances when partnership is not considered between two or more parties: Various judicial pronouncements have laid to the following factors leading to no partnership between the parties:

(i) Parties have not retained any record of terms and conditions of partnership.

(ii) Partnership business has maintained no accounts of its own, which would be open to inspection by both parties

(iii) No account of the partnership was opened with any bank

(iv) No written intimation was conveyed to the Deputy Director of Procurement with respect to the newly created partnership.

Q-14 Explain the following kinds of partnership under the Indian Partnership Act, 1932:

(i) Partnership at will

(ii) Particular partnership **[RTP-May '20]**

Ans.(i) **Partnership at will:** According to Section 7 of the Indian Partnership Act, 1932, partnership at will is a partnership when:

1. no fixed period has been agreed upon for the duration of the partnership; and
2. there is no provision made as to the determination of the partnership.

These two conditions must be satisfied before a partnership can be regarded as a partnership at will. But, where there is an agreement between the partners either for the duration of the partnership or for the determination of the partnership, the partnership is not partnership at will.

Where a partnership entered into for a fixed term is continued after the expiry of such term, it is to be treated as having become a partnership at will.

A partnership at will may be dissolved by any partner by giving notice in writing to all the other partners of his intention to dissolve the same.

(ii) Particular partnership: A partnership may be organized for the prosecution of a single adventure as well as for the conduct of a continuous business. Where a person becomes a partner with another person in any particular adventure or undertaking the partnership is called 'particular partnership'.
A partnership, constituted for a single adventure or undertaking is, subject to any agreement, dissolved by the completion of the adventure or undertaking.

Q-15 "Partner indeed virtually embraces the character of both a principal and an agent". Describe the said statement keeping in view of the provisions of the Indian Partnership Act, 1932. **[RTP-May'20]**

Ans. **"Partner indeed virtually embraces the character of both a principal and an agent":** Subject to the provisions of section 18 of the Indian Partnership Act, 1932, a partner is the agent of the firm for the purposes of the business of the firm.

A partnership is the relationship between the partners who have agreed to share the profits of the business carried on by all or any of them acting for all (Section 4). This definition suggests that any of the partners can be the agent of the others.

Section 18 clarifies this position by providing that, subject to the provisions of the Act, a partner is the agent of the firm for the purpose of the business of the firm. **The partner indeed virtually embraces the character of both a principal and an agent.** So far as he acts for himself and in his own interest in the common concern of the partnership, he may properly be deemed as a principal and so far as he acts for his partners, he may properly be deemed as an agent.

The principal distinction between him and a mere agent is that he has a community of interest with other partners in the whole property and business and liabilities of partnership, whereas an agent as such has no interest in either.

The rule that a partner is the agent of the firm for the purpose of the business of the firm cannot be applied to all transactions and dealings between the partners themselves. It is applicable only to the act done by partners for the purpose of the business of the firm.

Q-16 A, B and C are partners in a firm. As per terms of the partnership deed, A is entitled to 20 percent of the partnership property and profits. A retires from the firm and dies after 15 days. B and C continue business of the firm without settling accounts. What are the rights of A's legal representatives against the firm under the Indian Partnership Act, 1932? **[RTP-May'20]**

Ans. **Retirement / Death of Partner:** Section 37 of the Indian Partnership Act, 1932 provides that where a partner dies or otherwise ceases to be a partner and there is no final settlement of account between the legal representatives of the deceased partner or the firms with the property of the firm, then, in the absence of a contract to the contrary, the legal representatives of the deceased partner or the retired partner are entitled to claim either.

(i) Such shares of the profits earned after the death or retirement of the partner which is attributable to the use of his share in the property of the firm; or

(ii) Interest at the rate of 6 per cent annum on the amount of his share in the property.

Based on the aforesaid provisions of Section 37 of the Indian Partnership Act, 1932, in the given problem, A shall be entitled, at his option to:

(i) the 20% shares of profits (as per the partnership deed); or

(ii) interest at the rate of 6 per cent per annum on the amount of A's share in the property.

Q-17 State the legal consequences of the following as per the provisions of the Indian Partnership Act, 1932:

(i) Retirement of a partner

(ii) Insolvency of a partner **[RTP-Nov'19]**

Ans. **RETIREMENT OF A PARTNER (SECTION 32):**

(1) A partner may retire:

(a) with the consent of all the other partners;

(b) in accordance with an express agreement by the partners; or

(c) where the partnership is at will, by giving notice in writing to all the other partners of his intention to retire.

(2) A retiring partner may be discharged from any liability to any third party for acts of the firm done before his retirement by an agreement made by him with such third party and the partners of the reconstituted firm, and such agreement may be implied by a course of dealing between the third party and the reconstituted firm after he had knowledge of the retirement.

(3) Notwithstanding the retirement of a partner from a firm, he and the partners continue to be liable as partners to third parties for any act done by any of them which would have been an act of the firm if done before the retirement, until public notice is given of the retirement:

Provided that a retired partner is not liable to any third party who deals with the firm without knowing that he was a partner.

(4) Notices under sub-section (3) may be given by the retired partner or by any partner of the reconstituted firm.

(ii) Insolvency of a partner (Section 34)

(1) The insolvent partner cannot be continued as a partner.

(2) He will be ceased to be a partner from the very date on which the order of adjudication is made.

(3) The estate of the insolvent partner is not liable for the acts of the firm done after the date of order of adjudication.

(4) The firm is also not liable for any act of the insolvent partner after the date of the order of adjudication,

(5) Ordinarily but not invariably, the insolvency of a partner results in dissolution of a firm; but the partners are competent to agree among themselves that the adjudication of a partner as an insolvent will not give rise to dissolution of the firm

Q-18 X and Y are partners in a partnership firm. X introduced A, a manager, as his partner to Z. A remained silent. Z, a trader believing A as partner supplied 100 T.V sets to the firm on credit. After expiry of credit period, Z did not get amount of T.V sets sold to the partnership firm. Z filed a suit against X and A for the recovery of price. Advice Z whether he can recover the amount from X and A under the Indian Partnership Act, 1932. **[RTP-Nov'19]**

Ans. In the given case, along with X, the Manager (A) is also liable for the price because he becomes a partner by holding out (Section 28, Indian Partnership Act, 1932).

Partner by holding out (Section 28): Partnership by holding out is also known as partnership by estoppel. Where a man holds himself out as a partner, or allows others to do it, he is then stopped from denying the character he has assumed and upon the faith of which creditors may be presumed to have acted.

It is only the person to whom the representation has been made and who has acted thereon that has right to enforce liability arising out of 'holding out'.

You must also note that for the purpose of fixing liability on a person who has, by representation, led another to act, it is not necessary to show that he was actuated by a fraudulent intention.

The rule given in Section 28 is also applicable to a former partner who has retired from the firm without giving proper public notice of his retirement. In such cases, a person who, even subsequent to the retirement, give credit to the firm on the belief that he was a partner, will be entitled to hold him liable.

Q-19 When does dissolution of a partnership firm take place under the provisions of the Indian Partnership Act, 1932? Explain. **[MTP-April'21, MTP-March'19, RTP-Nov'19, 4 Marks]**

Ans. **Dissolution of Firm:** The Dissolution of Firm means the discontinuation of the jural relation existing between all the partners of the Firm. But when only one of the partners retires or becomes in capacitated

from acting as a partner due to death, insolvency or insanity, the partnership, i.e., the relationship between such a partner and other is dissolved, but the rest may decide to continue. In such cases, there is in practice, no dissolution of the firm. The particular partner goes out, but the remaining partners carry on the business of the Firm. In the case of dissolution of the firm, on the other hand, the whole firm is dissolved. The partnership terminates as between each and every partner of the firm.

Dissolution of a Firm may take place (Section 39 - 44)

(a) as a result of any agreement between all the partners (i.e., dissolution by agreement);

(b) by the adjudication of all the partners, or of all the partners but one, as insolvent (i.e., compulsory dissolution);

(c) by the business of the Firm becoming unlawful (i.e., compulsory dissolution);

(d) subject to agreement between the parties, on the happening of certain contingencies, such as: (i) effluence of time; (ii) completion of the venture for which it was entered into; (iii) death of a partner; (iv) insolvency of a partner.

(e) by a partner giving notice of his intention to dissolve the firm, in case of partnership at will and the firm being dissolved as from the date mentioned in the notice, or if no date is mentioned, as from the date of the communication of the notice; and

(f) by intervention of court in case of: (i) a partner becoming the unsound mind; (ii) permanent incapacity of a partner to perform his duties as such; (iii) Misconduct of a partner affecting the business; (iv) willful or persistent branches of agreement by a partner; (v) transfer or sale of the whole interest of a partner; (vi) improbability of the business being carried on save at a loss; (vii) the court being satisfied on other equitable grounds that the firm should be dissolved.

Q-20 (I) P, X, Y and Z are partners in a registered firm A & Co. X died and P retired. Y and Z filed a suit against W in the name and on behalf of firm without notifying to the Registrar of firms about the changes in the constitution of the firm. Is the suit maintainable?

(ii) Ram, Mohan and Gopal were partners in a firm. During the course of partnership, the firm ordered Sunrise Ltd. to supply a machine to the firm. Before the machine was delivered, Ram expired. The machine, however, was later delivered to the firm. Thereafter, the remaining partners became insolvent and the firm failed to pay the price of machine to Sunrise Ltd.

Explain with reasons:

(i) Whether Ram's private estate is liable for the price of the machine purchased by the firm?

(ii) Against whom can the creditor obtain a decree for the recovery of the price?

[Sugg-Jan'21, RTP-May'19, 6 Marks]

Ans.(i) As regards the question whether in the case of a registered firm (whose business was carried on after its dissolution by death of one of the partners), a suit can be filed by the remaining partners in respect of any subsequent dealings or transactions without notifying to the Registrar of Firms, the changes in the constitution of the firm, it was decided that the remaining partners should sue in respect of such subsequent dealings or transactions even though the firm was not registered again after such dissolution and no notice of the partner was given to the Registrar.

(i) The test applied in these cases was whether the plaintiff satisfied the only two requirements of Section 69 (2) of the Act namely,

(ii) the suit must be instituted by or on behalf of the firm which had been registered.

(ii) Partnership Liability: The problem in question is based on the provisions of the Indian Partnership Act, 1932 contained in Section 35. The Section provides that where under a contract between the partners the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death. Therefore, considering the above provisions, the problem may be answered as follows:

(i) Ram's estate in this case will not be liable for the price of the Machinery purchased.

(ii) The creditors in this case can have only a personal decree against the surviving partners and decree against the partnership assets in the hands of those partners. However, since the surviving partners are already insolvent, no suit for recovery of the debt would lie against them. A suit for goods sold and delivered would not lie against the representative of the deceased partner.

This is because there was not debt due in respect of the goods in Ram's life time.

Q-21 (i) What is the procedure of registration of a partnership firm under the Indian Partnership Act, 1932?

(ii) What do you mean by "implied authority" of the partners in a firm? Point out the extent of partner's implied authority in case of emergency, referring to the provisions of the Indian Partnership Act, 1932.

[RTP-May'19]

Ans.(i) APPLICATION FOR REGISTRATION (SECTION 58): (1) The registration of a firm may be effected at any time by sending by post or delivering to the Registrar of the area in which any place of business of the firm is situated or proposed to be situated, a statement in the prescribed form and accompanied by the prescribed fee, stating-

(a) The firm's name

(b) The place or principal place of business of the firm,

(c) The names of any other places where the firm carries on business,

(d) the date when each partner joined the firm,

(e) the names in full and permanent addresses of the partners, and

(f) the duration of the firm.

The statement shall be signed by all the partners, or by their agents specially authorised in this behalf.

(2) Each person signing the statement shall also verify it in the manner prescribed.

(3) A firm name shall not contain any of the following words, namely:-

'Crown', Emperor', 'Empress', 'Empire', 'Imperial', 'King', 'Queen', 'Royal', or words expressing or implying the sanction, approval or patronage of Government except when the State Government signifies its consent to the use of such words as part of the firm-name by order in writing.

(ii) Implied Authority of Partner as Agent of the Firm (Section 19): Subject to the provisions of section 22, the act of a partner which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm.

(1) The authority of a partner to bind the firm conferred by this section is called his "implied authority".

(2) In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to-

(a) Submit a dispute relating to the business of the firm to arbitration;

(b) open a banking account on behalf of the firm in his own name;

(c) compromise or relinquish any claim or portion of a claim by the firm;

(d) withdraw a suit or proceedings filed on behalf of the firm;

(e) admit any liability in a suit or proceedings against the firm;

(f) acquire immovable property on behalf of the firm;

(g) transfer immovable property belonging to the firm; and

(h) enter into partnership on behalf of the firm.

Mode Of Doing Act To Bind Firm (Section 22): In order to bind a firm, an act or instrument done or executed by a partner or other person on behalf of the firm shall be done or executed in the firm name, or in any other manner expressing or implying an intention to bind the firm.

Q-22 (i) Ram & Co., a firm consists of three partners A, B and C having one third share each in the firm. According to A and B, the activities of C are not in the interest of the partnership and thus want to expel C from the firm. Advise A and B whether they can do so quoting the relevant provisions of the Indian Partnership Act, 1932. **[RTP-Nov'18]**

(ii) What is Partnership Deed? What are the particulars that the partnership deed may contain?

[MTP-March'18, MTP-April'19, RTP-Nov'18, 4 Marks]

Ans.(i) It is not possible for the majority of partners to expel a partner from the firm without satisfying the conditions as laid down in Section 33 of the Indian Partnership Act, 1932. The essential conditions before expulsion can be done are:

(i) the power of expulsion must have existed in a contract between the partners;

(ii) the power has been exercised by a majority of the partners; and

(iii) It has been exercised in good faith.

The test of good faith includes:

(a) that the expulsion must be in the interest of the partnership;

(b) that the partner to be expelled is served with a notice; and

(c) that the partner has been given an opportunity of being heard.

Thus, in the given case A and B the majority partners can expel the partner only if the above conditions are satisfied and procedure as stated above has been followed.

(ii) **Partnership Deed:** Partnership is the result of an agreement. No particular formalities are required for an agreement of partnership. It may be in writing or formed verbally. But it is desirable to have the partnership agreement in writing to avoid future disputes. The document in writing containing the various terms and conditions as to the relationship of the partners to each other is called the 'partnership deed'. It should be drafted with care and be stamped according to the provisions of the Stamp Act, 1899. Where the partnership comprises immovable property, the instrument of partnership must be in writing, stamped and registered under the Registration Act.

Partnership deed may contain the following information:

1. Name of the partnership firm.
2. Names of all the partners.
3. Nature and place of the business of the firm.
4. Date of commencement of partnership.
5. Duration of the partnership firm.
6. Capital contribution of each partner.
7. Profit Sharing ratio of the partners.
8. Admission and Retirement of a partner.
9. Rates of interest on Capital, Drawings and loans.
10. Provisions for settlement of accounts in the case of dissolution of the firm.
11. Provisions for Salaries or commissions, payable to the partners, if any.
12. Provisions for expulsion of a partner in case of gross breach of duty or fraud.

A partnership firm may add or delete any provision according to the needs of the firm.

Q-23 State the modes by which a partner may transfer his interest in the firm in favour of another person under the Indian Partnership Act, 1932. What are the rights of such a transferee?

[RTP-Nov'18, MTP-March'18, 6 Marks]

Ans. **Section 29 of the Indian Partnership Act,** 1932 provides that a share in a partnership is transferable like any other property, but as the partnership relationship is based on mutual confidence, the assignee of a partner's interest by sale, mortgage or otherwise cannot enjoy the same rights and privileges as the original partner.

The rights of such a transferee are as follows:

(1) During the continuance of partnership, such transferee is not entitled

(a) to interfere with the conduct of the business,

(b) to require accounts, or

(c) to inspect books of the firm.

He is only entitled to receive the share of the profits of the transferring partner and he is bound to accept the profits as agreed to by the partners, i.e., he cannot challenge the accounts.

(2) On the dissolution of the firm or on the retirement of the transferring partner, the transferee will be entitled, against the remaining partners:

(a) to receive the share of the assets of the firm to which the transferring partner was entitled, and

(b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

By virtue of Section 31, no person can be introduced as a partner in a firm without the consent of all the partners. A partner cannot by transferring his own interest, make anybody else a partner in his place, unless the other partners agree to accept that person as a partner. At the same time, a partner is not debarred from transferring his interest. A partner's interest in the partnership can be regarded as an existing interest and tangible property which can be assigned.

Q-24(i) Whether a minor may be admitted in the business of a partnership firm? Explain the rights of a minor in the partnership firm.

(ii) A & Co. is registered as a partnership firm in 2015 with A, B and C partners. In 2016, A dies. In 2017, B and C sue X in the name and on behalf of A & Co., without fresh registration. Decide whether the suit is maintainable. Whether your answer would be same if in 2017 B and C had taken a new partner D and then filed a suit against X without fresh registration?

Ans.(i) **Minor as a partner:** A minor is incompetent to do the contract and such contract is void-ab-initio. Therefore, a minor cannot be admitted in the business of the partnership firm because the partnership is formed on a contract. Though a minor cannot be a partner in a firm, he can nevertheless be admitted to the benefits of partnership under section 30 of the Indian Partnership Act, 1932. He may be validly have a share in the profit of the firm but this can be done with the consent of all the partners of the firm.

Rights of the minor in the firm:

(a) a minor has a right to his agreed share of the profits and of the firm.

(b) he can have access to, inspect and copy the accounts of the firm.

(c) he can sue the partners for accounts or for payments of his share but only, when severing his connection with the firm, and not otherwise. The amount of share shall be determined by a valuation made in accordance with the rules upon a dissolution.

(d) on attaining majority he may within 6 months elect to become a partner or not to become a partner. If he elects to become a partner, then he is entitled to the share to which he was entitled as a minor. If he does not, then his share is not liable for any acts of the firm after the date of the public notice served to that effect.

(ii) As regards the question whether in the case of a registered firm (whose business was carried on after its dissolution by death of one of the partners), a suit can be filed by the remaining partners in respect of any subsequent dealings or transactions without notifying to the Registrar of Firms, the changes in the constitution of the firm, it was decided that the remaining partners should sue in respect of such subsequent dealings or transactions even though the firm was not registered again after such dissolution and no notice of the partner was given to the Registrar.

The test applied in these cases was whether the plaintiff satisfied the only two requirements of Section 69 (2) of the Act namely,

(a) the suit must be instituted by or on behalf of the firm which had been registered;

(b) the person suing had been shown as partner in the register of firms. In view of this position of law, the suit is in the case by B and C against X in the name and on behalf of A & Co. is maintainable.

Now, in 2017, B and C had taken a new partner, D, and then filed a suit against X without fresh registration. Where a new partner is introduced, the fact is to be notified to Registrar who shall make a record of the notice in the entry relating to the firm in the Register of firms. Therefore, the firm cannot sue as D's (new partner's) name has not been entered in the register of firms. It was pointed out that in the second requirement, the phrase "person suing" means persons in the sense of individuals whose names appear in the register as partners and who must be all partners in the firm at the date of the suit.

Q-25(i) A, B and C are partners in a firm. As per terms of the partnership deed, A is entitled to 20 percent of the partnership property and profits. A retires from the firm and dies after 15 days. B and C continue business of the firm without settling accounts. Explain the rights of A's legal representatives against the firm under the Indian Partnership Act, 1932? **[RTP-May'18]**

(ii) State the differences between Partnership and Hindu Undivided Family.

[MTP-Oct'19, RTP-May'18, 2 Marks]

Ans.(i) Section 37 of the Indian Partnership Act, 1932 provides that where a partner dies or otherwise ceases to be a partner and there is no final settlement of account between the legal representatives of the deceased partner or the firms with the property of the firm, then, in the absence of a contract to the contrary, the legal representatives of the deceased partner or the retired partner are entitled to claim either.

(1) Such shares of the profits earned after the death or retirement of the partner which is attributable to the use of his share in the property of the firm; or

(2) Interest at the rate of 6 per cent annum on the amount of his share in the property.

Based on the aforesaid provisions of Section 37 of the Indian Partnership Act, 1932, in the given problem, A's Legal representatives shall be entitled, at their option to:

(a) the 20% shares of profits (as per the partnership deed); or

(b) interest at the rate of 6 per cent per annum on the amount of A's share in the property.

(ii) Differences between the Partnership & Joint Hindus Family.

Basis of difference	Partnership	Joint Hindu family
Mode of creation	Partnership is created necessarily by an agreement.	The right in the joint family is created by status means its creation by birth in the family.
Death of a member	Death of a partner ordinarily leads to the dissolution of partnership.	Death of a partner ordinarily leads to the dissolution of partnership. The death of a member in the Hindu undivided family does not give rise to dissolution of the family business.

Management	All the partners are equally entitled to take part in the partnership business.	The right of management of joint family business generally vests in the Karta, the governing male member or female member of the family.
Authority to bind	Every partner can, by his act, bind the firm. a	The Karta or the manager, has the uthority to contract for the family business and the other members in the family.
Liability	In a partnership, the liability of a partner is unlimited.	In a Hindu undivided family, only the liability of the Karta is unlimited, and the other co-partners are liable only to the extent of their share in the profits of the family business.
Calling for accounts on closure	A partner can bring a suit against the firm for accounts, provided he also seeks the dissolution of the firm.	On the separation of the joint family, a member is not entitled to ask for account of the family business.
Governing Law	A partnership is governed by the Indian Partnership Act, 1932.	A Joint Hindu Family business is governed by the Hindu Law.
Minor's capacity	In a partnership, a minor cannot become a partner, though he can be admitted to the benefits of partnership, only with the consent of all the partners.	In Hindu undivided family business, a minor becomes a member of the ancestral business by the incidence of birth. He does not have to wait for attaining majority.
Continuity	A firm subject to a contract between the partners gets dissolved by death or insolvency of a partner.	A Joint Hindu family has the continuity till it is divided. The status of Joint Hindu family is not thereby affected by the death of a member.
Number of Members	In case of Partnership number of members should not exceed 50	Members of HUF who carry on a business may be unlimited in number.
Share in the business	In a partnership each partner has a defined share by virtue of an agreement between the partners.	In a HUF, no coparceners has a definite share. His interest is a fluctuating one. It is capable of being enlarged by deaths in the family diminished by births in the family.

Q-26 A, B, and C are partners of a partnership firm ABC & Co. The firm is a dealer in office furniture. A was incharge of purchase and sale, B was incharge of maintenance of accounts of the firm and C was incharge of handling all legal matters. Recently, through an agreement among them, it was decided that A will be incharge of maintenance of accounts and B will be in charge of purchase and sale. Being ignorant about such agreement, M, a supplier supplied some furniture to A, who ultimately sold them to a third party. Referring to the provisions of the Partnership Act, 1932, advise whether M can recover money from the firm.

What will be your advice in case M was having knowledge about the agreement?

[MTP-April'21, MTP-May'2020, March'19, 6 Marks]

Ans. According to Section 20 of the Indian Partnership Act, 1932, the partners in a firm may, by contract between the partners, extend or restrict implied authority of any partners.

Notwithstanding any such restriction, any act done by a partner on behalf of the firm which falls within his implied authority binds the firm, unless the person with whom he is dealing knows of the restriction or does not know or believe that partner to be a partner.

The implied authority of a partner may be extended or restricted by contract between the partners. Under the following conditions, the restrictions imposed on the implied authority of a partner by agreement shall be effective against a third party:

1. The third party knows above the restrictions, and
2. The third party does not know that he is dealing with a partner in a firm.

Now, referring to the case given in the question, M supplied furniture to A, who ultimately sold them to a third party and M was also ignorant about the agreement entered into by the partners about the change in their role. Therefore, M on the basis of knowledge of implied authority of A, can recover money from the firm.

But in the second situation, if M was having knowledge about the agreement, he cannot recover money from the firm.

Q-27 Mahesh, Suresh and Dinesh are partners in a trading firm. Mahesh, without the knowledge or consent of Suresh and Dinesh borrows himself Rs. 50,000 from Ramesh, a customer of the firm, in the name of the firm. Mahesh, then buys some goods for his personal use with that borrowed money. Can Mr. Ramesh hold Mr. Suresh & Mr. Dinesh liable for the loan? Explain the relevant provisions of the Indian Partnership Act,1932. **[MTP-Oct'19, 6 Marks]**

Ans. **Implied authority of a partner**

Yes, as per sections 19 and 22 of the Indian Partnership Act,1932 unless otherwise provided in the partnership deed, every partner has an implied authority to bind every other partner for acts done in the name of the firm, provided the same falls within the ordinary course of business and is done in a usual manner. Mahesh has a right to borrow the money of Rs. 50,000/- from Ramesh on behalf of his firm in the usual manner. Since, Ramesh has no knowledge that the amount was borrowed by Mahesh without the consent of the other two partners, Mr. Suresh and Mr. Dinesh, he can hold both of them (Suresh and Dinesh) liable for the re-payment of the loan.

Q-28 A, B and C are partners in a firm called ABC Firm. A, with the intention of deceiving D, a supplier of office stationery, buys certain stationery on behalf of the ABC Firm. The stationery is of use in the ordinary course of the firm's business. A does not give the stationery to the firm, instead brings it to his own use. The supplier D, who is unaware of the private use of stationery by A, claims the price from the firm. The firm refuses to pay for the price, on the ground that the stationery was never received by it (firm). Referring to the provisions of the Indian Partnership Act, 1932 decide:

(i) Whether the Firm's contention shall be tenable?

(ii) What would be your answer if a part of the stationery so purchased by A was delivered to the firm by him, and the rest of the stationery was used by him for private use, about which neither the firm nor the supplier D was aware? **[MTP-March'18, 6 Marks)]**

Ans. The problem in the question is based on the 'Implied Authority' of a partner provided in Section 19 of the Indian Partnership Act, 1932. The section provides that subject to the provisions of Section 22 of the Act, the act of a partner, which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm. The authority of a partner to bind the firm conferred by this section is called his 'Implied Authority' [Sub-Section (1) of section 19]. Furthermore, every partner is in contemplation of law the general and accredited agent of the partnership and may consequently bind all the other partners by his acts in all matters which are within the scope and object of the partnership. Hence, if the partnership is of a general commercial nature, he may buy goods on account of the partnership.

Considering the above provisions and explanation, the questions as asked in the problem may be answered as under:

(i) The firm's contention is not tenable, for the reason that the partner, in the usual course of the business on behalf of the firm has an implied authority to bind the firm. The firm is, therefore, liable for the price of the goods.

(ii) In the second case also, the answer would be the same as above, i.e. the implied authority of the partner binds the firm.

In both the cases, however, the firm ABC can take action against A, the partner but it has to pay the price of stationery to the supplier D.

Q-29 What do you mean by "Particular Partnership" under the Indian Partnership Act, 1932?

[Sugg-Jan'21, 2 Marks]

OR

Who is a nominal partner under the Indian Partnership Act, 1932? What are his liabilities?

[Sugg-Jan'21, 2 Marks]

Ans. **Particular partnership:** A partnership may be organized for the prosecution of a single adventure as well as for the conduct of a continuous business. Where a person becomes a partner with another person in any particular adventure or undertaking, the partnership is called 'particular partnership'.

A partnership, constituted for a single adventure or undertaking is, subject to any agreement, dissolved by the completion of the adventure or undertaking.

OR

Nominal Partner: A person who lends his name to the firm, without having any real interest in it, is called a nominal partner.

Liabilities: He is not entitled to share the profits of the firm. Neither he invests in the firm nor takes part in the conduct of the business. He is, however liable to third parties for all acts of the firm.

Q-30 "Business carried on by all or any of them acting for all." Discuss the statement under the Indian Partnership Act, 1932. **[Sugg-Jan'21, 4 Marks]**

Ans. **Business carried on by all or any of them acting for all:** The business must be carried on by all the partners or by anyone or more of the partners acting for all. In other words, there should be a binding contract of mutual agency between the partners.

An act of one partner in the course of the business of the firm is in fact an act of all partners. Each partner carrying on the business is the principal as well as the agent for all the other partners. He is an agent in so far as he can bind the other partners by his acts and he is a principal to the extent that he is bound by the act of other partners.

It may be noted that the true test of partnership is mutual agency. If the element of mutual agency is absent, then there will be no partnership.

In KD Kamath & Co**.,** the Supreme Court has held that the two essential conditions to be satisfied are that:

(1) there should be an agreement to share the profits as well as the losses of business; and

(2) the business must be carried on by all or any of them acting for all, within the meaning of the definition of 'partnership' under section 4.

The fact that the exclusive power and control, by agreement of the parties, is vested in one partner or the further circumstance that only one partner can operate the bank accounts or borrow on behalf of the firm are not destructive of the theory of partnership provided the two essential conditions, mentioned earlier, are satisfied.

Q-31 M, N and P were partners in a firm. The firm ordered JR Limited to supply the furniture. P dies, and M and N continues the business in the firm's name. The firm did not give any notice about P's death to the public or the persons dealing with the firm. The furn iture was delivered to the firm after P's death, fact about his death was known to them at the time of delivery. Afterwards the firm became insolvent and failed to pay the price of furniture to JR Limited.

Explain with reasons:

(i) Whether P's private estate is liable for the price of furniture purchased by the firm?

(ii) Whether does it make any difference if JR Limited supplied the furniture to the firm believing that all the three partners are alive? **(6 Marks)**

Ans. According to Section 35 of the Indian Partnership Act, 1932, where under a contract between the partners the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death.

Further, in order that the estate of the deceased partner may be absolved from liability for the future obligations of the firm, it is not necessary to give any notice either to the public or the persons having dealings with the firm.

In the given question, JR Limited has supplied furniture to the partnership firm, after P's death. The firm did not give notice about P's death to public or people dealing with the firm. Afterwards, the firm became insolvent and could not pay JR Limited.

In the light of the facts of the case and provisions of law:

(i) Since the delivery of furniture was made after P's death, his estate would not beliable for the debt of the firm. A suit for goods sold and delivered would not lie against the representatives of the deceased partner. This is because there was no debt due in respect of the goods in P's lifetime.

(ii) It will not make any difference even if JR Limited supplied furniture to the firm believing that all the three partners are alive, as it is not necessary to give any notice either to the public or the persons having dealings with the firm, so the estate of the deceased partner may be absolved from liability for the future obligations of the firm.

Q-32 Discuss the liability of a partner for the act of the firm and liability of firm for act of a partner to third parties as per Indian Partnership Act, 1932. **[Sugg-Jan'21**, **4 Marks]**

Ans. **Liability of a partner for acts of the firm (Section 25 of the Indian Partnership Act, 1932):** Every partner is liable, jointly with all the other partners and also severally, for all acts of the firm done while he is a partner. The partners are jointly and severally responsible to third parties for all acts which come under the scope of their express or implied authority. This is because that all the acts done within the scope of authority are the acts done towards the business of the firm.

The expression 'act of firm' connotes any act or omission by all the partners or by any partner or agent of the firm, which gives rise to a right enforceable by or against the firm. Again in order to bring a case under Section 25, it is necessary that the act of the firm, in respect of which liability is brought to be enforced against a party, must have been done while he was a partner.

Liability of the firm for wrongful acts of a partner and for misapplication by **partners (Sections 26 & 27 of the Indian Partnership Act, 1932):** Where, by the wrongful act or omission of a partner in the ordinary course of the business of a firm, or with the authority of his partners, loss or injury is caused to any third party, or any penalty is incurred, the firm is liable therefor to the same extent as the partner.

a partner acting within his apparent authority receives money or property from a third party and misapplies it, or a firm in the course of its business receives money or property from a third party, and the money or property is misapplied by any of the partners while it is in the custody of the firm, the firm is liable to make good the loss.

Q-33 What do you mean by 'Partnership at will' as per the Indian Partnership Act, 1932? **[Sugg-Nov'20, 2 Marks]**

OR

Comment on 'the right to expel partner must be exercised in good faith' under the Indian Partnership Act, 1932. **[Sugg-Nov'20, 2 Marks]**

Ans. **Partnership at will under the Partnership Act, 1932** According to Section 7 of the Act, partnership at will is a partnership when:

1. no fixed period has been agreed upon for the duration of the partnership; and
2. there is no provision made as to the determination of the partnership.

Where a partnership entered into for a fixed term is continued after the expiry of such term, it is to be treated as having become a partnership at will.

OR

A partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners. It is, thus, essential that:

(i) the power of expulsion must have existed in a contract between the partners;

(ii) the power has been exercised by a majority of the partners; and

(iii) it has been exercised in good faith.

If all these conditions are not present, the expulsion is not deemed to be in *bona fide* interest of the business of the firm.

Q-34 Explain in detail the circumstances which lead to liability of firm for misapplication by partners as per provisions of the Indian Partnership Act, 1932. **[Sugg-Nov'20, 4 Marks]**

Ans. **Liability of Firm for Misapplication by Partners (Section 27 of Indian Partnership Act, 1932):** Where-

(a) a partner acting within his apparent authority receives money or property from athird party and misapplies it, or

(b) a firm in the course of its business receives money or property from a third party, and the money or property is misapplied by any of the partners while it is in the custody of the firm, the firm is liable to make good the loss.

Analysis of section 27:

It may be observed that the workings of the two clauses of Section 27 are designed to bring out clearly an important point of distinction between the two categories of cases of misapplication of money by partners.

Clause (a) covers the case where a partner acts within his authority and due to his authority as a partner, he receives money or property belonging to a third party and misapplies that money or property. For this provision to be attracted, it is not necessary that the money should have actually come into the custody of the firm.

On the other hand, the provision of clause (b) would be attracted when such money or property has come into the custody of the firm and it is misapplied by any of the partners.

The firm would be liable in both the cases.

Q-35 Ms. Lucy while drafting partnership deed taken care of few important points. What are those points? She wants to know the list of information which must be part of partnership deed drafted by her. Also, give list of information to be included in partnership deed? **(MTP-Nov'21, 6 Marks)**

Ans. **Ms. Lucy while drafting partnership deed must take care of following important points:**

- No particular formalities are required for an agreement of partnership.
- Partnership deed may be in writing or formed verbally. The document in writing containing the various terms and conditions as to the relationship of the partners to each other is called the 'partnership deed'.
- Partnership deed should be drafted with care and be stamped according to the provisions of the Stamp Act, 1899.
- If partnership comprises immovable property, the instrument of partnership must be in writing, stamped and registered under the Registration Act.

List of information included in Partnership Deed while drafting Partnership Deed by Ms. Lucy:

- Name of the partnership firm.
- Names of all the partners.
- Nature and place of the business of the firm.
- Date of commencement of partnership.
- Duration of the partnership firm.
- Capital contribution of each partner.
- Profit Sharing ratio of the partners.
- Admission and Retirement of a partner.
- Rates of interest on Capital, Drawings and loans.
- Provisions for settlement of accounts in the case of dissolution of the firm.
- Provisions for Salaries or commissions, payable to the partners, if any.
- Provisions for expulsion of a partner in case of gross breach of duty or fraud.

Note: Ms. Lucy may add or delete any provision according to the needs of the partnership firm.

Q-36 X, Y and Z are partners in a Partnership Firm. They were carrying their business successfully for the past several years. Due to expansion of business, they planned to hire another partner Mr A. Now the firm has 4 partners X, Y, Z and A. The business was continuing at normal pace. In one of formal business meeting, it was observed that Mr. Y misbehaved with Mrs. A (wife of Mr. A). Mr. Y was badly drunk and also spoke rudely with Mrs. A.

Mrs. A felt very embarrassed and told her husband Mr. A about the entire incident. Mr. A got angry on the incident and started arguing and fighting with Mr. Y in the meeting place itself. Next day, in the office Mr. A convinced X and Z that they should expel Y from their partnership firm. Y was expelled from partnership without any notice from X, A and Z.

Considering the provisions of the Indian Partnership Act, 1932, state whether they can expel a partner from the firm. What are the criteria for test of good faith in such circumstances?

(MTP-Nov'21, 6 Marks)

Ans. According to Section 33 of Indian Partnership Act, 1932, a partner may not be expelled from a firm by a majority of partners except in exercise, in good faith, of powers conferred by contract between the partners. It is, thus, essential that:

(i) the power of expulsion must have existed in a contract between the partners;

(ii) the power has been exercised by a majority of the partners; and

(iii) it has been exercised in good faith.

If all these conditions are not present, the expulsion is not deemed to be in bonafide interest of the business of the firm.

The test of good faith as required under Section 33(1) includes three things:

- The expulsion must be in the interest of the partnership.
- The partner to be expelled is served with a notice.
- He is given an opportunity of being heard.

If a partner is otherwise expelled, the expulsion is null and void.

According to the test of good faith as required under Section 33(1), expulsion of Partner Y is not valid as he was not served any notice and also he was not given an opportunity of being heard. Also the matter of fight between A and Y was on personal reasons, hence not satisfying the test of good faith in the interest of partnership. Since the conditions given under above provisions are not satisfied, the expulsion stands null and void.

Q-37 "Indian Partnership Act does not make the registration of firms compulsory nor does it impose any penalty for non-registration." In light of the given statement, discuss the consequences of non-registration of the partnership firms In India? **(MTP-Nov'21, 4 Marks)**

Ans. It is true to say that Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration.

Following are consequences of Non-registration of Partnership Firms in India:

The Indian Partnership Act, 1932 does not make the registration of firms compulsory nor does it impose any penalty for non-registration. However, under Section 69, non-registration of partnership gives rise to a number of disabilities which we shall presently discuss. Although registration of firms is not compulsory, yet the consequences or disabilities of non-registration have a persuasive pressure for their registration. These disabilities briefly are as follows:

(i) No suit in a civil court by firm or other co-partners against third party: The firm or any other person on its behalf cannot bring an action against the third party for breach of contract entered into by the firm, unless the firm is registered and the persons suing are or have been shown in the register of firms as partners in the firm. In other words, a registered firm can only file a suit against a third party and the persons suing have been in the register of firms as partners in the firm

(ii) No relief to partners for set-off of claim: If an action is brought against the firm by a third party, then neither the firm nor the partner can claim any set-off, if the suit be valued for more than Rs. 100 or pursue other proceedings to enforce the rights arising from any contract.

(iii) Aggrieved partner cannot bring legal action against other partner or the firm: A partner of an unregistered firm (or any other person on his behalf) is precluded from bringing legal action against the firm or any person alleged to be or to have been a partner in the firm. But, such a person may sue for dissolution of the firm or for accounts and realization of his share in the firm's property where the firm is dissolved.

(iv) Third party can sue the firm: In case of an unregistered firm, an action can be brought against the firm by a third party.

Q-38 Enumerate the differences between Partnership and Joint Stock Company. **(MTP-Oct'21, 6 Marks)**

Ans.

Basis	Partnership	Joint Stock Company
Legal status	A firm is not legal entity i.e. it has no legal personality distinct from the personalities of its xconstituent members.	A company is a separate legal entity distinct from its members *(Salomon v. Salomon)*.
Agency	In a firm, every partner is an agent of the other partners as well as of the firm.	In a company, a member is not an agent of the other members or of the company, his actions do not bind either.
Distribution of profits	The profits of the firm must be distributed among the partners according to the terms of the partnership deed.	There is no such compulsion to distribute its profits among its members. Some portion of the profits, but generally not the entire profit, become distributable among the shareholders only when dividends are declared.
Extent of liability	In a partnership, the liability of the partners is unlimited. This means that each partner is liable for debts of a firm incurred in the course of the business of the firm and these debts can be recovered from his private property, if the joint estate is insufficient to meet them wholly.	In a company limited by shares, the liability of a shareholder is limited to the amount, if any, unpaid on his shares, but in the case of a guarantee company, the liability is limited to the amount for which he has agreed to be liable. However, there may be companies where the liability of members is unlimited.
Property	The firm's property is that which is the "joint estate" of all the partners as distinguished from the 'separate' estate of any of them and it does not belong to a body distinct in law from its members.	In a company, its property is separate from that of its members who can receive it back onlywho can receive it back only in the form of dividends or refund of capital.
Transfer of shares	A share in a partnership cannot be transferred without the consent of all the partners.	In a company a shareholder may transfer his shares, subject to the provisions contained in its Articles. In the case of public limited companies whose shares are quoted on the stock exchange, the transfer is usually unrestricted.

Management	In the absence of an express agreement to the contrary, all the partners are entitled to participate in the management.	Members of a company are not entitled to take part in the management unless they are appointed as directors, in which case they may participate. Members, however, enjoy the right of attending general meeting and voting where they can decide certain questions such as election of directors, appointment of auditors, etc.
Registration	Registration is not compulsory in the case of partnership.	A company cannot come into existence unless it is registered under the Companies Act, 2013.
Winding up	A partnership firm can be dissolved at any time if all the partners agree.	A company, being a legal person is either wind up by the National Company Law Tribunal or its name is struck of by the Registrar of Companies.
Number of membership	According to section 464 of the Companies Act, 2013, the number of partners in any association shall not exceed 100. However, the Rule given under the Companies *(Miscellaneous) Rules, 2014* restrict the present limit to 50.	A private company may have as many as 200 members but not less than two and a public company may have any number of members but not less than seven. A private Company can also be formed by one person known as one person Company.
Duration of existence	Unless there is a contract to the contrary, death, retirement or insolvency of a partner results in the dissolution of the firm.	A company enjoys a perpetual succession.

Q-39 Sohan, Rohan and Jay were partners in a firm. The firm is dealer in office furniture. They have regular dealings with M/s AB and Co. for the supply of furniture for their business. On 30th June 2020, one of the partners, Mr. Jay died in a road accident. The firm has ordered M/s AB and Co. to supply the furniture for their business on 25th May 2020, when Jay was also alive.

Now Sohan and Rohan continue the business in the firm's name after Jay's death. The firm did not give any notice about Jay's death to the public or the persons dealing with the firm. M/s AB and Co. delivered the furniture to the firm on 25th July 2020. The fact about Jay's death was known to them at the time of delivery of goods. Afterwards the firm became insolvent and failed to pay the price of furniture to M/s AB and Co. Now M/s AB and Co. has filed a case against the firm for recovery of the price of furniture. With reference to the provisions of Indian Partnership Act, 1932, explain whether Jay's private estate is also liable for the price of furniture purchased by the firm? **(MTP-Oct'21, 6 Marks)**

Ans. According to section 35 of the Indian Partnership Act, 1932, where under a contract between the partners, the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death.

Further, in order that the estate of the deceased partner may be absolved from liability for the future obligations of the firm, it is not necessary to give any notice either to the public or the persons having dealings with the firm.

In the light of the facts of the case and provisions of law, since the delivery of furniture was made after Jay's death, his estate would not be liable for the debt of the firm. A suit for goods sold and delivered would not lie against the representatives of the deceased partner. This is because there was no debt due in respect of the goods in Jay's lifetime. He was already dead when the delivery of goods was made to the firm and also it is not necessary to give any notice either to the public or the persons having dealings with the firm on a death of a partner. So, the estate of the deceased partner may be absolved from liability for the future obligations of the firm.

Q-40 When does dissolution of a partnership firm take place under the provisions of the Indian Partnership Act, 1932? Explain. **(MTP-Oct'21, 4 Marks)**

Ans. **Dissolution of Firm:** The Dissolution of Firm means the discontinuation of the jural relation existing between all the partners of the Firm. But when only one of the partners retires or becomes in capacitated from acting as a partner due to death, insolvency or insanity, the partnership, i.e., the relationship between such a partner and other is dissolved, but the rest may decide to continue. In such cases, there is in practice, no dissolution of the firm. The particular partner goes out, but the remaining partners carry on the business of the Firm. In the case of dissolution of the firm, on the other hand, the whole firm is dissolved. The partnership terminates as between each and every partner of the firm.

Dissolution of a Firm may take place (Section 39 - 44)

(a) as a result of any agreement between all the partners (i.e., dissolution by agreement);

(b) by the adjudication of all the partners, or of all the partners but one, as insolvent (i.e., compulsory dissolution);

(c) by the business of the Firm becoming unlawful (i.e., compulsory dissolution);

(d) subject to agreement between the parties, on the happening of certain contingencies, such as: (i) effluence of time; (ii) completion of the venture for which it was entered into; (iii) death of a partner; (iv) insolvency of a partner.

(e) by a partner giving notice of his intention to dissolve the firm, in case of partnership at will and the firm being dissolved as from the date mentioned in the notice, or if no date is mentioned, as from the date of the communication of the notice; and

(f) by intervention of court in case of: (i) a partner becoming the unsound mind; (ii) permanent incapacity of a partner to perform his duties as such; (iii) Misconduct of a partner affecting the business; (iv) willful or persistent breach of agreement by a partner; (v) transfer or sale of the whole interest of a partner; (vi) improbability of the business being carried on save at a loss; (vii) the court being satisfied on other equitable grounds that the firm should be dissolved.

Q-41 Define Implied Authority. In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to do certain acts. State the acts which are beyond the implied authority of a partner under the provisions of the Indian Partnership Act, 1932?

(Sugg-July'21, 6 Marks)

Ans.(a) According to Section 19 of the Indian Partnership Act, 1932, subject to the provisions of Section 22, the act of a partner which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm.

The authority of a partner to bind the firm conferred by this section is called his "implied authority".

In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to-

(a) submit a dispute relating to the business of the firm to arbitration;
(b) open a banking account on behalf of the firm in his own name;
(c) compromise or relinquish any claim or portion of a claim by the firm;
(d) withdraw a suit or proceedings filed on behalf of the firm;
(e) admit any liability in a suit or proceedings against the firm;
(f) acquire immovable property on behalf of the firm;
(g) transfer immovable property belonging to the firm; and
(h) enter into partnership on behalf of the firm.

Q-42 Mr. M is one of the four partners in M/s XY Enterprises. He owes a sum of ' 6 crore to his friend Mr. Z which he is unable to pay on due time. So, he wants to sell his share in the firm to Mr. Z for settling the amount.

In the light of the provisions of the Indian Partnership Act, 1932, discuss each of the following:

(i) Can Mr. M validly transfer his interest in the firm by way of sale?

(ii) What would be the rights of the transferee (Mr. Z) in case Mr. M wants to retire from the firm after a period of 6 months from the date of transfer? **[Sugg-July'21](6 Marks)**

Ans. According to Section 29 of the Indian Partnership Act, 1932,

(1) A transfer by a partner of his interest in the firm, either absolute or by mortgage, or by the creation by him of a charge on such interest, does not entitle the transferee, during the continuance of the firm, to interfere in the conduct of business, or to require accounts, or to inspect the books of the firm, but entitles the transferee only to receive the share of profits of the transferring partner, and the transferee shall accept the account of profits agreed to by the partners.

(2) If the firm is dissolved or if the transferring partner ceases to be a partner, the transferee is entitled as against the remaining partners to receive the share of the assets of the firm to which the transferring partner is entitled, and, for the purpose of ascertaining that share, to an account as from the date of the dissolution.

In the light of facts of the question and provision of law:

(i) Yes, Mr. M can validly transfer his interest in the firm by way of sale.

(ii) On the retirement of the transferring partner (Mr. M), the transferee (Mr. Z) will be entitled, against the remaining partners:

(a) to receive the share of the assets of the firm to which the transferring partner was entitled, and

(b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

So, in this case on Mr. M's retirement, Mr. Z would be entitled to receive the value of Mr. M's share to the extent of ' 6 crore in the firm's assets.

Q-43 Subject to agreement by partners, state the rules that should be observed by the partners in settling the accounts of the firm after dissolution under the provisions of the Indian Partnership Act, 1932.

(Sugg-July'21, 4 Marks)

Ans. **Mode of Settlement of partnership accounts:** As per Section 48 of the Indian Partnership Act, 1932, in settling the accounts of a firm after dissolution, the following rules shall, subject to agreement by the partners, be observed:-

(i) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportions in which they were entitled to share profits;

(ii) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, must be applied in the following manner and order:

(a) in paying the debts of the firm to third parties;

(b) in paying to each partner rateably what is due to him from capital;

(c) in paying to each partner rateably what is due to him on account of capital; and

(d) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

Q-44 Define partnership and name the essential elements for the existence of a partnership as per the Indian Partnership Act, 1932. Explain any two such elements in detail. **(MTP March '22, 3 + 3 = 6 Marks)**

Ans. **Definition of Partnership:** 'Partnership' is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. (Section 4 of the Indian Partnership Act, 1932)

The definition of the partnership contains the following five elements which must co-exist before a partnership can come into existence:

1. Association of two or more persons
2. Agreement
3. Business
4. Agreement to share Profits
5. Business carried on by all or any of them acting for all

ELEMENTS OF PARTNERSHIP

The definition of the partnership contains the following five elements which must co-exist before a partnership can come into existence:

1. **Association of two or more persons:** Partnership is an association of 2 or more persons. Again, only persons recognized by law can enter into an agreement of partnership. Therefore, a firm, since it is not a person recognized in the eyes of law cannot be a partner. Again, a minor cannot be a partner in a firm, but with the consent of all the partners, may be admitted to the benefits of partnership.

   The Partnership Act is silent about the maximum number of partners but Section 464 of the Companies Act, 2013 read with the relevant Rules has now put a limit of 50 partners in any association / partnership firm.

2. **Agreement:** It may be observed that partnership must be the result of an agreement between two or more persons. There must be an agreement entered into by all the persons concerned. This element relates to voluntary contractual nature of partnership. Thus, the nature of the partnership is voluntary and contractual. An agreement from which relationship of Partnership arises may be express. It may also be implied from the act done by partners and from a consistent course of conduct being followed, showing mutual understanding between them. It may be oral or in writing.

3. **Business:** In this context, we will consider two propositions. First, there must exist a business. For the purpose, the term 'business' includes every trade, occupation and profession. The existence of business is essential. Secondly, the motive of the business is the "acquisition of gains" which leads to the formation of partnership. Therefore, there can be no partnership where there is no intention to carry on the business and to share the profit thereof.

4. **Agreement to share profits:** The sharing of profits is an essential feature of partnership. There can be no partnership where only one of the partners is entitled to the whole of the profits of the business. Partners must agree to share the profits in any manner they choose. But an agreement to share losses is not an essential element. It is open to one or more partners to agree to share all the losses. However, in the event of losses, unless agreed otherwise, these must be borne in the profit-sharing ratio.

5. **Business carried on by all or any of them acting for all:** The business must be carried on by all the partners or by anyone or more of the partners acting for all. This is the cardinal principle of the partnership Law. In other words, there should be a binding contract of mutual agency between the partners. An act of one partner in the course of the business of the firm is in fact an act of all partners. Each partner carrying on the business is the principal as well as the agent for all the other partners. He is an agent in so far as he can bind the other partners by his acts and he is a principal to the extent that he is bound by the act of other partners. It may be noted that the true test of partnership is mutual agency rather than sharing of profits. If the element of mutual agency is absent, then there will be no partnership.

Q-45 Subject to agreement by partners, state the rules that should be observed by the partners in settling the accounts of the firm after dissolution under the provisions of the Indian Partnership Act, 1932.

(MTP March '22, 4 Marks)

Ans. **Mode of Settlement of partnership accounts:** As per Section 48 of the Indian Partnership Act, 1932, in settling the accounts of a firm after dissolution, the following rules shall, subject to agreement by the partners, be observed:-

(i) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportions in which they were entitled to share profits;

(ii) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, must be applied in the following manner and order:

(a) in paying the debts of the firm to third parties;

(b) in paying to each partner rateably what is due to him from capital;

(c) in paying to each partner rateably what is due to him on account of capital; and

(d) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

Q-46 Mr. M is one of the four partners in M/s XY Enterprises. He owes a sum of ' 6 crore to his friend Mr. Z which he is unable to pay on due time. So, he wants to sell his share in the firm to Mr. Z for settling the amount.

In the light of the provisions of the Indian Partnership Act, 1932, discuss each of the following:

(i) Can Mr. M validly transfer his interest in the firm by way of sale?

(ii) What would be the rights of the transferee (Mr. Z) in case Mr. M wants to retire from the firm after a period of 6 months from the date of transfer? **(MTP March '22, 6 Marks)**

Ans. According to Section 29 of the Indian Partnership Act, 1932,

(1) A transfer by a partner of his interest in the firm, either absolute or by mortgage, or by the creation by him of a charge on such interest, does not entitle the transferee, during the continuance of the firm, to interfere in the conduct of business, or to require accounts, or to inspect the books of the firm, but entitles the transferee only to receive the share of profits of the transferring partner, and the transferee shall accept the account of profits agreed to by the partners.

(2) If the firm is dissolved or if the transferring partner ceases to be a partner, the transferee is entitled as against the remaining partners to receive the share of the assets of the firm to which the transferring partner is entitled, and, for the purpose of ascertaining that share, to an account as from the date of the dissolution.

In the light of facts of the question and provision of law:

(i) Yes, Mr. M can validly transfer his interest in the firm by way of sale.

(ii) On the retirement of the transferring partner (Mr. M), the transferee (Mr. Z) will be entitled, against the remaining partners:

(a) to receive the share of the assets of the firm to which the transferring partner was entitled, and

(b) for the purpose of ascertaining the share,

he is entitled to an account as from the date of the dissolution.

So, in this case on Mr. M's retirement, Mr. Z would be entitled to receive the value of Mr. M's share to the extent of Rs. 6 crore in the firm's assets.

Q-47 Define partnership and name the essential elements for the existence of a partnership asper the Indian Partnership Act, 1932. Explain any two such elements in detail. **(Sugg-Dec'21, 3 + 3 = 6 Marks)**

Ans.

(i) Definition of Partnership: 'Partnership' is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. (Section 4 of the Indian Partnership Act, 1932)

The definition of the partnership contains the following five elements which must coexist before a partnership can come into existence:

1. Association of two or more persons
2. Agreement
3. Business
4. Agreement to share Profits
5. Business carried on by all or any of them acting for all

(ii) ELEMENTS OF PARTNERSHIP

The definition of the partnership contains the following five elements which must coexist before a partnership can come into existence:

1. **Association of two or more persons:** Partnership is an association of 2 or more persons. Again, only persons recognized by law can enter into an agreement of partnership. Therefore, a firm, since it is not a person recognized in the eyes of law cannot be a partner. Again, a minor cannot be a partner in a firm, but with the consent of all the partners, may be admitted to the benefits of partnership. The Partnership Act is silent about the maximum number of partners but Section 464 of the Companies Act, 2013 read with the relevant Rules has now put a limit of 50 partners in any association / partnership firm.
2. **Agreement:** It may be observed that partnership must be the result of an agreement between two or more persons. There must be an agreement entered into by all the persons concerned. This element relates to voluntary contractual nature of partnership. Thus, the nature of the partnership is voluntary and contractual. An agreement from which relationship of Partnership arises may be express. It may also be implied from the act done by partners and from a consistent course of conduct being followed, showing mutual understanding between them. It may be oral or in writing.
3. **Business:** In this context, we will consider two propositions. First, there must exist a business. For the purpose, the term 'business' includes every trade, occupation and profession. The existence of business is essential. Secondly, the motive of the business is the "acquisition of gains" which leads to the formation of partnership. Therefore, there can be no partnership where there is no intention to carry on the business and to share the profit thereof.
4. **Agreement to share profits:** The sharing of profits is an essential feature of partnership. There can be no partnership where only one of the partners is entitled to the whole of the profits of the business. Partners must agree to share the profits in any manner they choose. But an agreement to share losses is not an essential element. It is open to one or more partners to agree to share all the losses. However, in the event of losses, unless agreed otherwise, these must be borne in the profit-sharing ratio.

5. **Business carried on by all or any of them acting for all:** The business must be carried on by all the partners or by anyone or more of the partners acting for all. This is the cardinal principle of the partnership Law. In other words, there should be a binding contract of mutual agency between the partners. An act of one partner in the course of the business of the firm is in fact an act of all partners. Each partner carrying on the business is the principal as well as the agent for all the other partners. He is an agent in so far as he can bind the other partners by his acts and he is a principal to the extent that he is bound by the act of other partners. It may be noted that the true test of partnership is mutual agency rather than sharing of profits. If the element of mutual agency is absent, then there will be no partnership.

Q-48 State whether the following are partnerships:

(i) A and B jointly own a car which they used personally on Sundays and holidays and let it on hire as taxi on other days and equally divide the earnings.

(ii) Two firms each having 12 partners combine by an agreement into one firm.

(iii) A and B, co-owners, agree to conduct the business in common for profit.

(iv) Some individuals form an association to which each individual contributes ' 500 annually. The objective of the association is to produce clothes and distribute the clothes free to the war widows.

(v) A and B, co-owners share between themselves the rent derived from a piece of land.

(vi) A and B buy commodity X and agree to sell t e commodity with sharing the profits equally.

(Sugg-Dec'21, 6 Marks)

Ans.(i) No, this is not a case of partnership because the sharing of profits or of gross returns accruing from property holding joint or common interest in the property would not by itself make such persons partners.

Alternatively, this part can also be answered as below:

Yes, this is a case of partnership, as the car is used personally only on Sundays and holidays and used for most of the days as a Taxi. Hence, it is inferred that the main purpose of owning the car is to let it for business purpose. Also, there is an agreement for equally dividing the earnings.

(ii) Yes, this is a case of partnership because there is an agreement between two firms to combine into one firm.

(iii) Yes, this is a case of partnership because A & B, co-owners, have agreed to conduct a business in common for profit.

(iv) No, this is not a case of partnership as no charitable association can be floated in partnership.

(v) No, this is not a case of partnership as they are co-owners and not the partners. Further, there exist no business.

(vi) Yes, this is a case of partnership as there exist the element of doing business and sharing of profits equally.

Q-49 "Sharing in the profits is not conclusive evidence in the creation of partnership". Comment.

(Sugg-Dec'21, 4 Marks)

Ans. "Sharing in the profits is not conclusive evidence in the creation of partnership"

Sharing of profit is an essential element to constitute a partnership. But it is only a prima facie evidence and not conclusive evidence, in that regard. The sharing of profits or of gross returns accruing from property by persons holding joint or common interest in the property would not by itself make such persons partners. Although the right to participate in profits is a strong test of partnership, and there may be cases where, upon a simple participation in profits, there is a partnership, yet whether the relation does or does not exist must depend upon the whole contract between the parties.

Where there is an express agreement between partners to share the profit of a business and the business is being carried on by all or any of them acting for all, there will be no difficulty in the light of provisions of Section 4, in determining the existence or otherwise of partnership.

But the task becomes difficult when either there is no specific agreement or the agreement is such as does not specifically speak of partnership. In such a case for testing the existence or otherwise of partnership relation, Section 6 has to be referred.

According to Section 6, regard must be had to the real relation between the parties as shown by all relevant facts taken together. The rule is easily stated and is clear but its application is difficult. Cumulative effect of all relevant facts such as written or verbal agreement, real intention and conduct of the parties, other surrounding circumstances etc., are to be considered while deciding the relationship between the parties and ascertaining the existence of partnership.

Hence, the statement is true / correct that mere sharing in the profits is not conclusive evidence.

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NOTES

Chapter-4
The Limited Liability Partnership Act, 2008

Q-1 "LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibili ty of a partnership". Explain. **[RTP-Nov'18, Sugg.-May'18, Sugg.-May'19, 5 Marks]**

Ans. LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership **Limited Liability:** Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

Flexibility of a partnership: The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

Q-2 Explain the essential elements to incorporate a Limited Liability Partnership and the steps involved therein under the LLP Act, 2008. **[Sugg.-Nov'18, 5 Marks]**

Ans **Essential elements to incorporate Limited Liability Partnership (LLP)-** Under the LLP Act, 2008, the following elements are very essential to form a LLP in India:

(i) To complete and submit incorporation document in the form prescribed with the Registrar electronically;

(ii) To have at least two partners for incorporation of LLP [Individual or body corporate];

(iii) To have registered office in India to which all communications will be made and received;

(iv) To appoint minimum two individuals as designated partners who will be responsible for number of duties including doing of all acts, matters and things as are required to be done by the LLP. Atleast one of them should be resident in India.

(v) A person or nominee of body corporate intending to be appointed as designated partner of LLP should hold a Designated Partner Identification Number (DPIN) allotted by Ministry of Corporate Affairs.

(vi) To execute a partnership agreement between the partners inter se or between the LLP and its partners. In the absence of any agreement the provisions as set out in First Schedule of LLP Act, 2008 will be applied.

(vii) LLP Name.

Steps to incorporate LLP:

1. Name reservation:

- The first step to incorporate Limited Liability Partnership (LLP) is reservation of name of LLP.
- Applicant has to file e-Form 1, for ascertaining availability and reservation of the name of a LLP business.

2. Incorporate LLP:

- After reserving a name, user has to file e- Form 2 for incorporating a new Limited Liability Partnership (LLP).
- e-Form 2 contains the details of LLP proposed to be incorporated, partners'/ designated partners' details and consent of the partners/designated partners to act as partners/ designated partners.

3. LLP Agreement

- Execution of LLP Agreement is mandatory as per Section 23 of the Act.
- LLP Agreement is required to be filed with the registrar in e-Form 3 within 30 days of incorporation of LLP.

Q-3 What is the procedure for changing the name of Limited Liability Partnership (LLP) under the LLP Act, 2008? **[RTP-May '20]**

Ans. Change of name of LLP (Section 17 of LLP Act, 2008):

(1) Notwithstanding anything contained in sections 15 and 16, where the Central Government is satisfied that a LLP has been registered (whether through inadvertence or otherwise and whether originally or by a change of name) under a name which —

(a) is a name referred to in sub-section (*2*) of section 15; or

(b) is identical with or too nearly resembles the name of any other LLP or body corporate or other name as to be likely to be mistaken for it, the Central Government may direct such LLP to change its name, and the LLP shall comply with the said direction within 3 months after the date of the direction or such longer period as the Central Government may allow.

(2) (i) Any LLP which fails to comply with a direction given under sub-section (*1*) shall be punishable with fine which shall not be less than ₹ 10,000 but which may extend to ₹ 5 Lakhs.

(ii) The designated partner of such LLP shall be punishable with fine which shall not be less than ₹ 10,000 but which may extend to ₹ 1 Lakh.

Q-4 Explain the circumstances in which LLP may be wound up by Tribunal under the LLP Act, 2008. **[RTP-May'20]**

Ans. Circumstances in which LLP may be wound up by Tribunal (Section 64 of the LLP Act, 2008): A LLP may be wound up by the Tribunal:

(a) if the LLP decides that LLP be wound up by the Tribunal**;**

(b) if, for a period of more than six months, the number of partners of the LLP is reduced below two;

(c) if the LLP is unable to pay its debts;

(d) if the LLP has acted against the interests of the sovereignty and integrity of India, the security of the State or public order;

(e) if the LLP has made a default in filing with the Registrar the Statement of Account and Solvency or annual return for any five consecutive financial years; or

(f) if the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Q-5 Who are the individuals which shall not be capable of becoming a partner of a Limited Liability Partnership? **[RTP-Nov'19]**

Ans. Partners (Section 5 of Limited Liability Partnership Act, 2008): Any individual or body corporate may be a partner in a LLP.

However, an individual shall not be capable of becoming a partner of a LLP, if—

(a) he has been found to be of unsound mind by a Court of competent jurisdiction and the finding is in force;

(b) he is an undischarged insolvent; or

(c) he has applied to be adjudicated as an insolvent and his application is pending.

Q-6 What are the effects of registration of LLP? **[RTP-Nov'19]**

Ans. Effect of registration (Section 14 of Limited Liability Partnership Act, 2008):

On registration, a LLP shall, by its name, be capable of—

(a) suing and being sued;

(b) acquiring, owning, holding and developing or disposing of property, whether movable or immovable, tangible or intangible;

(c) having a common seal, if it decides to have one; and

(d) doing and suffering such other acts and things as bodies corporate may lawfully do and suffer.

Q-7 What is the meaning of the Limited Liability Partnership? State the various characteristics of it?

[RTP-May'19]

Ans. Meaning of Limited Liability Partnership (LLP): A LLP is a new form of legal business entity with limited liability. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership. The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the partners will be limited.

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.

Characteristic/Salient Features of LLP

1. **LLP is a body corporate:** Section 2(1)(d) of the LLP Act, 2008 provides that a LLP is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners and shall have perpetual succession. Therefore, any change in the partners of a LLP shall not affect the existence, rights or liabilities of the LLP.

   Section 3 of LLP Act provides that a LLP is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners.

