

"Some Tips/Dos For Exams"

✓ Every day before starting study its good if we make a small prayer it will ensures our trust which will motivate to work harder.

✓ Don't underestimate theory subjects as they are more important during last 2 months since these have been ignored earlier.

✓ Do plan your studies, take regular breaks.

✓ Take proper sleep of at least 6 hrs.

✓ Avoid Junk food and eat more and more fruits during breaks.

✓ Make Weekly Targets and try to achieve them.

✓ Always keep saying to Yourself that You are going to definitely pass since positive attitude is your biggest wealth in exams preparations.

✓ Success =Hard Work + Positive Attitude + Blessings of God & our parents so ensure this also.

All the Very Best...

My Wishes !!

CA PARAG GUPTA

TABLE OF CONTENT

Chapter No.	Topic	Pg No.
1	Meaning & Scope of Accounting	
2	Accounting Concepts, Principles & Conventions	
3	Accounting Policies	
4	Accounting Standards	
5	Valuation Principles & Accounting Estimates	
6	Capital & Revenue Expenditure & Receipts	
7	Contingent Assets & Contingent Liabilities	
8	Journal Entries & Accounting Equation	
9	Ledgers	
10	Trial Balance	
11	Cash Book	
12	Subsidiary Books	
13	Rectification of Errors	
14	Bank Reconciliation Statement	
15	Bills of Exchange & Promissory Notes	
16	Inventories	
17	Depreciation & Amortisation	
18	Final Accounts of Non-Manufacturing Sole Proprietors	
19	Final Accounts of Manufacturing Sole Proprietors	
20	Introduction to Partnership Accounts	
21	Treatment of Goodwill in Partnership Accounts	
22	Admission of Partner & Change in Profit-Sharing Ratio	
23	Retirement of Partner	
24	Death of Partner	
25	Dissolution of Partnership Firm & LLP	
26	Introduction to Company Accounts	
27	Issue, Forfeiture & Re-issue of Shares	
28	Issue of Debentures	
29	Bonus Issue & Rights Issue	
30	Redemption of Preference Shares	
31	Redemption of Debentures	
32	Financial Statements of NPO	
33	Accounts from Incomplete Records	
	Appendix: Accounting Terminologies	

CHAPTER 1: MEANING & SCOPE OF ACCOUNTING

Meaning of Accounting

- As per the American Institute of Certified Public Accountants: “Accounting is the **art of recording, classifying, and summarising** in a significant manner and in terms of money, **transactions and events** which are, in part at least, of a financial character, and **interpreting the result** thereof”.
- It is the process of recording, classifying, summarising, analysing and interpreting the financial transactions and communicating the results thereof to the persons interested in such information.

Procedural Aspects of Accounting

Procedure of accounting can be basically divided into two parts:

- (i) Generating financial information; and
- (ii) Using the financial information

Generating Financial Information:

- 1. Recording** - All business transactions of a financial character, as evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account (Journal).
- 2. Classifying** - Classification is concerned with the systematic analysis of the recorded data, with a view to group transactions or entries of one nature at one place so as to put information in compact and usable form. The book containing classified information is called "Ledger", in which all financial transactions of similar nature are collected. For eg: Salary A/c, Printing & Stationery A/c, Plant & Machinery A/c.
- 3. Summarising** - It is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements. This process leads to the preparation of the following financial statements:
(a) Trial Balance (b) Profit and Loss Account (c) Balance Sheet (d) Cash-flow Statement.
- 4. Analysing** – It involves methodical classification of the data given in the financial statements, so as to make it understandable and providing a basis for interpretation.
- 5. Interpreting** - This is the final function of accounting & is concerned with explaining the meaning and significance of the relationship as established by the analysis of accounting data, so as to enable the end-users to make a meaningful judgement about the financial condition and profitability of the business.
- 6. Communicating** - It is concerned with the transmission of summarised, analysed and interpreted information to the end-users, which is done through preparation and distribution of financial statements & other additional information like accounting ratios, graphs, diagrams, fund flow statements etc.

Using the Financial Information

- Accounting provides the art of presenting information systematically to the users of accounts. Information is useless and meaningless unless it is relevant and material to a user's decision. The information should also be free of any biases.
- The users should understand not only the financial results depicted by the accounting figures, but also should be able to assess its reliability and compare it with information about alternative opportunities and the past experience.
- There are 2 types of users of financial statements – internal (owners, management etc.) & external (government, prospective investors etc.). The manner of presentation of information to both these types is different.

Evolution of Accounting as a Social Science

- In its oldest form, '**stewardship accounting**' served the purpose of businessmen and wealthy persons, which was prevalent emergence of large-scale enterprises in the form of public limited companies.
- In the second phase, the idea of financial accounting emerged with the concept of joint stock company and separation of ownership from the management. To safeguard the interest of the shareholders and investors, disclosure of financial statements (mainly, profit and loss account and balance sheet) and other accounting information was moulded by law.
- In the third phase, accounting information was generated to aid management decisions and to improve the quality of these decisions. This new dimension of accounting came to be known as Management Accounting, which was developed in 20th Century only.
- Lastly, Social Responsibility Accounting is in the formative process, which aims at accounting for the social cost incurred by business as well as the social benefit, created by it. It is based on the ideology that while earning profits, an enterprise incurs numerous social costs like pollution, using the resources of society like materials, land, labour etc, and to compensate these costs, an enterprise is expected to generate some social benefits, like employment opportunities, recreation activities, more choice to customers at reasonable price, better quality products etc.
- Thus, the usefulness of accounting to society as a whole is the fundamental criterion to treat it as a social science, as it serves certain social purposes and contributes to social and economic progress.

Objectives of Accounting

1. Systematic recording of transactions.
2. Ascertainment of results of above recorded transactions.
3. Ascertainment of financial position of the business
4. Providing information to the users for rational decision making.
5. To know the solvency position of the entity (i.e. its ability to meet its liability or liquidity position).

Functions of Accounting

1. Measurement of past performance & depicting current financial position
2. Forecasting of future performance & financial position
3. Providing relevant information for decision making
4. Comparison & evaluation
5. Control i.e. identification of operational weakness & methods to rectify such weakness
6. Govt regulation & taxation

Book Keeping

- Book-keeping is an activity concerned with the recording of financial data relating to business operations in a significant and orderly manner. It also requires suitable classification of transactions and events. Accounting is based on a careful and efficient book-keeping system.
- Book keeping involves ensuring proper maintenance of books of account & related records.
- Maintenance of books of accounts and the preparation of financial statements of a company are guided by the Companies Act, banks and insurance companies by special Acts governing these institutions and so on. However, for sole-proprietorship and partnership business, there is no specific legislation regarding maintenance of books of accounts and preparation of financial statements.
- Objectives of Book Keeping:
 - Complete recording of transactions
 - Maintenance of proper accounting records for future reference
 - Ascertainment of financial effect on the business.

Book Keeping vs. Accounting

S No.	Book-Keeping	Accounting
1.	It is a process concerned with recording of transactions.	It is a process concerned with summarising of the recorded transactions.
2.	It constitutes as a base for accounting.	It is considered as a language of the business.
3.	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book-keeping records.
4.	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5.	There is no sub-field of book-keeping.	It has several sub-fields like financial accounting, management accounting etc.
6.	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

Sub-Fields of Accounting

➤ **Financial Accounting**

It covers the preparation and interpretation of financial statements and communication to the users of accounts. The final step of financial accounting is the preparation of Profit and Loss Account and the Balance Sheet. It primarily helps in determination of the net result for an accounting period and the financial position as on the given date.

➤ **Management Accounting**

To discharge the functions of planning, control and decision-making, the management needs variety of information. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control.

➤ **Cost Accounting**

Cost Accounting can be defined as:

“the **process of accounting for cost** which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the **preparation of periodical statements and reports for ascertaining and controlling costs**”.

➤ **Social Responsibility Accounting**

The demand for social responsibility accounting stems from increasing social awareness about the undesirable by-products of economic activities. Social responsibility accounting is concerned with accounting for social costs incurred by the enterprise and social benefits created.

➤ **Human Resource Accounting**

Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.

Users of Accounting

- Generally, users of accounts are classified into two categories, **(a) internal management and owners**; and **(b) external users or outsiders**.
- Following are the various users of accounting information:
 - ❖ **Investors:** They provide risk capital to the business. Thus, they need information to assess whether to buy, hold or sell their investment. Also, they are interested to know the ability of the business to survive, prosper and to pay dividend & give returns, for which they require information w.r.t performance & financial position.

- ❖ **Employees:** They are interested to know the stability, continuity and growth of the enterprise and its ability to provide remuneration, retirement and other benefits and to enhance employment opportunities.
- ❖ **Lenders:** They are interested to know whether their loan-principal and interest will be paid when due.
- ❖ **Suppliers & Creditors:** They are also interested to know the ability of the enterprise to pay their dues, that helps them to decide the credit policy for the relevant concern, rates to be charged and so on.
- ❖ **Customer:** Customers are concerned with the stability, profitability & value added by an enterprise while considering a supplier for major contracts.
- ❖ **Govt & their Agencies:** Since, govt regulates the functioning of business enterprises for public good, allocate scarce resources among competing enterprises, control prices, charges various taxes, they have continued interest in the business enterprises & their financial performance.
- ❖ **Public:** The public at large is interested in the functioning of the enterprise because it may make a substantial contribution to the local economy in many ways like creating employment opportunities. Moreover, public is also concerned with the ethical aspects of the business operations.
- ❖ **Management:** Management as whole is also interested in the accounts for various managerial decisions relating to the functioning of the organisation.

Relationship of Accounting with Other Disciplines

➤ **Accounting & Economics**

- Economics involves analysis of efficient use of scarce resources for satisfying human wants. This may be viewed either from the perspective of a single firm or of the country as a whole.
- Accounting overlaps economics in many respects. It contributes a lot in improving the management decision-making process. Economic theories influenced the development of the decision-making tools used in accounting.
- Accountants got the ideas of value, income and capital maintenance from economists, but modified suitably to make them usable in practical circumstances. Accountants developed the valuation, measurement and decision-making techniques which may owe to the economic theorems. but these are modified keeping in mind relevance, verifiability, freedom from bias, timeliness, comparability, reliability and understandability.

- To illustrate, Economists think that value of an asset is the present value of all future earnings which can be derived from such assets. However, accountants developed the workable valuation base – the acquisition cost i.e., the price paid to acquire the assets.
- At the macro-level, accounting provides the database over which the economic decision models have been developed.

➤ Accounting & Statistics

- Accounting information is very precise; it is exact to the last paisa. But, for decision-making purposes such precision is not necessary and hence, the statistical approximations are sought.
- Wherever a need arises for only broad generalisations or the average of relationships, statistical methods have to be applied in accounting data.
- The functional relations showing mathematical relations of one variable with one or more other variables are based on statistical work. These relations are used widely in making cost or price estimates.
- In accountancy, a number of financial and other ratios are based on statistical methods, which help in averaging them over a period of time. Several accounting and financial calculations are based on statistical formulae.
- Statistical methods are helpful in developing accounting data and in their interpretation. For example, time series and cross-sectional comparison of accounting data is based on statistical techniques.

➤ Accounting & Mathematics

- Knowledge of arithmetic and algebra is a pre-requisite for accounting computations and measurements. Calculations of interest and annuity are the examples of such fundamental uses.
- While computing depreciation, finding out instalments in hire-purchase and instalments payment transactions, calculating amount to be set aside for repayment of loan and replacement of assets and calculating lease rentals, mathematical techniques are frequently used. Accounting data are also presented in ratio form.
- Graphs and charts are being extensively used for communicating accounting information. In addition to statistical knowledge, knowledge in geometry and trigonometry seems to be essential to have a better understanding about the accounting communications system.

➤ Accounting & Law

- An economic entity operates within a legal environment. All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable

Instruments Act, etc. The entity itself is created and controlled by laws. For example, a company is created by the Companies Act and also controlled by Companies Act.

- Similarly, every country has a set of economic, fiscal and labour laws. Transactions and events are always guided by laws of the land. For example, the Companies Act has prescribed the format of financial statements for companies.
- Banking, insurance and electric supply undertakings may also have to produce financial statements as prescribed by the respective legislations controlling such entities.

➤ **Accounting & Management**

- Accountants are well placed in the management and play a key role in the management team. A large portion of accounting information is prepared for management decision-making.
- Although management relies on other data sources, accounting data are used as basic source documents. In the management team, an accountant is in a better position to understand and use such data.

Limitations of Accounting

- (i) Factors that cannot be measured in monetary terms are not shown in Books of Accounts & Financial Statements. For example: loyalty and skill of the personnel which may be the most valuable asset of an enterprise these days.
- (ii) 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.
- (iii) Accounting ignores changes in some money factors like inflation etc.
- (iv) Certain accounting estimates depend on the judgement of the accountant, e.g., provision for doubtful debts, method of depreciation adopted, recording certain expenditure as revenue expenditure or capital expenditure etc.
- (v) Financial statements consider those assets which can be expressed in monetary terms. Human resources although the very important asset of the enterprise are not shown in the balance sheet.
- (vi) Different accounting policies for the treatment of same item adds to the probability of manipulations.

Role of Accountant in the Society

An accountant with his education, training, analytical mind and experience, is best qualified to provide multiple need-based services to the ever-growing society. The accountants of today can-do full justice not only to matters relating to taxation, costing, management accounting, financial lay-

out, company legislation and procedures but they can delve deep into the fields relating to financial policies, budgetary policies and even economic principles.

Areas of Service:

- (i) Maintenance of Book of Accounts** - An accountant is able to maintain a systematic record of financial transactions in order to establish the net result of the transactions entered into during a period and to state the financial position of the concern as at a particular date. Further, proper maintenance of books of accounts assists management in planning, decision-making, controlling functions.
- (ii) Statutory Audit** - Every limited company is required to appoint a chartered accountant or a firm of chartered accountants as their auditor who are statutorily required to audit & report on truthfulness & fairness of financial statements. Other organisations may also have their accounts audited, either to comply with the requirement of any law or voluntary, to increase the authenticity of their financial statements.
- (iii) Internal Audit** - It is a management tool whereby an internal auditor thoroughly examines the accounting transactions and also the system, according to which these have been recorded with a view to ensure the management that the accounts are being properly maintained and the system contains adequate safeguards to check any leakage of revenue or misappropriation of assets and the operations have been carried out in conformity with the plans of management.
- (iv) Taxation** - An accountant can handle taxation matters of a business or a person and he can represent that business or person before the tax authorities and settle the tax liability under the statute prevailing. He can also assist in avoiding or reducing tax burden by proper planning of tax affairs.
- (v) Management Accounting & Consultancy Services** – Management Accountant is largely responsible for internal reporting to the management for planning and controlling current operations, decision-making on special matters and for formulating long-term plans. Accountant provides management consultancy services in the areas of management information system, expenditure control and evaluation of appraisal techniques for new investments and divestments, working capital management, corporate planning etc.
- (vi) Financial Advice** - Some of the areas in which an accountant can render financial advice are:
 - a. Investments
 - b. Insurance
 - c. Business Expansion
 - d. Financial Investigations (ascertaining financial positions, to find out cheaper method of manufacturing, detecting financial frauds etc.)
 - e. Pension Schemes
- (vii) Other Services** – Some of the other services that can be performed by accountants are as follows:
 - a. Share registration work
 - b. Company formation

- c. Receiverships, liquidations etc.
- d. Arbitration (i.e. act as Arbitrators to settle disputes)
- e. Information service

Chartered Accountant in Industry

- An accountant works with the functional departments and translates the organisation's aims in terms of financial expectations. Therefore, he has to make a thorough study of the business and of individuals in the functional departments, whether they are engineers or salesmen.
- A qualified accountant will be able to play an important role in performing important functions of a business relating to accounting, costing and budgetary control, estimating and treasury.

Chartered Accountant in Public Sector Enterprises

- Both in the developed and developing countries, public sector enterprises have become a special feature of the national economy. The system of financial and budgetary control and of accounting, auditing and reporting has, therefore, become a matter of interest and concern to the nation, and does not remain confined merely to a limited number of shareholders.
- The form of accounting followed by these corporations or companies is different from that of ordinary government accounting. It is the duty of the accountants to prepare the accounts and reports of these public corporations in such a way that they enable the general public to know how far the items appearing in the various types of records and financial statements justify their existence.

Chartered Accountant in Framing Fiscal Policies

- Accountants have a positive role to play in the determination of proper fiscal policies and advancement of trade, commerce and industry. They should develop new techniques and prepare themselves for new fields of service towards their commitment to the concept of the public goods and services.
- A business enterprise can be successful in the commercial sense only if accounting and business knowledge are pooled together. It is a social obligation for both accountants in industry and in practice to disclose greater information regarding the corporate results. The state of affairs of the economy can be ascertained only when such consolidated corporate information is disclosed.

Chartered Accountant & Economic Growth

- In the present times accountants have to accept a positive role and do their best to encourage efficiency in individual business units and encourage those social objectives which form the main foundation of a welfare state.

CHAPTER 2: ACCOUNTING CONCEPTS, PRINCIPLES & CONVENTIONS

Accounting Concepts

- Accounting concepts define the assumptions on the basis of which financial statements of a business entity are prepared.
- Concepts are those basic assumptions and conditions, which form the basis upon which the accountancy has been laid.
- Certain concepts are perceived, assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. These concepts lay the foundation on the basis of which the accounting principles are formulated.

Accounting Principles

- Accounting principles are a body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist.
- Accounting principles must satisfy the following conditions:
 - (i) They should be based on **real assumptions**;
 - (ii) They must be **simple, understandable** and **explanatory**;
 - (iii) They must be **followed consistently**;
 - (iv) They should be able to **reflect future predictions**;
 - (v) They should be **informational** for the users.

Accounting Conventions

- 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, and need not have universal application.

Tutorial Note: In practice, all the 3 terms viz. Accounting Concepts, Accounting Principles & Accounting Conventions are used interchangeably.

Overview of Accounting Concepts, Principles & Conventions

➤ Entity Concept

- Entity concept states that business enterprise is a separate identity apart from its owner i.e. accountants should treat a business as distinct from its owner.

- This concept helps in keeping business affairs free from the influence of the personal affairs of the owner and is applied to all the organizations whether sole proprietorship or partnership or corporate entities.
- Entity concept means that the enterprise is liable to the owner for capital investment made by the owner. Since the owner invested capital, which is also called **risk capital**, he has claim on the profit of the enterprise.

➤ **Money Measurement Concept**

- As per this concept, only those transactions, which can be measured in terms of money are recorded.
- Transactions, even if, they affect the results of the business materially, are not recorded in the books if they are not convertible in monetary terms. For example; employees of the organization, even though are the assets of the organizations, but their measurement in monetary terms is not possible, and therefore they are not included in the books of account of the organization.
- One of the limitations of this concept is that it ignores the effect of change in purchasing power of money (eg: inflation).
- Entity and money measurement are viewed as the basic concepts on which other procedural concepts hinge.

➤ **Periodicity Concept/Accounting Period Concept**

- According to this concept accounts should be prepared after every period & not at the end of the life of the entity. Usually this period is one calendar year. We generally follow from 1st April of a year to 31st March of the immediately following year.
- This concept makes the accounting system workable and the term 'accrual' meaningful. Accrued expenses or accrued revenue is only with reference to a finite time-frame which is called accounting period.
- Thus, the periodicity concept facilitates in:
 - (i) **Comparing** of financial statements of different periods
 - (ii) **Uniform and consistent accounting treatment** for ascertaining the profit and assets of the business
 - (iii) **Matching** periodic revenues with expenses for getting correct results of the business operations.

➤ **Accrual Concept**

- Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e., when they occur (and not as cash or a cash equivalent is received

or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

- 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 the future and of resources that represent cash to be received in the future.
- Accrual means recognition of revenue and costs as they are earned or incurred and not as money is received or paid. The accrual concept relates to measurement of income & expense, and identifying assets & liabilities.

➤ **Matching Concept**

- As per this 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.
- This concept is based on accrual concept as it considers the occurrence of expenses and income and does not concentrate on actual inflow or outflow of cash. This leads to adjustment of certain items like prepaid and outstanding expenses, unearned or accrued incomes.
- It is important to note that some expenses are directly related to the revenue (eg: selling expenses) and some are time bound (eg: rent, salaries). Thus, periodicity concept should also be followed while matching concept.

➤ **Going Concern Concept**

- The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the **foreseeable future**.
- It is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations.
- It is based on this concept, there is a segregation of assets & liabilities into long-term & short-term. Moreover, the valuation of assets of a business entity is dependent on this assumption.

➤ **Cost Concept**

- As per this concept, the value of an asset is determined on the basis of **historical cost**, i.e. **acquisition cost**.
- This method is preferred over other methods, since it is highly objective & free from bias.

- However, cost concept creates following distortion:
 - (i) In an inflationary situation, acquisition cost loses its relevance.
 - (ii) Historical cost-based accounts may lose comparability.
 - (iii) This concept fails to account for assets which do not have acquisition cost (eg: Human asset).

➤ Realisation Concept

- As per this concept, any change in value of an asset is to be recorded only when the business realises it.
- However, accountants follow a more conservative path. They try to cover all probable losses but do not count any probable gain. In other words, if accountants anticipate decrease in value they account for it, but if there is increase in value they ignore it until it is realised.
- Moreover, now-a-days the revaluation of assets has become a widely accepted practice when the change in value is of permanent nature. Accountants adjust such value change through creation of revaluation reserve.

➤ Dual Aspect Concept

- This concept is the core of double entry book-keeping. As per this concept, every transaction has dual effects, i.e. debit & credit.
- This concept, thus, gives the basic accounting equation:
Equity (Capital) + Liabilities = Asset

Conceptual Ques.

Develop an accounting equation as on opening & closing date and also find out the profit for the year, using the following information:

Particulars	April 1, 2016 (₹)	March 31, 2017 (₹)
Capital	1,00,000	?
12% Bank Loan	1,00,000	1,00,000
Trade Payables	75,000	70,000
Fixed Assets	1,25,000	1,10,000
Trade Receivables	75,000	80,000
Inventory	70,000	80,000
Cash & Bank	5,000	6,000

(Study Material)

Solution:

As on April 1, 2016

Capital = ₹1,00,000

Liability = ₹1,00,000 + ₹75,000 = ₹1,75,000

Asset = ₹1,25,000 + ₹75,000 + ₹70,000 + ₹5,000 = ₹2,75,000

Now,

Capital + Liability = Assets

₹1,00,000 + ₹1,75,000 = ₹2,75,000

As on March 31, 2017

Capital = ?

Liability = ₹1,00,000 + ₹70,000 = ₹1,70,000

Asset = ₹1,10,000 + ₹80,000 + ₹80,000 + ₹6,000 = ₹2,76,000

Using accounting equation:

Capital = Asset – Liabilities

Capital = ₹2,76,000 - ₹1,70,000

Therefore, Capital = ₹1,06,000

Profit for 2016-17 = Closing Capital – Opening Capital i.e. ₹1,06,000 - ₹1,00,000

Therefore, Profit = ₹6,000

➤ **Conservatism/Prudence Concept**

- As per this concept, the accountant should not anticipate income but should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.
- It is because of this concept, that inventories is valued at cost or net realisable value, whichever is lower.
- For this concept there should be at least three qualitative characteristics of financial statements, namely:
 - (i) **Prudence**, i.e., judgement about the possible future losses which are to be guarded, as well as gains which are uncertain.
 - (ii) **Neutrality**, i.e., unbiased outlook is required to identify and record such possible losses, as well as to exclude uncertain gains,
 - (iii) **Faithful representation** of alternative values.

➤ **Consistency Concept**

- As per this concept, in order to achieve comparability of the financial statements through time, the accounting policies should be followed consistently from one period to another. A change in an accounting policy is made only in certain exceptional circumstances.
- The concept of consistency is applied particularly when alternative methods of accounting are equally acceptable.
- It is important to note that in some cases though there is no inconsistency, they may seem to be inconsistent apparently. In case of valuation of Inventories if the company

applies the principle 'at cost or market price whichever is lower', and if this principle accordingly results in the valuation of Inventories in one year at cost price and the market price in the other year, there is no inconsistency here. It is only an application of the principle.

➤ **Materiality Concept**

- According to materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements and any insignificant item which is not **relevant to the users' need** should not be disclosed in the financial statements.
- The term materiality is the **subjective term**. It is on the judgement, common sense and discretion of the accountant that which item is material and which is not. For example, stationary purchased by the organization though not used fully in the accounting year purchased still shown as an expense of that year because of the materiality concept. Similarly, depreciation on small items like books, calculators etc. is taken as 100% in the year of purchase though used by the entity for more than a year.
- The materiality depends not only upon the amount of the item but also upon the size of the business, nature and level of information, level of the person making the decision etc. Moreover, an item material to one person may be immaterial to another person.

Fundamental Accounting Assumption

- These are those assumptions, that are assumed to be followed in the preparation of financial statements. Thus, no separate disclosure is required in financial statements in respect of these assumptions. However, if any of the fundamental accounting assumption is not followed, then this fact should be specifically disclosed (in the notes to accounts).
- There are three fundamental accounting assumptions:
 - (i) Going Concern
 - (ii) Consistency
 - (iii) Accrual

Qualitative Characteristics of Financial Statements

- The qualitative characteristics of financial statements can be classified as:
 - (i) **Principal qualitative characteristics**
 - (ii) **Other qualitative characteristics**
- Following are the **principal qualitative characteristics**:
 - (i) **Understandability** - An essential quality of the information provided in financial statements is that it must be readily understandable by users. However, material

information about complex matters should not be excluded merely on the ground that it may be too difficult for certain users to understand.

(ii) Relevance - To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

(iii) Reliability - To be useful, information must also be reliable, Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

(iv) Comparability - Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position, performance and cash flows. Users must also be able to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises.

➤ Following are the **other qualitative characteristics**:

(i) Materiality - The relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information.

(ii) Faithful Representation - To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the enterprise at the reporting date which meet the recognition criteria.

(iii) Substance over Form – For faithful representation, it is necessary that transactions are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. For example, where rights and beneficial interest in an immovable property are transferred but the documentations and legal formalities are pending, the recording of acquisition/disposal (by the transferee and transferor respectively) would in substance represent the transaction entered into.

(iv) Neutrality - To be reliable, the information contained in financial statements must be neutral, that is, free from bias.

(v) Prudence - Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of

uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

(vi) Full, Fair & Adequate Disclosure - The financial statement must disclose all the reliable and relevant information about the business enterprise to the management and also to their external users for which they are meant, which in turn will help them to take a reasonable and rational decision. Financial statements should be prepared as per relevant Generally Accepted Accounting Principles (GAAPS).

(vii) Completeness - To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

CHAPTER 3: ACCOUNTING POLICIES

Meaning

- Accounting policies refers to specific accounting principles & methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements.
- These policies are based on various accounting concepts, principles & conventions.
- Example: Valuation of inventories & investments, Method of valuation of inventories.

Selection of Accounting Policies

- Following characteristics are to be considered while selecting an appropriate Accounting policy:
 - Prudence
 - Substance over form
 - Materiality
- Appropriate accounting policy helps in exhibiting true and fair view of state of affairs of Balance Sheet and Profit and Loss Account.

Change in Accounting Policy

- Change in accounting policy is made in following two cases:
 - (i) It is required by any **statue or accounting standard**
 - (ii) such change will result in **more appropriate/better presentation of financial statement**
- Example of change in Accounting Policy: change in method of valuation of inventories to include production overheads.

CHAPTER 4: ACCOUNTING STANDARDS

Meaning

- Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
- AS provide framework and standard accounting policies for treatment of transactions and events so that the financial statements of different enterprises become comparable.
- In India, AS are formulated by Accounting Standard Board (ASB), constituted by The Institute of Chartered Accountants of India (ICAI).
- The accounting standards deal with the issues of -
 - recognition of events and transactions in the financial statements;
 - measurement of these transactions and events;
 - presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader; and
 - the disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Objectives of Accounting Standards

Two main objectives:

- (i) to eliminate the non-comparability of financial statements and thereby improving the reliability of financial statements; and
- (ii) to provide a set of standard accounting policies, valuation norms and disclosure requirements.

Benefits of Accounting Standards

- (i) **Standardisation of Alternative Accounting Treatments** - Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
- (ii) **Additional Disclosures** - There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law, thus improving transparency in financial statements.
- (iii) **Comparability of Financial Statements** – Standards facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country.

Limitations of Accounting Standards

- (i) Difficulties in making choice between different treatments
- (ii) Restricted scope as standards cannot override the law.

CHAPTER 5: VALUATION PRINCIPLES & ACCOUNTING ESTIMATES

Introduction

- Measurement is an important aspect of accounting, as transactions & events are measured in terms of money.
- Three aspects relevant to measurement are:
 - Identification of objects & events to be measured.
 - Selection of standard or scale to be used.
 - Evaluation of dimension of measurement standard or scale.

Objects or Events to be Measurement

- Accounting Process provides important information to various users (internal & external). This information is required to be measured in monetary terms.
- Past events can be measured with fair degree of accuracy. However, future events have to be predicted by the management.
- Thus, objects or events to be measured depends upon the requirements for decision making by the users.

Standard/Scale of Measurement

- In accounting, money is the scale of measurement. This is explained by “Money Measurement Concept”. However, in some cases, quantitative information is also given.
- Money as a measurement scale has no universal denomination. A transaction may take place in home currency or foreign currency.
- In case of foreign currency transaction, relevant exchange rate, as per AS/Ind AS, is used for conversion of monetary amount. Since, these exchange rates are volatile, measurement scale also becomes volatile.
- Thus, money as a unit of measurement lacks universal applicability.

Dimension of Measurement Scale

- Ideally, measurement scale should be stable over time. However, money as a scale of measurement is not stable. This is due to **time value of money**. It means that, same quantity of money may not have the ability to buy same quantity of such goods at different points of time.
- Thus, information pertaining to different years may not be comparable.

Valuation Principles/Basis

1. Historical Cost:

- It is the **acquisition cost**.
- For example: a machine is purchased for ₹4,00,000 & ₹1,00,000 is paid for its installation. In this case the Historical Cost of the machine will be ₹5,00,000.
- Assets are recorded at an amount of cash/cash equivalent paid at the time of purchase/acquisition. Similarly, liabilities are recorded at the amount of cash/cash equivalent received in exchange for the obligation (eg: loan). In some cases, liabilities are recorded at the amount of cash/cash equivalents expected to be paid to satisfy in the normal course of business (eg: Income tax liability, Outstanding interest).

2. Current Cost:

- It is an alternate approach to Historical Cost. As per this, assets are carried at the amount of cash/cash equivalent that would have to be paid, if the same or an equivalent asset was acquired currently.
- Similarly, liabilities are carried at the undiscounted amount of cash/cash equivalents, that would be required to settle the obligation currently.

3. Realisable Value:

- Under this, assets are carried at the amount of cash or cash equivalent that could currently be obtained by selling the assets in an orderly transaction (i.e. it should not be haphazard).
- Similarly, liabilities are carried at their settlement values.

4. Present Value:

- As per this method, asset is valued at discounted value of the future net cash inflows that can be generated by such assets in normal course of business.
- Liabilities are carried at present value of future cash outflows required to settle the liability, in the normal course of business.

Accounting Estimates

- Estimates are used for measuring those items that have not yet occurred, but it is necessary to record them in the books of accounts. Since, these items are futuristic, normal valuation principles cannot be used.
- These estimates are made by management & it involves various assumptions & judgements based on latest information & past experience.

- Estimates may have to be revised from time to time due to change in assumptions, availability of new information, change in circumstances etc.

- Examples of Accounting estimates are:
 - Provision for Bad debts
 - Useful life of Asset
 - Salvage value of asset
 - Inventory obsolescence
 - **Depreciation method**

CHAPTER 6: CAPITAL & REVENUE EXPENDITURE & RECEIPTS

Revenue Expenditure

- These expenditures relate to the operations of the business of an accounting period or to the revenue earned during the period or items of expenditure, benefits of which do not extend beyond that period (mostly 1 year).
- These expenses are recognised (debited) to the Profit & Loss A/c, using matching principle & accrual concept.
- Revenue expenses may be directly related to the revenue (eg: Cost of Goods Sold) or in relation with accounting periods (eg: rent, salaries etc.).

Capital Expenditure

- Capital expenditure generates benefits & helps in revenue generation over more than one accounting period.
- It basically helps in increasing revenue generation capacity of the entity.
- Capital expenditure is capitalised on the asset side of the Balance Sheet & its utilisation/consumption is transferred to the Profit & Loss A/c over the years, which reduces the value of assets, disclosed in the Balance Sheet.
- For example: Purchase of Fixed Assets is debited to Fixed Asset A/c. Depreciation is charged to the Profit & Loss A/c over the useful life of the asset, which reduces the value of Fixed Asset shown in the Balance Sheet.

Basic Considerations in Determining Capital & Revenue Expenditure

- 1) Nature of Business** – For example: Purchase of furniture will be treated as revenue expenditure in case of a furniture dealer. However, it will be treated as Capital expenditure for any other business.
- 2) Recurring Nature of Business** – An expenditure may be of revenue nature, if it is frequently incurred. For example: monthly rent of business premises, salaries etc. However, capital expenditure may not occur as frequently. For example: Fixed assets are not frequently purchased.
- 3) Purpose of Expenditure** – For example: expense incurred for repair of machinery in normal course of maintenance is revenue in nature. However, expenditure incurred on such repairs, which increases the production capacity is treated as capital expenditure, and is to be debited to the Machinery A/c.

- 4) Effect on Revenue Generation Capacity** – If expense helps in generating revenue in the current period only, then it should be treated as revenue expense & hence should be expensed off in Profit & Loss A/c, as per matching concept. On the other hand, if an expenditure helps in increasing revenue generation capacity in more than one accounting period, then it should be capitalised in the books of accounts.
- 5) Materiality of the Amount Involved** – An expenditure of small amount in proportion to say, revenue, should be treated as revenue. Conversely, if expenditure involves high amount (i.e. high materiality, then these may have to be capitalised.

Tutorial Note: Above considerations are not hard & fast rule. These are general considerations. A transaction has to be analysed in totality, keeping in mind all the criteria & points for its classification, which may involve significant judgement.

Capital Receipts & Revenue Receipts

- Revenue receipts are those receipts which are earned in the normal course of business. (eg: sales receipts, interest & dividend income etc.).
- Revenue receipts are credited in the Profit & Loss A/c.
- Capital receipts are those receipts which are other than revenue receipts. These are not directly credited to the Profit & Loss A/c. For eg: Sale of fixed assets for ₹54,000 (Cost = ₹50,000) is a capital receipt. In this case, only profit of ₹4,000 (i.e. ₹54,000 - ₹50,000) is credited to Profit & Loss A/c, and not the entire proceeds of ₹54,000.
- Both receipts are recorded on accrual basis i.e. when right of receipt is established.

Practical Questions

Q.1.

State with reasons whether the following statements are 'True' or 'False'.

- (1) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.
- (2) Money spent to reduce working expenses is Revenue Expenditure.
- (3) Legal fees to acquire property is Capital Expenditure.
- (4) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.
- (5) Amount spent for replacement of worn out part of machine is Capital Expenditure.
- (6) Expense incurred on the repairs and white washing for the first time on purchase of an old building are Revenue Expenses.
- (7) Expenses in connection with obtaining a license for running the cinema is Capital Expenditure.
- (8) 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.

(Hint: False, False, True, False, False, False, True, True)

(Study Material)

Q.2.

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

- (1) Expenses incurred in connection with obtaining a license for starting the factory for ₹10,000.
- (2) ₹1,000 paid for removal of Inventory to a new site.
- (3) Rings and Pistons of an engine were changed at a cost of ₹5,000 to get fuel efficiency.
- (4) Money paid to Mahanagar Telephone Nigam Ltd. (MTNL) ₹8,000 for installing telephone in the office.
- (5) A factory shed was constructed at a cost of ₹1,00,000. A sum of ₹5,000 had been incurred in the construction of temporary huts for storing building material.

(Hint: Capital, Revenue, Capital, Not an Expenditure...treated as asset & adjusted against telephone bills, Capital)

(Study Material)

Q.3.

Good Pictures Ltd., constructs a cinema house and incurs the following expenditure during the first year ending 31st March, 2016:

- (i) Second-hand furniture worth ₹9,000 was purchased; repainting of the furniture costs ₹1,000. The furniture was installed by own workmen, wages for this being ₹200.
(Hint: Cost of Furniture = ₹10,200)
- (ii) Expenses in connection with obtaining a license for running the cinema worth ₹20,000. During the year the cinema company was fined ₹1,000, for contravening rules. Renewal fee ₹2,000 for next year also paid.
(Hint: Cap Exp = ₹20,000; Rev Exp = ₹3,000 out of which ₹2,000 to be treated as prepaid)
- (iii) Fire insurance, ₹1,000 was paid on 1st October 2015 for one year.
(Hint: Rev Exp = ₹1,000 out of which ₹500 to be treated as prepaid)

- (iv) Temporary huts were constructed costing ₹1,200. They were necessary for the construction of the cinema. They were demolished when the cinema was ready.
(Hint: ₹1,200 to be treated as Capital Expenditure)

Point out how you would classify the above items.

(Study Material)

Q.4.

State with reasons, how you would classify the following items of expenditure:

1. Overhauling expenses of ₹25,000 for the engine of a motor car to get better fuel efficiency.
2. Inauguration expenses of ₹25 lacs incurred on the opening of a new manufacturing unit in an existing business.
3. Compensation of ₹2.5 crores paid to workers, who opted for voluntary retirement.

(Hint: Capital, Revenue, Revenue)

(Study Material)

Q.5.

Classify the following expenditures and receipts as capital or revenue:

- (i) ₹10,000 spent as travelling expenses of the directors on trips abroad for purchase of capital assets.
- (ii) Amount received from Trade receivables during the year.
- (iii) Amount spent on demolition of building to construct a bigger building on the same site.
- (iv) Insurance claim received on account of a machinery damaged by fire.

(Hint: Capital Expenditure, Revenue Receipts, Capital Expenditure, Capital Receipt)

(Study Material)

Q.6.

Are the following expenditures capital in nature?

- (i) M/s ABC & Co. run a restaurant. They renovate some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 10 to 13. The total expenditure was ₹20,000.
- (ii) M/s New Delhi Financing Co. sold certain goods on instalment payment basis. Five customers did not pay instalments. To recover such outstanding instalments, the firm spent ₹10,000 on account of legal expenses.
- (iii) M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent ₹40,000 for transportation of such machinery. The year ending is 31st Dec 2015.

(Hint: Capital, Revenue, Capital)

(Study Material)

Q.7.

If repair cost is ₹25,000, whitewash expenses are ₹5,000, (both these expenses relate to presently used building) cost of extension of building is ₹2,50,000 and cost of improvement in electrical wiring system is ₹19,000; Calculate the amount to be expensed.

(Hint: Amt. to be expensed = ₹30,000)

(Study Material)

Q.8.

Classify the following expenditures as capital or revenue expenditure:

- (i) Amount spent on making a few more exits 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.

(Hint: Revenue, Capital, Revenue, Revenue, Capital)

(RTP Nov 19)

Q.9.

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.
- Inauguration expenses of a new manufacturing unit in an existing business.

(Hint: Revenue, Capital, Revenue, Capital, Capital, Revenue; Revenue)

(RTP Nov 18) (RTP May 21)

Q.10.

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.

(Hint: Capital Expenditure, Revenue Receipts, Capital Expenditure, Capital Receipt)

(RTP May 19)

Q.11.

Best Tech Solutions buys and sells computers as a part of its business. It purchased 20 computers for resale to its customers. Cost of each computer is ₹20,000. It also purchased a computer costing ₹24,000 for its accountant to be able to maintain the accounting records and printing of invoices.

Suggest whether above transactions qualify as capital expenditure or revenue expenditure transactions?

(Hint: Revenue Expenditure = ₹20,000 x 20 = ₹4,00,000; Capital Expenditure = ₹24,000)

(Study Material)

Q.12.

State with reasons whether the below items relating to the business of AB td are capital or revenue receipts?

- (a) A machine with a book value of ₹10 lakh is sold for ₹12 lakh.
- (b) Premium amounting to ₹1 Lakh received on issue of shares
- (c) An amount of ₹20,000 received from goods sold in cash.

- (d) An amount of ₹5 lac received on the maturity of fixed deposit from bank. Also, an interest of ₹40,000 was received in addition to the maturity amount of the fixed deposits
(Hint: Capital Receipt – (a), (b), (d) ₹5 lakhss; Revenue Receipt – (c), (d) ₹40,000)

(Study Material)

Q.13.

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.

(Hint: Capital; Revenue; Capital; Revenue; Revenue)

(RTP May 22)

Q.14.

Classify the following expenditures as capital or revenue expenditure:

- (i) Expenses incurred to keep the machine in working condition.
- (ii) Registration fees paid at the time of purchase of a building.
- (iii) Expenses incurred for advertisement in newspaper.
- (iv) Amount spent on renewal fee of patent rights.
- (v) Cost of repairs on second-hand car purchased to bring it into working condition.

(Hint: Revenue; Capital; Revenue; Revenue; Capital)

(RTP Nov 22)

Q.15.

Classify the following expenditures/receipts as capital or revenue expenditure/receipt:

- (i) Insurance claim received on account of inventory damaged by fire.
- (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) Travelling expenses of the chief financial officer on trips abroad for purchase of special machinery.
- (iv) Dividend received from XYZ limited during the year

(Hint: Revenue Receipt; Revenue Expenditure, Capital Expenditure, Revenue Receipt)

(RTP May 2023) (Modified)

Q.16.

Classify the following expenditures as capital or revenue receipt or capital or revenue expenditure:

- (i) Traveling expenses of the chief executive officer for trips abroad for purchase of capital assets.
- (ii) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.
- (iii) Insurance claim received on account of inventory damaged by fire.
- (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

(Hint: Capital Expenditure, Revenue Expenditure, Revenue Receipt, Revenue Expenditure, Capital Expenditure)

(RTP Dec 2023)

Q.17.

Classify the following expenditures/receipts as capital or revenue expenditure or receipt:

- (i) Amount spent for replacement of a petrol driven engine by CNG kits.
- (ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
- (iii) Amount spent to reduce working expenses.
- (iv) Insurance claim received on account of inventory damaged by fire .
- (v) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

(Hint: Capital Expenditure, Capital Expenditure, Capital Expenditure, Revenue Receipt, Capital Expenditure)

(ICAI MTP – Nov 22 – 5 Marks)

CHAPTER 7: CONTINGENT ASSETS & CONTINGENT LIABILITIES

Contingent Liabilities

- It can be defined as:
 - a **possible obligation** that arises from **past events**, existence of which will be confirmed only by the **occurrence or non-occurrence** of one or more **uncertain future events, not wholly under the control of the entity**; or
 - a **present obligation** that arises from past events, but not recognised because:
 - it is **not probable** that an **outflow of economic resources** will be required to settle the obligation; or
 - amount of outflow **cannot be reliably estimated**.
- Contingent liability is not disclosed on the face of Balance Sheet. It is **disclosed in the notes to accounts**.
- These liabilities are assessed continuously to determine if outflow has become probable, in which case, a **provision is recognised** in the financial statements of the period, in which it has become probable, **provided a reliable estimate of amount** can be made.
- Example of Contingent Liabilities: Claims against company not acknowledged as debt, guarantees given in respect of third parties, liability w.r.t bill discounted, statutory liabilities under dispute etc.
- **Case Analysis:** Suppose GST Authority has imposed a penalty and the entity has filed an appeal against the penalty order. Following scenarios arises:
 - If management estimates that appeal will be lost & penalty will have to be paid, then it will be recognised as provision.
 - If management estimates that appeal order will be in favour of the entity, and accordingly no penalty would have to be paid, it will be treated as contingent liability.

Provision vs Contingent Liability

S No.	Provision	Contingent Liability
1.	It is a present obligation of uncertain amount, which can be reliably estimates	It is a possible obligation , that may or may not materialise, & depends on occurrence or non-occurrence of future uncertain event.
2.	It meets the recognition criteria for being disclosed as a liability, and hence is	It does not meet the recognition criteria, & hence is disclosed in the notes to accounts.

	disclosed in the face of balance sheet.	
3.	Provision is recognised if: (a) There is a present obligation arising from past event, & outflow of economic resources is probable ; and (b) Amount can be reliably estimated .	It includes a possible obligation that does not meet the recognition criteria.
4.	If management estimates that settlement of obligation will lead to outflow of economic resources, it treats it as provision.	If management estimates that settlement of obligation will not lead to such outflow, it treats it as contingent liability.

Contingent Assets

- It is defined as: a **possible asset** that arises from **past events**, existence of which will be confirmed only on the **occurrence or non-occurrence of future uncertain event, which is outside the control of the entity**. For example: Claim filed by the entity.
- Contingent asset requires **no accounting treatment or disclosure**. This is in line with the prudence concept & accounting standards.
- Contingent assets are generally disclosed in the Report of Board of Directors/Approving Authority of the entity. These are not disclosed in the financial statements.
- If inflow of economic benefits becomes **probable** and **amount can be reliably estimated**, then it is disclosed in the financial statement of the period in which it has become so probable.

CHAPTER 8: JOURNAL ENTRIES & ACCOUNTING EQUATION

Q.1.

Following are the transactions entered into by R after he started his business. Show how various accounts will be affected by these transactions:

2022 April	(₹ in 000)
1. R started business with	5,000
2. He purchased furniture for	1,200
3. Paid salary to his clerk	1,100
4. Paid rent	1,150
5. Received interest	2,000

(Study Material)

Q.2.

Develop the accounting equation from following information available at the beginning of accounting period:

Particulars	(₹ in 000)
Capital	51,000
Loan	11,500
Trade payables	5,700
Fixed Assets	12,800
Inventory	22,600
Trade receivables	17,500
Cash and Bank	15,300

At the end of the accounting period the balances appear as follows:

Particulars	(₹ in 000)
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720
Inventory	22,900
Trade receivables	17,500
Cash and Bank	15,600

(a) Reset the equation and find out profit.

(b) Prepare Balance Sheet at the end of the accounting period.

(Hint: Closing Capital = ₹51,420; Profit = ₹420; Balance Sheet Total = ₹68,720)

(Study Material)

Q.3.

Mr. Dravid. has provided following details related to his financials. Find out the missing figures:

Particulars	(₹ in '000)
Profits carved during the year	5,000
Assets at the beginning of year	A
Liabilities at the beginning of year	12,000
Assets at the end of the year	B
Liabilities at the end of the year	C
Closing capital	35,000
Total liabilities including capital at the end of the year	50,000

(Hint: Opening Capital = ₹30,000; A = ₹42,000; B = ₹50,000; C = ₹15,000)

(Study Material)

Q.4.

From the following information, state the nature of account and state which account will be debited and which will be credited (Use Traditional Approach & Modern Approach).

1. Started business with a capital of ₹50,00,000.
2. Wages and salaries paid ₹50,000
3. Rent received ₹2,00,000
4. Purchased goods on credit ₹9,00,000
5. Sold goods for ₹8,16,000 and received payment in cheque.

(Study Material – Modified)

Q.5.

Analyse transactions of M/s Sahil & Co. for the month of March, 2022 on the basis of double entry system by adopting the following approaches:

- (A) Accounting Equation Approach.
- (B) Traditional Approach.

Transactions for the month of March, 2017 were as follows (figures are in '000):

1. Sahil introduced capital through bank of ₹4,000.
2. Cash withdrawn from the City Bank ₹200.
3. Loan of ₹500 taken from Mr. Y.
4. Salaries paid for the month of March, 2017, ₹300 and ₹100 is still payable for the month of March, 2017.
5. Furniture purchased ₹500.

Required

What conclusion one can draw from the above analysis?

(Hint: Conclusion - It is evident from above analysis that procedure for analysis of transactions, classification of accounts and rules for recording business transactions under accounting equation approach and traditional approach are different. But the accounts affected and entries in affected accounts remain same under both approaches. Thus, accounts to be debited and credited to record the dual aspect remain same under both the approaches.)

(Study Material)

Q.6.

Journalise the following transactions. Also state the nature of each account involved in the Journal entry.

Following figures are given in (‘00)

1. December 1, 2022, Ajit started business with capital ₹4,00,000
2. December 3, he withdrew cash for business from the Bank ₹2,000.
3. December 5, he purchased goods making payment through bank ₹15,000.
4. December 8, he sold goods ₹16,000 and received payment through bank.
5. December 10, he purchased furniture and paid by cheque ₹2,500.
6. December 12, he sold goods to Arvind ₹2,400.
7. December 14, he purchased goods from Amrit ₹10,000.
8. December 15, he returned goods to Amrit ₹500.
9. December 16, he received from Arvind ₹2,300 in full settlement.
10. December 18, he withdrew goods for personal use ₹1,000.
11. December 20, he withdrew cash from business for personal use ₹2,000.
12. December 24, he paid telephone charges ₹110.
13. December 26, amount paid to Amrit in full settlement ₹9,450.
14. December 31, paid for stationery ₹200, rent ₹5,000 and salaries to staff ₹2,000.
15. December 31, goods distributed by way of free samples ₹2,000.

(Study Material)

Q.7.

Show the classification of the following Accounts under traditional and accounting equation approach:

(a) Building; (b) Purchases; (c) Sales; (d) Bank Fixed Deposit; (e) Rent; (f) Rent Outstanding; (g) Cash; (h) Adjusted Purchases; (i) Closing Inventory; (j) Investments; (k) Trade receivables; (l) Sales Tax Payable, (m) Discount Allowed; (n) Bad Debts; (o) Capital; (p) Drawings; (q) Interest Receivable account; (r) Rent received in advance account; (s) Prepaid salary account; (t) Bad debts recovered account; (u) Depreciation account, (v) Personal income-tax account.

(Study Material)

Q.8.

Transactions of Ramesh for April are given below. Journalise them.

2017			₹
April	1	Ramesh started business with	10,00,000
"	3	Bought goods for cash	50,000
"	5	Drew cash from bank	10,000
"	13	Sold to Krishna- goods on credit	1,50,000
"	20	Bought from Shyam goods on credit	2,25,000
"	24	Received from Krishna	1,45,000
"	"	Allowed him discount	5,000
"	28	Paid Shyam cash	2,15,000

"	"	Discount allowed	10,000
"	30	Cash sales for the month	8,00,000
"	"	Paid Rent	50,000
"	"	Paid Salary	1,00,000

(Study Material)

Q.9.

Show the classification of the following Accounts under traditional and accounting equation approach:

- | | |
|----------------------|---------------------|
| a Rent outstanding | g Capital |
| b Closing Inventory | h Sales Tax Payable |
| c Sales | i Trade receivables |
| d Bank Fixed Deposit | j Depreciation |
| e Cash | k Drawings |
| f Bad Debts | |

(Study Material)

Q.10.

Pass Journal Entries for the following transactions in the books of Gamma Bros.

- Employees had taken inventory worth ₹1,00,000 (Cost price ₹75,000) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
- Wages paid for erection of Machinery ₹18,000.
- Income tax liability of proprietor ₹1,17,000 was paid out of petty cash.
- Purchase of goods from Naveen of the list price of ₹2,00,000. He allowed 10% trade discount; ₹5,000 cash discount was also allowed for quick payment.

(Study Material)

Q.11.

Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	15,00,000	2,50,000	?
(b)	?	1,50,000	75,000
(c)	14,50,000	?	13,75,000
(d)	57,00,000	- 2,80,000	?