2. **Perpetual Succession:**The LLP can continue its existence irrespective of changes in partners. Death, insanity, retirement or insolvency of partners has no impact on the existence of LLP. It is capable of entering into contracts and holding property in its own name.

3. **Separate Legal Entity:** The LLP is a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP. In other words, creditors of LLP shall be the creditors of LLP alone.

4. **Mutual Agency:** Further, no partner is liable on account of the independent or un-authorized actions of other partners, thus individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct. In other words, all partners will be the agents of the LLP alone. No one partner can bind the other partner by his acts.

5. **LLP Agreement:** Mutual rights and duties of the partners within a LLP are governed by an agreement between the partners. The LLP Act, 2008 provides flexibility to partner to devise the agreement as per their choice. In the absence of any such agreement, the mutual rights and duties shall be governed by the provisions of the LLP Act, 2008.

6. **Artificial Legal Person:** A LLP is an artificial legal person because it is created by a legal process and is clothed with all rights of an individual. It can do everything which any natural person can do, except of course that, it cannot be sent to jail, cannot take an oath, cannot marry or get divorce nor can it practice a learned profession like CA or Medicine. A LLP is invisible, intangible, immortal (it can be dissolved by law alone) but not fictitious because it really exists.

7. **Common Seal:** A LLP being an artificial person can act through its partners and designated partners. LLP may have a common seal, if it decides to have one [Section 14(c)]. Thus, it is not mandatory for a LLP to have a common seal. It shall remain under the custody of some responsible official and it shall be affixed in the presence of at least 2 designated partners of the LLP.
8. **Limited Liability:** Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26). The liability of the partners will be limited to their agreed contribution in the LLP. Such contribution may be of tangible or intangible nature or both.
9. **Management of Business:** The partners in the LLP are entitled to manage the business of LLP. But only the designated partners are responsible for legal compliances.
10. **Minimum and Maximum number of Partners:** Every LLP shall have least two partners and shall also have at least 2 individuals as designated partners, of whom at least one shall be resident in India. There is no maximum limit on the partners in LLP.
11. **Business for Profit Only:** The essential requirement for forming LLP is carrying on a lawful business with a view to earn profit. Thus, LLP cannot be formed for charitable or non-economic purpose.
12. **Investigation:** The Central Government shall have powers to investigate the affairs of an LLP by appointment of competence authority for the purpose.
13. **Compromise or Arrangement:** Any compromise or agreements including merger and amalgamation of LLPs shall be in accordance with the provisions of the LLP |Act, 2008.
14. **Conversion into LLP:** A firm, private company or an unlisted public company would be allowed to be converted into LLP in accordance with the provisions of LLP Act, 2008.
15. **E-Filling of Documents:** Every form or application of document required to be filed or delivered under the act and rules made thereunder, shall be filed in computer readable electronic form on its website www.mca.gov.in and authenticated by a partner or designated partner of LLP by the use of electronic or digital signature.
16. **Foreign LLPs:** Section 2(1)(m) defines foreign limited liability partnership "as a limited liability partnership formed, incorporated, or registered outside India which established as place of business within India". Foreign LLP can become a partner in an Indian LLP.

Q-8 What do you mean by Limited Liability Partnership (LLP)? What are the advantages for forming a LLP for doing business? **[RTP-May'18]**

Ans. **LLP:** A LLP is a new form of legal business entity with limited liability. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership. The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the partners will be limited.

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

Since LLP contains elements of both 'a corporate structure' as well as 'a partnership firm structure' LLP is called a hybrid between a company and a partnership.

Advantages of LLP form:

(a) LLP is organized and operates on the basis of an agreement.
(b) It provides flexibility without imposing detailed legal and procedural requirements
(c) It enables professional/technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner.
(d) It is easy to form
(e) In LLP form, all partners enjoy limited liability
(f) Flexible capital structure is there in this form
(g) It is easy to dissolve

Q-9 List the differences between the Limited Liability Partnership and the Limited Liability Company.

[Sugg.-April'21, MTP-March'19, RTP-May'18, 5 Marks]

Ans. **Distinction between LLP and Limited Liability Company:** The points of distinction between a limited liability partnership and Limited Liability Company are tabulated as follows:

	Basis	LLP	Limited Liability Company
1.	Regulating Act	The LLP Act, 2008.	The Companies Act, 2013.
2.	Members/Partners	The persons who contribute to LLP are known as partners of the LLP.	The persons who invest the money in the shares are known as members of the company.
3.	Internal governance structure	The internal governance structure of a LLP is governed by contract agreement between the partners.	The internal governance structure of a company is regulated by statute (i.e., Companies Act, 2013).
4.	Name	Name of the LLP to contain the word " Limited Liability partnership " or "LLP" as suffix.	Name of the public company to contain the word "limited" and Pvt. Co. to contain the word "Private limited" as suffix.
5.	No. of members /partners `	Minimum – 2 members Maximum – No such limit on the members in the Act. The members of the LLP can be individuals/or body corporate through the nominees.	Private company: Minimum – 2 members Maximum 200 members Public company: Minimum – 7 members Maximum – No such limit on the members. Members can be organizations, trusts, another business form or individuals.
6.	Liability of members /partners	Liability of a partners is limited to the extent of agreed contribution in case of intention is fraud.	Liability of a member is limited to the amount unpaid on the shares held by them
7.	Management	The business of the company managed by the partners including the designated partners authorized in the agreement.	The affairs of the company are managed by board of directors elected by the shareholders.
8.	Minimum number of directors/designated partners	Minimum 2 designated partners.	Pvt. Co. – 2 directors Public co. – 3 directors

Q-10 Enumerate the circumstances in which LLP may be wound up by Tribunal.

[MTP.-March'21, Sugg.-Nov'20, MTP-May'20, 5 Marks]

Ans. **Circumstances in which LLP may be wound up by Tribunal (Section 64 of the LLP Act, 2008):**

A LLP may be wound up by the Tribunal:

(a) if the LLP decides that LLP be wound up by the Tribunal**;**

(b) if, for a period of more than six months, the number of partners of the LLP is reduced below two;

(c) if the LLP is unable to pay its debts;

(d) if the LLP has acted against the interests of the sovereignty and integrity of India, the security of the State or public order;

(e) if the LLP has made a default in filing with the Registrar the Statement of Account and Solvency or annual return for any five consecutive financial years; or

(f) if the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Q-11 What do you mean by Designated Partner? Whether it is mandatory to appoint Designated partner in a LLP? **[MTP-Oct'19, 5 Marks]**

Ans. **Designated Partner [Section 2(j)]: "Designated partner" means any partner designated as such pursuant to section 7** of the LLP Act, 2008**.**

According to section 7:

(i) Every LLP shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

(ii) If in LLP, all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such LLP or nominees of such bodies corporate shall act as designated partners.

(iii) Resident in India: For the purposes of this section, the term "resident in India" means a person who has stayed in India for a period of not less than 182 days during the immediately preceding one year.

Q-12 State the meaning of Limited Liability Partnership (LLP). What are the relevant steps to incorporate LLP? **[MTP-March'18, MTP-April'19, 5 Marks]**

Ans. **Meaning:** A LLP is a new form of legal business entity with limited liability. It is an alternative corporate business vehicle that not only gives the benefits of limited liability at low compliance cost but allows its partners the flexibility of organising their internal structure as a traditional partnership.

The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the partners will be limited.

Steps to incorporate LLP:

(a) Name reservation

- The first step to incorporate Limited Liability Partnership (LLP) is reservation of name of LLP.
- Applicant has to file e- Form 1, for ascertaining availability and reservation of the name of a LLP business.

(b) Incorporate LLP

- After reserving a name, user has to file e- Form 2 for incorporating a new Limited Liability Partnership (LLP).
- e-Form 2 contains the details of LLP proposed to be incorporated, partners'/ designated partners' details and consent of the partners/ designated partners to act as partners/ designated partners.

(c) LLP Agreement

- Execution of LLP Agreement is mandatory as per Section 23 of the Act.
- LLP Agreement is required to be filed with the registrar in e- Form 3 within 30 days of incorporation of LLP.

Q-13 State the circumstances under which a LLP and its partners may face unlimited liability under the Limited Liability Partnership Act, 2008. **[Sugg.-Jan'21, 5 Marks]**

Ans. As per Section 30 of the Limited Liability Partnership Act, 2008, LLP and its Par tners may face unlimited liability in case of fraud. According to this section, the liability arises, in the event of an act carried out by an LLP or any of its partners -

- with intent to defraud creditors of the LLP,
- or any other person, or
- for any fraudulent purpose.

The liability of the LLP and partners who acted with intent to defraud creditors or for any fraudulent purpose shall be unlimited for all or any of the debts or other liabilities of the LLP. However, in case any such act is carried out by a partner, the LLP is liable to the same extent as the partner unless it is established by the LLP that such act was without the knowledge or the authority of the LLP.

Where LLP, Partner or employee of LLP has conducted the affairs of the LLP in fraudulent manner, then without prejudice to any criminal proceedings which may arise under any law for the time being in force, the LLP and any such partner or employee shall be liable to pay compensation to any such person who has suffered any loss by reason of such conduct.

Q-14 Discuss the conditions under which LLP will be liable and not liable for the acts of the partner.

[Sugg.-Nov'19, 5 Marks]

Ans. **Conditions under which LLP will be liable [Section 27(2) of the LLP Act, 2008]**

The LLP is liable if a partner of a LLP is liable to any person as a result of a wrongful act or omission on his part in the course of the business of the LLP or with its authority.

Conditions under which LLP will not be liable [Section 27(1) of the LLP Act, 2008]

A LLP is not bound by anything done by a partner in dealing with a person if—

(a) the partner in fact has no authority to act for the LLP in doing a particular act; and

(b) the person knows that he has no authority or does not know or believe him to be a partner of the LLP.

Q-15 What do you mean by Designated Partner? Whether it is mandatory to appoint Designated partner in a LLP? **(MTP-Nov'21, 5 Marks)**

Ans. **Designated Partner [Section 2(j)]:** "Designated partner" means any partner designated as such pursuant to section 7.

According to section 7 of the LLP Act, 2008:

(i) Every LLP shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

(ii) If in LLP, all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such LLP or nominees of such bodies corporate shall act as designated partners.

Q-16 "LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership". Explain. **(MTP-Oct'21, 5 Marks)**

Ans. LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.

Limited Liability: Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

Flexibility of a partnership: The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

Q-17 Limited Liability Partnership (LLP) gives the benefits of limited liability of a company on one hand and the flexibility of a partnership on the other. Discuss. **(Sugg-July'21, 5 Marks)**

Ans. LLP gives the benefits of limited liability of a company and the flexibility of a partnership

Limited Liability: Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

Flexibility of a partnership: The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

Q-18 Limited Liability Partnership (LLP) gives the benefits of limited liability of a company on one hand and the flexibility of a partnership on the other. Discuss. **(MTP March '22, 5 Marks)**

Ans. LLP gives the benefits of limited liability of a company and the flexibility of a partnership

Limited Liability: Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP itself will be liable for the full extent of its assets.

Flexibility of a partnership: The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

Q-19 State the rules regarding registered office of a Limited Liability Partnership (LLP) andchange therein as per provisions of the Limited Liability Partnership Act, 2008. **[Sugg-Dec'21](5 Marks)**

Ans. Registered office of LLP and Change therein (Section 13 of the Limited Liability Partnership Act, 2008)

(i) Every LLP shall have a registered office to which all communications and noticesmay be addressed and where they shall be received.

(ii) A document may be served on a LLP or a partner or designated partner thereof by sending it by post under a certificate of posting or by registered post or by any other manner, as may be prescribed, at the registered office and any other address specifically declared by the LLP for the purpose in such form and manner as may be prescribed.

(iii) A LLP may change the place of its registered office and file the notice of such change with the Registrar in such form and manner and subject to such conditions as may be prescribed and any such change shall take effect only upon such filing.

(iv) If the LLP contravenes any provisions of this section, the LLP and its every partner shall be punishable with fine which shall not be less than ₹2000, but which may extend to ₹ 25000.

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Chapter-5
The Companies Act, 2013

Q-1 Mr. Anil formed a One Person Company (OPC) on 16th April, 2018 for manufacturing electric cars. The turnover of the OPC for the financial year ended 31st March, 2019 was about ₹ 2.25 Crores. His friend Sunil wanted to invest in his OPC, so they decided to convert it voluntarily into a private limited company. Can Anil do so? **(Sugg-Nov'19, 4 Marks)**

Ans. **Provision:**

As per Companies Act 2013, a one person company can not be converted until 2 years have been elapsed since it's

incorporation. OPC has to be converted mandatorily if it's paid up capital exceed 50 lakhs rupees or it's average turnover for relevant period exceeds 2 crores

Facts of Case:

In present Case Mr anil created one person company on 16th April 2018. The turnover of the company for the year ending on 31st March 2019 was 2.25 crores. MR Sunil wants to invest in this OPC so they decided to convert it voluntarily into Private limited company.

Conclusion:

The contention of anil to convert the OPC voluntarily into a private limited company is incorrect since two years have not been elapsed yet.

However average turnover has exceeded 2 crores so OPC must be converted mandatorily into Public or privateb company.

Q-2 "The Memorandum of Association is a charter of a company". Discuss. Also explain in brief the contents of Memorandum of Association. **(Sugg-Nov'20, Sugg-Nov'19, 6 Marks)**

Ans. The Memorandum of Association of company is in fact its charter; it defines its constitution and the scope of the powers of the company with which it has been established under the Act. It is the very foundation on which the whole edifice of the company is built.

Object of registering a memorandum of association:

- It contains the object for which the company is formed and therefore identifies the possible scope of its operations beyond which its actions cannot go.
- It enables shareholders, creditors and all those who deal with company to know what its powers are and what activities it can engage in.

  A memorandum is a public document under Section 399 of the Companies Act, 2013. Consequently, every person entering into a contract with the company is presumed to have the knowledge of the conditions contained therein.
- The shareholders must know the purposes for which his money can be used by the company and what risks he is taking in making the investment.

  A company cannot depart from the provisions contained in the memorandum however imperative may be the necessity for the departure. It cannot enter into a contract or engage in any trade or business, which is beyond the power confessed on it by the memorandum. If it does so, it would be *ultra vires* the company and void.

Contents of the memorandum: The memorandum of a company shall state—

(a) the name of the company (Name Clause) with the last word "Limited" in the case of a public limited company, or the last words "Private Limited" in the case of a private limited company. This clause is not applicable on the companies formed under section 8 of the Act.

(b) the State in which the registered office of the company (Registered Office clause) is to be situated;

(c) the objects for which the company is proposed to be incorporated and any matter considered necessary in furtherance thereof (Object clause);

(d) the liability of members of the company (Liability clause), whether limited or unlimited

(e) the amount of authorized capital (Capital Clause) divided into share of fixed amounts and the number of shares with the subscribers to the memorandum have agreed to take, indicated opposite their names, which shall not be less than one share. A company not having share capital need not have this clause.

(f) the desire of the subscribers to be formed into a company. The Memorandum shall conclude with the association clause. Every subscriber to the Memorandum shall take at least one share, and shall write against his name, the number of shares taken by him.

Q-3 A, an assessee, had large income in the form of dividend and interest. In order to reduce his tax liability, he formed four private limited company and transferred his investments to them in exchange of their shares. The income earned by the companies was taken back by him as pretended loan. Can A be regarded as separate from the private limited company he formed?

(MTP-April'21, MTP-March'21, MTP-March'18, MTP-April'19, MTP-March'19, RTP-May'19, Sugg-Nov'19, 3 Marks)

Ans. Provision:

As Per Companies Act, there lies, corporate veil, which separate identity of company from its members. However this veil can be lifted whn for protection of revenue of government.

Facts of Case:

In present case Krishna is a wealthy man, earning huge interest and dividend. He didn't want to pay the tax so he created three companies and transfer the income into these companies. He taken back the amount as pretended loan. He did it to reduce his tax obligation.

Conclusion:

The facts of the case are similar to Dinshaw Maneckjee Petit, where Court disregarded separate identity of Companies which Dinshaw created to avoid tax obligation.

Krishna created companies to avoid his tax obligation In this case companies created by Krishna will not be treated as separate entities , their legal personalities will be disregarded. Krishna's income will be clubbed with income of these companies.

Q-4 Sound Syndicate Ltd., a public company, its articles of association empowers the managing agents to borrow both short and long term loans on behalf of the company, Mr. Liddle, the director of the company, approached Easy Finance Ltd., a non banking *finance company for a loan of ₹ 25,00,000 in name of the company.*

The Lender agreed and provided the above said loan. Later on, Sound Syndicate Ltd. refused to repay the money borrowed on the pretext that no resolution authorizing such loan have been actually passed by the company and the lender should have enquired about the same prior providing such loan hence company not liable to pay such loan.

Analyse the above situation in terms of the provisions of Doctrine of Indoor Management under the Companies Act, 2013 and examine whether the contention of Sound Syndicate Ltd. is correct or not?

(Sugg-May'19, 4 Marks)

Ans. **Provision:**

As per Companies Act 2013 an outsider is presumed to know no about all the public documents of the company before entering into any contract but he cannot be presumed to know about the internal affairs of the company full stop if there is any internal irregularity outsider may not know about it.

Facts of case:

In present case sound syndicate limited empowered its directors to borrow funds on behalf of company through a resolution. A director of the company approached easy finance limited for loan. It lended the loan worth RS. 2500000. Later on company denied to pay saying that a resolution was not passed to that effect Conclusion:

The contention of Sound Syndicate limited is incorrect, the company is liable to repay the loan because Easy finance can't be presumed to know about resolution.

Q-5 What do you mean by "Companies with charitable purpose" (section 8) under the Companies Act, 2013? Mention the conditions of the issue and revocation of the licence of such company by the government. **(Sugg-May'19, 6 Marks)**

Ans. Formation of companies with charitable purpose etc. (Section 8 company):

Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to

- promote the charitable objects of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment etc.

Such company intends to apply its profit in

- promoting its objects and
- prohibiting the payment of any dividend to its members.

Examples of section 8 companies are FICCI, ASSOCHAM, National Sports Club of India, CII etc.

Power of Central government to issue the license–

(i) Section 8 allows the Central Government to register such person or association of persons as a company with limited liability without the addition of words 'Limited' or 'Private limited' to its name, by issuing licence on such conditions as it deems fit.

(ii) The registrar shall on application register such person or association of persons as a company under this section.

(iii) On registration the company shall enjoy same privileges and obligations as of a limited company.

Revocation of license: The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.

Q-6 Popular Products Ltd. is company incorporated in India, having a total Share Capital of ₹ 20 Crores. The Share capital comprises of 12 Lakh equity shares of ₹ 100 each and 8 Lakhs Preference Shares of ₹ 100 each. Delight Products Ltd. and Happy Products Ltd.hold 2,50,000 and 3,50,000 shares respectively in Popular Products Ltd. Another company Cheerful Products Ltd. holds 2,50,000 shares in Popular Products Ltd. Jovial Ltd. is the holding company for all above three companies namely Delight Products Ltd; Happy Products Ltd.; Cheerful Products Ltd. Can Jovial Ltd. be termed as subsidiary company of Popular products. Ltd., if it. Controls composition of directors of Popular Products Ltd. State the related provision in the favour of your answer. **(Sugg-May'19, 3 Marks)**

Ans. Provision:

As per Companies Act 2013, a company is said to be holding company when it controls the composition of board of another company ee or it holds more than 50% of voting power of another company either on its own or through its subsidiary.

Facts of Case:

In present case jovial limited is controlling the composition of Board of Popular products limited. Jovial is also holding more than 50% of voting power in popular products limited through its subsidiaries.

Conclusion:

Jovial can't be termed as subsidiary for popular limited rather it will be considered as Holding company as per the definition.

Q-7 A company registered under section 8 of the Companies Act, 2013, earned huge profit during the financial year ended on 31st March, 2018 due to some favorable policies declared by the Government of India and implemented by the company. Considering the development, some members of the company wanted the company to distribute dividends to the members of the company. They approached you to advise them about the maximum amount of dividend that can be declared by the company as per the provisions of the Companies Act, 2013. Examine the relevant provisions of the Companies Act, 2013 and advise the members accordingly. **(MTP-Oct'19, Sugg.-Nov'18, 4 Marks)**

Ans. Fact of Case:

In present case a section 8 company earned huge profits hence few of its members demanded distribution of dividend.

Conclusion:

Applying the relevant provisions it can be said that the company should not distribute any dividend to the members otherwise Central government mein revoke its licence.

Q-8 There are cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct from its shareholders or members. Elucidate.

(RTP-Nov'19 , Sugg-Nov'18, 6 Marks)

Ans Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company.

However, this veil can be lifted which means looking behind the company as a legal person, i.e., disregarding the corporate entity and paying regard, instead, to the realities behind the legal facade. Where the Courts ignore the company, and concern themselves directly with the members or managers, the corporate veil may be said to have been lifted. Only in appropriate circumstances, the Courts are willing to lift the corporate veil and that too, when questions of control are involved rather than merely a question of ownership.

Lifting of Corporate Veil

The following are the cases where company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members:

- **Trading with enemy:** If the public interest is likely to be in jeopardy, the Court may be willing to crack the corporate shell
- Where corporate entity is used to evade or circumvent tax, the corporate veil may be lifted
- Where companies form other companies as their subsidiaries to act as their agent
- Company is formed to circumvent welfare of employees
- **Where the device of incorporation is adopted for some illegal or improper purpose**: Where the device of incorporation is adopted for some illegal or improper purpose, e.g., to defeat or circumvent law, to defraud creditors or to avoid legal obligations.

Q-9 Mr. X had purchased some goods from M/s ABC Limited on credit. A credit period of one month was allowed to Mr. X. Before the due date Mr. X went to the company and wanted to repay the amount due from him. He found only Mr. Z there, who was the factory supervisor of the company. Mr. Z told Mr. X that the accountant and the cashier were on leave, he is in-charge of receiving money and he may pay the amount to him. Mr. Z issued a money receipt under his signature. After two months M/s ABC Limited issued a notice to Mr. X for non-payment of the dues within the stipulated period. Mr. X informed the company that he had already cleared the dues and he is no more responsible for the same. He also contended that Mr. Z is an employee of the company to whom he had made the payment and being an outsider, he trusted the words of Mr. Z as duty distribution is a job of the internal management of the company.

Analyse the situation and decide whether Mr. X is free from his liability.

(MTP-April'21, MTP-Oct'19, MTP-March'19, Sugg-Nov'18, 3 Marks)

Ans. Provision:

As per Companies Act 2013, outsiders are deemed to have knowledge of memorandum and articles of association. But there is doctrine of indoor Management with suggest that outsiders cannot be presumed to have knowledge of internal irregularities of the company.

Facts of the case:

In present case Mr x purchased some goods from M/s ABC limited on credit period of one month.

Mr X went for payment where he found the supervisor only who told Me X that cashier is on leave and he is authorised to collect amount. Mr Z the supervisor issued a receipt to Me X. After two months company sent a notice to Mr X for non payment of dues in stipulated period.

Conclusion:

Applying the provision of Doctrine of Indoor Management, Mr X being an outsider can't be presumed to know that Mr Z was authorised or not, since it was internal affairs of company. Hence Mr X would be free from his liability.

Q-10 Ravi Private Limited has borrowed ₹ 5 crores from Mudra Finance Ltd. This debt is ultra vires to the company. Examine, whether the company is liable to pay this debt? State the remedy if any available to Mudra Finance Ltd.? **(Sugg-May'18, 4 Marks)**

Ans. Provision:

As per Companies Act 2013, any act beyond the powers of memorandum is ultra vires. Such acts are null and void, they can't be enforced against either of the party.

Facts of Case:

In present case mudra finance limited landed money e worth rupees 5 crores to Ravi Private limited which was ultra vires act.

Conclusion:

Ravi Private limited is not liable to pay this debt. There will not be any remedy d for mudra finance limited because the loan was ultra vires.

Q-11 Define OPC (One Person Company) and state the rules regarding its membership. Can it be converted into a non-profit company under Section 8 or a private company?

(MTP-Oct'19, Sugg.-May'18, 6 Marks)

Ans **One Person Company (OPC) [Section 2(62) of the Companies Act, 2013]:** The Act defines one person company (OPC) as a company which has only one person as a member.

Rules regarding its membership:

- Only one person as member.

- The memorandum of OPC shall indicate the name of the other person, who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company.
- The other person whose name is given in the memorandum shall give his prior written consent in prescribed form and the same shall be filed with Registrar of companies at the time of incorporation.
- Such other person may be given the right to withdraw his consent.
- The member of OPC may at any time change the name of such other person by giving notice to the company and the company shall intimate the same to the Registrar.
- Any such change in the name of the person shall not be deemed to be an alteration of the memorandum.
- Only a natural person who is an Indian citizen and resident in India (person who has stayed in India for a period of not less than 182 days during the immediately preceding one calendar year)-
  - shall be eligible to incorporate a OPC;
  - shall be a nominee for the sole member of a OPC.
- No person shall be eligible to incorporate more than one OPC or become nominee in more than one such company.
- No minor shall become member or nominee of the OPC or can hold share with beneficial interest.

OPC cannot be incorporated or converted into a company under section 8 of the Act. Though it may be converted to private or public companies in certain cases. OPC cannot convert voluntarily into any kind of company unless two years have expired from the date of incorporation, except where the paid up share capital is increased beyond fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees.

Q-12 Naveen incorporated a "One Person Company" making his sister Navita as the nominee. Navita is leaving India permanently due to her marriage abroad. Due to this fact, she is withdrawing her consent of nomination in the said One Person Company. Taking into considerations the provisions of the Companies Act, 2013 answer the questions given below.

(a) If Navita is leaving India permanently, is it mandatory for her to withdraw her nomination in the said One Person Company?

(b) If Navita maintained the status of Resident of India after her marriage, then can she continue her nomination in the said One Person Company? **[RTP-May '20]**

Ans. **Provision:**

As per Companies Act 2013, the member and nominee of one person company must be resident of India**.**

Facts of case:

In present case Naveen Incorporated a one person company making his sister nivedita as nominee. Navita is living India permanently because of marriage.

Conclusion:

Answer to (a)

If navita is living India permanently it is mandatory for her to withdraw the consent. she cannot continue to be a nominee because of her loss of Indian residential status.

Answer to (b)

If Navita can maintain residential status i.e. if she stays in India for more than 182 days in every financial year she can continue to be nominee.

Q-13 Examine the following whether they are correct or incorrect along with reasons:

(a) A company being an artificial person cannot own property and cannot sue or be sued.

(b) A private limited company must have a minimum of two members, while a public limited company must have at least seven members. **[RTP-May '20]**

Ans.(a) A company being an artificial person cannot own property and cannot sue or be sued

Incorrect: A company is an artificial person as it is created by a process other than natural birth. It is legal or judicial as it is created by law. It is a person since it is clothed with all the rights of an individual.

Further, the company being a separate legal entity can own property, have banking account, raise loans, incur liabilities and enter into contracts. Even members can contract with company, acquire right against it or incur liability to it. It can sue and be sued in its own name. It can do everything which any natural person can do except be sent to jail, take an oath, marry or practice a learned profession. Hence, it is a legal person in its own sense.

(b) A private limited company must have a minimum of two members, while a public limited company must have at least seven members.

Correct: Section 3 of the Companies Act, 2013 deals with the basic requirement with respect to the constitution of the company. In the case of a public company, any 7 or more persons can form a company for any lawful purpose by subscribing their names to memorandum and complying with the requirements of this Act in respect of registration. In exactly the same way, 2 or more persons can form a private company.

Q-14 Briefly explain the doctrine of "ultravires" under the Companies Act, 2013. What are the consequences of ultravires acts of the company? **[RTP-May'18, RTP-Nov'18, RTP-May '20]**

Ans. **Doctrine of ultra vires**: The meaning of the term *ultra vires* is simply "beyond (their) powers". The legal phrase "*ultra vires*" is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers in their nature are limited.

It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act, thus far and no further. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.

The impact of the doctrine of *ultra vires* is that a company can neither be sued on an *ultra vires* transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is *ultra vires* the company, you cannot enforce it against the company.

An act which is *ultra vires* the company being void, cannot be ratified by the shareholders of the company. Sometimes, act which is *ultra vires* can be regularised by ratifying it subsequently.

Q-15 Flora Fauna Limited was registered as a public company. There are 230 members in the company as noted below:

(a)	Directors and their relatives	190
(b)	Employees	15
(c)	Ex-Employees (Shares were allotted when they were employees)	10
(d)	5 couples holding shares jointly in the name of husband and wife (5*2)	10
(e)	Others	5

The Board of Directors of the company propose to convert it into a private company. Also advise whether reduction in the number of members is necessary.

(MTP-April'21, MTP-March'19, MTP-May '20, RTP-May'19, 4 Marks)

Ans. Provision:

As per Companies Act 2013, a private company is company which by it's articles of association, restricts the transfer of shares, limits the number of members to 200 and prohibits invitation to public for issue of it's securities. In members present and past employees are excluded and joint members are counted as one.

Facts of Case and Conclusion:

The members of Flora Fauna limited can be calculated as under

Directors and Relatives :190

Employees – 0

Ex employees- 0

5 couples – 5

Others – 5

Total – 200

Since the number of members of Flora and Fauna limited is not more than 200, there is no need of reduction.

Q-16 Can a non-profit organization be registered as a company under the Companies Act, 2013? If so, what procedure does it have to adopt? **(RTP-May'18, RTP-May'19)**

Ans. Yes, a non-profit organization be registered as a company under the Companies Act, 2013 by following the provisions of section 8 of the Companies Act, 2013. Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to

- promote the charitable objects of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment etc.

Such company intends to apply its profit in

- promoting its objects and
- prohibiting the payment of any dividend to its members.

The Central Government has the power to issue license for registering a section 8 company.

(i) Section 8 allows the Central Government to register such person or association of persons as a company with limited liability without the addition of words 'Limited' or 'Private limited' to its name, by issuing licence on such conditions as it deems fit.

(ii) The registrar shall on application register such person or association of persons as a company under this section.

(iii) On registration the company shall enjoy same privileges and obligations as of a limited company.

Q-17 (i) ABC Pvt. Ltd., is a Private Company having five members only. All the members of the company were going by car to Mumbai in relation to some business. An accident took place and all of them died. Answer with reasons, under the Companies Act, 2013 whether existence of the company has also come to the end?

(ii) Define OPC (One Person Company) and state the rules regarding its membership. Can it be converted into a non-profit company under Section 8 or a private company ? **(RTP-Nov'18)**

Ans. (i) As per provisions of companies act, 2013 , a company has perpetual Existence which means death or insolvency of all members doesn't impact of existence. Of company

Facts of Case:

Here in this case 5 members of ABC, a private company we are going by a car and all of them died in an accident.

Conclusion:

Existence of company I will not come to end as per the provisions of Companies Act, Because by operation of law either legal representative or nominee will become the new member.

(ii) One Person Company (OP(C) [Section 2(62) of the Companies Act, 2013]: The Act defines one person company (OP(C) as a company which has only one person as a member.

Rules regarding its membership:

- Only one person as member.
- The memorandum of OPC shall indicate the name of the other person, who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company.
- The other person whose name is given in the memorandum shall give his prior written consent in prescribed form and the same shall be filed with Registrar of companies at the time of incorporation.
- Such other person may be given the right to withdraw his consent.
- The member of OPC may at any time change the name of such other person by giving notice to the company and the company shall intimate the same to the Registrar.
- Any such change in the name of the person shall not be deemed to be an alteration of the memorandum.
- Only a natural person who is an Indian citizen and resident in India (person who has stayed in India for a period of not less than 182 days during the immediately preceding one calendar year)-
  - shall be eligible to incorporate a OPC;
  - shall be a nominee for the sole member of a OPC.
- No person shall be eligible to incorporate more than one OPC or become nominee in more than one such company.
- No minor shall become member or nominee of the OPC or can hold share with beneficial interest.

OPC cannot be incorporated or converted into a company under section 8 of the Act. Though it may be converted to private or public companies in certain cases. OPC cannot convert voluntarily into any kind of company unless two years have expired from the date of incorporation, except where the paid up share capital is increased beyond fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees.

Q-18 (ii)Examine the following whether they are correct or incorrect along with reasons:

(a) A company being an artificial person cannot own property and cannot sue or be sued. ((b) A private limited company must have a minimum of two members, while a public limited company must have at least seven members. **(RTP-Nov'18)**

Ans.(i) Doctrine of ultra vires: The meaning of the term ultra vires is simply "beyond (their) powers". The legal phrase "ultra vires" is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers in their nature are limited.

It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act, thus far and no further. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.

The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company.

An act which is ultra vires the company being void, cannot be ratified by the shareholders of the company. Sometimes, act which is ultra vires can be regularised by ratifying it subsequently.

(ii) (a) A company being an artificial person cannot own property and cannot sue or be sued

Incorrect: A company is an artificial person as it is created by a process other than natural birth. It is legal or judicial as it is created by law. It is a person since it is clothed with all the rights of an individual. Further, the company being a separate legal entity can own property, have banking account, raise loans, incur liabilities and enter into contracts. Even members can contract with company, acquire right against it or incur liability to it. It can sue and be sued in its own name. It can do everything which any natural person can do except be sent to jail, take an oath, marry or practice a learned profession. Hence, it is a legal person in its own sense.

(b) A private limited company must have a minimum of two members, while a public limited company must have at least seven members.

Correct: Section 3 of the Companies Act, 2013 deals with the basic requirement with respect to the constitution of the company. In the case of a public company, any 7 or more persons can form a company for any lawful purpose by subscribing their names to memorandum and complying with the requirements of this Act in respect of registration. In exactly the same way, 2 or more persons can form a private company.

Q-19 (i) Explain the concept of "Dormant Company" as envisaged in the Companies Act, 2013.

(ii) The Articles of Association of XYZ Ltd. provides that Board of Directors has authority to issue bonds provided such issue is authorized by the shareholders by a necessary resolution in the general meeting of the company. The company was in dire need of funds and therefore, it issued the bonds to Mr. X without passing any such resolution in general meeting. Can Mr. X recover the money from the company? Decide referring the relevant provisions of the Companies Act, 2013. **(RTP-May'18)**

Ans.(i) Dormant Company (Section 455 of the Companies Act, 2013)

Where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of dormant company.

"Inactive company" means a company which has not been carrying on any business or operation, or has not made any significant accounting transaction during the last two financial years, or has not filed financial statements and annual returns during the last two financial years.

"Significant accounting transaction" means any transaction other than –

(a) payment of fees by a company to the Registrar;

(b) payments made by it to fulfil the requirements of this Act or any other law;

(c) allotment of shares to fulfil the requirements of this Act; and

(d) payments for maintenance of its office and records.

(ii) **Provision:**

As per companies act, 2013, an outsider is presumed to know about Public documents but not about internal affairs or irregularities of the company.

Facts of Case:

In present case Board of directors of XYZ LTD had authority to issue bonds after shareholders resolution. Company was.in need of funds, so directors issued bonds to Mr X without resolution.

Conclusion:

The facts of case are similar to Royal British Bank vs Turquand where court enforced the repayment of bondsd despite the irregularities in issue.

Hence in present case xyz limited is liable to repay Mr X the amount of bonds issued.

Q-20 When a company is registered, it is clothed with a legal personality. Explain. **[RTP-May'18]**

Ans. When a company is registered, it is clothed with a legal personality. It comes to have almost the same rights and powers as a human being. Its existence is distinct and separate from that of its members. A company can own property, have bank account, raise loans, incur liabilities and enter into contracts.

(a) It is at law, a person different altogether from the subscribers to the memorandum of association. Its personality is distinct and separate from the personality of those who compose it.

(b) Even members can contract with company, acquire right against it or incur liability to it. For the debts of the company, only its creditors can sue it and not its members.

A company is capable of owning, enjoying and disposing of property in its own name. Although the capital and assets are contributed by the shareholders, the company becomes the owner of its capital and assets. The shareholders are not the private or joint owners of the company's property.

Q-21 The persons (not being members) dealing with the company are always protected by the doctrine of indoor management. Explain. Also, explain when doctrine of Constructive Notice will apply.

[Sugg-Jan'21, MTP-March'21, RTP-Nov'19, Sugg.-May'18, MTP-May'20, 6 Marks]

Ans. **Doctrine of Indoor Management:** According to this doctrine, persons dealing with the company need not inquire whether internal proceedings relating to the contract are followed correctly, once they are satisfied that the transaction is in accordance with the memorandum and articles of association.

Stakeholders **need not enquire** whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. They are entitled to **take it for granted** that the company had gone through all these proceedings in a regular manner.

The doctrine helps to **protect external** members from the company and states that the people are entitled to presume that internal proceedings are as per documents submitted with the Registrar of Companies.

The doctrine of indoor management is **opposite to the doctrine of constructive** notice. Whereas the doctrine of constructive notice protects a company against outsiders, the doctrine of indoor management protects outsiders against the actions of a company. This doctrine also is a safeguard against the possibility of abusing the doctrine of constructive notice.

Exceptions to Doctrine of Indoor Management (Applicability of doctrine of constructive notice)

(i) **Knowledge of irregularity:** In case an 'outsider' **has actual knowledge** of irregularity within the company, the benefit under the rule of indoor management would no longer be available. In fact, he/she may well be considered part of the irregularity.

(ii) **Negligence:** If, with a **minimum of effort**, the irregularities within a company could be discovered, the benefit of the rule of indoor management would not apply. The protection of the rule is also not available where the circumstances surrounding the contract are so **suspicious as to invite inquiry**, and the outsider dealing with the company does not make proper inquiry.

(iii) **Forgery:** The rule does not apply where a person relies upon a document that turns out to be forged since **nothing can validate forgery**. A company can never be held bound for forgeries committed by its officers.

Q-22 Alfa school started imparting education on 1st April, 2010, with the sole objective of providing education to children of weaker society either free of cost or at a very nominal fee depending upon the financial condition of their parents. However, on 30th March 2018, it came to the knowledge of the Central Government that the said school was operating by violating the objects clause due to which it was granted the status of a section 8 company under the Companies Act, 2013. Describe what powers can be exercised by the Central Government against the Alfa School, in such a case?

[MTP-March'21, MTP-May '20, 3 Marks]

Ans. Provision of Law:

- This question relates to the provision of Section 8 companies under Companies Act,2013.
- As per Companies Act,2013 if the company wants to be registered as Section-8 Company then it requires the license from Central Government. Central Government will give license on fulfillment of certain conditions i.e. Company must have in its object some charitable purpose, the company must intend to apply the profits for the objective and there must be prohibition on declaration of dividend.
- In case the CG is of the opinion that company is not serving purpose for which it framed or violating the object clause of Memorandum or not working in interest of public then Central Government has the power to revoke the license after giving company an opportunity of being heard.
- Central Government can even pass an order for winding up of company or amalgamation of company with other section 8 company after giving opportunity of being heard.

Q-23 Explain the meaning of Guarantee Company? State the similarities and dissimilarities between a 'Guarantee Company' and 'Company Limited by Shares'.

[MTP-March'18, MTP-April'19, 6 Marks]

Ans. Meaning of Guarantee Company: Section 2(21) of the Companies Act, 2013 defines a Company Limited by Guarantee as a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. Thus, the liability of the members of a guarantee company is limited to a stipulated amount in terms of individual guarantees given by members and mentioned in the memorandum. The members cannot be called upon to contribute more than such stipulated amount for which each member has given a guarantee in the memorandum of association.

Similarities and dis-similarities between the Guarantee Company and the Company limited by shares: The common features between a "guarantee company" and the "company limited share" are legal entity and limited liability. In case of a company limited by shares, the liability of its members is limited to the amount remaining unpaid on the shares held by them. Both these type of companies have to state this fact in their memorandum that the members' liability is limited.

However, the dissimilarities between a 'guarantee company' and 'company limited by shares' is that in the former case the members will be called upon to discharge their liability only after commencement of the winding up of the company and only to the extent of amounts guaranteed by them respectively; whereas in the case of a company limited by shares, the members may be called upon to discharge their liability at any time, either during the life of the company or during the course of its winding up.

Q-24 Examine with reasons whether the following statement is correct or incorrect:

(i) A private limited company must have a minimum of two members, while a public limited company must have at least seven members.

(ii) Affixing of Common seal on company's documents is compulsory.

[MTP-March'18, MTP-April'19, 3 Marks]

Ans.(i) Correct: Section 3 of the Companies Act, 2013 deals with the basic requirement with respect to the constitution of the company. In the case of a public company, any 7 or more persons can form a company for any lawful purpose by subscribing their names to memorandum and complying with the requirements of this Act in respect of registration. In exactly the same way, 2 or more persons can form a private company.

(ii) Incorrect: The common seal is a seal used by a corporation as the symbol of its incorporation. The Companies (Amendment) Act, 2015 has made the common seal optional by omitting the words "and a common seal" from Section 9 so as to provide an alternative mode of authorization for companies who opt not to have a common seal. This amendment provides that the documents which need to be authenticated by a common seal will be required to be so done, only if the company opts to have a common seal. In case a company does not have a common seal, the authorization shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.

Q-25 ABC Limited was registered as a public company. There were 245 members in the company. Their details are as follows:

Directors and their relatives	190
Employees Ex-employees (shares were allotted when they were employees)	15
20	
Others (Including 10 joint holders holding shares jointly in the name of father and son)	20

The Board of directors of the company propose to convert it into a private company.

Advice whether reduction in the number of members is necessary for conversion.

[Sugg-Jan'21, 4 Marks]

Ans. In the given case, ABC Limited was having 245 members in the company. The Board of Directors of said company proposes to convert it into private company. In lines with Section 2 (68) of the Companies Act, 2013, a private company by its Articles, limits the number of its members to 200.

Provided that, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member. It is further provided that, following persons shall not be included in the number of members-

(i) Persons who are in the employment of the company; and

(ii) Persons, who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased.

As per the facts, ABC Limited has members constituting of Directors & their relatives, employees, Ex-employees and others including 10 joint holders. In line with the requirement for being a private company, following shall be restricted to be as members i.e., Directors & their relatives & joint holders holding shares jointly constituting 200 members (190+10).

Accordingly, ABC Limited when converted to private company shall not be required to reduce the number of members as the number of members as per requirement of a private company, is fulfilled that is of maximum 200 members.

Q-26 SK Infrastructure Limited has a paid-up share capital divided into 6,00,000 equity shares of INR 100 each. 2,00,000 equity shares of the company are held by Central Government and 1,20,000 equity shares are held by Government of Maharashtra. Explain with reference to relevant provisions of the Companies Act, 2013, whether SK Infrastructure Limited can be treated as Government Company.

[Sugg-Jan'21, 3 Marks]

Ans. **Government Company [Section 2(45) of the Companies Act, 2013]:** Government Company means any company in which not less than 51% of the paid-up share capital is held by-

(i) The Central Government, or

(ii) By any State Government or Governments, or

(iii) Partly by the Central Government and partly by one or more State Governments, and the section includes a company which is a subsidiary company of such a Government company.

In the instant case, paid up share capital of SK Infrastructure Limited is 6,00,000 equity shares of ₹ 100 each. 200,000 equity shares are held by Central government and 1,20,000 equity shares are held by Government of Maharashtra. The holding of equity shares by both government is 3,20,000 which is more than 51% of total paid up equity shares.

Hence, SK Infrastructure Limited is a Government company.

Q-27 What are the significant points of Section 8 Company which are not applicable for other companies? Briefly explain with reference to provisions of the Companies Act, 2013. **[Sugg-Nov'20, 6 Marks]**

Ans. **Section 8 Company- Significant points**

- Formed for the promotion of commerce, art, science, religion, charity, protection of the environment, sports, etc.
- Requirement of minimum share capital does not apply.
- Uses its profits for the promotion of the objective for which formed.
- Does not declare dividend to members.
- Operates under a special licence from the Central Government.
- Need not use the word Ltd./ Pvt. Ltd. in its name and adopt a more suitable name such as club, chambers of commerce etc.
- Licence revoked if conditions contravened.
- On revocation, the Central Government may direct it to
  - Converts its status and change its name
  - Wind – up
  - Amalgamate with another company having similar object.
- Can call its general meeting by giving a clear 14 days notice instead of 21 days.
- Requirement of minimum number of directors, independent directors etc. does not apply.
- Need not constitute Nomination and Remuneration Committee and Shareholders Relationship Committee.
- A partnership firm can be a member of Section 8 company.

Q-28 Mike Limited company incorporated in India having Liaison office at Singapore. Explain in detail meaning of Foreign Company and analysis., on whether Mike Limited would be *called as Foreign Company as it established a Liaison office at Singapore as per the provisions of the Companies Act, 2013?*

[Sugg-Jan'21, 3 Marks]

Ans. **Foreign Company [Section 2(42) of the Companies Act, 2013]:** It means any company or body corporate incorporated outside India which—

(i) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and

(ii) conducts any business activity in India in any other manner.

Since Mike Limited is a company incorporated in India, hence, it cannot be called as a foreign company. Even though, Liaison was officially established at Singapore, it would not be called as a foreign company as per the provisions of the Companies Act, 2013.

Q-29 Jagannath Oils Limited is a public company and having 220 members of which 25 members were employee in the company during the period 1st April, 2006 to 28th June 2016. They were allotted shares in Jagannath Oils Limited first time on 1st July, 2007 which were sold by them 1st August, 2016. After some time, on 1st December, 2016, each of those 25 members acquired shares in Jagannath Oils Limited which they are holding till date. Now company wants to convert itself into a private company. State with reasons:

(I) Whether Jagannath Oils Limited is required to reduce the number of members.

(II) Would your answer be different if above 25 members were the employee in Jagannath Oils Limited for the period from 1st April, 2006 to 28th June, 2017? **(MTP-Nov'21, 4 Marks)**

Ans. According to Section 2(68) of Companies Act, 2013, "Private company" means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,—

(i) restricts the right to transfer its shares;

(ii) except in case of One Person Company, limits the number of its members to two hundred:

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member:

Provided further that—

(A) persons who are in the employment of the company; and

(B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and

(iii) prohibits any invitation to the public to subscribe for any securities of the company.

(I) Following the provisions of Section 2(68), 25 members were employees of the company but not during present membership which was started from 1st December 2016 i.e. after the date on which these 25 members were ceased to the employee in Jagannath Oils Limited. Hence, they will be considered as members for the purpose of the limit of 200 members. The company is required to reduce the number of members before converting it into a private company.

(II) On the other hand, if those 25 members were ceased to be employee on 28th June 2017, they were employee at the time of getting present membership. Hence, they will not be counted as members for the purpose of the limit of 200 members and the total number of members for the purpose of this sub-section will be 195. Therefore, Jagannath Oils Limited is not required to reduce the number of members before converting it into a private company.

Q-30 Briefly explain the doctrine of "ultravires" under the Companies Act, 2013. What are the consequences of ultravires acts of the company? **(MTP-Nov'21, 6 Marks)**

Ans. **Doctrine of ultra vires:** The meaning of the term ultra vires is simply "beyond (their) powers". The legal phrase "ultra vires" is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers are in their nature limited. To an ordinary citizen, the law permits whatever does the law not expressly forbid.

It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act - thus far and no further ***[Ashbury Railway Company Ltd. vs. Riche].*** In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.

The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company. For example, if you have supplied goods or performed service on such a contract or lent money, you cannot obtain payment or recover the money lent. But if the money advanced to the company has not been expended, the lender may stop the company from parting with it by means of an injunction; this is because the company does not become the owner of the money, which is ultra vires the company. As the lender remains the owner, he can take back the property in specie. If the ultra vires loan has been utilised in meeting lawful debt of the company then the lender steps into the shoes of the debtor paid off and consequently he would be entitled to recover his loan to that extent from the company.

An act which is ultra vires the company being void, cannot be ratified by the shareholders of the company. Sometimes, act which is ultra vires can be regularised by ratifying it subsequently. For instance, if the act is ultra vires the power of the directors, the shareholders can ratify it; if it is ultra vires the articles of the company, the company can alter the articles; if the act is within the power of the company but is done irregularly, shareholder can validate it.

Q-31 Explain the-term 'Quasi Contracts' and state their characteristics. **(MTP-Nov'21, 5 Marks)**

Ans. **Quasi Contracts:** Under certain special circumstances, obligation resembling those created by a contract are imposed by law although the parties have never entered into a contract. Such obligations imposed by law are referred to as 'Quasi-contracts'. Such a contract resembles with a contract so far as result or effect is concerned but it has little or no affinity with a contract in respect of mode of creation. These contracts are based on the doctrine that a person shall not be allowed to enrich himself unjustly at the expense of another. The salient features of a quasi-contract are:

1. It does not arise from any agreement of the parties concerned but is imposed by law.
2. Duty and not promise is the basis of such contract.
3. The right under it is always a right to money and generally though not always to a liquidated sum of money.
4. Such a right is available against specific person(s) and not against the whole world.
5. A suit for its breach may be filed in the same way as in case of a complete contract.

Q-32 Manicar Limited has allotted equity shares with voting rights to Nanicar Limited worth ₹ 10 Crores and issued Non-Convertible Debentures worth ₹ 30 Crores during the Financial Year 2017-18. After that total Paid-up Equity Share Capital of the company is ₹ 100 Crores and Non-Convertible Debentures stands at ₹ 150 Crores.

Define the Meaning of Associate Company and comment on whether Manicar Limited and Nanicar Limited would be called Associate Company as per the provisions of the Companies Act, 2013?

(MTP-Nov'21, 3 Marks)

Ans. As per Section 2(6) of the Companies Act, 2013, an Associate Company in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. The term "significant influence" means control of at least 20% of total share capital, or control of business decisions under an agreement.

The term "Total Share Capital", means the aggregate of the -

(a) Paid-up equity share capital; and

(b) Convertible preference share capital.

In the given case, as Manicar Ltd. has allotted equity shares with voting rights to Nanicar Limited of Rs. 10 crores, which is less than requisite control of 20% of total share capital (i.e. 100 crore) to have a significant influence of Nanicar Ltd. Since the said requirement is not complied, therefore Manicar Ltd. and Nanicar Ltd. are not associate companies as per the Companies Act, 2013.

Further holding/allotment of non-convertible debentures has no relevance for ascertaining significant influence. Hence the issue of non-convertible debentures will not make both the companies Associate Company.

Q-33 The paid-up capital of Ram Private Limited is ₹ 10 Crores in the form of 7,00,000 Equity Shares of ₹ 100 each and 3,00,000 Preference Shares of ₹ 100 each. Lakhan Private Limited is holding 3,00,000 Equity Shares and 3,00,000 Preference Shares in Ram Private Limited. State with reason, Whether Ram Private Limited is subsidiary of Lakhan Private Limited? **(MTP-Oct'21, 4 Marks)**

Ans. According to Section 2(87) of Companies Act, 2013 "subsidiary company" in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

For the purposes of this section —

(i) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(ii) the expression "company" includes anybody corporate;

It is to be noted that Preference share capital will also be considered if preference shareholders have same voting rights as equity shareholders.

In the instant case, Ram Private Limited is having paid-up capital of ₹10 Crores in the form of 7,00,000 Equity Shares of ₹100 each and 3,00,000 Preference Shares of ₹ 100 each. Lakhan Private Limited is holding 3,00,000 Equity Shares and 3,00,000 Preference Shares in Ram Private Limited.

As in the given problem it is not clear that whether Preference Shares are having voting rights or not, it can be taken that there is no voting right with these shares. On the basis of provisions of Section 2(87) and facts of the given problem, Lakhan Private Limited is holding 3,00,000 Equity Shares of total equity paid up share capital of Ram Private Limited. Therefore, as Lakhan Private Limited does not exercises or controls more than one-half of the total voting power in Ram Private Limited, Ram Private Limited is not subsidiary of Lakhan Private Limited.

Q-34 "The Memorandum of Association is a charter of a company". Discuss. Also explain in brief the contents of Memorandum of Association. **(MTP-Oct'21, 6 Marks)**

Ans. The Memorandum of Association of company is in fact its charter; it defines its constitution and the scope of the powers of the company with which it has been established under the Act. It is the very foundation on which the whole edifice of the company is built.

Object of registering a memorandum of association:

- It contains the object for which the company is formed and therefore identifies the possible scope of its operations beyond which its actions cannot go.
- It enables shareholders, creditors and all those who deal with company to know what its powers are and what activities it can engage in.

  A memorandum is a public document under Section 399 of the Companies Act, 2013. Consequently, every person entering into a contract with the company is presumed to have the knowledge of the conditions contained therein.

- The shareholders must know the purposes for which his money can be used by the company and what risks he is taking in making the investment.

A company cannot depart from the provisions contained in the memorandum however imperative may be the necessity for the departure. It cannot enter into a contract or engage in any trade or business, which is beyond the power confessed on it by the memorandum. If it does so, it would be ultra vires the company and void.

Content of the memorandum: The memorandum of a company shall state—

(a) the name of the company **(Name Clause)** with the last word "Limited" in the case of a public limited company, or the last words "Private Limited" in the case of a private limited company. This clause is not applicable on the companies formed under section 8 of the Act.

(b) the State in which the registered office of the company **(Registered Office clause)** is to be situated;

(c) the objects for which the company is proposed to be incorporated and any matter considered necessary in furtherance thereof **(Object clause);**

(d) the liability of members of the company **(Liability clause)**, whether limited or unlimited,

(e) the amount of authorized capital **(Capital Clause)** divided into share of fixed amounts and the number of shares with the subscribers to the memorandum have agreed to take, indicated opposite their names, which shall not be less than one share. A company not having share capital need not have this clause.

(f) the desire of the subscribers to be formed into a company. The Memorandum shall conclude with the **association clause.** Every subscriber to the Memorandum shall take atleast one share, and shall write against his name, the number of shares taken by him.

Q-35 Five persons are the only members of a private company Flower Fans Limited. All of them go in a boat on a pleasure trip into an open sea. The boat capsizes and all the 5 die being drowned.

(a) Is the private company Flower Fans Limited no longer in existence?

(b) Further is it correct to say that a company being an artificial person cannot own property and cannot sue or be sued? Explain with reference to the provisions of Companies Act, 2013.

(MTP-Oct'21, 3 Marks)

Ans.(a) Perpetual Succession – A company on incorporation becomes a separate legal entity. It is an artificial legal person and have perpetual succession which means even if all the members of a company die, the company still continues to exist. It has permanent existence.

In the instant case, five persons who were the only members of private company and they have died being drowned in the sea. The existence of a company is independent of the lives of its members. It has a perpetual succession. In this problem, the company will continue as a legal entity. The company's existence is in no way affected by the death of all its members.

(b) The statement given is incorrect. A company is an artificial person as it is created by a process other than natural birth. It is legal or judicial as it is created by law. It is a person since it is clothed with all the rights of an individual. Further, the company being a separate legal entity can own property, have banking account, raise loans, incur liabilities and enter into contracts. Even members can contract with company, acquire right against it or incur liability to it. It can sue and be sued in its own name. It can do everything which any natural person can do except be sent to jail, take an oath, marry or practice a learned profession. Hence, it is a legal person in its own sense.

Q-36 Y incorporated a "One Person Company (OPC)" making his sister Z as nominee. Z is leaving India permanently due to her marriage abroad. Due to this fact, she is withdrawing her consent of nomination in the said OPC. Taking into considerations the provisions of the Companies Act, 2013 answer the questions given below:

(i) Is it mandatory for Z to withdraw her nomination in the said OPC, if she is leaving India permanently?

(ii) Can Z continue her nomination in the said OPC, if she maintained the status of Resident of India after her marriage? **(Sugg-July'21, 4 Marks)**

Ans.

(i) Yes, it is mandatory for Z to withdraw her nomination in the said OPC as she is leaving India permanently as only a natural person who is an Indian citizen and resident in India shall be a nominee in OPC.

(ii) Yes, Z can continue her nomination in the said OPC, if she maintained the status of Resident of India after her marriage by staying in India for a period of not less than 182 days during the immediately preceding financial year.

Q-37 Explain the classification of the companies on the basis of control as per the Companies Act, 2013.

(Sugg-July'21, 6 Marks)

Ans. In line with the Companies Act, 2013, following are the classification of the Companies on the basis of control:

(a) Holding and subsidiary companies: 'Holding and subsidiary' companies are relative terms.

A company is a holding company in relation to one or more other companies, means a company of which such companies are subsidiary companies. [Section 2(46)]

For the purposes of this clause, the expression "company" includes any body corporate.

Whereas section 2(87) defines "subsidiary company" in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

For the purposes of this section —

(I) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(II) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(III) the expression "company" includes anybody corporate;

(IV) "layer" in relation to a holding company means its subsidiary or subsidiaries.

(b) Associate company [Section 2(6)]: In relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation. — For the purpose of this clause —

(i) the expression "significant influence" means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement;

(ii) the expression "joint venture'' means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The term "Total Share Capital", means the aggregate of the -

(1) Paid-up equity share capital; and

(2) Convertible preference share capital.

Q-38 What is the main difference between a Guarantee Company and a Company having Share Capital?

(Sugg-July'21, 3 Marks)

Ans. Difference between Guarantee Company [Section 2(21) of the Companies Act, 2013] and a Company having share capital [Section 2(22)].

In case of guarantee company, the members may be called upon to discharge their liability only after commencement of the winding up and only subject to certain conditions; whereas in the case of company having share capital, members may be called upon to discharge their liability at any time, either during the company's life-time or during its winding up.

It is clear from the definition of the guarantee company that it does not raise its initial working funds from its members. Therefore, such a company may be useful only where no working funds are needed or where these funds can be held from other sources like endowment, fees, charges, donations, etc.

In ***Narendra Kumar Agarwal vs. Saroj Maloo,*** the Supreme Court has laid down that the right of a guarantee company to refuse to accept the transfer by a member of his interest in the company is on a different footing than that of a company limited by shares. The membership of a guarantee company may carry privileges much different from those of ordinary shareholders.

Q-39 Rohan incorporated a "One Person Company". The memorandum of OPC indicates the name of his brother Vinod as the nominee of OPC. However, Vinod is starting his new business in abroad and needs to leave India permanently. Due to this fact, Vinod is withdrawing his consent of nomination in the said One Person Company. Taking into considerations the provisions of the Companies Act, 2013 answer the questions given below:-

I. If is it mandatory for Vinod to withdraw his nomination in the said OPC

II. Can Rohan make his 17 year old son as a nominee in such a case. **(MTP March '22, 4 Marks)**

Ans.(A) Yes, it is mandatory for Vinod to withdraw his nomination in the said OPC as he is leaving India permanently as only a natural person who is an Indian citizen and resident in India or otherwise and has stayed in India for a period of not less than 120 days during the immediately preceding financial year shall be a nominee in OPC.

Since Vinod will not satisfy this condition, so he needs to withdraw his nomination.

(B) No, Rohan cannot make his 17 year old son as a nominee of his OPC as no minor shall become member or nominee of the OPC or can hold beneficial interest.

Q-40 ABC Limited was into sale and purchase of iron rods. This was the main object of the company mentioned in the Memorandum of Association. The company entered into a contract with Mr. John for some finance related work. Later on, the company repudiated the contract as being ultra vires.

With reference to the same, briefly explain the doctrine of "ultravires" under the Companies Act, 2013. What are the consequences of ultravires acts of the company? **(MTP March '22, 6 Marks)**

Ans. Doctrine of ultra vires: The meaning of the term ultra vires is simply "beyond (their) powers". The legal phrase "ultra vires" is applicable only to acts done in excess of the legal powers of the doers. This presupposes that the powers in their nature are limited. It is a fundamental rule of Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the Act, thus far and no further. In consequence, any act done or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly

void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorised to carry on.

The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company.

An act which is ultra vires the company being void, cannot be ratified even by the unanimous consent of all the shareholders of the company.

Hence in the given case, ABC Limited cannot enter into a contract outside the purview of its object clause of memorandum of association as it becomes ultra vires and thus null and void.

Q-41 Mr. Raj formed a company with a capital of ` 50,000. He sold his business to another company for ` 40,000. For the payment of sale, he accepted shares worth ` 30,000 (3000 shares of ` 1 each). The balance 10,000 was considered as loan and Mr. Raj secured the amount by issue of debentures. His wife and three daughters took one share each. Owing to strike the company was wound up. The assets of the company were valued at ` 6000. The debts due to unsecured creditors were ` 8000.

Mr. Raj retained the entire sum of ₹ 6000 as part payment of loan. To this, the other creditors objected. Their contention was that a man could not own any money to himself, and the entire sum of ₹ 6000 should be paid to them.

Examine the rights of Mr. Raj and other creditors. Who will succeed? **(MTP March '22, 3 Marks)**

Ans. **Separate Legal Entity:** Corporate Veil refers to a legal concept whereby the company is identified separately from the members of the company.

The term Corporate Veil refers to the concept that members of a company are shielded from liability connected to the company's actions. If the company incurs any debts or contravenes any laws, the corporate veil concept implies that members should not be liable for those errors. In other words, they enjoy corporate insulation.

Thus, the shareholders are protected from the acts of the company. The leading case law of *Saloman Vs Saloman and Company Limited*, laid the foundation of concept of corporate veil or independent corporate personality. A company is a person distinct and separate from its members.

Based on the above discussion and provisions, Mr. Raj was entitled to the assets of the company as he was a secured creditor of the company and the contention of the creditors that Mr. Raj and the company are one and same person is wrong.

Q-42 AK Private Limited has borrowed ' 36 crores from BK Finance Limited. However, as per memorandum of AK Private Limited the maximum borrowing power of the company is' 30 crores. Examine, whether AK Private Limited is liable to pay this debt? State the remedy, if any available to BK Finance Limited.

(Sugg-Dec'21, 4 Marks)

Ans. This case is governed by the 'Doctrine of Ultra Vires'. According to this doctrine, any act done or a contract made by the company which travels beyond the powers of the company conferred upon it by its Memorandum of Association is wholly void and inoperative in law and is therefore not binding on the company. This is because, the Memorandum of Association of the company is, in fact, its charter; it defines its constitution and the scope of the powers of the company. Hence, a company cannot depart from the provisions contained in the memorandum however imperative may be the necessity for the departure. Hence, any agreement ultra vires the company shall be null and void.

(i) Whether AK Private Limited is liable to pay the debt?

As per the facts given, AK Private Limited borrowed ' 36 crores from BK Finance Limited which is beyond its borrowing power of ' 30 crores.

Hence, contract for borrowing of ' 36 crores, being ultra vires the memorandum of association and thereby ultra vires the company, is void. AK Private Limited is not, therefore, liable to pay the debt.

(ii) Remedy available to BK Finance Limited:

In light of the legal position explained above, BK Finance Limited cannot enforce the said transaction and thus has no remedy against the company for recovery of the money lent. BK Finance limited may take action against the directors of AK Private Limited as it is the personal liability of its directors to restore the borrowed funds.

Besides, BK Finance Limited may take recourse to the remedy by means of 'Injunction', if feasible.

Q-43 What do you mean by the term Capital? Describe its classification in the domain of Company Law.

(Sugg-Dec'21, 1 + 5 = 6 Marks)

Ans.(i) Meaning of capital: The term capital has variety of meanings. But in relation to a company limited by shares, the term 'capital' means 'share capital'. Share capital means capital of the company expressed in terms of rupees divided into shares of fixed amount.

(ii) Classification of capital: In the domain of Company Law, the term capital can be classified as follows:

(a) **Nominal or authorised or registered capital:**

This expression means such capital as is authorised by memorandum of a company to be the maximum amount of share capital of the company.

(b) **Issued capital:** It means such capital as the company issues from time to time for subscription.

(c) **Subscribed capital:** As such part of the capital which is for the time being subscribed by the members of a company.

(d) **Called up capital:** As such part of the capital which has been called for payment. It is the total amount called up on the shares issued.

(e) **Paid-up capital:** It is the total amount paid or credited as paid up on shares issued. It is equal to called up capital less calls in arrears.

Q-44 BC Private Limited and its subsidiary KL Private Limited are holding 90,000 and 70,000 shares respectively in PQ Private Limited. The paid-up share capital of PQ Private Limited is ' 30 Lakhs (3 Lakhs equity shares of ' 10 each fully paid). Analyse with reference to provisions of the Companies Act, 2013 whether PQ Private Limited is a subsidiary of BC Private Limited. What would be your answer if KL Private Limited is holding 1,60,000 shares in PQ Private Limited and no shares are held by BC Private Limited in PQ Private Limited? **(Sugg-Dec'21, 3 Marks)**

Ans. Section 2(87) defines "subsidiary company" in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

For the purposes of this section —

(I) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(II) "layer" in relation to a holding company means its subsidiary or subsidiaries.