(Hint: (a) 12,50,000; (b) 2,25,000; (c) 75,000; (d) 59,80,000)

(Study Material)

Q.12.

Show the effect of increase = (+), decrease = (-) and no change=(0) on the assets of the following transactions:

- Purchased office furniture, payment to be made next month.
- Collected cash for repair services
- Goods sold on credit.
- Withdrawal of cash by the owner for personal use.
- Hired an employee as sales manager of the north wing.
- Returned goods worth ₹50,000.

- g. One of our debtor agreed to pay his dues to Mr. C who is a creditor of the company with the same amount being due to him.
- h. Entered into an agreement with Mehta & Co. to purchase all raw materials from their company from next year.

Also give reasons for your answers.

(Hint: +, +, +, -, 0, -, -, 0)

(Study Material)

Q.13.

Following is the information provided by Mr. Gopi pertaining to year ended 31st March 2017. Find the unknowns, showing computation to support your answer:

Particulars	₹	Particulars	₹
Machinery	12,00,000	Trade Receivables	B
Accounts Payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total Liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital Introduced during the year	1,00,000

Additional Information: During the year sales of ₹15,55,000 was made of which ₹15,00,000 have been received.

(Hint: A = 20,000; B = 55,000; C = 2,50,000; D = 10,65,000)

(Study Material)

Q.14.

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

- Employees had taken stock worth ₹25,000 (Cost price ₹22,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.
- Wages paid for erection of Machinery ₹16,000.
- Income tax liability of proprietor ₹3,400 was paid out of petty cash.
- 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)

Q.15.

Pass a journal entry in each of the following cases.

- 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.
- Goods distributed by way of free samples, ₹1,000.
- Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him was ₹ 600.

(RTP Nov 19, RTP Nov 20)

Q.16.

Journalise the following transactions in the books of Mr. Rohit:

- (i) Purchased goods from Sahil for ₹50,000 plus CGST and SGST @ 9% each.
- (ii) Purchased goods from Sam for ₹40,000 at a trade discount of 10% plus CGST and SGST @ 8% each. ₹20,000 was paid immediately and balance payable after 3 months.
- (iii) Goods costing ₹20,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.
- (iv) Paid rent to Gagandeep for ₹20,000 plus CGST and SGST @ 6% each.
- (v) Goods costing ₹5,000 (before trade discount of 10%) returned to Sam. Such goods were purchased by paying CGST and SGST @ 9% each.
- (vi) Purchased furniture for ₹44,800 including IGST @ 12%.
- (vii) Purchased machinery from M/s Symphony industries for ₹1,40,000 plus CGST and SGST @ 9% each. Paid ₹1,00,000 immediately and balance to be paid after two months.

(Study Material)

Q.17.

Journalise the following transactions in the books of Ms. Nidhi traders July, 2022

- 3 Sold Goods for ₹50,000, charged CGST and SGST @ 6% each.
- 4 Sold goods to Surjeet for ₹28,000 including CGST and SGST @ 6% each.
- 5 Received ₹25,200 from Surjeet in full settlement of his account of ₹28,000.
- 6 Sold goods to Kapil for ₹30,000 charged IGST @ 12%. Received ₹12,000 immediately and balance to be received after one month.
- 10 Kapil was allowed rebate of ₹5,000 as goods supplied to him were defective. These goods were sold by charging IGST @ 12%.
- 12 Sold goods to Manpreet for ₹1,00,000 at trade discount of 20% and charged IGST @ 12%
- 13 Goods of list price ₹20,000 returned by Manpreet.
- 17 Received commission of ₹15,000, charged CGST and SGST @ 6% each.

(Study Material)

Q.18.

Record the following transactions in a Journal, assuming CGST and SGST @ 6% each.

- (i) Sold goods to Mukesh at the list price of ₹50,000 less 20% trade discount.
- (ii) Sold goods to Mukesh at the list price of ₹1,00,000 less 20% trade discount and 5% cash discount.
- (iii) Sold goods to Mukesh at the list price of ₹1,50,000 less 20% trade discount and 5% cash discount. Out of the amount due 60% is received out of which three-fourth is received by cheque.

(Study Material)

Q.19.

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)

Q.20.

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	?

(Hint: (a) 37,50,000; (b) 6,75,000; (c) 2,25,000; (d) 1,79,40,000)

(ICAI MTP – March 22 – 4 Marks))

CHAPTER 9: LEDGERS

Q.1.

Prepare the Stationery Account of a firm for the month of Jan 2022 duly balanced off, from the following details:

2022		₹
Jan. 1	Inventory of stationery	480
Jan 5	Purchase of stationery by cheque	800
Jan 15	Purchase of stationery on credit from Five Star Stationery Mart	1,280

(Hint: Closing Debit Balance of Stationery A/c = ₹2,560)

(Study Material)

Q.2.

Prepare the ledger accounts on the basis of following transactions in the books of a trader.

Debit Balances on January 1, 2022:

Cash in Hand ₹8,000, Cash at Bank ₹25,000, inventory of Goods ₹20,000, Building ₹10,000. Trade receivables: Vijay ₹2,000 and Madhu ₹2,000.

Credit Balances on January 1, 2022:

Trade payables: Anand ₹5,000, Capital ₹55,000

Following were further transactions in the month of January, 2022:

- Jan. 1 Purchased goods worth ₹5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.
- Jan. 4 Received ₹1,980 from Vijay and allowed him ₹20 as discount.
- Jan. 8 Purchased plant from Mukesh for ₹5,000 and paid ₹100 as cartage for bringing the plant to the factory and another ₹200 as installation charges.
- Jan. 12 Sold goods to Rahim on credit ₹600.
- Jan. 15 Rahim became insolvent and could pay only 50 paise in a rupee.
- Jan. 18 Sold goods to Ram for cash ₹1,000.

(Hint: Closing Balances: Cash A/c = ₹7,180; Bank A/c = ₹25,000; Inventory A/c = ₹20,000; Building A/c = ₹10,000; Vijay A/c = NIL; Madhu A/c = ₹2,000; Anand A/c = ₹5,000; Kapil A/c = ₹7,000; Capital A/c = ₹55,000; Purchases A/c = ₹4,000; Discount Allowed A/c = ₹20; Discount Received A/c = ₹200; Plant A/c = ₹5,300; Mukesh A/c = ₹5,000; Sales A/c = ₹1,600; Rahim A/c = ₹600; Bad Debts = ₹300)

(Study Material)

Q.3.

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2022.

- 1 Mr. S owes Mr. R ₹15,000; Mr. H owes Mr. S ₹20,000.
- 4 Mr. R sold goods worth ₹60,000 @ 10% trade discount to Mr. S.
- 5 Mr. S sold to Mr. H goods prices at ₹30,000.
- 17 Record a purchase of ₹25,000 net from R, which were sold to H at a profit of ₹15,000.
- 18 Mr. S rejected 10% of Mr. R's goods of 4th April.

- 19 Mr. S issued a cash memo for ₹10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.
- 22 Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received, ₹20,000 was by cheque).
- 26 R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made.
- 29 Close H's Account to record the fact that all but ₹5,000 was cleared by him, by a cheque, because he was declared bankrupt.
- 30 Balance R's Account.
- (Hint: Closing Balances: H A/c = NIL – Bad Debts = ₹5,000; R A/c = ₹10,000; Cash Received on 22.4.2022 = ₹24,775 & Discount Allowed ₹225)

(Study Material)

Q.4.

Journalize the following transactions, post them in the Ledger and balance the accounts on 31st December.

1. X started business with a capital of ₹20,000
2. He purchased goods from Y on credit ₹4,000
3. He paid cash to Y ₹2,000
4. He sold goods to Z ₹4,000
5. He received cash from Z ₹6,000
6. He further purchased goods from Y ₹4,000
7. He paid cash to Y ₹2,000
8. He further sold goods to Z ₹4,000
9. He received cash form Z ₹2,000

(Hint: Closing Balances: Cash A/c = ₹24,000; Capital A/c = ₹20,000; Purchase A/c = ₹8,000; Y A/c = ₹4,000; Z A/c = NIL; Sales A/c = ₹8,000)

(Study Material)

CHAPTER 10: TRIAL BALANCE

Q.1.

Given below is a ledger extract relating to the business of X and Co. as on March, 31, 2022. You are required to prepare the Trial Balance by the (a) Total Amount Method; (b) Balance Method; and (c) Total & Balance Method.

Dr.		Cash Account		Cr.	
Particulars	₹	Particulars	₹		
To Capital A/c	10,000	By Furniture A/c	3,000		
To Ram's A/c	25,000	By Salaries A/c	2,500		
To Cash Sales	500	By Shyam's A/c	21,000		
		By Cash Purchases	1,000		
		By Capital A/c	500		
		By Balance c/d	7,500		
	<u>35,500</u>		<u>35,500</u>		

Dr.		Furniture Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	3,000	By Balance c/d	3,000		
	<u>3,000</u>		<u>3,000</u>		

Dr.		Salaries Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	2,500	By Balance c/d	2,500		
	<u>2,500</u>		<u>2,500</u>		

Dr.		Shyam's Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	21,000	By Purchase A/c	25,000		
To Purchase Return A/c	500				
To Balance b/d	3,500				
	<u>25,000</u>		<u>25,000</u>		

Dr.		Purchase Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	1,000	By Balance c/d	26,000		
To Sundries	25,000				
(Credit Purchase)					
	<u>26,000</u>		<u>26,000</u>		

Dr. Purchase Return Account Cr.			
Particulars	₹	Particulars	₹
To Balance c/d	500	By Sundries	500
	<u>500</u>		<u>500</u>

Dr. Ram's Account Cr.			
Particulars	₹	Particulars	₹
To Sales A/c	30,000	By Sales Return A/c	100
		By Cash A/c	25,000
		By Balance c/d	4,900
	<u>30,000</u>		<u>30,000</u>

Dr. Sales Account Cr.			
Particulars	₹	Particulars	₹
To Balance c/d	30,500	By Cash A/c	500
		By Sundries	30,000
		(Credit Sales)	
	<u>30,500</u>		<u>30,500</u>

Dr. Sales Return Account Cr.			
Particulars	₹	Particulars	₹
To Sundries	100	By Balance c/d	100
	<u>100</u>		<u>100</u>

Dr. Capital Account Cr.			
Particulars	₹	Particulars	₹
To Cash A/c	500	By Cash A/c	10,000
To Balance c/d	9,500		
	<u>10,000</u>		<u>10,000</u>

(Hint: Total of Trial Balance: Total Method = ₹1,19,100; Balance Method: ₹44,000)

(Study Material)

Q.2.

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2022:

Account Head	₹
Capital	1,00,000

Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000
Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500

(Hint: Total of Trial Balance = ₹2,92,500)

(Study Material)

Q.3.

One of your clients, Mr. Singhanian has asked you to finalise his accounts for the year ended 31st March, 2022. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhanian furnished you with the following statement.

	Dr. Balance (₹)	Cr. Balance (₹)
Singhanian's Capital		1,556
Singhanian's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from bank		256
Trade payables	528	
Trade expenses	700	
Cash at bank	226	
Bills payable	100	
Salaries and wages	600	
Inventories (1.4.2015)		264
Rent and rates	463	
Sales return		98
	<u>5,454</u>	<u>5,454</u>

The closing inventory on 31st March, 2022 was valued at ₹574. Mr. Singhanian claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

(Hint: Total of Corrected Trial Balance = ₹5,454)

(Study Material)

Q.4.

An inexperienced book keeper has drawn up a Trial Balance for the year ended 30th June, 2022.

	Dr. Balance (₹)	Cr. Balance (₹)
Provision for Doubtful Debts	200	–
Bank Overdraft	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	252	–
Discount Allowed	–	733
Drawings	1,200	–
Office Furniture	2,155	–
General Expenses	–	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	<u>24,983</u>	<u>25,002</u>

Required

Draw up a Corrected Trial Balance, debiting or crediting any residual errors to a Suspense A/c.

(Hint: Total of Corrected Trial Balance = ₹25,580; Suspense A/c to be debited = ₹1,175)

(Study Material)

Q.5.

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.
(Hint: Amount to be debited to suspense A/c = ₹1,225; Total of corrected trial balance = ₹25,630)
(Nov 19 – 5 Marks)

Q.6.

The following trail balance as on 31st March, 2022 was drawn from the books of fintech traders:

	L.F.	Dr. Balance (₹)	Cr. Balance (₹)
Building		60,000	-
Machinery		17,000	-
Return Outward		2,600	-
Bad Debts		2,800	-
Cash		400	-
Discount Received		3,000	-
Bank Overdraft		10,000	-
Creditors		50,000	-
Purchases		1,00,000	-
Capital		-	73,600
Fixtures		-	5,600
Sales		-	1,04,000
Debtors		-	60,000
Interest Received		-	2,600
Input CGST A/c		-	3,000
Input SGST A/c		-	3,000
Input IGST A/c		-	4,800
Output CGST A/c		5,400	-
Output SGST A/c		5,400	-
Total		2,56,600	2,56,600

Even though the debit and credit sides agree, the trial Balance contains certain errors. Check the accuracy of trial balance.

(Hint: Total of Corrected Trial Balance = ₹2,56,600)

(Study Material)

Q.7.

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 1 st 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 31 st March, 2021	20,500		

(Hint: Total of Trial Balance = ₹2,14,500)

(Dec 21 – 5 Marks)

Q.8.

One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. As a basis for audit, Mr. X furnished you with the following statement:

	Dr.	Cr.
X's Capital		4,668
X's Drawings	1,692	
Leasehold Premises	2,250	
Sales		8,250
Due from customers		1,590
Purchases	3,777	
Purchase Return	792	
Loan from Bank		768
Trade Expense	2,100	
Trade Payable	1,584	
Bills Payable	300	
Salaries and Wages	1,800	
Cash at Bank	678	
Opening Inventory		792
Rent and Rates	1,389	

Sales Return		294
	16,362	16,362

The closing inventory was ₹1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.

(Hint: Trial Balance Total = ₹16,362)

(May 22 – 4 Marks)

CHAPTER 11: CASH BOOK

Q.1.

Enter the following transactions in a Simple Cash Book:

2022		₹
Jan.1	Cash in hand	1,200
" 5	Received from Ram	300
" 7	Paid Rent	30
" 8	Sold goods for cash	300
" 10	Paid to Shyam	700
" 27	Purchased Furniture	200
" 31	Paid Salaries	100
" 31	Rent due, not yet paid, for January	30

(Hint: Closing Balance = ₹770)

(Study Material)

Q.2.

Ganesh commenced business on 1st April, 2022 with ₹2,000 as capital. He had the following cash transactions in the month of April 2022:

2022		₹
April 1	Purchased furniture and paid cash	250
"2	Purchased goods	500
"4	Sold goods for cash	950
"5	Paid cash to Ram Mohan	560
	He allowed discount	10
"6	Received cash from Krishna & Co.	600
	Allowed discount	20
"7	Paid for petty expenses	15
"8	Cash purchases	150
"13	Paid for labour	1,000
"	Paid Ali & Sons	400
"	They allowed discount	8

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2022.

(Hint: Closing Balance of Cash on 30.04.2022 = ₹675; Total of Discount Allowed = ₹20; Total of Discount Received = ₹18)

(Study Material)

Q.3.

Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2022		₹
------	--	---

Jan.1	Chandrika commences business with Cash	20,000
"3	He paid into Current A/c	19,000
"4	He received cheque from Kirti & Co. on account	600
"7	He pays in bank Kirty & Co.'s cheque	600
"10	He pays Rattan & Co. by cheque and is allowed discount ₹20	330
"12	Tripathi & Co. pays into his Bank A/c	475
"15	He receives cheque from Warshi and allows him discount ₹35	450
"20	He receives cash ₹75 and cheque ₹100 for cash sale	
"25	He pays into Bank, including cheques received on 15th and 20th	1,000
"27	He pays by cheque for cash purchase	275
"30	He pays sundry expenses in cash	50

(Hint: Closing Balance on 31.1.2022: Cash = ₹300; Bank = ₹20,745; Total of Discount Column: Dr Side = ₹35, Cr. Side = ₹20)

(Study Material)

Q.4.

Prepare a Petty Cash Book on the imprest System from the following:

2022			₹
Jan.	1	Received for petty cash	100
"	2	Paid bus fare	.50
"	2	Paid cartage	2.50
"	3	Paid for Postage & Telegrams	5.00
"	3	Paid wages for casual labourers	6.00
"	4	Paid for stationery	4.00
"	4	Paid tonga charges	2.00
"	5	Paid for the repairs to chairs	15.00
"	5	Bus fare	1.00
"	5	Cartage	4.00
"	6	Postage and Telegrams	7.00
"	6	Tonga charges	3.00
"	6	Cartage	3.00
"	6	Stationery	2.00
"	6	Refreshments to customers	5.00

(Hint: Balance in Petty Cash = ₹40)

(Study Material)

Q.5.

Enter the following transaction in Cash Bank with Discount and Bank columns. Cheques are first treated as cash receipts:

2022		₹
March 1	Cash in Hand	15,000

	Overdraft in Bank	500
2	Cash Sales	3,000
3	Paid to Sushil Bros. by cheque	3,400
	Discount received	100
5	Sales through credit card	2,800
6	Received cheque from Srijan	6,200
7	Endorsed Srijan's cheque in favour of Adit	
9	Deposit into Bank	6,800
10	Received cheque from Aviral and deposited the same into Bank by allowing discount of ₹50	3,600
12	Adit informed that Srijan's cheque is dishonoured. Now cash is received from Srijan and amount is paid to Adit through own cheque	
15	Sales through Debit Card	3,200
24	Withdrawn from Bank	1,800
28	Paid to Sanchit by cheque	3,000
30	Bank charged 1% commission on sales through Debit/Credit Cards	

(Hint: Closing Balance: Cash = ₹19,200, Bank = ₹1,440; Commission = ₹60; Total of Discount Column – Dr. side = ₹50; Cr. Side = ₹100)

(Study Material)

Q.6.

Shri Ramaswamy maintains a Columnar Petty Cash Book on the Imprest System. The imprest amount is ₹500. From the following information, show how his Petty Cash Book would appear for the week ended 12th September, 2015:

		₹
7-9-2022	Balance in hand	134.90
	Received Cash reimbursement	365.10
	Stationery	49.80
8-9-2022	Miscellaneous Expenses	20.90
9-9-2022	Repairs	156.70
10-9-2022	Travelling	68.50
11-9-2022	Stationery	71.40
12-9-2022	Miscellaneous Expenses	6.30
13-9-2022	Repairs	48.30

(Hint: Closing Balance in the Petty Cash Book = ₹78.10)

(Study Material)

Q.7.

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

(Hint: Closing Balance: Cash = ₹8,980, Bank = ₹8,580; Total of Discount Column: Dr. Side = ₹40, Cr. Side = ₹50)

(RTP May 18)

Q.8.

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 the next month.

Date		₹
1	Cash in hand	18,000
1	Cash at bank	72,000
2	Paid into bank	6,000
5	Bought furniture and issued cheque	9,000
8	Purchased goods for cash	3,000
12	Received cash from Mohan	5,880
	Discount allowed to him	120
14	Cash sales	30,000
16	Paid to Mr. P by cheque	8,700
	Discount received	300
19	Paid into Bank	3,000
23	Withdrawn from Bank for Private expenses	3,600
24	Received cheque from Parul	8,580
	Allowed him discount	120
26	Deposited Parul's cheque into Bank	
28	Withdrew cash from Bank for Office use	12,000
30	Paid rent by cheque	4,800

(Hint: Closing Balance: Cash = ₹53,880, Bank = ₹51,480; Total of Discount Column: Dr. Side = ₹240, Cr. Side = ₹300)

(RTP Dec 23)

Q.9.

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

(Hint: Closing Balance = ₹5,600)

(RTP May 22)

Q.10.

Prepare a Triple Column Cash Book from the following transactions of M/s Raj Agencies and bring down the balance for the start of the next month.

Mar 2022		₹
1	Cash in hand	30,000
1	Cash at bank	1,20,000
2	Paid into bank	10,000
5	Bought furniture and issued cheque	15,000
8	Purchased goods for cash	5,000
12	Received cash from Mohan	9,800
	Discount allowed to him	200
14	Cash sales	50,000
16	Paid to Lala by cheque	14,500
	Discount received	500
19	Paid into Bank	5,000
23	Withdrawn from Bank for Private expenses	6,000
24	Received cheque from Gupta	14,300
	Allowed him discount	200
26	Deposited Gupta's cheque into Bank	
28	Withdrew cash from Bank for Office use	20,000

30 Paid rent by cheque

8,000

(Hint: Closing Balance: Cash = ₹89,800, Bank = ₹85,800; Total of Discount Column: Dr. Side = ₹400, Cr. Side = ₹500)

(Nov 22 – 5 Marks)

CHAPTER 12: SUBSIDIARY BOOKS

Q.1.

The Rough Book of M/s. Narain & Co. contains the following:

2022

- Feb.**
1. Purchased from Brown & Co. on credit:
5 gross pencils @ ₹100 per gross,
1 dozen registers @ ₹240 each.
Less: Trade Discount @ 10%
 2. Purchased for cash from the Stationery Mart;
10 gross exercise books @ ₹300 per doz.
 3. Purchased computer for office use from M/s. Office Goods Co. on credit for ₹30,000.
 4. Purchased on credit from The Paper Co.
5 reams of white paper @ ₹100 per ream.
10 reams of ruled paper @ ₹150 per ream.
Less: Trade Discount @ 10%
 5. Purchased one dozen gel pens @ ₹15 each from
M/s. Verma Bros. on credit.

Make out the Purchase Book of M/s. Narain & Co.

(Hint: Total of Purchase Book = ₹5,022)

(Study Material)

Q.2.

Enter the following transactions in Purchase Book and post them into ledger.

2022

April 4 Purchased from Ajay Enterprises, Delhi
100 Doz. Rexona Hawai Chappal @ ₹120 per doz.
200 Doz. Palki Leather Chappal @ ₹300 per Doz.
Less: Trade discount @ 10%
Freight charged ₹150.

April 15 Purchased from Balaji Traders, Delhi
50 doz. Max Shoes @ ₹400 per doz.
100 pair Sports Shoes @ ₹140 per pair.
Less: Trade discount @ 10%.
Freight charged ₹200.

April 28 Purchased from Tripti Industries, Bahadurgarh
40 pair leather shoes @ ₹400 per pair
100 doz. Rosy Hawai Chappal @ ₹180 per doz.

Less: Trade discount @ 10%

Freight charged ₹100.

(Hint: Total of Purchase Book = ₹1,26,450: Purchase A/c = ₹1,26,000, Freight A/c = ₹450)

(Study Material)

Q.3.

The following are some of the transactions of M/s Kishore & Sons of the year 2022 as per their Waste Book. Make out their Sales Book.

Sold to M/s. Gupta & Verma on credit:

30 shirts @ ₹800 per shirt.

20 trousers @ ₹1,000 per trouser.

Less: Trade Discount @ 10%

Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.

Sold 50 shirts of M/s. Jain & Sons @ ₹800 per shirt.

Sold 13 shirts to Cheap Stores @ ₹750 each for cash.

Sold on credit to M/s. Mathur & Jain.

100 shirts @ ₹750 per shirt

10 overcoats @ ₹5,000 per overcoat.

Less: Trade Discount @ 10%

(Hint: Total of Sales Book = ₹1,92,100)

(Study Material)

Q.4.

Post the following into the ledger:

Returns Outward Book

Date 2022	Particulars	L.F.	Details (₹)	Amount (₹)
Nov. 20	Rajindra Prakash & Sons			
	One 36" Usha Ceiling Fan		200	
	Less: Trade Discount @ 10%		(20)	180
"30	Modern Electric Company			100
	Total			280

(Study Material)

Q.5.

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger:

Date	Debit Note No.	Particulars
04.01.2022	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ ₹1,000.
09.01.2022		Garg Mills, Kota- accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ ₹400.
16.01.2022	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ ₹2,600.

30.01.2022

Returned one computer (being defective) @ ₹35,000 to B & Co.

(Study Material) (RTP May 19)

Q.6.

Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi. 2022. Also post them into ledgers.

Jan. 2. Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ ₹6,000/- each less Trade discount @ 10%.

8 Sold to M/s. Ajanta Electricals Plaza, 10 pieces of Tablets @ ₹8,000/- each less trade discount 5%.

15 Sold to M/s. Haryana Traders, 5 pieces of Juicers @ ₹3,500/- each less trade discount @ 10%.

(Hint: Total of Sales A/c = ₹1,18,750)

(Study Material)

Q.7.

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.

(Hint: Total of Sales Book = ₹59,400)

(Nov 20 – 4 Marks)

Q.8.

From the following information prepare the Purchase Book of M/s. 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%

(Hint: Total of Purchase Book = ₹11,250)

(July 21 – 5 Marks)

Q.9.

Enter the following transactions in Sales Book of Gurgaon Engineers, Gurgaon for January 2022:

2022 January	
5	Sold to Praneet Electricals 10 pieces of microwaves @ ₹8,500/- each less trade discount 15%
10	Sold to Ajanta plaza 8 pieces of Mixer grinders @ ₹12,500/- each less trade discount 10%.
20	Sold to Naveen traders, 15 pieces of juicers @ ₹5,500/- each less trade discount 5%

(Hint: Total of Sales Book = ₹2,40,625)

(June 23 – 4 Marks)

Q.10.

From the following transactions, prepare the Purchases Returns Book of Sampat & Co., a furniture dealer and post them to ledger:

Date	Debit Note No.	Particulars
04.01.2023	501	Returned to Duggal Furniture's, Jaipur - 5 Tables @ ₹5,000.
09.01.2023		Chopra Furniture's, Kota- accepted the return of Centre Tables (which were purchased for cash) - 5 Centre Tables @ ₹4,400.
16.01.2023	502	Returned to Khanna Furniture's, Bangalore - 5 Dining Tables @ ₹4,500.
30.01.2023		Returned one Printer (being defective) @ ₹10,000 to B & Co.

(Hint: Total of Purchase Return Book = ₹47,500)

(ICAI MTP Apr 23 – 4 Marks)

CHAPTER 13: RECTIFICATION OF ERRORS

Q.1.

How would you rectify the following errors in the book of Rama & Co.?

1. The total to the Purchases Book has been undercast by ₹100.
2. The Returns Inward Book has been undercast by ₹50.
3. A sum of ₹250 written off as depreciation on Machinery has not been debited to Depreciation Account.
4. A payment of ₹75 for salaries (to Mohan) has been posted twice to Salaries Account.
5. The total of Bills Receivable Book ₹1,500 has been posted to the credit of Bills Receivable Account.
6. An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹115.
7. Discount allowed to Satish ₹25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.

(Study Material)

Q.2.

The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.

- (1) ₹500 paid for furniture purchased has been charged to ordinary Purchases Account.
- (2) Repairs made were debited to Building Account for ₹50.
- (3) An amount of ₹100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
- (4) ₹100 paid for rent debited to Landlord's Account.
- (5) Salary ₹125 paid to a clerk due to him has been debited to his personal account.
- (6) ₹100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
- (7) ₹700 paid in cash for a typewriter was charged to Office Expenses Account.

(Study Material)

Q.3.

Give journal entries to rectify the following:

- (1) A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.
- (2) A Credit sale of goods amounting ₹120 to Ramesh has been wrongly passed through the Purchase Book.
- (3) On 31st December, 2022 goods of the value of ₹300 were returned by Hari Saran and were taken inventory on the same date but no entry was passed in the books.
- (4) An amount of ₹200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.
- (5) A Cheque for ₹100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

(Study Material)

Q.4.

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

- (a) The Sales Book has been totalled ₹100 short.
- (b) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.
- (c) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.
- (d) Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.
- (e) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.
- (f) Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

(Hint: Total of Suspense A/c = ₹600; Difference in Trial Balance = ₹582)

(Study Material)

Q.5.

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by ₹493 excess credit. The difference thus has been posted to a Suspense Account.

- (a) An amount of ₹100 was received from D. Das on 31st December, 2022 but has been omitted to enter in the Cash Book.
- (b) The total of Returns Inward Book for December has been cast ₹100 short.
- (c) The purchase of an office table costing ₹300 has been passed through the Purchases Day Book.
- (d) ₹375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
- (e) A purchase of ₹67 had been posted to the trade payables' account as ₹60.
- (f) A cheque for ₹200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".
- (g) ₹1,000 paid for the purchase of a motor cycle for Mr. Dutt had been charged to "Miscellaneous Expenses Account".
- (h) Goods amounting to ₹100 had been returned by customer and were taken in to inventory, but no entry in respect thereof, was made into the books.
- (i) A sale of ₹200 to Singh & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

(Hint: Total of Suspense A/c = ₹500)

(Study Material)

Q.6.

The following errors, affecting the account for the year 2022 were detected in the books of Jain Brothers, Delhi:

- (1) Sale of old Furniture ₹150 treated as sale of goods.
- (2) Receipt of ₹500 from Ram Mohan credited to Shyam Sunder.
- (3) Goods worth ₹100 brought from Mohan Narain have remained unrecorded so far.
- (4) A return of ₹120 from Mukesh posted to his debit.
- (5) A return of ₹90 to Shyam Sunder posted as ₹9 in his account.
- (6) Rent of proprietor's residence, ₹600 debited to rent A/c.
- (7) A payment of ₹215 to Mohammad Sadiq posted to his credit as ₹125.
- (8) Sales Book added ₹900 short.
- (9) The total of Bills Receivable Book ₹1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

(Study Material)

Q.7.

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

- (1) Goods of the value of ₹100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
- (2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
- (3) A sale of ₹200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹20;
- (4) Bad Debts aggregating ₹450 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, 2015 amounting to ₹250 was not posted.

(Study Material)

Q.8.

Mr. Roy 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:

- (1) Purchase of a scooter was debited to conveyance account ₹3,000.
- (2) Purchase account was over-cast by ₹10,000.
- (3) A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.
- (4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.
- (5) Receipt of cash from Mr. C was posted to the debit of his account, ₹500.
- (6) ₹500 due by Mr. Q was omitted to be taken to the trial balance.
- (7) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.
- (8) Amount of ₹2,395 of purchase was wrongly posted as ₹2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

(Hint: Balance of P&L Adjustment to be transferred to Capital A/c = ₹10,898; Balance of Suspense A/c to be transferred to Capital A/c = ₹10,698)

(Study Material)

Q.9.

The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense pending investigation which disclosed that:

- (i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.
- (ii) Discounts received ₹1,320 had been debited to discounts allowed.
- (iii) The Sales account had been under added by ₹10,000.
- (iv) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.
- (v) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.

- (vi) An accrual of ₹560 for telephone charges had been completely omitted.
- (vii) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.
- (viii) Tools bought for ₹1,200 had been inadvertently debited to purchases.
- (ix) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts.

(Hint: Total of Suspense A/c = ₹20,570)

(Study Material)

Q.10.

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

- (1) The totals of debit side of "Expenses Account" have been cast in excess by ₹50.
- (2) The "Sales Account" has been totalled in short by ₹100.
- (3) One item of purchase of ₹25 has been posted from the day book to ledger as ₹250.
- (4) The sales return of ₹100 from a party has not been posted to that account though the Party's account has been credited.
- (5) A cheque of ₹500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.
- (6) A credit sale of ₹50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

- (i) Pass necessary journal entries for correcting the above;
- (ii) Show how they affect the Profits; and
- (iii) Prepare the "Suspense Account" as it would appear in the ledger.

(Hint: Closing Balance of Suspense A/c = ₹425; Net increase in profits after rectification = ₹550)

(Study Material)

Q.11.

Mr. A closed his books of account on September 30, 2021 in spite of a difference in the trial balance. The difference was ₹830, the credits being short; it was carried forward in a Suspense Account. In 2022 following errors were located:

- (i) A sale of ₹2,300 to Mr. Lala was posted to the credit of Mrs. Mala.
- (ii) The total of the Returns Inward Book for July, 2021 ₹1,240 was not posted in the ledger.
- (iii) Freight paid on a machine ₹5,600 was posted to the Freight Account as ₹6,500.
- (iv) White carrying forward the total in the Purchases Account to the next page, ₹65,590 was written instead of ₹56,950.
- (v) A sale of machine on credit to Mr. Mehta for ₹9,000 on 30th Sept. 2021 was not entered in the books at all. The book value of the machine was ₹6,750.

Pass journal entries to rectify the errors. Have you any comments to make?

(Hint: Closing Credit Balance of P&L Adjustment A/c = ₹15,590; Closing Debit Balance of Suspense A/c = ₹2,870; Comment: Since Suspense A/c still contains a balance, there are clearly certain un-rectified prior period errors)

(Study Material)

Q.12.

A merchant's trial balance as on June 30, 2022 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, ₹4,539 was carried forward to the next page as ₹4,593.
- (ii) A sale of ₹573 was entered in the Sales Book as ₹753 and posted to the credit of the customer.
- (iii) A return to a creditor, ₹510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) Cash received from C. Dass, ₹620 was posted to the debit of G. Dass.
- (v) Goods worth ₹840 were despatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth ₹1,000 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 sale price was 25% above cost.

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.

(Hint: Balance of P&L Adjustment to be transferred to Capital A/c = ₹1,534)

(Study Material)

Q.13.

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 Nov 19) (RTP Nov 20)

Q.14.

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 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 ₹5,000 purchased on credit from Ram recorded in the Purchase Book as ₹500.

(Hint: Principle, Omission, Commission, Omission, Commission)

(RTP Nov 18)

Q.15.

M/s Puneet & 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 ₹5,600 from M/s Ajeet & Co. was recorded in the accounts of M/s Amit & 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 ₹90 to M/s Sapna Bros. has been omitted.
- (iv) A cheque of ₹9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Will the Trial Balance tally without rectification of errors?

(Hint: Trial Balance will tally since all errors are two-sided in nature)

(RTP Dec 23)

Q.16.

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

- (1) Goods of the value of ₹15,000 returned by Mr. X were entered in the Sales Day Book and posted therefrom to the credit of his account;
- (2) An amount of ₹22,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Shiv, who returned the goods;
- (3) A sale of ₹60,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹6,000;
- (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 October, 2022 amounting to ₹37,500 was not posted.

(RTP Dec 23)

Q.17.

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.

(May 18 – 4 Marks)

Q.18.

Mr. Daisy was unable to agree the Trial Balance last year and wrote off the difference to the 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.

(Hint: Balance of P&L Adjustment A/c to be transferred to Capital A/c = ₹13,750; Balance of Suspense A/c to be transferred to Capital A/c = ₹8,450)

(May 18 – 10 Marks)

Q.19.

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.

(Hint: Opening Debit Balance of Suspense A/c = ₹2,720)

(Nov 18 – 10 Marks)

Q.20.

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.

(May 19 – 4 Marks)

Q.21.

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.
(Nov 19 – 10 Marks)

Q.22.

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.

(Nov 20 – 5 Marks)

Q.23.

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.

(Hint: Balance of P&L Adjustment A/c to Capital A/c = ₹5,066)

(Jan 21 – 10 Marks)

Q.24.

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.

(Hint: Balance of P&L Adj. A/c transferred to Capital A/c = ₹1,08,980; Balance of Suspense A/c transferred to Capital A/c = ₹1,06,980) (July 2021 – 10 Marks)

Q.25.

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.

(Dec 21 – 5 Marks)

Q.26.

Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.

- (i) Minor Repairs made to the building amounting to ₹1,850 were debited to the Building Account.
- (ii) An amount of ₹3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.
- (iii) Furniture purchased for office use amounting to ₹20,000 has been entered in the purchase day book.
- (iv) Goods purchased from Ram Singh amounting to ₹8,000 have remained unrecorded so far.
- (v) College fees of proprietor's son, ₹15,000 debited to the Audit fees Account.
- (vi) Receipt of ₹4,500 from Meet Kumar credited to the Pinki Rani.
- (vii) Goods amounting to ₹6,200 had been returned by a customer and were taken into inventory, but no entry was made in the books.
- (viii) ₹1500 paid for wages to workmen for making office furniture had been charged to wages account.
- (ix) Salary paid to a clerk ₹12,000 has been debited to his personal account.
- (x) A purchase of goods from Raghav amounting to ₹20,000 has been wrongly entered through the sales book.

(Nov 22 – 10 Marks)

Q.27.

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

- (i) ₹35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.
 - (ii) Goods returned by customer for ₹5,000. The same have been taken into stock but no entry passed in the books of accounts.
 - (iii) An amount of ₹4,500 received on account of Interest was credited to Commission account.
 - (iv) A sale of ₹2,760 was posted from Sales Book to the Debit of M/s Sobha Traders at ₹2,670
- (RTP Nov 22)

Q.28.

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)

Q.29.

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 ₹4,650 was passed through Bills Payable Book. The Bill was given by Krishan.
- (ii) Cash received from Manan was debited to Suman ₹16,000.
- (iii) General expenses ₹3,900 was posted in the General Ledger as ₹9,300.
- (iv) Sales Day Book was overcast by ₹15,000.
- (v) Legal Expenses ₹23,010 paid to Mr. Badri was debited to her personal account.
- (vi) A sale of ₹75,000 to Neha was wrongly debited to the Account of Megha.
- (vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹1,690 was written as ₹1,960.
- (viii) ₹21,000 due to Mr. Madan 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.

(Hint: Balance of P&L Adj. A/c to be transferred to Capital A/c = ₹32,340)

(ICAI MTP – May 23 – 10 Marks)

CHAPTER 14: BANK RECONCILIATION STATEMENT

Q.1.

Prepare BRS from following information:

Messer's Tall & Short, Faiz Bazar, New Delhi-110002 in account with Punjab National Bank, Daryaganj, New Delhi-110002

PASS-BOOK:

Date	Particulars	Withdrawals	Deposits	Dr. or Cr.	Balance
2022					
Jan. 2	By Cash	-	4,00,000	Cr.	4,00,000
" 4	To Furniture Dealers Ltd.	60,000	-	Cr.	3,40,000
" 4	To Das & Co.	1,25,000	-	Cr.	2,15,000
" 10	By J. Johnson & Co.'s cheque	-	35,000	Cr.	2,50,000
" 12	To Roy & James	1,00,000	-	Cr.	1,50,000
" 15	By B. Babu & Co's cheque	-	76,000	Cr.	2,26,000
" 16	By Cash	-	30,000	Cr.	2,56,000
" 20	To Cash	50,000	-	Cr.	2,06,000
" 26	By J. Rai & Bros cheque	-	43,000	Cr.	2,49,000
" 31	To Premium paid as per standing instructions	25,000	-	Cr.	2,24,000
31	To Bank Charges	1,000	-	Cr.	2,23,000
31	By Interest collected on Government Securities	-	20,000	Cr.	2,43,000

CASH-BOOK (Bank column only):

Date	Particulars	Amount	Date	Particulars	Amount
2022			2022		
Jan. 1	To Cash	4,00,000	Jan. 2	By Furniture Dealers Ltd.	60,000
Jan. 2	To J. Johnson & Co.	35,000	Jan. 2	By Roy & James	1,00,000
Jan. 8	To B. Babu & Co.	76,000	Jan. 2	By Das & Co.	1,25,000
Jan. 10	To Cash	30,000	Jan. 4	By K. Nagpal & Co.	73,000
Jan. 16	To J. Rai & Bros.	43,000	Jan. 17	By Cash	50,000
Jan. 20	To M. Mohan & Co.	1,05,000	Jan. 20	By B. Babu & Co.	78,000
Jan. 22	To N. Nandy & Sons	34,000	Jan. 31	By Balance c/d	<u>2,37,000</u>
		<u>7,23,000</u>			<u>7,23,000</u>
Feb. 1	To Balance b/d	2,37,000			

(Study Material)

Q.2.

From the following, prepare a Bank Reconciliation Statement for Jindal Ltd.

- (1) Balance as per cash book is ₹ 2,40,000
- (2) Cheques issued but not presented in the bank amounts to ₹ 1,36,000.
- (3) Cheques deposited in bank but not yet cleared amounts to ₹ 90,000.
- (4) Bank charges amounts to ₹ 300.
- (5) Interest credited by bank amounts to ₹ 1,250.
- (6) The balance as per passbook is ₹ 2,86,950.

(Study Material)

Q.3.

On 31st March 2022, the Bank Passbook of Namrata showed a balance of ₹1,50,000 to her credit while balance as per cash book was ₹1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- i) She has issued cheques amounting to ₹80,000 out of which only ₹32,000 were presented for payment.
- ii) She received a cheque of ₹5,000 which she recorded in her cash book but forgot to deposit in the bank.
- iii) A cheque of ₹22,000 deposited by her has not been cleared yet.
- iv) Mr. Gupta deposited an amount of ₹15,700 in her bank which has not been recorded by her in Cash Book yet.
- v) Bank has credited an interest of ₹1,500 while charging ₹250 as bank charges.

Prepare a bank reconciliation statement.

(Study Material)

Q.4.

From the following particulars ascertain the balance that would appear in the Bank Passbook of 'A' on 31st December 2022.

- (1) The bank overdraft as per Cash Book on 31st December 2022 was ₹6,340.
- (2) Interest on overdraft for 6 months ending 31st December 2022 ₹160 is entered in Passbook.
- (3) Bank charges of ₹400 are debited in the Passbook only.
- (4) Cheques issued but not cashed prior to 31st December 2022, amounted to ₹11,68,000.
- (5) Cheques paid into bank but not cleared before 31st December 2022 were for ₹22,17,000.
- (6) Interest on investments collected by the bank and credited in the Passbook ₹12,00,000.

(Hint: Credit Balance as per Passbook = ₹1,44,100)

(Study Material)

Q.5.

On 30th September 2022, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹4,062. On the same date the bank statement showed a debit balance of ₹20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹13,14,000 deposited on 29th September 2017 was credited by the bank only on 3rd October 2022
2. A payment by cheque for ₹16,000 has been entered twice in the Cash Book.

3. On 29th September 2022 the bank credited an amount of ₹1,17,400 received from a customer of X, but the advice was not received by X until 1st October 2022.
4. Bank charges amounting to ₹580 had not been entered in the Cash Book.
5. On 6th September 2022, the bank credited ₹20,000 to X in error.
6. A bill of exchange for ₹1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September 2022 but no entry had been made in the books of X.
7. Cheques issued up to 30th September 2022 but not presented for payment up to that date totalled ₹13,26,000.

You are required:

- (a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September 2022; and
- (b) to prepare a bank reconciliation statement as on that date.

(Hint: Closing credit balance of Adjusted Cashbook = ₹11,242; Overdraft as per bank statement = ₹20,758)

(Study Material)

Q.6.

On 31st December 2022 the bank column of A. Philip's cash book showed a debit balance of ₹4,610. On examination of the cash book and bank statement you find that:

1. Cheques amounting to ₹6,30,000 which were issued to trade payables and entered in the cash book before 31st December 2022 were not presented for payment until that date.
2. Cheques amounting to ₹2,50,000 had been recorded in the cash book as having been paid into the bank on 31st December 2022 but were entered in the bank statement on 1st January 2023.
3. A cheque for ₹73,000 had been dishonoured prior to 31st December 2022, but no record of this fact appeared in the cash book.
4. A dividend of ₹3,80,000, paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to ₹4,200 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of ₹10,000 paid vide banker's order in November 2022.
7. A cheque for ₹27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December 2022.

You are required:

- (a) to make appropriate adjustments in the cash book bringing down the correct balance, and
- (b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

(Hint: Closing debit balance of Adjusted Cashbook = ₹2,97,410; Balance as per bank statement ₹6,50,410)

(Study Material)

Q.7.

From the following information, prepare a Bank reconciliation statement as at 31st December 2022 for Messrs New Steel Limited:

- (1) Bank overdraft as per Cash Book on 31st December 2022 = ₹22,45,900
- (2) Interest debited by Bank on 26th December 2022, but no advice received = ₹2,78,700
- (3) Cheque issued before 31st December 2022, but not yet presented to Bank = ₹6,60,000

- (4) Transport subsidy received from the State Government directly by the Bank, but not advised to the company = ₹14,25,000
- (5) Draft deposited in the Bank, but not credited till 31st December 2022 = ₹13,50,000
- (6) Bills for collection credited by the Bank till 31st December 2022 but no advice received by the company = ₹8,36,000
- (7) Amount wrongly debited to company account by the Bank, for which no details are available = ₹7,40,000

(Hint: Overdraft as per Bank Statement = ₹16,93,600)

(Study Material)

Q.8.

The Cash Book of Mr. Gadbadwala shows ₹8,36,400 as the balance at Bank as on 31st December, 2022, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

- (1) On 15th December 2022 the payment side of the Cash Book was undercast by ₹10,000.
- (2) A cheque for ₹1,31,000 issued on 25th December, 2022 was not taken in the bank column.
- (3) One deposit of ₹1,50,000 was recorded in the Cash Book as if there is no bank column therein.
- (4) On 18th December 2022 the debit balance of ₹15,260 as on the previous day, was brought forward as credit balance.
- (5) Of the total cheques amounting to ₹11,514 drawn in the last week of December, 2022, cheques aggregating ₹7,815 were encashed in December.
- (6) Dividends of ₹25,000 collected by the Bank and subscription of ₹1,000 paid by it were not recorded in the Cash Book.
- (7) One out-going Cheque of ₹3,50,000 was recorded twice in the Cash Book.

Prepare a Reconciliation Statement after making necessary adjustments in the cashbook.

(Hint: Balance as per passbook = ₹12,53,619; Bal as per Adjusted Cashbook = ₹12,49,920)

(Study Material)

Q.9.

The following are the Cash Book (bank column) and Passbook of Jain for the months of March 2017 and April 2022:

Cash Book (Bank Column only)

Date	Particulars	Amount	Date	Particulars	Amount
01/3/2022	To Balance b/d	60,000	03/3/2022	By Cash A/c	2,00,000
06/3/2022	To Sales A/c	3,00,000	07/3/2022	By Modi	60,000
10/3/2022	To Ram	65,000	12/3/2022	By Patil	30,000
18/3/2022	To Singhal	2,70,000	18/3/2022	By Suresh	40,000
25/3/2022	To Goyal	33,000	24/3/2022	By Ramesh	1,50,000
31/3/2022	To Patel	<u>65,000</u>	30/3/2022	By Balance c/d	<u>3,13,000</u>
		<u>7,93,000</u>			<u>7,93,000</u>

Passbook

Date	Particulars	Amount (Dr.)	Amount (Cr.)	Dr. or Cr.	Balance
1/4/2017	By Balance b/d		3,65,000	Cr.	3,65,000

3/4/2017	By Goyal		33,000	Cr.	3,98,000
5/4/2017	By Patel		65,000	Cr.	4,63,000
7/4/2017	To Naresh	2,80,000		Cr.	1,83,000
12/4/2017	To Ramesh	1,50,000		Cr.	33,000
15/4/2017	To Bank Charges	200		Cr.	32,800
20/4/2017	By Usha		17,000	Cr.	49,800
25/4/2017	By Kalpana		38,000	Cr.	87,800
30/4/2017	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cashbook on 31.03.2022

(Hint: Balance as per Passbook = ₹3,65,000)

(Study Material)

Q.10.

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹10,39,200 for the period ended on 30th June 2022, this did not agree with the balance in the cash book. An examination of the Cash Book and Bank Statement disclosed the following:

1. A deposit of ₹3,09,200 paid on 29th June 2022 had not been credited by the Bank until 1st July 2022.
2. On 30th March 2022 the company had entered into hire purchase agreement to pay by bank order a sum of ₹3,00,000 on the 10th of each month, commencing from April, 2022. No entries had been made in Cash Book.
3. A customer of the firm, who received a cash discount of 4% on his account of ₹4,00,000 paid the firm cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to ₹3,000 had not been entered in Cashbook.
5. On 28th June, a customer of the company directly deposited the amount in the bank ₹4,00,000, but no entry had been made in the Cash Book.
6. ₹11,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of ₹11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July 2022.

Prepare Bank Reconciliation Statement on 30 June 2022.

(Hint: Balance as per Cashbook = ₹29,78,600)

(Study Material)

Q.11.

From the following particulars, prepare a bank reconciliation statement as on 31st December 2022:

- (i) On 31st December 2022, the cashbook of a firm showed a bank balance of ₹60,000 (debit balance).
- (ii) Cheques had been issued for ₹15,00,000, out of which cheques worth ₹4,00,000 only were presented for payment.
- (iii) Cheques worth ₹11,40,000 were deposited in the bank on 28th December 2022 but had not been credited by the bank. In addition to this, one cheque for ₹5,00,000 was entered in the cash book on 30th December 2022 but was banked on 3rd January 2023.
- (iv) A cheque from Susan for ₹4,00,000 was deposited in the bank on 26th December 2022 but was dishonoured and the advice was received on 2nd January 2023.

- (v) Pass-book showed bank charges of ₹2,000 debited by the bank.
 - (vi) One of the debtors deposited a sum of ₹5,00,000 in the bank account of the firm on 20th December 2022, but the intimation in this respect was received from the bank on 2nd January 2023.
 - (vii) Bank passbook showed a credit balance of ₹3,82,000 on 31st December 2022.
- (Study Material)

Q.12.

According to the cashbook of Gopi, there was a balance of ₹44,50,000 in his bank on 30th June 2022. On investigation you find that:

- (i) Cheques amounting to ₹6,00,000 issued to creditors have not been presented for payment till the date.
- (ii) Cheques paid into bank amounting to ₹11,05,000 out of which cheques amounting to ₹5,50,000 only collected by the bank up to 30th June 2022.
- (iii) A dividend of ₹40,000 and rent amounting to ₹6,00,000 received by the bank and entered in the passbook but not recorded in the cash book.
- (iv) Insurance premium (up to 31st December 2022) paid by the bank ₹27,000 not entered in the cash book.
- (v) The payment side of the cash book had been under casted by ₹5,000.
- (vi) Bank charges ₹1,500 shown in the passbook had not been entered in the cash book.
- (vii) 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.

Required:

- (a) to make the appropriate adjustments in the cash book, and
- (b) to prepare a statement reconciling it with the bank passbook.

(Hint: Closing Balance of Adjusted Cash Book = ₹49,15,500; Balance as per Passbook = ₹49,60,500)

(Study Material)

Q.13.

Prepare a bank reconciliation statement as on 30th September 2022 from the following particulars:

- Bank balance as per passbook = ₹10,00,000
- Cheque deposited into the bank, but no entry was passed in the cashbook = ₹5,00,000
- Cheque received, but not sent to bank = ₹11,20,000
- Credit side of the bank column cast short = ₹2,000
- Insurance premium paid directly by the bank under the standing advice = ₹60,000
- Bank charges entered twice in the cash book = ₹2,000
- Cheque issued, but not presented to the bank for payment = ₹5,00,000
- Cheque received entered twice in the cash book = ₹10,000
- Bills discounted dishonoured not recorded in the cash book = ₹5,00,000

(Hint: Balance as per Cash Book = ₹16,90,000)

(Study Material)

Q.14.

Prepare a bank reconciliation statement from the following particulars on 31st March 2022:

- Debit balance as per bank column of the cash book = ₹37,20,000
- Cheque issued to creditors but not yet presented to the bank for payment = ₹7,20,000

- Dividend received by the bank but not yet entered in the cash book = ₹5,00,000
 - Interest allowed by the bank = ₹12,500
 - Cheques deposited into bank for collection but not collected by bank up to this date = ₹15,40,000
 - Bank charges = ₹2,000
 - A cheque deposited into bank was dishonoured, but no intimation received = ₹3,20,000
 - Bank paid house tax on our behalf, but no information received from bank in this connection = ₹3,50,000.
- (Hint: Credit Balance as per Passbook = ₹27,40,500)

(Study Material)

Q.15.