In the instant case, BC Private Limited together with its subsidiary KL Private Limited is holding 1,60,000 shares (90,000+70,000 respectively) which is more than one half in nominal value of the Equity Share Capital of PQ Private Limited. Hence, PQ Private Limited is subsidiary of BC Private Limited.

(ii) In the second case, the answer will remain the same. KL Private Limited is a holding 1,60,000 shares i.e., more than one half in nominal value of the Equity Share Capital of PQ Private Limited (i.e., holding more than one half of voting power). Hence, KL Private Limited is holding company of PQ Private Company and BC Private Limited is a holding company of KL Private Limited.

Hence, by virtue of Chain relationship, BC Private Limited becomes the holding company of PQ Private Limited.

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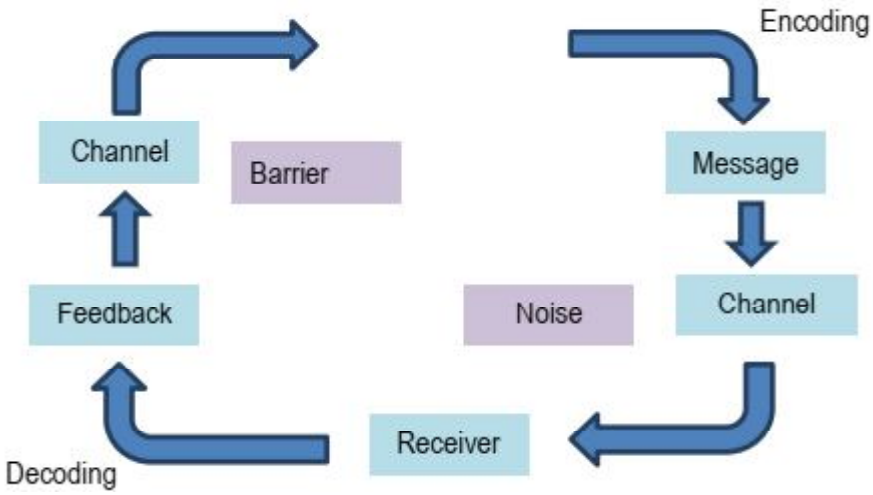
NOTES

Chapter 1
Communication

Q-1 Discuss the process of communication. **[Past Paper-Nov. '19]**

Ans. **The process of communication entails :**

1. The purpose or reason for the communication.
2. The framing of the content of the message
3. The medium used for conveying the message. (For example, internet, written text, speech, pictures, gestures and so on).
4. Transmitting the formulated message.
5. Messages are often misinterpreted due to external disturbances such as noise created by humans, traffic and natural forces. These factors can result in miscommunication.
6. Receiving the message.
7. Deciphering and making sense of the message. decode
8. Interpreting and figuring out what the receiver thinks is the real message.



Q-2 Discuss the term "Virtual Communication" in communication.

OR

What do you mean by an "Attitude Barrier"? **[Past Paper-Nov. '19, 2 Marks)**

Ans.(i) Visual communication through visual aids such as signs, typography, drawing, graphic design, illustration, color and other electronic resources usually reinforces written communication. Sometimes, it may replace written communication altogether. Visual communication is powerful medium. It is the reason that the print and audio-visual media makes effective use of visuals to convey their message. Visuals like graphs, pie charts and other diagrammatic presentations convey clearly and concisely a great deal of information. They are an essential part of official presentations these days.

(ii) Attitude barriers refer to personal attitudes of employees that can affect communication within the organization. A proactive, motivated worker will facilitate the communication process, whereas a dissatisfied, disgruntled, shy, introvert or lazy employee can delay, hesitate in taking the initiative, or refuse to communicate.

Attitude problems can be addressed by good management, periodic training and regular interaction with staff members.

Q-3 Explain how emotional awareness and control helps in communication?

[Past Paper-Nov. '19, 2 Marks]

Ans. Emotions play a major role in our interactions with other people. They are a powerful force that affect our perception of reality regardless of how hard we try to be unbiased**.** In fact, intense emotions can undermine a person's capacity for rational decision-making, even when the individual is aware of the need to make careful decisions.

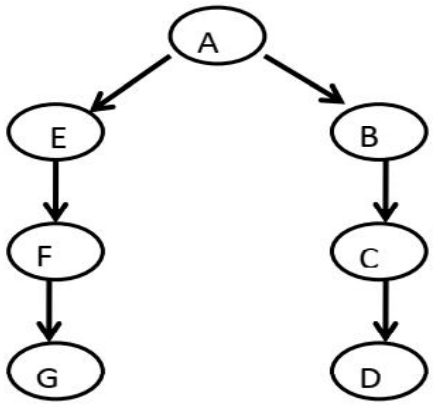
Emotional awareness is a necessary element of good communication. While interacting with another person or a group, it is important to understand the emotions you and he/ she/ they are bringing to the discussion. Managing your own and others emotions and communicating keeping in mind the emotional state of others helps in smooth interaction avoiding conflict resulting in successful completion of the communication process.

Q-4 Define the areas where chain network of communication is found in an organization.

[Past Paper-Nov. '19, 2 Marks)]

Ans. Communication pattern that follows the chain of command from the senior to the junior is called the chain network. Communication starts at the top, like from a CEO, and works its way down to the different levels of employees. The supervisor/ manager/ CEO gives commands or instructions to those working under him/her in the organization.

B, C, D and E, F, G are the subordinates to A in the organizational hierarchy and receive commands from 'A' as shown in the diagram. The chain network often takes up time, and communication may not be clear.



Q-5 Define Vertical & Chain Network under network in communication? **[Past Paper-May '19, 2 Marks]**

Ans. **Vertical and Chain Network**

Vertical network: The vertical network is a formal network. It is usually between a higher ranking employee and a subordinate. This is a two-way communication in which immediate feedback is possible.

Chain Network: The communication pattern that follows the chain of command from the senior to junior is called the chain network. Communication starts at the top, like from a CEO, and works its way down to the different levels of employees.

Q-6 Discuss the "Gender Barrier" in communication. **[Past Paper-May '19, 2 Marks]**

Or

What do you mean by Informal Communication? **[Past Paper-May '19, 2 Marks]**

Ans. Gender barriers may be defined as the communication gap created due to the di fferent ways of inherent mindsets of men and women as given by nature. Men talk in linier, logical and compartmentalized manner whereas the women use both logic and emotion, and are more verbose. This may be cause of communication problem in an office where both men and women work side by side. Men can be held guilty of providing insufficient information, while women may be blamed for providing too much detail.

OR

Informal communication is the casual, friendly and unofficial. It is spontaneous conversation and exchange of information between two or more persons without conforming to the prescribed official rules, processes, systems, formalities, and chain of command. Informal communication is between family, friends, neighbours, members of community and other social relations that are based on common interests, tastes and dispositions. Information can flow from any source in any direction.

Q-7 "The listener has to be objective, practical and control his emotions" Explain with reference to importance of listening in communication? **[Past Paper-May '19, 2 Marks]**

Ans. A good listener does not only listen to the spoken words, but observes carefully the nonverbal cues to understand the complete message. He absorbs the given information, processes it, understands its context and meaning and forms an accurate, reasoned, intelligent response. The listener has to be objective, practical and in control of his emotions. Often the understanding of a listener is coloured by his own emotions judgements, opinions, and reactions to what is being said.

Q-8 Define the importance of Para language Hi Non Verbal Communication. **[Past Paper-May '19]**

Ans. Paralanguage may be defined as the way a person says something. It reveals more than the actual words used, the intent of the message. The voice quality, intonation, pitch, stress, emotion, tone and style of speaking, communicants' approval, interest or the lack of it are depicted through paralanguage. Research estimates that tone of the voice accounts for 38 percent of all communications.

Q-10 Describe the term "paralanguage', a mode of communication. **[Past Paper-Nov '18, 2 Marks]**

Ans. Paralanguage

It refers to the way you say something rather than the actual words used, the voice quality, intonation, pitch, stress, emotion and style of speaking communicates approval, interest or lack of it. Research estimates that tone accounts for 38 percent of communication.

Q-11 Discuss "Cultural barrier in communication. **[Past Paper-Nov '18, 2 Marks]**

OR

What do you mean by (A) Vertical and (B) Horizontal formal communication?

[Past Paper-Nov '18, 2 Marks)]

Ans **Cultural barriers**: Understanding cultural aspects of communication refers to having knowledge of different cultures in order to communicate effectively with cross culture people. Understanding various cultures in this era of globalization is an absolute necessity as the existence of cultural differences between people from various countries, regions tribes and, religions, where words and symbols may be interpreted differently can result in communication barriers and miscommunications. Multinational companies offer special courses and documents to familiarize their staff with the culture of the country where they are based for work.

Formal communication: Formal communication, both oral and written, follows certain rules, principles and conventions in conveying the message. The hierarchy in the organization has to be followed. Formal format, style and language have to be used. The communication pattern can be vertical, horizontal or diagonal.

Vertical: Information can flow upwards or downwards in the organization. Data that is collected flows up to the top levels of management for review and decision making, while instructions and orders are passed down from the management/ seniors to the subordinates for implementation.

Horizontal: Horizontal communication that involves communication between two parts of the organization at the same level. For example, the managers of a project in a company may hold a regular daily, weekly or monthly meeting to discuss the progress of the project.

Q-12 How do Technology barriers effects communication? Explain. **[Past Paper-Nov '18, 2 Marks]**

Ans In the present world, communication modes are primarily technology driven. The communication technology is being constantly upgraded or new formats emerge ever so frequently. Anyone who is not abreast with these struggles to communicate effectively via the medium.

An individual is swamped with huge amount of information every day in the form of emails, texts and social updates. Multitasking is the norm these days. The information overload and trying to accomplish too many things together can result in gaps in communication and miscommunications.

Q-13 Non-verbal is also one of the Broad Categories of Communication? Explain.

[Past Paper-Nov '18, 2 Marks]

Ans **Nonverbal Communication:** Nonverbal communication is the process of communicating by sending and receiving wordless messages. These messages can aid verbal communication, convey thoughts and feelings contrary to the spoken words or express ideas and emotions on their own. Some of the functions of nonverbal communication in humans are to complement and illustrate, to reinforce and emphasize, to replace and substitute, to control and regulate, and to contradict the denoted message

Physical nonverbal communication: An individual's body language that is, facial expressions, stance, gestures, tone of voice, touch, and other physical signals constitute this type of communication. For example, leaning forward may mean friendliness, acceptance and interest, while crossing arms can be interpreted as antagonistic or defensive posture.

Research estimates that physical, non-verbal communication accounts for 55 percent of all communication. Smiles, frowns, pursing of lips, clenching of hands etc. transmit emotions which are not expressed through verbal communication.

Paralanguage**:** The way you say something, more than the actual words used, reveal the intent of the message. The voice quality, intonation, pitch, stress, emotion, tone, and style of speaking, communicates approval, interest or the lack of it. **Research estimates that tone of the voice accounts for 38 percent of all communications**.

Aesthetic communication: Art forms such as dancing, painting, sculptor, music are also means of communication. They distinctly convey the ideas and thoughts of the artist.

Appearance: Appearance is usually the first thing noticed about a person. A well dressed and groomed person is presumed to be organized and methodical, whereas a sloppy or shabby person fails to make a favourable impression. Therefore, dressing appropriately in all formal interactions is emphasized.

The dress code in office is generally formal. It constitutes of formal suits, trousers with plain white or light coloured shirts and leather shoes. Bright colours, jeans, T- shirts, especially with slogans and other informal wear are frowned upon. For women formal two-piece trouser or skirt sets or formal ethnic wear like sarees, is permissible.

Symbols such as religious, status, or ego-building symbols.

Q-15 Define visual communication. **[Past Paper-May '18, 2 Marks]**

Ans **Visual communication**

Communication that happens through visual aids such as signs, graphic designs, colour, illustrations etc is visual communication. It is a powerful medium these days, especially for office presentations. Visuals can also include pie charts, graphs, or any other colourful representation. It adds value to the content and forms a major part of audio visual ppt's.

Q-16 Write any four barriers to effective communication? **[Past Paper-May '18, 2 Marks]**

Ans. Four barriers to Effective communication

(1) **Physical barriers:** include noise, old technology, technical disturbances, distant locations, lack of appropriate infrastructure.

(2) **Organizational structural barriers:** Lack of a proper chain of command in office, gaps in the hierarchy creates problems in communication

(3) **Language barriers:** Language creates problems in communication. Difficult words, unclear jargon, different community having different languages

(4) **Cultural barriers:** Cultures have different customs and can lead to miscommunication.

(5) **Emotional barriers:** One of the chief barriers to open and free communications is the emotional barrier. Anger, fear of criticism or ridicule, mistrust of person, suspicion of intentions, jealousy, anxiety and many more feelings and sentiments we carry within us, affect our communication ability and quality. A person who is upset and disturbed cannot pass on or receive information appropriately and objectively. His emotions will colour his perception and assessment of the communication.

(6) **Attitude barriers:** Personal attitudes of employees can affect communication within the organization.

(7) **Perception Barriers:** Each one of us perceives the world differently and this causes problems in communicating.

(8) **Physiological barriers:** Ill health, poor eyesight, hearing difficulties or any other physiological problems can be hurdles in effective interaction with others.

(9) **Technology barriers:** Anyone who is not tech friendly struggles to communicate effectively via the medium.

(10) **Gender barriers:** Due to traditional mindsets, many men find it difficult to take orders from, or provide information to women.

Q-17 What are the characteristics of effective communication? **[Past Paper-May '18, 2 Marks]**

OR

What is diagonal communication? **[Past Paper-May '18, 2 Marks]**

Ans **Characteristics of effective communication**

1. **Clear:** Any spoken or written communication should state the purpose of message clearly.

2. **Concise:** Brevity is the essence of business communication.

3. **Concrete:** The content of your communiqué should be tangible. Base it on facts and figures.

4. **Coherent:** Coherence is sequentially organized and logically presented information which is easily understood.

5. **Complete:** A complete communication conveys all facts and information required by the recipient.

6. **Courteous:** Courtesy implies that the sender is polite, considerate, respectful, open and honest with the receiver.

7. **Listening for Understanding:** Focus on the individual and his agenda. A perceptive listener is able to provide information as per the needs of the client

8. **Focus and Attention: Everyday work environment** Paying attention to the pertinent details is imperative for effective communication.

9. **Emotional Awareness and Control:** Managing your own and others emotions and communicating keeping in mind the emotional state of others helps in smooth interaction and breakdown of the communication process. **OR**

Diagonal Communication.

It is part of the formal communication section. It refers to the cross functional communication between different levels of employees in an organization. It is commonly found in large organization. Diagonal communication is recommended as it reduces the gaps between communication and encourages direct talks with the third party. For example a junior engineer directly reporting to the General Manager about the progress of a project.

Q-18 What are the main steps in the process of communication? **[Past Paper-May '18, 2 Marks]**

Ans **Steps in the process of communication**

(i) The purpose or reason

(ii) The content or message

(iii) The medium used for conveying the message (internet, written text, speech etc)

(iv) Transmitting the message

(v) Messages are often misinterpreted due to external disturbances. These factors disrupt communication

(vi) Receiving the message

(vii) Deciphering/decoding the message

(viii) Interpreting and figuring out what the real message is.

Q-19

(1) What are the language barriers in communication?

(2) How non-verbal communication is impactful in communication? **[RTP May '20]**

Ans.(1) As we know, lacking language knowledge can create impediment in communication. Language varies individual to individual, place to place, region to region, and country wise. Same words may have different meaning in other language. Even jargon, unfamiliar expressions, and ambiguous words create hurdles in communication. This is fact that no two people speak or write alike. Some people use well-formed words while some of them is used ill-formed words.

(2) Non-verbal communication is more impact in communication. Meanwhile, the primary function of language is communication, but we can communicate without language. Some of the functions of nonverbal communication in humans are to complement and illustrate, to reinforce and emphasize, to replace and substitute, to control and regulate, and to contradict the denoted message. These are the following non-verbal cues:

Physical: It includes facial expressions, stance, gestures, tone, distance in communication, time dimension, haptics etc. For example, leaning forward may mean friendliness, acceptance and interest, while crossing arms can be interpreted as antagonistic or defensive posture. Smiles, frowns, pursing of lips, clenching of hands etc. transmit emotions which are not expressed through verbal communication.

Paralanguage: It contains the how of the sender's voice or the way he/she speaks. In other words, The way we say something, more than the actual words use, reveal the intent of the message, the voice quality, volume, intonation, pitch, stress (e.g., primary stress È, secondary stress Ì, long stress Ð, half long Ñ , extra short) tone (e.g., extra high §", high é, mid –, low è, extra low , down step ↓, upstep↑) and way of speaking, communicates approval, interest or lack of it. It changes the meaning of words.

For example-

Stress on d- Production become Noun

Stress on p- Production become Verb

Aesthetic: Art forms such as dancing, paintings, sculptors, music are also means of communication. It conveys the ideas and thoughts of the artist.

Appearance: It is usually the first thing noticed about the person. A well dressed and groomed person is presumed to be organised and methodical, whereas a sloppy or shabby person fails to make a favourable impression.

Hence, through non-verbal communication, we send and responds to thousands of messages daily in personal and work lives.

Q-20

(1) What is network in communication?

(2) Describe various characteristics of effective communication? **[RTP Nov '19]**

Ans.

(1) A **communication network** refers to the method and pattern used by members of an organisation to pass on information to other employees in the organization. Network helps managers create various types of communication flow according to requirement of the task at hand. Some companies have established and predefined networks of communication for specified venture.

(2) The Characteristics of Effective Communication:

Communication for humans is akin to breathing**.** From the first cry of the baby to the last breath of a person, communication is an essential part of life. However, good communication is an art that has be developed and honed. Effective communicators practice every aspect of the skill frequently.

It is a fact that our everyday communication is often marred by confusion, misunderstandings, misconceptions, partial understanding and obscurity. Thus, several aspects must keep in mind while interacting with others for our communication to convey the intended message.

1. **Clear**: Any spoken or written communication should state the purpose of message clearly. The language should be simple. Sentences ought to be short as the core message is lost in long, convoluted sentences. Each idea or point must be explained in a separate bulleted points or paragraphs. Make it easy for the reader to grasp the intent of the communiqué**.**
2. **Concise**: Brevity is the essence of business communication. No one has the time to read long drawn out essays. Besides, the core content is lost in elaborate details. Avoid using too many irrelevant words or adjectives, for example, 'you see', 'I mean to say', etc. Ensure that there are no repetitions.
3. **Concrete**: The content of your communiqué should be tangible. Base it on facts and figures. Abstract ideas and thoughts are liable to misinterpretation. Make sure that there is just sufficient detail to support your case/ argument and bring focus to the main message
4. **Coherent**: Coherence in writing and speech refers to the logical bridge between words, sentences, and paragraphs. Main ideas and meaning can be difficult for the reader to follow if the writer jumps from one idea to another and uses contradictory words to express himself. The key to coherence is sequentially organized and logically presented information which is easily understood. All content under the topic should be relevant, interconnected and present information in a flow.
5. **Complete**: A complete communication conveys all facts and information required by the recipient. It keeps in mind the receiver's intellect and attitude and conveys the message accordingly. A complete communication helps in building the company's reputation, aids in better decision making as all relevant and required information is available with the receiver.

6. **Courteous**: Courtesy implies that the sender is polite, considerate, respectful, open and honest with the receiver. The sender of the message takes into consideration the viewpoints and feelings of the receiver of the message. Make sure nothing offensive or with hidden negative tone is included.

7. **Listening for Understanding**: We are bombarded by noise and sound in all our waking hours. We 'hear' conversations, news, gossip and many other forms of speech all the time. However, most of it is not listened to carefully and therefore, not understood, partially understood or misunderstood. A good listener does not only listen to the spoken words, but observes carefully the nonverbal cues to understand the complete message. He absorbs the given information, processes it, understands its context and meaning and to form an accurate, reasoned, intelligent response.

   The listener has to be objective, practical and in control of his emotions. Often the understanding of a listener is coloured by his own emotions, judgments, opinions, and reactions to what is being said. While listening for understanding, we focus on the individual and his agenda. A perceptive listener is able to satisfy a customer and suggest solutions as per the needs of the client.

8. **Focus and Attention:** Everyday work environment has multiple activities going on simultaneously. The ringing of the phone, an incoming email, or a number of tasks requiring your attention, anxiety related to work, emotional distress etc. can distract you. Such distractions are detrimental to the communication process with an individual or a group of people. You may overlook or completely miss important points or cues in the interaction. Thus, keeping your focus and attention during the communiqué is imperative for effective communication.

9. Emotional Awareness and Control: "Human behavior is not under the sole control of emotion or deliberation but results from the interaction of these two processes," Loewenstein said.

   However, emotions play a major role in our interactions with other people. They are a powerful force that affect our perception of reality regardless of how hard we try to be unbiased**.** In fact, intense emotions can undermine a person's capacity for rational decision-making, even when the individual is aware of the need to make careful decisions.

   Consequently, emotional awareness is a necessary element of good communication. While interacting with another person or a group, it is important to understand the emotions you and he/ she/ they are bringing to the discussion. Managing your own and others emotions and communicating keeping in mind the emotional state of others helps in smooth interaction and breakdown of the communication process.

Q-21

(1) List at least 5 barriers of communication. Explain any two of them in your own words.

(2) Differentiate between the Vertical Network and the Wheel and spoke method of communication.

[RTP May '19]

Ans.(1) Barriers in communication:

- Physical Barriers
- Cultural Barriers
- Language Barriers
- Technology Barriers
- Emotional Barriers

Technology Barriers: Being a technology driven world, all communication is dependent on good and extensive use of technology. However, there might arise technical issues, like server crash, overload of information etc which lead to miscommunication or no communication at all.

Language Barriers: It's a cosmopolitan set up, where people of different nationalities move from their home to other countries for work. As a result, it is difficult to have a common language for communication. Hence, diversity gives rise to many languages and it acts as a barrier at times.

(2) Vertical Network and Wheel & Spoke Network

Vertical Network

A formal network. It is usually between a higher ranking employee and a subordinate.

A two way communication happens

Wheel and Spoke Network

A network with a single controlling authority who gives instructions and orders to all employees working under him/her.

Two way communication happens but useful only in small organizations.

Q-22

(1) Define the term 'communication'. How is it relevant in daily life?

(2) Explain the Star Network in the channel of communication.

(3) Based on communication channels, what are the different kinds of communication methods? Explain.

(4) What is the 'chain of command' in communication? What are its drawbacks? **[RTP Nov '18]**

Ans.

(1) Communication is a process of exchanging information, ideas, thoughts, feelings and emotions through speech, signals, writing, or behavior.

Communication is relevant in daily life as we experience it in all walks of life. While talking to friends, family and office colleagues, while passing on a piece of information, while starting a campaign or a protest march; at every step we want to communicate a message. The audience differs and the purpose differs; yet communication happens.

(2) **Star Network**: has multiple channels of network in communication. This network allows a group communication and is useful especially where teamwork is involved. The members communicate and exchange information with each other freely, and without hindrance or hesitation. The usefulness of all networks depends on the structure and size of the company, and the manner of communication between the employees.

(3) Based on Communication channels, there are three kinds of categories:

- **Verbal:** Verbal communication involves the use of words and language in delivering the intended message
- **Non Verbal:** Nonverbal communication is the process of communicating by sending and receiving wordless messages. These messages can aid verbal communication, convey thoughts and feelings contrary to the spoken words or express ideas and emotions on their own.
- **Visual:** Visual communication through visual aids such as signs, typography, drawing, graphic design, illustration, colour and other electronic resources usually reinforces written communication. Visuals like graphs, pie charts and other diagrammatic presentations convey clearly and concisely a great deal of information. They are an essential part of official presentations these days.

(4) **Chain of Command**: The communication pattern that follows the chain of command from the senior to the junior is called the chain network. Communication starts at the top, like from a CEO, and works its way down to the different levels of employees. It involves a lot of organizational hierarchy.

Drawbacks: The chain network often takes up time, and communication may not be clear. It creates a lot of miscommunication as the message travels a long path.

Q-23

1. List at least 5 barriers of communication. Explain any two of them in your own words.
2. Differentiate between the Vertical Network and the Wheel and spoke method of communication.

[RTP May '18]

Ans.1. Barriers in communication:

- Physical Barriers
- Cultural Barriers
- Language Barriers
- Technology Barriers
- Emotional Barriers

Technology Barriers: Being a technology driven world, all communication is dependent on good and extensive use of technology. However, there might arise technical issues, like server crash, overload of information etc which lead to miscommunication or no communication at all.

Language Barriers: It's a cosmopolitan set up, where people of different nationalities move from their home to other countries for work. As a result, it is difficult to have a common language for communication. Hence, diversity gives rise to many languages and it acts as a barrier at times.

2. Vertical Network and Wheel & Spoke Network

Vertical Network	**Wheel and Spoke Network**
A formal network. It is usually between a higher ranking employee and a subordinate.	A network with a single controlling authority who gives instructions and orders to all employees working under him/her.
A two way communication happens	Two way communication happens but useful only in small organizations.

Q-24 Define communication? **[MTP May '20, 1 Mark]**

Ans. The word communication is derived from the Latin word "Communicare" which means to share or exchange information, ideas, or feelings. So, it can be defined as an activity or process of exchanging or expressing ideas and feeling of people. I

Q-25 What do you understand by network in communication? **[MTP May '20, 1 Mark]**

Ans. A **communication network** refers to the method and pattern used by members of an organisation to pass on information to other employees in the organization. Network helps managers create various types of communication flow according to requirement of the task at hand. Some companies have established and predefined networks of communication for specified venture.

Q-26 What is paralanguage? **[MTP May '20, 2 Marks)]**

Ans. **Paralanguage:** It is the manner in which we say something, more than the actual words use, reveal the intent of the message, the voice quality, volume, intonation, pitch, stress, emotion, tone. It communicates approval, interest or lack of it.

Q-27 Emotional barriers affect communication, discuss. **[Sugg.-Jan'21, 2 Marks]**

Ans. One of the chief barriers to open and free communications is the emotional barrier.

Anger, fear of criticism or ridicule, mistrust of person, suspicion of intentions, jealousy, anxiety and many more feelings and sentiments we carry within us, affect our communication ability and quality. A person who is upset and disturbed cannot pass on or receive information appropriately and objectively. His/her emotions will colour his perception and assessment of the communication.

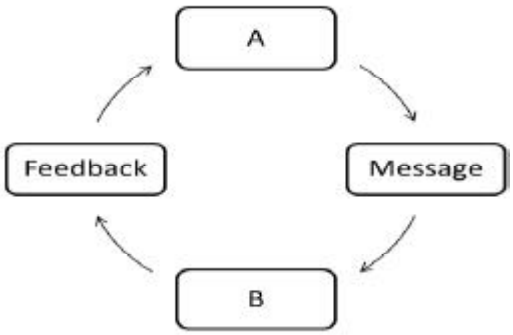
Q-28 Define circuit and star network under network in communication. **[Sugg.-Jan'21, 2 Marks]**

OR

Discuss the term "physical non-verbal communication" In communication. **[Sugg.-Jan'21, 2 Marks]**

Ans. **Circuit Network:**

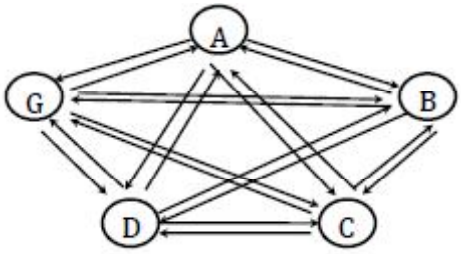
When two persons communicate with each other sending messages and feedbacks, they form a communication circuit. Therefore, it is known as circuit network. The two people interacting can be colleagues placed at the same hierarchical level in the organization.



Circuit Network

Star Network: **[MTP April'21]**

The star network communication has multiple channels of communication open between all members. This network propagates group communication and is essential where teamwork is involved. The members communicate and exchange information with each other freely and without hindrance or hesitation.



Star Network

Physical Non-verbal Communication

An individual's body language that is, facial expressions, stances, gestures, touches, and other physical signals constitute this type of communication. For example, leaning forward may mean friendliness, acceptance and interest, while crossing arms can be interpreted as antagonistic or defensive posture. Research estimates that physical, non-verbal communication accounts for 55 percent of all communication. Smiles, frowns, pursing of lips, clenching of hands etc. transmit emotions which are not expressed through verbal communication.

Q-29 How do organizational structure barriers affect communication? **[Sugg.-Jan'21, 2 Marks]**

Ans. Communication problems occur when the systems, structures and processes in the organization are not clear or have gaps in them. If the chain of command is unclear, a person may not know whom to contact for a particular issue. Inappropriate information transmission systems, lack of supervision, and unclear role and responsibility demarcations lead to confusion and inefficiency.

Q-30 What do you mean by diagonal communication? **[Sugg.-Jan'21, 2 Marks]**

Ans. Cross-functional communication between employees at different levels of the organizational hierarchy is described as diagonal communication.Diagonal communication is increasingly common in larger organizations. It reduces the chances of distortion or misinterpretation by encouraging direct communication between the relevant parties. For example, a junior engineer reports directly to the General Manager regarding the progress on the project.

Q-31 Body language speaks the truth while speaker may play with words to hide the truth, comment? **[Sugg.-Nov'20, 2 Marks)]**

Ans. In most cases the body language comprising facial expressions, gesticulation and posture genuinely convey the speaker's intent which might not match with his speech. However, seasoned fraudsters and criminals can control their body language to match their words, hiding their true intent.

Q-32 What is formal communication, explain. **[Sugg.-Nov'20, 2 Marks]**

OR

Encoding the matter is an important element of communication, comments? **[Sugg.-Nov'20, 2 Marks]**

Ans. Formal communication, both oral and written, follows certain rules, principles and conventions in conveying the message. The hierarchy in the organization has to be followed. Formal format, style and language have to be used. The communication pattern can be vertical, horizontal or diagonal.

- Vertical: Information can flow upwards or downwards in the organization. Data that is collected flows up to the top levels of management for review and decision making, while instructions and orders are passed down from the management/ seniors to the subordinates for implementation.
- Horizontal: Horizontal communication that involves communication between two parts of the organization at the same level. For example, the managers of a project in a company may hold a regular daily, weekly or monthly meeting to discuss the progress of the project.
- Diagonal: Cross-functional communication between employees at different levels of the organizational hierarchy is described as diagonal communication. Diagonal communication is increasingly common in larger organizations. It reduces the chances of distortion or misinterpretation by encouraging direct communication between the relevant parties. For example, a junior engineer reports directly to the General Manager regarding the progress on the project.

OR

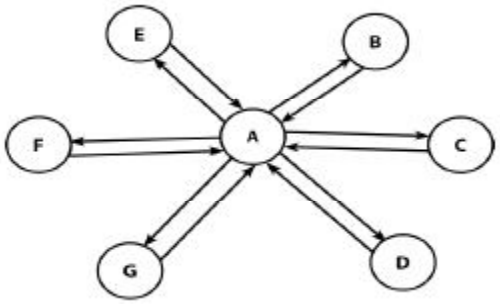
Encoding is an important step in the process of communication as it converts/envelopes the message contents into a format/version that is amenable to be sent through the medium. It adds certain specific details to the message so that it can be easily sent across the medium and can be easily interpreted by the receiver at the other end of the medium. This step is built-in or rendered by the medium. For example for a message to be sent through an e-mail, it requires us to compose a message and then copy the contents of the message into the given interface. Without this step, the message cannot be sent. Likewise, if we want to send a message through postal service we need to enclose the message into an envelope with postal stamps in order to send it. In verbal communication, we add diction, tone, modulation, gestures and facial expressions to make the communication more effective.

Q-33 Explain how listening for Understanding helps in communication. **[Sugg.-Nov'20, 2 Marks]**

Ans. As we 'hear' conversations, news, gossip and many other forms of speech, we do not listen to it carefully and therefore are not able to understand or partially understand or misunderstand the message. A good listener does not only listen to the spoken words, but observes carefully the nonverbal cues to understand the complete message. He absorbs the given information, processes it, understands its context and meaning to form an accurate, reasoned, intelligent response. The listener has to be objective, practical and in control of his emotions. Often the understanding of a listener is coloured by his own emotions, judgments, opinions, and reactions to what is being said. While listening for understanding, we focus on the individual and his agenda. A perceptive listener is able to satisfy a customer and suggest solutions as per the needs of the client.

Q-34 Explain Wheel & Spoke network in communication. **[Sugg.-Nov'20, 2 Marks]**

Ans. In Wheel and Spoke network in communication there is a single controlling authority who gives instructions and orders to all employees working under him/her. All employees get instructions directly from the leader and report back to him/her. It is direct and efficient for a small business/company, but an inappropriate way of communication in a large organization with many people. A company with many employees needs a complete hierarchy of decision makers. In a big organisation, this network will fail if the central figure is not competent.



Wheel and Spoke Network

Q-35 What do you understand by completeness in communication? **[MTP.-March'21, 1 Mark]**

Ans. A complete communication conveys all facts and information required by the recipient. It keeps in mind the receiver's intellect and attitude and conveys the message accordingly. A complete communication helps in building the company's reputation, aids in better decision making as all relevant and required information is available with the receiver.

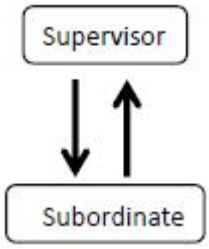
Q-36 Define paralanguage. **[MTP.-March'21, 1 Mark]**

Ans. Paralanguage: The way you say something, more than the actual words used, reveal the intent of the message, The voice quality, intonation, pitch, stress, emotion, tone, and style of speaking, communicates approval, interest or the lack of it.

Q-37 Differentiate between vertical and circuit network in communication. **[MTP.-March'21, 2 Marks]**

Ans. **Vertical Network:**

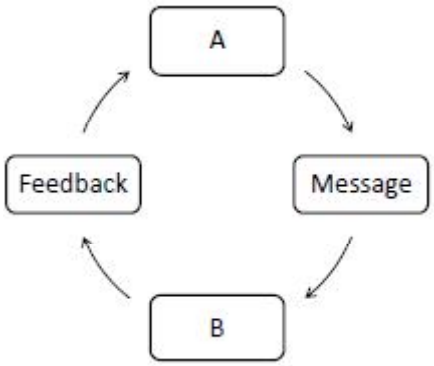
The vertical network is a formal network. It is usually between a higher ranking employee and a subordinate. In this two-way communication, immediate feedback is possible.



Vertical Network

2. Circuit Network:

When two persons communicate with each other sending messages and feedbacks, they form a communication circuit. Therefore it is known as circuit network. The two people interacting can be colleagues placed at the same hierarchical level in the organisation .



Circuit Network

Q-38 Briefly explain emotional, attitude and perception barriers in communication. How can these be overcome? **[MTP.-March'21, 2 Marks]**

Ans. **Emotional barriers**: Your emotions sometimes affect your communication. Negative such as anger, fear of criticism or ridicule, mistrust, suspicion, jealousy, anxiety play with our minds and affect our communication ability and quality. If we are upset and disturbed, we cannot pass on or receive information appropriately and objectively. Once we overcome our emotions, we can communicate rationally.

Attitude barriers- Our attitudes can affect communication, especially in a formal setup. If we are proactive and self-motivated , we will communicate promptly owning complete responsibility of the repercussions. Whereas, if we are dissatisfied, disgruntled, shy, introvert or lazy in our approach, we will delay, hesitate in taking the initiative, or refuse to communicate. Correcting our attitude can certainly improve our communication.

Perception Barriers- Each one of us perceives the world differently and this causes problems in communicating. The same communication is interpreted differently once our perception about others changes. We can avoid miscommunications and misunderstandings by changing our perception.

Q-39 What are cultural barriers in communication? How do they impact communication?

[MTP.-April'21, 2 Marks]

Ans. **Cultural barriers**: Understanding *cultural aspects of communication* refers to having knowledge of different cultures in order to communicate effectively with cross culture people .

Understanding various cultures in this era of globalisation is an absolute necessity as most professionals work in a diverse work environment with their team mates come from different countries , cultures and ethnicities. Owing to this, certain gestures, words and symbols may be interpreted differently resulting in communication barriers and miscommunications. Sensitizing employees about cross-cultural acceptance creates cohesive teams that ultimately helps organizations to achieve their objectives/targets.

Q-40 What do you understand by coherence in communication? **[MTP.-April'21, 1 Mark]**

Ans. Coherence in writing and speech refers to the logical bridge between words, sentences, and paragraphs. Main ideas and meaning can be difficult for the reader to follow if the writer jumps from one idea to another and uses contradictory words to express himself/herself. The key to coherence is sequentially organised and logically presented information which is easily understood. All content under the topic should be relevant, interconnected and present information in a flow.

Q-41 Name the essential aspects of oral communication.

[MTP-April'21, 1 Mark]

Ans. **Oral Communication** refers to communication through the spoken word, either face-to-face, telephonically, via voice chat, video conferencing or any other medium. Formal medium like lectures, conferences, seminars, meetings and informal conversations, friendly gossips etc. are part of oral communication.

Major aspects of oral communication are:

a. Pronunciation

b. Listening &conversation

c. Spoken grammar

d. Vocabulary

Q-42 What is Visual Communication?

Ans. Visual Communication is an impactful medium for communicating data using visual aids such as signs, typography, drawing, graphic design, illustration, colour and other electronic resources. It is used to represent facts and figures effectively while making presentations. Sometimes, it may replace written communication altogether.

Q-43 What do you understand by completeness in communication? **(MTP-Nov'21, 1 Marks)**

Ans. A complete communication conveys all facts and information required by the recipient. It keeps in mind the receiver's intellect and attitude and conveys the message accordingly. A complete communication helps in building the company's reputation, aids in better decision-making as all relevant and required information is available with the receiver.

Q-44 Briefly discuss any 4 barriers of communications. **(MTP-Nov'21, 2 Marks)**

Ans. The process of communication can be impeded/thwarted by multiple barriers These barriers result in distortion and misunderstanding of the intended meaning/communication. The barriers can be physical, psychological, emotional, cultural, linguistic etc.

(1) **Physical barriers**: These are a result of our surroundings. Noise, technical disturbances, outdated equipment, distant locations, office doors, separate areas for people, large office spaces, old technologies and lack of appropriate infrastructure can lead to problems in transmission of message.

(2) **Organisational structure barriers**: Communication problems occur when the systems, structures and processes in the organisation are not clear or have gaps in them. If the chain of command is unclear, a person may not know whom to contact for a particular issue. Inappropriate information transmission systems, lack of supervision, and unclear role and responsibility demarcations lead to confusion and inefficiency.

(3) **Language barriers**: Lack of knowledge of the language can create many obstacles in communication. Literally, people from different regions and countries may interpret the same words differently. Difficult words, subject specific terminologies, unfamiliar expressions and ambiguous words, create hurdles in communication .

(4) **Cultural barriers**: Cultural differences between people from various countries, regions tribes and, religions, where words and symbols may be interpreted differently can result in communication barriers and miscommunications.

Q-45 What is the difference between Vertical and Horizontal Communication? **(MTP-Nov'21, 2 Marks)**

Ans. **Vertical Communication**: Information can flow upwards or downwards in the organisation. Data that is collected flows up to the top levels of management for review and decision making, while instructions and orders are passed down from the management/ seniors to the subordinates for implementation.

Horizontal Communication: Horizontal communication involves two employees of the organisation at the same level. For example, the managers of a project in a company may hold a regular daily, weekly or monthly meeting to discuss the progress of a project.

Q-46 What is the difference between chain network and wheel spoke network? **(MTP-Oct'21, 1 Mark)**

Ans. Chain network is the pattern of communication that follows the chain of command from the senior to junior. Communication starts from the top, like from the CEO, and works its way down to the different levels of employees.

Wheel and spoke network is the pattern of communication where in an organization there is single controlling authority who gives instructions directly from the leader and report back to him/her only.

Wheel and spoke is network is only effective in small businesses and chain network is effective in large organization where there are many people who have different roles and responsibilities.

Q-47 What do you understand by coherence in communication? **(MTP-Oct'21, 1 Mark)**

Ans. Coherence in writing and speech refers to the logical bridge between words, sentences, and paragraphs. Main ideas and meaning can be difficult for the reader to follow if the writer jumps from one idea to another and uses contradictory words to express himself/herself. The key to coherence is sequentially organised and logically presented information which is easily understood. All content under the topic should be relevant, interconnected and present information in a flow.

Q-48 Discuss Non Verbal communication and its types. **(MTP-Oct'21, 2 Mark)**

Ans. **Non-verbal Communication** is the process of communicating by sending and receiving wordless messages. These messages can aid verbal communication, convey thoughts and feelings contrary to the spoken words or express ideas and emotions on their own.

Physical non-verbal communication: An individual's body language that is, facial expressions, stances, gestures, , touches, and other physical signals constitute this type of communication.

- **Paralanguage:** The way you say something, more than the actual words used, reveal the intent of the message. The voice quality, intonation, pitch, stress, tone, and style of speaking, communicates approval, interest or the lack of it.
- **Aesthetic communication: Art forms** such as dancing, painting, sculptor, music are also means of communication. They distinctly convey the ideas and thoughts of the artist.
- **Appearance:** A well dressed and groomed person is presumed to be organised and methodical, whereas a sloppy or shabby person fails to make a favourable impression.
- Symbols such as religious or status symbols.

Q-49 What are cultural barriers in communication? **(MTP-Oct'21, 2 Mark)**

Ans. Understanding *cultural aspects of communication* refers to having knowledge of different cultures in order to communicate effectively with cross culture people. Understanding various cultures in this era of globalisation is an absolute necessity as the existence of cultural differences between people from various countries, regions tribes and, religions, where words and symbols may be interpreted differently can result in communication barriers and miscommunications. Multinational companies offer special courses and documents to familiarise their staff with the culture of the country where they are based for work.

In addition, every organisation too has its own work culture. In fact, departments within the same company may also differ in their expectations, norms and ideologies. This can impact intra and inter organisational communication.

Q-50 Physical barriers are a result of our surroundings. Discuss. **(Sugg-July'21, 2 Marks)**

Ans. Physical barriers are caused due to obstructions/factors in the immediate environment or surroundings, often leading to problems in transmission of message. These factors are noise, technical disturbances, outdated equipment, distant locations, office door s, separate areas for people, large office spaces, old technologies and lack of appropriate infrastructure.

Q-51 Distinguish between General English and Business English. **(Sugg-July'21, 2 Marks)**

Ans. The approach of **General English** leans more on the basic, conversational, day-to-day use of words that are colloquial in nature usually used in informal settings. Whereas **Business English** is specifically used in formal settings like work places or offices for business communication. It entails the usage of specific vocabulary, tonality and language constructs that are complex in nature.

Q-52 Focus and Attention is an important characteristic of effective communication. Explain.

(Sugg-July'21, 2 Marks)

Ans. Everyday work environment has multiple activities going on simultaneously that disturb our focus and attention. The ringing of a phone, an incoming email, or a number of tasks that require immediate attention. Apart from routine work, anxiety related to work, emotional distress etc. can also cause distractions. These are detrimental to the communication process with an individual or a group of people. Due to these distractions/disturbances, important points or subtle cues are either ignored or completely missed. In order to interpret the message correctly, being focused and attentive is important for effective communication.

Q-53 Write essentials of oral communication. **(Sugg-July'21, 2 Marks)**

Ans. Essentials of oral communication are:

(a) Pronunciation when wrong or unclear can lead to lack of clarity and miscommunication.

(b) Listening & conversation: The tonality, accent and diction convey the emotion, urgency and seriousness of the communication.

(c) Spoken grammar: Using the grammar correctly while speaking helps in correct interpretation of the message.

(d) Vocabulary: Colloquial words should be used; difficult words should be avoided unless the listener is proficient in the language.

Q-54 Define the term communication. When the communication is supposed to be effective ?

(Sugg-July'21, 2 Marks)

Ans. **Communication** is a process of exchanging information, ideas, thoughts, feelings and emotions through speech, signal, writing, or behaviour. In communication process, a sender (encoder) encodes a message and then using a medium/channel sends it to the receiver (decoder) who decodes the message and after processing information sends back appropriate feedback/reply using a medium/channel.

The communication is supposed to be complete or effective only when the listener responds relevantly and appropriately.

Q-55 Define effective Communication. List at least 4 characteristics of effective communication.

(MTP March '22, 2 Marks)

Ans. When the right message is conveyed at the right time to the right person in a clear and coherent manner, it is said to be Effective communication.

Four characteristics

Clarity: The message written or spoken should be stated clearly. Communication should not have ambiguity.

Conciseness: Brevity is the essence of communication. Message conveyed should be short, brief and to the point.

Coherence: communication should involve a logical flow of ideas, where there is a smooth shift from one idea to another.

Completeness: Good communication conveys the whole idea, without leaving gaps. All relevant information should be given at the same time to make it complete.

Q-56 What are the barriers in communication? **(MTP March '22, 2 Marks)**

Ans. **There are multiple barriers in the communication process.**

Physical Barriers, which are result of our surroundings. Like noise, lack of infrastructure, old technologies.

Language Barriers which result from lack of knowledge of a particular language. It leads to unfamiliar expressions, ambiguous words.

Emotional Barriers which result from feelings of anger, fear of criticism, ridicule, distrust, jealousy etc.

Cultural Barriers, which result from diversity in culture, traditions where gestures and expressions have different meanings in different cultures and communities.

Q-57 Discuss Formal Communication and its types. **(MTP March '22, 2 Marks)**

Ans. A communication that involves certain rules, principles and conventions and is primarily used in offices, businesses is known as Formal Communication.

Its three types:

(1) Vertical: Information flows upwards and downwards as per its importance. Decisions are made at the top level while instructions are passed to the lower levels

(2) Horizontal : Communication between two employees at the same level , in an organization.

(3) Diagonal: Cross functional communication between employees at different levels of the organizational hierarchy.

Q-58 Explain the term 'chain of command' in communication. **(MTP March '22, 2 Marks)**

Ans. The communication pattern that follows the chain network from senior to junior is known as the Chain of Command. The communication starts at the top, like from the CEO, and makes it way down to different levels of employees. It involves organizational hierarchy.

Q-59 Completeness is an important characteristic of effective communication. Comment.

(Sugg-Dec'21, 2 Marks)

Ans. A complete communication conveys all the facts and information necessary and sufficient about the subject required by the recipient. It keeps in mind the receiver's intellect and attitude and conveys the message accordingly. Lack of relevant information leads to ambiguity, leaving room for assumptions and defeating the principal objective of the intended communication. Hence, completeness is an important characteristic of effective communication.

Q-60 What is the informal communication? **(Sugg-Dec'21, 2 Marks)**

Ans. Informal Communication is casual, friendly and unofficial. It can be between family, friends, neighbours, members of the community and people working together in an organization.It is spontaneous conversation and exchange of information between two or more persons without conforming to the prescribed official rules, processes, systems, formalities and chain of command.

Q-61 State the common networks used in organisations. **(Sugg-Dec'21, 2 Marks)**

The most common networks followed in organisations are the following:

(i) **Vertical network:** The vertical network is a formal network. It is usually between a higher ranking employee and a subordinate. In this two-way communication, immediate feedback is possible.

(ii) **Circuit network:** When two persons communicate with each other sending messages and feedback, they form a communication circuit. Therefore it is known as circuit network.

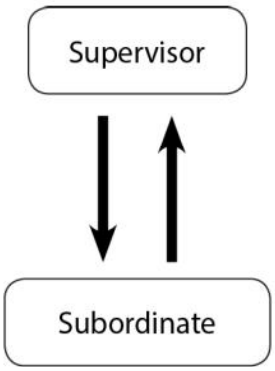
(iii) **Chain network:** The communication pattern that follows the chain of command from the senior to the junior is called the chain network.

(iv) **Wheel and spoke network:** This is an organization where there is a single controlling authority who gives instructions and orders to all employees working under him/her and getting back the report from them.

(v) **Star network:** The star communication network has multiple channels of communication open between all members. This network propagates group communication and is essential where teamwork is involved.

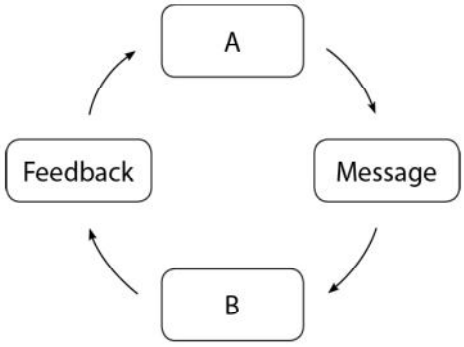
The usefulness of all networks depends on the structure and size of the company, and the manner of communication between the employees. The above said network may be explained by diagram as below:

1. Vertical Network:



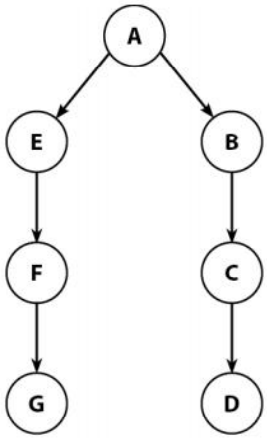
Vertical Network

2. Circuit Network:



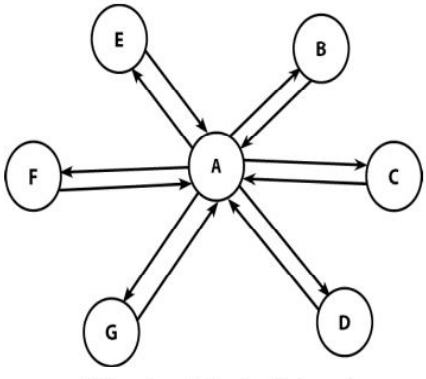
Circuit Network

3. Chain Network:



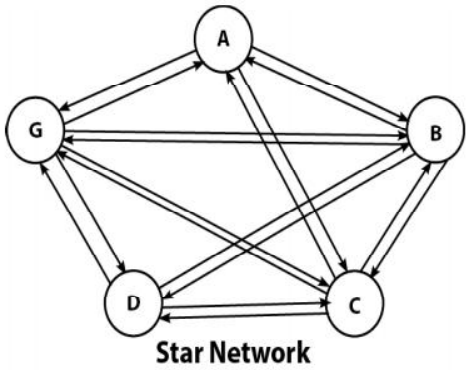
Chain of Command

4. Wheel & Spoke Network:



Wheel and Spoke Network

5. Star Network:



Star Network

Q-62 Write about the cultural barriers in communication. **(Sugg-Dec'21, 2 Marks)**

Ans. Cultural barriers refer to having knowledge of different cultures in order to communicate effectively with cross culture people. Understanding various cultures in this era of globalization is an absolute necessity as the existence of cultural differences between people from various countries, regions tribes and religions, where words and symbols may be interpreted differently can result in communication barriers and miscommunications.

Q-63 Explain horizontal communication. **(Sugg-Dec'21, 2 Marks)**

Ans. Horizontal communication involves communication between two entities of an organization at the same level. For example, the managers of a project in a company may hold a regular daily, weekly or monthly meeting to discuss the progress of the project.

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NOTES

Chapter 2
CommunicationSentence Types and Direct-Indirect, Active-Passive Speech

[Past Paper-Nov. '19, 1 Mark]

Q-1 Change the following sentence to indirect speech:
Reena said, "Nobody can solve the problem on the earth".

Ans. Reena commented/said that nobody could solve the problem on the earth.

Q-2 Change the following sentence to indirect speech:
He said, "Will you all come for the meeting?"

Ans. He asked if they all would come for the meeting.

Q-3 Change the sentence from Active to Passive Voice.
The audience loudly cheered the Prime Minister's speech.

Ans. Change the sentence from Passive to Active Voice
The Bird was killed by a cruel boy.

Q-4 Change the following sentence to indirect speech.
He said, "My Mother is writing letters".

Ans.(i) The Prime Minister's speech was cheered loudly by the audience.

(ii) A cruel boy killed the bird.

(iii) He said that his mother was writing letters.

Q-5 Change the sentence into Active Voice;
They will be given a ticket for over speeding by the police inspector.

Ans. The police inspector will give them a ticket for over speeding.

[Past Paper-May '19, 1 Mark]

Q-6 Change the following sentence to indirect speech:
Pari said to me "I have been living in London since last December"

Ans. Pari told me she had been living in London since last December.

Q-7 Change the following sentence into indirect speech.
She said "I am watching a' television show"

Ans. She said that she was watching a television show.

Q-8(i) Change the sentence from Active to Passive Voice.
The teacher always answers the students' questions.

(ii) Change the sentence from Passive to Active Voice;
Every night the office is vacuumed and dusted by the cleaning crew.

(iii) Change the following sentence to indirect speech.
She said "My Father came yesterday".

Ans. (i) The student questions are always answered by the teacher.

(ii) The cleaning crew vacuums and dusts the office every night.

(iii) She said that her father had come the day before.

Q-9 Change the sentence into Active Voice: The Grand Canyon is visited by thousands of tourists every year.

Ans. Thousands of tourists visit the Grand Canyon every year.

[Past Paper-Nov '18, 1 Mark]

Q-10 Change the following sentence into indirect speech:
Suchi asked Sunil, "Are you interested to visit the temple?"

Ans. Indirect speech: Suchi asked Sunil if he was interested to visit the temple. (Objective questions, hence either right or wrong)

Q-11 Change the following sentence into indirect speech :
Shalini gave order to her younger sister, "Go home immediately."

Ans. Shalini ordered her younger sister to go home immediately.
(Objective type answers; either right or wrong)

Q-12 Rewrite the following sentence in Passive Voice.
Sunita said, "Please give me a glass of water."

Ans. Rewrite the following sentence in Active Voice.

Q-13 The case should be handled by you carefully since it is critical in nature.

Ans. Sunita said, "A glass of water be kindly given to me"/ Sunita requested that a glass of water be given to her.
You should handle the case carefully since it is critical in nature.

[Past Paper-May '18, 1 Mark]

Q-14 Change the following sentence to indirect speech:
The policeman said to the stranger who are you.

Ans. Indirect speech: the policeman asked the stranger who he was.

Q-15 Change the following sentence into indirect speech:
The Shopkeeper says, "prices are shooting up alarmingly.

Ans. The shopkeeper says that prices are shooting up alarmingly.

Q-16 Rewrite the following sentence in Passive Voice
The customer should receive the delivery by Friday.

Q-17 Rewrite the following sentence in Active Voice.
He will be given a ticket for over speeding by the police officer.

Ans.(ii) The delivery would be received by the customer by Friday (Passive voice)

(iii) The police officer will give him a ticket for over speeding (Active voice)

Q-18 Rewrite the following sentences in the active voice:
The entire district was destroyed by cyclone.

Ans. The cyclone destroyed the entire district. (Active voice)

Q-19 (A) Change the following sentences into passive voice.

1. Ram loves Sita.
2. They will finish the work in a fortnight.
3. Why did your friend write such a message?
4. Who taught you Commerce?
5. The examiner will give you instructions.

(B) Change the following Direct Speech into Indirect Speech.

1. The principal said, 'you can go'.
2. Ravi said, 'The lion died in the garden.'

3. Mentor said to me, 'you are a good player.'
4. She said, 'Alas! I am undone.'
5. 'Where do you live? Asked the administrator. **[RTP May '20]**

Ans. (A) Active-Passive Voice

1. Sita is loved by Ram.
2. The work will be finished by them in a fortnight.
3. Why was such a message written by your friend?
4. By whom were you taught Commerce?
5. Instructions will be given to you by the examiner.

(B) Direct - Indirect

1. The principal said that we could go.
2. Ravi said that the lion had died in the garden.
3. Mentor told me that I was a good player.
4. She exclaimed sadly that she was undone.
5. The administrator required where I lived.

Q-20 (A) Change the following sentences into passive voice.

1. John helps William.
2. Who did this?
3. Some students were helping the layman.
4. Ram will finish the work by tomorrow.
5. The Peon opened the gate.

(B) Change the following Direct speech into Indirect speech.

1. He said, 'I have passed the examination.'
2. Ram said to him, 'I don't believe you.'
3. Where do you live?' asked the stranger.
4. Call the second witness,' said the judge.
5. He said, 'Well-done! You have done well.' **[RTP Nov '19]**

Ans.(A) Active to Passive

1. William is helped by John.
2. By whom was this done?
3. The layman was being helped by some students.
4. The work will be finished by Ram tomorrow.
5. The gate was opened by the peon.

(B) Direct to Indirect Speech.

1. He said that he had passed the examination.
2. Ram said he didn't believe him.
3. The stranger required where I lived.
4. The judge commanded them to call the second witness.
5. He applauded him, saying that he had done well.

Q-21(A) Change the following sentences into passive voice.

(1) Rana Pratap fought many battles.

(2) People watch football matches late night.

(3) The students approached the Principal for their rights.
(4) Give first priority to studies.
(5) Abhishek speaks a lot on politics.

(B) Change the following Direct speech into Indirect speech.

(1) She said, 'My mother cooks well'
(2) The athlete said, 'I can break old records'
(3) Brother said, 'I have finished my studies'
(4) The teacher praised the girl, 'You have been working hard'
(5) Uncle said, 'I am unwell'

(C) Change the following to Active voice

(1) Results had to be declared by the school authorities.
(2) The test must be completed by you in one hour.
(3) The factory was destroyed by fire.
(4) Cake is being eaten by Rajat.
(5) A conservative lifestyle was led by women in olden days. **[RTP May '19]**

Ans.(A) Active to Passive

(1) Many battles were fought by Rana Pratap
(2) Football matches are watched by people late night.
(3) The Principal was approached by the students for their rights.
(4) Studies should be given first priority.
(5) A lot is spoken on politics by Abhishek.

(B) Direct to Indirect Speech.

(1) She said that her mother cooked well.
(2) The athlete said that he could break all records
(3) Brother said that he had finished his studies.
(4) Teacher appreciated the girl that she had been working hard
(5) Uncle complained that he was unwell.

(C) Passive to Active

(1) The school authorities declared the results
(2) You must complete the test in one hour.
(3) Fire destroyed the factory
(4) Rajat is eating the cake.
(5) Women led a conservative lifestyle in olden days.

Q-23 (A) Change the following sentences into passive voice.

(1) May God bless you with health and happiness.
(2) Ravi sent the report on Monday.
(3) Angela wore a pink frock for her birthday party.
(4) Elizabeth will give all books to the orphans.
(5) My aunt prepares delicious desserts.

(B) Change the following Direct speech into Indirect speech.

(1) The fans said, 'We want India to win'
(2) The Minister announced, 'Our party introduces the GST from tomorrow'
(3) The BCCI said, 'We wish the Under 19 cricket team for the its world cup win'
(4) The master yelled at the servant, 'Get lost and don't show your face'

(5) Elders always say, 'If you work hard, you will succeed' **[RTP Nov '18]**

Ans.(A) Active to Passive

(1) May you be blessed by God with health and happiness.
(2) The report was sent by Ravi on Monday.
(3) A pink frock was worn by Angela for her birthday party.
(4) All books will be given to the orphans by Elizabeth.
(5) Delicious desserts are prepared by my aunt.

(B) Direct to Indirect Speech.

(1) The fans cheered that they wanted India to win.
(2) The Minister announced that their party would introduce GST from the next day.
(3) The BCCI congratulated the U 19 cricket team for its World Cup win.
(4) The master yelled at the servant to get lost and not show his face.
(5) Elders always say that if you work hard, you will succeed. (Universal truth)

Q-24(A) Change the following sentences into passive voice.

(1) Raj uses a pen to sketch figures
(2) Anita will perform a solo dance at the annual day.
(3) Prof Johnson teaches Psychology
(4) The public threw stones on the thief.
(5) Who wrote this essay?

(B) Change the following Direct speech into Indirect speech.

(1) He said, 'I have lost all games'
(2) Teacher said, 'Please use a blue pen for your homework'
(3) Children said, 'Good morning Ma'am'.
(4) Serena said, 'How intelligent Clara is'
(5) My father said, 'Where are you going'? **[RTP May '18]**

Ans.(A) Active to Passive

(1) A pen is used by Raj to sketch figures
(2) A solo dance will be performed by Anita at the annual day.
(3) Psychology is taught by Prof. Johnson
(4) Stones were thrown by the public on the thief.
(5) By whom was this essay written?

(B) Direct to Indirect Speech.

(1) He said that he had lost all games.
(2) Teacher requested the children to use a blue pen for their homework.
(3) Children wished Ma'am a good morning.
(4) Serena exclaimed how intelligent Clara was.
(5) My father asked me where was I going?

[MTP May '20, 1 Mark]

Q-25 Change the following sentences into passive voice. The Principal will give Arvind an award for his extraordinary performance.

Ans. An award will be given to Arvind for his extraordinary performance.

Q-26 Change the following sentences to indirect speech. The teacher said to the students, 'Be quiet and listen to me carefully.'

Ans. The teacher urged the students to be quite and listen to her/him carefully.

Q-29 Change the following sentences into passive voice: Rahul has kept his money safely in the bank.

Ans. The money has been kept safely in the bank by Rahul.

Q-30 Change the following sentence to indirect speech.
Rashmi said, "Hurray! I have scored good marks in my final examination."

Ans. Rashmi exclaimed with joy as she had scored good marks in her final examination.

Q-33 Rewrite the following sentence in passive voice:
The outbreak of pandemic forbids the passengers to use the railway service.

Or

Change the following sentence into Indirect speech.
Abhishek said, 'I am unable to attend the meeting because I am ill today.'

Ans. The passengers are forbidden to use the railway services due to outbreak of the pandemic

OR

Due to outbreak of the pandemic the passengers are forbidden to use the railway services.
Abhishek informed that he was unable to attend the meeting because he was ill that day.

[MTP.-April'21, 1 Mark]

Q-34 Change the following sentence into passive voice.
You don't need to wind this watch.

Ans. This watch need not be wound.

Q-35 Change the following sentences to indirect speech.
Seema said, "It's time. I must go now."

Ans. Seema said that it was time and she had to go then.

Q-36 Change the following sentences into passive voice:
One should not give unsolicited advice.

Ans. Unsolicited advice should not be given.

Q-37 Change the following sentence to indirect speech.
Reena said, "Alas! These are difficult times."

Ans. Reena sighed with sorrow that those were difficult times.

Q-38 Rewrite the following sentence in passive voice:
Lie face-down; stretch your arms in front.

Ans. Let face be down; let arms be stretched out.

Q-39 Change the following sentence into direct speech.
He said that he would deposit the cheque the following day.

Ans. He said, "I will deposit the cheque tomorrow."

Q-40 Select the correct meaning of the idioms/phrases given below.
put a spoke in the wheel.

(a) tried to cause an accident
(b) helped in the execution of the plan
(c) hwarted the execution of the plan
(d) destroyed the plan

Ans. hwarted the execution of the plan

Q-41 Play to the gallery

(a) Advertise
(b) Attempt to appeal to popular opinion
(c) Cater to the public taste
(d) Attempt to appeal to popular opinion
(e) Depend on public for approval

Ans. Attempt to appeal to popular opinion

Q-42 Change the following sentence into Indirect speech.
He said to me, "Is she ready or shall I wait?"

Ans. He asked me whether you were ready or he should wait.

[MTP.-March'21, 1 Mark]

Q-43 Change the following sentence into passive voice.
Who is creating this mess?

Ans. By whom is this mess being created?

Q-44 Change the following sentences to indirect speech.
Soni said to Dhiraj, "Let him come, then we shall see."

Ans. Soni told Dhiraj that they would see him if he might come.

Q-45 Change the following sentences into passive voice:
She spoke to the official on duty.

Ans. The official on duty was spoken to by her

Q-46 Change the following sentence to indirect speech.
He said, ''I hardly have time to attend any party."

Ans. He said that he hardly had time to attend any party.

Q-47 Rewrite the following sentence in passive voice:
A child could not have done this mischief.

Ans. This mischief could not have been done by a child.

Q-48 Change the following sentence into Indirect speech.
The young knight asked, "Which way did the princess go?"

Ans. The young knight enquired which way the princess had gone.