The Cashbook of M/s Rajat shows ₹1,10,280 as the balance at Bank as on 31st March 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

- (i) Subsidy ₹41,000 received from the government directly by the bank, but not advised to the company.
- (ii) On 15th March 2022 the payments side of the Cashbook was under cast by ₹1,400.
- (iii) On 20th March 2022 the debit balance of ₹8,624 as on the previous day, was brought forward as credit balance in Cashbook.
- (iv) A customer of the M/s Rajat, who received a cash discount of 5% on his account of ₹80,000, paid to M/s Rajat a cheque on 24th March 2022. The cashier erroneously entered the gross amount in the Cashbook.
- (v) On 10th March 2022 a bill for ₹22,800 was discounted from the bank, entered in Cashbook, but proceeds credited in Bank Statement amounted to ₹22,000 only.
- (vi) A cheque issued amounting to ₹6,900 returned marked 'out of date'. No entry made in Cashbook.
- (vii) Insurance premium ₹3,024 paid directly by bank under a standing order. No entry made in cashbook.
- (viii) A bill receivable for ₹6,120 discounted for ₹6,000 with the bank had been dishonoured on 30th March 2022, but advice was received on 1st April 2022.
- (ix) Bank recorded a Cash deposit of ₹6,550 as ₹6,505.

Prepare Bank Reconciliation Statement on 31st March 2022.

(Hint: Balance as per Bank Statement = ₹1,63,639)

(RTP Nov 22)

Q.16.

Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March 2018:

- (i) Balance as per Passbook 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 Passbook 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 Passbook.
- (vii) The Passbook showed a credit for a cheque of ₹1,000 deposited by Shri Hari (another customer of the bank).

(Hint: Balance as per Cashbook = ₹12,741)

(RTP Nov 18)

Q.17.

On 31st October 2022, the Cash Book of Mr. Shankar showed an overdrawn position of ₹13,440, although his Bank Statement showed only ₹9,600 overdrawn. An examination of the two records showed the following errors:

- (i) The debit side of the Cash Book was undercast by ₹1,200.
- (ii) A cheque for ₹4,800 in favour of Hari suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.
- (iii) A cheque for ₹561 drawn for payment of telephone bill was recorded in the Cashbook as ₹516 but was shown correctly in the Bank Statement.
- (iv) A cheque for ₹1,275 from Mr. Satpal 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 ₹450 to Mr. Shankar's Account by mistake, it should have been debited by them to Mr. Kar's Account.
- (vi) A dividend of ₹300 was collected by the bank but not entered in the Cash Book.
- (vii) Cheques totalling ₹3,900 drawn on October was not presented for payment.
- (viii) Cheque for ₹3,600 deposited on 30th October was not credited by the Bank.
- (ix) Interest amounting to ₹900 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 31st October 2022.

(RTP May 23)

Q.18.

On 30th September 2019, the bank account of Neel, according to the bank column of the Cashbook, 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 up to 30th September 2019 but not presented for payment up to 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.

(Hint: Closing Credit Balance of Adjusted Cash Book = ₹22,484)

(RTP Nov 19)

Q.19.

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

- (i) A Cheque of ₹1,080 credited in the passbook on 28th March 2018 being dishonoured is debited again in the passbook 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 her behalf, 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 her 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 dishonoured 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.

(Hint: Overdraft Balance as per Cash Book = ₹27,950)

(May 18 – 10 Marks)

Q.20.

Prepare a bank reconciliation statement from the following particulars as on 31st March 2018:

- 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 from bank in this connection = ₹1,75,000

(Credit Balance as per Passbook = ₹13,70,250)

(Nov 18 – 10 Marks)

Q.21.

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.

(Hint: Overdraft balance as per Adjusted Cash Book = ₹1,75,942; Favourable Balance as per Bank Statement = ₹86,058)

(Nov 19 – 10 Marks)

Q.22.

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.

(Hint: Overdraft Balance as per Bank Statement = ₹99,945)

(Nov 20 – 10 Marks)

Q.23.

Prepare a bank reconciliation statement from the following particulars on 31st March, 2022 and show the balance as per cash book:

- i) Overdraft as per passbook on March 31, 2022, is ₹3,00,000.
- ii) Interest on bank overdraft not entered in the cash book ₹36,500
- iii) Insurance premium of ₹17,950 was due and paid by the bank but same has not been accounted in the books.
- iv) Cheques drawn in the last week of March, 2022, but not cleared till date for ₹13,000 and ₹23,500.
- v) Cheques deposited into bank on February, 2022, but yet to be credited on dated March 31, 2022 ₹56,000.
- vi) Amount of ₹20,500 is wrongly debited by the bank
- vii) Interest on Investment ₹83,800 collected and credited by bank but the same has not been entered in the Cash Book.

(Hint: Overdraft as per Cash Book = ₹2,89,350)

(Study Material)

Q.24.

Mr. Manoj is employed by Century Rayon and Carpets Pvt Ltd. as their cashier. The main responsibility of Mr. Manoj is to maintain the company's cash book and prepare a bank reconciliation statement at the end of each month. The cash book (only bank column) is set out below together with a copy of the bank statement for the month of February 2022.

You are required to :

- a) Reconcile the cash book with the bank statement.
- b) Make necessary entries to update the cash book.
- c) Start with the balance as per cash book, list any unpresented cheques and sub-total on the reconciliation statement

**Century Rayon and Carpets Pvt Ltd
Cash Book (Bank Column only)**

Date	Particulars	Amount Dr.	Date	Particulars	Amount Cr.
01/02/2022	To Balance b/d	1,42,500	03/02/2022	By Bhagwandas	1,980
01/02/2022	To Blue and Co	1,570	07/02/2022	By Maruti Ltd (400460)	1,500
04/02/2022	To GM Ltd	2,430	12/02/2022	By Jackson Ltd (400461)	54,000
08/02/2022	To Robinson Ltd	910	18/02/2022	By PC computers (400462)	1,420
13/02/2022	To Donald	750	24/02/2022	By Shiv garage (400463)	49,000
20/02/2022	To Avenue Super mart	4,200	30/02/2022	By Petty cash (400465)	1,500
28/02/2022	To Sleep Well Ltd	940		By Shweta & Co (400464)	2,100
				By AV Partners (400466)	5,200
				By Balance c/d	36,600
		1,53,300			1,53,300

**Customer: Century Rayon and Carpets Pvt Ltd Account No – xxxxx0439
Account Statement for the month of February 2022**

Date	Particulars	Amount	Amount	Dr. or Cr.	Balance
		Dr.	Cr.		
1/02/2022	Balance b/d				1,42,500
3/02/2022	Cheques		1,570	Cr.	1,44,070
5/02/2022	Maruti Ltd	1,500		Dr.	1,42,570
7/02/2022	Bhagwandas	1,980		Dr.	1,40,590
12/02/2022	GM Ltd		2,430	Cr.	1,43,020
15/02/2022	Robinson Ltd		910	Cr.	1,43,930
20/02/2022	Premium of New India Insurance Ltd	3,800		Dr.	1,40,130
14/02/2022	Donald		750	Cr.	1,40,880
14/02/2022	400463	49,000		Dr.	91,880
23/02/2022	cheques		4,200	Cr.	96,080
26/02/2022	Savita	1,030		Dr.	95,050
26/02/2022	400465	1,500		Dr.	93,550
27/02/2022	Shreya		2,200	Cr.	95,750
28/02/2022	Bank charges	2,538		Dr.	93,212

(Hint: Balance as per Adjusted Cash Book = ₹31,432)

(Study Material)

Q.25.

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.

(Hint: Balance as per Adjusted Cash Book = ₹4,91,550; Balance as per Pass Book = ₹4,96,050)

(Dec 21 – 10 Marks)

Q.26.

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

(Hint: Balance as per Adjusted Cash Book = ₹2,59,000; Balance as per Pass Book =

₹2,83,000)

Note: ICAI has shown adjusted Cash Book in its suggested answer on the assumption that year ends on 31st December. Students may prepare BRS directly without preparing Adjusted Cash Book, since it has not been directly asked in question.

(Jan 21 – 4 Marks)

Q.27.

From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2021

Particulars	Amount (₹)
Bank balance as per Pass Book	25,00,000
Bills discounted dishonored not recorded in Cash Book	12,50,000
Cheque received entered twice in Cash Book	25,000
Bank charges entered twice in Cash Book	5,000
Insurance premium paid directly by Bank under-standing	1,50,000
instruction Cheque issued but not presented to Bank for payment	12,50,000
Cheque received, but not sent to Bank	28,00,000
Cheque deposited in Bank, but no entry passed in the Cash Book	12,50,000
Credit side of the Bank column cast short	5,000

(Hint: Balance as per Cash Book = ₹42,25,000)

(May 22 – 5 Marks)

Q.28.

The cash book of Mr. Karan shows ₹2,60,400 as the balance of bank as on 31st December, 2021 but you find that it does not agree with the balance as per the bank pass book. On analysis, you found the following discrepancies:

- On 15th December, 2021 the payment side of the cash book was overcast by ₹10,000.
- A Cheque for ₹1,18,000 issued on 6th December, 2021 was not taken in the bank Column.
- On 20th December, 2021 the debit balance of ₹8,460 as on the previous day, was brought forward as credit balance in the cash book.

- (iv) Of the total cheques amounting to ₹12,370 drawn in the last week of December 2021, cheques aggregating ₹9,360 were encashed in December, 2021.
- (v) Dividends of ₹35,000 collected by the bank and fire insurance premium of ₹7,900 paid by the bank were not recorded in the cash book.
- (vi) A Cheque issued to a creditor of ₹1,75,000 was recorded twice in the cash book.
- (vii) Bill for collection amounting to ₹53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.
- (viii) A Customer, who received a cash discount of 3% on his account of ₹60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.

You are required to prepare the bank reconciliation statement as on 31st December, 2021.

(Hint: Balance as per Adjusted Cash Book if prepared = ₹3,69,620; Balance as per Pass Book =

₹4,25,630)

(Nov 22 – 10 Marks)

Q.29.

From the following information prepare a Bank Reconciliation Statement as on 31st March 2022 for A Ltd.

		₹
	Bank overdraft as per cash book as 31st March, 2022	15,50,750
1.	Cheques deposited on 15th February, 2022 credited on 5th April, 2022	12,50,000
2.	Interest debited by bank on 31st March, 2022 but not entered in Cash Book	1,75,500
3.	Cheques issued before 31st March, 2022 but not yet presented	7,75,000
4.	On 10th March, 2022 bank credited to A Ltd. in error	1,50,000
5.	Draft deposited in bank but not credited till 31st March, 2022	12,75,000
6.	Bills for collection credited by bank but no advice received by the company	9,45,000
7.	Bank charges charged by bank but not entered in cash book	2,85,000
8.	Transport subsidy received from the state government directly by the bank not advised to the company	17,50,000

(Hint: Overdraft as per Bank Statement = ₹9,16,250)

(June 23 – 5 Marks)

Q.30.

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 not intimated	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.

(Hint: Balance as per Adjusted Cash Book = ₹29,61,600; Balance as per Pass Book = ₹21,98,600; Bank Balance in Trial Balance = ₹29,61,600)

(RTP May 21)

Q.31.

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.

(Hint: Debit Balance as per Cash Book = ₹16,42,534)

(RTP Nov 21)

Q.32.

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.

(Hint: Overdraft as per Cash Book = ₹10,800)

(RTP May 22)

Q.33.

On 30th September, 2022, the bank account of Vikrant, 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 Vikrant. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹26,28,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022
2. A payment by cheque for ₹32,000 has been entered twice in the Cash Book.
3. On 29th September, 2022, the bank credited an amount of ₹2,34,800 received from a customer of Vikrant, but the advice was not received by Vikrant until 1st October, 2022.

4. Bank charges amounting to ₹1,160 had not been entered in the Cash Book.
5. On 6th September, 2022, the bank credited ₹40,000 to Vikrant in error.
6. A bill of exchange for ₹2,80,000 was discounted by Vikrant with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of Vikrant.
7. Cheques issued upto 30th September, 2022 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 Vikrant, to arrive at the correct balance on 30th September, 2022 and
- (b) to prepare a bank reconciliation statement as on that date.

(Hint: Balance as per Adjusted Cash Book = ₹22,484; Overdraft as per Bank Statement = ₹41,516)

(RTP Dec 23)

Q.34.

Prepare the Bank Reconciliation Statement of M/s. Singh Brothers on 30th June 2022 from the particulars given below:

- (i) The Bank Pass Book had a debit balance of ₹75,000 on 30th June, 2022.
- (ii) A cheque worth ₹1,200 directly deposited into Bank by customer but no entry was made in the Cash Book.
- (iii) Out of cheques issued worth ₹1,02,000, cheques amounting to ₹60,000 only were presented for payment till 30th June, 2022.
- (iv) A cheque for ₹12,000 received and entered in the Cash Book but it was not sent to the Bank.
- (v) Cheques worth ₹60,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
 - (1) Cheques collected before 30th June, 2022, ₹42,000
 - (2) Cheques collected on 10th July, 2022, ₹12,000
 - (3) Cheques collected on 12th July, 2022, ₹6,000.
- (vi) The Bank made a direct payment of ₹1,800 which was not recorded in the Cash Book.
- (vii) Interest on Overdraft charged by the bank ₹4,800 was not recorded in the Cash Book.
- (viii) Bank charges worth ₹240 have been entered twice in the cash book whereas Insurance charges for ₹210 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 ₹6,000.
- (x) A bill for ₹3,000 (discounted with bank in May, 2022) dishonoured on 30th June, 2022 and noting charges of ₹100 paid by bank.

(Hint: Overdraft as per Cash Book = ₹72,530)

(ICAI MTP Nov 22 – 10 Marks)

Q.35.

From the following particulars, prepare a Bank Reconciliation Statement for Vinayak Ltd. as on 31.3.2023

- (1) Balance as per cash book is ₹4,80,000.
- (2) Cheques issued but not presented in the bank amounts to ₹2,72,000.
- (3) Bank charges amounts to ₹1,200.
- (4) Interest credited by bank amounts to ₹6,000.

(ICAI MTP May 23 – 4 Marks)

Q.36.

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 ₹3,000 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.

(Hint: Overdraft as per Pass Book = ₹1,85,920)

(ICAI MTP Mar 22 – 10 Marks)

Q.37.

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March, 2021

The cash book of Satyam Traders shows a debit balance of ₹4,12,200 at bank as on 31st March, 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.
(Hint: Balance as per Passbook = ₹5,25,500)

(ICAI MTP Oct 21 – 15 Marks)

Q.38.

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.
- (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.

(Hint: Debit Balance as per Cash Book = ₹2,500)

(July 21 – 5 Marks)

CHAPTER 15: BILLS OF EXCHANGE & PROMISSORY NOTES

Q.1.

Vijay sold goods to Pritam on 1st September, 2022 for ₹1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% p.a. was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

(Interest due to Renewal = ₹ 1,590)

(Study Material)

Q.2.

On 1st January, 2016, Ankita sells goods for ₹5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 1st March, 2022, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

(Hint: Rebate due to retirement = ₹5,000)

(Study Material)

Q.3.

Journalise 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 were duly discharged.

(Study Material) (RTP Nov 18)

Q.4.

On 1st January, 2022, Vilas draws a bill of exchange for ₹10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2022 Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Eknath & Vilas.

(Hint: Interest/Discount due to retirement = ₹100)

(Study Material)

Q.5.

Mr. David draws two bills of exchange on 1.1.2022 for ₹6,000 and ₹10,000. The bills of exchange for ₹6,000 is for two months while the bill of exchange for ₹10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2022, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2022, Mr. Thomas retires the acceptance for ₹10,000, the interest rebate i.e. discount being ₹100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

You are to give the journal entries in the books of Mr. David.

(Hint: Interest due to Renewal = ₹180; Amt recovered from Estate = ₹3,090; Bad Debts = ₹3,090)

(Study Material)

Q.6.

Rita owed ₹1,00,000 to Siriman. On 1st October, 2021, 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, 2021. 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.

(Hint: Interest due to renewal = ₹1,500; Amt recovered from Estate = 20,000; Bad Debts = ₹30,000)

(Study Material) (RTP Nov 20)

Q.7.

On 1st July, 2022 Gorge drew a bill for ₹1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2022, Jack purchased goods worth ₹1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹9,000 in full settlement of the amount due to Harry. On 1st October, 2022, Harry purchased goods worth ₹2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge.

(Hint: Amt. paid to Gorge by Harry = ₹20,000)

(Study Material)

Q.8.

For the mutual accommodation of 'X' and 'Y' on 1st April, 2016, 'X' drew a four months bill on 'Y' for ₹4,000. 'Y' returned the bill after acceptance of the same date. 'X' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'Y'. On due date 'X' is unable to send the amount due and therefore 'Y' draws a bill for ₹7,000, which is duly accepted by 'X'. 'Y' discounts the bill for ₹6,600 and sends ₹1,300 to 'X'. Before the bill is due for payment 'X' becomes insolvent. Later 25 paise in a rupee received from his estate.

Record Journal entries in the books of 'X'.

(Hint: Discount Charges = ₹ 80; Amt to be remitted to Y w.r.t 1st bill = ₹1,960; Discounting charges of 2nd Bill allocable to X = ₹200; Amt recoverable from X's estate = ₹ 875; Deficiency = ₹2,625)

(Old Study Material)

Q.9.

Anil draws a bill for ₹9,000 on Sanjay on 5th April, 2016 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for ₹8,820 on 8th April, 2016 and remits one-third amount to Sanjay.

On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for ₹12,600 for three months, which Sanjay discounts it for ₹12,330 and remits ₹2,220 to Anil. Before the maturity

of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2016.

Pass necessary Journal entries for the above transactions in the books of Anil.

(Hint: Amt remitted to Sanjay w.r.t 1st Bill = ₹ 2,940; Discounting Charges allocable to Anil w.r.t 2nd Bill = ₹180; Amt recoverable from Anil's estate ₹4,200; Deficiency = ₹4,200)

(Old Study Material)

Q.10.

On 1st January, 2022, A sells goods for ₹10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2022, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

(Hint: Rebate due to Retirement = ₹100)

(Study Material)

Q.11.

A draws upon B, three Bills of Exchange of ₹3,000, ₹2,000 and ₹1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest ₹100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for ₹1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (nothing charge being ₹30). The third bill was retained till maturity when it was duly met.

Give the necessary journal entries recording the above transactions in the books of A.

(Hint: Discounting Charges w.r.t 2nd Bill discounted by A = ₹100; Amt. receivable w.r.t Cancellation of 1st Bill = ₹1,500; Value of New Bill = ₹ 1,600)

(Study Material)

Q.12.

Journalize the following in the books of Don:

- (i) Bob informs Don that Ray's acceptance for ₹3,000 has been dishonoured and noting charges are ₹40. Bob accepts ₹1,000 cash and the balance as bill at three months at interest of 10%. Don accepts from Ray his acceptance at two months plus interest @12% p.a.
- (ii) James owes Don ₹3,200; he sends Don's own acceptance in favour of Ralph for ₹3,160 in full settlement.
- (iii) Don meets his acceptance in favour of Singh for ₹4,500 by endorsing John's acceptance for ₹4,450 in full settlement.
- (iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken @6% p.a.

(Study Material)

Q.13.

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%.

Prepare Journal Entries in the books of Mr. A.

(Hint: Interest due to renewal = ₹240; Amt. realised from B's Estate = ₹3,200; Bad Debts = ₹4,800)
(RTP, May 18) (RTP, Nov 19)

Q.14.

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.

(Hint: Discount Charges of first bill = ₹300; Anoop's share in discount of the first bill = ₹100; Amount to be remitted to Anup in respect of first bill = ₹4,900; Suresh's share in discount of the second bill = ₹300; Amount to be recovered from Suresh's estate = ₹6,562.5; Amount to be transferred to Deficiency A/c = ₹6,562.5)

(Nov 20 – 10 Marks)

Q.15.

Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2022 for 2 months. The first bill is for 10,200 and the second bill is for ₹15,000. The First bill is discounted immediately with the bank for ₹10,000 and the second bill was endorsed in favour of Mr. Sree on 3rd January 2022. Pass the necessary journal entries in the books of Ms. Sujata.

(Study Material)

Q.16.

X draws on Y a bill of exchange for ₹30,000 on 1st April, 2022 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹28,800. X immediately remits ₹9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹42,000 for three months which is discounted by Y for ₹40,110. Y sends ₹6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y.

(Hint: X's share of discount of second bill = ₹1,260; Amt. Credited to Deficiency A/c / Debited to Bad Debts A/c = ₹14,000)

(Study Material)

Q.17.

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.

(Hint: Interest on Renewal of Bill = ₹480; Rebate on Retirement of Renewed Bill = ₹240)

(Dec 21 – 10 Marks)

Q.17.

Journalise the following transactions in the books of Karthik:

- (i) Karthik accepted a bill of Balu for ₹3,500 discharged by a cash payment of ₹1,500 and a new bill for the balance plus ₹75 for interest.
- (ii) Gopal acceptance for ₹4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹50 as noting charges. Bill was withdrawn against cheque.
- (iii) Doshi retires a bill for ₹2,500 drawn on him by Karthik for ₹25 discount.
- (iv) Karthik's acceptance to Prem for ₹6,500 discharged by Prem. Ashok's acceptance to Karthik for a similar amount.

(June 23 – 5 Marks)

Q.18.

T draws on J a bill of exchange for ₹1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹1,72,800. T immediately remits ₹57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹2,52,000 for three months, which is discounted by J from his banker for ₹2,40,660. J sends ₹40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paise in a rupee.

Give the journal entries in the books of T and J.

(Hint: T's share in the discount of 2nd Bill = ₹7,560; Amt. Credited in Deficiency A/c / Debited in Bad Debts A/c = ₹84,000)

(Nov 22 – 15 Marks)

Q.19.

Mr. Y accepted a bill for ₹40,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. X got the bill discounted at his bank for ₹39,200.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹8,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. X.

(Hint: Interest due to renewal = ₹960; Amt. realised from Y's Estate = ₹12,800; Bad Debts = ₹19,200)

(RTP Dec 23)

Q.20.

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 paise in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

(Hint: Interest due to Renewal = ₹400; Amt. recovered from Estate = ₹8,090; Bad Debts = ₹8,200)
(RTP May 20)

Q.21.

Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Pratika.

(Hint: Interest due to renewal = ₹6,250; Amt. recovered from Estate = 1,50,000; Bad Debts = ₹1,00,000)

(RTP May 23)

Q.22.

Ravi draws a bill for ₹45,000 on Rishi on 15th April, 2021 for 3 months, which is returned by Rishi to Ravi after accepting the same. Ravi gets it discounted with the bank for ₹44,100 on 18th April, 2021 and remits one-third amount to Rishi. On the due date Ravi fails to remit the amount due to Rishi, but he accepts bill of ₹52,500 for 3 months, which Rishi discounts for ₹51,300 and remits ₹8,475 to Ravi. Before the maturity of the renewed bill Ravi becomes insolvent and only 50% was realized from his estate on 31st October, 2021.

Pass necessary Journal entries for the above transactions in the books of Ravi.

(Hint: Ravi's share in discount of 2nd Bill = ₹900; Amt. Credited in Deficiency A/c = ₹19,687.50; Amt. Paid from Ravi's Estate = ₹19,687.50)

(ICAI MTP May 22 – 10 Marks)

CHAPTER 16: INVENTORIES

Q.1.

A manufacturer has the following record of purchases of a condenser, which he uses while manufacturing radio sets:

Date	Quantity (units)	Price per unit (₹)
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

1,600 units were issued during the month of December till 18th December.

Find out the value of closing inventory as per FIFO Method.

(Hint: Closing Inventory: Qty = 1,000 units & Value = ₹49,600)

(Study Material)

Q.2.

In Q.1. assume that following issues were made during the month of December: Record of issues:

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

Find out the value of Closing Inventory using LIFO Method.

(Hint: Closing Inventory: Qty = 1,000 units & Value = ₹50,600)

(Study Material)

Q.3.

Using the facts given in Q.1., calculate the value of Closing Inventory using Simple Average Price Method.

(Hint: Value of Inventory: 1,000 units X ₹53.4 = ₹53,400)

(Study Material)

Q.4.

On the basis of information given in Q.1 & 2, calculate the value of closing inventory using weighted average price method under Periodic Inventory System & Perpetual Inventory System.

(Hint: Value of Closing Inventory: Perpetual Inventory System = 1,000 units X ₹50.37 = ₹50,377;

Periodic Inventory System = 1,000 units X ₹51.19 = ₹51,190)

(Study Material)

Q.5.

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2022:

Goods received from suppliers (subject to trade discount and taxes)	₹15,75,500
Trade discount 3% and GST 11%	
Packaging and transportation charges	₹87,500
Sales during the year	₹22,45,500
Sales price of closing inventories	₹2,35,000

Find out the historical cost of inventories using adjusted selling price method.

(Hint: Estimated Gross Margin = 28.09%; Value of Inventory = ₹1,68,988)

(Study Material)

Q.6.

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

Sales during the year	₹2,00,000
Cost of purchases	₹2,00,000
Opening inventory	Nil
Closing inventory at selling price	₹50,000

(Hint: Gross Margin = 20%; Value of Stock = ₹40,000)

(Study Material)

Q.7.

From the following particulars ascertain the value of Inventories as on 31st March, 2022:

Inventory as on 1.4.2021	₹1,42,500
Purchases	₹7,62,500
Manufacturing Expenses	₹1,50,000
Selling Expenses	₹60,500
Administrative Expenses	₹30,000
Financial Charges	₹21,500
Sales	₹12,45,000

At the time of valuing inventory as on 31st March, 2021, a sum of ₹17,500 was written off on a particular item, which was originally purchased for ₹50,000 and was sold during the year for ₹45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

(Hint: Value of Closing Inventory = ₹62,500)

(Study Material)

Q.8.

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2022 on which date the total cost of goods in his godown came to ₹50,000. The following facts were established between 31st March and 15th April, 2022.

- (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 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, 2022.

(Hint: Value of Inventory on 31.3.2022 = ₹79,366)

(Study Material)

Q.9.

Inventory taking for the year ended 31st March, 2022 was completed by 10th April 2022, the valuation of which showed an inventory figure of ₹16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for ₹68,750, profit margin being 33.33% on cost. Purchases for the next year included in the inventory amounted to ₹90,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of ₹3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow-moving items costing ₹11,250, which should be taken at ₹5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing ₹15,500 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 ₹12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 30th March, 2022.

(Hint: Value of Inventory on 31.3.2022 = ₹16,34,310)

(Study Material)

Q.10.

The following are the details of a spare part of Sriram mills:

1-1-2022	Opening Inventory	Nil
1-1-2022	Purchases	100 units @ ₹30 per unit
15-1-2022	Issued for consumption	50 units
1-2-2022	Purchases	200 units @ ₹40 per unit
15-2-2022	Issued for consumption	100 units
20-2-2022	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2022 if the company follows First in first out basis.

(Hint: Closing Inventory: Qty = 50 units; Value of Inventory = ₹2,000)

(Study Material)

Q.11.

The following are the details of a spare part of Sriram Mills:

1-1-2022	Opening Inventory	Nil
1-1-2022	Purchases	100 units @ ₹30 per unit
15-1-2022	Issued for consumption	50 units
1-2-2022	Purchases	200 units @ ₹40 per unit
15-2-2022	Issued for consumption	100 units
20-2-2022	Issued for consumption	100 units

Find out the value of Inventory as on 31-3-2022 if the company follows Weighted Average basis.
(Hint: Closing Inventory: Qty = 50 units; Value = ₹1,900)

(Study Material)

Q.12.

X who was closing his books on 31.3.2022 failed to take the actual stock which he did only on 9th April, 2022, when it was ascertained by him to be worth ₹2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2022 and 9.4.2022 as per the sales day book are ₹17,200. Purchases between 31.3.2022 and 9.4.2022 as per purchases day book are ₹1,200, out of these goods amounting to ₹500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2022 but goods received only on 4th April, 2022 amounted to ₹1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2022.

(Hint: Value of Inventory i.e., physical stock on 31.3.2022 = ₹2,61,200)

(Study Material)

Q.13.

From the following information, ascertain the value of stock as on 31.3.2022:

Value of stock on 1.4.2022	₹7,00,000
Purchases during the period from 1.4.2022 to 31.3.2022	₹34,60,000
Manufacturing expenses during the above period	₹7,00,000
Sales during the same period	₹52,20,000

At the time of valuing stock on 31.3.2021 a sum of ₹60,000 was written off a particular item which was originally purchased for ₹2,00,000 and was sold for ₹1,60,000. But for the above transaction the gross profit earned during the year was 25% on cost.

(Hint: Value of Stock on 31.3.2022 = ₹6,72,000)

(Study Material)

Q.14.

The Profit and loss account of Hanuman showed a net profit of ₹6,00,000, after considering the closing stock of ₹3,75,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included ₹15,000 paid for new electric fittings for the shop.
- (ii) Hanuman gave away goods valued at ₹40,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹2,50,000 have been entered on 27th March, 2022, but the goods were not included in stock.
- (iv) In March, 2022 goods of ₹2,00,000 sold and delivered were taken in the sales for April, 2022.
- (v) Goods costing ₹75,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022.

Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended on that date.

(Hint: Adjusted Net Profit = ₹10,40,000; Value of Stock on 31.3.2022 = ₹7,00,000)

(Study Material)

Q.15.

Physical verification of stock in a business was done on 23rd June, 2022. The value of the stock was ₹48,00,000. The following transactions took place between 23rd June to 30th June, 2022:

- (i) Out of the goods sent on consignment, goods at cost worth ₹2,40,000 were unsold.
- (ii) Purchases of ₹4,00,000 were made out of which goods worth ₹1,60,000 were delivered on 5th July, 2022.
- (iii) Sales were ₹13,60,000, which include goods worth ₹3,20,000 sent on approval. Half of these goods were returned before 30th June, 2022, but no information is available regarding the remaining goods.
- (iv) Goods are sold at cost plus 25%. However, goods costing ₹2,40,000 had been sold for ₹1,20,000.

Determine the value of stock on 30th June, 2022.

(Hint: Value of Stock on 30.6.2016 = ₹44,64,000)

(Study Material)

Q.16.

Closing Stock is valued by XYZ Stores on generally accepted accounting principles.

Inventory taking for the year ended 31st March, 2017 was completed by 10th April 2017, the valuation of which showed an inventory 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 inventory taking, sales for the next year were made for ₹6,875, profit margin being 33.33% on cost. Purchases for the next year included in the inventory amounted to ₹9,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of ₹300 in respect of sales returns. After inventory 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 flood, 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.

Compute the value of inventory for inclusion in the final accounts for the year ended 31st March, 2017.

(Hint: Value of Inventory on 31.3.2016 = ₹1,63,431)

(RTP May 18)(RTP Nov 19)

Q.17.

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, that 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 invoice 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.
(Hint: Value of Stock on 31.3.2018 = ₹79,800)

(RTP May 20)

Q.18.

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to ₹50,000. The following facts were established between 31st 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 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, 2018.

(Hint: Value of Inventory on 31.3.2018 = ₹79,366)

(RTP May 19)

Q.19.

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 amounting 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 of Stock as on 31st March 2019.

(Hint: Value of Stock as on 31.3.2019 = ₹1,57,000)

(May 19 – 5 Marks)

Q.20.

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.

(Hint: Value of Stock as on 29th February 2020 = ₹23,78,000)

(Nov 2020 – 10 Marks)

Q.21.

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.

(Hint: Value of Inventory on 31st March, 2020 = ₹1,75,000)

(Jan 21 – 5 Marks)

Q.22.

Surekha Ltd deals in 3 products P, Q & R, which are neither similar nor interchangeable. At the end of a financial year, the Historical Cost and NRV of items of Closing Stock are given below. Determine the value of Closing Stock.

Items	Historical Cost (in ₹ Lakhs)	Net Realisable Value (in ₹ Lakhs)
P	38	42

Q	29	29
R	17	14

(Hint: Value of Closing Stock = ₹81 lakhs)

(Study Material)

Q.23.

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.

(Hint: Value of 5 units on 31-3-2021 = ₹1,900)

(Dec 21 – 4 Marks)

Q.24.

The Profit and Loss account of Ram showed a net profit of ₹5,75,000 after considering the closing stock of ₹2,55,000 on 31st March 2022. Subsequently the following information was obtained from scrutiny of the books.

- Purchases for the year included ₹10,500 paid for electrical fittings of the shop.
- Ram gave goods worth of ₹25,000 as free samples for which no entry was made.
- Invoices for goods amounting to ₹1,85,000 have been entered on 29th March 2022 but were not included in the stock.
- Sales amounting to ₹2,05,000 were dispatched on 27th March but were included in sales of April, 2022.
- Goods costing ₹55,000 were sent on sale or return basis in March, 2022 at a margin of profit of 33½ % on cost. Approval was given in April, 2022 but these were considered as sales in March, 2022.

Calculate. the value of stock as on 31st March, 2022 and the adjusted net profit for the year ended on that date.

(Value of Stock = ₹4,95,000; Adjusted Net Profit = ₹9,57,167)

(June 23 – 5 Marks)

Q.25.

Zed Enterprises furnishes the following information for the year ended 31st March, 2021.

Particulars	Amount (₹)
Value of Stock as on 1st April,2020	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

The following further information is also provided:

- (i) At the time of valuing stock on 31st March, 2020 a sum of ₹2,40,000 was written off for a particular item which was originally purchased for ₹8,00,000. This item was sold during the year ended 31st March, 2021 for ₹6,40,000.
- (ii) Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost. Ascertain the value of Stock as on 31st March, 2021.
(Hint: Value of Stock = ₹37,00,000)

(May 22 – 5 Marks)

Q.26.

Stock taking of ABC Stores for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹3,35,000 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 ₹13,750, profit margin being 33.33 per cent on cost. Purchases for the next year included in the stock amounted to ₹18,000 at cost less trade discount 10 per cent. During this period, goods were added to stock of the mark-up price of ₹600 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹2,250 which should be taken at ₹1,050 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹3,100 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 ₹2,500 on 31st March, 2023.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2023. Closing stock is valued by ABC Stores on generally accepted accounting principles.
(Hint: Value of Stock = ₹3,26,862)

(RTP Dec 23)

Q.27.

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 ₹5,970)
- (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.

(Hint: Value of Inventory = ₹2,38,098)

(RTP May 22)

Q.28.

Raj Ltd. prepared their accounts financial year ended on 31st March 2022. Due to unavoidable circumstances actual stock has been taken on 10th April 2022, when it was ascertained at ₹5,00,000. 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 2022 to 9th April 2022 amounting to ₹80,000 as per Sales Day Book.
- (iv) Free samples for business promotion issued during 1st April 2022 to 9th April 2022 amounting to ₹16,000 at cost.
- (v) Purchases during 1st April 2022 to 9th April 2022 amounting to ₹40,000 but goods amounts to ₹8,000 not received till the date of stock taking.
- (vi) Invoices for goods purchased amounting to ₹80,000 were entered on 28th March 2022 but the goods were not included in stock.

Rate of Gross Profit is 25% on cost. Ascertain the value of Stock as on 31st March, 2022.

(Hint: Value of Stock = ₹6,28,000)

(RTP May 23)

Q.29.

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 ₹2,40,000.
- (ii) On 31st December, stock sheet showed the following discrepancies:
 - (a) A page total of ₹15,000 had been carried to summary sheet as ₹18,000.
 - (b) The total of a page had been undercast by ₹600.
- (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2021 totalled ₹2,10,000. Out of this ₹9,000 related to goods received prior to 31st December, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totalled ₹12,000.
- (iv) Sales invoiced to customers totalled ₹2,70,000 from January to March, 2021. Of this ₹15,000 related to goods dispatched before 31st December, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totalled ₹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.

(Hint: Value of Stock = ₹2,39,400)

(ICAI MTP – Mar 21 – 10 Marks)

Q.30.

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

(Hint: Cost of Closing Inventory = ₹58,820; Gross Margin Ratio = 41.18%)

(July 21 – 5 Marks)

CHAPTER 17: DEPRECIATION & AMORTISATION

Q.1.

Jain Bros. acquired a machine on 1st July, 2021 at a cost of ₹14,00,000 and spent ₹1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.

Required

Show the Machinery Account and Depreciation Account for the year 2021 and 2022.

(Hint: Depreciation: Year 1- ₹75,000; Year 2- ₹1,50,000; Closing Balance of Machinery A/c: Year 1- ₹14,25,000; Year 2- ₹12,75,000)

(Study Material)

Q.2.

Jain Bros. acquired a machine on 1st July, 2021 at a cost of ₹14,00,000 and spent ₹1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.

Required

Show the Machinery Account on diminishing balance method for the year 2021 and 2022.

(Hint: Depreciation: Year 1- ₹75,000; Year 2- ₹1,42,500; Closing Balance of Machinery A/c: Year 1- ₹14,25,000; Year 2- ₹12,82,500)

(Study Material)

Q.3.

M/s Akash purchased a machine for ₹10,00,000. Estimated useful life and scrap value were 10 years and ₹1,20,000 respectively. The machine was put to use on 1.1.2017.

Required

Show Machinery Account and Depreciation Account in their books for 2022 by using sum of years digits method.

(Hint: WDV on 1.1.2022 = ₹3,60,000; Depreciation for 2022 = ₹80,000; Closing Balance on 31.12.2022 = ₹2,80,000)

(Study Material)

Q.4.

A machine was purchased for ₹30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be ₹2,00,000 and anticipated pattern of distribution of effective hours is as follows:

Year

1 – 3 3,000 hours per year

4 - 6 2,600 hours per year

7 - 10 1,800 hours per year

Required

Determine Annual Depreciation under Machine Hour Rate Method.

(Hint: Depreciation: Year 1-3 = ₹3,50,00 p.a.; Year 4-6 = ₹3,03,333 p.a.; Year 7-10 = ₹2,10,000 p.a.)

(Study Material)

Q.5.

A machine is purchased for ₹20,00,000. Its estimated useful life is 10 years with a residual value of ₹2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year	Production
1-3	20,000 units per year
4-7	15,000 units per year
8-10	10,000 units per year

Required

Determine the value of depreciation for each year using production units method.

(Hint: Depreciation: Year 1-3 = ₹2,40,00 p.a.; Year 4-7 = ₹1,80,000 p.a.; Year 8-10 = ₹1,20,000 p.a.)

(Study Material)

Q.6.

M/s Surya took lease of a quarry on 1-1-2019 for ₹1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year Quantity of Mineral extracted

2019 2,000 tonnes

2020 10,000 tonnes

2021 15,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2019 to 2021.

(Hint: Depreciation: Year 1 = ₹1,00,000; Year 2 = ₹5,00,000; Year 3 : ₹7,50,000; Closing Balance of Lease A/c at the end of Year 3 = ₹86,50,000)

(Study Material)

Q.7.

A firm purchased on 1st January, 2020 certain machinery for ₹5,82,000 and spent ₹18,000 on its erection. On July 1, 2020 another machinery for ₹2,00,000 was acquired. On 1st July, 2021 the machinery purchased on 1st January, 2020 having become obsolete was auctioned for ₹3,86,000 and on the same date fresh machinery was purchased at a cost of ₹4,00,000.

Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required

Prepare machinery account.

(Hint: Closing Balance of Machinery A/c – Year 1 End = ₹7,30,000; Year 2 End = ₹5,51,000; Loss on Sale of Machinery = ₹1,27,000)

(Study Material)

Q.8.

On April 1, 2019 Shubra Ltd. purchased a machinery for ₹12,00,000. On Oct 1, 2021, a part of the machinery purchased on April 1, 2019 for ₹80,000 was sold for ₹45,000 and a new machinery at a cost of ₹1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.

Required: Show the necessary ledger accounts for the years ended 31st March, 2020 to 2022 assuming that (a) 'Provision for Depreciation Account' is not maintained (b) Provision for Depreciation Account is maintained.

(Hint: (a) Balance of Machinery A/c – 31/3/2020 = ₹10,80,000; 31/3/2021 = ₹9,72,000; 31/3/2022 = ₹9,66,580; (b) Balance of Machinery A/c on 31/3/2022 = ₹12,78,000; Balance of Provision for Dep. A/c = 31/3/2020 = ₹1,20,000; 31/3/2021 = ₹2,28,000; 31/3/2022 = ₹3,11,420; Depreciation – ₹1,20,000; ₹1,08,000; ₹1,01,860; Loss on Sale = ₹16,560)

(Study Material)

Q.9.

A firm purchased second hand machinery on 1st January, 2019 for ₹3,00,000, subsequent to which ₹60,000 and ₹40,000 were spent on its repairs and installation, respectively. On 1st July, 2020 another machinery was purchased for ₹2,60,000. On 1st July, 2021, the first machinery having become outdated was auctioned for ₹3,20,000 and on the same date, another machinery was purchased for ₹2,50,000.

On 1st July, 2022, the second machinery was also sold off and it fetched ₹2,30,000.

Depreciation was provided on machinery @ 10% on the original cost annually on 31st December, under the straight line method.

Required:

Prepare the following accounts in the books of the company: (i) Machinery Account for the years ending Dec. 31, 2019 to 2022 and (ii) Machinery Disposal Account.

(Hint: Balance of Machinery Disposal – 31/12/2019 - ₹3,60,000; 31/12/2020 - ₹5,67,000; 31/12/2021 - ₹4,58,500; 31/12/2022 - ₹2,12,500; Profit on Sale: 1/7/2021 - ₹20,000; 1/7/2022 - ₹22,000;

Depreciation: Year 1 - ₹40,000; Year 2 - ₹53,000; Year 3 - ₹58,500; Year 4 - ₹38,000)

(Study Material)

Q.10.

M/s Anshul & Co. commenced business on 1st January 2017, when they purchased plant and equipment for ₹7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and over the years, their purchases of plant have been:

Date	Amount (₹)
1-1-2018	1,50,000
1-1-2021	2,00,000

On 1-1-2021 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2021 with no scrap value and 10 years for the asset purchased on 1.1.2021.

Required:

Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2021.

Note: The drafting of requirement of the question by ICAI is erroneous. However, the suggested answer given in study material is correct. Students should read the requirement as:

“Prepare Machinery Account for the year ended 31st December, 2021.”

(Hint: Balance of Machinery A/c – 1st Jan 2021 = ₹4,57,523; 31st Dec 2021 = ₹5,61,270; Depreciation of 2021 = ₹96,253)

(Study Material)

Q.11.

A Machine costing ₹6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years.

Required

Calculate depreciation for the fourth year.

(Hint: Dep for 4th year onwards = ₹84,000 p.a.)

(Study Material)

Q.12.

A machine of cost ₹12,00,000 is depreciated straight-line assuming 10 year working life and zero residual value for three years. At the end of third year, the machine was revalued upwards by ₹60,000 the remaining useful life was reassessed at 9 years.

Required

Calculate depreciation for the fourth year.

(Hint: Dep. for 4th year onwards = ₹1,00,000 p.a.)

(Study Material)

Q.13.

A firm’s plant and machinery account at 31st December, 2021 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of Purchase	Plant and Machinery at cost (₹)	Depreciation Provision (₹)
2005	2,00,000	2,00,000
2011	3,00,000	3,00,000
2012	10,00,000	9,50,000
2013	7,00,000	5,95,000
2020	5,00,000	75,000
2021	3,00,000	15,000
	30,00,000	21,35,000

Depreciation is at the rate of 10% per annum on cost. It is the Company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred.

During 2022 the following transactions took place:

1. Purchase of plant and machinery amounted to ₹15,00,000
2. Plant that had been bought in 2011 for ₹1,70,000 was scrapped.
3. Plant that had been bought in 2012 for ₹90,000 was sold for ₹5,000.
4. Plant that had been bought in 2013 for ₹2,40,000 was sold for ₹15,000.

You are required to:

Calculate the provision for depreciation of plant and machinery for the year ended 31st December, 2022. In calculating this provision, you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the Profit and Loss Account. You are also required to prepare the following ledger accounts during 2022.

- (i) Plant and machinery at cost;
- (ii) Depreciation provision;
- (iii) Sales or disposal of plant and machinery.

(Hint: Depreciation for Year 2022 = ₹2,63,000; Closing Balance: Plant & Machinery A/c = ₹40,00,000; Depreciation Provision A/c = ₹19,22,000; Loss on Sales as per Disposal A/c = ₹4,000)

(Study Material)

Q.14.

The Machinery Account of a Factory showed a balance of ₹19,00,000 on 1st January, 2022. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2022, a new machinery was acquired at a cost of ₹2,80,000 and installation charges incurred in erecting the machine works out to ₹8,920 on the same date. On 1st June, 2022 a machine which had cost ₹4,37,400 on 1st January 2020 was sold for ₹75,000. Another machine which had cost ₹4,37,000 on 1st January, 2021 was scrapped on the same date and it realised nothing.

Write a machinery account for the year 2022, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

(Hint: Loss on Sale of Machine = ₹2,64,532 with 5 months dep of ₹14,762; Loss on Scrapping of Machine = ₹3,76,912 with 5 months dep of ₹16,388; Depreciation for the year on remaining Machine = ₹1,32,094; Closing Balance of Machine A/c = ₹13,09,232)

(Study Material)

Q.15.

The LG Transport company purchased 10 trucks at ₹45,00,000 each on 1st April 2019. On October 1st, 2021, 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 writes off 20% on the original cost per annum. The company observe the calendar year as its financial year.

Give the motor truck account for two year ending 31 Dec, 2022.

(Hint: WDV on 01.01.2021 = ₹2,92,50,000; Dep on Lost Asset for 9 months = ₹6,75,000; Profit on Settlement = ₹4,50,000; Dep for 2021 & 2022 respectively, other than on lost asset = ₹83,50,000 & ₹91,00,000 respectively; WDV on 31.12.2021 & 31.12.2022 = ₹2,29,75,000 & ₹1,38,75,000 respectively)

(Study Material)(RTP May 18)

Q.16.

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.

(Hint: Dep for 5th Year onwards = ₹80,000 p.a.)

(Nov 18 – 4 Marks)

Q.17.

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 account for four years from 1st January, 2015.

(Hint: Dep - 2015 = ₹4,000; 2016 = ₹6,150; 2017 = ₹5,558; 2018 = ₹4,059;

Closing Balance of Machinery A/c – 2015 = ₹36,000; 2016 = ₹39,850; 2017 = ₹30,987; 2018 = ₹19,656; Loss on Sale of Machine - 2017 = ₹305; 2018 = ₹5,272)

(May 19 – 10 Marks)

Q.18.

X purchased a machinery on 1st January 2017 for ₹4,80,000 and spent ₹20,000 on its installation. On July 1, 2017 another machinery costing ₹2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹2,90,000 and on the same date fresh machinery was purchased for ₹5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

(Hint: Dep – 2017 = ₹60,000; 2018 = ₹22,500 on sold machine & ₹44,000 on other machines;

Closing Balance of Machinery A/c – 2017 = ₹6,40,000; 2018 = ₹6,46,000

Loss on sale of machine – 2018 = ₹1,37,500)

(Nov 19 – 4 Marks)

Q.19.

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.

(Hint: 2019 – Depreciation on Lost Assets = ₹7,50,000; Profit on Settlement = ₹7,50,000; Depreciation on Remaining Trucks = ₹93,00,000; Closing Balance = ₹2,82,00,000; 2020 – Depreciation = ₹1,02,00,000; Closing Balance = ₹1,80,00,000)

(Jan 21 – 10 Marks)

Q.20.

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of ₹28,00,000 and spent ₹2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year.

Required:

Show the Patent Account and Amortisation Account for the year 2021 and 2022.

(Hint: Closing Balance of Patent A/c – 2021 = ₹28,50,000; 2022 = ₹25,50,000)

(Study Material)

Q.21.

Prime Streaming Co. acquired the streaming rights of a movie for ₹18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years.

Required:

Calculate amortisation for the fourth year.

(Hint: Amortisation for the fourth year = ₹2,52,000)

(Study Material)

Q.22.

A Machinery costing ₹20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by ₹80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

(Hint: Dep for 5th Year onwards = ₹1,60,000 p.a.)

(Study Material)

Q.23.

Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹35,00,000 on 31st December, 2022. The balance in Revaluation Surplus on that date was ₹3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December, 2022. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December, 2022 was:

(a) ₹37,00,000 (b) ₹33,00,000 and (c) ₹31,00,000. Also, give the journal entries.

(Hint: (a) Debit PPE & Credit Revaluation Surplus by ₹2,00,000; (b) Debit Revaluation Surplus & Credit PPE by ₹2,00,000; (c) Debit Revaluation Surplus ₹3,00,000 & P&L A/c ₹1,00,000 & Credit PPE by ₹4,00,000)

(Study Material)

Q.24.

On April 1, 2019 a firm purchased a machinery for ₹2,00,000. On 1st October in the same accounting year, additional machinery costing ₹1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for ₹90,000. On October 1, 2021, new machinery was purchased for ₹2,50,000 while the machinery purchased on 1st October 2019 was sold for ₹85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March 31, 2022.

(Hint: Closing Balance of Machinery A/c – Year 1 = ₹3,00,000; Year 2 = ₹1,00,000; Year 3 = ₹2,50,000; Closing Balance of Provision for Depreciation A/c – Year 1 = ₹25,000; Year 2 = ₹15,000; Year 3 = ₹12,500; Loss on Sale – 1/10/2020 = ₹80,000; Profit on Sale – 1/10/2021 = ₹5,000)

(Study Material)

Q.25.

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. (Hint: Dep. - on destroyed bus = ₹30,400, on purchased bus = ₹1,50,000; Gain on Bus Damaged = ₹22,400)

(Dec 21 – 5 Marks)

Q.26.

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.

(Hint: Total Depreciation = ₹4,92,800)

(July 21 – 4 Marks)

Q.27.

The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	12,00,000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹2,00,000 was sold for ₹1,10,000 and on the same date another Machinery was purchased for ₹4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

(Hint: Closing Balances: Machinery A/c = ₹14,80,000; Provision for Dep. A/c = ₹4,93,720; Loss on Sale = ₹28,510; Depreciation: 1/10/2021 = ₹7,290, 31/3/2022 = ₹82,920)

(June 23 – 10 Marks)

Q.28.

The Machinery Account of a Factory showed a balance of ₹95 Lakhs on 1st April, 2020. The Books of Accounts are closed on 31st March every year and depreciation is written off of the Factory @ 10% per annum under the Diminishing Balance Method. On 1st September, 2020 a new machine was acquired at a cost of ₹14 Lakhs and ₹44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2020 a machine which had cost ₹21,87,000 on 1st April, 2018 was sold for ₹3,75,000. Another machine which had cost ₹21,85,000 on 1st April, 2019 was scrapped on 1st September, 2020 and it realized nothing.

Prepare Machinery Account for the year ended 31st March, 2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

(Hint: Closing Balance of Machinery A/c = ₹65,46,159; Depreciation – on Machine sold = ₹73,811; on Machine scrapped = ₹81,938; on other Machine = ₹6,60,471; Loss – on sale = ₹13,22,659; on scrap = ₹18,84,562)

(May 22 – 10 Marks)

Q.29.

A purchased a machinery for ₹1,30,000 on 1st April, 2019 and paid ₹20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for ₹50,000 and sold old machinery for ₹1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022.