Q-49 Briefly explain emotional, attitude and perception barriers in communication. How can these be overcome? **[2 Marks]**

Ans. **Emotional barriers**: Your emotions sometimes affect your communication. Negative such as anger, fear of criticism or ridicule, mistrust, suspicion, jealousy, anxiety play with our minds and affect our communication ability and quality. If we are upset and disturbed, we cannot pass on or receive information appropriately and objectively. Once we overcome our emotions, we can communicate rationally.

Attitude barriers- Our attitudes can affect communication, especially in a formal setup. If we are proactive and self-motivated , we will communicate promptly owning complete responsibility of the repercussions. Whereas, if we are dissatisfied, disgruntled, shy, introvert or lazy in our approach, we will delay, hesitate in taking the initiative, or refuse to communicate. Correcting our attitude can certainly improve our communication.

Perception Barriers- Each one of us perceives the world differently and this causes problems in communicating. The same communication is interpreted differently once our perception about others changes. We can avoid miscommunications and misunderstandings by changing our perception.

Q-50 Change the following sentence into Indirect speech.
"I don't know the way. Do you?" She asked.

Ans. She said that she didn't know the way and asked me if I did.

[Sugg.-Nov'20, 1 Marks]

Q-51 Change the following sentence to indirect speech
Varun Said, "Every Kid should learn coding".

Ans. Varun suggested/said/advised that every kid should learn coding.

Q-52 Change the following sentence to indirect speech:

"Do you suppose you know better than your own father?" jeered his angry mother.

Ans. His angry mother jeered and asked (jeeringly asked) the son whether (if) he supposed he knew better than his father.

Q-53 (i) Change the sentence from Active to Passive Voice.

Question - The crew cleaned the entire stretch of highway.

(ii) Change the sentence from Passive to Active Voice.

Question - The house was remodelled by the homeowners to help it sell.

(iii) Change the following sentence to indirect speech.

Question - Socrates said, "Virtue is its own reward."

Ans.(i) The entire stretch of the highway was cleaned by the crew.

(ii) The homeowners remodelled the house to sell it. / The homeowners remodelled the house to help it sell.

(iii) Socrates said that virtue is its own reward.

Q-54 Change the sentence into Passive voice:

Question - Will you tell me a story?

Ans. Will a story be told to me by you?

[Sugg.-Jan'21, 1 Mark]

Q-55 Change the following sentence to indirect speech:

He said, "The horse died in the night".

Ans. **He said that the horse had died in the night.**

Q-56 Change the following sentence into indirect speech:

He said to him, "Please wait here till I return."

Ans. He requested him to wait there till he returned.

Q-57(i) Change the sentence from Active to Passive Voice.

Rama was making a kite.

(ii) Change the sentence from Passive to Active Voice.

The lion was shot by the hunter.

(iii) Change the following sentence to indirect speech.

Father said to his son, "Work hard for success in life".

Ans. **(i)** A kite was being made by Rama.

(ii) The hunter shot the lion.

(iii) Father advised/said to/told his son to work hard for success in life.

Q-58 Change the sentence into Active Voice

Twenty runs were scored by him.

Ans. He scored twenty runs

Q-59 Rewrite the following sentence in the Active Voice :

The deer was trapped by the cunning fox. **[Past Paper-Nov '18] (1 Mark)**

Ans. The cunning fox trapped the deer.

BCR CH-2

(MTP-Nov'21, 1 Marks)

Q-60 Change the following sentences into passive voice.
Has she phoned him?

Ans. Has he been phoned by her?

Q-61 Change the following sentences to indirect speech.
She said to me, " What can I do for you?"

Ans. She asked me what she could do for me.

Q-62 Change the following sentences into passive voice:
They don't help you.

Ans. You are not helped by them.

Q-63 Change the following sentence to indirect speech.
Everybody said, "How well she sings."

Ans. Everybody exclaimed that she sang very well.

Q-64 Rewrite the following sentence in active voice:
Are you picked up by your mom?

Ans. Does your mom pick you up?

Q-65 Change the following sentence into Indirect speech.
Ria said to Siya, "Who were you speaking to over the phone?"

Ans. Ria asked Siya who she had been speaking to over the phone.

Q-66 Change the following sentence into Active Voice.
The prize wasn't won by Sheena.

Ans. Sheena did not win the prize.

(MTP-Oct'21, 1 Mark)

Q-67 Change the following sentences into passive voice.
I was watering the plants.

Ans. The plants were being watered by me.

Q-68 Change the following sentences to indirect speech.
He said, "Call me back later!"

Ans. He told me to call him back later.

Q-60 Change the following sentences into passive voice:
Everyone is going to love her.

Ans. She is going to be loved by everyone.

Q-61 Change the following sentence to indirect speech.
My mother said, "I had headache yesterday."

Ans. My mother told me that she had had a headache the day before.

Q-62 Rewrite the following sentence in passive voice: Someone has made a mistake.

Ans. The mistake has been made .

Q-63 Change the following sentence into Indirect speech.

Ria said, "I'm seeing my brother tomorrow."

Ans. Ria said that she was seeing her brother the following day.

Q-64 Change the following sentence into Direct speech.

My sister is being helped by her.

Ans. She is helping my sister.

(Sugg-July'21, 1 Mark)

Q-65 Change the following sentence to indirect speech :

He said to me, "It would be nice if I could see you again."

Ans. He said/said to me/told me that it would be nice if he could see me again.

Q-66

(i) Change the sentence from Active to Passive Voice.
Bring the culprit.

(ii) Change the sentence from Passive to Active Voice.
Three cleanliness campaigns will be launched by the authorities in the park.

(iii) Change the following sentence to indirect speech.
The group shouted, "Honesty is the best policy".

Ans.(i) Let the culprit be brought / brought in.

(ii) The authorities will launch three cleanliness campaigns in the park.

(iii) The Group shouted that honesty is the best policy.

Q-67

(i) Change the sentence from Active to Passive Voice.
Did they like paintings in the exhibition ?

(ii) Change the sentence from Passive to Active Voice.
Food from roadside vendor should not be eaten during Covid pandemic as a safety precaution.

(iii) Change the following sentence to indirect speech.
Mr. X to the Cashier: "Do you have change for five hundred rupees?"

Ans. **(i)** Were the paintings in the exhibition liked by them?

(ii) As a safety precaution during Covid pandemic, we should not eat food from roadside vendor. / We should not eat food from the roadside vendor as a safety precaution during Covid pandemic.

(iii) Mr. X asked the cashier whether / if he had (the) change for five hundred rupees.

Q-68 Change the sentence into Active Voice.

Who were not liked by you at the party ?

Ans. Whom/who did you not like at the party?

(MTP March '22, 1 Mark)

Q-69 Change the following sentence into indirect speech:

The lawyer said to the accused, 'You should speak the truth'.

Ans. The lawyer ordered the accused to speak the truth

Q-70 Change the following into indirect speech:

Mother said to Raju, 'Would you come to the shop with me?'

Ans. Mother asked Raju if he would come to the shop with her.

Q-71

(i) Change the following sentence into indirect speech
Rashmi said, 'These grapes look sweet'

(ii) Change the following sentence into active voice.
Raja Rao will be crowned the king by the people.

(iii) Change the following sentence into passive voice.
Will you accept this offer?

Ans.

(i) Rashmi said that those grapes look sweet.

(ii) The people will crown Raja Rao the king

(iii) Will this offer be accepted by you?

Q-72 Change the sentence into passive voice:

A little lamb is following Mary.

Ans. Mary is being followed by a lamb.

(Sugg-Dec'21, 1 Mark)

Q-73 Change the following sentence to indirect speech:

He said to her, "Are you coming to the party?

Ans. He asked / enquired of her if / whether she was coming to the party.

Q-74

(i) Change the sentence from active to passive voice.
By this time tomorrow we will have signed the deal.

(ii) Change the sentence from passive to active voice.
The minister was welcomed by the people.

(iii) Change the following sentence to indirect speech: She said to me, "Do you know this man?"

Ans.

(i) By this time tomorrow the deal will have been signed. / By this time tomorrow the deal will have been signed by us / The deal will have been signed by this time tomorrow.

(ii) The people welcomed the minister.

(iii) She asked me if / whether I knew that man.

Q-75 Change the sentence into passive voice: Mohan will tell you later.

Ans. You will be told by Mohan later. / You will be told later by Mohan.

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NOTES

Chapter 3
Vocabulary

[Past Paper-Nov. '19, 1 Mark]

Q-1 Choose the word which best expresses the meaning of the given word : **Abundant**

(1) Plentiful (2) Sufficient (3) Enough (4) Many

Ans. Plentiful

Q-2 Select a suitable antonym for the word given under: **Adumbrate**

(1) Elaborate (2) Summarize (3) Angry (4) Happy

Ans. Elaborate

Q-3 Choose the word which best expresses the meaning of the given word: **Relevant**

(1) Related (2) Important (3) Pertinent (4) Common

Ans. Pertinent

Q-4 Choose the word which best. expresses the meaning of the given word:

Unabashed

(1) Not fast (2) Not Finding (3) Not Embarrassed (4) Not Angry

Ans. Not Embarrassed

Q-5 (i) Select the correct meaning of Idioms/Phrases given below: Takes Two to Tango

(1) Two people are required for dancing

(2) Two people are required for creating mischief.

(3) Two people required to clean floor.

(4) Two people required to help others. **[Past Paper-Nov. '19, May-18,1 Mark]**

Ans. Two people are required for creating mischief.

(ii) Storm in a teacup

(1) Crave for something

(2) Least importance

(3) Emergency situation

(4) Make a big issue out of a small thing.

Ans. Make a big issue out of a small thing.

Q-6 Choose the word which best expresses the meaning of the given word. **Myriad**

(1) Dramatic (2) To Fetch (3) Many (4) Confusion

Ans. Many

[Past Paper-May '19, 1 Mark]

Q-7 Choose the word which best expresses the meaning of the given word. **Crooked**

(1) Straight (2) Tapering (3) Twisted (4) Circle

Ans. Crooked = Twisted

Q-8 Choose the word which best expresses the meaning of the-given word: **Reckless**

(1) Cautious (2) Clear (3) Careless (4) Fearless

Ans. **Reckless = Careless**

(ii) **Humongous**

(1) Minute (2) Huge (3) Hungry (4) Hassel

Ans. Humongous = Huge

Q-10 Select the correct meaning of idioms/phrases given below:

(i) Cry over spilled milk

(1) Drain milk

(2) Complain about something that cannot be rectified

(3) Get into altercation with someone

(4) Misbehave wi th someone

Ans. Complain about something that cannot be rectified.

(ii) Judge a book by its cover.

(1) Reading a book

(2) To detect a fraud

(3) Rely on outward appearances

(4) To be intimated by appearances ·

Ans. Rely on outward appearances.

[Past Paper-Nov '18, 1 Mark]

Q-11 (i) Choose the word which best expresses the meaning of the given word:

Proficient

(1) Regular (2) Expert (3) Weak (4) Reserve

Ans. Expert

(ii) Select a suitable **antonym** for the following word:

Support

(1) Disturb (2) Attend (3) Oppose (4) Attack

Ans. Oppose

Q-12 Choose the word which best expresses the meaning of the given word:

(i) Fiction

(1) Fantasy (2) Story (3) Fact (4) Reality

Ans. Fantasy

(ii) Demote

(1) Rise (2) Upgrade (3) Decline (4) Downgrade

Ans. Downgrade

Q-13 (i) Fill up the blank with the most suitable preposition or adverb given in the brackets.

He apologized_____ his teacher for his misbehaviour. (to /from / with / against)

Ans. i. He apologized to his teacher for his misbehaviour.

Q-14 Select the correct meaning of the following idioms/phrases among the alternatives given below

(i) Out of the blue

(1) Something happens that was unexpected.

(2) Something happens that was very much expected.

(3) From the sky

(4) From the Ocean

Ans. Something happens that was unexpected.

(ii) Day in and day out

(1) Coming and returning in day time
(2) The day of importance.
(3) Continuously
(4) Within a day

Ans. Continuously

[Past Paper-May '18, 1 Mark]

Q-15 (i) Choose the word which best expresses the meaning of the given word:

Perpetual

(1) General (2) Emotional (3) Stubborn (4) Continuous

Ans. continuous

(ii) Select a suitable antonym for the word given in question:

Disparage

(1) Eulogise (2) Belittle (3) Alert (4) Defame

Ans. eulogize

Q-16 Choose the word which best expresses the meaning of the given word:

(i) **Despot**

(1) Tyrant (2) Storage (3) Hot meal (4) Against

Ans. **Tyrant**

(ii) **Illicit**

(1) Storage (2) Emotional (3) Unlawful (4) Grand

Ans. Unlawful

Q-17 Complete the expression by supplying a suitable preposition or adverb particle. Choose your answer from the options given in brackets.

We will take _____ this issue when we meet next week. (up/on/over)

Ans. We will take up this issue when we meet next week.

Q-18 To grease the palm

(1) Treat suffer (2) To offer bribe
(3) To swim in deep sea (4) To be in deep thought.

Ans. To offer bribe

Q-19 (A) Select the suitable **synonym** for the given words.

1. Indispensable

a. Decisive b. Crunchy c. Responsible d. Momentary

2. Hypocrisy

a. Signifier b. Cant c. Sauna d. Gunky

3. Trudge

a. Skip b. Expel c. Review d. Slog

4. Conservatism

a. Behaviourism b. Cognitivism c. Toryism d. Innateness

5. Besmirch

a. Tolley b. Sully c. Honour d. Enhance

(B) Select the suitable **antonym** for the given words.

1. Abstention

a. Orgy b. Binge c. Spree d. Obscure

2. Harmony

a. Hilarious b. Imbroglio c. Complexity d. Separation

3. Vague

a. Disgrace b. Distribution c. Cogent d. Credit

4. Shoddy

a. Careful b. Poor quality c. Former d. Stimulus

5. Pliant

a. Ditch b. Biddable c. Docile d. Inflexible

[RTP May '20]

Ans. (A) Select the suitable synonym for the given words.

1 (a) 2 (b) 3 (d) 4 (c) 5 (b)

(B) Select the suitable antonym for the given words.

1 (c) 2 (b) 3 (c) 4 (a) 5. (d)

Q-20 (A) Select the suitable synonym for the given words:

1. Inchoate

(a) Contextual (b) notified (c) rudimentary (d) disseminate

2. Hone

(a) Grind (b) jumble (c) heuristic (d) chroneme

3. Dilatory

(a) Using time (b) wasting time (c) about to complete (d) proximity

4. Sturdy

(a) Stealth (b) very small (c) peculiar (d) indomitable

5. Oblivious

(a) Refuel (b) problematic (c) digress (d) heedless

Ans.(A) Synonyms

1. C 2. A 3. B 4. D

5. D

(B) Select the suitable antonym for the given word:

1. Frivolus

(a) Resolute (b) gleeful (c) fragile (d) advantageous

2. Prerogative

(a) Positive (b) embargo (c) invincible (d) grapple

3. Vituperate

(a) Dignity (b) relevance (c) exculpate (d) perturb

4. Turmoil

(a) Kindness (b) compliment (c) adjustor (d serenity

5. Sane

(a) ego (b) frantic (c) composer (d) gleaner

[RTP Nov '19]

Ans.(B) Antonyms

1. A 2. B 3. C 4. D 5. B

Q-21(A) Select the suitable synonym for the given words:

(1) Distort

(a) Save (b) Abundant (c) Deform (d) Overwhelm
(e) Move

(2) Alliance

(a) Associate (b) Estranged (c) Revert (d) Unwillingness
(e) Possibility

(3) Contingency

(a) Existence (b) Evidence (c) Rebel (d) Emergency
(e) Announce

(4) Rife

(a) Unknown (b) Widespread (c) Accountable (d) General
(e) Survive

(5) Oppressive

(a) Grand (b) Publish (c) Tolerance (d) Proactive
(e) Distressful

Ans.(A) Synonyms

(1) Option c (2) Option a (3) Option d (4) Option b
(5) Option e

(B) Select the suitable antonym for the given word:

(1) Contend

(a) Compete (b) Eradicate (c) Expel (d) Give up

(2) Proximity

(a) Approximation (b) Assumingly (c) Remoteness (d) Cure

(3) Vigilant

(a) Inattentive (b) Curious (c) Concerned (d) Careful

(4) Proficient

(a) Probable (b) Incompetent (c) Skilled (d) Available

(5) Adhere

(a) Rules (b) Stick (c) Disobey (d) Linked

Ans.(B) Antonyms

(1) Option d (2) Option c (3) Option a (4) Option b
(5) Option c

(C) Select the correct meaning of the given idioms:

(1) Clouds on the horizon

(a) A ray of hope (b) Hopelessness
(c) A problem can be seen in future (d) Problems are unlimited

(2) Well begun is half done

(a) Good start is important (b) Good ending is important
(c) Half job is easier (d) Easier said than done

(3) Save for the rainy day

(a) Use an umbrella (b) Prevention is better than cure
(c) Life is full of problems (d) Save for difficult times

(4) It's piece of cake

(a) Something too sweet (b) Easy job
(c) A small bite (d) Little to eat

Ans.(C) Idioms

(1) Option c (2) Option a (3) Option d (4) Option b

(D) Fill in the blanks with the most suitable choice:

(1) With the economy going down, people who are rich might become _____

(a) Endemic (b) Healthy (c) Destitute (d) Considerable

(2) Religion teaches us to respect all _____ rights of a human being.

(a) Business (b) Fundamental (c) Behavioural (d) Conceptual

(3) She is _____ of lizards.

(a) Afraid (b) Frightened (c) Fearful (d) Terrified

(4) This area suffers from _____.

(a) draughts (b) drafts (c) dwarfs (d) droughts

[RTP May '19]

Ans.(D) Fill in the blanks:

(1) Option c (2) Option b (3) Option a (4) Option d

Q-22 (A) Select the suitable synonym for the given words:

(1) Concise

(a) Important (b) Better (c) Precise (d) Interesting

(2) Ill will

(a) Sad (b) Lazy (c) Good will (d) Hatred

(3) Stimulate

(a) Effects (b) Activate (c) Irritate (d) Captivate

(4) Recede

(a) Move back (b) Accept (c) Deviate (d) Agree

(5) Exorbitant

(a) Light (b) Exclusive (c) Enormous (d) Easy

Ans.(A) Synonyms

(1) Option c (2) Option d (3) Option b (4) Option a
(5) Option c

(B) Select the suitable antonym for the given word:

(1) Cyclical

(a) Recurrent (b) Unidirectional (c) Appearing (d) Vehicular

(2) Inept

(a) Aptitude (b) long lasting (c) Inappropriate (d) Skilled

(3) Cumbersome

(a) Manageable (b) Clumsy (c) Quantitative (d) Moderate

(4) Drastic

(a) Severe (b) Useless (c) Forceless (d) Emergency

(5) Tangible

(a) Limited (b) Impalpable (c) Thematic (d) Peaceful

Ans.(B) Antonyms

(1) Option b (2) Option d (3) Option a (4) Option c

(5) Option b

(C) Select the correct meaning of the given idioms:

(1) Face the music

(a) Escape from the situation (b) Act violently

(c) Enjoy the music (d) Face the challenges/ consequences

(2) Food for thought

(a) Incomplete information (b) Good knowledge

(c) Uncensored words (d) Baseless facts

(3) Sell like hotcakes

(a) A difficult campaign (b) Controversial marketing

(c) Good baker (d) Fast selling / in huge numbers

Ans.(C) Idioms

(1) Option d (2) Option b (3) Option d

(D) Fill in the blanks with the most suitable choice:

(1) The judge ordered a death sentence when the accused was found _____

(a) Transparent (b) Abusing (c) Culpable (d) Empirical

(2) The scam was basically because of _____of funds by the senior members of the organization.

(a) Misappropriation (b) credibility (c) Movement (d) Allotment

(3) His first move was to _____ the enemy team and then behead each one.

(a) Announce (b) Seize (c) Complete (d) Harvest

[RTP Nov '18]

Ans.(D) Fill in the blanks:

(1) Option c (2) Option a (3) Option b

Q-23 (A) Select the suitable synonym for the given words:

(1) Annotate

(a) Verify (b) Footnotes (c) Announce (d) Cut off

(2) Fraught

(a) Scam (b) Smelly (c) Rare (d) Full of

(3) Divulge

(a) Dig into (b) Varied (c) Reveal (d) Deep

(4) Peroration

(a) Conclusion (b) Audience (c) Cheating (d) Priority

(5) Embezzle

(a) Shine (b) Pilfer (c) Busy (d) Shocked

Ans. A: Synonyms

(1) Annotate means to make notes. Correct answer is b) Footnotes

(2) Fraught means in abundance. Correct answer is d) Full of

(3) Divulge means to let out. Correct answer is c) Reveal

(4) Peroration means the end. Correct answer is a) Conclusion

(5) Embezzle means wrong use, especially used for funds. Correct answer is b) Pilfer

(B) Select the suitable antonym for the given word:

(1) Concealed

(a) To hide (b) Uninteresting (c) Known (d) Related

(2) Supremacy

(a) Primarily (b) Inferiority (c) Dominance (d) Leadership

(3) Applaud

(a) Organize (b) Compose (c) About (d) Condemn

(4) Acquisition

(a) Forfeit (b) Revival (c) permission (d) Fulfilment

(5) Adamant

(a) Resolute (b) Steadfast (c) Flexible (d) Extinct

Ans. B Antonyms

(1) Conceal means to hide. Correct answer is c) Known.

(2) Supremacy means dominance/ Correct answer is b) Inferiority

(3) Applaud means to appreciate. Correct answer is d) Condemn

(4) Acquisition means to get/possess. Correct answer is a) forfeit

(5) Adamant means steadfast, unbending. Correct answer is c) Flexible

(C) Select the correct meaning of the given idioms:

(1) Man of action

(a) Full of aggression

(b) One who performs

(c) Insubstantial person

(d) More talks than action

(2) Acid test

(a) Difficult job

(b) Useless task

(c) Decisive test

(d) Unknown work

Ans.(C) Idioms

(1) Correct answer is b; One who performs and not just talks.

(2) Correct answer is c; Decisive test. A test/task which will make things clear

(D) Fill in the blanks with the most suitable choice:

(1) With the economy going down, people who are rich might become _____

(a) Endemic (b) Healthy (c) Destitute (d) Considerable

(2) Religion teaches us to respect all _____ rights of a human being.

(a) Business (b) Fundamental (c) Behavioural (d) Conceptual

[RTP May '18]

Ans.D: Fill in the blanks

(1) Correct answer is c) Destitute. It means poor.

(2) Correct answer is b) Fundamental. It means basic.

[MTP May '20, 1 Mark]

Q-24 (i) Choose the word which best expresses the meaning of the given word : Purgative

(a) Pertain (b) Tentative (c) Laxative (d) Glorious

Ans. Laxative

(ii) Select a suitable antonym for the word given in question : Circumspect

(a) Displeasing (b) Accumulate (c) Upstart (d) Unguarded

Ans. Unguarded

Q-25 (i) Choose the word which best expresses the meaning of the given word : Quarantine

(a) Accessibility (b) Special (c) Group (d) Isolation

Ans. Isolation

(ii) Choose appropriate words to fill the blank:

The _____ of institutions through the purging of corruption is fundamental to the health of a _____.

(a) cleaning, government (b) stopping, nation

(c) cleansing, democracy (d) harmony, organisation

Ans. cleansing, democracy

(b) (i) Select the suitable antonym for the given word: Conquest

(a) Combine (b) Defeat (c) Consequent (d) Surrender

Ans. **(b)** Defeat

[Sugg.-Nov'20, 1 Marks]

Q-26 (i) Choose the word which best expresses the meaning of the given word: **SCINTILLATING**

(1) Smouldering (2) Glittering (3) Touching (4) Warming

Ans.(i) Glittering

(ii) Select a suitable antonym for the word given under: **Fidelity**

(1) Commitment (2) Inconstancy (3) Ambitious (4) Devotion

Ans. Inconstancy

Q-27 (i) Choose the word which best expresses the meaning of the given word: **Concise**

(1) Brief (2) Better (3) Important (4) Interesting

Ans. **Brief**

(ii) Choose the word which best expresses the meaning of the given word: **Cryptic**

(1) Pertinent (2) Common (3) Mysterious (4) Loyalty

Ans.(ii) Mysterious

Q-28 Select the correct meaning of Idioms/Phrases given below:

(i) To be a mastermind

(1) To be a pioneer (2) To be an entrepreneur

(3) To be an amateur (4) To be a villain

Ans. To be a pioneer

(ii) At wit's end

(1) Impoverished (2) Drained (3) Completed (4) Perplexed

Ans. Perplexed

Q-29 Choose the word which best expresses the meaning of the given word: **COMBAT**

(1) Conflict (2) Quarrel (3) Feud (4) Fight

Ans. Fight

[Sugg.-Jan'21, 1 Mark]

Q-30(i) Choose the word which best expresses the meaning of the given word: Repulsive

(1) Attractive (2) Normal (3) Disgusting (4) Confused

Ans. Disgusting

(ii) Select a suitable antonym for the word given under: **Gratify**

(1) Frustrate (2) Depress (3) Discourage (4) Distress

Ans. Frustrate

Q-31(i) Choose the word which best expresses the meaning of the given word: **Nostalgic**

(1) Sharp (2) Painful (3) Delighted (4) Homesick

Ans. Homesick

(ii) Choose the word which best expresses the meaning of the given word: **Economise**

(1) Reduce (2) Save (3) Minimise (4) Accumulate

Ans. Save

Q-32 Select the correct meaning of Idioms/Phrases given below: **Pen and Ink**

(1) Modern day technology (2) Extensively

(3) Wastage (4) In writing

Ans. In writing

Q-33 Applaud

(1) Flatter (2) Praise (3) Pray (4) Request

Ans. Praise

Q-34 A snake in the grass

(1) Unforeseen happening (2) Secret or hidden enemy

(3) Unreliable person (4) Unrecognizable danger

Ans. Secret or hidden enemy/ (4) Unrecognizable danger

[MTP-March'21, 1 Mark]

Q-35(i) Choose the word which best expresses the meaning of the given word.**Wreak**

(a) to twist (b) to sweat (c) to inflict (d) to grasp

Ans. to inflict

(ii) Select a suitable antonym for the word given below : **Profane**

(a) Beautiful (b) Sacred (c) Glorious (d) Insane

Ans. B

Q-36 (i) Choose the word which best expresses the meaning of the given word : **Augury**

(a) dispute (b) altar (c) refuge (d) omen

Ans.(i) D

(ii) Select a suitable antonym for the word given below : **Brazen**

(a) shy (b) generous (c) insolent (d) bold

Ans. A

Q-37 Select the suitable antonym for the given word: **Bawdy**

(a) dirty (b) careless (c) decent (d) inflexible

Ans. decent

Q-38(i) Select the correct meaning of the idioms/phrases given below.

(1) Go to the dogs

(a) very fast (b) aimless (c) become angry (d) become disordered

Ans.(i) become disordered

(ii) Out of the woods

(a) After a long time (b) no longer in danger

(c) out in open (d) out of the dark

Ans. no longer in danger

[MTP.-April'21, 1 Mark]

Q-39 Choose the word which best expresses the meaning of the given word : **Haggle**

(a) postpone (b) accept (c) bargain (d) reject

Ans. bargain

Q-40(i) Select a suitable antonym for the word given below : **Renounce**

(a) Abdicate (b) relinquish (c) deny (d) possess

Ans.(ii) D

Q-41(i) Choose the word which best expresses the meaning of the given word : **Largesse**

(a) Hindrance (b) kindness (c) malevolence (d) cruelty

Ans.(i) kindness

(ii) Select a suitable antonym for the word given below : **Ostentatious**

(a) respectful (b) Awkward (c) Bankrupt (d) Reserved

Ans.(ii) Reserved

Q-42(i) Select the suitable antonym for the given word: **Proclivity**

(a) Antipathy (b) Calm (c) Desire (d) Dearth

Ans. (i) Antipathy

Q-43 Cheese the word which best expresses the meaning of the given word: **Mesmerized**

(1) Enthrall (2) Gruesome (3) Scary (4) Harmony

[Past Paper-May '19,1 Mark]

Ans. Enthrall

(MTP-Nov'21, 1 Marks)

Q-44 Choose the word which best expresses the meaning of the given word.

Perspicacious

(a) Bad (b) Clear (c) Hazy (d) Shrewd

Ans. Shrewd

Q-45 Select a suitable antonym for the word given in question.

Malevolence

(a) Benefitting (b) Tenderness (c) Indulgence (d) Kindness

Ans. Kindness

Q-46 Choose the word which best expresses the meaning of the given word.

Mercenary

(a) luring by false charms (b) poisonous

(c) serving only for pay (d) unworthy

Ans. Serving only for pay

Q-47 Select a suitable antonym for the word given in question.

Boisterous

(a) calm (b) courageous (c) serenity (d) cheerful

Ans. calm

Q-48 Select the suitable antonym for the given word:

Indict

(a) reprimand (b) allege (c) condemn (d) acquit

Ans. acquit

Q-49 Select the correct meaning of the idioms/phrases used in sentences given below.

(MTP-Nov'21, 2 Marks)

The elephant in the room

(a) A slow person (b) A fat person

(c) The useless person in the group (d) The main issue

Ans. The main issue

Q-50 A man of straw

(a) A man of no substance (b) A man without wife

(c) A man in the village (d) None of the above

Ans. Option a

(MTP-Oct'21, 1 Mark)

Q-51 Choose the word which best expresses the meaning of the given word.

Clamour

a. Assuage b. Affirm c. Silence d. Tumult

Ans. Tumult

Q-52 Select a suitable antonym for the word given in question.

Cobble

a. Indifferent b. Synthesize c. Complete d. Destroy

Ans. Destroy

Q-53 Choose the word which best expresses the meaning of the given word.

Posit

a. Hypothesize b. Catalogue c. Farcical d. Division

Ans. Hypothesize

Q-54 Select a suitable antonym for the word given in question.

Augur

a. Harbinger b. Herald c. Contraindicate d. Risible

Ans. Contraindicate

Q-55 Select the suitable antonym for the given word:

Transient

a. Immanent b. Temporal c. Ephemeral d. Affinity

Ans. Immanent

Q-56 Select the correct meaning of the idioms/phrases used in sentences given below.

[MTP-Oct'21, 2 Marks)

1. The chairman of the corporation plays a second fiddle to the minister.
   a. To extend a helping hand
   b. To play a secondary role.
   c. To be guiding person.
   d. To be facilitator.
2. In order to become a successful administrator in the office, an executive has to keep his ears to the ground.
   a. To be very polite
   b. To encourage backbiting
   c. To keep informed about happening in surrounding.
   d. To have a strict control over all.

Ans. **(i)** Option b **(ii)** Option c

[Sugg-July'21, 1 Mark]

Q-57 Choose the word which best expresses the meaning of the given word

ADHERE

(a) separate (b) split (c) humility (D) fasten

Ans. fasten

Q-58 Select a suitable antonym for the word given under :CANDID

(a) deceptive (b) frank (c) sincere (d) subordinate

Ans. deceptive

Q-59 Select the correct meaning of Idioms/Phrases/words given below:

(i) Storm in a tea cup
   (a) Crave for something
   (b) Something fishy
   (c) Make a big issue out of a small thing
   (d) Get into quarrels (1 Mark)

(ii) Core Competency
   (a) Decision taken by a competent authority
   (b) Head of a department or a company authorised to take decision
   (c) Basic strength of a group or company
   (d) Minimum skill/professional qualification·

Ans. **(i)** Make a big issue out of a small thing.

(ii) Basic strength of a group or company.

Q-60 Choose the word which best expresses the meaning of the given word.

FIASCO

(a) Shock (b) Win (c) Leaming (d) Failure

Ans. Failure

(MTP March '22, 1 Mark)

Q-61 Choose the suitable synonym for the given word:

Robust

(1) Rude (2) Wise (3) Strong (4) Careless

Ans. Strong

Q-62 Choose the most suitable antonym for the given word:

Amicable

(1) Hostile (2) Regretful (3) Capable (4) Delicate

Ans. Hostile

Q-63 Choose the word which best expresses the meaning of the given word.

Catastrophe

(1) Relevance (2) Special (3) Disaster (4) Award

Ans. Disaster

Q-64 Choose the word which best expresses the meaning of the given word

Ameliorate

(1) Condemn (2) Improve (3) Mix (4) Rescue

Ans. Improve

Q-65 Select the correct meaning of idioms/phrases given below:

(i) Comparing oranges to apples

(1) Disliking everything
(2) Comparing two different things that cannot be compared
(3) To give incorrect answers
(4) Inability to work

Ans. Comparing two different things that cannot be compared

Q-66 To break the ice

(1) To hit it hard
(2) To break something expensive
(3) To take risky decisions
(4) To make people comfortable

Ans. To make people comfortable

Q-67 Choose the word that best expresses the meaning of the given word:

Retaliate

(1) Allow (2) Withdraw (3) Strike back (4) Remove

Ans. Strike back

(Sugg-Dec'21, 1 Mark)

Q-68 Choose the word that best expresses the meaning of the given word:

Sloppy

(1) Drunk (2) Careless (3) Tired (4) Untrustworthy

Ans. Careless

Q-69 **Select a suitable antonym for the given word:**

Fallacy

(1) Truth (2) Liberal (3) Tolerant (4) Persist

Ans. Truth

Q-70 Choose the word which best expresses the meaning of the given word:

Defray

(1) Sudden (2) Rash (3) Disclaim (4) Spend

Ans. Spend

Q-71 Choose the word which best expresses the meaning of the given word:

Immaculate

(1) Spotless (2) Tarnished (3) Defiled (4) Pleasing

Ans. Spotless

Q-72 Select the correct moaning of Idiom/Phrases given below:

Notch up

(1) To win or create a record. (2) To look disappointed.

(3) To get annoyed. (4) To be agitated.

Ans. To win or create a record

Q-73 To play second fiddle

(1) To be happy, cheerful and healthy

(2) To reduce importance of one's senior

(3) To support the role and view of another person

(4) To do back seat driving

Ans. To support the role and view of another person / None.

Q-74 Choose the word which best expresses the meaning of the given word: Novice

(1) Beginner (2) Concrete (3) Reality (4) Veteran

Ans. Beginner

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NOTES

Chapter 4
Comprehension Passages

Q-1 Read the passage carefully and answer the questions given below:

Being the daughter of a physics professor, Marie who was born in 1867 in Warsaw, Poland, was greatly influenced by the wonders of Science and technology. Since an early age, she displayed a blithe personality. Her fascination for learning prompted her to continue with her studies even after school. She become disgruntled, however, when she learned that the university in Warsaw was closed for women. Determined to complete higher education, she defiantly left Poland and in 1891 entered the Sorbonne, a French university, where she completed her doctorate in physics.

Marie met Pierre Curie at the Sorbonne along with some of the other greatest scientists of her day. Marie and Pierre were married in 1895 and spent many productive years working together in the physics laboratory. A short time after they discovered radium, Pierre was killed by a horse-drawn wagon in 1906. For Marie it was an horrible misfortune and heartbreaking event. Despondently she recalled their close relationship and the joy that they had shared in scientific research. The fact that she had two young daughters to raise by herself greatly increased her distress.

Curie's feeling of desolation finally began to fade when she was asked to succeed her husband as a physics professor at the Sorbonne. She was the first woman to be given a professorship at the world-famous university. In 1911 she received the Nobel Prize in physics for isolating radium. Although Marie Curie eventually suffered a fatal illness from her long exposure to radium, she never became disillusioned about her work. Regardless of the consequences, she had dedicated herself to science and to revealing the mysteries of the physical world.

(i) What did Marie did not like about the Warsaw University? **(1 Mark)**

(ii) What was first step that Marie took towards her becoming a scientist? **(1 Mark)**

(iii) How did Marie deal with the desolation caused by her husband's death? **(1 Mark)**

(iv) Write a Summary of the above Passage. **(2 Marks)**

Ans.

(a) (i) Marie did not like the fact that University in Warsaw was closed for women.

(ii) Marie left Poland in 1891 and joined Sorbonne University, France, where she completed her doctorate in Physics.

(iii) She got over her desolation when she became the first woman to join as a professor of Physics at the world renowned University of Sorbonne, France.

(iv) Summary:

Marie, daughter of a physics professor was born in 1867 in Warsaw, Poland. Disappointed at not being allowed to join University in Warsaw, she left Poland in 1891 to enter the University of Sorbonne, France and completed her doctorate in Physics.

In 1895, Marie married Pierre Curie a great scientist at Sorbonne. Having spent many years together in research, shortly after they discovered Radium, Pierre Curie was killed in 1906.

She got over her desolation when she became the first woman to join as a professor of Physics at the world-renowned University of Sorbonne. In 1911, she received the Nobel Prize in Physics for isolating Radium. Being overexposed to radium, she developed a fatal illness. She dedicated herself to the cause of science.

Q-2 Read the passage carefully and answer the questions given below: Coral reefs are one of the most fragile, biologically complex, and diverse marine ecosystems on Earth. This ecosystem is one of the fascinating paradoxes of the biosphere. Found along the sea coasts they are formed in various shapes and sizes.

They constitute as one of the beautiful creations of nature. Symbiotic cells of algae known as zooxanthellae carry out photosynthesis using the metabolic wastes of the coral thereby producing food for themselves; for their corals, hosts, and even for other members of the reef community. This symbiotic process allows organisms in the reef community to use sparse nutrient resources efficiently.

Unfortunately for coral reefs, however, a variety of human activities are causing worldwide degradation of shallow marine habitats by adding nutrients to the water.

Agriculture, slash-and-burn·1 and clearing, sewage disposal and' manufacturing that create waste by-products all increase nutrient loads in these waters. Typical symptoms of reef decline are destabilized herbivore populations and an increasing abundance of algae and filter-feeding animals. Declines in reef communities are consistent with observations that nutrient input is increasing in direct proportion to growing human populations, thereby threatening reef communities sensitive to subtle changes in nutrient input to their waters.

(i) What are the indicators of reef decay? **(1 Mark)**

(ii) How does Algae carry out the process of photosynthesis? **(1 Mark)**

(iii) How is man responsible for destruction of Natural Reef? **(1 Mark)**

(iv) Write a Summary of the above Passage. **(2 Marks)[Past Paper-May '19]**

Ans. (a) (i) Indicators of reef decay include destabilized herbivore populations and an increasing abundance of algae and filter-feeding animals.

(ii) Algae carry out the process of photosynthesis by using the metabolic wastes of the coral thereby producing food for themselves, for their corals, hosts, and even for other members of the reef community.

(iii) Man is responsible for decay of reef because activities such as agriculture, slashand- burn land clearing, sewage disposal and manufacturing that create waste byproducts all increase nutrient loads in these waters that cause degradation of reef.

(iv) Summary of the above passage-

Coral reefs are one of the most fragile and complex, marine ecosystem on Earth.

Cells of algae known as zooxanthellae carry out photosynthesis using the metabolic wastes of the coral thereby producing food for themselves, for their corals, and for other members of the reef community. Man on other hand is destroying the coral reefs by carrying out agriculture, slash-and- burn land clearing etc. Thus the reef communities are in decline.

Q-3 Select a suitable antonym for the word given under: **Predicament**

(1) Injury (2) Ease (3) Accident (4) Horrifying

[Past Paper-May '19] (1 Mark)

Ans. Predicament = Ease

Q-4 **Read the passage carefully and answer the questions given below :**

"Your room is so ugly that no one can enter your room except yourself, son. Please take care of yourself at least. "Harish's mother was simply shouting at Harish. It was a beautiful Sunday morning and. Harish was in no mood to get up from bed even it was already 9.00 A.M. His mother had completed cleaning the whole house except Harish's Room. Harish got up and finished his daily routine. Still, he was only at the receiving end. "All your friends have finished morning walk, breakfast and completed their weekly homework given in the college. Just clean your room and take the whole garbage and throw

outside." Harish was surprised. What is mom speaking about? Yesterday only his mom was teaching him about "Swachh Bharat Abhiyan" and today asking him to throw the garbage outside ! "What's this Mom? You advised me so much and today asking to throw garbage outside?" Harish had two options, either to follow his mother's last night advice or to follow her present order. He decided to follow the first and raised objection. His Mom said, "It was just a book son, I was teaching from that only. "Harish still objected and threw the garbage inside a dustbin, located around 200 metres away from his house.

Is it only a matter of reading only? Is really cleanliness not, necessary? Is it a duty of the politicians and Government servants? Harish asked himself all the questions to himself and decided to do what he thought to be proper. If all of us with a little effort try it in our daily life, slowly, but surely we can clean our environment. Only we are responsible for all this non-sense. Therefore we have to act. We have to avoid the use of polythene bags to save our environment; we have to give up our habit of throwing garbage and used plastic bags and bottles here and there. Otherwise day will come, when we and our future generation will be struggling to find a clean road to walk. Think seriously and act accordingly.

(i) What was the subject matter of the book, which Harish's mother was teaching him last night? **(1 Mark)**

(ii) Who has to act properly to ensure a clean environment? **(1 Mark)**

(iii) Who will suffer if we do not ensure clean environment? **(1 Mark)**

(iv) Write a summary of the above paragraph. **(2 Marks)**

[Past Paper-Nov '18]

Ans **Reading comprehension**

(i) The subject matter of the book was "Swacch Bharat Abhiyan"

(ii) We the citizens have to act properly to ensure a clean environment.

(iii) Our future generations will suffer if we do not ensure clean environment.

(iv) Harish's mother scolded him for not cleaning his room, asked him to clean his room and to throw the garbage out as he got up on a Sunday morning. He got confused as previous night his mother was teaching him about "Swacch Bharat Abhiyan" and this morning asked him to throw the garbage recklessly on the road. He acted responsibly, after cleaning his room; he disposed the garbage in a dustbin away from his house.

Every citizen is responsible for cleanliness, not just people in the government. With a little effort, we can keep our environment clean and tidy. We must avoid using polythene bags and littering else, our future generations will struggle for a clean environment.

Q-5 Read the passage carefully and answer the questions given below:

A life of action and danger moderates the dread of death. It not only gives us fortitude to bear pain, but teaches us at every step the precarious tenure on which we hold our present being. Sedentary and studious men are the most apprehensive on this score. Dr. Johnson was an instance in point. A few years seemed to him soon over, compared with those sweeping contemplations on time and infinity with which he had been used to pose himself. In the still life of a man of letters there was no obvious reason for a change. He might sit in an arm chair and pour out cups of tea to all eternity would it had been possible for him to do so. The most rational cure after all for the inordinate fear of death is to set a just value on life. If we mere wish to continue on the scene to indulge our head-strong humour and tormenting passions, we had better be gone at once; and if we only cherish a fondness for existence according to the good we desire from it, the pang we feel at parting it will not be very server.

(i) What type of people are afraid of death and Why? **(1 Mark)**

(ii) How can we get rid of fear of death? **(1 Mark)**

(iii) What idea do you form about Dr. Johnson from this passage? **(1 Mark)**

(iv) Write Summary of the Passage. **[Past Paper-May '18](2 Marks)**

Ans **Reading comprehension**

People who have a sedentary lifestyle and are too much into writing/literature are afraid of death.

We can get rid of the fear of death by following a life of action and danger and also by setting a value on life.

Dr. Johnson, being a man of letters seemed to have a sedentary life style. He feared death because of his monotonous life.

A life that is full of action and danger would not fear death. One needs to be active and avoid a sedentary life full of contemplation. One must cherish what one has and enjoy moments as they come, rather than brood over the past and future. Dr. Johnson is a good example of a case where death was severely dreaded.

Q-6 **Read the following comprehension passages and answer the following questions.**

In the present era of globalisation and liberalisation, the world has become an economic village. The globalization of the business world, the attendant structure and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. Several multi-national companies are establishing their businesses in various countries with emerging economic and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside the country. Capital markets are, thus, becoming integrated consistent with this world-wide trend. More and more Indian companies are being listed on overseas stock exchanges. The use of different accounting frameworks in different countries, which requires inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalization of capital markets call for a single set of high-quality accounting standards.

High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue either adoption or convergence of national accounting standards with IFRS.

International Financial Reporting Standards (IFRC) are considered a “principles-based” set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent. Large number of authorities requires public companies to sue IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutorily required reports. So ever the next few years, thousands of companies will adopt the international financial reporting standards while preparing their financial statements.

1 What trends are forcing capital markets across the world for integration?

2 Which creates confusion for users in financial statements?

a. Different accounting framework
b. Different capital market framework
c. Globalisation and business regulations
d. Development of e-commerce

3 Which is not considered as a ‘principle-based set of standards for preparation of financial reporting?

a. Indian Accounting Standards
b. International Accounting Standards
c. International Financial Reporting Standards
d. International Economic Standards

4 Which standards aretaken as basis for preparing financial statements?

a. International Economic Standards
b. International Financial Reporting Standards

c. Standard Stock Exchange

d. Business structures and regulations standards

Answer:

1. Globalisation, liberalisation, development of e-commerce and emerging global markets are forcing capital markets across the worldwide for integration.
2. Different accounting framework
3. International Accounting Standards
4. International Financial Reporting Standards
5. Increasing complexity of business transactions and globalisation of capital markets call for a single set of high-quality accounting standards.

Q-7 Why there is need for single set of global financial reporting standards?

In today's IT-driven society, the success of an enterprise is heavily influence by business intelligence. Corporate giants are becoming more dependent on business intelligence (BI) software to increase the amount of knowledge they can apply in real time and reduce the cost of managing their business processes. As globalisation and ICT (Information and Communication Technology) become more intertwined, the volume of data transfers among enterprises is exponentially growing. In this perspective we can define the BI is essentially timely, accurate, high-value, and actionable business insights, and the work processes and technologies used to obtain them. It comprised of information that contains patterns, relationships, and trends about customers, suppliers, business partners and employees. In simple words BI refers to the process of collecting and refining information from many sources, analyzing and presenting the information in useful ways so that users can make better business decisions.

BI has been made possible because of advances in a number of technologies, such as computing power, data storage, computational analytics, reporting and networking. IT provides an approach for solving business problems with a framework for managing tactical and strategic operations performance. From the perspective of decision-making, BI uses data about yesterday and today to facilitate making better decisions about tomorrow. This is done through various means such as selecting the right criteria to judge success, locating and transforming the appropriate data to draw conclusions, or arranging information in a manner that best provides insights into the future thus making enterprises to work smarter. BI enables managers to see things with more clarity and empowers them to peek into the possible future.

1. To sustain in the business world for decision making and selecting the criteria of succeed, corporate giants are more depended on _____

a. IT-driven society

b. Business Intelligence software

c. Strategic Operation Performance

d. Reporting and Networking

2. The write uses the term BI to define –

a. Increasing the amount of knowledge in business world

b. Empowers business for future perspective

c. Particularly arranging information in business manner

d. Appropriate work processes and technology-based business

3. What are the basic requirements of BI?

4. What is the process of BI?

5. BI is used for _____ **[RTP May '20]**

Answer:

1. Business Intelligence software
2. Appropriate work processes and technology-based business
3. The basic requirements of BI is timely, accurately, high-value, and actionable business insights, and the work processes and technologies used to obtain success.
4. BI refers to the process of collecting, refining, analyzing, and presenting the information for making better business decisions.
5. (c)

Q-8 Read the following comprehension passages and answer the following questions

Passage 1

All languages are systematic and rule bound. Children across the world acquire their natural language in same manner. In this context, linguistics is not simply the study of foreign languages. It is the scientific, organized and systematic study of a language. Linguists examine and evaluate language one the basis of words, sentence, word order, pronunciation to discuss the internal language mechanism. Generally people understand that a linguist can speak many languages. However there is big difference between a linguist and a polyglot. India as a case in example has six distinct language families. It is estimated that approx. seventeen hundred languages are spoken in India only. Hindi is a rich language but does not still have a national language status in terms of official usage although it is official language for some states. English is official language for most other states.

Most countries have only one language besides Canada where French and English both are official languages. In the western world, countries are strongly associated with single languages and vice versa. Linguists see this due to the rise of nation states in the past few centuries where single languages attained official status in individual countries, English in the United Kingdom, French in France, Italian in Italy, etc. However beneficial the official status of one language may be for a modern country in terms of government, public discourse, higher education, etc., it is not helpful to other languages which may be found within the borders of a particular country. In many aspects language represents our identity and culture. Furthermore, even in countries where only one language is spoken, say Dutch in the Netherlands, there may well be different dialects of this language closely related to the national language. Even within Europe, and most certainly outside of it, the equation of one country with one language breaks down. Switzerland is a good example of a country where a single national identity exists across three major and one minor speech community: Swiss German, French, Italian and Rhaeto-Romance. Beyond Europe it is more the rule than the exception for countries to have several languages within their borders. One need only think of such countries as India and China or Siberian Russia to see how many languages can be integrated into a single state. In such instances, there is of course an official language which serves the function of a lingua franca, that is, a language which is used as a means of communication among those groups who do not speak each others language.

1. A linguist is one who
   (a) knows many languages
   (b) make a language
   (c) speak many languages
   (d) master in programming language
2. India as a linguistic area has-
   (a) a single language
   (b) six languages
   (c) only one official language

(d) many languages

3. Language represents-
   (a) Population
   (b) Identity
   (c) Boundary
   (d) civilization
4. Switzerland is famous for –
   (a) Natural diversity
   (b) Language identity
   (c) Cultural identity
   (d) National identity
5. Lingua franca means-
   (a) Any language used for speech and writing between business purpose
   (b) Language for business
   (c) Any language used for communication between groups who have no other language in common.
   (d) Any language used for communication between the particular speech community

Answer: 1. a 2. d 3. b 4. b 5. c

Passage 2

The word 'Ethics' is derived from the Greek word "ethos" meaning character. It refers to conventional standard of right and wrong, good and bad that means what people should do or should not. It includes fairness, loyalty and honesty for others. In the context of an organization, ethics can be viewed as a frank conversation about those values and issues most important to stakeholders and to business. Ethical behaviour in organizational context has been most frequently described in terms of ethical standards of senior leaders and the culture to which they substantially contribute (DeGeorge, 1986). We define leadership as the art of persuading a follower to want to do the things, activities, that the leader sets as goals. The role of leaders is that of directing an individual's behaviour towards a desired goal. There are several kinds of Leaders that having different leadership styles that stem from unique characteristics of their personality. Leaders have different values, attitudes, beliefs, conduct, habits and practices. It largely depends upon the organizational, professional or institutional culture. Leadership signifies a relation between a leader and his followers within a situational and organizational context. Leadership in the context of normative organizational ethics can be defined with regard to how individuals should or ought to behave in an organization. This includes speculations about criteria that define ethical decisions and personality characteristics.

Many business organizations are implementing policies and procedures to encourage an ethical work culture. Companies are establishing codes of ethics, appointing ethics compliance officers, and instituting ethics training programs. Ethics comprise five elements: responsibility, respect, fairness, honesty, and compassion. Companies are also developing Web-based programs and workshops that teach employees how to relate to each other, to the company, to customers, and to business partners. These trainings sometimes include ethical decision-making models and role-playing scenarios that help employees respond appropriately to dilemmas. Typical ethical topics include workplace romance, e-mail appropriateness, Internet use, integrity, confidentiality, security, and harassment.

1. Write title of the passage-

(a) Ethics in business

(b) Ethical Leadership

(c) Ethics and Marketing

(d) Leading as a leader

2. Ethics include-

(a) Beyond loyal

(b) Need and importance

(c) Truthiness

(d) Knowing right and wrong

3. Most leaders have-

(a) Social mutual relation

(b) Effective speech

(c) Individual leadership style

(d) Intrapersonal behavior

4. ——————— is organized by organizations for inculcating ethics amongst employees

(a) Seminar

(b) Conference

(c) Moral value discussion

(d) Ethics training programme

5. Objective of organizing training programme on ethics to inculcate

(a) Ethical decision making

(b) Ethical based value system

(c) Ethical work culture

(d) harmony **[RTP Nov '19]**

Answer: 1. b, 2. d, 3. c, 4. d, 5. a

Q-9 Read the following comprehension passages and answer the following questions

Passage 1

The great Acharyas have said that having discovered a great goal, **surrender** yourself to that goal and act towards it drawing your inspiration from that goal whereby you will get a new column of energy. Do not allow this energy to be **dissipated** in the **futile** memories of past regrets or failures nor in the imagined sorrow of the future or the present and thus bring the entire energy focussed into activity. That is the highest creative action in the world outside. Thereby the individual who is till now considered most **inefficient** finds his way to the highest achievement and success.

This is said very easily in a second. But in order to train our mind to this attitude it needs **considerable** training because we have already trained the mind wrongly to such an extent that we have become perfect in imperfection. Not knowing the art of action, we have been master artists in doing the wrong thing. The totality of activity will bring the country to a wrong end indeed. If each one is given a car, to achieve an ideal socialistic pattern, and nobody knows driving but everybody starts driving, what would be the condition on the road ? Everybody has equal right on the public road. Then each car must necessarily dash against the other, and there is bound to be a jumble. This seems to be the very apt pattern of life that we are heading to. Everyone of us is a vehicle. We know how to go forward. The

point is that intellect is very powerful and everyone is driving but nobody seems to know how to control the mental energy and direct it properly or guide it to a proper destination.

(1) Which of the following will cause the country to perish?
   (a) Driving cars without proper driving knowledge and skill
   (b) Directing mental energy to the right destination
   (c) Wrong deeds performed without proper knowledge
   (d) Memories of past regrets and failures

(2) What is the effect of the wrong training of the mind ?
   (a) The art of action is too much emphasised.
   (b) We have become perfect in all aspects.
   (c) Each of us could become a master artist.
   (d) We have become perfect in imperfections.

(3) The author's chief concern is
   (a) The car accidents resulting from lack of driving skill.
   (b) Regulation of energy in a proper direction
   (c) Discovery of a great goal in life
   (d) Establishment of socialistic pattern

(4) Which of the following is the source of energy ?
   (a) Stimulation obtained from a set aim
   (b) Highest creative action
   (c) A column that supports a building
   (d) Proper training of the mind to achieve perfection

(5) Which of the following could lead to success ?
   (a) Preparing oneself to face the probable sorrows of the future
   (b) Cherishing the memories of the past
   (c) Bringing all the energy into activity
   (d) Being alert about the excitement of present

Answer: (1) Option c (2) Option d (3) Option b (4) Option a (5) Option c

Passage 2

Marie Curie was one of the most accomplished scientists in history. Together with her husband, Pierre, she discovered radium, an element widely used for treating cancer, and studied uranium and other radioactive substances. Pierre and Marie's amicable collaboration later helped to unlock the secrets of the atom.

Marie was born in 1867 in Warsaw, Poland, where her father was a professor of physics. At an early age, she displayed a brilliant mind and a blithe personality. Her great exuberance for learning prompted her to continue with her studies after high school. She became disgruntled, however, when she learned that the university in Warsaw was closed to women. Determined to receive a higher education, she defiantly left Poland and in 1891 entered the Sorbonne, a French university, where she earned her master's degree and doctorate in physics.

Marie was fortunate to have studied at the Sorbonne with some of the greatest scientists of her day, one of whom was Pierre Curie. Marie and Pierre were married in 1895 and spent many productive years working together in the physics laboratory. A short time after they discovered radium, Pierre was killed by a horse-drawn wagon in 1906. Marie was stunned by this horrible misfortune and endured heartbreaking anguish. Despondently she recalled their close relationship and the joy that they had shared in scientific research. The fact that she had two young daughters to raise by herself greatly increased her distress.

Curie's feeling of desolation finally began to fade when she was asked to succeed her husband as a physics professor at the Sorbonne. She was the first woman to be given a professorship at the world-famous university. In 1911 she received the Nobel Prize in chemistry for isolating radium. Although Marie Curie eventually suffered a fatal illness from her long exposure to radium, she never became disillusioned about her work. Regardless of the consequences, she had dedicated herself to science and to revealing the mysteries of the physical world. (Source: internet)

(1) A word in the passage which is a synonym of 'friendly' is:
   (a) revealing (b) distress (c) amicable (d) stunned

(2) What increased the distress of Marie Curie?
   (a) The sudden death of her husband.
   (b) She would have to raise her daughters all alone
   (c) She could not continue with her radium discovery
   (d) The knowledge of her fatal illness.

(3) Which of the following statements is false according to the passage?
   (a) Marie Curie did not attend any University because women were not allowed to do so.
   (b) Pierre was killed in accident involving horse wagons.
   (c) Curie also worked on the element Uranium.
   (d) Curie got a chance to teach Physics at Sorbonne.

(4) Give the passage a suitable title
   (a) Madam Curie and Pierre Curie
   (b) Discovery of Radium and Uranium
   (c) Mysteries of the physical world
   (d) Madam Curie: struggles turn to achievements!

(5) Choose an option than describes Madam Curie, based on the information given in the passage:
   (a) heartbroken, coward, weak
   (b) bold, dedicated, confident
   (c) complaining, disgruntled, arrogant
   (d) despondent, tired, ruthless **[RTP May '19]**

Answer: (1) Option c (2) Option b (3) Option a (4) Option d
(5) Option b

Q-10 Read the following comprehension passages and answer the following questions

Passage 1

Some polar bears in the Arctic are shedding weight during the time they should be beefing up, a study shows. It's the climate change diet and scientists say it's not good. They blame global warming for the dwindling ice cover on the Arctic Ocean that bears need for hunting seals each spring. The scientists spied on polar bears by equipping nine female white giants with tracking collars that had video cameras and the bear equivalent of a Fitbit during three recent springs. The bears were also weighed.

What the scientists found is that five of the bears lost weight and four lost 1.3 to 2.5kg per day. The average polar bear studied weighed about 175kg. One bear lost 23kg in just nine days. "You're talking a pretty amazing amount of mass to lose," said US Geological Survey (USGS) wildlife biologist Anthony Pagano, lead author of the study. Researchers studied the bears for 10 days in April, when they are supposed to begin putting on weight so they can later have cubs, feed them and survive through the harsh winter. But because the ice is shrinking, the bears are having a harder time catching seal pups even during prime hunting time, Pagano said. The US Fish and Wildlife Service lists polar bears as a threatened species. Polar bears hunt from the ice. They often wait for seals to pop out of holes to get air and at other times they swim after seals. If there is less sea ice and it is broken apart, bears have to travel more — often swimming — and that has serious

consequences, such as more energy use, hypothermia and risk of death, said University of Alberta biology professor Andrew Derocher. It was found that on the ice, the polar bears burn up 60% more energy than thought, based on these first real-life measurements done on the ice.

(1) Give the passage a suitable title

(a) Polar Bears in danger (b) Arctic ice melting

(c) Seals, no more a prey! (d) Change in climate

(2) Give a suitable antonym for the word 'dwindling' mean, as used in the passage.

(a) Flourish (b) Cover up (c) Reduce (d) Amount

(3) Which of the following sentences is true according to the passage?

(a) Seals pop out of ice for fun.

(b) Dwindling ice is a major concern for the polar bears

(c) Global warming has nothing to do with the receding ice cover

(d) Less ice means easy catch of seals for bears

(4) Polar bears hunt for

(a) Seals (b) Other bears (c) Ice glaciers (d) Both a and b

(5) What is the primary aim of the study by scientists, in the passage?

(a) Polar bears have stopped eating seals

(b) Polar bears are losing weight in a season when they should be gaining it.

(c) The dwindling ice cover on the Arctic Ocean.

(d) Only a and b.

Answer: (1) Option a (2) Option a (3) Option b (4) Option a (5) Option b

Passage 2

Bitcoins and other cryptocurrencies will see increasing use in India, according to industry players, who say that, right now, the sector is too small to be regulated by the Reserve Bank of India (RBI) or Finance Ministry. Bitcoin companies also say that volatility in the cryptocurrency's price is likely to continue since it is still attracting new investors with inadequate knowledge about the market, with speculation separately fuelling the price gyrations.

"The fluctuation has always been there, but suddenly there has been a surge because of a few reasons," said Vivek Steve Francis, CEO of Coinome. "One, things that are happening in the market. Some countries have legalised cryptocurrencies like Japan and Korea, and in the U.S. they have announced that there will be bitcoin futures trading. So, this not only gives a legal standing to it, it also opens the door to speculation."

"The second thing is that people are seeing others put in 1 lakh and making 10% the very next day, so that is also bringing a lot of laymen into this, which may or may not be a good thing," Mr. Francis added.

Another reason for the price volatility, something that will continue for some time, is the disaggregated nature of the bitcoin market. "Since bitcoin is widely distributed and the majority of it is not owned by a limited number of people, that makes it volatile," Ashish Agarwal, founder of Bitsachs, said. "As far as the future is concerned, I won't want to comment on the price, but adoption will increase. Now, the serious investors are eyeing bitcoin. No newspaper or serious person would have mentioned bitcoin five years ago, but now all eyes are on it."

While the RBI has cautioned against its use, informing users, holders, investors and traders dealing with virtual currencies that they are doing so at their own risk, Securities and Exchange Board of India Chairman Ajay Tyagi recently said the cryptocurrency had so far not posed any systemic risk. He added that the government had formed a panel to examine it.

(1) What does the word 'volatile' means (Since bitcoin is widely distributed and the majority of it is not owned by a limited number of people, that makes it volatile……..)

(a) Violent (b) Unstable (c) High (d) Irrational

(2) Give a synonym for the word 'gyrations' as used in the first paragraph.

(a) Evolution (b) Cyclone (c) Spinning (d) Rising

(3) What is the primary reason for laymen to start believing in bitcoin?

(a) It's easy to use nature

(b) The fact that the value increases by 10% the very next day

(c) There is no check on bitcoin transactions

(d) Japan has legalized it

(4) What are the reasons mentioned for the volatility in the crypto currency price?

(a) Legalized in few countries.

(b) Fast money

(c) New investors

(d) Inadequate market knowledge and new investors.

(5) According to Mr. Ashish Agarwal, which of the following statements said by him are false?

(a) The adoption of bitcoin will decrease as buyers are no more interested

(b) He does not want to comment on the bitcoin price

(c) Few years back, this concept was not discussed

(d) People now seem to show interest in bitcoin. **[RTP Nov '18]**

Answer: (1) Option b (2) Option c (3) Option b (4) Option d (5) Option a

Q-11 Read the following comprehension passages and answer the following questions

Passage 1

Nearly 3 lakh Indian- Americans are likely to be impacted by the Trump administration's sweeping plans that put the nation's 11 million undocumented immigrants at risk of deportation.

President Donald Trump has laid the groundwork for potentially deporting millions of undocumented immigrants by issuing new guidance that drastically broadens the ways in which federal immigration laws should be enforced. According to the Department of homeland Security (DHS), it will no longer exempt classes or categories of removable aliens from potential enforcement. The Department personnel would have full authority to arrest or apprehend an alien whom an immigration officer has probable cause to believe is in violation of the immigration laws.

The DHS has issued two memos, which among other things, tightens deportation of illegal immigrants. The emphasis is on criminal aliens, though, but opens up the door for others too. Indian Americans as per unofficial figures account for nearly 3 lakh illegal aliens.

(1) What is the risk discussed in the passage?

(a) Trump's winning the election

(b) President Trump does not like Asians

(c) President Trump plans to deport many immigrants, especially those that do not have proper documents.

(d) Population explosion in USA

(2) What new authority has been granted to the DHS ?

(a) The President will intervene in DHS matters directly.

(b) The DHS personnel can arrest someone he/she believes is violating laws of immigration.
(c) The DHS can directly intervene in population matters
(d) No new authority has been granted.

(3) According to approximation how many India Americans account for illegal aliens?
(a) Above 3 lakhs (b) Below 3 lakhs (c) Nearly 11 million (d) Around 3 lakhs.

(4) What does the word 'apprehend' mean in the second paragraph?
(a) Capture (b) Concern (c) Allow (d) Intimate

(5) Select a suitable antonym for the word 'exempt' as used in the passage.
(a) accountable (b) released (c) free (d) preventive

Answer: (1) Option c (2) Option b (3) Option d (4) Option a
(5) Option a

Passage 2

It is not the brain that determines whether a person is a lefty or a righty, but the spinal cord. Until now, it had been assumed that differences in gene activity of the right and left hemisphere might be responsible for a person's handedness————people's tendency to naturally favour the use of one hand over the other.