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.

(Hint: Closing Balance of Machinery A/c – Year 1 = ₹1,20,000; Year 2 = ₹90,000; Year 3 = ₹48,125; Profit on Sale = ₹16,750; Depreciation – Year 1 = ₹30,000; Year 2 = ₹30,000; Year 3: on Machine sold = ₹6,750 & on remaining machines = ₹1,875)

(Nov 22 – 4 Marks)

Q.30.

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.

(Hint: WDV on 01.01.2019 = ₹1,23,75,000; Dep on Lost Asset for 9 months = ₹1,12,500; Loss on Settlement = ₹4,25,000; Dep for 2019 & 2020 respectively, other than on lost asset = ₹13,95,000 & ₹15,30,000 respectively; WDV on 31.12.2019 & 31.12.2020 = ₹1,15,42,500 & ₹1,00,12,500 respectively)

(RTP Nov 21)

Q.31.

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.

Note: Firm follows Financial Year.

(Hint: Closing Balance of Machinery A/c – Year 1 = ₹2,56,000; Year 2 = ₹2,28,000; Year 3 = ₹89,250; Year 4 = ₹75,862.50; Loss on Sale = ₹50,000; Annual Depreciation – Year 1 = ₹24,000; Year 2 = ₹28,000; Year 3 = ₹18,750; Year 4 = ₹13,387.50)

(RTP – May 22)

Q.32.

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.

(Hint: Balance of Machinery A/c – 1st Jan 2019 = ₹4,56,000; 31st December 2019 = ₹1,78,500; 31st December 2020 = ₹1,51,725; Depreciation – 2019 = ₹37,500; 2020 = ₹26,775; Loss on Sale = ₹50,000)

(RTP May 21)

Q.33.

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.

(Hint: Closing Balance of Machinery A/c – 2015 = ₹2,56,000; 2016 = ₹2,28,000; 2017 = ₹89,250; 2018 = ₹75,862.50; Loss on Sale = ₹50,000; Annual Depreciation = 2015 = ₹24,000; 2016 = ₹28,000; 2017 = ₹18,750; 2018 = ₹13,387.50)

(RTP Nov 19)

Q.34.

Mangalam group had Property, Plant and Machinery with a book value of ₹1,00,00,000/- on 31st December, 2022. The balance in Revaluation Surplus on that date was ₹10,00,000/-. As part of regular practice of revaluing the assets on yearly basis, another valuation was carried out on 31st December, 2022. Evaluate the impact of Revaluation, if the fair market value as a result of Revaluation done on 31st December, 2022 was (a) ₹1,05,00,000/- and (b) ₹85,00,000/-.

You are required to explain with reason the accounting treatment with Journal Entries.

(Hint: (a) Debit PPE, Credit Revaluation Surplus - ₹5,00,000; (b) Debit Revaluation Surplus ₹10,00,000, Debit P&L ₹5,000, Credit PPE ₹15,000)

(ICAI MTP – April 23 – 5 Marks)

Q.35.

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.

(Hint: Closing Balance of Quarry Lease A/c = 2019 = ₹5,94,00,000; 2020 = ₹5,64,00,000; 2021 = ₹5,19,00,000; Depreciation - 2019 = ₹6,00,000; 2020 = ₹30,00,000; 2021 = ₹45,00,000)

(ICAI MTP – Mar 22 – 10 Marks)

Q.36.

Anirudh and Associates purchased an old Machinery for ₹74,000 on 1st January, 2017 and spent ₹6,000 on its overhauling. On 1st July 2018, another machine was purchased for ₹20,000. On 1st July 2019, the machinery which was purchased on 1st January 2017, was sold for ₹56,000 and the same day a new machinery costing ₹50,000 was purchased. On 1st July, 2020, the machine which was purchased on 1st July, 2018 was sold for ₹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.

(Hint: Closing Balance of Machinery A/c – 2017 = ₹72,000; 2018 = ₹79,700; 2019 = ₹61,975; 2020 = ₹39,312; Depreciation – 2017 = ₹72,000; 2018 = ₹12,300; 2019 = ₹11,115; 2020 = ₹8,118; Loss on Sale – 1.7.2019 = ₹610; 1.7.2020 = ₹10,545)

(ICAI MTP – Nov 21 – 10 Marks)

CHAPTER 18: FINAL ACCOUNTS OF NON-MANUFACTURING SOLE PROPRIETORS

Q.1.

Trial Balance for financial the year (FY) ended 31st March 2022 of M/s Deepakshi shows following details:

Particulars	Debit (₹)	Credit (₹)
Purchase & Sales	10,00,000	12,00,000
Debtors & Creditors	5,00,000	4,00,000
Opening Stock	2,00,000	
Closing Stock	3,00,000	
Other Expenses & Incomes	7,00,000	9,00,000
Fixed Assets & Long Term Liabilities	25,00,000	6,00,000
Capital		21,00,000
	52,00,000	52,00,000

Additional Information: Creditors balance as on 1st April, 2021 is ₹3,00,000.

You are required to calculate cost of goods sold and amount paid to creditors during the year.

(Hint: COGS = ₹12,00,000; Amt. paid to creditors during the year = ₹12,00,000)

(Study Material)

Q.2.

	₹
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

Required:

From the above information, prepare a Trading Account of M/s. ABC Traders for the year ended 31st March, 2022 and Pass necessary closing entries in the journal proper of M/s. ABC Traders.

(Hint: Gross Profit = ₹4,20,000)

(Study Material)

Q.3.

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2022 were as follows:

Gross Profit ₹4,20,000, Salaries ₹1,10,000, Discount (Cr.) ₹18,000, Discount (Dr.) ₹19,000, Bad Debts ₹17,000, Depreciation ₹65,000, Legal Charges ₹25,000, Consultancy Fees ₹32,000, Audit Fees ₹1,000, Electricity Charges ₹17,000, Telephone, Postage and Telegrams ₹12,000, Stationery ₹27,000, Interest paid on Loans ₹70,000.

Required

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2022. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

(Hint: Net Profit = ₹43,000)

(Study Material)

Q.4.

On 1st Jan. 2021 provision for Doubtful Debts existed at ₹40,000. Trade receivables on 31.12.2021 were ₹15,00,000; bad debts totalled ₹1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

Required

Show how you would compute the amount debited to the Profit and Loss Account.

(Hint: Closing provision = ₹70,000; Amt. to be debited in P&L = ₹1,30,000)

(Study Material)

Q.5.

The following is the Trial Balance of C. Wanchoo on 31st Dec. 2022.

Trial Balance on 31st December, 2022

Particulars	Debit (₹)	Credit (₹)
Capital Account		10,00,000
Inventory Account	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
Total	64,00,000	64,00,000

Value of Closing Inventory on 31st Dec. 2022 was ₹2,70,000

Required

Prepare closing entries for the above items and Prepare Trading and Profit and Loss Account.

(Hint: Gross Profit = ₹22,50,000; Net Profit = ₹6,30,000)

(Study Material)

Q.6.

Given below Trial Balance of M/s Dayal Bros. as on 31st March, 2022:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		7,00,000
Land & Building	3,00,000	
14% Term Loan		4,00,000
Loan from M/s D & Co.		4,60,000
Trade Receivables	4,20,000	
Cash in Hand	20,000	
Inventories in Trade	6,00,000	
Furniture	2,00,000	
Trade Payables		40,000
Advances to Suppliers	1,00,000	
Net Profit		1,00,000
Drawings	60,000	
	17,00,000	17,00,000

Required:

Prepare Balance Sheet as on 31st March, 2022.

(Hint: Balance Sheet Total = ₹16,40,000)

(Study Material)

Q.7.

The balance sheet of Thapar on 1st January, 2021 was as follows:

Liabilities	₹	Assets	₹
Trade Payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade Receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,00,000
	66,50,000		66,50,000

During 2021-22, his Profit and Loss Account revealed a net profit of ₹18,30,000. This was after allowing for the following:

- Rent received from property let out ₹3,00,000.
- Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.
- A provision for Doubtful Debts @ 5% of the trade receivables as at 31st December, 2022.

But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totalling ₹1,80,000 and (2) prepaid insurance to the extent of ₹20,000.

His current assets and liabilities on 31st December, 2022 were: Inventories ₹14,50,000; Trade receivables ₹20,00,000; Cash at Bank ₹10,35,000 and Trade payables ₹11,40,000.

During the year he withdrew ₹6,00,000 for domestic use.

Required

Draw up his Balance Sheet at the end of the year.

(Hint: Revised Net Profit = ₹16,70,000; Balance Sheet Total = ₹73,90,000)

(Study Material)

Q.8.

BALANCE SHEET As at 31st March, 2022

Liabilities	₹	Assets	₹
Mahendra & Sons	5,60,000	Cash in Hand	43,000
Capital	20,00,000	Cash at Bank	2,67,500
		Trade Receivables	7,49,500
		Closing Inventory	9,00,000
		Machinery & Equipment	6,00,000
	25,60,000		25,60,000

Required:

From the above given balance sheet prepare the relevant opening entry.

(Study Material)

Q.9.

Shri Mittal gives you the following Trial Balance and some other information:

Trial Balances as on 31st March, 2022

Particulars	Debit (₹)	Credit (₹)
Capital		8,70,000
Purchases and Sales	6,05,000	12,10,000
Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000
14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	5,000	
Input CGST	9,000	

Input SGST	9,000	
Output IGST		15,000
	26,07,000	26,07,000

Closing Inventory on 31st March, 2022 was valued at ₹1,00,000.

Required

Prepare final accounts of Shri Mittal for the year ended 31st March, 2022.

(Hint: Gross Profit = ₹6,23,000; Net Profit = ₹1,83,000; Balance Sheet Total = ₹15,35,000)

(Study Material)

Q.10.

Mr. Mohan gives you the following trial balance and some other information:

Trial Balance as on 31st March, 2022

Particulars	Debit (₹)	Credit (₹)
Capital		6,50,000
Sales		9,70,000
Purchases	4,30,000	
Opening Inventory	1,10,000	
Freights Inward	40,000	
Salaries	2,10,000	
Other Administration Expenses	1,50,000	
Furniture	3,50,000	
Trade receivables and Trade payables	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	1,00,000	
Cash in Hand and Cash at Bank	1,89,000	
Input CGST	10,000	
Input SGST	10,000	
Output CGST		8,000
Output SGST		8,000
Output IGST		6,000
	18,53,000	18,53,000

Other Information:

- (i) Closing Inventory was ₹1,80,000;
- (ii) Depreciate Furniture @10% p.a.

Required

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2022 and Balance Sheet of Mr. Mohan as on that date.

(Hint: Gross Profit = ₹5,62,000; Net Profit = ₹1,52,000; Bal Sheet Total = ₹9,94,000)

(Study Material)

Q.11.

The Balance Sheet of Mr. Popatlal, a merchant on 31st March, 2022 stood as below:

Liabilities	₹	Assets	₹
Capital	2,40,000	Fixed Assets	1,25,600
Trade Payables	1,64,000	Inventories	2,06,400
Bank Overdraft	1,46,000	Trade Receivables	1,88,000
		Less: Provision	(6,200)
			1,81,800
		Cash	36,200
	5,50,000		5,50,000

Required

Show opening journal entry on 1st April, 2022 in the books of Mr. Popatlal.

(Study Material)

Q.12.

The following is the schedule of balances as on 31.3.22 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messrs Gavaskar Viswanath & Co., at Mumbai:

Particulars	Debit (₹)	Credit (₹)
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2016	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000
Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	

Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2022 and the Balance Sheet as at that date after making provision for the following:

1. Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for ₹14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for ₹40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.
2. Value of stock at the close of the year was ₹4,40,000.
3. Two month's rent for godown is outstanding.
4. Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2021.
5. Reserve for bad debts is to be maintained at 5 percent of Sundry Debtors.
6. Insurance premium includes ₹40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2021 to 30.6.22.

(Hint: Gross Profit = ₹7,18,000; Depreciation for the year = ₹1,20,000; Net Profit = ₹1,73,000; Bal Sheet Total = ₹23,80,000)

(Study Material)

Q.13.

Crimson Traders profit and loss account for the year ended 31st March, 2022 includes the following information:

	₹`
(i) Depreciation	57,500
(ii) Bad debts written off	21,000
(iii) Increase in provision for doubtful debts	18,000

(iv) Retained profit for the year	20,000
(v) Liability for tax	4,000

Required

State which one of the items (i) to (v) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

(Hint: Transfer to provisions – (i), (iii), (v); Transfer to reserves – (iv); Neither – (ii)

(Study Material)

Q.14.

From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2022 after making the necessary adjustments:

	₹		₹
Ganguli's capital account (Cr.) as on 1.4.2021	5,40,500	Interest received	7,250
Stock on 1.4.2021	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales Return	43,000	Investments (at 5%) as on 1.4.2021	25,000
Purchases	12,15,500	Furniture as on 1.4.2021	9,000
Purchases Return	29,000	Discounts allowed	37,700
Carriage Inwards	93,000	General Expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000
Sundry Debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage & telegrams	4,350
Loan from Dena Bank Ltd (12%)	1,00,000	Cash in Hand	1,900
Interest paid	4,500	Deposits @10% as on 1.4.2021 (Dr.)	1,50,000
Printing & stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

- (1) Value of stock as on 31st March, 2022 is ₹3,93,000. This includes goods returned by customers on 31st March, 2022 to the value of ₹15,000 for which no entry has been passed in the books.
- (2) Purchases include furniture purchased on 1st January, 2022 for ₹10,000.
- (3) Depreciation should be provided on furniture at 10% per annum.
- (4) The loan account from Dena bank in the books of Ganguli appears as follows:

	₹		₹
31.3.2022 To balance c/d	1,00,000	1.4.2021 By balance b/d	50,000
		31.3.2022 By Bank	50,000
	1,00,000		1,00,000

- (5) Sundry debtors include ₹20,000 due from Robert and sundry creditors include ₹10,000 due to him.
- (6) Interest paid include ₹3,000 paid to Dena bank.
- (7) Interest received represents ₹1,000 from the sundry debtors and the balance on investments and deposits.
- (8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.
- (9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision needs to be made for the deposits.

(Hint: Gross Profit = ₹2,79,500; Provision for doubtful debts = ₹4,750; Net profit = ₹70,500; Balance sheet total = ₹7,28,000)

(Study Material)

Q.15.

Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st March, 2021. At the start of financial year 2021-2022, the company raised salaries by 10% to ₹33,000 per month each.

On October 1, 2021 the company hired two trainees at salary of ₹21,000 per month each. The work force is 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 for the year ended 31st March, 2022.
- (ii) Amount actually paid as salaries during 2021-22
- (iii) Outstanding Salaries as on 31st March, 2022.

(Hint: (i) ₹34,20,000; (ii) ₹33,54,000; (iii) ₹3,06,000)

(Study Material)

Q.16.

You are required, prepare a Trading and Profit and Loss Account for the year ending 31st March, 2022 and a Balance Sheet as on that date from the Trial Balance given below:

Particulars	₹	Particulars	₹
Debit Balance:			
Trade Receivables	3,50,000	Salaries	2,20,000
Inventory 1 st April, 2021	5,00,000	Purchases	12,50,000
Cash in Hand	5,60,000	Plant & Machinery	15,70,000
Wages	3,00,000	Credit Balance:	
Bad Debts	50,000	Capital	25,00,000
Furniture & Fixtures	1,50,000	Trade Payables	9,00,000
Depreciation	1,50,000	Sales	17,00,000

On 31st March, 2022 the Inventory was valued at ₹10,00,000.

(Hint: Gross Profit = ₹6,50,000; Net Profit = ₹2,30,000; Balance Sheet Total = ₹36,30,000)

(Study Material)

Q.17.

Mr. Kotriwal 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 2022 has been given below:

On 1.4.2021 he had a balance of ₹2,00,000 Advance from customers of which ₹1,50,000 is related to year 2021-22 while remaining pertains to year 2022-23. During the year 2021-22 he made cash sales of ₹5,00,000. You are required to compute:

- Total income for the year 2021-22.
- Total money received during the year if the closing balance in advance from customers account is ₹1,70,000.

(Hint: (i) ₹6,50,000; (ii) ₹6,20,000)

(Study Material)

Q.18.

Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2022

Particulars	₹	Particulars	₹
To Cost of Goods Sold	45,00,000	By Sales	C
To Gross Profit c/d	D		
	F		F
To Rent A/c	26,00,000	By Gross Profit c/d	D
To Office Expenses	13,00,000	By Miscellaneous Income	E
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

(Hint: Net Profit before charging commission = ₹20,00,000; A = ₹18,00,000; B = ₹1,00,000; C = ₹1,00,00,000; D = ₹55,00,000; E = ₹5,00,000; F = ₹1,00,00,000; G = ₹60,00,000)

(Study Material)

Q.19.

The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125

Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on debtors	1,375	Printing and Stationery	1,250
Sundry Debtors	1,20,000	Cash in hand	1,450
Sundry Creditors	47,500	Cash at bank	3,125
Bad debts	1,100	Office Expenses	10,160
Interest paid on loan	3,000		

Additional Information:

1. Purchases include sales return of ₹2,575 and sales include purchases return of ₹1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹450 were included in wages account.
4. Free samples distributed for publicity costing ₹825.
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. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 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, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

(Hint: Closing Stock = ₹1,25,000; Gross Profit = ₹1,39,535; Net Profit = ₹83,800; Bal Sheet Total = ₹2,67,250)

(RTP Nov 19)

Q.20.

The following is the trial balance of Hari as at 31st December, 2017:

	Debit (₹)	Credit (₹)
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 31.12.20 17 and (ii) Balance sheet as on 31st December, 2017.

(Hint: Gross Profit = ₹77,500; Net Profit = ₹34,503; Bal Sheet Total = ₹1,16,493)

(RTP Nov 18)

Q.21.

The following is the Trial Balance of T on 31st March, 2019:

	Debit (₹)	Credit (₹)
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	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 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2019 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:

- ₹20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹12,000 was used in the business for day-to-day expenses.
- Purchase of goods worth ₹16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.
- 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.
- Expenses include ₹6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

(Hint: Gross Profit = ₹5,96,000; Net Profit = ₹5,44,000; Balance Sheet Total = ₹13,30,000)

(RTP Nov 20)

Q.22.

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 Return	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	

Rates & Taxes	24,000	
Salaries	72,000	
Discount Allowed	7,500	
Discount Received		12,000
Drawings	20,000	
Printing & Stationery	6,000	
Insurance Premium	48,000	
Electricity Charges	14,000	
General Expenses	11,000	
Bank Charges	3,800	
Bad Debts	12,200	
Repairs of 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	
Lands & Buildings	5,00,000	
Office Equipment	2,00,000	
Furniture & 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:

- Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was ₹4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
- Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- 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.

(Hint: Gross Profit = ₹3,22,000; Net Profit = ₹8,700; Bal Sheet Total = ₹14,85,200)

(May 18 – 20 marks)

Q.23.

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	A		
	45,00,000		45,00,000
To Salaries Paid	12,00,000	By Gross Profit c/d	A
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	C		
	D		D

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

(Hint: A = ₹23,00,000; B = ₹45,000; C = ₹4,00,000; D = ₹23,45,000)

(Nov 18 – 10 marks)

Q.24.

Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.

Particulars	₹	Particulars	₹
<u>Debit Balances</u>		<u>Credit Balances</u>	
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.

(Hint: Gross Profit = ₹1,100; Net Loss = ₹2,500; Bal Sheet Total = ₹18,700)

(May 19 – 10 marks)

Q.25.

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.

(Hint: Revised Net Profit = ₹13,50,000; Balance Sheet Total = ₹77,05,000)

(Nov 19 – 10 Marks)

Q.26.

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 is 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.

(Hint: (i) ₹50,04,000; (ii) ₹49,26,000; (iii) ₹4,38,000)

(Nov 20 – 5 Marks)

Q.27.

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.

(Hint: (i) ₹9,75,000; (ii) 9,30,000)

(Jan 21 – 5 Marks)

Q.28.

The balance sheet of S on 1st April, 2021 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	<u>4,25,000</u>
	<u>29,25,000</u>		29,25,000

During 2021-22, his profit and Loss Account revealed a net profit of ₹6,70,000. This was after allowing for the following:

- (i) Commission paid to selling agent ₹65,000
- (ii) Discount received from creditors ₹75,000
- (iii) Purchased a vehicle of ₹50,000 on 31st March, 2022
- (iv) Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
- (v) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022

But while preparing the Profit and Loss Account he had forgotten to provide for

- (1) prepaid expenses ₹15,000 and
- (2) outstanding commission ₹35,000.

His current assets and liabilities on 31st March, 2022 were: Inventories ₹6,50,000. Trade Receivables ₹13,00,000 (before provision for doubtful debts), cash at Bank ₹5,50,000 and Trade Payables ₹1,46,000.

During the year he introduced further capital of ₹3,00,000 into the business.

You are required to prepare the balance sheet as at March 31, 2022.

(Hint: Balance Sheet Total = ₹33,31,000; Revised Net Profit = ₹6,50,000)

(Nov 22 – 10 Marks)

Q.29.

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 under-mentioned 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	<u>950</u>	<u> </u>
	<u>46,505</u>	<u>68,665</u>

Adjustments:

- Write off ₹600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
- 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.
- Depreciation to be provided on furniture at 10% per annum.

(Hint: Redrafted Trial Balance Total = ₹48,190; Gross Profit = ₹17,490; Net Profit = ₹13,545; Balance Sheet Total = ₹28,590)

(RTP May 22)

Q.30.

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

	₹
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.
(ICAI MTP – Apr. 2021 – 5 Marks)

Q.31.

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.

(Hint: Gross Profit = ₹8,50,000; Net Profit = ₹5,25,700; Balance Sheet Total = ₹12,25,700)

(July 21 – 10 Marks)

Q.32.

Following information is provided for M/s. Diana fiber for the year ended 31st March, 2022:

₹

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
Factory Rent	70,000

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

(Note: Factory Rent is a direct expense)

(ICAI MTP - Nov 22 – 5 Marks)

CHAPTER 19: FINAL ACCOUNTS OF MANUFACTURING SOLE PROPRIETORS

Q.1.

1,00,000 units were produced in a factory. Per unit material cost was ₹10 and per unit labour cost was ₹5. That apart it was agreed to pay royalty @ ₹3 per unit to the Japanese collaborator who supplied technology.

Required

Calculate Manufacturing Cost.

(Hint: Manufacturing Cost = ₹18,00,000)

(Study Material)

Q.2.

Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2022:

	₹
Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ ₹0.60 per unit manufactured	
Hire charges of factory	2,20,000
Direct wages-Contracted @ ₹0.80 per unit manufactured and @ ₹0.40 per unit of Closing W.I.P.	
Repairs and Maintenance	1,80,000
Units produced – 5,00,000 units	

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2022.

(Hint: Cost of Finished Goods to be transferred to Trading A/c = ₹19,00,800)

(Study Material)

Q.3.

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2022.

		₹
W.I.P.	- Opening	3,90,000
	- Closing	5,07,000
Raw Materials	- Purchases	12,10,000
	- Opening	3,02,000
	- Closing	3,10,000
	- Returned	18,000
	- Indirect material	16,000

Wages	- direct	2,10,000
	- indirect	48,000
Direct expenses	- Royalty on production	1,30,000
	- Repairs and maintenance	2,30,000
	- Depreciation on factory shed	40,000
	- Depreciation on plant & machinery	60,000
By-product at selling price		20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2022.
(Hint: Cost of Finished Goods to be transferred to Trading A/c = ₹17,81,000)

(Study Material)

Q.4.

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2021-22. There are certain figures missing from these accounts.

Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,00,000	By Raw Materials Consumed	.....
To Creditors A/c	.....	By Closing Stock	.....

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	22,00,000	By Balance b/d	15,00,000
To Balance c/d	6,00,000		

Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Materials Consumed	.....	By Trading A/c	17,94,000
To Wages A/c	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

- Purchase of machinery worth ₹10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.
- Wages include the following
 - Paid to Factory Workers - ₹3,00,000
 - Paid to labour at office - ₹50,000
- Direct Expenses include following:
 - Electricity charges of ₹80,000 of which 30% pertained to office.
 - Fuel Charges of ₹20,000
 - Freight Inwards of ₹35,000
 - Delivery charges to customers - ₹20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

(Hint: Revised Amount to be transferred to Trading A/c = ₹18,00,000; Raw Material Consumed = ₹10,00,000; Purchase of Raw Material during the year = ₹13,00,000; Closing Stock of Raw Material = ₹4,00,000)

(Study Material)

Q.5.

Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.

	₹
Opening work-in-progress (9000 units)	26,000
Closing work-in-progress (14,000 units)	48,000
Opening inventory of Raw Materials	2,60,000
Closing inventory of Raw Materials	3,20,000
Purchases	8,20,000
Hire charges of Machinery @ ₹0.70 per unit manufactured	
Hire charges of factory	2,60,000
Direct wages-contracted @ ₹0.80 per unit manufactured and @ ₹0.40 per unit of closing W.I.P.	
Repairs and maintenance	1,80,000
Units produced - 5,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

(Hint: Direct Wages = ₹4,05,600; Hire Charges on Machinery = ₹3,50,000; Cost of Finished Goods to be transferred to Trading A/c = ₹19,33,600)

(Nov 19 – 5 Marks)

Q.6.

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	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 Materials Consumed	.....	By Trading A/c	17,44,000
To Wages A/c	3,65,000		
To Depreciation	2,15,000		
To Direct Expenses	2,49,000		

Additional Information:

- 1) Purchase of machinery worth ₹12,00,000 on 1st April 2019 has been omitted. Machinery is chargeable at a depreciation rate of 15%.
- 2) Wages include the following

Paid to Factory Workers - ₹3,15,000

Paid to labour at office - ₹50,000

3) Direct Expenses include following:

- Electricity charges of ₹80,000 of which 25% pertained to office.
- Fuel Charges of ₹25,000
- Freight Inwards of ₹32,000
- Delivery charges to customers - ₹22,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

(Hint: Revised Amount to be transferred to Trading A/c = ₹18,32,000; Raw Material Consumed = ₹9,15,000; Purchase of Raw Material during the year = ₹14,40,000; Closing Stock of Raw Material = ₹6,52,000)

(Nov 20 – 10 Marks)

Q.7.