But a recent study demonstrated that gene activity in the spinal cord is asymmetrical already in the womb and could be linked to the handedness of a person. According to the ultrasounds carried out in the 1980's, a preference for moving the left or right hand develops in the womb from the eighth week of pregnancy. From the 13th week of pregnancy, unborn children prefer to suck their right or left thumb. Arm and hand movement are initiated via the motor cortex in the brain. It sends a corresponding signal to the spinal cord, which in turn translates the command into a motion. However, the motor cortex is not connected to the spinal cord from the beginning. In fact, even before the earliest indication of hand preference appear, the spinal cord has not yet formed a connection with the brain. In addition, environmental factors were found to be controlling whether spinal cord activity was greater on the left or right side.

(1) Give the passage a suitable title
(a) Right or Left: functioning of the brain (b) Righty or a Lefty……..who decides?
(c) Environmental factors controlling us (d) Right handedness/ Left handedness

(2) Arm and hand movement are started via _____
(a) Spinal cord (b) Thumb movement
(c) Motor cortex in the brain (d) Not specified.

(3) Which of the following statement is false?
(a) Environmental factors do not control spinal cord activity
(b) Motor cortex is not connected to the spinal cord in the beginning
(c) Preference for moving right/left thumb starts in the eighth week of pregnancy
(d) Parents have no say in making a child lefty or righty.

(4) What sends a corresponding signal to the spinal cord, which in turn translates the command into a motion?
(a) Brain (b) Spinal cord (c) Motor cortex (d) Arms

(5) Select a suitable synonym for the word 'asymmetrical' as used in the passage.
(a) antonymous (b) intentional (c) disproportional (d) composed **[RTP May '18]**

Answer: (1) Option b (2) Option c (3) Option a (4) Option c
(5) Option c

Q-12 Read the passage carefully and answer the questions that follow:

Depression is a psychological health disorder characterised by despondent mood or loss of interest in activities, causing repression in daily life. The Centres for Disease Control and Prevention (CDC) released a report according to which 8.1 percent of adult ages 20 and over had depression in any given 2-week period from 2013-2016.

The factors include a combination of biological, psychological and social distress. These factors cause change in brain functions, including altered activity of certain neural circuits in the brain. Constant feeling of sadness or loss of attentiveness characterises major depression that leads to a fluctuation in behavioural and physical health. Depression also affects sleep, appetite, energy level, concentration, and self-esteem of a person. It can also be associated with suicidal thoughts or tendencies.

There are two main types of depression: (i) **Major depressive disorder** and (ii) **Persistent depressive disorder**. Major depressive disorder is the more perilous form of depression. It is characterised by persistent feelings of sadness, hopelessness and worthless that cannot be overcome easily. Persistent depressive disorder (PDD) earlier termed as **Dysthymia**. It is a mild, but chronic form of depression.

Depression can be cured by proper medications, psychotherapy, light therapy, and exercises. These include antidepressants, antianxiety and antipsychotic medicines. Psychotherapy includes enunciating with therapists that can help to deal with negative feelings. Light therapy is a technique where exposure to white light helps to regulate one's mood and improve symptoms of depression. 30 minutes of daily exercise increases production of endorphins, which are hormones that improve mood. Above all, family support plays a major role in quick recuperation of a patient.

(1) Synonym of repression- **[MTP May '20, 1 Mark)]**

(A) Impairment (B) Severe (C) Persistent (D) Depressive

Ans. Impairment

(2) Light therapy improves- **[1 Mark]**

(A) Mood (B) Endorphins production

(C) Overpower negative feelings (D) Symptoms

Ans. Symptoms

(3) Define the two major types of depression. State their characteristics. **[1 Mark]**

Ans. There are two major types of depression:

(i) **Major depressive disorder:** It is the more dangerous form of depression, characterised by persistent feelings of sadness, hopelessness and worthlessness that cannot be overcome easily.

(ii) **Persistent depressive disorder**: It is a mild, but chronic form of depression, was earlier termed as **Dysthymia**.

(4) What are the causes of depression? **[1 Mark]**

Ans. Major causes include a combination of biological, psychological and social distress that further cause change in activity of certain neural circuits in the brain.

(5) How can depression be treated? **[1 Mark]**

Ans. Depression can be cured by a combination of medication , psychotherapy, light therapy, exercises and last but not the least family support.

Q-13 Read the passage carefully and answer the questions that follow:

That large animals require luxuriant vegetation has been a general assumption which has passed from one work to another, but I do not hesitate to say that it is completely false and that it has vitiated the reasoning of geologists on some points of great interest in the ancient history of the world. The prejudice has probably been derived from India, and the Indian islands, where troops of elephants, noble forests, and impenetrable jungles are associated together in everyo ne's mind.

If, however, we refer to any work of travels through the southern parts of Africa, we shall find allusions in almost every page either to the desert character of the country or to the numbers of large animals inhabiting it. The same thing is rendered evident by the many engravings which have been published in various parts of the interior.

Dr Andrew Smith, who has lately succeeded in passing the Tropic of Capricorn, informs me that taking into consideration the whole of the southern part of Africa, there can be no doubt of its being a sterile country. On the southern coasts, there are some fine forests, but with these exceptions, the traveller may pass for days together through open plains, covered by poor and scanty vegetation. Now, if we look to the animals inhabiting these wide plains, we shall find their numbers extraordinarily great, and their bulk immense.

It may be supposed that although the species are numerous, the individuals of each kind are few. By the kindness of Dr Smith, I am enabled to show that the case is very different. He informs me that in one day's march with the bullock-wagons, he saw, without wandering to any great distance on either side, between one-hundred and one-hundred and fifty rhinoceroses—the same day he saw several herds of giraffes, amounting together to nearly a hundred.

At the distance of a little more than one hour's march from their place of encampment on the previous night, his party actually killed eight hippopotamuses at one spot and saw many more. In this same river, there were likewise crocodiles. Of course, it was a case quite extraordinary to see so many great animals crowded together, but it evidently proves that they must exist in great numbers. Dr Smith describes that the country passed through that day as 'being thinly covered with grass, and bushes about four feet high, and still more thinly with mimosa trees'.

Besides these large animals, anyone the least acquainted with the natural history of the Cape has read of the herds of antelopes, which can be compared only with the flocks of migratory birds. The numbers indeed of the lion, panther, and hyena, and the multitude of birds of prey, plainly speak of the abundance of the smaller quadrupeds. One evening, seven lions were counted at the same time prowling round Dr Smith's encampment. As this, an able naturalist remarked to me, each day the carnage in Southern Africa must indeed be terrific! I confess that it is truly surprising how such a number of animals can find support in a country producing so little food.

The larger quadrupeds no doubt roam over wide tracts in search of it; and their food chiefly consists of underwood, which probably contains many nutrients in a small bulk. Dr. Smith also informs me that the vegetation has a rapid growth; no sooner is a part consumed, than its place is supplied by a fresh stock. There can be no doubt, however, that our ideas respecting the apparent amount of food necessary for the support of large quadrupeds are much exaggerated. The belief that where large quadrupeds exist, the vegetation must necessarily be luxuriant is more remarkable because the converse is far from true.

Mr. Burchell observed to me that when entering Brazil, nothing struck him more forcibly than the splendour of the South American vegetation contrasted with that of South Africa, together with the absence of all large quadrupeds. In his travels, he has suggested that the comparison of the respective weights (if there were sufficient data) of an equal number of the largest herbivorous quadrupeds of each country would be extremely curious. If we take on the one side, the elephants, hippopotamus, giraffe, bos caffer, elan, five species of rhinoceros; and on the American side, two tapirs, the guanaco, three deer, the vicuna, peccari, capybara (after which we must choose from the monkeys to complete the number), and then place these two groups alongside each other; it is not easy to conceive ranks more disproportionate in size.

After the above facts, we are compelled to conclude, against the anterior probability that among the Mammalia there exists no close relation between the bulk of the species, and the quantity of the vegetation in the countries which they inhabit.

(i) What is the primary concern of the author?

(ii) What prejudice has vitiated the reasoning of geologists?

(iii) Why does Dr Smith refer to Africa as a sterile country?

(iv) According to the author, what has led to the 'prejudice'?

(a) Errors in the reasoning of biologists

(b) False ideas about animals in Africa

(c) Incorrect assumptions on the part of geologists

(d) Doubt in the mind of the author

(v) Why are the flocks of migratory birds mentioned in the passage?

(a) To describe an aspect of the fauna of South Africa

(b) To illustrate a possible source of food for large carnivores

(c) To contrast with the habits of the antelope

(d) To suggest the size of antelope herds **[MTP-April'21, 1 x 5 =5 Marks]**

Ans.(a) **(i)** Author's primary concern is to discuss the relationship between the size of mammals and the nature of vegetation in their habitats.

(ii) The prejudice that large animals require luxuriant vegetation has vitiated the reasoning of geologists.

(iii) Dr Smith refers to Africa as a sterile country. Here, the traveller may pass for days together through open plains, covered by apoor and scanty vegetation.

(iv) False ideas about animals in Africa

(v) To contrast with the habits of the antelope

Q-14 Mr. Ramesh, the HR Head of ABC Insurance Co. Ltd., who is having charge of training and development also, during his twelve years with the Company. He had the experience of training and developing numerous employees, only to see many of them leave the firm after getting their advanced degrees. The Company has a Policy of reimbursement of 90% of the cost incurred on tuition fee, books etc. for acquiring such qualifications. Only those employees who have taken prior permission of HR before enrolment in such program/degree and completed three years of service are eligible for seeking the reimbursement. A proof of its popularity was that most of the junior and middle level managers had availed this facility to advance their qualifications.

Mr. Kumar, a Sales Executive, who had joined the Company just three years ago had also availed the aforesaid facility for pursuing a course in Business Management and had recently competed his master's degree in business management' and submitted the same to the Company for seeking reimbursement and recording additional qualifications acquired in official records.

Mr. Ramesh congratulated him and added the additional qualifications acquired by him in the Company records and assured him to consider him for higher position keeping in view his qualifications in near future and of course subject to availability of vacancy as per the approved Organisation Chart. Further Mr. Ramesh allowed reimbursement of 90% of the cost incurred as per the Policy. Mr. Kumar on his achievement when he came to see and thank HR

Head, but was strongly taken aback when he expressed his intention to leave the Company in favour of a competitor because he did not see any future for himself in ABC Insurance Co. Ltd. Head HR was annoyed as this had happened so many times in the past. He immediately rushed to see the Marketing Director to seek support for reviewing and discontinuing the Policy of educational reimbursement with immediate effect or to put a condition that all those employees who acquired such qualifications and reimbursed 90% of the expenses shall at least serve the Company for a minimum of 3 years after seeking such reimbursement.

(i) What could be the possible reasons behind employees quitting the Company after acquiring higher qualifications? **[Sugg.-Nov'20, 2 Marks)]**

(ii) Is there any need to amend or abandon the Policy of educational reimbursement?

[Sugg.-Nov'20, 1 Marks]

Ans.(a) (i) The employees after acquiring higher qualifications expect a sizeable salary increment and career growth commensurate with their current qualifications. In absence of a concrete incentive or promotion policy aligned with qualification enhancement scheme, the employees start looking for better opportunities with other companies in the sector and quit the job as soon as they get it.

(ii) The policy needs to be amended. Abandoning the policy will be demoralizing for the employees.

(iii) Attrition can be contained in this organization by amending the current reimbursement policy. Here are a few recommended changes:

1. The policy needs to be aligned with a concrete incentive/promotion policy, with lucrative perks such as fully paid family holidays once a year.
2. The policy should be offered to only the top 20% of employees who have been performing consistently for the last 3 years.
3. The employees availing the policy should be bound by a commitment to serve the company for a stipulated period or pay double the amount, by making them sign a bond.
4. The cost of qualification enhancement should be paid in 36 equal monthly instalments to make them stay at least for the next three years.
   a. by the company
   b. by the employee as an interest free loan
5. Periodically benchmarking salary structure and perks vis-a-vis other organisations in the sector to ensure employee satisfaction.
6. Adopting a robust periodically reviewed appraisal policy to ensure the inclusion of the deserving employees
7. Providing fast-track career growth options, to the selected employees on the basis of their performance
8. Ensuring a conducive, cordial and harmonious work environment, where team spirit is strongly inculcated and encouraged
9. Establishing a strong ethical leadership that encourage employees to voice their grievances and initiate discussions and resolve their issues/predicaments objectively.
10. Sponsoring and conducting periodic short and long term training programs /courses to enable employees to upgrade knowledge and enrich their skills.

Q-15 Read the passage carefully and answer the questions that follow:

People love music for much the same reason they're drawn to, drugs, gambling and delicious food, according to new research. When you listen to tunes that move you, the study found, your brain releases dopamine, a chemical involved in both motivation and addiction.

Even just anticipating the sounds of a composition like Vivaldi's "Four Seasons" or Phish's "You Enjoy Myself' can get the feel-good chemical flowing, found the study, which was the first to make a concrete link between dopamine release and musical pleasure.

The findings offer a biological explanation for why music has been such a major part of major emotional events in cultures around the world since the beginning of human history. Through music, the study also offers new insights into how the human pleasure system works.

'You're following these tunes and anticipating what's going to come next and whether it's going to confirm or surprise you, and all of these little cognitive nuances are what's giving you this amazing

pleasure," said Valorie Salimpoor, a neuroscientist at McGill University in Montreal. "The reinforcement or reward happens almost entirely because of dopamine." "This basically explains why music has been around for so long," she added. "The intense pleasure we get from it is actually biologically reinforcing in the brain, and now here's proof for it."

In a previous study, Salimpoor and colleagues linked music-induced pleasure with a surge in intense emotional arousal, including changes in heart rate, pulse, breathing rate and other measurements. Along with these physical changes, people often report feelings of shivers or chills. When that happens during a listening experience, Salimpoor's group and others have found evidence that blood flows to regions in the brain involved in dopamine release.

To solidify the dopamine link, the researchers recruited eight music-lovers, who brought to the lab samples of music that gave them chills of pleasure. Most picks were classical, with some jazz, rock and popular music mixed in, including Led Zeppelin and Dave Matthews Band. The most popular selection was Barbar's Adagio for Strings.

After 15 minutes of listening, scientists injected participants with a radioactive substance that binds to dopamine receptors. With a machine called a PET scanner, the scientists were then able to see if that substance simply circulated through listeners' blood, which would indicate that they had already released a lot of dopamine, and that the dopamine was tying up all available receptors. If most of their dopamine receptors were free, on the other hand, the radioactive substance would bind to them.

The technique showed, definitively for the first time, that people's brains released large amounts of dopamine when they listened to music that gave them chills, the researchers reported in the journal Nature Neuroscience. When the same people listened to less moving music the next day, their dopamine receptors remained wide open.

Once the researchers knew for sure that dopamine was behind the pleasure of music, they put participants in an MRI machine and played the moving music for them again. In this part of the experiment, the scanners showed that the brain pumped out dopamine both during the phase of musical anticipation and at the moment when chills hit in full force. The two surges happened in different areas of the brain.

"It is amazing that we can release dopamine in anticipation of something abstract, complex and not concrete," Salimpoor said. "This is the first study to show that dopamine can be released in response to an aesthetic stimulus."

1. The aim of the study is to explain:
   (a) how brain releases dopamine.
   (b) why music is an integral part of emotional events in all cultures.
   (c) how human pleasure system works.
   (d) both (b) and (c).
2. If the radioactive substance circulated through the listener's blood it would show:
   (a) the listeners were music lovers.
   (b) PET scan is crucial in such studies.
   (c) dopamine had been released during listening to music.
   (d) all radioactive substances can detect dopamine.
3. Why is dopamine referred to as the 'feel-good' chemical?
4. Why was the PET scanner used?
5. On whom was the study reported in the journal Nature Neuroscience conducted?

[MTP.-March'21, 1x5 = 5 Marks]

Ans. 1. d

2. c
3. Dopamine gives one the feeling of pleasure and happiness.
4. PET scanner enabled the scientists to see if a radioactive substance simply circulated listeners' blood.
5. The experiment was conducted on eight music-lovers, who reported that listening to their favourite music gave them chills of pleasure.

Q-16 Read the passage carefully and answer the questions given below:

Success of any organization depends on offering quality products at competitive prices.

All over the world, it is being realized that quality control be ensured through inspection and test alone. Every department and individual has a contribution to make in the achievement of quality. Quality product at competitive prices is the most significant factor in determining the long - run success of any organization. High quality of products can give a competitive edge to an organization. On the other hand, good quality generates satisfied customers who reward the organization with continued patronage and favourable word of mouth advertising.

Growth in consumer quality awareness has put a greater strain on businesses.

Consumer demand and dynamic technological changes have opened up new and highly competitive markets. The quality of goods and services can no longer be taken for granted.

The rapid growth of the service sector has also introduced new perceptions of quality management. Institutions, such as the Government, banks and hospitals do not produce tangible goods. The interaction between employees and customers is much more critical in such organizations. As a result, the skills, attitudes and t raining of service personnel affect the quality of the services delivered. Information processing represents a large component of the work done by service organizations and poses special quality considerations. Errors in computer billing, or airline and hotel reservations are the results of poor quality control of computer software and data input systems.

In View of globalization of markets, Governments have begun to realize that quality is essential to international trade and the national economy. Therefore, public purchasing authorities have been instructed to buy goods that conform to the quality standards.

(i) In what manner good quality products give rewards to organizations? **[Sugg.-Jan'21, 1 Mark]**

(ii) Most significant factor which determines the long run success of an organization ? **[1 Mark]**

(iii) Quality of goods and services cannot be compromised by organizations, give reasons. [**1 Mark]**

(iv) Write the summary of the above passage. **[2 Mark]**

Ans.(i) Good quality products can give reward to organization in following ways:

It gives long term success to any organization.

It can give competitive edge i.e., higher profit and increased market share.

It leads to satisfied customers thus playing a significant role in increasing the customer base.

(ii) Providing quality products at competitive prices is the most significant factor that determines the success of the organization in the long run.

(iii) Increased awareness amongst customers regarding quality has led organizations to constantly improve the quality of products and services by adopting new technologies which satisfies the customer's demands to remain competitive. Thus, businesses cannot ignore this aspect, if they intend to sustain longer in the market.

(iv) Organizations across the world whether in the manufacturing or service sectors pin their success on offering quality products and services at competitive prices. This is the mantra for long-term sustainable growth of any business. With growing consumer awareness about quality, markets have become highly competitive and more and more businesses embracing new technologies. In critical service sectors viz. healthcare, government and many online data/information processing services, quality relies on skilled and trained workforce. International trade and economy can grow only if stringent quality standards are maintained.

Q-17 Read the passage carefully and answer the questions that follow:

In the United States the per capita costs of schooling have risen almost as fast as the cost of medical treatment. But increased treatment by both doctors and teachers has shown steadily declining results. Medical expenses concentrated on those above forty-five have doubled several times over a period of forty years with a resulting 3 percent increase in the life expectancy of men. The increase in educational expenditures has produced even stranger results; otherwise President Nixon could not have been moved this spring to promise that every child shall soon have the "Right to Read" before leaving school.

In the United States it would take eighty billion dollars per year to provide what educators regard as equal treatment for all in grammar and high school. This is well over twice the $36 billion now being spent. Independent cost projections prepared at HEW and at the University of Florida indicate that by 1974 the comparable figures will be $107 billion as against the $45 billion now projected, and these figures wholly omit the enormous costs of what is called "higher education," for which demand is growing even faster. The United States, which spent nearly eighty billion dollars in 1969 for "defense," including its deployment in Vietnam, is obviously too poor to provide equal schooling. The President's committee for the study of school finance should ask not how to support or how to trim such increasing costs, but how they can be avoided.

Equal obligatory schooling must be recognized as at least economically unfeasible. In Latin America the amount of public money spent on each graduate student is between 350 and 1,500 times the amount spent on the median citizen (that is, the citizen who holds the middle ground between the poorest and the richest). In the United States, the discrepancy is smaller, but the discrimination is keener. The richest parents, some 10 percent, can afford private education for their children and help them to benefit from foundation grants. In addition, they obtain ten times the per capita amount of public funds if this is compared with the per capita expenditure made on the children of the 10 percent who are poorest. The principal reasons for this are that rich children stay longer in school, that a year in a university is disproportionately more expensive than a year in high school, and that most private universities depend—at least indirectly—on tax- derived finances.

Obligatory schooling inevitably polarizes a society; it also grades the nations of the world according to an international caste system. Countries are rated like castes whose educational dignity is determined by the average years of schooling of its citizens, a rating which is closely related to per capita gross national product, and much more painful.

(a) What is the main idea of the passage? **[MTP-Nov'21](1 Marks)**

(b) How many years would it take to provide what educators regard as equal treatment in high school in US? **(1 Marks)**

(c) According to the passage, education is like health care in all of the following ways **EXCEPT:** **(1 Marks)**

(a) It has reached a point of diminishing returns, increased spending no longer results in significant improvement.

(b) It has an inappropriate "more is better" philosophy.

(c) It is unfairly distributed between rich and poor.

(d) The amount of money being spent on older students is increasing.

(e) Its cost has increased nearly as fast.

Q-18 Why does the author consider the results from increased educational expenditures to be "even stranger" than those from increased medical expenditures? **(MTP-Nov'21, 1 Marks)**

(a) The aging of the population should have had an impact only on medical care, not on education.

(b) The "Right to Read" should be a bare minimum, not a Presidential ideal.

(c) Educational spending has shown even poorer results than spending on health care, despite greater increases.

(d) Education has become even more discriminatory than health care.

(e) It inevitably polarizes society.

(e) How much is spent on each graduate in Latin America from the public money?

Ans.(a) The main idea of passage is that obligatory education does not and cannot provide equal education.

(b) In the United States it would take eighty billion dollars per year to provide what educators regard as equal treatment for all in grammar and high school.

(c) Option c

(d) Option b

(e) In Latin America, the amount spent on each graduate is between 350 and 1500 times the amount spent on the median citizen.

Q-19 Read the passage carefully and answer the questions that follow:

India's economic growth is now much more closely linked to the state of the rural economy than it ever was. Sustaining a 7.5 per cent growth in GDP would be contingent on higher growth in rural household consumption.

Rural expenditure grew 5.7 per cent annually during 2005-15 — against 5 per cent annual growth in the preceding decade — as the government increased social sector spending during the last 10 years.

However, the average rural monthly per capita expenditure (MPCE) at ₹ 1,430 is still about half the average urban MPCE of ₹ 2,630.

A higher social sector spend by the government is the key to India's sustained high economic growth, as it would cut rural populace's social expenditure burden, leaving them with more disposable income to buy consumer goods, clothes and vehicles.

The government's employment scheme, for instance, had significant contribution in raising disposable income among rural households. The National Rural Employment Guarantee Act (NREGA) generated 230.46 crore 'person days' of employment in 2012 -13. Two years later, in 2014-15, this fell to 166.36 crore person-days of employment, as the government cut social sector allocation.

The average NREGA wage being at ₹ 152 per day, a similar employment level in 2014-15 as that in 2012-13 would result in additional rural income generation of more than ₹ 9,700 crore, calculated for the gap of 64.1 core person-days.

The number of households that completed 100 days of employment under the NREGA in 2012-13 was at 50 lakhs. This fell by half in 2014-15 to 25 lakhs households. It shows the enormity of the impact that increased focus on one scheme alone can have.

Further, other social sector spend by the government through various schemes for health, education, rural housing, rural electrification, agriculture and financial inclusion would reduce rural households' expenditure burden on social goods and services.

This, in turn, would lead to increased spending on apparel and footwear, FMCG, consumer services and consumer durables. The spending pattern in rural areas too would depend on households' income category (lower, middle and higher).

According to India Brand Equity Foundation, the rural FMCG market has been growing at around 13 per cent per year over the past five years. It is expected to reach $100 billion in next10years, from $19billion in 2014-15. Such growth is possible only with sustained growth in rural economy and households' disposable income.

In the last few years, rural households have shown a trend of increasing spending on apparel and footwear, which were hitherto more of semi-urban and urban characteristics.

This segment is expected to see decent growth in coming years in rural markets, specifically in ready-to-stitch and ready-to-wear wear clothes, T-shirts, denims, sandals, etc.

The rural consumer durable market is roughly 35 per cent of the overall $10-billion market as of 2014-15. This segment is expected to see higher volume growth in rural areas as the urban markets are getting saturated, and the next cycle of growth there would come from replacements and upgrades.

In rural markets, the demand is expected to rise for items such as refrigerators, two -wheelers and other consumer electronic goods.

The recent media interactions and public speeches of the Prime Minister and the Finance Minister indicate a policy shift towards looking at increased spending on social schemes and targeted subsidies for the needy.

Such measures will spur rural economy and can have a positive impact on sectors such as consumer goods, apparel and footwear, consumer durables and services.

1. What has been the latest expenditure trend in the last few years? **(MTP-Oct'21, 1 Mark)**
2. How can higher social sector spending by the government boost sustainable economic growth?
3. What is/are true about rural market?
    a. Increased usage of ready-to-wear clothes.
    b. Increased purchasing of luxury items such as refrigerators, electronic goods and two-wheelers.
    c. The rural FMCG market has been growing at around 13 per cent per year over the past five years.
    d. Rural growth is possible only with sustained growth in rural economy and households' disposable income. e. All the above
4. What is/are the moot point(s) of the recent media interactions and public speeches of the Prime Minister and the Finance Minister?
5. Which of the following is/are not true according to the passage?
    a. Several employment schemes have tremendously contributed in raising disposable income among rural households.
    b. Other social sector spend by the government would help reduce expenditure burden on social goods and services.
    c. The increase in employment rate shows the enormity of the impact that increased focus on one scheme alone can have.
    d. The spending pattern of consumer expenditure would depend on households' income category.

Ans. (a)

(1) The trend has been towards an increased spending on apparel and footwear in rural households.

(2) Higher social sector spending by the government will boost sustainable economic growth by reducing the burden of social expenditure on rural populace.

(3) Option e

(4) The moot points made by the Prime Minister and the Finance Minister are about increasing the government's spending on social schemes and targeted subsidies for the poor.

(5) Option c

Q-20 The employee turnover rate in an Organisation refers to the proportion of employees who leave the Organization during a certain time period. Almost every Organisation is facing the acute problem of high employee attrition. To every Organization, high employee turnover is undesirable and can have a significant adverse impact. A high employee turnover rate results in an unfavourable effect on the morale of the remaining employees.

Existing employees may face additional stress, resulting in lower productivity. In addition lower productivity of the existing employees due to a decline in morale, additional productivity is lost as existing employees must guide new incumbent how to adapt to the organizational culture and the new position.

To address the problem, it should be compared to the average within the industry. It should not be compared across industries, as the turnover rate differs significantly in various industries. It is in the best interest of the Organization to reduce it as it is detrimental to the Organization When an employee leaves the Organization, the Organization incurs costs to find a replacement, recruitment costs, advertising costs, administration costs, background check costs, and interviewing costs. In addition, there are costs of lost productivity. when the employee is attending a training program. Second important aspect is Organizations with a high employee turnover rate may suffer from an unfavourable public image. For example, working in the call centre is seen as undesirable due to its turnover rates.

To overcome such problem, Organizations have to hire right manpower for the right position. Second important aspect is to have competitive pay structure matching with the industry. However, providing employees with a higher salary is not enough. It is important to understand the benefits that employees wants and to take that into consideration when determining an employee's pay structure. Employees need to be acknowledged and given praise when due. Another important aspect is career path; Employees want to progress in their careers. A career path should be provided to employees to give them a sense of direction and what they can attain if they stay with the Organization. Last but not the least way to offer flexibility, a flexible work schedule is highly desirable. In fact, studies have shown that a flexible work arrangement has a positive impact on employee retention. Allowing employees to choose their work time and providing a flexible work schedule gives them the ability to balance their work and personal life and, hence, improves employee satisfaction.

(i) What do you understand by employee attrition rate? **(Sugg.-July'21, 1 Mark)**

(ii) Explain the ways to reduce high employee attrition? **(2 Marks)**

(iii) What.is the importance of employee turnover in an Organisation? **(1 Mark)**

(iv) How, does employee turnover rate affect brand image of an Organisation ? **(1 Mark)**

Ans.(i) The proportion of employees who leave the organization during a certain period is calledemployee attrition rate in an organization.

(ii) Various measures can be taken to prevent high attrition. Some of them are:

1. Hiring appropriately skilled people for different profiles.
2. Paying them salaries with benefits as per industry norms/benchmarked with the competitors.
3. Acknowledging and appreciating their work.
4. Providing career growth opportunities by promoting them periodically.
5. Offering flexible timings/schedules to enable them to maintain work-life balance.

(iii) Employee turnover rate is important as it directly impacts the business of an organization by affecting the morale of the employees and their productivity. It also affects public image of the organization and can escalate the cost of hiring, in case the employee turnover is high.

(iv) Employee turnover rate affects brand image of an Organization. Today is the world of social media; anything good or bad spreads very fast. Organizations with a high employee turnover rate may suffer from an unfavourable public image. New employees would be hesitant to join such Organizations where the employee turnover rate is high.

Q-21 Read the passage below and answer the questions that follow:

Motivations for ruralism in the under developed countries are understandably different from those in developed countries. There, it is a sheer physical necessity for the very act of man's survival. In the Third World countries, which are predominantly rural, the only lever that can life human life above its present subhuman level, is rural development. Rural life for such countries has been stagnating for countries on end. Nothing worthwhile has been done to ameliorate the conditions of the rural population which is only slightly different from that of their quadruped counterparts. Ignorance, ill health and poverty have become synonyms of rural life in the undeveloped and underdeveloped countries. Probably, we need to work on these reasons and help these countries grow up their economy.

But the worst tragedy is that the concerned human populations have taken this state of affairs for granted, as something unalterable, something for which there is no remedy. Every ray of hope has gone out of their lives. There seems to be no motivation. In such countries, rural development is the inevitable condition of any material or nonmaterial advancement. Also the enlightened sections of all such countries have been taking ever growing interest in the question of rural development. This was also part of the legacy of their freedom struggle. In countries like India, it is well known that attempts at rural development were an inseparable part of the Independence movement. Leaders like Gandhi ji realised quite well that real India lived in her stagnating villages. Cities, which were mostly the products of Western colonialism, were just artificial showpieces. Even there, it was like two worlds. The posh areas, where the affluent few, mostly the products and custodians of imperial interest lived, were little islands engulfed by the vast majority of people.

(1) What according to the author is the worst tragedy? **(MTP March '22, 1 Mark)**

(2) How do you know that rural development was part of India's freedom struggle? **(1 Mark)**

(3) Choose a suitable synonym for the word **ameliorate** as used in the 5th line, para 1. **(1 Mark)**

(a) Worsen (b) Improve (c) Distance (d) Make fun of

(4) What have become the common synonyms of rural life in the undeveloped and underdeveloped countries? **(1 Mark)**

(5) 'The posh areas, where the affluent few,' what does the word **'affluent'** refer to? Explain in one line. **(1 Mark)**

Ans. Reading Comprehension

(1) According to the author, the worst tragedy is that the concerned human population has taken the current state of affairs as granted. According to them, rural life cannot be ameliorated or altered.

(2) According to the passage, rural development was an inseparable part of the Independence movement. Leaders like Gandhi ji realized quite well that real India lived in her stagnating villages.

(3) Option b

(4) Ignorance, ill health and poverty have become synonyms of rural life in the undeveloped and underdeveloped countries.

(5) The word 'affluent' refers to the rich and the wealthy people.

Q-22 Read the passage given below and answer the questions that follows:

Academics has always been an essential part of human development. It prepares us to survive in the outside world and establish an identity of our own. In India, from an early age, we have been taught that education is limited to the boundaries of academics only; the idea of getting out into the field, for gaining practical experience, is always considered a hoax. This has hindered students' development. But, the truth is that education represents a considerably broader field than we know of it. Our teaching, from the basics, has been focused on getting good grades and job offers, rather than being creative and unique.

In the 21st century, the pure academic type of education is slowly paving way for a whole new type. The paradigm shift in the whole education system is evident. People have now come to understand that education is a 360 degree activity that should focus on students' overall development, rather than restricting him/her to the classroom. Cc -curricular activities that take place outside the classroom but reinforce or supplement classroom curriculum, in some ways , have become a point of focus today. Participating in such activities helps youngsters grow mentally, socially and individually. Intellectual development of a student is developed in the classroom, but for the aesthetic development such as team building, character building, and physical growth, students must step out into the outside world. Similarly, in colleges and institutions, there is a need for practical exposure so that the students can experience the actual working of an industry: Catering to this change, most professional colleges including B schools have started providing practical exposure to

students through regular guest lectures, industrial visits, conferences, seminars, cultural festivals, and so on. With industry visits, students are able to better identify their prospective areas of work in the overall organizational function.

Through such events, students are made to participate and coordinate different events wherein, they get to know how exactly things are managed. Co-curricular or extra-curricular activities provide practical exposure and opportunities to implement what students learn in the classroom. This helps in developing the overall personality of the *students, inculcating various soft -skills in them, which otherwise are difficult to teach.*

Clearly, life beyond academics creates creative and empowered professionals.

(i) What has not been the focus of education from earlier times? **(Sugg-Dec'21, 1 Mark)**

(ii) Where should students go for aesthetic development? **(1 Mark)**

(iii) What kind of co-curricular activities have become points of focus today? **(1 Mark)**

(iv) What will give children a better insight into industry? **(1 Mark)**

(v) Why are soft skills difficult to teach in the classroom? **(1 Mark)**

Ans.(i) From earlier times, the focus has not been on getting out into the field for gaining hands on experience thus curbing the creativity, innovation and uniqueness of young professionals. In short, being creative and unique has not been the focus of education from earlier times.

(ii) Students must / should step out into the outside world for aesthetic development.

(iii) In present times, co-curricular activities taking place outside the classroom that reinforce or supplement classroom curriculum are becoming the focal point.

(iv) Students gain valuable exposure into their prospective areas of work in industry through industry visits. They acquire essential people skills through regular guest lectures, conferences, seminars and cultural festivals.

(v) Soft-skills cannot be taught in the classroom as they require students to confront case scenarios/ studies that give them the opportunity to implement concepts learnt in classrooms to real life issues/ challenges and deal with them effectively. Thus, Soft skills are developed only through practical exposure and opportunities to implement what they have learnt in classroom.

Q-8 Change the following sentence to indirect: speech: Alex said, "I am working day and night". **(Sugg-Dec'21, 1 Mark)**

Ans. Alex said that he / she had been working day and night.

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NOTES

Chapter 5
Note Making

Q-1 Read the Passage:

(i) Make Notes, using Headings, Subheadings and abbreviations whenever necessary. (3 Marks)

(ii) Write summary

People do not always do the things we want them to do. No matter' how reasonable or minimal our expectations may be, there are times when we are let down. Naturally, we feel upset and hurt when our expectations are not met. We dread confrontations because they are unpleasant and can damage relationships.

Yet not confronting a person does not solve the problem because unresolved issues also affect relationships in an adverse way. Actually, the real problem lies in our style of confrontation, not in the issue.

Typically, we use character-based confrontations. They help in venting our ange4rand hurt, but that is the only thing they do. They lead to angry show downs and bring all discussions to a grinding halt. It is important to remember that self-image is the most important possession of all human beings.

It is the way we view and regard ourselves in our own eyes and in the eyes of others. As self-conscious beings, we are actually aware of our· image and constantly work towards protecting it from any damage.

We also seek approval from others about our own self-image. We feel distraught if we sense that there. is even a slight threat to our self image, because our character is the essence of our lives. To ensure a rational dialogue over dashed expectations, we need to deploy issued based confrontations. They involve an explanation of. which actions have bothered us, in what manner and what changes we would like from the other person. **[Past Paper-Nov. '19,2 Marks]**

Ans. (i) Human Nature

1. Hmn Ntr
1.1 Expctns
1.1.1 hurt when not met
1.2 Cnfrntns 1.2.1 are avoided by hmns
1.2.2 are unplsnt
1.2.3 dmgrlstnsps
1.2.4 Styles of cnfrntns:
1.2.4.1 Chrctrbsd
1.2.4.1.1 Help vent anger
1.2.4.1.2 Cse angry shwdns
1.2.4.1.3 Halt dscssns
1.2.4.1.4 Dtrmntl to slf-img
1.2.4.2 Issue bsd
1.2.4.2.1 Lead to rtnldlg
1.2.4.2.2 Help anls:
1.2.4.2.2.1 Prblm
1.2.4.2.2.2 Cses
1.2.4.2.2.3 Chngrqd in othrprsn

1.3 Slf-img

1.3.1 Is how we prcv ourselves

1.3.2 How othrsprcv us

1.3.3 We try avdngdmg

1.3.4 Seek aprvlfrmothrs

1.3.5 Bldschrctr

Key:

Hmn: Human/s	Ntr: Nature	Expctns: Expectations
cnfrntns: confrontations	unplsnt: unpleasant	dmg: damage
rlstnsps: relationships	chrctr: character	bsd: based
cse: cause	shwdns: showdowns	dscssns: discussions
dtrmntl: detrimental	slf-img: self-image	rtnl:rational
dlg: dialogue	anls: analyse	prblm:problem
chng:change	rqd: required	othr:other
prsn:person	prcv: perceive	othr: other/s
avdng: avoiding	aprvl: approval	blds: builds

(ii) Summary

We feel hurt when our expectations from others are not met. We avoid confrontations, as they are displeasing and can affect relations. More often, it is the style of confrontation that causes problems rather than the underlying issue. We generally indulge in character-based confrontations, letting out our anger. Our image is important as it builds our character. Therefore, we must indulge in issue- based confrontations where we analyze our disagreements and identify the actions in others that bother us and to resolve the issue.

Candidates who have given abbreviations as below or any other suitable abbreviations, should also be given due credit. For Example:

Confrontation - Confront

Expectation - Expat

Self-Image - Selfina

Problem - Probe

Q-2 Read the passage : [Past Paper-May '19]

(i) Make Notes, using Headings, Sub headings and abbreviations whenever necessary. **(3 Marks)**

(ii) Write Summary,

In most sectors of the economy, it is the seller who attempts to attract' a potential buyer with various inducements of price, quality arid utility and it is the buyer who makes the decision. Where circumstances permit the buyer no choice because there is effectively only one seller and the product is relatively essential, government usually asserts monopoly and places the industry under price and other regulations. Neither of these conditions prevails in most of the health-care industry;

In the health-care industry, the doctor-patient relationship is the mirror image of the ordinary relationship between producer and consumer. Once an individual his chosen to see a physician and even then there may be real choice-it is the physician who usually makes all significant purchasing decisions whether the patient sho1:1ld. Return "next Wednesday;" whether X-rays are needed, whether drugs should be prescribed, etc. It is a rare and sophisticated patie11: who will challenge such professional decisions or raise in advance questions about price, especially when the ailment is regarded as serious. This is particularly significant m relation to hospital care. The physician must certify the need for hospitalization, determine what procedures will be performed and announce when the patient

may be discharged. The patient may be consulted about some of these decisions; but in the main it is the doctor's judgment that are final. Little wonder then that in the eyes of the hospital it is the physician who is the real "consumer." As a consequence, the medical staff represents the "power centre" in hospital policy and decision-making, not the administration; Although usually there are in this situation four identifiable participants the physician, the hospital, the patient, and the payer the physician makes the essential decisions for all of them. The hospital becomes a extension of the physician; the payer generally meets most of the bonafide, a bill generated by the physician/hospital; and for the most part the patient plans a passive role. In routine or minor illnesses, or just plain worries, the patient's options are, of course, much greater with respect to use and price. In illnesses that are of some significance, however, such choices tend to evaporate or away: DISAPPEAR "my despair evaporated J. F. Wharton", and it is for these illnesses that the bulk of the healthcare dollar, is spent. We estimate that about 75-80 percent of health-care expenditures are determined by physicians, not patients; For this reason, economy measures directed at patients or the general publics are relatively ineffective.

(2 Marks)

Ans. (i) Notes, using Headings, Sub-headings and Abbreviations-

MONOPOLY IN HEALTH CARE INDUSTRY

A. Govt. regulates industry.
   a. In Economics: the seller attracts buyers
   b. In Monopoly: Govt. puts price/other curbs against industry.
   c. but in HC Industry Govt. fails to put such curbs.

B. HC Industry.
   a. Dr.- Pt. relationship = Producer-Consumer.
   b. It's the Dr. who decides everything i.e. Pt. visit; test types;
   c. Rarely the Dr.'s decision is questioned.

C. Hospital Care.
   a. Dr. decides hospitalization need; procedures to be performed; discharge period.
   b. Dr. decision final.

D. Participants.
   a. Four participants - Dr. Hospital; Pt.; payer.
   b. Payer pays bills as decided by hospital; dr.
   c. Pt. is passive.
   d. Health care expenses determined by physicians.

   Key
   1. Dr. = Doctor
   2. Pt. = patient
   3. HC = health care
   4. Govt. –Government.

(ii) Summary-

`T he health care industry has four participants namely the physician; the hospital' the patient; and the payer. The physician and hospitals are at the commanding position. They dominate over the patient and the payers with regard to type of medication and test needed. The medical staff is the power centre; the hospital comes secondary. Unlike other sector where the government puts checks to curb monopoly of the industry over the customers, restrictions do not work for the health care industry and hence any progressive measures started by the government towards patients and public becomes ineffective.

Q-3 Read the passage :

(i) Make notes, using headings, sub-headings and abbreviations wherever necessary. **(3 Marks)**

(ii) Write Summary.

A good business letter is one that gets results. The best way to get results is to develop a letter that in its appearance, style and content, conveys information efficiently. To perform this function, a business. letter should be concise, clear and courteous. The business letter must be concise, don't waste words. Little introduction or preliminary chat is necessary. Get to the point, make the point, and leave it. It is safe to assume that your letter is being read by a very busy person with all kinds of papers to deal with. Re-read and revise your message until the words and sentences you have used are precise. This takes time, but is a necessary part of a good business letter. A short business letter that makes its point quickly has much more impact on a reader than a long- winded, rambling exercise in creative writing. This does not mean that there is no place for style and even, on occasion, humour in the business letter. While it conveys a message in its contents, the letter also provides the reader with an impression of you, its author, the medium is part of the message. The business letter must be clear. You should have a very firm idea of what you want to say, and you should let the reader know it. Use the structure of the letter — the paragraphs, topic sentences, introduction and conclusion- to guide the reader point by point from your thesis, through your reasoning, to your conclusion. Paragraph often, to break up the page and to lend an air of organization to the letter. Use an accepted business letter format. Re-read what you have written from the point of view of someone who is seeing it for the first time, and be sure that all explanations are adequate, all information provided (including reference numbers, dates and other identification). A clear message, clearly delivered, is the essence of business communication. The business letter must be courteous. Sarcasm and insults are ineffective and can often work against you. If you are sure you are right, point that out as politely as possible, explain why you are right, and outline what the reader is expected to do about it. Another form of courtesy is taking care in your writing and typing of business letter. Grammatical and spelling errors (even if you call them typing errors) tell a reader that you don't think enough of him or can lower the reader's opinion of your personality faster than anything you say, no matter how idiotic. There are excuses for ignorance; there are no excuses for sloppiness. The business letter is your custom-made representative. It speaks for you and is a permanent record of your message. It can pay big dividends on the time you invest in giving it a concise message, a clear structure, and a courteous tone. **[Past Paper-Nov '18, 2 Marks]**

Ans.

(i) Note Making

Business Letter

(i) Rprsnts the athr

(ii) Gives an idea about the athr's nature

(ii) Is a prmnt rcrd

A. Good Business Letter

(i) Gets results (ii) Cnvys infrmtn effcntly

(iii) Characteristics:

(a) Concise

- Brief Intro.
- To the point
- Precise words

(b) Clear

- Cnvys a firm idea
- Has a structure/format with
- Subject line
- Intro
- Main Para
- Cnclsn

- Adqt Info like

- Ref. No.
- Date
- Other idntfctn

(c) Courteous

- Be polite
- Mention reason for your stance
- Specify action to be taken
- Avoid grmtcl/splng errors

Key:

Abbreviations:	Rprsnts: Represents
Athr: Author	Prmnt: Permanent
Rrcrd: Record	Cnvys: Conveys
Infrmtn: Information	Effcntly: Efficiently
Intro: Introduction	Para: Paragraph
Cnclsn: Conclusion	Adqt: Adequate
Ref. No: Reference Number	Idntfctn: Indentification
Grmtcl: Grammatical	Splng: Spelling

(ii) Summary

A business letter represents the sender, gives an idea about the author's nature and creates a permanent record. A good business letter is one that conveys information efficiently. It must be:

Concise: Should briefly introduce the intent then explain the main point precisely. It saves reader's precious time and is much more impactful.

Clear: It must convey the idea firmly. It has a structure: subject/topic line, introduction, main paragraph and conclusion. The details mentioned viz. Reference number, dates, other identifications should be sufficient for the reader to make out the letter's intent/essence.

Courteous: Be polite while justifying your stance and specify action to be taken by the reader. Avoid grammatical and spelling mistakes.

Q-4 Read the passage:

(i) Make Notes, using headings, sub headings, and abbreviations whenever necessary.

[Past Paper-May '18, 3 Marks]

(ii) Write Summary. **[Past Paper-May '18 ,2 Marks]**

(I) Anything printed and bound in a book size can be called a book, but the quality or mind distinguishes the value of it.

What is a book? This is' how Anatole France describes it:" A series of little printed signs essentially only that. It is for the reader to supply himself the forms and colors and sentiments to which these signs correspond. It will depend on him whether the book be dull or brilliant, hot with passion or cold as ice. **Or** if you prefer to put it otherwise each word in a book is a magic finger that sets a fibre of our brain vibrating like a hard string and so evokes a note from the sounding board of our soul No matter how skilful, how inspired the artist's hand, the sound it makes depends on the quality of the strings within ourselves"

Until recently books were the preserve of a small section _____ the urban upper classes. Some, even today, make it a point to call themselves intellectuals. It would be a pity if books were meant only for intellectuals and not for housewives, farmers, factory workers, artisans and, so on.

In India there are first generation learners, whose parents might have been illiterate. This poses

special challenges to our authors and to those who are entrusted with the task of disseminating knowledge. We need much more research in the use of language and the development of techniques by which know ledge can be transferred to these people without transmission loss. Publishers should initiate campaigns to persuade people that a good book makes a beautiful present and that reading a good book can be the most relaxing as well as absorbing of pastimes. We should aim at books of quality no less than at quantitative expansion in production and sale. Unless one is constantly exposed to the best, one cannot develop a taste for the good.

[Past Paper-May '18, 2 Marks]

Ans.

A. Value of bks. acc. to Anatole France

(1) not merely printed signs

(2) reader gives

(i) colours

(ii) forms

(iii) sentiments

a. brilliant or boring

b. touches our souls

B. Bks. are meant for diff. sections of society

(1) until recently bks. were read by only intellect.

(2) meant for all housewives, farmers, artisans, etc.

C. Bks. for 1st gen. learners

(1) challenge for authors

(2) need more research in use of lang.

(3) need for dev. of teaching tech. a. knowledge transfer w/o transmsn loss

D. Publisher's role

(1) campaigns to persuade

a. bks make good presents

b. rdng – a relaxing pastime

Key

1. acc. - according
2. 1st - first
3. bks. - books
4. gen. - generation
5. diff. – different
6. lang. - language
7. intellect. - intellectuals
8. dev. – development
9. w/o – without
10. transmsn - transmission

Summary

A book can be defined as anything that is bound and printed. However, there can be factors of quality and the mind applied to it that distinguish a book. According to Anatole France, a reader has powers to convert the book into magic; using his brain connect with the words printed in it. No matter how good an author is, the content becomes interesting only if the reader wishes to make it so. Apparently, books have always been associated with the urban sector. One must try to spread the reach to a wider audience, emphasizing the fact that good techniques and language can make book reading the most enjoyable of all pass times.

Q-5 Read the following passage/news story and make proper notes following the guidelines of Note making. (Source: internet/newspaper article)

Money is the centre of every economic transaction and plays a significant role in all economies. It refers to assets which are commonly used and accepted as a means of payments or as a medium or exchange or of transferring purchasing power. For policy purposes, money may be defined as the set of liquid financial assets, the variation in the stock of which will have impact on aggregate economic activity.

Money has generalised purchasing power and is generally acceptable in settlement of all transactions and in discharge of other kinds of business obligations including future payments. Anything that would act as a medium of exchange is not necessarily money. For example, a bill of exchange may also be a medium of exchange, but it is not money since it is not generally accepted as a means of payment. Money is totally liquid asset as it can be used directly, instantly, conveniently and without any costs or restrictions to make payments. At the fundamental level, money provides us with a convenient means to access goods and services.

As we know, money performs many functions in an economy. As such as, money is a convenient medium of exchange or it is an instrument that facilitates easy exchange of goods and services. Money, though not having any inherent power to directly satisfy human wants, by acting as a medium of exchange, it commands purchasing power and its possession enables us to purchase goods and services to satisfy our wants. It is an explicitly defined unit of value or unit of account because money is a 'common measure of value' or 'common dominator of value' or money functions as a numeraire. We know, Rupee is the unit of account in India in which the entire money is dominated. The monetary unit is the unit of measurement in terms of which the value of all goods and services is measured and expressed. Money serves as a unit of standard of deferred of payment i.e., money facilitates recording of deferred promises to pay. Money is the unit in terms of which future payments are contracted or stated. However, variations in the purchasing power of money due to inflation or deflation, reduce the efficacy of money in this function.

So, we can say, money also functions as a permanent store of value. There are many other assets government bonds, despite of other securities, land, houses, etc. which also store value. Despite having the advantages of potential income yield and appreciation in value over time, these other assets are subject to limitations such as storage costs, lack of liquidity and possibility of depreciation in value. The effectiveness of an asset as a store of value depends on the degree and certainty with which the asset maintains its value over time. Hence, in order to serve as a permanent store of value in the economy, the purchasing power or the value of money should either remain stable or should monotonically rise over time.

Or

Note making (2)

The meaning of the term ultra vires is simply "beyond (their) powers." The legal phrase "ultra vires" is applicable only to acts done in excess of the legal powers of the doers. The presupposes that the powers in their nature are limited.

It is a fundamental rule of a Company Law that the objects of a company as stated in its memorandum can be departed from only to the extent permitted by the act, thus far and no further. In consequence, any act done, or a contract made by the company which travels beyond the powers not only of the directors but also of the company is wholly void and inoperative in law and is therefore not binding on the company. On this account, a company can be restrained from employing its fund for purposes other than those sanctioned by the memorandum. Likewise, it can be restrained from carrying on a trade different from the one it is authorized to carry on.

The impact of the doctrine of ultra vires is that a company can neither be sued on an ultra vires transaction, nor can it sue on it. Since the memorandum is a "public document", it is open to public inspection. Therefore, when one deals with a company one is deemed to know about the powers of the company. If in spite of this you enter into a transaction which is ultra vires the company, you cannot enforce it against the company.

If you have supplied goods or performed service on such a contract or lent money, you cannot obtain payment or recover the money rent. But if the money advanced to the company has not been expended, the lender may stop the company from parting with it by means of an injunction; this is because the company does not become the owner of the money, which is ultra vires the company. As the lender remains the owner, he can take back the property in specie. If the ultra vires loan has been utilised in meeting lawful debt of the

company, then the lender steps into the shoes of the debtor paid off and consequently he would be entitled to recover his loan to that extent from the company.

An act which is ultra vires the company being void, cannot be ratified by the shareholders of the company. Sometimes, act which is ultra vires can be regularised by ratifying it subsequently. For instance, if the act is ultra vires the power of the directors, the shareholders can ratify it; if it is vires the articles of the company, the company can alter the articles; if the act is within the power of the company but is done irregularly, shareholder can validate it. **[RTP May '20]**

Ans.

Money Market

1. Wht is Mny?
    1. a. Rfrs to Ast
    1. b. Lqd Ast
    1. c. Elctrnc Rcd
2. Fncns of Mny
    2. a. Mdm of Excng
    2. b. Unt of Vlu
    2. c. Unt of Stndrd
3. Types of Ast
4. Vlu of Ast

Key:

Wht- What

Mny- money

Rfrs- refers

Ast- assets

Lqd- Liquid

Elctrnc- Electronic

Rcd- Record

Fncns- Functions

Mdm- Medium

Excng- Exchange

Unt- Unit

Vlu- Value

Stndrd- Standard

Note Making-2

Title: Doctrine of Ultra Vires

1. Ntr of Ult Vrs
    1. a. Mng of Ult Vrs
    1. b. Lmt of Ult Vrs
2. Comp Law
    2. a. Fnd Rule
    2. b. Comp Act

2. c. Cont of trade

3. Impact of the doctrine of Ult Vrs
   3. a. Use of Mrdm
   3. b. Use of Trns
4. Utl of Ult Vrs Loan
5. Act of Ult Vrs

Key:

Ntr- Nature

Ult- Ultra

Vrs- Vires

Mng- Meaning

Lmt- Limitation

Comp- Company

Fnd- Fundamental

Cont- Controlling

Mrdm- Memorandum

Trns- Transaction

Utl- Utilisation

Q-6 Read the following passage/news story and make proper notes following the guidelines of Note making. (Source: internet, newspaper articles)

Market risk is inevitable part of capital market. Broadly, 'MR' means changes in the market prices of underlying. In commercial business the market risk may be a consequence but in capital market it forms organization's core business. MR can arise in different stages of services or different timing say during an hour, a day or a week. Generally, the primary concern in assessing the market risk is to assess it in absolute term or relative changes in comparison of any benchmark say interest rates etc. The market risk can be broken down into different classes: such as internet risk, foreign exchange risk, commodity risk and equity risk. Internet rate risk arises due to change in the yield curve. It affects not only current value of items of Balance Sheet of a financial institutions but also the off the Balance Sheet items. Foreign exchange risk arises on account of change in the price of foreign currency. Commodity risk arises due to change in price of commodities, commodity price index etc. and Equity risk occurs when there is a fall in equity indices or most of the shares. Equity risk normally results from any unprecedented events say sovereign default etc. **[RTP Nov '19]**

Ans.

(1) Risk Management
   (1) Wht is risk mngmnt
   (2) Relvncy of MR in comrcialbsines
      (a) Fluctuation- (b) Primary concern

(2) How many kinds of MR
   (a) Intrnt rate rsk (b) Fornexchngrsk (c) Commdtyrsk (d) Equtyrsk

(3) Equtyrsk occurs when

(4) D prmry concern of MR

Key:

Wht-What	Mngmnt- management	Relvncy- Relevancy
MR- Market Risk	Comrcial- Commercial	Bsness- business
Intrnt- Intenet	Rsk-risk	Forn-foreign
Exchng-exchange	Commdty-commodity	Equty- equity
d-the	prmry- primary	

Q-7 Read the following passage/news story and make proper notes following the guidelines of Note making. (Source: internet, newspaper articles)

(1) The decision of the Ministry of Environment and Forests to revalidate the environmental clearance issued to South Korean steelmaker Posco for the proposed steel plant in Odisha is based on a piecemeal approach, rather than a comprehensive and cumulative assessment of all parts of the project. It cannot claim to rely on sound judgment. What distinguishes the proposal from the welter of projects before the Ministry is its major Foreign Direct Investment potential, estimated at more than ₹ 50,000 crore. There is little doubt that it will take massive investments to pull the masses out of deep poverty, and new industries are vital to achieving this goal. Significant expansion of the economy has taken place over the past two decades, creating much wealth. Unfortunately, this has also coincided with grossly uneven distribution of negative externalities. In the case of Posco, the acquisition of land has been a contentious issue, evoking strong protest from local communities which remain unconvinced about the benefits. Evidently, neither the project proponent nor the Odisha government has come up with persuasive arguments over the past eight years on why villagers should part with their land when their livelihood is linked to it. Moreover, there is no effort to reach a consensus on the renewal of environmental clearance, now for a production capacity of eight million tonnes per annum, even with conditionalities that include spending on 'social commitments' by Posco.

(2) By making it optional for cinema halls to play the national anthem before every show, the Supreme Court has at last removed the coercive element it had unfortunately introduced by an interim order in November 2016. Laying down a judicial rule that the anthem must be played on certain occasions in specific places, in the absence of any statutory provision to this effect, was unnecessary and opened the court to charges of over-reach. With the Centre saying this directive could be placed on hold, and that it would set up an inter-ministerial committee to recommend regulations for the presentation of the national anthem, the court has said it is not mandatory to play it in cinema halls. The panel will also suggest changes in the Prevention of Insults to National Honour Act, 1971, or in the Orders relating to the anthem issued from time to time. Justice D.Y. Chandrachud, one of the three judges on the Bench, had at an earlier hearing doubted the wisdom of asking patrons of cinema to visibly demonstrate their patriotism each time they entered a theatre to watch a film, remarking that there was no need for an Indian to "wear his patriotism on his sleeve". He had asked at what point would such "moral policing" stop if it were to be prescribed that some kinds of apparel should not be worn at the movies as they could amount to showing disrespect to the national anthem. The court's order also had some unintended, but not unforeseen, consequences. The audience began looking for signs of 'disrespect' and there were reports of vigilantism, with people beaten up or harangued for not standing up.

[RTP May '19]

Ans.

Passage -1

Ministry's Decision Revoked (Heading)

(I) S. Korean steel maker Posco under attack

(II) Prpsl for steel plant in Odisha rcnsdrd

(III) Need to rethink the descn

(a) Not based on solid grounds

(b) FDI's
(c) Land aqstn from natives nt easy
(d) Protests frm land holders

(IV) No concrete result
(a) 8 years past; standstill
(b) Neither prpnt nor govt. able to justify its moves
(c) Leaves the matter open ended.

Key Used:

(1) S= south
(2) Prpsl= proposal
(3) Rcnsdrd=reconsidered
(4) Descn= decision
(5) Aqstn- acquisition
(6) Nt= not
(7) Frm= from
(8) Prpnt=proponent
(9) Govt= government.
(10) FDI= foreign direct investment

Passage-2

Playing of National anthem in movie halls (Heading)

(I) The Court's ordr wdrwn
(II) Court mks it optional; cnnt have a mandate on the issue
(III) Consequences
(a) Govt intervenes; calls for a mnstrl dscsn
(b) Prps a hold on the court's jdcl rule
(c) Suggest chngs in the Prvntn of Insults and Ntnl honour Act
(IV) Justice Chadrachud suggests, no end to 'moral policing'
(V) Cnseqncs
(a) Vlnce amngst ppl.
(b) Hrsmnt of pub.
(c) Dsrspct in the scty.

Key Used:

(1) Ordr= order
(2) Wdrwn= withdrawn
(3) Mks= makes
(4) Cnnt= cannot
(5) Govt= government
(6) Mnstrl=ministerial
(7) Dscsn=discussion
(8) Prps=proposes
(9) Jdcl=judicial
(10) Chngs= changes
(11) Prvntn=prevention
(12) Ntnl= national
(13) Cnseqncs= consequences
(14) Vlnce=violence
(15) Amngst= amongst
(16) Ppl= people
(17) Hrsmnt=harassment
(18) Pub=public
(19) Dsrspct=disrespect
(20) Scty= society

Q-8 Read the following passage/news story and make proper notes following the guidelines of Note making. (Source: internet, newspaper articles)

(1) Information technology clients are no more in the 'business as usual' mode. And, 'less is more' is the new mantra for IT spending. These two philosophies now rule the thinking of clients spending on technology. The IT services industry has also been facing challenges in getting retail and banking clients to spend on technology. Mr. Subramaniam dwells on these headwinds and new opportunities:

We can't have teams that do only programming. We need more all-rounders. People should have functional knowledge, the ability to co-relate and understand the experience being delivered to the client. Coding is important. But you also have to ensure that we are coding for scale, that there are vulnerabilities in your code; you should know how to test, how to document. More than anything else, make sure that your code does not freeze other pieces of code. In a jigsaw puzzle, you can't worry only about your piece. Earlier, it was possible. Now you have to understand big picture; understand what you are trying to deliver in terms of experience.

(2) The potential is enormous, and we have not lived up to it. Yes, trade is more than $2 billion, but most of that comes from trade in a few items like potash and phosphate and we would like to diversify. Jordan could be a market and would welcome investment from Indian companies, including in ICT, infrastructure and energy. His Majesty is looking forward to his visit in early 2018, as soon as possible, and we hope to create momentum to put us on a fast track of ties.

You spoke of opportunities, but equally Jordan is in a region in turmoil. Jordan itself houses millions of refugees from Palestine and Syria. How will this change in 2018?

For us, the core issue remains the Palestinian-Israeli conflict and there cannot be peace and stability in the region without a resolution to the conflict on the basis of a two-state solution that would allow an independent sovereign Palestinian state with Occupied (East) Jerusalem as its capital, on the lines of the 1967 situation, and that would allow a peaceful Israel as well. We want every country to support this. India has always had a very clear position in favour of a just, lasting peace, and we encourage India to be more engaged and would like to see more of an Indian role [in the peace process.

[RTP Nov '18]

Ans.

Passage -1

IT industry needs a big picture (Heading)

(I) Major changes in IT business
  (a) No more usual stuff (b) Less signifies more

(II) Maj. challenges: Retails and Banking sec.

(III) What is now expctd?
  (a) Broader view (b) Feel the exprnc
  (c) Can't be an individual task (d) Coding to be co-rltd.

Key Used:

(1) IT= information technology (2) Maj= major
(3) Sec= sector (4) Expctd= expected
(5) Exprnc= experience (6) Rltd= related

Passage 2

Jordan as a potential market (Heading)

(I) A good plc for bsnss.
  (a) Trade mr thn 2 mill. (b) Potash and phosphate: primarily
  (II) Need and appeal to diversify (III) Inviting Indian giants to invest in

(a) ICT (b) Infrstrc (c) Energy

(IV) Need to wrk on Palestine-Syria conflict

(a) Build peaceful ties (b) Reslv the cnflt

(c) Create indpndt Palest. State (d) Req. sprt from Ind.

Key Used:

(1) Plc- place

(2) Bsnss= business

(3) Mr= more

(4) Thn= than

(5) Infrstrc= infrastructure

(6) Wrk= work

(7) Reslv= resolve

(8) Cnflt= conflict

(9) Indpndt= independent

(10) Req= request

(11) Sprt= support

Q-9 Read the following passage/news story and make proper notes following the guidelines of Note making. (Source: internet, newspaper articles)

(1) Tsunamis are monster waves that can grow to be more than 100 feet (30 meters) high. They are typically caused by earthquakes; identifying other seismic zones — a region high in seismic activity such as tremors and earthquakes — with these features could help researchers identify areas that could produce catastrophic waves, the scientists added.

Major tsunamis often result at the shallow portions of sub-duction zones, the areas where one of the tectonic plates that make up Earth's surface dives below another. These crash zones are dangerously active, and these tectonic interactions can cause the world's biggest earthquakes and worst tsunamis.

In the past 20 years or so, researchers have discovered that the seismic zones that lead to tsunamis often have three key features. First, the boundary where the tectonic plates meet is often rough instead of smooth. This keeps the plates from easily slipping past each other, allowing energy to build up between the plates. When this built-up energy finally gets released, it can trigger a major earthquake, according to the researchers.

Second, these danger zones may also possess hard rock rather than sediment near the seafloor and on both sides of the plate boundary. This can permit more motion from an earthquake to occur near the seafloor, for more powerful tsunamis, the researchers said.

A third key feature seen with the 2011 Tohoku earthquake is a series of cracks or faults rooted in the plate boundary. These faults may suggest that the plate boundary is especially active in its shallow portions and more prone to generating tsunamis.

(2) On June 23, registered voters of the United Kingdom will voice their opinion whether the nation should 'Remain' in or 'Leave' the European Union.

Though he managed to get the EU's nod for restrictions on certain welfare benefits for new migrants, British Prime Minister David Cameron was unable to bring unity within his Conservative Party, and thus decided to seek public opinion on the issue.

While Mr. Cameron wishes his country remain in the EU, former London Mayor and MP Boris Johnson campaigns for Britain's exit, or Brexit as it is being referred to.

The Labour Party too is divided. While the Labour chief Jeremy Corbyn supports staying with the EU, a group calling itself Lexit (Left for Exit) is campaigning for leaving the bloc citing the EU's Cold War

origins and pro-market stand.

While the Scottish National Party (SNP) bats for 'Remain', hardline U.K. Independence Party (UKIP) wants exit from the EU. **[RTP May '18]**

Ans.

Note 1

Tsunami (Heading)

(I) What is a Tsunami? (Sub heading)
  (a) Monster waves
  (b) Go to a hght of 30 m

(II) Causes and occrnc of a Tsunami
  (a) Earthquakes undr the sea
  (b) Occur in high seismic zones
  (c) Also occur in shallow areas with tectonic plate movmnt.

(III) Key ftrs of Seismic Zones
  (a) Bndry of tectonic plates rough
  (b) Prsnc of hard rock than sediment nr sea bed
  (c) Series of cracks in the plate bndry

Key Used

(1) Hght= height
(2) Occrnc= occurrence
(3) Undr= under
(4) Movmnt=movement
(5) Ftrs= features
(6) Bndry= boundary
(7) Prsnc= presence

Note 2

(I) Agenda for Br. Natnls
  (a) Remain with or exit Europe
  (b) To be dcd by voting

(II) Who supports/ remain with EU
  (a) British PM
  (b) Labour chief
  (c) SNP

(III) Who wants to exit?
  (a) Former London Mayor
  (b) A group termed Lexit
  (c) UKIP

Key Used

(1) Br= British
(2) Natnls= nationals
(3) Dcd= decided
(4) SNP= Scottish National Party
(5) UKIP= United Kingdom Independent Party

Q-10 Read the passage given below.

(i) Make notes, using headings, sub-headings, and abbreviations wherever necessary. **(3 Marks)**

(ii) Write summary. **(2 Marks)**

Are your children toxic? I don't mean 'toxic' as in the pain- in- the-neck teenager state that occurs between the ages of 12 and 16 but because they grunt instead of talk, loll about sighing endlessly for hours on end. I mean, are your children having the kind of childhood that is damaging them in a way that will debilitate them for the rest of their lives?

All around the world, teachers are examining and discussing how the cultural and the lifestyle changes of the past 25 years are affecting the lives of children. They know that many of the changes that benefit adults are far from healthy for our children. A toxic cocktail of the side effects of cultural change is now damaging the social, emotional and cognitive development of a growing number of children. Children's authors and leading childcare experts called on the government of Britain to act to prevent childhood being killed off altogether. According to them, processed food, computer games and over competitive education are poisoning today's children and increasingly children are being forced to act and dress like mini adults.

Research backs what these childcare experts are saying. Changes in diet, child care patterns, parenting, family structures, paly, bed times, family interaction, education, marketing, peer pressure, technology, electronics, and the way we communicate with our children are creating a 'toxic mix' that is damaging them. Children are becoming increasingly unhealthy and depressed, and are experiencing growing levels of behavioural and developmental problems. Not only this, the experts also point out that children lack first-hand experience of the world and regular interaction with their parents.

Of course, we do not need experts or research to tell us that academic pressure, marketing, absent careerist parents and the rest of the modern toxic mix is damaging our children. We can see it here in the increase in childhood obesity and childhood diabetes; in the rise in the number of children with attention deficit problems and in the increase in numbers of hyperactive children. We know it from the stress and strain related to exams and study, and in the increase in study/exam related suicides.

So before you answer the question "Are your children toxic?", take a good look at them and their lifestyle. And remember parents don't usually poison their children on purpose. Adults too are susceptible to "market forces" and peer pressure. It is almost natural when all around you other people's kids are eating junk and living toxic lives, to look at your own child and think: mine must too… But it doesn't have to be that way. Luckily, for all of us there are plenty of changes we can make to detoxify our children's childhood. All it needs is a little thought and some common sense. In the process we can detoxify ourselves. **[MTP May '20, 2 Marks]**

Ans. 1. Toxic bhvr in Chrn

1.1 Def

1.1.1 kind of chd having dmg effect, dblt chrn for life

1.2 Teachers wldd exmg/dscng causes

1.2.1 cultural and lfst changes damage

1.2.1.1 social dvmt

1.2.1.2 emotional dvmt

1.2.1.3 cognitive dvmt

1.3. Acc. to chrn authors and chre experts

1.3.1 factors psng chldrn

1.3.1.1 psd food

1.3.1.2 computer games

1.3.1.3 over cmpt. edtn

1.3.2 chrn forced to act like mini adults

1.4 Acc. to research, factors dmg chrn:

1.4.1 changes in diet
1.4.2 chldcre ptrns
1.4.3 parenting
1.4.4 family str.
1.4.5 play
1.4.6 bed times
1.4.7 family intr.
1.4.8 edtn
1.4.9 marketing
1.4.10 peer pressure
1.4.11 tech.
1.4.12 elts.
1.4.13 manner of comm.

1.5 Effects in chrn

1.5.1 Become unhealthy, depressed
1.5.2 exp. bhvr and dvmtl problems
1.5.3 Lack first hand world exp.
1.5.4 Lack regular intr. with parents
1.5.5 Obesity
1.5.6 Diabetes
1.5.7 Attn. deficit problems
1.5.8 Incr. in hypty
1.5.9 Exam related stress and strain
1.5.10 Incr. in exam related suicides

1.6 Role of Parents in detox. Chd

1.6.1 Observe your child's lfst
1.6.2 Don't follow others
1.6.3 Think deep
1.6.4 Apply common sense
1.6.5 Make relevant changes

Key:

bhvr: behavior	Chrn: children	Def: definition	Chd: childhood
Dmg: damaging	dblt : debilitating	Wldd: worldwide	Exmg: examining
dscng : discussing	lfst: lifestyle	dvmt: development	Acc. : According
Chre: childcare	psng : poisoning	psd: processed	cmpt.: competitive
edtn: education	ptrns: patterns	str.: structures	intr: interaction
tech.: technology	elts : electronics	comm.: communication	
dvmtl : developmental	exp.: experience	attn.: attention	incr : increase
hypty: hyperactivity	detox. : detoxifying		

Summary

Toxic behaviour in children can be defined as kind of childhood having damaging effect, debilitating children for life. Teachers worldwide are examining/discussing the causes as cultural and lifestyle changes in the last 25 years that have damaged social, emotional and cognitive development of the children. According to children authors and child care experts processed food, computer games and over competitive education are poisoning the minds of children. As a result, they have started behaving like mini adults. Research confirms that changes in diet, child care patterns, parenting, family structures, play, bed times, family interactions, education, marketing, peer pressure, technology, electronic gadgets and manner in which parents communicate with children are damaging them. All these factors have detrimental effects on children such as childhood obesity and diabetes along with many other issues like depression, behaviour and developmental problems, attention deficit, hyperactivity, lack of interaction with parents, lack of first-hand experience of the world around them, exam related stress and suicide. Role of parents/adults is crucial in detoxifying their child's childhood by observing their lifestyle, not following others, deep thinking, applying their common sense and gradually making the relevant changes.

Q-11 Read the Passage :

Whether one runs a large business, or is starting out with a new venture, or works as a corporate professional, chances are that at some point, one would be required to make a business presentation. Whether you are selling a product to a client, sharing your vision with your employees, or looking for new investors for your business, your presentation will always matter.

Making a good business presentation can be intimidating - you want to capture as much information as possible to answer any prospective questions from your audience, yet you want to keep your audience constantly engaged and interested. So, what makes a good presentation?

It is important to connect with your audience with a story. And no, it doesn't mean your presentation needs to be the most exciting work of fiction. Take your audience on a journey. When trying to convince potential investors, make them see the success you are striving for and what it will do for you and for them. To win over your employees with your new staff policy, take them through the journey of why you are introducing a new policy and how does it benefit them. Tell personal stories, give analogies and cite examples. Get your audience emotionally involved and you will be more likely to get them to sid e with you.

You want to keep your audience engaged at all times. Do not overwhelm them with a lot of information. Settle on three to five key messages that you want them to absorb and stick with them. You do not want to include everything. Instead, choose out powerful points that you want to make. It is important to keep your presentation as straightforward and concise as possible.

At the same time, you need to know your content extremely well. While you keep your presentation short and to the point, it is no excuse for you to not have more detailed information regarding the subject of your presentation. It is likely you would need to answer questions from your audience at the end of the presentation. You must review all pertinent information and key facts and figures before your presentation. Not only will it help you answer questions later, but it will also give you more confidence during your presentation, so you refer to your notes less and connect with your audience more.

In the end, a business presentation is about selling ideas. Do your researches well, describe your ideas crisply, weave them into an interesting story and you are more likely to succeed.

(i) Make notes, using headings, sub - headings and abbreviations whenever necessary.

(ii) Write Summary.

Ans.

(i) Note Making

Business Presentation

1. Essen. for

1.1 Large Bsns, startups & prfs.to

1. sell product to clients
2. share vision

1.1.2.1 new staff policy and benefits

3. find new investors

1. discuss mutual benefits

2. Objectives

2.1 Engage the aud.

2.2 Tell a story

2.3 Give prsnlegs./anlgs.

3. Do's and Don'ts

3.1 research well

1. cap. det. info.
2. Do not prt. excess info.
3. Prt. 3-5 pts.
4. Expln. Briefly &prcly.
5. Prep. Cont. well
    1. Rvw. Imp. Info.
    2. Facts & data

Key:

(1) Bsns.: businesses
(2) Prfs.: professionals
(3) Aud.: audience
(4) Prsnl.: personal
(5) Egs.: examples
(6) Anlgs.: analogies
(7) Cap.: capture
(8) Det.:detailed
(9) Info.: information
(10) Prt.: present
(11) Expln.: explain
(12) Prcly.: precisely
(13) Prep.: prepare
(14) Cont.: content
(15) Rvw.: review
(16) Imp.: important

(ii) Summary

Preparation and presentation of Business Presentations are essential skills for owner of a large business, startup or a working professional alike. It is a useful tool to provide product details to clients, to share your ideas and vision with employees about new policies and their benefits or to find investors to expand or diversify. The objective is to engage the target audience by spawning a story around your ideas by narrating personal anecdotes. For a good presentation you must research the subject in detail, do not swarm the audience with too much information. You must stick to 3-5 points and explain them with brevity and precision. Prepare the subject well and review important facts, figures and data.

Q-12 Read the passage given below.

(i) Make notes, using headings, sub-headings, and abbreviations wherever necessary. **[MTP.-March'21, 3 Marks]**

(ii) Write summary. **[MTP.-March'21,2 Marks]**

Silk is the most elegant textile in the world with unparalleled grandeur, natural sheen, and inherent affinity for dyes, high absorbance, light weight, soft touch and high durability and known as the "Queen of Textiles" the world over. On the other hand, it stands for livelihood opportunity for millions owing to high employment oriented, low capital intensive and remunerative nature of its production. The very nature of this industry with its rural based on-farm and off-farm activities and enormous

employment generation potential has attracted the attention of the planners and policy makers to recognize the industry among one of the most appropriate avenues for socio-economic development of a largely agrarian economy like India.

Silk has been intermingled with the life and culture of the Indians. India has a rich and complex history in silk production and its silk trade dates back to 15th century. Sericulture industry provides employment to approximately 8.25 million persons in rural and semi -urban areas in India during 2015-16. Of these, a sizeable number of workers belongs to the economically weaker sections of society, including women. India's traditional and culture bound domestic market and an amazing diversity of silk garments that reflect geographic specificity have helped the country to achieve a leading position in silk industry.

Silk production in India has the unique distinction of being the only country producing all the five known commercial silks, namely, mulberry, tropical tasar, oak tasar, eri and muga, of which muga with its golden yellow glitter is unique and prerogative of India. Mulberry sericulture is mainly practised in states namely, Karnataka, Andhra Pradesh, Assam and Bodoland, West Bengal. Jharkhand and Tamil Nadu are major silk producing states in the country. North East has the unique distinction of being the only region producing four varieties of silk viz., Mulberry, Oak Tasar, Muga and Eri. Overall NE region contributes 18% of India's total silk production. India is the second largest producer of silk in the world.

Among the four varieties of silk produced in 2015-16, Mulberry accounts for 71.8% (20,434 MT), Tasar 9.9% (2,818 MT), Eri 17.8% (5,054 MT) and Muga 0.6% (166 MT) of the total raw silk production of 28,472 MT. The demand for superior quality bivoltine silk is increasing in India for domestic consumption as well as value added silk products for the export market.

Ans. Sericulture in India (Heading)

1. Silk 'Queen of Textiles' characteristics
   - 1.1 Shine, light weight
   - 1.2 Affinity for dyes
   - 1.3 softness, durability
2. Economic importance of silk
   - 2.1 Provides livelihood
   - 2.2 Low capital intensive
   - 2.3 Offers socio economic dev. of weaker sections
   - 2.4 Employs 8.25 million including women
3. Silk prodn. In India
   - 3.1 Since 15th century
   - 3.2 Second largest producer in the world
   - 3.3 Prdcs. all five known varieties
   - 3.4 Major Silk producers:
   - 3.4.1 Karnataka, AP, Assam, WB , Jharkhand and TN
   - 3.4.2 NE prdcs.
     - 3.4.2.1 18% of total prdn.
     - 3.4.2.2 4 varieties except Tropical Tasar
4. Varieties prdcd. in India
   - 4.1 Mulberry
     - 4.1.1 Prdcd. in Karnataka, AP, Assam, WB
     - 4.1.2 71.8% of total prdn.
   - 4.2 Tropical Tasar & Oak Tasar

4.2.1 9.9% of total prdn.

4.3 Muga

4.3.1 Has unique yellow glitter

4.3.2 0.6% of total prdn.

4.4 Eri,

4.4.1 17.8% of total prdn.

Key used:

- Dev: development
- Prdcs.: produces
- Prodn.:production
- Prdcd:produced
- NE: North East
- AP: Andhra Pradesh
- WB: West Bengal
- TN: Tamil Nadu

Summary

Silk is considered the 'Queen of textiles' with its unique characteristics viz. softness, sheen, dyeability and durability. Sericulture is highly labour intensive, provides livelihood to almost 8.25 million people from the weaker sections in India including women. In India, sericulture dates back to 15th century and India is the second largest producer of silk and has the distinction of producing all the five varieties viz. Mulberry, Tropical tasar, Oak Tasar, Eri and Muga that has a distinctive yellow glitter. Major silk producing states are Karnataka, Andhra Pradesh, West Bengal and Assam that produce the Mulberry variety. Jharkhand and Tamil Nadu are also amongst major silk producers. The North East produces 4 varieties except the Tropical Tasar and contributes nearly 18% of the total silk production. In 2015-16 India produced about 71.8% of Mulberry, 17.8% of Eri, 9.9% of Tasar and 0.6% of Muga silk.

Q-13 Read the Passage :

(i) Make Notes, using Headings, Subheadings and abbreviations whenever necessary.

[Sugg.-Nov'20,3 Marks)]

(ii) Write Summary Recycling is simply the process of reusing the items from which utility can still be derived. It is important to recycle waste so that we can at least conserve some. of our natural resources for the generations to come. Many products such as paper, cardboards, and cups come from trees. In fact trees are our natural assets; you can conserve trees by recycling the paper products as by doing so we can minimize the number of trees cut down a year. This is one form of waste recycling.

Recycling waste will not only save our natural resources but will also help save energy. By simply recycling an item or making a basic fix to it, we can save all the energy that would have been consumed in the process of making it. The same example can be taken with plastic items. A large amount of energy can be saved by simply reusing the plastic items. To recycle waste is to simply reduce pollution. By recycling plastic material, we can reduce air pollution as well as water pollution. Plastic factories produce a large amount of smoke while producing plastic material at the same time; if we don't have a proper waste disposal system then those waste emissions will cause water pollution. Recycling helps reduce pollution too.

In simple words, recycling waste is essential for both the natural environment and humans. To sum up, recycling minimizes the need for raw materials so that the rainforests can be preserved. Great amounts of energy are used when making products from raw materials. Recycling requires much less energy and

therefore helps to preserve natural resources. One needs to know the importance of recycling; at the same time being earth friendly can help make our planet a better place to live in.

[Sugg.-Nov'20, 2 Marks]

Ans. (i) Note Making, Recycle, Reuse, Reduce

- **Recylg,**
  - 1.1 Prcsng. /reusing waste, create utility items
  - **1.2 Examples**
    - 1.2.1 Prcsng. used paper, cups and cardboards
      - 1.2.1.1 Bnfts.
        - 1.2.1.1.1 Cnsrvs. envrmt.
        - 1.2.1.1.2 Mnmzs. Ctng. of trees
    - 1.2.2 Reusing plastic
      - 1.2.2.1 Bnfts.
        - 1.2.2.1.1 Rdcs. air poltn.
        - 1.2.2.1.2 Rdcs. water poltn.
  - **1.3 Bnfts.**
    - 1.3.1 Cnsrvs. natural resources
    - 1.3.2 Cnsrvs. energy
    - 1.3.3 Rdcs. poltn.
    - 1.3.4 Mnmzs. the need for raw material
    - 1.3.5 Eco-friendly
    - 1.3.6 Helps create better lvng. cndtns.

Key to Abbreviations:

1. Recyclg.- recycling
2. Prcsng. -processing
3. Bnfts.-benefits
4. Cnsrvs.-conserve
5. Envrmt..-environment
6. Mnmzs.-minimizes
7. Ctng.-cutting
8. Rdcs.-reduces
9. Poltn.-pollution
10. Lvng.-living
11. Cndtns.-conditions

(ii) Summary

Recycling can be termed as processing or reusing waste to create new utility items. For example, used paper, cardboards and paper cups can be recycled to create new ones. This helps in conserving the environment by minimizing cutting of trees. Plastic can be reused thus, reducing air and water pollution. Recycling has many benefits including conservation of natural resources and energy, reducing pollution, minimizing the need for raw material, helping to create better living conditions on our planet earth.

Q-14 Read the passage given below.

(i) Make notes, using headings, sub-headings, and abbreviations wherever necessary.

[MTP.-April'21, 3 Marks]

Ans.

(i) Note Making

1. Facts about Common Cold

1.1 Very freq. viral inf.

1.2 Can't be cntrld.

1.3 Difficult prblm.

1.4 Affects nose-lining & other passages to lungs

2. Causes

2.1 family. of vrss. viz. Rhinoviruses

2.2 Not known as no vrs. isolated for some infs.

3. Prblms. of idntfg. vrs.

3.1 Smaller than bacteria

3.2 can't be seen with microscopes

3.3 Grow within living cells of plants and animals

3.4 Can't be easily cultivated in labs

4. Recent. rsrch.

4.1 Tissue. Culture

4.1.1 Def.

4.1.1.1 bits of animal tis. grown in lab

4.1.1.2 multiply indptly. off the body

4.1.2Led to

4.1.2.1 the discovery of large no. of unknown & unsuspected vrss.

5. Reasons of no imnty.

5.1 Vrs. attack only on surface & not bloodstream

5.2 Can't be opposed by anti-bodies

5.3 Imnty. from one vrs. not grntg. protection from all

Key :

Freq: frequent
Inf.: infection
Cntrld: controlled
Prblm: problem
Vrs.: virus
Vrss:viruses
Infs.: infections
Idntfg: identifying
Rsrch:research
Indptly: independently
Imnty:immunity
Grntg: guaranteeing

Q-15 Write summary.

Despite all the research every one of us catches cold and most of us catch it frequently. Our failure to control one of the commonest of all ailments sometimes seems ridiculous. Medical science regularly practices transplant surgery and has rid whole countries of such killing diseases as Typhus and the Plague. But the problem of common cold is unusually difficult and much has yet to be done to solve it. It is known that a cold is caused by one of a number of viral infections that affect the lining of the nose and other passages leading to the lungs but the confusing variety of viruses makes study and remedy very difficult. It was shown in 1960 that many typical colds in adults are caused by one or the other of a family of viruses known as rhinoviruses, yet there still remain many colds for which no virus has as yet been isolated.

There is also the difficulty that because they are so much smaller than the bacteria which cause many other infections, viruses cannot be seen with ordinary microscopes. Nor can they be cultivated easily in the bacteriologist's laboratory, since they only grow within the living cells of animals or plants. An important recent step forward, however, is the development of the technique of tissue culture, in which bits of animal tissue are enabled to go on living and to multiply independently of the body. This has greatly aided virus research and has led to the discovery of a large number of viruses. Their existence had previously been not only unknown but even unsuspected.

The fact that we can catch a cold repeatedly creates another difficulty. Usually, a virus strikes only once and leaves the victim immune to further attacks. Still, we do not gain immunity from colds. Why? It may possibly be due to the fact that while other viruses get into the bloodstream where anti-bodies can oppose them, the viruses causing cold attack cells only on the surface. Or it may be that immunity from one of the many different viruses does not guarantee protection from all the others. It seems, therefore, that we are likely to have to suffer colds for some time yet.

[MTP April'21, 2 Marks]

Ans. Summary

Common cold is a very frequently occurring viral infection that affects the nose-lining and other passages to the lungs. It is a difficult problem and cannot be controlled. Although a family of viruses termed as Rhinoviruses has been identified that cause this infect ion for certain others no virus has been isolated yet. Problems with identifying viruses are that they are smaller than bacteria and cannot be seen through microscope and they grow within living plant and animal cells thus cannot be cultivated in labs The recent research in virus isolation/identification is Tissue culture that enables tissues to be grown independently off the animal/plant bodies leading to the discovery of many unknown viruses. Immunity cannot be developed against these viruses as they affect the cell surface and not the bloodstream, so antibodies do not develop. Moreover, immunity against one virus does not guarantee safety from other viruses.

Q-16 Read the passage given below.

(i) Make notes, using headings, sub-headings, and abbreviations wherever necessary.

(MTP-Nov'21, 3 Marks)

(ii) Write summary. **(MTP-Nov'21, 2 Marks)**

1. A good business letter is one that gets results. The best way to get results is to develop a letter that, in its appearance, style and content, conveys information efficiently. To perform this function, a business letter should be concise, clear and courteous.
2. The business letter must be concise: don't waste words. Little introduction or preliminary chat is necessary. Get to the point, make the point, and leave it. It is safe to assume that your letter is being read by a very busy person with all kinds of papers to deal with. Re-read and revise your message until the words and sentences you have used are precise. This takes time, but is a

necessary part of a good business letter. A short business letter that makes its point quickly has much more impact on a reader than a long-winded, rambling exercise in creative writing. This does not mean that there is no place for style and even, on occasion, humour in the business letter. While it conveys a message in its contents, the letter also provides the reader with an impression of you, its author: the medium is part of the message.

3. The business letter must be clear. You should have a very firm idea of what you want to say, and you should let the reader know it. Use the structure of the letter—the paragraphs, topic sentences, introduction and conclusion—to guide the reader point by point from your thesis, through your reasoning, to your conclusion. Paragraph often, to break up the page and to lend an air of organisation to the letter. Use an accepted business-letter format. Re-read what you have written from the point of view of someone who is seeing it for the first time, and be sure that all explanations are adequate, all information provided (including reference numbers, dates, and other identification). A clear message, clearly delivered, is the essence of business communication.
4. The business letter must be courteous. Sarcasm and insults are ineffective and can often work against you. If you are sure you are right, point that out as politely as possible, explain why you are right, and outline what the reader is expected to do about it. Another form of courtesy is taking care in your writing and typing of the business letter. Grammatical and spelling errors (even if you call them typing errors) tell a reader that you don't think enough of him or can lower the reader's opinion of your personality faster than anything you say, no matter how idiotic. There are excuses for ignorance; there are no excuses for sloppiness.
5. The business letter is your custom-made representative. It speaks for you and is apermanent record of your message. It can pay big dividends on the time you invest in givingit a concise message, a clear structure, and a courteous tone.

Ans.(i) Title: Writing a Business Letter

1. Features of a gd. busns ltr
   - 1.1 conveys info efficiently to get results
   - 1.2 is concise
   - 1.3 is clear
   - 1.4 is courteous
2. How to write a gd. busns. ltr
   - 2.1 Making ltr concise
     - 2.1.1 Intro. should be brief
     - 2.1.2 use precise words and snts.
   - 2.2 Style imp.
     - 2.2.1 short ltr more effective
     - 2.2.2 may ocasnly have humour
   - 2.3 Achieving clarity
     - 2.3.1 Have a clear idea of what you wish to say
     - 2.3.2 str. the ltr—intro & cnclsn.
     - 2.3.3 use accepted format; para, topic, snts.
     - 2.3.4 check facts, explns, refs.
   - 2.4 Being courteous

2.4.1 Exp. your pt. politely

2.4.1.2 avoid sarcasm & insults

2.4.2 careful wrtg & typg.

2.4.3 gram. & splg. errors to be avoided

3. Impc. of busns. ltr

3.1 is a rep.

3.2 prmnt. rec. message.

Key

Gd.-good

Busns- business

Ltr.- letter

Intro. –introduction

Snts.-sentences

Imp.-important

Ocsnly.-occasionally

Pt. – point

Str.- structure

Expln.- explaination

Exp.-explain

Refs.-references

Cnclsn.- conclusion

Para.-paragraph

Wrtg.- writing

Typg.-typing

Gram.-grammar

Splg- spelling

Impc.-importance

Rep.- Representative

Prmnt.-permanent

Rec. recorded

SUMMARY

A good business letter is that lends you positive and quality results. To get such results, a business letter should be effective in appearance, style and content. Apart from this a letter should be concise, clear and courteous. The business letter should be to the point, the message should be clear to the reader and bear your impression. The structure of letter should have topic sentence, introduction, paragraphs to conclusion. Be polite, avoid sarcasm and insults that can work against your motive. Ensure there are no grammar and spelling errors.

Q-17 Read the passage given below.

Make notes, using headings, sub-headings, and abbreviations wherever necessary.

(MTP-Oct'21, 3 Marks)

Ans. The Tests of Life- the Plus Factors

1. Importance of tests of life
   - 1.1. Illness & Suffering build Char.
   - 1.2. View disability +vely.
     - 1.2.1 Eg: boy with hunch-backed companion.
2. Change of focus required:
   - 2.1 Sayings in hospital
     - 2.1.1 awaken one to universe amidst pain;
     - 2.1.2 prsnc. of God
   - 2.2. prsnc. of nether springs
     - 2.2.1 flow in ppl's hearts when
     - 2.2.1.1 reach rock bottom
     - 2.2.1.2 are guilt ridden
     - 2.2.2 make recovery possible
     - 2.2.3 Bring Peace &Patience
3. Frcs. of Destn.
   - 3.1. are Psychic &psychl.
   - 3.2. Cses : malice, hatred &hard headedness
4. Frcs. of Life
   - 4.1. Cses: Openness, peace& good heartedness
   - 4.2. rgnr. hope & joy
   - 4.3 triumphs when love overcomes fear
5. Love: the plus factor
   - 5.1 builds char.
   - 5.2 creates bonds
   - 5.3 has inf. Reach
6. Love & life
   - 6.1 signs everywhere
   - 6.2 help overcome setbacks
7. As a true seeker
   - 7.1 dft. Destv.ele.
   - 7.2 do not look at doom & gloom
   - 7.3 seek positivity &happ.

Key:

Char.: character

Ppl: people

+ly: positively

Frcs.: forces

cses.: causes

Destn.: destruction

Psychl.: psychological

Rgnr: regenerate

Inf.: infinite

Dft.: defeat

Destv.: destructive

Ele.: elements

Happ.: happiness

Q-18 Write summary. **(MTP-Oct'21, 2 Marks)**

1. The tests of life are its plus factors. Overcoming illness and suffering is a plus factor for it moulds character. Steel is iron plus fire, soil is rock plus heat. So let's include the plus factor in our lives.
2. Sometimes the plus factor is more readily seen by the simple hearted. Myers tells the story of a mother who brought into her home – as a companion to her own son- a little boy who happened to have a hunch back. She had warned her son to be careful, not to refer to his disability. The boys were playing and after a few minutes she overheard her son say to his companion "Do you know what you have got on your back ?" The little boy was embarrassed, but before he could reply, his playmate continued " It is the box in which your wings are, and some day God is going to cut it open and then you will fly away and be an angel."
3. Often it takes a third eye or a change in focus, to see the plus factor. Walking along the corridors of a hospital recently where patients were struggling with fear of pain and tests, I was perturbed. What gave me a fresh perspective were the sayings put up everywhere, intended to uplift. One saying made me conscious of the beauty of the universe in the midst of pain, suffering and struggle. The other saying assured me that God was with me when I was in deep water and that no troubles would overwhelm me.
4. The import of those sayings also made me aware of the nether springs that flow into people's lives when they touch rock bottom or are lonely or guilt ridden. The nether springs make recovery possible, and they bring peace and patience in the midst of negative forces.
5. The forces of death and destruction are not so much physical as they are psychic and psychological. When malice, hatred and hard heartedness prevail, they get channelled as forces of destruction. Where openness, peace and good heartedness prevail, the forces of life gush forth to regenerate hope and joy. The life force is triumphant when love overcomes fear. Both fear and love are deep mysteries, but the effect of love is to build, whereas fear tends to destroy. Love is generally the plus factor that helps build character. It creates bonds and its reach is infinite.
6. It is true there is no shortage of destructive elements – forces and people who seek to destroy others and in the process destroy themselves – but at the same time there are signs of love and life everywhere that are constantly enabling us to overcome setbacks. So let's not look at gloom and doom – let us seek positivity and happiness. For it is when you seek that you will find what is waiting to be discovered.

Ans. Summary

The tests of life like illness, suffering, pain and disability build character. The simple hearted have the ability to view them as signs of hope and the presence of God. Even in the midst of suffering there is God. The belief that amongst pain and suffering the universe is still beautiful and God present gives strength to overcome obstacles. One must realize there is an underlying human strength that emerges during troubles. This brings peace and patience. The forces of destruction can be overcome by the power of love.

Q-19 Read the passage :

(i) Make Notes, using Headings, subheadings and abbreviations wherever necessary.

(Sugg-July'21, 3 Marks)

(ii) Write Summary by giving a suitable title. **(2 Marks)**

Artificial intelligence (AI) is making a difference as to how legal work is done, but it isn't the threat it is made out to be. AI is making impressive progress and shaking up things all over the world today. The assumption that advancements in technology and artificial intelligence will render any profession defunct is just that, an assumption and a false one.

The only purpose this assumption serves is creating mass panic and hostility towards embracing technology that is meant to make our lives easier.

Introducing AI to this profession will primarily be for the purpose of automating mundane,tedious tasks that require negligible human intelligence. The kind of artificial intelligence that is employed by industries in the current scene, when extended to the law will enable quicker services at a lower price. AI is meant to automate a number of tasks that take up precious working hours lawyers could be devoted to tasks that require discerning, empathy, and trust-qualities that cannot be replicated by even the most sophisticated form. of AI. The legal profession is one of the oldest professions in the world. Thriving over 1000 years; trust, judgment, and diligence are the pillars of this profession. The most important pillar is the relationship of trust· between a lawyer and clients, which can only be achieved through human connection and interaction.

While artificial intelligence can be useful in a number of ways in legal field like translation of documents in other languages, mining of data pertaining to cases for analyses helping decision making; scanning and. organizing documents pertaining to a case, it cannot perform higher-'level tasks such as sharp' decision making, relationship-building with valuable clients and writing legal briefs, advising clients, and appearing in court. These are over and above the realm of computerization.

Ans. **(i) Note Making**Artificial Intelligence: To aid, not replace lawyers/ Artificial Intelligence: Not a Threat

1. False Assumption
   - 1.1 will replace prof.
   - 1.2 Objective
     - 1.2.1 create panic
     - 1.2.2 prvt. tech. prlftn.
2. App. in Law
   - 2.1 Areas
   - 2.1.1 atmtg. Routine & tedious tasks with min. I.
   - 2.1.2 trltn. of docs. In other langs.
   - 2.1.3 data mining
   - 2.1.4 helping to Anlz cases for dsn. mkg.

2.1.5 scng.& org. docs

2.2 Benefits

2.2.1 quick service at low price

2.2.2 free the lawyers for tasks reqg. human connect & interaction :

2.2.2.1 rlshp. bldg

2.2.2.2 empathy & trust bldng

3. Cannot perform

3.1 sharpdsn. mkg.

3.2 rlshp. bldg. with clts

3.3 wrt. legal briefs

3.4 adv. clts

Key

AI.: Artificial Intelligence
Min.: Minimum
Prvt.: preventing
Tech.: technology
Prlftn.: proliferation
App.: application
Atmtg: automating
Trltn: translation
Docs.: documents
Langs.: languages
Anlz:analyze
Dsn decision
Mkg.: making
Scng:scanning
Org.:organizing
Reqg.: requiring
Rlshp.:relationship
Bldg.: building
Clts.: clients
Wrt.: writing
Adv.: advising

(b)

(ii) Artificial Intelligence: Not a Threat

There are many false assumptions doing the rounds pertaining to Artificial Intelligence, foremost being that it will replace professionals. The objective is to create panic and prevent proliferation of technology. AI can be applied in the legal profession for automating routine and tedious tasks requiring minimum intelligence, translation of case documents in other languages, data mining, helping to analyze cases for decision making, scanning and organizing legal and case documents.

Major benefits will be that lawyers will not only be readily available at low price, but will also save their precious time that can be utilized in tasks requiring human connect and interaction such as relationship, empathy and trust building. It is clear that AI cannot perform tasks like sharp decision

making, relationship building with clients, writing legal briefs and advising clients. Therefore it can never replace the lawyers.

Q-20 Read the following passage

Nearly 41% of the Indian population is employed in agriculture while its contribution to the GDP is around 18% . This means that more people are engaged in agriculture and hence the per capita income decreases. In economic terms, it is known as disguised unemployment where too many people are filling too few jobs. To address this, we need to shift the excess people from agriculture to other economic activities. This will translate to job creation that will not be restricted only to large metros but will also make the rural economy self-sufficient and resilient.

Focus on handicrafts, food-processing, MSME and skill development is required. MSME can be the backbone as well as a stepping stone towards further industrialisation. Paintings, hand-made soaps, wooden toys, and bamboo products are in huge demand both domestically and internationally as people shun toxic materials. As for the price, large scale manufacturing and supply chain management can help reduce the cost.

Migrant labour from eastern India forms the majority of industrial and agricultural labour. As a result, brain and labour drain in the source regions is affecting development. Reverse migration of labour will help regenerate agriculture in eastern India. This will require institutional as well as technological intervention. As landholdings are small, using technology in farming is not remunerative for small and marginal farmers. The Government should promote cooperative farming and consolidate landholdings.

(i) Make notes, sub headings, abbreviations, wherever necessary giving a suitable title.

(MTP March '22, 3 Marks)

(ii) Write a summary **(2 Marks)**

Ans. **Title: The problem of disguised unemployment**

(1) Too much employment in agriculture
- 1.1 41% Indian ppln in agric.
- 1.2 More the ppl, less the per capita income
- 1.3 Need to shift to hmn resources to othr activities
- 1.4 Make rural sec self suffcnt

(2) Need to focus on othr skills
- 2.1 Handicrafts, food processing, MSME sec; need to be grown
- 2.2 Hnd made toys, bamboo prdcts, hnd made soaps in demand
- 2.3 Large scale manfctrng, spply chn mgmnt will lead to reductn in cost

(3) Eastern India: hub for agricultural and industrial labr
- 3.1 Need for reverse migrtn
- 3.2 Need for techn. intrventn
- 3.3 Govt. needs to promote coop frmng and consoldt land hldngs

Key:

Ppln: population

Agric: agriculture

Ppl: people

Hmn: human

Othr: other

sec: sector

Suffcnt: sufficient

Hnd: hand

Prdcts: products

Manfctrng: manufacturing

Sply chn: supply chain

Mgmnt: management

Reductn: reduction

Lbr: labour

Migrtn: migration

Techn: technological

Intrvntn: intervention

coop: cooperative

Frmng: farming

Consoldt: consolidate

Hldngs: holdings

Summary:

With nearly 41 % people employed in agriculture, there seems to be disguised unemployment where too many people are filling too few jobs. The focus needs to shift towards other skilled activities like making wooden toys, handmade soaps, bamboos products which have a domestic as well international demand. Moreover, eastern India having a concentration of agricultural and industrial labour, there should be plans of having reverse migrations and an intervention of technology. Last, but not the least government should promote cooperative farming and consolidate land holdings for the betterment of the region.

Q-21 Read the Passage:

(i) Make notes, using headings, sub-headings and abbreviation wherever necessary giving a suitable title. **(Sugg-Dec'21, 3 Marks)**

(ii) Write a summary. **(Sugg-Dec'21, 2 Marks)**

Keeping cities clean, free of any kind of pollution, is essential for keeping their residents healthy. Our health depends not just on personal hygiene and nutrition, but critically also on how clea

n we keep our cities and their surroundings. The spread of dengue, chikungunya and corona virus are intimately linked to the deteriorating state of public health conditions in our cities as well.

The waste management to keep cities clean is now getting at tention through the Swachh Bharat Mission. People are now more aware of the importance of cleanliness and necessary safety precautions to be observed on day to day basis.

However, much of the attention begins and stops with the brooms and the dustbins, ex tending at most to the collection and transportation of the mixed waste to some distant or not so distant place, preferably out of sight. The challenge of processing and treating the different streams of solid waste, and safe disposal of the residuals in scientific landfills, has received much less attention in municipal solid waste management than is expected from a health point of view. One of the problems is that instead of focusing on waste management for health, we have got sidetracked into "waste for energy". If only we were to begin by not mixing the biodegradable component of solid waste (close to 60 percent of the total) in our cities with the dry waste, and instead use this

stream of waste for composting and producing a gas called methane.

Ans. (i) Note Making

Title: Pollution & Public Health / Waste Management

1. Pb. Hlth. depends upon
   - 1.1 Per. Hygn
   - 1.2 Ntrtn
   - 1.3 Clnlns of cities
2. Poor Pb. Hlth causes
   - 2.1 Dengue
   - 2.2 Chikangunya
   - 2.3 Corona
3. Swacch Bharat Mission is
   - 3.1 adrsg. waste mgmt.
   - 3.2 gnrtng. awrns. about
     - 3.2.3 clnlns.
     - 3.2.4 safety prctns.
   - 3.3 ltd. to
     - 3.3.1 placing dustbins
     - 3.3.2 cln. & trnsptn Of waste
4. Waste mgmt..
   - 4.1 challenges
     - 4.1.1 prcng. & trtng. Solid waste
     - 4.1.2 safe disposal of residuals
     - 4.2 Focus
     - 4.2.1 is waste for energy
     - 4.2.2 should be for hlth.
5. Plausible Solution
   - 5.1 seg. Bio-deg. Waste for
     - 5.1.1 composting
     - 5.1.2 producing methane

Key to Abbreviations

1. Pb.: public
2. Hlth.: health
3. &: and
4. Per.: personal
5. Hyg.: hygiene
6. Ntrtn.: nutrition
7. Clnlns.: cleanliness
8. Adrsg.: addressing

9. Mgmt.: management
10. gnrtng.: generating
11. awrns.: awareness
12. prctns.: precautions
13. cln.: collection
14. trnsptn.: trAnswerportation
15. prcng. : processing
16. trtng.: treating
17. seg.:segregating
18. deg.: degradable

(ii) Summary

Public health largely depends upon personal hygiene, nutrition and cleanliness around cities. Poor public health causes widely transmissible diseases such as dengue, chikangunya and corona. Swacch Bharat Mission is not only addressing the issue of waste management but also spreading awareness about cleanliness and safety precautions related to the issue but it is limited to placing dustbins and collection as well as transportation of waste. Its focus is waste for energy rather than health. Possible solution entails segregating bio-degradable waste to produce compost and methane.

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NOTES

Chapter 6
Introduction to Basics of Writing

NO QUESTIONS

NOTES

Chapter 7
Precis Writing

Q-1 Write a Precis and give appropriate title to the passage given below:

DNA degrades quickly· after an: animal dies, so researchers once believed it impossible to find ancient genetic material. The search for primeval vestiges of DNA took off in the late 1980s after the. development of a technique called polymerase chain reaction (PCR), which copies minute quantities of DNA. Armed with PCR, scientists could look for tiny fragments of DNA that might have weathered the millennia unharmed.

In recent years, researchers have isolated DNA from 20-million-year-old magnolia leaves and extracted DNA from a 135-million-year-old weevil found in amber. Recently, a team extracts DNA from bone dating back millions of years for the first time. In the frenzied hunt for ancient DNA, microbiologist Scott R. Woodward may have bagged the biggest quarry. Drawing on lessons learned while growing up among the fossil-rich rocks of eastern Utah, Woodward and his team became the first people to find genetic material belonging to a dinosaur.

Woodward, whose grandfather was a coal miner, knew that mines in the area often contained dinosaur traces. After six months of looking Woodward pulled two bone fragments from a Cretaceous siltstone layer directly a top a coal seam. Impeded by an unstable mine roof) Woodward's team could not recover any more bone samples.

The siltstone apparently inhibited fossilization and preserved much of the original cell structure in the bone. Researchers isolated strands of DNA from both fragments and used-PCR to copy a segment that codes for a protein called cytochrome b. Once they had made many copies, they ·could determine the DNA sequence.

Throughout their work, the biologists took precautions to avoid contaminating the samples with modern DNA or ancient material found within the coal. According to Woodward, circumstantial evidence indicates that the bone fragments belong to one or two species of dinosaurs. Dinosaur tracks are abundant in this 'coal formation, and the bones visible in the mine were larger than those of a crocodile the biggest non-dinosaur known in these rocks. **[Past Paper-Nov. '19, 5 Marks]**

Ans. Précis':

Exploring ancient DNA: Innovations and Findings

Contrary to their earlier belief, in the late 1980s, scientists/researchers could search for remnants of DNA that existed in the primitive era/times after the development of the PCR technique (Polymerase Chain Reaction) that could copy minute quantities of DNA.

More recently, researchers have isolated DNA from 20-million-year-old magnolia leaves and successfully extracted DNA from a 135-million-year-old weevil found in amber. Microbiologist Scoot R. Woodward with his team were the first to find genetic material belonging to a dinosaur. He pulled two bone fragments from a Cretaceous siltstone layer from the top of a coal seam from which researchers isolated strands of DNA and used PCR to copy a segment that codes for a protein called Cytochrome b. DNA sequence was determined from the copies. Due care was taken to avoid contamination of samples with modern DNA. Evidence indicated that the samples found belonged to one or two dinosaur species.

Q-2 Write a precis and give appropriate title to the 'passage given below:

India has witnessed great expansion of educational opportunities since the attainment of independence. However, the disabled children have not yet benefited in any substantial manner from the growth in educational facilities.

Education of handicapped children, ultimately become more dependent and non productive. It is therefore believed that scarce national resources should not be wasted on them. Further, it has been our misconceived notion that the education of handicapped children requires highly specialized people and as such, it must essentially be very costly. Maybe, precisely for these wrong notions we have not been able to involve clinical and educational specialization programmers of training and education exclusively 'meant 'for handicapped children. It is encouraging to note that the new National Policy on Education has recommended the placement of such children in Regular schools so as to provide them integrated education along with normal students.

The integrated education will take care of the different needs of various categories arid types of disabled children. The objective is to place the disabled children in ordinary schools for imparting education in the help of special teachers, aids and other resources.

For fulfilling this objective an array, of the necessary infrastructure by way of training of teachers, provision of equipment and book etc. are some of the basic pre-requisition.

Hopefully, the parents and their handicapped children will be greatly relieved when the latter are transferred to regular schools. **[Past Paper-May '19, 5 Marks]**

Ans. Précis

Education for handicapped children

Education opportunities for handicapped children are sparse as compared to the normal children. Expenditure on their education is treated as a wastage and rather nonproductive.

The view that education for handicapped requires higher costs and specialized people has led to discouragement towards development of measures towards the same. The National Education Policy recommends integrating the education for handicapped with the normal children with the help of specialized teachers and other aids. Training of teachers and necessary infrastructure shall help the handicapped children and shall relieve their parents regarding worries about their education.

Q-3 Write a précis and give appropriate title to the passage given below :

Trees give shade for the benefit of others, and while they themselves stand in the sun and endure the scorching heat, they produce the fruit of which others profit. The character of good men is like that of trees. What is the use of this perishable body if no use is made of it for the benefit of mankind? Sandalwood, the more it is rubbed, the more scent dies it yield. Sugarcane, the more it is peeled and cut up into pieces, the more juice dies it produce. The men who are noble at heart do not lose their qualities even in losing their lives. What matters whether men praise them or not? What difference does it make whether they die at this moment or whether lives are prolonged? Happen what may, those who tread in the right path will not set foot in any other. Life itself is unprofitable to a man who does not live for others. To live for the mere sake of living one's life is to live the life of dogs and crows. Those who lay down their lives for the sake of others will assuredly dwell forever in a world of bliss.

[Past Paper-Nov '18, 5 Marks]

Ans. Precis writing

Possible Titles: Good/Great Men/Souls never die

Good/Great Men/Souls live forever

Good men like trees, live for others. As trees, who face the heat of the sun themselves but bear fruits for others, good men serve others. They do not lose their character, even if they have to lose their lives. They are not bothered whether they are praised or not, or whether they live long or are short lived. They live forever in eternal bliss.

Q-4 Write a precis and give appropriate title to the passage given below:

Teaching is the noblest of professions. A teacher has a scared duty to perform. It is he on whom rests the responsibility of moulding the character of young children. Apart from developing their intellect, he can inculcate in them qualities of good citizenship, remaining neat and clean, talking decently and sitting properly. These virtues are not easy to be imbibed. Only he who himself leads a life of simplicity, purity and rigid discipline can successfully cultivate these habits in his pupils.

Besides a teacher always remain young. He may grow old in age, but not in spite. Perpetual contact with budding youths keeps him happy and cheerful These are moments when domestic worries weigh heavily on his mind, but the delightful company of innocent children makes him overcome his transient moods of despair. **[Past Paper-May '18, 5 Marks]**

Ans. Precis writing

Possible Titles: A teacher remains immortal

A Teacher never grows old

Teaching: a selfless and noble profession

Teaching is constant learning and practicing

Teaching is a selfless job which goes on even when the teacher gets old. He/she is constantly learning, no matter how old one grows. From imparting education to discipline to mannerisms, a teacher is a role model. He leads a simple life, of virtues and morals and inculcates the same in his students. The pleasant company of students removes a teacher's personal worries and refreshes his mind.

Q-5

(1) Read the following passages and write a précis for the same.

A mere 14 per cent of the 58.3 million business in operations in India when the Sixth Economic Census was carried out in 2013-14 were owned by women, across formal and informal sectors in both rural and urban India. This is not a flattering statistic. A sizable number of the 8.05 million women-owned business -over 83 per cent- did not have any hired workers; the corresponding number for male-owned business was about 70 per cent. Also, on average, women-run businesses are smaller than those run by men. However, there are many shining examples of women entrepreneurs who have not only set up successful ventures but have also carved out a niche for themselves. Kiran Mazumdar Shaw is one such women entrepreneur. There are also some who gave up very successful corporate careers to turn entrepreneurs such as Falguni Nayar, a well-regarded investment banker who set up an e-commerce venture as she was turning 50 years of age. There are also the likes of Ritu Dalmia, who broke out of conservative industrialist families, to venture into the world of gourmet food and fine dining with a chain of restaurants. Each of them is trailblazer and an inspiration for others. More recently, the start-up boom in India has seen many young, professionally qualified women taking the plunge. Self-help groups and non-profit focusing on skill development in rural areas have helped women entrepreneurs bloom. Setting up a business is not easy in India. It is even tougher for a woman. A would-be woman entrepreneur has to overcome socio-cultural biases, which requires her to prioritize home and family above all else and sacrifice her own aspirations. Access to finance is that much more difficult, whether from formal banking channels or from venture capitalists. Managing a male workforce entrenched in a patriarchal society poses its own challenges. Many men are not supportive of womens' ambitions and even attempt to break their confidence. Another problem unique to women is their failure to network with business associates as easily as men. Policy interventions have tended to be sporadic, superficial or poorly thought through, like the Centre's failed experiment with a women-only bank.

However, these issues are addressable. Mentoring of women entrepreneurs by specialist in various fields can encourage women who are tentative about taking that first step. Networking platforms for women entrepreneurs can provide some support. Most of all, socio-cultural changes need to be engineered to encourage women to set up business ventures.

(Source: Business Line)

Précis Writing- 2

Several spiritual philosophies contain the notion of an inner 'third eye', related to the pineal gland, to which is attributed significance in mystical awakening or enlightenment, higher states of consciousness and extrasensory perception (ESP). Mention of this is found historically in ancient Central and East Asia and also in contemporary metaphysical theories relating to yoga.A neurologist in Jaipur claims to have found new evidence throwing light on interactions between a physical brain and a non-physical consciousness which leave an impact on human thought, emotion and behaviour. These psychic phenomena are linked with the 'third eye', he says.Dr. Ashok Panagariya, recipient of the prestigious B.C. Roy Award, says that the studies on the two functional units of brain and consciousness and new understanding of psychic phenomena may lead humankind to the ability to induce ESP at will. Pineal gland studies hold a great futuristic link between human and superhuman experiences.

Pineal gland, being the only singular structure in the brain and having a strategic position between the two halves, is believed to connect between intellect and the body. This 'third eye' could be activated to spiritual world frequencies, enabling a person to have the sense of all knowing, godlike euphoria and oneness all around him, says Dr. Panagariya.Once tuned into proper frequencies with the help of meditation, yoga or various esoteric and occult methods, pineal gland can also enable a person to travel into other dimensions, popularly known as astral travel, cosmological projection or remote viewing.Dr. Panagariya, formerly the Principal of Sawai Man Singh Government Medical College in Jaipur, has pointed out that the recent developments in parapsychology and neuroscience have revealed new clues about the way ESP and other psychic abilities are processed by the brain. "Science is providing some answers about the structure or physiology of brain which makes parapsychological reception possible."

"The most astounding discovery of all is that the brain produces a parapsychology enhancing neurotransmitter," says Dr. Panagariya while referring to a class of substances known as beta-carbolines which are secreted from the pineal gland. He says this neurochemical is only produced at night and breaks down into melatonin, another substance which has been associated with psychic experiences.

Dr. Panagariya, presently a member of the Rajasthan State Planning Board, has in his study referred to another recent discovery of interest to psychic researchers proving that the human brain contains magnetite (ferrous oxide), which renders the brain sensitive to the Earth's magnetic fields.

"It has long been known that birds and other animals use magnetite in their brains to aid in navigation. Magnetite is especially concentrated in the pineal gland and the temporal lobes," says Dr. Panagariya, offering scientific explanation to the spiritual, mystical and paranormal experiences.

(Source: The Hindu) **[RTP May '20]**

Ans.(1) Answer: Women in entrepreneurship

According to the sixth Economic Census 2013-14, only 14% of the businesses in India are owned by women and are smaller as compared to men owned businesses. Out of these, 83% do not have any hired workforce. However, many women entrepreneurs have carved a niche for themselves these are Kiran Mazumdar Shaw, Falguni Nayar and Ritu Dalmia. Self help groups and NGOs have helped women entrepreneurs in the rural sector. Still due to socio-cultural biases, it is onerous for married women in India to be an entrepreneur. Managing a male workforce and accessing financial support are even bigger challenges. Policy interventions, mentoring women entrepreneurs by specialists can encourage women who intend to foray into entrpreneurship and specialized networking platforms for women can provide the much-needed support.

(2) Answer: The 'third eye' connection

The notion of the third eye or heightened consciousness, Extra Sensory Perception(ESP), or enlightenment is attributed to pineal gland. It is located between the two halves of the brain and

connects the intellect and the body. Acording to Dr. Panagariya a neurologist based in Jaipur, this third eye can be activated to spiritual world frequencies with the help of Yoga and meditation to enable a person experience astral travel, remote viewing and cosmological projection. He said that the pineal gland contains magnetite and secretes Beta Carbolines that breaks down into melatonin which are associated with spiritual, psychic and paranormal experiences.

Q-6 Read the following passages and write a précis for the same.

(1) The word 'gender', originally a grammatical term, has come to refer to the social roles and behaviour of individuals arising from their classification as biologically male or female. In other words, Gender is general terms is imported from the social sciences for the sex or sexuality of human beings. Hence 'gender difference', of a difference in speech between men and women; language and gender, as a branch of sociolinguistics dealing with such differences.This is a huge complex embracing virtually all aspects of social behaviour of which language is only one. Recently, intensive research has been carried out about the relationship of language and gender, largely by female scholars who have felt drawn to the topic because of the obvious discrimination against women that has taken place in the past and which can still be observed today. The initial impulse was the work of the American linguist Robin Lakoff, who in the early 1970s focussed her attention on certain themes with the language and gender complex above those that she rightly felt required rectification. Her work stimulated other scholars to engage in this study and soon language and gender was a burgeoning research area in universities across the western world. Various opinions emerged on this relationship with two gaining particular focus. One is the difference approach which established that male and female language is dissimilar in spoken as well as written without attributing this to the nature of the social relationship between men and women. The other is the dominance approach which saw language usage by females and males as reflecting established relationship of social control of the latter over the former. With the maturation of research on language and gender the simple 'difference – dominance' dichotomy was increasingly regarded as unsatisfactory and insufficiently nuanced. For example, to maintain that men have a competitive style of social behaviour in western countries is a generalisation that everyone would agree. However, there are men who are not competitive in this respect. There are common tendencies that one comes across such as men interrupt women more, women are more communicative than men, women gossip more than men, men speak more comfortably in public and are good in calculation than women.

(2) There are approx. 6000 languages spoken worldwide. Out of them only some languages have script while others exist only in spoken form. Language diversity is common phenomena to the human. But Language death is equal to human death. In this regard, we need to work for language documentation, making new language policy, and new application to enhance the vitality of languages. A language is endangered when it is on a path toward extinction. Indeed, without proper documentation, a language that is extinct can never be revived. A language is in danger when its speakers cease to use it, use it in an increasingly reduced number of communicative domains, and cease to pass it on from one generation to the next. That is, there are no new speakers, adults or children. About 97% of the world's people speak about 4% of the world's languages; and conversely, about 96% of the world's languages are spoken by about 3% of the world's people.

(Bernard 1996: 142). Many indigenous peoples, associating their disadvantaged social position with their culture, have come to believe that their languages are not worth retaining. For linguist, each language is unique and each language is a unique expression of the human experience of the world. Thus, the knowledge of any single language may be the key to answering fundamental questions of the future. Every time a language dies, we have less evidence for understanding patterns in the structure and function of human language, human prehistory, and the maintenance of the world's diverse ecosystems. Raising awareness about language loss and language diversity will only be successful when meaningful contemporary roles for minority languages can be established, for the requirements

of modern life within the community as well as in national and international contexts. External Specialists and Speech Communities External language specialists, primarily linguists, educators, and activists see their first task as documentation. **[RTP Nov '19]**

Q-7 Language and Gender

The word 'gender' used in two contexts, first for grammatical gender and second biological gender. Language is influenced by gender. Women tend to use more standard language than men (perhaps due to their position in western societies). On the other hand they also tend to be at the forefront of linguistic innovations. A woman tends to good in verbalization.

Ans. Language Vitality and Endangerment

Language endangerment is an alarming situation worldwide. Language teachers should be well trained linguistically and language documentation should be encouraged by state authorities. Similarly, linguists, language activists, and language policy makers have a long-term task to compile and disseminate the most effective and viable mechanisms for sustaining and revitalizing the endangered languages.

Q-8 Read the following passages and write a précis for the same. Follow the basic rules of précis writing while writing.

(1) How does television affect our lives. It can be very helpful to people who carefully choose the shows that they watch. Television can increase our knowledge of the outside world, there are high quality programmes that helps us to understand many fields of study, science, medicine, the arts and so on. Moreover, television benefits very old people, who can't often leave the house as well as patients in hospitals. It also offers non native speakers the advantage of daily informal language practice. They can increase their vocabulary and practice listening.

On the other hand, there are several serious disadvantages of television. Of course, it provides us with a pleasant way to relax and spend our free time, but in some countries, people watch the 'blood tube' for an average of six hours or more a day. Many children stare at a television screen for more hours each day than they do anything else including studying & sleeping. It's clear that the tube has a powerful influence on their lives and that its influence if often negative.

(2) Occasional self-medication has always been part of normal living. The making and selling of drugs has a long history and is closely linked, like medical practice itself, with belief in magic. Only during the last hundred years or so, as the development of scientific techniques made it possible diagnosis has become possible. The doctor is now able to follow up the correct diagnosis of many illnesses-with specific treatment of their causes. In many other illnesses of which the causes remain unknown, he is still limited, like the unqualified prescriber, to the treatment of symptoms. The doctor is trained to decide when to treat symptoms only and when to attack the cause. This is the essential difference between medical prescribing and self-medication. The advance of technology has brought about much progress in some fields of medicine, including the development of scientific drug therapy. In many countries public health organization is improving and people's nutritional standards have risen. Parallel with such beneficial trends are two which have an adverse effect. One is the use of high pressure advertising by the pharmaceutical industry which has tended to influence both patients and doctors and has led to the overuse of drugs generally. The other is emergence of eating, insufficient sleep, excessive smoking and drinking. People with disorders arising from faulty habits such as these, as well as well from unhappy human relationships, often resort to self-medication and so add the taking of pharmaceuticals to the list. Advertisers go to great lengths to catch this market. Clever advertising, aimed at chronic suffers who will try anything because doctors have not been able to cure them, can induce such faith in a preparation, particularly if steeply priced, that it will produce-by suggestion-a very real effect in some people. Advertisements are also aimed at people suffering from mild complaints such as simple cold and coughs, which clear up, by themselves within a short time. These are the main reasons, why laxatives, indigestion-remedies, painkillers, cough-mixtures, tonics, vitamin and iron tablets, nose

drops, ointments and many other preparations are found in quantity in many households. It is doubtful whether taking these things ever improves a person's health, it may even make it worse. Worse, because the preparation may contain unsuitable ingredients; worse because the taker may become dependent on them; worse because they might be taken excess; worse because they may cause poisoning, and worst of all because symptoms of some serious underlying cause may be asked and therefore medical help may not be sought. Self-diagnosis is a greater danger than self-medication.

[RTP May '19]

Ans.

(1) Television: Bane or Boon (Title)

Television affects our lives in several ways. We should choose the shows carefully. Television increases our knowledge It helps us to understand many fields of study. It benefits and people and patients. There are some disadvantages too some people devote a long time to it. Students leave their studies and it distracts their attention.

(2) Self Medication (Title)

Self medication is part of normal living. Medicinal experts are required for diagnosis and treatment of disease according to symptoms and cause.

The development of drug therapy and improvement in public health organizations and nutritional standards have helped progress in medicinal science. Excessive advertising by pharmaceutical companies and emergence of the sedentary society are two counter trends. Self medication is dangerous as the preparation may be toxic or contain unsuitable ingredients, the user becomes dependent and consumes medicine in excess. Self-diagnosis is worse than self medication.

Q-9 Read the following passages and write a précis for the same. Follow the basic rules of précis writing while writing.

(1) The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level [1]The. Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system.

On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods

In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of credits. The current system taxes production, whereas the GST will aim to tax consumption.

(2) A code of business conduct, sometimes called a code of ethics, is a management tool for setting out an organization's values, responsibilities and ethical obligations. The code of conduct provides employees with guidance for handling difficult ethical situations related to the business. Businesses develop their own codes, based on their core values, and no two codes are the same. To be truly effective, the code of conduct must also be embedded in the business, so employees know how it applies to them.

(3) Virtual reality is an artificial environment that is created with software and presented to the user in such a way that the user suspends belief and accepts it as a real environment. On a computer, virtual reality is primarily experienced through two of the five senses: sight and sound. The simplest form of virtual reality is a 3-Dimage that can be explored interactively at a personal computer, usually by

manipulating keys or the mouse so that the content of the image moves in some direction or zooms in or out. More sophisticated efforts involve such approaches as wrap-around display screens, actual rooms augmented with wearable computers, and haptics devices that let you feel the display images.

[RTP Nov '18]

Ans.

(1) One Tax for all: GST (Title)

Goods and Service Tax (GST) is a complete tax structure of an indirect form, levied on manufacturing and sale of goods and services. It aims to combine all taxes into one, thus reducing the burden of the consumer. GST unifies the market sector throughout the country with the aim to tax consumption and not production.

(2) Code of Ethics: in Business (Title)

Code of Ethics is a management tool that helps an employee understand the organization's values, responsibilities and moral obligations. Each organization is entitled to have its own code and should teach its employees to implement the same.

(3) More on Virtual Reality (Title)

Virtual reality is a technology-based concept that allows the user to believe what is shown to him and accept it as reality. Primarily based on the sense of sight and sound, virtual reality builds a 3-D image or displays an augmented set up on screen to enable the user to get a real time feel of the artificial environment thus created.

Q-10 Read the following passages and write a précis for the same. Follow the basic rules of précis writing while writing.

(1) At some point in our lives, we tend to turn to prayer, seeking divine blessings, to overcome problems. When the problems don't go away, we attribute these problems to our destiny and look for solutions from external sources of power. According to Lord Krishna, out of the four categories of people, Aarta (the sufferers), Jignyanshu, seeker of the truth; Arthaarthi, seeker of materialistic benefits and finally, Jnani, the wise; it is the wise whose quality of prayer is pure as it happens in a higher realm of consciousness.

Prayer is a dynamic phenomenon and its complexities need to be understood properly. It is a process to connect with the Universal source of energy, which is our life force. People sometimes complain that their prayers are not always answered. So they resort to other sources of power to get blessings and protection.

(2) The issue of war and peace has always been a focal issue in all periods of history and at all levels and relations among nations. The concern of the humankind for peace can be assessed by taking into account the fact that all religions, all religious scriptures and several religious ceremonies are committed to the cause of peace and all these advocate an elimination of war. The Shanti Path recited by the Hindus, the sermons of Pope and the commands of all the holy scriptures of the Christians, Muslims, Hindus, Sikhs and all other communities hold out a sacred commitment to peace.

Yet the international community fully realized the supreme importance of the virtue of peace against the evil of war only after having suffered the most unfortunate and highly destructive two World Wars in the first half of the 20th century. The blood soaked shreds of humanity that lay scattered in several hundred battle grounds, particularly on the soils of Hiroshima and Nagasaki, cried for peace, peace and peace on the earth.

[RTP May '18]

Ans.

(1) What is a Prayer? (Title)

A prayer is a complex phenomenon, which is primarily made use of in times of need. According to the Lord himself, those that are wise make the purest form of prayers. People resort to external help when they feel their prayers are not being answered; the reason unknown to them.

(2) All religions preach Peace on Earth (Title)

All religions across the globe have one common teaching, Peace on Earth. The religious scriptures and ceremonies aim towards eliminating war and spreading the cause of humanity. The realization happened little too late, only after the occurrence of major destructive events like world war and nuclear bombings.

Q-11 Write a précis and give appropriate title to the passage given below. [MTP May '20, 5 Marks]

A decade after the first successful mission to the moon with Chandrayaan-1, the Indian Space Research Organisation successfully launched its sequel, Chandrayaan-2, to further explore the earth's natural satellite. Earlier this year, China landed a robotic spacecraft on the far side of the moon, in a first-ever attempt. Now India is attempting a similar feat-to land its rover Pragyan in the moon's South Polar Region, attempted so far by none. The equatorial region has been the only one where rovers have landed and explored. The launch by itself is a huge achievement considering that it is the first operational flight of the indigenously developed Geosynchronous Satellite Launch Vehicle Mark-III (GSLV Mark-III) to send up satellites weighing up to four tonnes. The orbiter, the lander (Vikram) and the rover (Pragyan) together weigh 3.87 tonnes. Having reached the earth parking orbit, the orbit of the Chandrayaan-2 spacecraft will be raised in five steps or manoeuvres in the coming 23 days before it reaches the final orbit of 150x 1,41,000 Km. it is in this orbit that Chandrayaan-2 will attain the velocity to escape from the earth's gravitational pull and start the long journey towards the moon. A week later, on August 20, the spacecraft will come under the influence of the moon's gravitational pull, and in a series of steps the altitude of the orbit will be reduce in 13 days to reach the final circular orbit at a height of 100 km. The next crucial step will be the decoupling of the lander (Vikram) and the rover (Pragyan) from the orbiter, followed by the soft-landing of the lander-rover in the early hours of September 7. Despite the postponement of the launch from July 16 owing to a technical snag, the tweaked flight plan has ensured that the Pragyan robotic vehicle will have 14 earth days, or one moon day, to explore.

Unlike the crash-landing of the Moon Impact Probe on the Chandrayaan-1 mission in November 2008, this will be the first time that ISRO is attempting to soft-land a lander on the earth's natural satellite. A series of braking mechanisms will be needed to drastically reduce the velocity of the Vikram lander from nearly 6,000 Km and hour, to ensure that the touchdown is soft. The presence of water on the moon was first indicated by the Moon Impact Probe and NASA's Moon Mineralogy Mapper on Chandrayaan-1 a decade ago. The imaging infrared spectrometer instrument on board the orbiter will enable ISRO to look for signatures indicating the presence of water. Though the Terrain Mapping Camera on board Chandrayaan-1 had mapped the moon three-dimensionally at 5-Km resolution, Chandrayaan-2 too has such a camera to produce a 3-D map. But it will be for the first time that the vertical temperature gradient and thermal conductivity of the lunar surface, and lunar seismicity, will be studied. While ISRO gained much with the success of Chandrayaan-1 and Mangalyaan, the success of Chandrayyan-2 will go a long way in testing the technologies for deep-space missions. (The Hindu-Editorial)

Ans. Title- Soaring to the moon

A decade after the first successful mission to the moon with Chandrayaan-1, the Indian Space Research Organisation successfully launched its sequel, Chandrayaan-2, to further explore the earth's natural satellite. Having reached the earth parking orbit, the orbit of the Chandrayaan-2 spacecraft will be raised in five steps or manoeuvres in the coming 23 days before it reaches the final orbit of 150x 1,41,000 Km. Despite the postponement of the launch from July 16 owing to a technical snag, the tweaked flight plan has ensured that the Pragyan robotic vehicle will have 14 earth days, or one moon day, to explore. Unlike the crash-landing of the Moon Impact Probe on the Chandrayaan-1 mission in November 2008, this will be the first time that ISRO is attempting to soft-land a lander on the earth's natural satellite. The presence of water on the moon was first indicated by the Moon Impact Probe and NASA's Moon Mineralogy Mapper on Chandrayaan-1 a decade ago. Though the Terrain Mapping Camera on board Chandrayaan-1 had mapped the moon three-dimensionally at 5-Km resolution, Chandrayaan-2 too has such a camera to produce a 3-D map.

Q-12 Write a précis and give appropriate title to the passage given below. [MTP -April'21, 5 Marks]

There is an enemy beneath our feet - an enemy more deadly for his complete impartiality. He recognizes no national boundaries, no political parties. Everyone in the world is threatened by him. The enemy is the earth itself. When an earthquake strikes, the world trembles. The power of a quake is greater than anything man himself can produce.

But today scientists are directing a great deal of their effort into finding some way of combating earthquakes, and it is possible that at some time in the near future mankind will have discovered a means of protecting itself from earthquakes. An earthquake strikes without warning. When it does, its power is immense. If it strikes a modern city, the damage it causes is as great as if it has struck a primitive village. Gas mains burst, explosions are caused and fires are started.

Underground railways are wrecked. Buildings collapse, bridges fall, dams burst, gaping crevices appear in busy streets. If the quake strikes at sea, huge tidal waves sweep inland. If it strikes in mountain regions, avalanches roar down into the valley. Consider the terrifying statistics from the past 1755: Lisbon, capital of Portugal - the city destroyed entirely and 450 killed. 1970: Peru: 50,000 killed.

In 1968 an earthquake struck Alaska. As this is a relatively under populated part, only a few people were killed. But it is likely that this was one of the most powerful quakes ever to have hit the world. Geologists estimate that during the tremors, the whole of the state moved over 80 feet farther west into the Pacific Ocean. Imagine the power of something that can move an entire subcontinent! This is the problem that the scientists face. They are dealing with forces so immense that man cannot hope to resist them. All that can be done is to try to pinpoint just where the earthquake will strike and work from there. At least some precautionary measures can then be taken to save lives and some of the property.

Ans. Précis

Earthquake - The Great Destroyer

Earthquake is the mankind's deadly enemy. Earthquake strikes all without a distinction of nationality or political affiliation. The power of a quake is greater than that of any man -made weapon of destruction. An earthquake strikes mankind without a warning. A modern city when struck is reduced -to a nibble. A quake strikes plains, seas and mountains causing all round destruction. The quake struck Lisbon in 1755 killing 450; Peru in 1970 killing 50,000; Alaska in 1968 moving it 80 feet into the Pacific Ocean. Scientists are trying to find out means to combat earthquakes, to predict the origin of the quake so that precaution can be taken to save man and property from destruction.

Q-13 Write a precis and give an appropriate title to the passage given below:

These days, it is not unusual to see people listening to music or using their electronic gadgets while crossing busy roads or travelling on public transport, regardless of the risks involved. I have often wondered why they take such risks, is it because they want a sense of independence, or is it that they want to tell everybody to stop bothering them ? Or is it that they just want to show how cool they are? Whether it is a workman or an executive, earphones have become an inseparable part of our lives, sometimes even leading to tragicomic situations.

The other day, an electrician had come to our home to repair iron. We told him in detail what the fault was and needed to be done. But after he left, I found that the man had done almost nothing and iron was not working even after repair. It later turned out that he could not hear our directions clearly because he had an earphone on. Many of such earphones addicts commute by the Metro every day. While one should not be grudge anyone their moments of privacy or their love for music, the fact is 'iPod oblivion' can sometimes be very dangerous.

Recently, I was travelling with my wife on the Metro. Since the train was approaching the last station, there weren't too many passengers. In our compartment, other than us, there were only two women sitting on the other side of the aisle. And then suddenly, I spotted a duffel bag. The bomb scare lasted

for several minutes. Then suddenly, a youth emerged from nowhere and picked up the bag. When we tried to stop him, he looked at us, surprised. Then he took off his earpieces, lifted the bag, and told us that the bag belonged to him and that he was going to get off at the next station.

We were stunned but recovered in time to ask him where he was all this while. His answer was that in the compartment, leaning against the door totally involved in the music. He had no clue about what was going on around him. When he got off, earplugs in his hand, we could hear strains of the song.

[Sugg.-Nov'20, 5 Marks]

Ans. Precis

Title: Ubiquitous Earphones and Probable Risks / Risks of Earphone

People are hooked to gadgets so much so that they use them while travelling and even crossing roads. Possible reasons are that they do not want to be bothered or they want to project themselves as being tech-savvy. Almost everybody is seen with earphones on, busy in their own virtual world, oblivious to the real world around. This leads to unexpected and serious events occurring in the most mundane situations. Skilled labour like electricians with the earphones on, do not pay heed to instructions thus do not deliver as per expectations, wasting precious man-hours and efforts. In public transport such as Metro, carefree passengers recklessly keep their luggage in any random corner. While they are engrossed in music, comfortably dozing off during travel, their unattended luggage sometimes leads to alarming situations such as bomb hoax causing an unnecessary ruckus and severe inconvenience to other commuters.

Q-14 Write a précis and give appropriate title to the passage given below. **[MTP.-March'21, 5 Mark]**

When Martin Luther King, Jr. was in high school, he won an oratorical contest sponsored by the Negro Elks. He and a beloved teacher were returning home in triumph, riding on a bus, when some white passengers got on. The white bus driver ordered King and his teacher to give up their seats, and cursed them. King wanted to stay seated, but his teacher urged him to obey the law.

They had to stand in the aisle for the 90 miles back to Atlanta.

"That night will never leave my memory," King told an interviewer, decades later. "It was the angriest I have ever been in my life." And King is an example of someone who showed a kind of genius for turning that emotion into positive action. "My father was extremely angry from that incident. So much so that he expressed it later on by saying that he came very dangerously close, at that particular time, to hating all white people," says Bernice King, who now runs The King Center in Atlanta.

As he grew older, and went to college and theological school, Martin Luther King, Jr. realized that non-violent resistance offered a way to channel anger into positive forms of protest. "If you internalize anger, and you don't find a channel, it can destroy you," she says. "That's why when Daddy reiterated, 'Hate is too great a burden to bear,' he knew it was corrosive and erosive."

Though King became an icon of non-violence and peace, he also inwardly wrestled with anger and, at times, would snap at those he loved. Looking at how King dealt with anger reveals its dual nature—how it can be a motivating force for change, while also containing the potential for destruction.

Ans. Precis: Title Martin Luther King Junior: Icon of non-violence

Martin Luther King Junior recalled an incident during an interview decades later, how he and his teacher were forced to vacate the seats and were cursed by the driver of the bus when a few white passengers had boarded. He confessed that he had never been angrier in his life. During his college days he channeled his emotion into non-violence as positive means of expressing his dissidence against the discrimination from the white community. He realized that hatred is destructive .While he grappled with his anger, he found a way to contain it and went on to become an icon of non-violence.

Q-15 Write a precis and give appropriate title to the passage given below:

Gratitude implies thankfulness or an appreciation of benefits conferred together with a desire, when practicable, to return those benefits. It should be distinguished from thanks, which is too often a matter of words and not accompanied by a feeling of thankfulness or by those actions which indicate a grateful mind. The grateful man feels joy at the kindness of his benefactor and cultivates a respect that is akin to love.

In almost all the relations of ordinary life the feelings of gratitude should be aroused. The child owes thanks to his parents for food, clothes, education and tender care; the scholar to his teachers for the training of his intelligence; personal friends to one another for mutual services.

The frequent use of the phrase, "Thank you," though often not more than a polite convention, nevertheless shows the universal belief in the necessity for cultivating a grateful attitude towards those who do something for us, however small that service be.As Citizens, there are few who have no cause to be grateful. Great generals who have given devoted service gratuitously, statesmen, poets and philosophers, all those who have stood for right, justice and freedom of thought, have conferred inestimable benefits upon their countrymen.

When deeds are impossible, the expression of thanks is the best that can be done. The inscriptions on the tombs and monuments erected by a nation to its great men are an expression of thanks in words. As for deeds, an old story will serve as an excellent illustration. An old man was found planting fruit trees by a friend who came to him and said, "Why do you plant trees, the fruit of which I enjoy. I now plant trees that those who come after may enjoy fruit." '

In conclusion, no good man wishes to give pain, especially to those who have done him good. The ungrateful man hurts the feelings of his benefactor and cannot, therefore, be a good man.

[Sugg.-Jan'21,5 Marks]

Ans. Precis

Title: Attitude of Gratitude

Gratitude means being genuinely thankful or showing heartfelt appreciation for those who have helped you in need and readiness to reciprocate the kindness. Conventionally,'Thank You' is used frequently to show politeness. Yet a grateful attitude should becultivated towards those who do even a small service for us. There are many army Generals, statesmen, poets and philosophers who have selflessly contributed their services. As a token of gratitude, monuments and inscriptions are erected to commemorate their service. Practically, one can plant trees so that the later generations can enjoy the benefits. A conscientious individual would always wish well for everyone without any expectations.

NOTE: Precis should be one third of the given text.

Q-16 Write a précis and give appropriate title to the passage given below. **(MTP-Nov'21, 5 Marks)**

English education and English language have done immense goods to India, in spite of theirglaring drawbacks. The notions of democracy and self-government are the born of Englisheducation. Those who fought and died for Mother India's freedom were nursed in the cradle ofEnglish thought and culture. The West has made contribution to the East. The history of Europehas fired the hearts of our leaders. Our struggle for freedom has been inspired by the strugglesfor freedom in England, America and France. If our leaders were ignorant of English and if theyhad not studied this language, how could they have been inspired by these heroic struggles forfreedom in other lands? English, therefore, did us great good in the past and if properly studiedwill do immense good in future.

English is spoken throughout the world. For international contact our commerce and trade, for thedevelopment of our practical ideas, for the scientific studies, English-is indispensable "English isvery rich in literature," our own literature has been made richer by this foreign language. It willreally be a fatal day if we altogether forget Shakespeare, Milton, Keats and Shaw.

Ans. Title: The Goodness of English

Notwithstanding its various defects English education has done great good to India. The ideas of democracy and self-government are its gifts. Nursed on English education the Indian leaders were inspired by the Western thought, culture and freedom struggles. They fought for and won their motherland's freedom. Being spoken the world over, English is necessary for international contact, trade, commerce and science. English is rich in literature and has enriched our literature as well.

Q-17 Write a précis and give appropriate title to the passage given below. **(MTP-Oct'21, 5 Marks)**

Liberalism is founded on the belief in human liberty. Unlike rats and monkeys, human beings are supposed to have "free will". This is what makes human choices the ultima te moral and political authority in the world. If you happened to be amid the riots in Washington on the day after Martin Luther King was assassinated, or in Paris in May 1968, or at the Democratic party's convention in Chicago in August 1968, you might well have thought that the end was near. While Washington, Paris and Chicago were descending into chaos, the Soviet system seemed destined to endure forever. Yet 20 years later it was the Soviet system that collapsed. The clashes of the 1960s strengthened liberal democracy, while the stifling climate in the Soviet bloc presaged its demise.

Ans. Human liberty defines liberalism. The concept of "free will" is exclusive to humans and gives us moral and political authority.

During the 1960s, liberalism was undergoing a crisis in the West. Contrasted with the chaos in liberalism, the illiberal system in the Soviet Union seemed to be flourishing. However, in a matter of two decades, it was the Soviet system that collapsed, while liberal democracy strengthened by adapting itself.

Q-18 Write a precis and give an appropriate title to the passage given below :

Naval architects-never claim that a ship is unsinkable, but the sinking of the passengerand-car ferry Estonia in the Baltic surely should have never happened. It was well designed and carefully maintained. It carried the proper number of lifeboats. It had been thoroughly inspected on the day of the voyage. Yet, hours later, the Estonia rolled over *and sank in the cold, stormy night. It went down so quickly that most of those on boa rd,* caught in the dark, flooding cabins had no chance to save themselves: Of those who managed to scramble overboard, only 139 survived. The rest died of hypothermia before the rescuers could pluck them from the cold sea. The final death toll amounted to 912 Souls. However, there were an unpleasant number of questions about why Estonia sank and why so many survivors were men in the prime of life, while most of the dead were woman, children and the elderly.

(Sugg-July'21, 5 Marks)

Ans. Sinking of Estonia/ The Deadly Voyage

The passenger-and-car ferry Estonia sank in the Baltic. Despite being well designed, carrying enough lifeboats and being duly inspected on the fateful day of the voyage, it went down quickly in the cold and stormy night. Only 139 people largely men in the prime of their life survived, while 912 people majority being women, children and the elderly died of hypothermia.

Q-19 Write a Précis and also give an appropriate title for the passage given below. **(MTP May 22, 5 marks)**

Speech is a great blessing but it can also be a great curse for while it helps us to make our intentions and desires known to our fellows, it can also, if we use it carelessly, make our attitude completely misunderstood. A slip of the tongue, the use of an unusual word, or of an ambiguous word, and so on, may create an enemy where we had hoped to win a friend.

Again, different classes of people use different vocabularies, and the ordinary speech of an educated man may strike an uneducated listener as pompous. Unwittingly, we may use a word which bears a different meaning to our listener from what it does to men of our own class. Thus, speech is not a gift to use lightly without thought, but one which demands careful handling. Only a fool will express alike to all kinds and conditions of men.

Ans. **Think before you speak!** Or **Mind your words!**

Speech can be a blessing or a curse depending on how we use it. A wrong choice of word can make a foe instead of a friend. A strong vocabulary might imply something different to our listener based on classes and knowledge of words. Hence, speech is a special gift to be used wisely. Only a fool would use words alike in front of all men and in all situations.

Q-20 Write precis and give appropriate title to the passage given below:

The most alarming of man's assaults upon the environment is the contamination of air, earth, rivers and sea with lethal materials. This pollution is for the most part irrevocable; the chain of evil it initiates is for the most part irreversible. In this contamination of the environment, chemicals are the sinister partners of radiation in changing the very nature of the world; radiation released through nuclear explosions into the air, comes to the earth in rain, lodges into the soil, enters-the grass or wheat grown there and reaches the bones of a human being, there to remain until his death. Similarly, chemicals sprayed on crops lie long in soil, entering living organisms, passing from one to another in a chain of poisoning and death. Or they pass by underground streams until they emerge and combine into new forms that kill vegetation, sicken cattle, and harm those who drink from once pure wells.

It took hundreds of millions of years to produce the life that now inhabits the earth and reached a state of adjustment and balance with its surroundings. The environment contained elements that were hostile as well as supporting. Even within the light of the sun, there were short-wave radiations with power to njure. Given time, life has adjusted and a balance reached. For time is the essential ingredient , but in the modern world there is no time.

The rapidity of change and the speed with which new situations are created follow the heedless pace of man rather than the deliberate pace of nature. Radiation is no longer the bombardment of cosmic rays: it is now the unnatural creation of man's tampering with the atom. The chemicals to which life is asked to make adjustments are no longer merely calcium and silica and copper and all the rest of the minerals washed out of the rocks and carried in the rivers to the sea; they are the synthetic creations of man's inventive mind, brewed in his laboratories, and having no counterparts in nature.

(Sugg-Dec'21, 5 Marks)

Ans. Précis

Title: Mankind : The destroyer of nature's balance/legacy / Chemicals: Boon or Bane for environment / Chemicals: Threat to Mankind Mankind has polluted air, water and earth with life threatening materials. The irreversible damage caused to the environment is due to chemicals that find their way into the soil and vegetation through acid rain led by nuclear explosions. Chemicals sprayed on crops seep through into the underground water streams and wells, causing deadly diseases in cattle and humans alike. As humans we must realize that the evolution of life in its current form that is in perfect sync with nature took millions of years. Man is destroying this natural balance at a frantic pace by polluting nature with radiations and toxic synthetic materials that are non-biodegradable.

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Chapter 8
Article Writing

Q-1 Write an article of about 250 words on the topic, "The Importance of water conservation".

(Past Paper-Nov. '19, 5 Marks)

Ans. **Article: The Importance of Water Conservation**

-By ….. (Writer's name)

Water is one of the three basic resources for the survival of human kind besides air and food. More than 90 percent of human body is composed of water. Though water is abundantly available on our planet, with 2/3rd of earth covered by water, still fresh, clean water is a limited resource. Rivers, fresh water lakes, waterfalls, natural springs, ground water and rain are the natural resources of fresh water.

With indiscriminate rise in human population worldwide, the pressure on these natural resources has increased manifold. In many developing countries, due to incessant industrialization leading to exponential rise in migration to big cities/townships, contamination of ground water and rivers has not only led to scarcity of pure drinking water but also emerged as a serious health hazard.

Over reliance on ground water and rivers for construction/infrastructure development projects in urban areas and little or no awareness about water conservation has led to fast depletion of these natural resources. It is about time we realized the importance of clean water as water tables are fast declining, rivers and lakes are drying or being polluted/contaminated especially in thickly populated urban areas such as New Delhi, Hyderabad and Bangalore. According to a study these urban areas will have little or no ground water left that will lead to a drought like situation in a few years time.

As progressive citizens, we must take immediate measures to not only restrict our water consumption but also devise innovative conservation methods to provide sustainable sources of clean drinking water. While Rain water harvesting and reducing water consumption are effective methods of water conservation in urban areas, construction of small dams to provide huge water reservoirs holds the key to effective water conservation in rural areas.

Q-2 Write an article of about 250 words on the topic ''The Fearless Indian Army":

(Past Paper-May '19, 5 Marks)

Ans. **The Fearless Indian Army**

The Indian army is undoubtedly one of the finest armies in the world. Since prehistoric to modern times the Indian soldiers are one of bravest, fighting both for homeland as well as for ensuing peace even on foreign lands such as peace keeping force in Sri Lanka.

Our soldiers never surrendered before enemies. Their motto has always been 'do or die'.

During Indo- china war of October – November, 1962 and later on in the Indo-Pak war of September 1965, one Indian Soldier killed many soldiers of enemy armies on various fronts. During the World war II the Indian soldiers proved their mettle on the foreign land of Europe' Africa and the Korea on various missions.

The Indian army has proved their superiority whenever the neighboring country Pakistan challenged us. The Kargil war In 1999 was triggered by the spring and summer incursion of Pakistan backed armed forces into territory on the Indian side of the LOC around Kargil in State of Jammu & Kashmir. The Indian

forces were prepared for a major high altitude offensive against Pakistani posts along the border in the Kashmir region. India had to move five infantry divisions, five independent brigades and 44 battalions of paramilitary troops to Kashmir. The total Indian army troop strength in the region reached to 7,30,000. The build-up included the deployment of around 60 frontline aircraft. The Indian army campaign to repel the intrusion left 524 Indian soldiers dead and 1,363 wounded, as per the data released by then Indian defence minister Shri George Fernandez on December 01, 1999.

Q-3 Write an article of about 250 words on the topic "Global warming". **[Past Paper-May '18, 5 Marks]**

(c) Ans. The retention of extra heat by the Earth is known as Global warming. It is basically an increase in the amount of greenhouse gases in the air that results in more heat being trapped in the atmosphere. The green houses gases include carbon dioxide, methane, water vapour and ozone. This leads to an overall rise in the surface temperature of the Earth.

The temperature of the Earth has increase by about 1-2 degree Fahrenheit in the last 100 years and is continuing to increase further. The warming has led to the decrease of cold nights and increase in warm/summer days. Melting glaciers is also a result of global warming.

The amount of carbon di oxide in air has been increasing at an alarming rate. The main cause of this increase being burning of fossil fuels and deforestation. Production, distribution and combustion of fossil fuel also results in the emission of methane gas.

As responsible citizens of the Earth, we must take measures to curb the problem of global warming and save the environment. Use of renewable sources of energy, like solar energy should be promoted. Solar heater, solar cooker, solar coolers are some devices that run on the energy captured from the Sun. Farmers should be encouraged to use natural fertilizers that provide better yields and are environment friendly. Children in school should participate in 'plant a tree' campaigns. Afforestation is an easy and simple step towards saving our environment. Air pollution should be checked, probably by making catalytic inverters compulsory for all vehicles.

If the above measures are followed and every individual pledges to keep the environment clean, problems like global warming can be under control. Let us all pledge to GO GREEN.

Q-4

(1) Scheme of Indian Government for Women empowerment

(2) Language is species specific **[RTP May '20]**

Ans.(1)

- The government has initiated many schemes for safety of women.
- BetiBachaoBetiPadhao Yojana: This scheme was launched in Panipat, Haryana on January 22, 2015.
- Mahila-E-Haat: It is a bilingual online marketing platform which is launched by the Ministry of Women and Child Development in 2016.
- Mahila Shakti Kendra: It was launched to empower rural women with opportunities for skill development, employment, digital literacy, health and nutrition.
- Working Women Hostel: It was launched to ensure availability of safe, convenient for working women who has less than 50K/month income in metropolitan and 35K/m in any other place.
- Support to Training and Employment Programme (STEP): It was set up to provide skills, competencies and training to become entrepreneurs.
- Sukanya Samriddhi Yojana: It is a government-backed saving scheme for girl children.

(2)

- Only human beings possess language.
- Non-human has various degrees of the communication system.
- Language is a biological gift to human beings.

- Animals may have few words or a limited range of domains.
- Human language is creative and unpredictable.
- Human being has a phonological and grammatical system.
- A human being can create and understand new utterances.
- A human being can refer to the past.
- A human being can teach or learn a language.
- Some non-human species have a system of sounds.
- Chimpanzees are able to learn human sign language.

Q-5

(1) Online Payment on a high after demonetisation

(2) Unemployment: A blot to Indian economy **[RTP Nov '19]**

Ans.

(1) On Nov.8, 2016- govt. announced discontinuation of Rs. 500 and Rs. 1000 notes.

- The move forced people to use options such Internet banking, mobile banking, credit and debit cards, mobile wallets and other prepaid payment instrument.
- Digital transactions have grown by 400 to 1000%.
- This figure does not include transactions done through Master and Visa cards.
- People to be educated about digital payments through websites and television.
- Increased transactions on e-wallet.
- Volume of transcations using Rupay card has increased from 3.85 lakh per day to 16 lakh per day.
- These digital transactions will ensure money comes into the system.
- All money/transactions will be accountable. They will generate tax, thus developing the country's economy.
- The government will develop better welfare plans when money will be deposited in banks.

(2)

- The world economy is facing 2 major challenges- unemployment and poverty.
- Financial crisis caused by unemployment leads to an overall purchasing power resulting in poverty followed by an increasing burden of debt.
- In India, the problems of underemployment, unemployment and poverty have always been the main hindrances to economic development.
- Another colossal problem is the large population.
- A critical aspect is the regional disparity.
- Mass migration from rural to urban regions is adding to the problems of unemployment and poverty.
- Economic reforms, changes in the industrial policy and better utilization of available resources will reduce the problem.
- The government must initiate long term measures for poverty alleviation.

Q-6 Write an article on the following topics. (Word limit: 300 words)

(1) Importance of Trees

(2) Obesity: A growing health hazard amongst youth **[RTP May '19]**

Ans.(1)

- Cleanse the environment

- Trees provide oxygen
- Prevent soil erosion
- Preserve the ecosystem
- Important part of the food chain
- Provide home remedies for certain ailments (trees like neem, eucalyptus,)
- Provide food and habitation for birds and small animals
- Commercial use of trees: timber, rubber, resins, oils etc.
- Environmental hazards caused by cutting of trees
  - Disturbs the ecological balance
  - Global warming
  - Threatens biodiversity

(2)

- Causes of obesity
  - Erratic eating habits
  - Erratic sleeping pattern
  - Stress due to competition in studies
  - Junk food consumption
  - Not having balanced diet
  - Sedentary lifestyles
  - Lack of proper exercise
- **Remedies**
  - Follow proper regimen
  - Having home cooked food at regular intervals
  - Avoiding fatty foods and sugar rich drinks
  - Including fruits and vegetables in diet
  - Play a sport
  - Regular walks

Q-7 Write an article on the following topics. (Word limit: 300 words)

(1) Growing health problems in the youth today: Causes and Consequences.
Include words: lifestyle, lethargy, physical work, internet, obsession

(2) Discuss about the repercussions of allowing students in school to have a feedback system for their teachers

(3) Let's change the environment by…….. **[RTP Nov '18]**

Ans.(1)

- Causes of health issues: a crisp list
- Office work
- Lifestyle
- Eating habits
- Growing economy
- Money splurge
- Effects: direct effects
- Diseases

- Physical health issues
- Strain on eyes
- Young deaths

(2)

- School children till class 8th not very mature
- Decision making skills are poor
- Not suitable for them to judge elders, especially teachers
- Lot of misunderstanding happens at that age
- Do not accept criticism easily
- Students of class 9th to 12th are better.
- They can have a feedback system.
- Have grown with certain values and understanding of life
- Hence capability of differentiating between right and wrong.
- Feedback gives a power which should not be misused, for personal grudge

(3)

- A very open ended topic.
- Environment needs a little more care and concern.
- The world can definitely be a better place to live
- Reduce, Reuse, Recycle
- A community effort is required
- Sincere efforts of keeping the surroundings clean

Q-8 Write an article on the following topics. (Word limit: 350-400 words)

(1) Discuss the pros and cons of the Demonetisation policy.

(2) Do we need a dress code in offices? **[RTP May '18]**

Ans.(1)

- What is demonetisation?
- What was the aim behind implementing it?
- What were the immediate causes?
- What are the expected long term effects of this new policy?
- How well has it been accepted in the public?
- Expected pros and cons, in the student's personal opinion.

(2)

- Need for a discipline
- Need to follow a protocol
- Need to be independent
- Moral policing
- Relates to the work profile
- Free society, 21 st century

Q-9 Write an Article in 250-300 words on the topic **'Seeking Excellence'** **[MTP April'21, 5 Mark]**

Ans Article Hints: 'Seeking Excellence'

- Excellence is the quality/virtue of being outstanding or extremely good
- Giving your 100% in whatever you attempt
- How to achieve excellence
  - Determine what you want to achieve

- ➲ How earnestly you want it.
- ➲ Benchmark against the best.
- ➲ Believe that you can do it.
- ➲ Build concrete strategy & plans.
- ➲ Learn from the best.
- ➲ Do not limit yourself.
- ➲ Work really hard.
- ➲ Focus your efforts.
- ➲ Be adaptable.
- ➲ Never give up.

Q-10 Write an article of about 250 words on the topic. "The Pleasures of reading". **[Sugg-Jan'21, 5 Marks]**

Ans. **The Pleasures of Reading**

By: XYZ

Ever since humankind invented the printed word, reading has been a learning exercise for some, pastime for many others. Undoubtedly, reading whets our quest for knowledge, our imagination and evokes a spectrum of emotions, thus offering instant gratification and pleasure.

Few can deny the joy of reading the daily newspaper while enjoying a cup of tea in the mornings, an ultimate start to a great day. It's a daily ritual we would not like to miss for anything. Who doesn't get glued to the highpoint or climax of a novel.It transcends us into a surreal world, away from the harsh realities where we slip into our favorite character etched out straight from the novel and become a part of the narrative, going through the whole gamut of emotions from respect to affection, pain to joy, despair to hope, failure to success and fulfillment. It induces heightened feelings of fear, suspense and adventure raising the adrenaline rush. The sheer delight of reading a piece of poetry laden with eloquence, rhythm and soul stirring emotions makes us feel high. While reading informative articles, journals and technical books develop our intellectual capability by enriching our knowledge and enhancing our analytical skills and critical thinking, creative and descriptive pieces enhance our vocabulary, expression and creative writing skills. On the lighter note, reading satire and comic pieces tickle our ribs and relieves stress.

Reading makes us aware of our emotional self and sensitizes us to appreciate feelings of others. It enlightens our mind and soul and makes us a better human being. We must inculcate the habit of reading everyday.

Q-11 Write an Article in 250-300 words on the topic **'Medical Tourism in India'.** **[MTP.-March'21,5 Marks]**

Ans. **Article Hints:**

- ▶ World class Health care readily available across India
- ▶ Specializes in prognosis, diagnosis, treatment and therapeutical care.
- ▶ India leading player in healthcare infrastructure, research, pharmaceuticals and post trauma care
- ▶ Hub of generic medicines, vaccines and hi-tech medical equipment.
- ▶ Affordable prices as compared to developed countries
- ▶ Experienced doctors and highly skilled medical staff
- ▶ Specialized care for serious diseases viz. cancers, complicated heart surgeries and rare transplants
- ▶ Special care facilities for infants, elderly and the differently abled
- ▶ Easy visa norms
- ▶ Affordable cost of living for a prolonged stay

Q-12 Write an article of about 250 words on the topic, "The Pros and cons of online education in India".

[Sugg.-Nov'20,5 Marks]

Ans. **The Pros and Cons of online education in India** By S. Kumar

Online education in India, though not a new concept in higher education has become an inevitable reality for learners across the board at all levels including school colleges and universities. The recent paradigm shift in knowledge delivery from a physical classroom to a virtual one due to the sudden onslaught of COVID-19 pandemic has raised many a debate about the efficacy of online learning and credibility of courses offered.

There are many advantages of online learning, foremost is the flexibility and convenience of time and place. One can pursue course contents anytime, anywhere just using their smart devices. Short term courses can be pursued by enthusiastic learners ranging from enhancing their skills in communication, team dynamics and leadership to learning new languages, IT programming, online accounting software solutions and many others. These courses are much more cost effective as compared to regular class-room courses thus economically viable to a large spectrum of learners. Such courses inculcate discipline, responsibility, commitment and focus.

Before signing up for one, accreditation, relevance and contents of these courses must be duly verified and checked. Since there is little or no one-on-one interaction with the teachers, it may lead to learning gaps. With hardly any stipulation or protocol, most learners may lose interest or focus, may quit the course before completion or defer the end term exam, defeating the purpose of joining.

Online learning poses many constraints for young school children. They are not able to develop many skills that they would in a physical classroom such as interaction with peers and following instructions. Practical experiments which are integral to the senior school curriculum are difficult to demonstrate and explain. Therefore, online education is an effective mode of learning for mature and conscientious learners only.

(Source……)

Q-13 Write an Article of about 250-300 words on the topic '**Sports in India in present times'**

(MTP-Nov'21, 5 Marks)

Ans. Answer Hints:

1. Sports being now considered as a career option
2. Government spending on sports has increased considerably
3. Promising youngsters are being sponsored by the centre/state government for specialized training programmes.
4. Sports related infrastructure, academies and coaching facilities being provided at the school / college level
5. International exposure being provided to young achievers to nurture their talent and enhance their capabilities.
6. Special quota for sportspersons in academics and jobs
7. Sportspersons considered as role models, social change makers, influencers
8. Sportspersons bag plum advertising assignments
9. They are respected by all in the civic society as achievers.
10. Achievements of our sportsmen in the recent Olympics and Paralympics

Q-14 Write an article of about 250 words on the topic 'Covid' Certificate must for attending. Parliamentary session. **(Sugg-July'21, 5 Marks)**

Ans. **Covid Negative Certificate must for attending Parliamentary Session**

By Mr./Ms. BNM

Covid -19 has adversely affected institutions, industries and businesses across the board from schools to colleges/universities, from recreation to travel and hospitality, from manufacturing to services. The business of the parliament is no exception. It is all the more important rather critical to keep the Parliament running as issues of paramount significance ranging from economy to public welfare to national security are discussed, debated and decided. Moreover, each day of the Parliament costs the exchequer a huge amount.

In order to prevent the disruption of Parliamentary sessions, certain safety protoc ols have been stipulated keeping in mind the health condition of the Members, Visitors and the Press covering the sessions.

All Members/attendees will need to have a **COVID-19 negative certificate vide notification xx/xx/xxxx** to enter the premises in the current and subsequent sessions till further change in notification. The test needs to be done 72 hours before the commencement of the session. Those Members/attendees who have been unable to undertake the test will be required to do so on the day they arrive at the Parliament's reception. They will be allowed to enter only if their **Rapid antigen test** comes out negative. In case staff or family of a member tests positive, the member will have to s elfquarantine for 14 days. The members will have to wear masks at all times, even during discussions/debates and maintain social distancing. Members/attendees should avoid going out of the Parliament during the course of a day's proceedings unless necessa ry.

Parliamentary papers will be circulated digitally; hard copies have been discontinued. Members have been requested to avoid calling visitors unless necessary. The Parliament canteen would offer only packed meals, tea and coffee during the course of the session.

(Source…….)

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Chapter 9
Report Writing

Q-1 Draft Newspaper Report on "Flood. situation grim in· southern, western states" to be published in a National newspaper. **[Past Paper-Nov. '19, 5 Marks]**

Ans. **Flood situation grim in Western, Southern Indian states:** With heavy downpours, up to 330 mm, the flood situation continues to worsen particularly in the western and southern states of Maharashtra, Gujarat, Karnataka and Kerala. Over 500 people have died in landslide, deluge related incidents, thousands have gone missing, as many as 40 lakh people have been displaced and over 8 lakh people have been moved to relief camps in these states. Almost half a metre of rain fell in Vadodara alone in the last 24 hours, disrupting railways and air routes. Major rivers viz. Krishna and Tungabhadra are flowing at record high levels creating severe to extreme flood situation in the states. Red alert has been issued in most of these areas. The recent floods have damaged crops over 10 lakh hectares of land in Maharashtra, Karnataka and Kerala making survival even more difficult. According to the meteorological department, the situation is likely to improve in the days to come with meager or intermittent rains.

Union Home Minister has carried out an aerial survey of the worst affected areas and the Prime Minister has declared immediate monetary relief to these states. Campaigns are being carried out to appeal to masses in other states to contribute to the mass relief operations. Several NGOs and non profit agencies have join hands with the army in carrying out immediate relief operations in worst hit areas. Their volunteers are propagating the message through social media to collect clothes, food and funds for those stranded after deluge. To contribute to the Prime Minister's Disaster Relief Fund you may directly transfer funds through

NEFT details are as under:

Favour of: PM's Relief Fund

Account No.:

IFSC code::

Source: Press Trust of India.

Q-2 Draft Newspaper Report on "Six Lane highway connecting two states inaugurated" to be published in a national newspaper. **[Past Paper-May '19, 5 Marks]**

Ans. **Six Lane Highway Connecting Two States Inaugurated**

Indian Express

Anpara (UP), Feb 01, 2019.

The honourable Chief Minister of the Uttar Pradesh Mr. XY inaugurated the all new six lane highway between the States of Uttar Pradesh and Madhya Pradesh on 01st Feb, 2019. The six lane highway ranging 65 kilometers has been completed by Highway Authority of India at a record period of 24 months. The Highway will connect Anpara (U.P.) with Satna (M.P.).

T he chief Minister in his inaugural speech said "the need that was being felt for the several years for a highway that shall connect the bordering areas of the two biggest States of India. I personal thank the local people who have given their land for construction of the highway".

The Highway has been constructed with an approved width of 43.6 Meters with speed limit indicators; caution indicators at every 6 Kilometers of the route. Energy saving LED lights have been put up at both sides of the Lanes so that perfect visibility of the road can be ensured at nights. The Toll Plaza has been set-up at 35 kilometers from Anapara near Shakti Nagar (U.P.)

The Six Lane Highway shall encourage the journey of the local people by road, thus reducing the traffic load on railways. The communication of commercial traffic shall be facilitated which will significantly reduce the time required earlier for the above purpose.

Source: PTI

Q-3 Write a Newspaper Report in 250 words on the topic:
"Daughter of Gardener Tops Board Exams." **[Past Paper-Nov '18, 5 Marks]**

Ans. **Report**

"Daughter of a Gardener Tops Board Exams"

Monday June 25, 2018

Sitting in a dingy servant quarters of a sprawling government bungalow in Lodhi Estate, Priya Kumari cannot stop smiling. Priya, daughter of a gardener Mr. Ram Swaroop, a class IV government employee has topped the class XII CBSE Board Examination in the humanities stream. She secured 98.8% marks. A student of Rajkiya Kanya Pratibha Vidyalaya, Sardar Patel Marg, is visibly elated. Eldest of the three siblings, she has always been a bright student, remarked her mother who prepared her daughter's favourite laddoos as the news broke. Her father is proud at her achievement and wants her to become an IAS officer.

Just a month into class XII, she had taken seriously ill with Meningitis that kept her bed ridden for two months. Her Principal granted her medical leave and allowed her to file her exam forms from the hospital. After resuming classes, she completed her pending assignments with the help of her teachers in a month and soon caught up with her peers. "we were confident that she would top in the region(Northern) but topping the Board exams nation-wide, came as a pleasant surprise", quipped one of her teachers. Talking about her daily regimen, she said "I studied regularly for about 5 hours daily after school and often stayed back to study at the school library." She attributes her success to her unflinching spirit , hard work and support of her parents, teachers and principal. Priya plans to pursue English Honours from Lady Sriram College and aspires to fulfil her father's dream by becoming an IAS officer. With her relentless efforts and spirit of steel, she certainly will!

(Staff correspondent)

Q-4 **Write an report on the following topics. (Word limit: 250-300 words)**

(1) Your college organized a visit to SOS family villages for the orphaned. Write a report for your college magazine giving details of the visit.

(2) As the School Captain, write a report for your school magazine, about a career fest held in your school last week. Mention the various universities/institutions that participated, orientation sessions conducted. **[RTP May '19,RTP Nov '18]**

Ans. **Report-1**

- Mention a heading, name of the SOS village
- Date of the visit
- Purpose of the visit
  - Donate rugs and warm clothing for winters
  - Familiarising with the working of an NGO
  - Offering voluntary services like adult education
- Brief description of the family met
- Management officials you met

- Challenges and Hazards of running such a set up
- How to contribute
- Conclusion

Ans. Report-2

- Have a good heading
- Mention the time, date, venue
- Divide the report into three paragraphs:
- What/When/Where/ Who was invited
- Purpose of the event (learn about the career options after school)
- Describe the event in details (name of institutions that participated, orientation sessions organized)
- Enthusiasm in the student community about careers in creative and performing arts
- Conclude with an optimistic view.

Q-5

(1) An NGO working for the cause of the underprivileged had set up a one day workshop in your college. As member of the Organizing committee, write a report for your college magazine giving details of the workshop.

(250-300 words) **[RTP Nov '18]**

Ans. Report-1

- Mention a heading, name of the NGO
- Venue, Date
- The purpose of the workshop
- How many members came from the NGO; how did they go ahead with the workshop
- The audience and its reaction
- Games, pamphlets, information shared during the session.
- Motivational talks
- Conclusion

Q-6

(1) Your college organised a seminar on 'Digital Marketing: an upcoming field in Business'. Write a report for the college magazine, stating the details of the event (250-300 words)

(2) Write a report for a local daily newspaper on Republic Day Celebrations held in ABC school. (250-300 words) **[RTP May '18]**

Ans. (1) Report for College magazine

The Computer Science Department organized a seminar on "Digital Marketing: An upcoming field in business" on (date) at the (venue)

- Chief Guest for the event
- Speakers invited
- Who presided over the event from the college(HOD /Principal)
- Details of the event in chronological sequence
- Key points of the speech delivered by the Chief Guest
- Key points as stated by each speaker
- Valedictory Session
- Vote of thanks

(2) Report for The Newspaper

Hints:

From the local correspondent, B. Nagar,

ABC Senior Secondary School celebrated the Republic Day on Jan 25, 2018 with great fanfare amid colorful display of culture and heritage from across the nation.

- Chief Guest for the event
- Speakers invited
- Who presided over the event from the college (HOD /Principal)
- Details of the event in chronological sequence
    - March past by all the houses the senior school
    - Group Dance performance by Junior school
    - Group Song by the senior school choir group
    - Group Dance performance by senior school
    - Prize Distribution
- Key points of the speech delivered by the Chief Guest
- Valedictory Session
- Vote of thanks

Q-7 Draft Newspaper Report on "Project to interconnect rivers in India" to be published in a national newspaper. **[Sugg.-Nov'20, 5 Marks)]**

Ans. **Project to interconnect rivers in India**

By XXX

India is bestowed with abundant natural water resources in the form of a network of perennial and seasonal rivers flowing across the length and breadth of its landscape. But the lack of homogeneity of water resources has led to large scale research and implementation for water resources development in India in order to boost agricultural production, improve domestic water supply, and address the energy crisis.

The interlinking of rivers in India is an ambitious mega-project in engineering called the National River Linking Project (NRLP). It is in the planning stage that aims to connect Indian rivers through a network of reservoirs canals and dams. This would facilitate transfer of water from surplus regions in the north-east with major rivers i.e. the Ganges and the Brahmaputra, to the water scarce areas of western and southern India. It will connect 37 rivers and will have 3,000 storages.

The project will substantially increase the utilizable water resource and hydropower potential. Other major advantages include prevention of floods striking every year in the Ganga and Brahmaputra region, saving human lives, livelihood, preventing huge material losses and devastation. This will also provide water throughout the year to farmers who will not be dependent on monsoon. The land under irrigation will increase by about 15%. The inland waterway transportation for nearly 15,000 km will be developed.

However, the mammoth mega-project poses a lot of challenges. Apart from an exorbitant cost estimate and the time required, there are various environmental and socio-economic and political challenges and concerns attributed with the project. Clearing the forest and adjoining land earmarked for reservoirs will change the landscape and environment drastically causing irreversible climate changes in the area. Local inhabitants including a sizeable tribal population will have to be rehabilitated, which might be faced with a strong backlash from their leaders and various NGOs. These concerns need to be diligently studied, researched and addressed before the project is embarked upon.

Source: National Water Planning Institute (NWPI)

Q-8 Write a report in 250-300 words on your visit to an **Old Age Home** **[MTP.-March'21, 5 Marks]**

Ans. Report Hints:

- Facilities for the elderly
- Spacious rooms single and twin sharing
- Lush green lawns
- Attendants provided for the needy
- Recreational facilities
- Special yoga classes
- Monthly health check-ups, vaccination for Covid done
- Picnic trips
- Complete Covid care including quarantine facility and medication
- Interaction with staff and occupants
- Dedicated staff
- Homely environment
- Get love, care and affection
- Share experiences
- Playing cricket with the elderly
- Joy of living life to the fullest

Q-9 Write a report in 250-300 words on the rising crime rate in your area. **[MTP-April'21, 5 Mark]**

Ans. **Report: Hints: Rising criminal activity in your area**

- Kind of crimes:
  - Chain snatching
  - Purse snatching
  - Car/2-wheeler theft
- **Reasons:**
  - Miscreants coming from adjoining areas
  - Unemployment due to factories being moved
  - Low rate of education
  - Mushrooming of unauthorized colonies around the area
  - Addiction to liquor and drugs
  - Societal acceptance to crime
  - Local gangs active
  - No street light in small alleys
- **Remedies:**
  - Installation of CCTV cameras
  - Increased surveillance by Police personnel
  - Training and engaging local youth to mobilize information against local goons
  - Police posts to be set up at a distance of every one kilometer
  - Barricading of entry gates to colonies at night
  - Street lights to be installed and to remain on during the night till sunrise

Q-10 Write a report on **'Indian unicorn start-ups IPO launch'** in 250-300 words. **(MTP-Nov'21,5 Marks)**

Ans. Answer Hints:

1. Follow newspaper report writing format
2. Discuss how fast fintech industry is growing
3. Discuss the companies launching their IPOS
4. Valuation of the companies
5. Discuss the reaction of investors
6. Talk about the market scenario
7. Discuss the value of shares
8. Attract FDI,
9. Promising future, creating wealth, employment oppotunities

Q-11 Write a report on 'School Reopen after 1.5 years : Back to School.' in 250-300 words.

(MTP-Oct'21, 5 Marks)

Ans. Answer Hints:

1. Follow newspaper report writing format
2. Discuss the announcement by government about reopening of schools
3. Discuss about briefing to teachers about handling students
4. Name the schools who are starting:
    a. Classes that are starting officially
    b. Dates/Schedules
    c. Safety measure taken by them
    d. The action plan of students
5. What school authorities have to say to parents
6. What are parents concern.
7. Commuting Problems
8. Restricted Activities/Sports
9. Hazards faced by board classes
    - Practicals sessions being conducted hurriedly
    - No extra classes

Q-12 Draft a Newspaper Report on the "Government's decision to open multiplexes after almost a year" to be published in a national newspaper. **(Sugg.-July'21, 5 Marks)**

Ans. **Newspaper Report:**

Government's Decision to open multiplexes after almost a year

By Mr. FGH, Staff Correspondent

Monday xx,xxxx. The state government has allowed single-screen theatres and multiplexes to open at 50% occupancy provided that they follow and strictly adhere to **Covid Safety protocols.** After almost a year of dry run, the cinema theatres get ready for bustling activity in and around the premises. Cinema

Operators who have been out of business for a year, welcomed the decision. Even small businesses in the vicinity heaved a sigh of relief.

Mr. XYZ, President of the Cinema Operators and Exhibitors Association, congratulated the government. He further remarked, "We have suffered huge losses due to lack of business, we were eagerly awaiting the decision." He assured that all the safety protocols with regard to Covid would be strictly followed. Discussing about the preparedness of theatres he informed, "We have already directed the cinema owners to get their staff vaccinated and most of them already have their staff inoculated at least with the first dose. Theatres, canteen facility and public conveniences will be fumigated between shows. Thermal screening and sanitizing to be available at all entry and exit gates."

The cinema owners/operators are optimistic about part recovery of their losses banking on big film releases lined up in the next two months. Avid cinema buffs are equally excited to see their favourite stars on the big screen after a long hiatus **.** They are also seeking relaxation in night curfew so that late night shows can be allowed. The popular multiplex chain in the city ABC has even offered 5-10 % discount for the audience who have been inoculated with both the doses. However, with the third wave of Covid -19 still looming, how long will the euphoria last, time will only tell.

Source: State Government Official Gazette.

Q-13 You are a student of Vidyamandir Public School. You School hosted a literary festival where other schools of the city also participated. Events included debates, storytelling, essay writing etc. Draft a report stating the details of the events to be published in the School Literary magazine.

(MTP March '22, 5 Marks)

Ans. Report writing

Vidyamandir School hosts literary festival

By Abhishek Verma

Vidyamandir School, New Delhi hosted its third literary festival on 15th March, 2022. The Chief Guest for the event was famous writer Ms Arundhati Roy. The event started by lightning of the lamp and a beautiful Saraswati Vandana sung by the school students.

The festival included various events like debates, declamations, poetry recitation and storytelling. Ten other schools from the city participated in this event and students displayed their talent and expertise.

The storytelling event was a hit amongst the jury and the audience. It involved use of creative, handmade props, voice modulations and background music and a lot of humour. The other event which got adrenaline rushing was the debate competition. The strong vocabulary, the emphatic phrases swayed the audience and earned the appreciation of the judges.

Ms. Roy gave an inspiring speech and thanked for letting her be a part of this creative event. The event ended with a vote of thanks given by the school Principal and the Head girl.

Q-14 You are a student of Mother's Global Institute. Your institute celebrated the annual day on 30th November 2021. Draft a report on annual day celebration to be included in your institute's annual magazine. **(Sugg-Dec'21, 5 Marks)**

Ans. Report

Annual Day Celebrations: A gala event / Annual Day Celebrations

Our beloved alma mater / Mother's Global Institute celebrated its 20th Annual Day on November 30, 2021 at the school auditorium with great fanfare. As many as 1000 guests comprising students, parents and alumni attended the event. The programme commenced at 10 AM with the Chief Guest, Municipal Councill or Sh. XYZ lighting the ceremonial lamp with Director, Dr. ABC, in presence of senior staff members followed by Saraswati Vandana rendered by the middle school choir. The Chief Guest

addressed the large audience, motivating the students to concentrate on holistic personality development. He congratulated the school teaching staff, students and authorities for delivering excellent results in the grade X and XII consecutively for 3 years despite the sudden onslaught of the pandemic. It was then time for a cultural extravaganza based on the t heme 'Unity in Diversity'. The junior school students (grade II to IV)) highlighted their dancing skills, captivating the audience with a dance parody based on folk dances of India from Bhangra to Bihu and Ghoomer to Garba. The stage came alive with their colourful costumes and vibrant moves. The middle school choir enthralled the audience with soulful renditions of the popular patriotic numbers 'Jai Ho' and 'Suno Gaur se duniya walon' and 'India Wale'. Audience was swaying to the foot-tapping music and gave a thunderous applause amid encore requests. A thematic play was presented by the senior school students of grade XI and XII that showcased the cultural and civilizational ethos of our nation.

The chief guest then gave away prizes to the meritorious students, winners of the Painting & Debate Competition held on 'Bal Diwas' on November 14, 2021 and House Captain of the 'Ganges' House for winning maximum medals at the recently held sports meet. The programme ended with The Principal Dr. Mrs. BNM delivering vote of thanks to the Chief Guest. The guests were ushered to the school grounds where Winter Carnival was organized and refreshments were served. It was a fun day well spent amid entertainment galore, giggles and laughter.

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Chapter 10
Writing Formal Letters and Official Communication

Q-1 Write a letter to a bank requesting them to stop payment of a cheque which has been reported lost.

[Past Paper-Nov. '19, 4 Mark]

Ans. **Letter:**

From:

ABC Private Limited,

Nariman Point, Mumbai

November 13, 2019

XYZ Bank

106 Millenum Tower

Prashant Lok

Mumbai-02

Sir/Madam,

Subject: Request to Stop Payment of the Cheque No. xxxxxx

On behalf of ABC Pvt Ltd, I request you to stop payment of the cheque number xxxxxx issued against our company Bank Account Number 123-456-789 maintained by your branch. This cheque was issued to our vendor PQR Ltd amounting to ' 3 Lakh dated XX/XX/XXXX and has been misplaced as reported by their accounts department. We will issue a new cheque after your response.

Thanks for your cooperation.

Regards,

ASD

Senior Manager, Accounts

Q-2 Write a circular addressing to the employees regarding re-organization of manpower and their responsibility in finance department of the company. **[Past Paper-Nov '18, 5 Marks]**

Ans. **Circular**

Circular No. XV 13th Nov, 2018

Office Circular

Due to urgent work requirements in the Finance department, the following employees are temporarily shifted to the department for a period of 2 months (60 days) w.e.f Nov 14, 2018.

Name	Designation	Department	Current Responsibility (Finance Department)
Mr. WER	Upper Division Clerk	Accounts	Clerk
Mr. XYZ	Junior Accountant Accounts	Accounts	Assistant
Ms. PRT	Senior Accountant Accounts	Accounts	Officer
Ms. SDF	Project Manager	Information Technology	Technical Support Manager
Mr. LMN	Network Engineer	Information Technology	Engineer
Mr. RST	Office Assistant	Sales and Marketing Office	Assistant

The above employees are directed to report to Mr. X (Head Finance) at 10 AM tomorrow, Nov 14, 2018.

Office timings will be from 10 AM till 7PM

Saturday will be a working day; Sunday is a holiday.

JKL

Manager, HR

Q-3 Write circular addressing to the employees regarding office timings. **[Past Paper-May '18, 5 Marks]**

Ans. **Circular Writing Sample 1: Employees working as per flexible office timings**

Circular No. XV 14th May, 2018

Office Timings

For all employees

This is an official communication about the office timings to be followed by all employees. As per flexible timings approved by the management, working hours/timings are as under:

9:30 am to 5:30 pm

10:00 am to 6:30 pm

10:30 am to 7:00 pm

For Housekeeping staff:

Shift-1: 8:00 am to 4:00 pm

Shift-2: 2:00 pm to 8:00 pm

Saturday and Sunday is a holiday for all employees.

Strict action will be taken against defaulters. In case of any emergency, please inform your respective heads/managers.

XYZ

HR manager

Circular Writing Sample 2: Employees working for different foreign clients

Circular No. XV 14th May, 2018

Office Timings

For employees

This is an official communication about the office timings to be followed by employees working for foreign clients. With regard to the time zone based on the geography of the client country, the working hours/timings are as under:

Employees for US client: working hours will be 6 am to 2 pm.

Employees for UK client: working hours will be 1:30 pm to 9:30 pm

Employees for Indian client: working hours will be 9: 30 am to 5:30 pm

For Housekeeping staff

Shift-1: 8:00 am to 4:00 pm

Shift-2: 2:00 pm to 8:00 pm

Saturday and Sunday is a holiday for all employees.

Strict action will be taken against defaulters. In case of any emergency, please inform your respective heads/managers.

XYZ

HR manager

Q-4 Write a memo letter informing the employees of all branches about the suspension order of Mr. Z, cashier, on charge of misappropriation of fund of the same office. **[Past Paper-May '18, 5 Marks]**

Ans. Memo (suspension order of cashier)

XYZ Bank
36, NOIDA, Uttar Pradesh
Interoffice memo
Date: 14/05/2018
To: All employees of branch
From: Ms. ABC, General Manager
Reference: 44L/T2
Subject: Suspension order

This is to inform you that Mr. Z, cashier of XYZ bank, Noida, UP branch has been suspended on charge of misappropriation of funds. All concerned are requested to refrain from any transaction with him. If not, the bank authorities would not be held responsible.

Q-5

(1) Write a letter from XYZ Group for enquiry about the catering services.

(2) Write a letter of promotion for opening new branch of the XYZ Bank. **[RTP May '20]**

Ans.

Ans.1

XYZ Ltd
A-78, AH-Block
Tagore Garden
New Delhi- 27
11 December, 20XX
Proprietor
Jashn Catering
60, Karole Bagh
New Delhi-05
Dear Mr. Sunil

Subject: Regarding Enquiry about Catering Services

With reference to your advertisement in the Times of India, dated November 26, 20XX, we wish to enquire about your catering services. Our company is celebrating its golden jubilee in the month of January 2020. In this regard, we are looking for somebody who would cater for our celebrating dinner.

We are expecting around 600 guests and employees during the event. It will be a formal meet and we will need full catering services that includes several courses, desserts, ten waiters and five helpers.

Kindly provide us the details of the following:

- Whether you provide for waiters and hosts
- Offers and discounts available
- The menu options and charges
- If there are any additional charges levied for linens, centerpiece, etc.

Kindly provide the complete details with rates by Oct 15 XXXX.

Thanks & Regards!

Mr. Vivek Goyal

Administration
XYX Ltd

Ans-2

XYZ Bank Sector-19 Nerul Navi Mumbai-06 10 December, 20XX

Chief Finance Officer

XP Ltd Dadar Mumbai-14

Dear Sir/Ma'am,

Subject: Opening of our New Branch at Nerul, Navi Mumbai

We are happy to announce the grand opening of our bank's 150 branch in the Nerul, Navi Mumbai.

As a privileged customer, we are pleased to offer you extra benefits for an account opening in the new branch.

The new branch has locker facility and six ATM machines in your area. In view of our long-term association, we would not charge you any fees for locker facility.

Kindly visit the new branch. Contact details are given below:

88, Jame Jamshed Road, Dadar Ph.: 011-255-90000 Mumbai-14

Yours

R.P. Aneja

(Brach Manager)

Q-6

(1) Write a letter from xyz pvt ltd confirming the order placed and other details.

(2) Write a complaint letter to the supplier about a defective consignment received. **[RTP Nov '19]**

Ans.

KaluSarai,

New Delhi

August 09, 2019

MR. Ramesh

Director, Sales and Marketing

XYZ Pvt. Limited

Dear Sir/Ma'am,

Sub: Order Confirmation (No: XYZ/0012/Jun 2019)

I would like to take the opportunity to thank you for giving us a business opportunity. It is an honour for us to be serving your esteemed organization that enjoys a formidable reputation.

I would like to inform you that the 1800 units of machinery ordered vide Order no. XYZ/0012/Jun 2019, will be delivered as per the mutually decided date. In addition, our experts would come to install the machinery and give a detailed demo of its working. We would also provide a free for the next two years, taking care of any wear and tear or products damage. The products has two year warranty period.

For any other query regarding the machinery ordered and its functioning, please feel free to contact us. We would be happy to serve you at the earliest.

Thanks and Regards,

Mr.Khan

Sr. Manager, Sales and Marketing, Drive Pvt. Ltd.

(2) XYZ Corporation

Rajeev chowk

New Delhi

August 09, 2019

The General Manager

Sales and Purchase Division

XYZ Pvt. Limited

Gurugram

Dear Sir/Ma'am,

Sub: Complaint against the order no. S/N-116

This is with reference to order no S/N-116 made on December 1, 20XX. The order comprised six 2 tonne split air-conditioners of XXX brand and four 1.5 tonne window air-conditioners of XYZ brand. As per the agreement, the products were to be delivered within ten days of order and a representative was to be sent for installation and demo. Unfortunately, only half the order has been delivered and no representative has visited of installation or demo.

The fact that you have taken undue time and have not yet delivered the order, has caused us great embarrassment and inconvenienced our clients. In addition we have received no correspondence from your side explaining the delay.

Kindly ensure that the remaining items of the order are delivered to us before September 12, 20XX failing which payment will be stopped or the order cancelled.

I sincerely request you to look into the matter and the needful as soon as possible.

Thanks & Regards!

Ashita Bhargava

Sr. Manager

Operations and Admin Department

Q-7

(1) You bought a printer a few days back from a leading chain of electronic stores. Now you found a few defects in its working. Write a letter to the dealer complaining about the problem and requesting him to rectify the problem or replace the printer.

(2) As the HR Manager of your organization, draft a circular for all the employees of your company, informing them about New Year party being organized over the weekend in the office campus. Mention a few events and request for active participation. **[RTP May '19]**

Ans.

(1) XYZ Electronics

New Delhi.

Date: 20thDec, 2018

Manager, Customer Care

XYZ Electronics

New Delhi.

Dear Sir/Ma'am

Sub: Complaint regarding the printer model CanXR 0987, Invoice No: Prin/CanXR/6-12-2018

This is regarding the printer that I bought on Dec 6, 2018. After installation, it worked fine for a few days. But lately every time a print command is given, it paper gets stuck and the scanning/photocopying option is not working at all. Please send your executive to examine the problem and rectify it at the

earliest or get it replaced. I had bought the equipment to take print-outs at home for an urgent project work submission.

I request you to look into the problem urgently and send the expert tomorrow evening by 7PM. You can send the name and mobile number of the executive at my number XXXXXXXXXX. Looking forward to a prompt response.

(Signed)

ABC

Circular

Circular No. XXXIV Dec 31, 2018

New Year Party

For all employees

Wishing All a very Happy, prosperous and productive New Year 2019. A New Year party is being organized in the office premises on the coming weekend (Jan 5, 2019) at 7 PM. Everyone is cordially invited with their families.

The events would be as follows:

- Live performance by the pop band 'ASD'
- Couple Dance competition
- Stand up Comedy
- Surprise Gifts for kids
- Lucky Draw
- Buffet Dinner with special buffet for the kids

Looking forward to an active participation.

Romi Mistry

Manager, HR

Q-8

(1) As the Manager, Supply Chain Division, of an FMCG company write an enquiry letter to your counterpart of an Oil Manufacturing company, stating your queries regarding oil prices at bulk rate.

(2) As the HR Manager of your organization, draft a circular for all the employees of your company, informing them about a charity cultural event being organized over the weekend in the office campus. Mention a few events and request for active participation. **[RTP Nov '18, May '18]**

Ans.

(1) XYZ Company

Chennai

Date: 10th Jan, 2018

Manager, Finance

Oil India Ltd

Chennai

Dear Sir/Ma'am

Sub: Enquiry for prices for bulk orders

This is regarding the requirement of oil, for our well known chips brand, Aunty Chips. We would like to enquire the rates for bulk order of refined oil, produced by your company.

We are an established brand in the FMCG sector, hence we feel the association would be mutually beneficial.

Kindly send the pricing details, also stating the mode of delivery.

Looking forward to your response.
Thanks and Regards,
Manager, Supply Chain Division
XYZ company
Circular
Circular No. XXXIV 3rd Jan, 2018

Cultural Event for Charity

For all employees
This is an official communication informing about a cultural event being organized in the office premises on the coming weekend (6th and 7th Jan, 2018).
The events would be as follows:

- Singing competition
- Dance competition
- Stand up Comedy
- Dumb charades
- Food stalls

Participation fees is ' 50/ per member. Family and friends are cordially invited.
The proceeds of the event will be given to Aaroyga NGO, working for the benefit of old citizens.
Please get in touch with the HR team for more registration and details. Looking forward to an active participation.
Sheela Mishra
Manager, HR

Q-9 **Formal Letter** : As the Manager, HR of Net Solutions Ltd, Mumbai, draft a complaint letter to the Administration Head of Food for you Solutions, Mumbai, stating your concern about the bad quality of food being supplied to your company's cafeteria. **[RTP May '18]**

Ans.

Part 1 Formal Letters

(1) Manager Operations and Admin
Net Solutions
Mumbai
13th Feb, 2018
Administration Head
Food for you Solutions
Mumbai
Dear Sir/Madam
Sub: Complaint against food quality
This with reference to the food supplied to our cafeteria by your company's kitchen. Unfortunately, for the past few weeks, we have observed a degradation in the quality of food items, especially rice, wheat flour and pulses.
A few of our employees complained of ill health after having consumed your food. I presume stale food is not being sent to us.
Kindly assure that the raw material you use is of high quality standards and is ISI approved.
I sincerely request you to look into this matter as it involves the health of people working for us, for which we are solely responsible.
Thanks and Regards,
Name
Manager, Ops and Admin

Q-10 You are SDF, Senior Manager Administration of ABC Solutions Pvt. Ltd. Draft a complaint letter to XYZ Appliances Pvt. Ltd regarding non-delivery of the order placed for products XXX and XXY.

[MTP May '20, 5 Marks)]

Ans. April 16, 20XX

The Sales Manager

XYZ Appliances Pvt. Ltd.

A-60/C Hari Nagar

New Delhi-06

Dear Sir/Ma'am,

Subject: Complaint against the order no. S/N-226

This is with reference to order no. S/N-226 made on March 28, 20XX. The order comprised six 1.5 tonne split air-conditioners of XXX brand and four 1.5 tonne window air-conditioners of XXY brand. As per the order details, the products were to be delivered within ten days and a representative was to be sent for installation along with the delivery.

It is more than 15 days since the order was placed and despite several reminders the order is still to be delivered. This has caused a great deal of embarrassment and inconvenienced our clients. In addition, we have no correspondence from your side explaining the delay.

You are requested to look into the matter urgently and ensure that the order is delivered in the next two days' time failing which the order will be summarily cancelled.

Looking forward to your prompt action/reply.

SDF

Senior Manager (Administration)

ABC Solutions Pvt. Ltd.

Q-11 Draft a circular to warn the employees of Packing Department not to participate in strike.

[Sugg.-Jan'21, 5 Marks]

Ans. **XXX Ltd**

CIRCULAR

No.: xxx/xxx/xxx **Date:** xx-xx-xxxx

To: All Employees of Packing Department

It has been reported that a section of employees working in the Packing Department of the Company are proposing to go on strike on xx-xx-xxxx (date) to fulfil some unusual demands. It is hereby made known to all concerned employees that the proposed strike is illegal and unlawful and employees whosoever participate in such a strike shall be subjected to disciplinary action as per the company's service rules and other applicablelaws.

Sd/-

XYZ

Manager, HR

Q-12 You are Manager Administration of ASD International. Write a letter to place an order for Covid related equipment/articles to the Manager (Sales and Marketing) of BKL Enterprises.

[MTP-April'21, 3 Marks]

Ans. **Letter:**

To **Date: xx/xx/xxxx**

The Manager (Sales and Marketing)

BKL Enterprises,

{Address}

Sir,

Subject: Placing an order

Greetings! We have been sourcing toiletries and other house-keeping articles from your organization for the past 5 years. As per your recent communication, you are now dealing with equipment and articles for the pandemic at discounted prices for bulk orders.

Considering the present situation, we would like to place a bulk order for the articles as under:

Name of the article	**Quantity**
▶ Sanitizers (500ml pack)	100
▶ Sanitizer Dispensing stands	20
▶ Sanitizers (50 ml pack)	500
▶ Sanitizing Spray (200ml)	500
▶ N-95 face masks	1000
▶ Face Shields	500
▶ Disposable Gloves	1000 pairs

You are requested to deliver the order in the next 4 days at our head office.

You may deliver the bill along with the articles specifying your bank details for direct bank transfer through NEFT. Your payment shall be made within 24 hours from the date of delivery.

Regards,

Manager (Administration)

ASD International

Q-13 You are ABC, Senior Manager Administration of BNM Solutions Pvt. Ltd. Draft a complaint letter to GHJ Printers regarding delay in delivery of visiting cards ordered 2 weeks ago.

[MTP March'21, 3 Mark]

Ans. Apr 3, 20XX

The Sales Manager

GHJ Printers

A-12, Netaji Nagar

New Delhi- 1100xx

Dear Sir,

Subject: Complaint for delay in delivery of Order No. XX/XX/XXXXXX

With reference to the subject, I would like to bring to your notice that the order was placed on March 15, 20XX, at the behest of Director HR. It was committed that the delivery of visiting cards will be made in a weeks' time. As on date, it has already been more than two weeks and the order has not been delivered yet.

The senior management is facing a lot of inconvenience during meetings with clients. You are hereby directed to deliver the order in the next two days positively else the order will be summarily cancelled.

Looking forward to immediate action in the matter.

ABC

Senior Manager(Administration)

BNM Solutions Pvt. Ltd.

Q-14 Write a letter to an applicant informing him about the postponement of his interview date.

[Sugg.-Nov'20, 4 Marks]

Ans. **Letter**

ABC Consultants Pvt. Ltd,
21, Spearhead Arcade,
Eastern Avenue Road,
Jackson Heights,
New Delhi xx00xx.} Sender's address

To Date: **Dec 10, 20xx**

Mr. XYZ,
45-A, BSD Enclave,
DFG Lane,
Begumpur,
New Delhi xx00xx

Dear Mr. XYZ,

Subject: Postponement of personal interaction to be held on Dec 15, 20xx

Greetings! We hereby inform that your personal interaction with the HR team for the position of **Senior Manager Finance** scheduled to be held on Dec 15, 20xx has been postponed. The same has been rescheduled for Monday, Dec 21, 20xx at 10 a.m.

We regret any inconvenience caused and look forward to discussing your prospective role in context with the recent changes brought about by our management in the finance team.

Best Regards,
S. Kumar
Manager, HR
ABC Consultants Pvt. Ltd.

Q-15 You are SD, Senior Manager of BNM International and you want to host Diwali Party in yourorganization. Write a letter to FGH caterers to enquire about the services.

Ans. BNM International

C-21, T. Nagar,

New Delhi 1100xx

Nov XX, 20XX

FGH Caterers,

F 3/30, Naya Bazar,

Gandhi Nagar,

New Delhi 1100xx

Subject: Enquiry about Catering Services

We are organizing Diwali Party in the back lawns of our head office. We wish to enquire about your catering services. Around 200 guests and employees are expected for the Buffet Dinner that would include starters/snacks and desserts. We also require five waiters to serve. Kindly provide us complete details as under:

- Whether tables with linen and decoratives are provided, additional charge
- Whether waiters are provided

- The menu options and charges per plate
- Offers and discounts available

We shall be grateful if you could provide the details mentioned above along with a rough estimate as soon as possible.

Thanks and Regards,

SD

Senior Manager

BNM International

Q-16 You are JM, Senior Associate of XYZ Legal and you have been approached by Ms. KC of ABC Enterprises for legal services. Write a letter to share the fee proposal of the discussed services.

Ans. Oct 12, 20XX

The Manager (Purchase)

ABC Enterprises Pvt. Ltd.

G-70 Bharat Enclave

New Delhi- 1100xx

Dear Ms.KC,

Subject: Fee Proposal

It was a pleasure speaking to you earlier today. We are grateful to you for reaching out to us.

XYZ Legal is a boutique law firm set up by me back in 2019. As required, I have attached a short profile of our Firm for your reference.

Further, based on our discussion I understand that you require our support in vetting a master services agreement proposed to be entered with one of your customer support service providers.

For this, we propose to charge a consolidated professional fee of INR 40,000 which includes vetting the Terms of Agreement and attending any calls/negotiations with the service providers. I hope that the above suits you.

Kindly contact in case of any further requirements/ clarifications.

Regards,

JM

Senior Associate

XYZ Legal

Xxxxxxxxxxxx

Q-17 Write an Article of about 250-300 words on the topic 'Impact of working from home on careers'.

(MTP-Oct'21, 5 Marks)

Ans. Answer Hints:

1. Briefly discuss what people enjoy vis a vis challenges they face (especially women) about working from home.
2. No limit on work assignments/ no timings
3. Health issues due to lack of movement/confinement such as cervical pain, backache etc.
4. Struggle with social isolation and its impact
5. Cases of depression and anxiety across country

6. Professional relationship with colleagues/networking is effected
7. Chances of learning are reduced
8. Chance to be able to maintain work-life balance is zero
9. Out of sight, out of mind issues! – you might miss the opportunity because your senior doesn't remember you.
10. End with working in office is not easy but neither is working from home.

Q-18 Write a letter to your landlord requesting him to reduce rent in the light of 'Covid 19' pandemic.

(Sugg.-July'21, 4 Marks)

Ans. Letter

From:

XYZ

Vasant Vihar Enclave

Gurugram, Harayana-xxxxxx Dated: 30.06.2021

To

Mr. ABC

House No. 21/3,

Ram Nagar Colony,

New Delhi xxxxxx

Dear Mr. ABC / Dear Sir,

Subject: Request to reduce the monthly rent amount.

Greetings! As you know that I have been living in the rented apartment premises owned by you for the last 5 years. In all these years, I have paid for the yearly maintenance of the apartment and always paid the rent on time.

Due to unprecedented circumstances owing to Covid-19 pandemic, the factory where I worked was shut down leaving me jobless. I am already neck deep in a financial mess. Though I am looking for a job and am hopeful of getting one very soon, I request you to reduce the monthly rent amount by half for the next 3 months and support me to get over the present situation.

I assure you that I shall pay the amount as per contract after 3 months. I shall look forward to a positive response.

Thanks and Regards,

Yours Faithfully / Sincerely,

XYZ

Tenant

Q-19 As the Head of the Human Resource (Amit/Amita Khurana) at Surya Private limited, draft a circular informing all HR personnel of your organization to attend a meeting late evening to discuss the visit of Managing Director in the company and give necessary suggestions to plan his itinerary.

(MTP March '22, 5 Marks)

Ans. Circular No. XXV

Agenda for the MD's visit

14th March, 2022

For all HR personnel

This is to inform you that all employees of the Human Resource division have to be present for a meeting today at 7.30 pm, in the Seminar Room (2nd floor). This is in regard with the visit of our Managing Director (MD) in the coming week. We would appreciate suggestions to plan his itinerary and discuss the agendas

to be shared with him.

Attendance is compulsory.

Amita Khurana,

Head, HR

Surya Pvt. Ltd

Q-20 You are Krishna/Kaveri, sales Head of New Zone Machinery, Hyderabad. You wish to thank Agro Associates, Vijaywada for giving you a bulk order for agriculture machinery. Write a formal letter dated 13th April 2022, addressed to Manager, Accounts department. Include a list of items to be delivered. (Trolley pump, Seed drill, Mini sprayer, Trailer sprayer) **(MTP March '22, 4 Marks)**

Ans. **Vijaywada**

13th April, 2022

Mr. AABC,

Manager,

Accounts Department

Agro Associates

Dear Sir/Madam,

I would like to take the opportunity to thank you for giving us yet another opportunity to serve your demands for machinery and other equipment. It has always been a pleasure working your organization.

I would like to inform you that the 100 units of machinery ordered, will be delivered as per the mutually decided date. We would also provide a free service for the next one year, taking care of any product damage.

The order dated 1st March, 2022 includes:

(1) Trolley pump (30 units)

(2) Speed drill (25 units)

(3) Mini sprayer (25 units)

(4) Trailer sprayer (20 units)

For any other query regarding the machinery ordered and its functioning, please feel free to contact me. My team would be happy to serve you better each time. You can also call at our toll free number 1800000010 for any clarifications.

Thanking you!

Yours Sincerely,

Krishna,

Sales Head

New Zone Machinery,

Hyderabad

Q-21 As a Finance head of Zeeta Private Limited, draft a circular to be distributed to all employees of finance department informing them to attend a meeting to finalise financial statements for the quarter ending 30th September 2021. **(Sugg.-Dec'21, 3 Marks)**

Ans. Meeting:

Zeeta Private Limited

Circular No. XXI December 15, 2021

Meeting : Finance Department

As per past practice, the meeting to finalize financial statements for the last quarter ending September 30, 2021 is being held as per the under mentioned schedule. All employees of the department are directed to attend the same mandatorily.

All are requested to note the details and make themselves available without fail. No leave shall be granted/approved except under emergent circumstances.

Defaulters will be liable for explanation and strict action will be taken against them.

Schedule:

Date: Dec XX, 2021

Time: 9:30 AM Venue: Conference Hall, 2nd Floor

PQR

Head, Finance

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Chapter 11
Writing Formal Mails

Q-1 Write a Formal E Mail: 'Mail is written by the Manager to the employees about the changed dress code for Republic day function including time and venue of function. **[Past Paper-May '19, 4 Marks]**

Ans. To: Mr. A; Mr. B; Mr. c ……..

Subject: Dress code for Republic Day Function as on 26th January, 2019

Dear sir/madam,

Greetings of the day.

As you all be aware that the Republic day is round the corner. Your company is organsing a flag hoisting followed by cultural program and traditional get together of all the rank and file of the organization including the executive heads.

T he ceremony shall be held at 9.00 A.M. sharp at the ground in front of company's gate.

The company has decided a mandatory dress code for the occasion for all participants as-

For Men- White Kurta- Payjama

For Women- Saree preferably of white colour.

Dress code is mandatory.

Hope that all our esteemed employees and executives will grace the function by their benign presence at the time and venue in the prescribed dress code.

Thanks & Regards.

Sd/-

Company secretary,

XWZ Ltd.

Q-2

(1) Write a mail to Abhishek Mittal, congratulating him for the promotion as a marketing manager in the organisation. You are Mr. Alok Prakash, manager of the IT department. (word limit: 150-200)

(2) Write a mail to Ms. Rakhi Mandal, reminding her of a business contract you have sent to her regarding providing infrastructure maintenance services to her company 'Manet Solutions'. You are Mr. Santosh Gupta, Business Head of JP Infrastructures. (word limit: 150-200) **[RTP May '20]**

Ans :

1 To: Abhishek Mittal

CC/BCC

Subject: Congratulations on Your Promotion

Dear Abhishek

I just got to hear of your promotion to the post of Marketing Manager. Please accept my heartiest congratulations.

You truly deserve the recognition and responsibility of the position. Your dedication and hard work have been rewarded. All your team members are elated at your selection. As you would know, promotion comes along with new target, tasks and challenges. I hope that you shall exceed all expectations.

We are all looking forward to a grand party from you at your earliest convenience.

Regards,

Alok Prakash

Head Department of the Information Technology

Or-

Ans-1

Value Hints:

a. Subject: Regarding Congratulating on Your Promotion
b. Greetings
c. Opening paragraph on congratulations
d. Appreciate for promotion
e. Appreciate for dedication and hard work
f. Motivation for new challenges
g. Closing with demanding party and polite words

Ans-2

Value Hints:

a. Subject: Regarding the Providing Infrastructure Maintenance
b. Greetings
c. Remind that you had sent the contract on x date and no reply has been received till date.
d. Mention date of meeting and discussion of details of contract
e. Ask if any further details/clarifications required from your side.
f. Seek meeting to discuss any issues that have come up.
g. In case, all is well you would appreciate it if the contract is signed and mailed to you.

Q-3

(1) Write a mail to Suraj Gupta responding to his query about the availability of cosmetics and toiletries in your manufacturing unit 'Shimmer and Shine'. You are Mr. Vishnu Verma, marketing head of the company. (word limit: 150-200 words)

(2) You are Arvindkumar, a team leader in project implementations department of Cellular Telecommunications. Write a mail to all members of your team asking them to attend a meeting after two days, seeking their suggestions on ways and means to speed up the implementation of the project of improving connectivity in X,Y,Z areas in the city . (word limit: 150-200 words) **[RTP Nov '19]**

Ans. Mail-1

(Value points)

(a) Correct receiver E-mail Id.
(b) Subject should be catchy/highlighted and relevant.
(c) Salutation, mention both –Dear Sir/Ma'am,.
(d) Opening paragraph state the offer.
(e) Offer special discount to an old valued customer.
(f) Detail you trendy, stylish and durable products and affirm that you are the first in the industry to introduce these state of art products.
(g) Be persuasive in convincing customer to be the first to use the products and and thus attract clientele.
(h) Mention your website where the wide range of products can be viewed.
(i) Request to place order at the earliest.

Mail-2

value points.

(a) Correct receiver E-mail Id.
(b) Subject should be catchy/highlighted and relevant.
(c) Address should be to group- 'Hi All'
(d) Specify date and place of meeting.
(e) Mention time frame of completion of project.
(f) State problems being faced-procuring equipment, legal problems, local people protesting against radiation threat, getting required permission form local government bodies etc.
(g) Ask for viable suggestions-more resources, better software, longer working hours.

Q-4

(1) Your company Axion Electronics has developed a Digital notice Board. Draft a formal mail to advertise the product, conveying all the necessary features of the product and attractive offers on bulk orders.
(2) On behalf of your CA firm, write a formal mail to all your clients requesting them to provide all the necessary information, needed for advance tax. State that details should be sent well in time, before Jan 31, 2019. **[RTP May '19]**

Ans. Mail-1

To: admin@simantechsystems.com
CC/BCC: hr@simanctechsystems.com
Subject: Introducing our tiffin supply plan

Dear Sir/Ma'am, Greetings for the day. I would like to introduce our new product Digital Notice Board. The product will improve internal communications, increase workforce awareness about the company policies, goals and key initiatives, enhance visitor communication and engagement and can also be used to convey emergency alert messages thus preventing systems.

The Interactive Display can be fixed at strategic locations such as the Reception, Lobby, Cabin, Meeting Rooms.

Benefits:

- Display your Notices, News, Achievements, Images, Videos, Weather updates etc.
- Convey any message to visitors/Employees/customers.
- Common platform to Inspire & motivate the Workforce.
- Can be managed from any location and can be updated remotely.
- Return On Investment by Advertisements.

We are offering attractive discounts on bulk orders (at least 3 units) For more information / demonstration about the product, please write to us. Looking forward to your kind response.

Warm Regards,
Team Axion Electronics

Mail-2

To: lmn@candidsweets.com, abc @yahoo.com, jkl@gmail.com
CC/BCC: ca@gmail.com, ca@kp.com
Subject: Submit details for advance tax

Dear Clients, Wishing you and your family a Very Happy and Prosperous New Year 2019. You are requested to submit details of your income, profit, current investments and assets to enable our team to calculate your tax payable for the year 2018-19. Kindly provide the necessary details by Jan 31, 2019 so that our team can guide you to plan your future investments. Kindly contact the undersigned for any clarification/information or a prior appointment for a personal meeting.

Hope to get cooperation from you all.

Thanks and Regards,
ABCD Kumar
(Chartered Accountant)

Q-5 You have opened a new catering company supplying food and snacks. As the owner, write a mail to an organization, telling about your services. You would be interested in supplying Food and Beverage to their employees, as part of a regular tiffin system. Mention prices and other necessary details.

[RTP Nov '18]

Ans.

Mail-1

To: admin@simantechsystems.com

CC/BCC: hr@simanctechsystems.com

Subject: Introducing our tiffin supply plan

Dear Sir/Ma'am,

We are pleased to announce our entry into the Food and Beverage sector. We are a group of entrepreneurs with a passion for food. We would like to associate with your organization, for supply of tiffins at a regular basis, at various timings.

We prepare food in hygienic conditions following international standards. Please have a look at the attachments with the details of menu and prices. Our food cost is competitive with no compromise in quality.

We would like to visit your office with our food samples for tasting. Please suggest a possibility.

Looking forward to a positive response.

1 attachment enclosed.

Thanks and Regards,

Team Food Passion

Q-6

(1) You are Ms. Rakhi Singhvi, Head Sales and Marketing, OCB international Pvt. Ltd, a hardware product company. Write a formal mail to Mr. Mukesh Tiwari of Candid Sweets, apologising for the delay in the delivery of the order placed by them. State genuine reasons and commit a suitable date for the final delivery.

(2) As the HR head of Axis Telecom Pvt. Ltd, write an appointment mail to Mr. Anshul Malik, informing him about his selection for 'Team Lead', Sales and Marketing division. Write a job appointment mail, stating salary, joining date, joining location and other required information. **RTP May '18]**

Ans.

(1) Formal mail

To: mukeshtiwari@candidsweets.com

CC/BCC: hr@candidsweets.com

Subject: Apologies for in delivery

Dear Mr. Mukesh Tiwari,

This is wrt Order No. 365, placed on 17th January, 2018. I sincerely apologise for the timely delivery of the aforesaid order.

We have been facing some manufacturing issues over the last two months. Efforts are being to resolve the issues. I assure you delivery of your products by the 10th of next month.

Regret the inconvenience caused.

For any discussion, please feel free to write back.

Regards,

Ms. Rekha Sanghvi,

Head Sales & Marketing

OCB International Pvt. Ltd.

Tel: ——

(2) To: anshulmalik@ccc.com

Subject: appointment letter

Dear Mr Anshul,

We are pleased to offer you the role of 'Team Lead', Sales and Marketing Division at our organization.

Regarding the joining details, please read as follows:

Joining date: 22nd Feb, 2018

Location: Mumbai

Salary: 25 lacs per annum (refer to attachment for details)

We will reimburse your relocation expenses against bills provided by the Logistic services used by. We would station you at our guest house for the first 15 days, from the date of joining.

Please consider this as an official appointment letter. Feel free to contact us for any further queries.

Two attachments with Salary and Accommodation details.

Thanks and Regards,

XYZ,

HR Head,

Axis Telecom

Tel: ——

Q-7 You are Senior Manager HR, Draft a mail to employees of your department, inviting them for a meeting to discuss about the new recruitments to be done in various departments of the company.

[MTP-March'21, 2 Marks]

Ans. **Dear Colleagues,**

Subject: Meeting on fresh recruitments

Greetings! As you know that we need to hire fresh recruits in various departments as notified by the respective Head of Departments.

As desired by the management, we need to start the process in a month.

To discuss the modalities as well as macro and micro level details, we shall meet in the Meeting Room No. 3 on the first floor at 2 PM today.

Kindly make it convenient to attend.

Best Regards,

SPJ

Senior Manager, HR

QWE Consulting Pvt. Ltd.

Q-7 You have been appointed as the Account Manager of a client at JKL Ltd. Draft a mail to introduce yourself to the client. **[MTP-April'21, 2 Marks]**

Ans. Mail:

Sir,

Warm greetings from JKL!

I would like to introduce myself as your new Account Manager for the services you have opted with us at JKL.

Since Ms. X is not associated with us anymore, I shall be your first point of contact at JKL for your account. My paramount concern is how JKL and I can serve you better. I shall be happy to assist you anytime.

You may call me at xxxxxxxxxx or send a mail at support@jkl.co.inn You can also connect with our customer service helpline at xxxxxxxxxx**.**

Thanks & Regards,

Mr. Y

Q-8 Mr. ABC is an IT manager in Quick Software Solutions Private Limited. Write a mail on behalf of Mr. ABC to Mr. MNJ, dealer of HP Laptops seekingquotation for 100 new laptops of model HP - 610. The laptops are required for new branch of Quick Software Solutions Private Limited.

[Sugg.-Jan'21, 4 Marks]

Ans. **To mnj@qwe.co.in**

Subject: Quotation for 100 new HP-60 laptops

Dear Mr. MNJ

Greetings! We at Quick Software Solutions Private Limited require the aforementioned laptops for our new branch at Noida, UP. The machines must have the latest malware for virus protection and anti-glare screens. Kindly send detailed quotation including:

Warranty

Insurance

Yearly Maintenance

After sales service charges

Looking forward to an earliest response.

Regards,

ABC

IT Manager,

Quick Software Solutions

Q-9 You are Raghav/Rashmi, Senior Manager, Aztec Technologies. Write a formal e-mail to Mr. Ajay Khanna informing him about his selection for 'Associate Consultant'. **(MTP March '22, 5 Marks)**

Ans. Email

To: ajaykhanna@abc.com

CC/BCC: rohit@aztectechnolgies.com

Sub: Appointment Letter for 'Associate Consultant'

Dear Mr. Ajay,

We are pleased to inform you that you have been selected for the post of 'Associate Consultant' at Aztec Technologies.

We request you to collect your appointment letter in three days of receiving this email. It would be advisable to bring along a few documents mentioned in the attachment. (Originals only). In case you accept the offer, please write a short acceptance reply to confirm the same. For better understanding of the job responsibilities, we have planned an Orientation Programme on 25th March, 2022 at the Head Office. Details will be shared soon.

Our HR team would get in touch with you for further details. Looking forward to have you on board!

Regards,

Rashmi,

Aztec Technologies

Q-10 Write a formal email to the Reporting Manager (E-mail: RM@kkpvt.com) as the Assistant Manager (E-mail: AM@kkpvt.com) of KK Private Limited to request for leave of one week for personal work.

(Sugg-Dec'21, 2 Marks)

Ans. Mail:

From:AM@kkpvt.com

To: RM@kkpvt.com

Subject: Request for Leave (One week)

Dear Sir,

Greetings! This is to inform to your good self that I have few urgent tasks to be completed in the coming week. Owing to the same I shall not be able to attend office for a week. However, I shall be available over telephone, if required.

I request you to grant me leave for a week starting from December 20 till 24, 20XX. I shall join office w. e. f December 27, 20XX positively.

Looking forward to your kind approval.

Best Regards,

RST

Assistant Manager,

KK Private Limited,

C-9 Sector-3, DD Nagar, New Delhi-1100XX

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NOTES

Chapter 12
Resume Writing

Q-1 Mr. Mohit Agarwal, a resident of Meerut, have recently come across an advertisement, for a job vacancy in a leading TV Channel for the post of journalist, in The Times of India dated August 1, 2018.
Draft a Resume alongwith a cover letter in response to the advertisement.

[Past Paper-Nov '18, 5 Marks]

Ans. **Cover Letter**

To
Manager(HR)
ABC TV
FGH Media Pvt Ltd
Mandi House
New Delhi.

Date: Nov 13, 2018

Sir,

Subject: Application for the post of Journalist

Greetings for the day ! I am writing this letter to express my interest in the position of Journalist as advertised in the SDF national daily, Careers section dated August 1, 2018.

I fulfil all the educational and professional requirements as specified in the advert. I am a post graduate in Media Studies from ASD University and interned at renowned media houses (print and TV) I have two years of relevant experience. Currently I am heading the regional news section at XYZ TV at their Meerut office.

My detailed resume is appended herewith for your perusal. Looking forward for a positive response.

Best Regards,
Mohit Agarwal
36, Civil Lines,
Meerut.
UP.

Resume

Mohit Agarwal
36, Civil Lines
Meerut,UP
Phone: 98XXXXXXXX
Email: abc@xyz.com

OBJECTIVE:

To be associated with an organisation that offers tremendous opportunities for growth and autonomy, providing a challenging environment to harness my creative streak, innovative ideas and utilise my experience as a media correspondent to the maximum.

SUMMARY:

- One year of experience as a staff correspondent in CVB TV.
- Two years of experience as Head Regional News XYZ TV
- Proven skills in content planning, selection and presentation.
- Excellent Reporting skills in English and Hindi.

EXPERIENCE:

2016 – PRESENT Head Regional News XYZ TV Meerut

- Planning and deployment of staff correspondents
- Spo+nsorship Planning from corporate and medis houses
- Staff selection and Training
- Media Planning for regional corporate houses

2015–2016 Staff Correspondent CVB TV

- Capturing Events
- Conceptualising stories
- Presenter for "Khufia" section of Daily News

EDUCATION:

2014 Masters in Mass Comm, ASD University, New Delhi
2012 English(H), ASD University, New Delhi

INTERNSHIPS:

2014 Two month at World Journalists Association (Articles Section)
2013 4 months at CNN TV in News production and planning

SKILLS

- Well versed with Media Softwares
- Meticulous Planning and Execution skills with an eye for detail

PERSONAL DETAILS

Date of Birth 15 June, 1992
Marital Status Unmarried
Languages Known English, Hindi

DECLARATION

I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date: Nov 13, 2018

Place: Meerut (Mohit Agarwal)

Q-2

1. You are Prashant Kumar/Laxmi Ahuja, a resident of Juinagar, Mumbai. You have recently come across an advertisement in Hindustan Times (News Paper) for **Trainee Article in Finance** at S.R. Pvt Ltd. Draft a cover letter in response to the advertisement and enclose your Curriculum Vitae.
2. You are Shikha/Ashutosh. You are applying for **Industrial Trainee Articles** at GAIL Ltd. Write a Cover Letter and attach your curriculum vitae (CV). **[RTP May '20]**

Ans: 2

1

A-12F-Block, C-16/A, Sector-04 Juinagar
Navi Mumbai- 400705
prashantkr.@gmail.com
09 December, 20XX
The HRD
S.R. Pvt Ltd. Andheri East Mumbai- 400069
Dear Sir/Ma'am,

Subject: Application for the Post of Trainee Finance

This is with reference to your advertisement in 'Hindustan Times' dated 06 December, 20XX, for the post of Trainee Finance in your organization. I wish to apply for the same.

I am conscientious, punctual and open to learning. I have just completed CA Intermediate from ICAI. I am looking for positions as Trainee (Finance/Tax/Audit) for articleship. If given the opportunity, I am open to learning and prepared to work hard to enrich my knowledge.

I am enclosing my résumé herewith for your reference. I shall be available for an interview through online or face to face on any day of your convenience.

I look forward to a positive response!

Your Sincerely,

Prashant Kumar

Enclosure:

1. Résumé

Curriculum Vitae

RAVI PRAKASH GOEL

A-12F-Block,

C-16/A, Sector-04

Juinagar

Navi Mumbai- 400705

Mob.: +91-XXXXX XXXXX

Email: prashantkr.@gmail.com

Profile:

- Hardworking, punctual, strong team player
- Confident working with computers and technology

Educational Qualifications:

S.No	Examination/ Degree / Course	Subject/ Stream	Institute / College	Board/ University	Year of Passing	Percentage / Division
1	CA Intermediate	Finance, Taxation, Auditing	ICAI, New Delhi	ICAI, New Delhi	Nov 2019	65%
2	Higher Secondary	Commerce	St. Holly Public School, Mumbai	CBSE	2014	87%
3	Secondary	Commerce	St. Marry Public School, Mumbai	CBSE	2012	85%

Professional Skills:

- Finance, Taxation, Auditing

Intrapersonal Skills:

- Excellent Communication Skills
- Highly organized and efficient
- Ability to work independently
- Ability to work in team
- Proven leadership skills and ability to motivate

Language Known:

- English, Hindi, Marathi (Comm.)

Hobbies:

- Reading Novels, Travelling, Interacting with people

Personal Details:

- Father's Name: XYZ
  Mother's Name: XYX
  DoB: XYZ
  Gender: Male
  Nationality: XYZ
  Marital Status: Single/Married

References:

Tripti Sharma — Assistant Professor, ABC College of Commerce, XYZ University, Email:xyz@gmail.com

CA. Sanjay Mishra — XYZ Associates, Email: ******@gmail.com

Declaration: I solemnly declare that the above information is correct to the best of my knowledge and belief.

Date: XX December, 20XX

Place: Mumbai **(PRASHANT KUMAR)**

Ans: 2

F-26 E, Sector-11
Kavi Nagar
Ghaziabad- 02
Email: shikhakr.@gmail.com
16 December, 2019
The HRD
Natural Gas Transmission Company (GAIL)
New Delhi-01
Dear Sir/Ma'am,

Subject: Application for the Post of Industrial Trainee(Articles)

This is with reference to your advertisement on the website in career column for the post of **Article Trainee** at GAIL. I have just completed second year of my articleship from ABC associates, a reputed firm and completed CA Intermediate in November 2017 in the first attempt.

I am keen to learn, focused and target oriented.

I will be ready available for a personal interaction any time as per your convenience.

I look forward to a positive reply.

Your Sincerely,
Shikha Kumari
Enclosure:
1. Curriculum Vitae

Shikha Kumari

XYZ Company

Ghaziabad-06

Phone: +91- XXXXX XXXXX

E-mail: shikhakr.@gmail.com

Profile/ Objective:

- Sincere, honest, punctual and devoted professional with a zest of learning. Seeking a position that provides substantial learning opportunities and exhorts me to take up challenges/initiatives and learn from them thereby creating and adding value to the team as well as the organization

Educational Qualifications:

- Completed 2 years of articleship from XYZ company in December 2019.
- Completed CA Intermediate in Nov 2017.
- 10+2, from CBCE, New Delhi, 2012, with higher 1st Division.
- 10th from CBCE, New Delhi, 2010, with higher 1st Division.

Achievements:

- Got prize for standing first in National Quiz at XW Org in 2015.

Language Known:

- English, Hindi, Punjabi, Marathi, (Comm.)

Workshop/Training Programme/Academic Participation:

- Participated in International Conference at Pune in December 2019.
- Participated in International Lecture on "*LEARN TO FIND YOUR HIDDEN TALENT*" delivered by Geshe Michael Roach, at Presidency College, Kolkata, (INDIA), on 13 Feb. 2017.
- Participated in *Human Value "Harmony"* workshop organized by IIT, Delhi, Varanasi from 31 Jan.-03 Feb. 2016.
- Participated in One-week workshop on Accounting at regional centre, Mumbai, from 12 Jan.-21 Jan. 2016.
- Participated in one-week training programme on Accountancy, Mumbai from 4 Dec.-23 Dec. 2014.

Declaration: I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Place: New Delhi

Date: 12.12.20XX **(SHIKHA KUMARI)**

Q-3

(1) You are Abhinav/RakhiGoel, a resident of Tagore Garden, New Delhi. You have recently come across an advertisement in the Times of India post of a Jr. Accountant at HCL. Draft a résumé along with a cover letter in response to the advertisement.

(2) You are Anil/Snjukta. You come across the following advertisement for the post of Chartered Accountant in the Employment News at ROCA. You consider yourself suitable and eligible for the post. Write an application in response to the advertisement. Attach your curriculum vitae. **[RTP Nov '19]**

Ans.

(1) Cover letter

Date: August 09, 2019

To,

The HR

HCL,

206, State Street

Mumbai-201006
Dear Sir/Ma'am,

Sub: Application for the post of Jr. Accountant

The 'Jr. Accountant' position described in the recent 'Times of India' advertisement immediately caught my attention. I have enclosed my résumé for your consideration. I am confident you will find that my qualifications more than meet your requirements. I am a skilled team player with proficient in accountancy.

I will communicate you next week to confirm your receipt of my résumé and answer any preliminary questions. I look forward to a positive response.
Yours Sincerely,
Abhinav Goel
Tagore Garden,

Résumé

RakhiGoel
Jr. Accountant
Mob: +91-xxxxx xxxxx
Email: xyz@gmail.com
Date of Birth: 16 June 1986
Permanent Address: xyz nagar, Varanasi
Nationality: Indian
Marital Status: Unmarried
Academic Qualification:

S No.	Qualification	Subject/Stream	Institute	Board/ University	Year of Passing	%/ Division
1	CA	CA	ICAI	ICAI	2015	80%I
2	Higher Secondary	Humanities	BKY New Delhi	CBSE	2012	76%I
3	Secondary	Humanities	KVS, Saket, New Delhi	CBSE	2010	68%I

Internship:
- One year internship at IBM, Noida, form 2015-16.

Professional Skills:
- Accountancy, Auditing, Forensic Auditing, Corporate Law

Language Known:
- English, Japanese, Hindi (Comm.)

Hobbies:
Reading Books, Playing Chess, Travelling
References:

- TarunaKohili
  Assistant Secretory
  ICAI, New Delhi
  Cont.: +91-xxxxx xxxxx
  E-mail: xyz@gmail.com

  Dr. Raj Nath Bhatt
  Professor
  Department of Linguistics, B.H.U.
  Cont.: +91-xxxxx xxxxx
  E-mail: xyz@gmail.com

Place: New Delhi
Date: 09.08.2019 **(Rakhi Goel)**
Date: August 09, 2019
To,

The HR
ROCA
Bhiwadi, Rajasthan-243466

Subject: Application for the Post of Chartered Accountant

Dear Sir/Ma'am,

I am very interested in the 'Chartered Accountant' position at ROCA, advertised in the employment news on Monday, August 06, 2019. I have more three years teaching experience in different reputed organisations. I feel that I would be an excellent candidate.

My CV is enclosed summarising where my skills and abilities have been developed. I would welcome the opportunity to discuss my background with you further. May I have an interview with you at your earliest convenience? Please contact me at xxxxxxxxxx or at xyz@gmail.com.

I look forward to hearing from you.

Thanks & Regards!!

Sincerely,
Anil Mishra
CA

Curriculum Vitae

Anil Mishra
Chartered Accountant
XYZ Company
NCR
Phone: +91- xxxxxxxxxx
E-mail: xyz@gmail.com

Profile/ Objective:

- Hardworking, punctual and dedicated individual seeking in accounting. Possesses strong leadership and team management skills. A problem solver who is able to calmly deescalate situations and work towards favourable outcomes for all involved. Passionate, knowledgeable and giving.

Educational Qualifications:

- Completed CA in the batch 2013-17
- 10+2, from CBCE, New Delhi, 2012, with 1st Division.
- 10th from CBCE, New Delhi, 2010, with 1st Division.

Award/Achievements:

- Got prize for standing first in Linguistics, B.A. at B.H.U.

Administrative Experience:

- Administrative Warden at Rajshree Institute of Management & Technology, Bareilly, U.P.
- Chief Proctor at NavyugMahavidyalaya, Badshahpur, Jaunpur, U.P.
- Venue Coordinator in the 11thICOSAL-11 organized by Department of Linguistics, Banaras Hindu University from 23, Jan.-25, Jan. 2014.

Professional Skills:

Accountancy, Auditing, Proficient in MS-Office & Web Browsing, English typing 40 w/m

Cultural/ Social Activities:

- Participated as Volunteer in *Durgotsav Puja at DKY Public School,* from 2004-09, 2013-16.
- Venue Coordinator of '*Sanskriti'* Cultural Event at DKY Public School in 2008.
- Actively Participated in all the major social & cultural events organized by School.

Language Known:

- English, Hindi, Punjabi, Marathi, (Comm.)

Workshop/Training Programme/Academic Participation:

- Participated in Short Term Programme (STP), on 'Forensic Auditing' at regional centre, Kolkata,

from 01-06 Oct., 2018.

- Participated in National on xyz at xyz from ……
- Participated in International Lecture on "*LEARN TO FIND YOUR HIDDEN TALENT*" delivered by Geshe Michael Roach, at Bharat Adhyayan Kendra, B.H.U. Varanasi, (INDIA), on 13 Feb. 2017.
- Participated in *Human Value "Harmony"* workshop organized by IIT, B.H.U., Varanasi from 31 Jan.-03 Feb. 2016.
- Participated in One-week workshop on Accounting at regional centre, Mumbai, from 12 Jan.-21 Jan. 2016.

REFERENCES: Can be provided on request.

DECLARATION: I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date:

Place: (Manish Reddy)

Q-4

(1) Draft a resume for Aditya Narula, who has passed class XIIth, has completed his B.com with distinction and is currently pursuing M.com (final year). Aditya wishes to apply for a job in a small start up which deals with stocks.

(2) Draft a resume for Ms Seema Solanki, a resident of Mumbai, a qualified CA with an experience of over 15 years in two organizations. Seema now plans to switch her job and is applying to one of the Big fours.

[RTP May '19]

Ans.

(1) Aditya Narula Resume hints

Following is a standard format, with subheadings for fresher like Aditya:

- Name and contact details
- Objective Summary
- Academic Qualifications and Achievements
- Co-curricular Achievements
- Training Programs attended/completed
- Strengths
- Interests/Hobbies
- Declaration
- Signature

(2) Seema Solanki

Format for a Resume showing years of experience

- Name and contact details
- Objective Summary:
- Career Summary
- Experience
- Company 1

Job title

- Responsibilities/Achievements
- Company 2

Job title

- Responsibilities/Achievements
- Educational Details

- Hobbies and Interests
- Signature
- References with their phone numbers

Objective Summary: seeking leadership roles and making a meaningful impact on the growth of the organization.

Career Summary: Have been associated with firms with an employee size of around 1200. I have a rich experience in costing and finance operations. My expertise lies in handling cash flow and pay rolls process.

Company Name 1

Job title: Analyst

Job Responsibilities:

- Handling finance operations and determining major financial objectives.
- Supervising monthly financials
- Deducing cost feasibility of cost based projects

Company Name 2

Job title: Manager/Sr. Consultant

Job Responsibilities:

- Designing and implementing cost effectives techniques, policies and procedures to enhance financial growth.
- Managing pay rolls: computations of salaries, TDS, PPF
- Heading a six member team, handling daily basis output and ACR's.

Educational details

(Pointers as follows)

School, class Xth and XIIth marks/grades

College/University: B.Com

ICAI, Mumbai : CA

Q-5

(1) Draft a cover letter in reply to the below advt., published in The Hindustan Times, dated 13/2/18.

Applications are invited for the post of an Accountant in a private firm, Agro power Ltd, New Delhi.

The applicant must have an experience of about four years in a similar role with good knowledge of Tally. Salary offered will be competitive with the industry. Please send your detailed CV's with a cover letter to the following address:

Agro Power Ltd,

Sukhdev Vihar

New Delhi 110025

For any queries, drop a mail to hr@agropower.com

(2) Prepare a detailed resume in the functional format for a candidate applying for the post of a sales manager in an FMCG company. Include past experiences, with emphasis on the sales background.

Other inputs: Name: Manish Reddy

Experience: over 10 years, (divide it into two jobs)

Current designation: Senior Sales Executive **[RTP Nov '18]**

Ans.

(1) Cover letter

Your address

Date

Manager

Agro Power Ltd,
Sukhdev Vihar
New Delhi 110025
Dear Sir,
Subject: Application for the post of Accountant
This is with reference to your advertisement in Hindustan Times dated 13/2/18 for the post of **Accountant** in your esteemed organization.
My abilities and experience in Accounts makes me a suitable candidate for the job. I have worked for over 6 years as a **Junior Accountant** in the leading MNC **XYZ Ltd**. I am proficient in **Tally** as well as **MS-Excel** and good knowledge of other software tools in Accounts.
I am task oriented, self motivated and can assure utmost sincerity and dedication towards the role assigned to me. Given a chance, I hope to be an asset to your organization.
Thanks for considering my candidature.
Sincerely,
Your signature
(Name)

(**2) Functional format Resume**

Name: Manish Reddy
Phone: 040-123456
Email:-mreddy@gmail.com
Address: 123, Chennai Road, Chennai
Date of Birth: 1st January 1985
CAREER OBJECTIVE: Seeking a challenging career with a progressive organization that provides an opportunity to utilize my sales and marketing skills & experience in the FMCG sector.
PERSONAL SKILLS
Excellent convincing skills
Highly sales driven
Ability to work independently or as part of a team
Proven leadership skills and ability to motivate
EDUCATION
B.com from Hindu College, Delhi University
PGDIM from Symbiosis University, Pune
ACHIEVEMENTS
Ÿ Awarded the 'Best Sales person' Award in the company
Awarded a cash prize for two consecutive months for over achieving sales target.
PROFESSIONAL EXPERIENCE
XYZ Pvt Ltd, Chennai
Worked as a Junior Sales Executive
Responsible for daily sales with a predicted target
Experience: 5 years
Auromatic Brothers
Worked as Senior Sales Executive
Responsible for monthly sales target

Led a team of twenty members.

Experience: 5 years.

REFERENCES: Can be provided on request.

DECLARATION: I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date:

Place: (Manish Reddy)

Q-6 Prepare a chronological resume of commerce background student, having worked in a firm for 1 year, and gained experience in general management skills. The candidate has cleared IPCC, Group 1.

[RTP May '18]

Ans. Chronological Resume

Name

Address

Phone Number

Email

OBJECTIVE: To be associated with an organisation that will offer to me tremendous opportunities for growth in career and provide a challenging environment that will utilise my accounting skills and abilities to the maximum.

SUMMARY:

- Have cleared IPCC, Group 1
- Have an years experience of working in an office
- Possess good management skills
- Can work under pressure situations
- Willingness to learn more is the driving factor.

EXPERIENCE:

2017 to present day	Junior Manager
	Name the company, address

EDUCATION:

Begin from recent education moving back to college and then lastly school.

2017: CA IPCC, Group 1

2016: B. com (h), Kirori Mal College, DU

2014: class XII th, DAV Model School, Pitam Pura, New Delhi

2012: class Xth, DAV Model School, Pitam pura, New Delhi

SKILLS: Well versed with MS Office

Working knowledge of Tally

- Completed compulsory 250 hrs. of Computer Training as per ICAI curriculum schedule.
- Updated with all the latest computer applications and softwares.

PERSONAL DETAILS:

Date of Birth: 15 July, 1982

Marital Status: Unmarried

Languages Known: English, Hindi, French

Permanent Address: 822, SFS Flats, Pitam Pura New Delhi 110034

DECLARATION: I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date: Place: (Name)

Q-7 Prepare a cover letter and detailed résumé in the functional format for a candidate applying forthe post of Article Assistant in a CA firm

Name: XYZ

Qualifications: CA Intermediate both groups

Ans. Resume

Name: XYZ

Address-2:

Email id: XYZ@gmail.com

Mobile No.- +91 XXXXXXXX

Objective

- I seek to join a firm where I can learn various aspects of profession such as audit, taxation (GST) and law..
- I wish to contribute towards organizational goals through my technical skills, hard work and initiative.

Academics

Qualification	University/Board	Year of Passing	Score/Marks
B.Com	DU	Pursuing	
CA Intermediate	ICAI	Feb 2021	69%
CA Foundation	ICAI	2020	81%
XII	CBSE	2019	96%
X	CBSE	2017	93%

Skills

- MS-Office, Tally, Advance Excel, Payroll, MIS
- Good analytical and communication skills

Achievements

- Black belt in Judo. Won 2 consecutive zonal inter- school championship trophy.
- Part of the team that won the second prize at the state level inter-school quiz contest organized by Delhi Government Ministry of Education.

Personal Details

Father's Name:

Date of Birth:

Nationality:

Declaration

I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date: XYZ,

Signature

Q-8 Prepare a cover letter and detailed Résumé in the functional format for a candidate applying for the post of Article Assistant in a CA firm in Gomati Nagar in New Delhi.

Name : Jagjeet Singh

Qualifications : CA Intermediate **(MTP-Nov'21, 5 Marks)**

Ans. Cover Letter

To Date: Nov10, 20XX

Manager(HR)

SDF Consultants

Q 27, SEZ,

Gomati Nagar

New Delhi 1100xx

Sir,

Subject: Application for the post of Article Assistant

Greetings for the day ! I am writing this letter to express my interest in the position of Article Assistant in your firm.

I qualified CA Intermediate both groups in the second attempt in July 2021. I have recently completed the mandatory ITT and Orientation programmes.

Currently, I am looking for an opportunity in a prestigious firm like yours so that I am able to learn and grow as a professional. I am ready to present myself for a personal interview. I assure you that I shall work with utmost allegiance towards your firm.

My detailed resume is enclosed here with for your perusal. Looking forward to a positive response.

Best Regards,

Jagjeet Singh,

C-30, Indra Nagar

New Delhi 1100xx

Resume

Name: Jagjeet Singh,

Address: C-30, Indra Nagar

NewDelhi-1100XX

Email id: youremail@gmail.com

Mobile No.- +91 XXXXXXXX

Objective

I seek to join a firm where I can learn various aspects of the profession and use my skills and knowledge of MS Excel, MIS, Tally, and Taxation with GST.

I wish to contribute towards organizational goal through my technical skills, hard work and creativity.

Academics

Qualification	University/Board	Year of Passing	Score/Marks
B.Com	DU	Pursuing	
CA Intermediate	ICAI	2021	69%

CA Foundation	ICAI	2019	75%
XII	CBSE	2017-18	91%
X	CBSE	2015-16	90%

Skills

MS-Office, Tally, Advance Excel, Payroll, MIS

Good analytical and decision making skills

Achievements

- As Vice-Captain of the school Football team won 2 consecutive zonal inter- school championship matches
- Stood third in school in Maths Olympiad in class X.
- Stood second at the state level Dance Competition organized by the NGO Sankriti.

Personal Details

Father's Name:

Date of Birth:

Nationality:

Declaration

I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date: Jagjeet Singh

Signature

Q-9 Prepare a cover letter and detailed Resume in the functional format for a candidate applying for the post of Article Assistant in a CA firm in Tri Nagar in New Delhi.

Name : Rohit Varma

Qualifications : CA Intermediate

Ans. Cover Letter

To Date: Oct 18, 20XX

Manager(HR)

ABC Consultants

3/6 Archana Arcade,

Tri Nagar

New Delhi.

Sir,

Subject: Application for the post of Articled Assistant

Greetings for the day ! I am writing this letter to express my interest in the position of Articled Assistant in your firm.

I qualified CA Intermediate both gropus in the first attempt in July 2021. Thereafter, it took me some time to complete the mandatory ITT and Orientation programme.

I am looking for an opportunity in a prestigious firm like yours so that I am able to learn and grow as a professional. I am ready to present myself for a personal interview. I assure you that I shall work with utmost allegiance towards your firm.

My detailed resume is enclosed here with for your perusal. Looking forward to a positive response.

Best Regards, Rohit Varma

F-24, G Park

New Delhi 1100xx

Resume

Name: Rohit Varma
Address: F-24, G park
NewDelhi-1100XX
Email id: youremail@gmail.com
Mobile No.- +91 XXXXXXXX

Objective

I seek to join a firm where I can learn various aspects of the profession and use my skills and knowledge of MS Excel, MIS, Tally, and Taxation with GST.

I wish to contribute towards organizational goal through my technical skills, hard work and creativity.

Academics

Qualification	University/Board	Year of Passing	Score/Marks
B.Com	DU	Pursuing	
CA Intermediate	ICAI	2021	72%
CA Foundation	ICAI	2019	79%
XII	CBSE	2017-18	94%
X	CBSE	2015-16	92%

Skills

MS-Office, Tally, Advance Excel, Payroll, MIS
Good analytical and decision making skills

Achievements

- As captain of the school Basket-Ball team won 3 consecutive zonal inter- school championship matches
- Stood first in school in Maths Olympiad in class X.
- Stood second at the state level 'Sudoku' championship

Personal Details

Father's Name:
Date of Birth:
Nationality:

Declaration

I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date: Rohit Varma

Signature

Q-10 You are Vishnu Shreshth, 16 KY Nagar, Delhi. You wish to apply for the post of the Marketing Manager in a reputedfx firm in Mumbai. Write a letter on 1st December 2021 to the Public Relations Officer, ZZ Enterprises, Mumbai, applying for the job. Write the letter including your bio-data.

(Sugg.-Dec'21, 4 Marks)

Ans. Cover Letter

Vishnu Shreshth

16, KY Nagar

Delhi

e-mail: vish_shreshth @ymail.com

December 01, 2021

Public Relations Officer

ZZ Enterprises,

339, Coral Street

Mumbai

Sir / Madam, **Subject : Application for the post of Marketing Manager**

This is with reference to your advertisement in 'The Times of India' dated November 15, 2021 for the post of Marketing Manager. I wish to apply for the same. I am confident that my extensive experience, dynamism and teamwork skills make me a strong candidate for the said profile. My zest for learning, ability to confront and overcome challenges, positivity and clear communication skills have helped strengthen our team's efficiency and sense of community.

I look forward to the opportunity to present myself in person for an interview/discussion. Thank you so much for your time and consideration.

Yours Sincerely,

Signature

(Vishnu Shreshth)

Encl.: 1. Photograph
2. Testimonials & Certificates.
3. Resume / Biodata

Resume / Bio-data

Vishnu Shreshth

16, KY Nagar, Delhi

Tel: 954XXXXXXX / email: vish_shreshth @ymail.com

Career Objective

Seeking to work for a progressive organisation as a Marketing Manager which will provide opportunities to utililize my skills & abilities.

Education

Marketing Management,

Master of Business Administration,

Completed, June 2016

ABC College

BBA/MBA

Delhi

Work Experience

May 2016 - present

Marketing Manager

XYZ Ltd

Delhi,

Job Responsibilities

- Develop and Evaluate marketing strategy, based on market characteristics, cost to achieve customer satisfaction.
- Formulate, direct and coordinate marketing activities and policies to promote products and services, working with advertising and promotion ma nagers
- Direct the hiring, training, and performance evaluations of marketing and sales staff and oversee their daily activities
- Negotiate contracts with vendors and distributors to manage product distribution, establishing distribution networks and developing distribution strategies

Competency Areas:

- Strategy, Execution & Leadership
- Market Analysis/ Research/ Roadmap
- Vendor Coordination/ Management
- Work Force Supervision
- Marketing Campaign Development
- Target Achievement
- Training
- Team Building

Computer Proficiency

- MS Office – Word, Excel and PowerPoint
- Internet Applications

Languages

English, Hindi, Marathi

References

Available upon request

Declaration

I solemnly declare that all the above information is correct to the best of my knowledge and belief.

Date: Signature

Place: (Vishnu Shreshth)

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NOTES

Chapter 13
Meetings

Q-1

1. Your Company is launching a new product in the next year. Prepare the minutes of the meeting for the same. Members in the meeting; Head of the Sales and Marketing, Product head, and concerned Team Member.
2. As an employee of an academic institute, prepare the agenda of an upcoming partner's visit in tabular format. **[RTP May '20]**

Ans-1

Date: 16 December 20XX

Venue: Conference Room, II Floor

Meeting Started at 04:00 P.M.

Mr. A, Head of the Sales and Marketing, gave an introduction and purpose of the meeting.

Mr. B, Product head spoke about the new product.

Ms. C, Regional Manager, Business, gave a detailed project report. (market surveys, future aspects challenges included).

Participants approved of Ms. C's report. Appreciated he meticulous detailing.

Mr. D, Marketing Head discussed the market scenario, demand and supply and customer interest.

Mr. E, Head Finance, gave details of costing, Finance team led by Mr. F, Mr. G, and Ms. H were part of the presentation.

The Head, Sales and Marketing declared an open house for participants to put up their concerns, and finally gave a vote of thanks.

Proposals for more funds put forward.

Tender to be released.

ATR will be submitted by 22 December, 20XX.

Ans-2

Tabular Agenda

Time	Topic	Attendees	Speaker	Duration
10:30 AM	Introductory meeting and Welcome Note	Director, Registrar, Exam In-charge, Senior Faculty (all depts.)	Director of the Institute	10 Minutes
10:40 AM	Speech	Director, Registrar, Exam In-charge, Senior Faculty (all depts.)	Hon'ble Mr. Partner	25 Minutes
11:05 AM	Discussion on new courses and departments	Director, Senior Faculty	Head, Department of the (subject)	25 Minutes

11:30 AM	**Brunch**	**Brunch**	**Bruch**	**30 Minutes**
12:00 Noon	Need to the Course/scope	Director, Registrar Senior Faculty	Prof. X, Subject Expert	20 Minutes
12:20 PM	Open House	Director, Registrar Senior Faculty	All members	20 Minutes
12:40 PM	Vote of thanks	Director, Registrar Senior Faculty, Partner(Mgmt)	Director of the Institute	10 Minutes

Q-2

(1) Your company, has witnessed a gradual decline in a consumer product over the one year. Prepare the minutes of the meeting for the same. Members in the meeting; Head of the Sales and Marketing, Product head, Product lead and concerned team members.

(2) As an employee of a CA firm, Prepare the agenda of an upcoming partners' visit in tabular format. Include senior executive in the meeting discuss the agenda for the meeting and how the one day visit of the partner needs to be planned. **[RTP Nov '19]**

Ans. (1)

Date: July 09, 2019

Venue: Conference Hall, 2nd Floor,

Meeting Started at 02:00 PM

In attendance: Mr. Ram Swaminathan, Head, Sales and Marketing, Mr.Prabhu Das, Product Head, Product lead, four members of the sales team.

Mr. Ram Swaminathan, Head of Sales and Marketing informed the agenda of the meeting i.e., the sales decline in the product.

Ms. Reena Mathur, Sales lead gave a detailed analysis of the sales figures for the one year.

Her team including Mr. A. Mr. B, Ms. C, Ms. D elaborated on the market trend target customers and their needs.

Mr. Prabhu Das, Product Head expressed concern over the matter, discussed a few changes in the sales strategy.

All the participants contented to the concerns raised and decided to submit their reports.

The Head of Sales and Marketing proposed a vote of thanks and declared the next meeting to discuss reports to be held on August 02, 2019.

ATR to be submitted by July 26, 2019 to the Head Sales and Marketing.

(2) Tabular Agenda

Time	Topic	Attendees	Speaker	Duration
08:30 AM	Introduction and Welcome note	Name of the participants	Director, Finance	10 Minutes
08:40 AM	Speech	Name of the participants	Hon'bleMr. Partner	25 Minutes
09:05 AM	Discussion on new audit trends	Name of the participants	Sr. Manager Audit	25 Minutes

09:30 AM	**Tea/Breakfast**	**Tea/Breakfast**		**30 Minutes**
10:00 AM	Discussion on new adapting technology/ application	Name of the participants	Sr. Manager Technology/ Application	20 Minutes
10:20 AM	Open house	Name of the participants	All members	20 Minutes
10:40 AM	Vote of thanks	Name of the participants	Director	10 Minutes

Q-3 As a HR manager, prepare the agenda of an upcoming meeting regarding staff matters.**[RTP May '19]**

Ans. Tabular Agenda:

Time	**Topic**	**Attendees**	**Speaker**	**Duration**
9:30 am	Introduction and Welcome note	• MD • Chief Operating Officer • Head (Admin) • Sr. Manager HR • Manager HR • Executives	Head HR	5 minutes
9:35 am	• Staff Matters • Fresh Appointments and interns in • Sales & Marketing • Transfers • Promotions • Training Approvals • Study Leave Approvals • Cash Rewards	-do-	Sr. Manager HR	30 mins
10:05 am	Presentation/Discussion on Staff Motivation Programmes	-do-	Chief Operating Officer	15 mins
10:20 am	Tea/Breakfast	Tea/Breakfast		40 mins
11:00 am	Circulation roster for housekeeping staff/ peons	• Chief Operating Officer • Head (Admin) • Sr. Manager HR • Manager HR • Executives	Head(Admin)	15 mins
11:15 am	Open House	-do-	All members	20 mins
11:35 am	Vote of Thanks	All participants	Chief Operating Officer	5 mins

Q-4

(1) Prepare the Minutes of a Meeting, presided by the Chairman of HKU Pvt Ltd, an FMCG company. The main agenda of the meeting was introducing a new product, fixing a cost, discussing the Sales and Marketing and the advertising strategies. Speakers involved were: the chairperson, the Product Head, the Sales Head and the Creative Director.

(2) Submit an Action Taken Report, based on a meeting held to discuss the failure of long pending dues by an old client. Mention clearly what decision was taken. **[RTP May '18]**

Ans.

(1) **Minutes of Meeting**

Speakers involved were: the chairperson, the Product Head, the Sales Head and the Creative Director. FMCG, new product new product, fixing a cost, discussing the Sales and Marketing and the advertising strategies.

Date: 14th Feb, 2018

Meeting started at 4: 00pm.

Mrs. Kamla Murthy, Chairperson, gave an introductory speech

Mr. Raju D, Product Head spoke about the new product

Mrs. Usha Krishnan, Sales Head gave a detailed analysis of costing, overheads and other miscellaneous finances.

Ms. Jennie Matthew, Creative director, PR, spoke about advertising campaign. Also mentioned the cost involved.

Her team including Mr. X, Mr. Y, Mr. Z elaborated on the advertising strategies.

All the participants approved of the plan and appreciated it.

Madam Chairperson declared an open house for participants to put up their concerns, and finally gave a vote of thanks.

Conclusions stated. Proposal for more funds put forward

ATR will be submitted by 18th Feb, 2018

(2) **Action Taken Report (ATR)**

As per the meeting held on 12th Jan, 2018 at the Southern Region branch office of CP finance Ltd, following actions have been reported:

- The client had complied to clear the pending dues by 10th Jan, 2018.
- The client has asked for more time. Reason mentioned: losses incurred in business.
- On the basis of being an old client, with no such bad record, order passed to provide more time for payment.
- Expected payment till 31st January, 2018.

Undersigned

Director, Sales & Marketing

Director, Business

Q-5 You are Senior Manager in a company. Due to the pandemic, the company had to allow work from home to employees travelling long distances. Others residing close by to attend office thrice a week. Prepare minutes of a meeting discussing the arrangements and resources to be provided to employees. Include the IT staff and supervisors. **[MTP.-March'21, 5 Marks]**

Ans. Minutes of the Meeting

Participants in attendance: Senior Manager Accounts, IT head, IT Executive, Senior Executives (supervisors) Manager Client Relations Date: April 3, 20xx

Meeting started at 11: 00 am.

Mr. ST, Senior Manager Accounts informed the agenda of the meeting i.e making arrangements to facilitate work from home and preparing a roster for others to attend office thrice a week.

Mr. RR, Mr. SD and Mr. MP Senior Executives presented details of their subordinate staff including their address and mode of transport (own or public) Mr. ST asked Mr. RR, Mr. SD and Mr. MP to

- Prepare a roster for staff residing within 5 km radius from the office
- Circulate the same amongst staff members
- Plan a regular reporting system through mails and Whats App Groups about critical tasks
- Regular virtual meetings with the staff on Bluejeans/ Zoom
- Send a mail asking their staff to request for Laptops and plug-in internet devices OR They may carry their desktops home with prior approval from the IT section.
- Contact Mr. DR IT Executive, to assist them to remotely access their office desktop from their laptops from home in case of any exigency.

Mr. ST asked Mr. RV IT Head to procure at least 20 laptops with internet plug-ins to be given to the staff. Mr. RV to report to Mr.ST in 3 days.

Mr. ST asked Mr. TR Manager Client Relations, to prepare a list of deliverables to various clients and to share complete details regarding outstanding payment to be received.

Mr. ST delivered vote of thanks.

ATR to be submitted by **Mr. RR, Mr SD and Mr. MP, Mr. RV and Mr. TR to Mr. ST by April 7,** 20xx

Group to again meet virtually on April 8, 20xx at same time.

Q-6 An organization is introducing new products in the market. The senior management along with Manager Sales and Marketing, Customer Care and HR are discussing advertising and customer care strategies. Prepare minutes of a meeting with participants in discussion. **[MTP.-April'21, 5 Marks]**

Ans. Minutes :

Participants in attendance: Managing Director, Senior Manager Sales and Marketing, Manager

Customer Care, Manager HR

Date: April xx, 20xx

Meeting started at 11: 00 am.

Mr. CM, Managing Director briefly introduced the agenda i.e. to suggest measures to be

introduced by the participating departments to popularize their product line.

Mr. SM, Senior Manager Sales and Marketing proposed that advertising strategy should be

focused on social media platforms such as Youtube, Facebook, Instagram etc. He suggested

- small videos to be uploaded featuring actual users using the products in real time as a demonstration of the product. These users can be families of employees.
- small videos to be uploaded with the users endorsing the products, specifically discussing the quality parameters and ease of usage.
- Product review and feedback including product rating to be sought in writing from the users.

Mr. MN, Manager Customer Care proposed that a toll-free customer care helpline be initiated to render information about the products, their usage and grievance redressal. He further suggested tooutsource the service to a call centre.

Mr. FA, Manager HR expressed his concerns over monitoring and supervision of the outsourcing entity.

Mr. CM directed Mr. MN and Mr. FA to jointly prepare a concept paper on outsourcing, discussing its pros and cons and complete work details.

ATR to be submitted by Mr. SM, Mr. MN and Mr. FA in the next 10 days latest by **April xx,20xx.**

Group to again meet virtually on **May x, 20xx** at same time.

Q-7 Prepare minutes of the meetings of a meeting with company heads and project members. The agenda of the meeting to discuss the progress of the project and discuss the hurdles. **(MTP-Nov'21, 5 Marks)**

Ans. Participants in attendance: CEO, Mr. M, Vice President, Mr. S and project heads, Mr. A and Mr. B; team members: Mr. XY and Mr. XZ

Date: November 05, 2021

Meeting started at 11:00 AM

Mr. S commenced the meeting and specified the agenda of the meeting.

Mr. M took over and asked project heads to tell about the progress of the project.

Mr. A took the lead and showed the deliverables and documents prepared for approvals. He apprised the house about the positive response being received from the clients.

Mr. B discussed about the last meeting with the client and their concerns.

Mr. M the issued faced by Mr. A and Mr. B and their team members.

Mr. S appreciated the team's efforts and encouraged them to do better.

Mr. A and B directed Mr. XY and Mr. XZ about market surveys to be conducted in other regions to determine the demand.

ATR to be submitted by November 21, 20XX.

Mr. M delivered vote of thanks to the participants and announced the next meeting to be scheduled for November 25, 20XX

Q-8 Prepare agenda for a meeting to discuss productivity in the 'work from home' model in office and discussing the tentative timelines for starting offline office. **(MTP-Oct'21, 5 Marks)**

Ans. **Objective**: 1st meeting of the HR Group on assessment of productivity in the 'work from home' model

Date: Oct xx, 20xx

Time: 11 AM

Location: Conference Room, 3rd Floor Main Building

Participants: Manager HR Ms. RK, Senior Executive HR Mr. MP, Manager Sales & Marketing Mr. PK, Senior Executive Sales & Marketing Ms. BM, Executive Sales and Marketing Mr. GS, Head Accounts CA. AD, Senior Executive Accounts Mr. SK.

Agenda	
Items	**Presenter**
1. Assessment of the weekly report from the Sales &Marketing Department on Digital Marketing targets in view of the staff of 3 Content Designers working from home. **Annexure-I**	**Ms. BM**
2. Discussion on the application from Ms. ASD Executive, Accounts to continue to work from home for the next 3 months due to exigencies at home. **Annexure-II**	**Mr. MP**
3. Reopening the Noida Branch Office with flexible timings between 9AM to 7 PM subject to staff following staggered timings. **Annexure-III**	**Ms. RK**
4. Recruitment of staff in the Digital Marketing Team. **Annexure-IV**	**Mr. PK**
5. Salary overdue for staff due to non approval for 'work from home' **Annexure-V**	

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