On 31st March, 2022 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2022

Particulars	Dr. ₹	Particulars	Cr. ₹
Stock on 1st April 2021			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

Stocks on 31st March, 2022 were:

Raw Materials ₹16,200

Finished goods ₹18,100

Semi-finished goods ₹7,800

Salaries and wages unpaid for March 2022 were respectively, ₹900 and ₹2,000.

Machinery is to be depreciated by 10% and office furniture by 7.5 %

Provision for doubtful debts is to be maintained @ 1% of sales. Office premises occupy 1/4 of total area.

Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2022.

(Hint: Cost of Goods Manufactured = ₹1,19,000; Gross Profit = ₹50,800; Net Profit = ₹34,778;

Balance Sheet Total = ₹1,68,678)

(Study Material)

Q.8.

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2022:

Trial Balance as on 31st March 2022

Particulars	Dr. ₹	Particulars	Cr. ₹
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		

General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		12,54,000

Additional Information

Stock of finished goods at the end of the year ₹1,00,000.

A provision for doubtful debts is to be created at 5% on Sundry Debtors. Depreciation on building ₹1,000 and ₹3,000 on Plant & Machinery to be provided.

Accrued commission of ₹12,500 is to be received for the year. Interest has accrued on investment ₹15,000.

Salary Outstanding ₹2,000 and Prepaid Interest ₹1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2022, and Balance Sheet as on that date.

(Hint: Cost of Goods Manufactured = ₹8,08,000; Gross Profit = ₹57,000; Net Profit = ₹24,000; Balance Sheet Total = ₹4,03,000)

(Study Material)

Q.9.

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		
Plant and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	<u>15,000</u>		
	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 office 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.

(Hint: Cost of Goods Manufactured = ₹11,90,000; Gross Profit = ₹5,08,000; Net Profit = ₹3,47,780)

(Dec 21 – 15 Marks)

Q.10.

The following is the trial balance of Mr. B for the year ended 31st March, 2021:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad	
Plant and Machinery	1,05,000	and doubtful debts	7,000
Investments	87,500	Sales	29,75,000
Cash in Hand	70,000	Bank Overdraft	80,500
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		

Salaries	70,000	
Coal and Fuel	52,500	
Factory rent and rates	70,000	
General Expenses	14,000	
Advertisement	17,500	
Sales Return	35,000	
Bad Debts	14,000	
Direct Wages (Factory)	2,80,000	
Power	1,05,000	
Interest paid	24,500	
Discount allowed	10,500	
Carriage inwards	52,500	
Carriage outwards	24,500	
Commission paid	17,500	
Dividend paid	<u>14,000</u>	
	43,89,000	43,89,000

Additional Information:

- Stock of finished goods at the end of the year was ₹3,50,000.
- A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building ₹3,500 and Plant and Machinery ₹10,500.
- Accrued commission is 43,750. Interest has accrued on investment ₹52,500.
- Salary Outstanding is ₹7,000 and Prepaid Interest is ₹5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2021 and Balance Sheet as at that date.

(Hint: Cost of Goods Manufactured = ₹28,28,000; Gross Profit = ₹1,99,500; Net Profit = ₹84,000; Balance Sheet Total = ₹14,10,500)

(May 22 – 20 Marks)

Q.11.

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 @ ₹0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ ₹0.80 per unit manufactured and @ ₹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.
(Hint: Cost of Goods Manufactured = ₹58,00,800)

(ICAI MTP – Apr 21 – 5 Marks)

CHAPTER 20: INTRODUCTION TO PARTNERSHIP ACCOUNTS

Meaning

As per Section 4 of the Partnership Act, 1932, "Partnership is the relation between persons who have agreed to share the profit of a business carried on by all or any of them acting for all."

In simple words, a partnership business is owned by "partners", who contribute capital & agree to share the profits/losses in the agreed ratio

Features of a Partnership

- Existence of an agreement. It may or may not be formal or written.
- A partnership can exist only in business. Business includes trade, occupation and profession.
- The persons concerned must agree to share the profits of the business. However, as per Indian Partnership Act, 1932, a provision for sharing of loss is not necessary.
- Mutual Agency, i.e. the business is to be carried on by all or any of them acting for all.
- Partners have an unlimited liability.

Minimum & Maximum No. of Partners

- Minimum: 2
- Maximum: As per Section 464 of the Companies Act, 2013 read with Companies (incorporation) Rules 2014, no association or partnership consisting of more than **50** number of persons shall be formed for the purpose of carrying on any business.

Limited Liability Partnership (LLP)

- The Limited Liability Partnership (LLP) is an alternative corporate business proposal that provides the benefits of limited liability but allows its members, the flexibility of organizing their internal structure as a partnership, which is based on a mutually arrived agreement. It is a partnership formed & registered under the Limited Liability Partnership Act, 2008.
- LLP is a separate legal entity, with partner's liability limited to their agreed contribution in the LLP. No partner would be liable on account of the independent or un-authorized actions of other partners or their misconduct.
- The provisions of the Indian Partnership Act, 1932, does not apply to a limited liability partnership, unless otherwise provided in the Act.
- As per the LLP Act, any individual or body corporate may be a partner in a limited liability partnership; provided that an individual shall not be capable of becoming a partner of a limited liability partnership, 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.
- Every limited liability partnership shall have at least two partners.
 - If at any time the **number of partners** of a limited liability partnership is **reduced below two** and the limited liability partnership **carries on business for more than 6 months** while the number is so reduced, the person, who is the **only partner** of the limited liability partnership during the time that it so carries on business after those six months and **has the knowledge of the fact** that it is carrying on business with him alone, shall be **liable personally** for the obligations of the limited liability partnership incurred during that period.

Partnership vs LLP

Basis	Partnerships	LLPs
1. Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnership Act, 2008
2. Registration	Optional	Compulsory with ROC
3. Creation	Created by an Agreement	Created by Law
4. Body Corporate	No	Yes
5. Separate Legal Entity	No	Yes
6. Perpetual Succession	No	Yes
7. Number of Partners	Min: 2; Max: 50	Min: 2; Max: No Limit
8. Ownership of Assets	Partner owns the assets	LLP can own the assets
9. Liability of Partners/ Members	Unlimited	Limited to the extent of their contribution
10. Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only

Main Clauses in a Partnership Deed

1.	Name of the firm and the partners;
2.	Commencement and duration of business;
3.	Amount of capital to be contributed by each partner;
4.	Amount to be allowed to each partner as drawings and the timings of such drawings;
5.	Rate of interest to be allowed to each partner on his capital and on his loan to the firm, and to be charged on his drawings;
6.	The ratio in which profits or losses are to be shared;
7.	Whether a partner will be allowed to draw any salary;
8.	Any variations in the mutual rights and duties of partners;
9.	Method of valuing goodwill on the occasions of changes in the constitution of the firm;
10.	Procedure by which a partner may retire and the method of payment of his dues;

11.	Basis of the determination of the executors of a deceased partner and the method of payment;
12.	Treatment of losses arising out of the insolvency of a partner;
13.	Procedure to be allowed for settlement of disputes among partners;
14.	Preparation of accounts and their audit.

Note: Registration of the firm is not compulsory, but non-registration restricts the partners or the firm from taking any legal action.

Rules in the absence of Partnership Deed

In the absence of any agreement to the contrary;

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.

Powers of Partners

- Examples of **Implied power** of partners (i.e. acts of partners that binds the firms, even if done without consulting other partners):
 - Buying and selling of goods;
 - Receiving payments on behalf of the firm and giving valid receipt;
 - Drawing cheques and drawing, accepting and endorsing bills of exchange and promissory notes in the name of the firm;
 - Borrowing money on behalf of the firm with or without pledging the inventories-in-trade;
 - Engaging servants for the business of the firm.
- Examples of cases/acts where the partners have **no power** to bind the firm:
 - Submitting a dispute relating to the firm arbitration;
 - Opening a bank account on behalf of the firm in the name of a partner;
 - Compromise or relinquishment of any claim or portion of claim by the firm;
 - Withdrawal of a suit or proceeding filed on behalf of the firm;
 - Admission of any liability in a suit or proceedings against the firm;
 - Acquisition of immovable property belonging to the firm;
 - Entering into partnership on behalf of the firm.

Questions for Practice

Q.1.

A and B commenced business in partnership on 1 January 2022. No partnership agreement was made either oral or written. They contributed ₹40,000 and ₹10,000 respectively as capital. In addition, A also advanced ₹20,000 on 1 July 2022. A met with an accident on 1 April 2022 and could not attend to the partnership business upto 30 June 2022. The profits for the year ended on 31 December 2022 amounted to ₹50,600. Disputes having been arisen between them for sharing the profits.

A claims: (i) He should be given interest at 10% p.a. on capital and loan (ii) Profit should be distributed in proportion of capital.

B claims: (i) Net profit should be shared equally. (ii) He should be allowed remuneration of ₹1,000 p.m. during the period of A's illness. (iii) Interest on capital and loan should be given @ 6% p.a.

You are required to settle the dispute between them and distribute the profits according to law. State reasons for your answer.

(Hint: No remuneration or interest on capital will be allowed to A or B; 6% p.a. interest on loan to both, A & B; Profits/Losses will be shared equally)

(Study Material)

Q.2.

A, B and C are partners in a firm sharing profits and losses in the ratio of 2:3:5. Their fixed capitals were ₹15,00,000, ₹30,00,000 and ₹60,00,000 respectively. For the year 2016 interest on capital was credited to them @ 12% instead of 10%. Pass the necessary adjustment entry.

(Hint: Debit C's Capital by ₹15,000 & credit A's Capital & B's Capital by ₹12,000 & ₹3,000 respectively)

(Study Material)

Q.3.

A and B start business on 1st January, 2022, with capitals of ₹30,000 and ₹20,000. According to the Partnership Deed, B is entitled to a salary of ₹500 per month and interest is to be allowed on capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2022 the firm earned a profit, before charging salary to B and interest on capital amounting to ₹25,000. During the year A withdrew ₹8,000 and B withdrew ₹10,000 for domestic purposes.

Give journal entries relating to division of profit. Also prepare P&L Appropriation A/c & Partner's Capital A/c.

(Hint: Profit of ₹16,000 will be distributed amongst A & B in the ratio of 5:3; Closing Balance of Partner's Capital A/c – A = ₹33,800; B = ₹23,200)

(Study Material - Modified)

Q.4.

Ram, Rahim and Karim are partners in a firm. They have no agreement in respect of profit-sharing ratio, interest on capital, interest on loan advanced by partners and remuneration payable to partners. In the matter of distribution of profits, they have put forward the following claims:

- (i) Ram, who has contributed maximum capital demands interest on capital at 10% p.a. and share of profit in the capital ratio. But Rahim and Karim do not agree.
- (ii) Rahim has devoted full time for running the business and demands salary at the rate of ₹500 p.m. But Ram and Karim do not agree.
- (iii) Karim demands interest on loan of ₹2,000 advanced by him at the market rate of interest which is 12% p.a.

How shall you settle the dispute and prepare Profit and Loss Appropriation Account after transferring 10% of the divisible profit to Reserve. Net profit before taking into account any of the above claims amounted to ₹45,000 at the end of the first year of their business.

(Hint: No interest on capital & salary shall be paid, Interest on loan payable @6% p.a.; Amt. to be transferred to Reserve = ₹4,488; Profit of ₹40,392 will be distributed equally)

(Study Material)

Q.5.

Shilpa and Sanju are partners with a capital of ₹1,00,000 and ₹1,60,000 on January 1, 2022 respectively. Shilpa introduced additional capital of ₹30,000 on July 1, 2022 and another ₹20,000 on October 31, 2022. Calculate interest on capital for the year ending 2022. The rate of interest is 9% p.a.

(Hint: Interest on Capital – Shilpa = ₹10,650; Sanju = ₹14,400)

(Study Material)

Q.6.

A and B formed a partnership with a capital contribution of ₹50,000 and ₹30,000 respectively on 1st January 2022. The profits were to be shared in the capital ratio. Calculate the capital ratio on the basis of following details:

	Capital Introduced		Capital Withdrawn	
	A (₹)	B (₹)	A (₹)	B (₹)
31 March	5,000	–	–	2,000
1 July	–	9,000	3,000	–
1 September	5,500	–	–	1,000
1 November	–	4,000	4,500	–

Calculate the capital ratio using weighted average method for the purpose of distribution of profits.

(Hint: Capital Ratio = 8:5)

(Study Material)

Q.7.

A and B are partners sharing profits and losses in the ratio of their effective capital. They had ₹1,00,000 and ₹60,000 respectively in their Capital Accounts as on 1st January, 2022.

A introduced a further capital of ₹10,000 on 1st April, 2022 and another ₹5,000 on 1st July, 2022. On 30th September, 2022 A withdrew ₹40,000.

On 1st July, 2022, B introduced further capital of ₹30,000

The partners drew the following amounts in anticipation of profit.

A drew ₹1,000 per month at the end of each month beginning from January, 2022. B drew ₹1,000 on 30th June, and ₹5,000 on 30th September, 2022.

12% p.a. interest on capital is allowable and 10% p.a. interest on drawings is chargeable. Date of closing 31.12.2022. Calculate: (a) Profit-sharing ratio; (b) Interest on capital; and (c) Interest on drawings.

(Hint: Effective Capital – A = ₹12,00,000, B = ₹9,00,000; Int. on Capital – A = ₹12,000, B = ₹9,000; Int. on Drawings – A = ₹550, B = ₹175)

(Study Material)

Q.8.

Ram and Rahim start business with capital of ₹50,000 and ₹30,000 on 1st January, 2022. Rahim is entitled to a salary of ₹400 per month. Interest is allowed on capitals and is charged on drawings at 6% per annum. Profits are to be distributed equally after the above noted adjustments. During the year, Ram withdrew ₹8,000 and Rahim withdrew ₹10,000. The profit for the year before allowing for the terms of the Partnership Deed came to ₹30,000. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners. (Hint: Distributable Profits = ₹20,940; Closing Bal. of Partner's Current A/c – Ram = ₹5,230, Rahim = ₹6,770)

(Study Material)

Q.9.

A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹250,00,000. Total profits of the firm for the year ended 31st March, 2022 were ₹900,00,000. Calculate share of profits for each partner when:

1. Guarantee is given by firm.
2. Guarantee is given by A
3. Guarantee is given by A and B equally.

(Hint: Distribution of Profits – Case 1: A = ₹3,90,00,000, B = ₹2,60,00,000, C = ₹2,50,00,000; Case 2 : A = ₹3,50,00,000, B = ₹3,00,00,000, C = ₹2,50,00,000; Case 3: A = ₹4,00,00,000, B = ₹2,50,00,000, C = ₹2,50,00,000)

(Study Material)

Q.10.

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% per annum and interest on drawings will be charged @ 8 % per annum. (No interest will be charged/allowed on Current Accounts).

The following are the particulars of the Capital & Drawings A/cs of the partners:

	Weak (₹)	Able (₹)	Lazy (₹)
Capital (1.1.2022)	75,000	40,000	30,000
Current A/c (1.1.2022)	10,000	5,000	5,000 (Dr.)
Drawings	15,000	10,000	10,000

The draft accounts for 2022 showed a net profit of ₹60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

- Life Insurance premium of Weak amounting to ₹750 paid by the firm on 30th June, 2022 has been charged to Miscellaneous Expenditure A/c.
- Repairs of Machinery amounting to ₹10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.
- Travelling expenses of ₹3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2022 has been debited to Travelling Expenses Account.

You are required to prepare the Profit and Loss Appropriation Account, Current Accounts of partners Weak, Able and Lazy for the year ended 31st December, 2022.

(Hint: Adjusted Net Profits = ₹55,750; Int. on Drawings – W = ₹630, A = ₹520, L = ₹400; Distributable Profit = ₹42,800; Closing Bal. of Partner's Current A/c – W = ₹22,520, A = ₹6,180, L = ₹1,700 (Dr.))
(Study Material)

Q.11.

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2022, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of ₹500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31, 2022 is ₹1,10,000. Show the distribution of net profit amongst the partners.

(Hint: Commission = ₹4,000; Division of Profits – A = ₹59,000, B = ₹40,000, C = ₹11,000)
(Study Material)

Q.12.

X and Y are partners. As per terms of agreement interest is allowed on capital at 8% p.a. and charge on drawing at 10% p.a. X withdrew ₹40,000 pm at the end of each month and Y withdrew ₹1,20,000 at the end of each quarter. You are required to fill the missing figures in following accounts:

Profit and Loss Appropriation Account for the year ended March 31, 2022

Particulars		₹	Particulars		₹
To ...?			By Profit and Loss A/c (Net profit)		?
To Interest on Capital A/c			By Interest on Drawings A/c		
X	1,60,000		X	?	?
Y	?	2,88,000	Y	?	
To profit transferred to Capital A/c					
X (2/3)	?				
Y (1/3)	280,000				?

?	?
---	---

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To ...?	?	?	By ...?	?	?
To ...?	?	?	By Salary A/c	3,60,000	?
To ...?	?	?	By ...?	?	?
			By ...?	?	?
	?	?		?	?

(Hint: Net Profit = ₹14,48,000; Int on Drawings – X = ₹22,000, Y = ₹18,000; Divisible Profit = ₹8,40,000; Opening Bal of Partner's Capital A/c – X = ₹20,00,000, Y = ₹16,00,000; Closing Bal. of Partner's Capital A/c – X = ₹25,78,000, Y = ₹15,10,000)

(Study Material)

Q.13.

A, B and C entered into partnership on 1.1.2017 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 31.12.2017 before providing for interest on partner's capital was ₹1,59,000.

You required to prepare the Profit and Loss Appropriation Account.

(Hint: Divisible Profit as per P&L Appropriation A/c = ₹1,25,000; Deficiency to be borne by A - ₹5,000)

(RTP May 18)

Q.14.

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.

(Hint: Debit B's Current A/c by ₹9,000; Credit A's Current A/c by ₹8,000; Credit C's Current A/c by ₹1,000)

(Dec 21 – 5 Marks)

Q.15.

X and Y were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit Z for 1/6th share in profits and guaranteed that his share of profits will not be less than ₹50,00,000. Total profits of the firm for the year ended 31st March, 2022 were ₹1,80,00,000.

Calculate share of profit for each partner when:

- (i) Guarantee is given by firm
- (ii) Guarantee is given by X* and Y* equally.

(Hint: Final Profit – Case (i) - X = ₹78,00,000; Y = ₹52,00,000; Z = ₹50,00,000; Case (ii) – X = ₹80,00,000; Y = ₹50,00,000; Z = ₹50,00,000)

(June 23 – 5 Marks)

Q.16.

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.

(Hint: Correct Net Profit = ₹3,44,600; Divisible Profits = ₹1,92,000; Closing Balance of Current A/c: Rose - ₹31,600; Lilly - ₹68,200; Lotus - ₹1,44,800)

(RTP May 21)

Q.17.

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.

(Hint: Reserve = ₹6,550; Divisible Profits = ₹58,950; Closing Balance of Current A/c: A - ₹40,975; B - ₹29,475)

(RTP May 22)

Q.18.

P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 31.03.2022 their capitals were: P ₹1,50,000. Q ₹1,80,000 and R ₹2,10,000. During the year they withdrew ₹20,000 each. The profit of the year was ₹60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed.

You are required to pass the necessary adjustment entry for providing interest on capital.

(Hint: Debit Q's Capital & R's Capital by ₹4,000 & ₹1,000 respectively; Credit P's Capital by ₹5,000)
(RTP May 23)

CHAPTER 21: TREATMENT OF GOODWILL IN PARTNERSHIP

ACCOUNTS

Q.1.

The past profits of five years of a partnership firm are: ₹50,000; ₹40,000; ₹52,000; ₹48,000 and ₹56,000 respectively. Calculate the value of goodwill on the basis of 4 years' purchase of the average profits of the last five years.

(Hint: Value of Goodwill = ₹1,96,800)

Q.2.

A firm of A, B and C has a total capital investment of ₹4,50,000. The firm earned net profits during the last four years as: I-₹70,000; II-₹80,000; III-₹1,20,000 and IV-₹1,00,000. The reasonable expected return is 15 per cent having regard to the risk involved. Find out the value of goodwill of the business if it is based on 3 years' purchase of the average super profits of the past four years.

(Hint: Value of Goodwill = ₹75,000)

Q.3.

Calculate the goodwill by annuity method of super profit & by capitalisation of super profit from the following facts:

- (a) Annual maintainable profit after tax is ₹65,000.
- (b) Capital employed is ₹4,00,000.
- (c) Normal rate of return is expected at 12% p.a.
- (d) Present value of an annuity of ₹1 for five years is 3.604776.

(Hint: Goodwill – Annuity Method = ₹61,281; Capitalisation of Super Profit = ₹1,41,667)

Q.4.

The net tangible assets of a firm are worth ₹4,10,000 and the average profit of last four years amounts to ₹60,000. Find out of the value of goodwill if the reasonable return on capital invested is 12%.

(Hint: Value of Goodwill = ₹90,000)

Q.5.

Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. M/s. Lee and Lawson earned profits during 2019-2022 as follows:

Year	Profits (₹)
2019	1,20,000
2020	1,25,000
2021	1,30,000
2022	1,50,000

On 31.12.2022 capital employed by M/s. Lee and Lawson was ₹5,00,000. Rate of normal profit is 20%.

Required

Find out the value of goodwill following various methods.

Note: Take No. of Years Purchased as 3 years. Present value of an annuity of ₹1 for three years is 2.1065. Weights to be used – 1, 2, 3 & 4 (use Weighted Avg. Profit Method).

(Hint: Weighted Average Profit Method = ₹4,08,000; Super Profit Method = ₹1,08,000, Annuity Method = ₹75,834; Capitalisation Method = ₹1,80,000)

(Study Material - Modified)

Q.6.

The following particulars are available in respect of the business carried on by Rathore

		₹
(1)	Capital Invested	1,50,000
(2)	Trading Results:	
	2019	Profit 40,000
	2020	Profit 36,000
	2021	Loss 6,000
	2022	Profit 50,000
(3)	Market Rate of interest on investment	10%
(4)	Rate of risk return on capital invested in business	2%
(5)	Remuneration from alternative employment of the proprietor (if not engaged in business).	₹6,000 p.a.

You are required to compute the value of goodwill on the basis of 5 years' purchase of super profit of the business calculated on the average profits of the last four years.

(Hint: Value of Goodwill = ₹30,000, Average Maintainable Profits = ₹24,000; NRR = 12%)

(Study Material)

Q.7.

A and B are partners with capitals of ₹20,000 and ₹40,000 respectively and sharing profits equally. They admitted C as their third partner for one-fourth share for all-purpose on payment of ₹24,000. Find out the value of hidden goodwill.

(Hint: Hidden Goodwill = ₹12,000)

Q.8.

The following is the Balance Sheet of Yellow and Green as at 31st December, 2022:

Liabilities	₹	Assets	₹
Trade payables	20,000	Cash at Bank	10,000
Capital:		Sundry Assets	55,000
Yellow	25,000		
Green	20,000		
	65,000		65,000

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay ₹20,000 as Capital. Goodwill was to be valued at 3 years' purchase of the average of four years' profits which were:

	₹		₹
2019	9,000	2021	12,000
2020	14,000	2022	13,000

The new profit sharing ratio is 6:5:5. Give journal entries and Balance Sheet if goodwill is adjusted through partners' capital accounts.

(Hint: Goodwill = ₹36,000; Sacrificing Ratio = 18:7; Balance Sheet Total = ₹85,000)

(Study Material)

Q.9.

Using the facts given in Q.8., pass necessary Journal entries and prepare Balance Sheet, assuming that goodwill is brought in cash.

(Hint: Balance Sheet Total = ₹96,250)

(Study Material)

Q.10.

Using the facts given in Q.8., pass necessary Journal entries and prepare Balance Sheet, assuming that goodwill, brought in cash, is withdrawn.

(Hint: Balance Sheet Total = ₹85,000)

(Study Material)

Q.11.

Using the facts given in Q.8., pass necessary Journal entries and prepare Balance Sheet, assuming that goodwill is paid privately.

(Hint: Balance Sheet Total = ₹85,000)

(Study Material)

Q.12.

A, B & C are equal partners. They wanted to change the profit sharing ratio to 4:3:2. Make the necessary journal entries. Goodwill of the firm is valued at ₹90,000.

(Hint: A's Capital to be debited with ₹10,000 & C's Capital to be credited with ₹10,000)

(Study Material)

Q.13.

A, B and C are in partnership sharing profits and losses in the ratio of 4:3:3. They decided to change the profit sharing ratio to 7:7:6. Goodwill of the firm is valued at ₹20,000. Calculate the sacrifice / gain by the partners and make the necessary journal entry.

(Hint: A's Capital to be credited with ₹1,000 & B's Capital to be debited with ₹1,000)

(Study Material)

Q.14.

A, B, C and D are in partnership sharing profits and losses equally. They mutually agreed to change the profit sharing ratio to 3:3:2:2. Give necessary journal entry. Goodwill is valued at ₹20,000.
(Hint: A's Capital & B's Capital will be debited with ₹1,000 each; C's Capital & D's Capital will be credited with ₹1,000 each)

(Study Material)

Q.15.

A, B & C are equal partners. C wanted to retire for which value of goodwill is considered as ₹90,000. Pass necessary Journal entry for adjustment of Goodwill.
(Hint: A's Capital & B's Capital will be debited with ₹15,000 each & C's Capital will be credited with ₹30,000)

(Study Material)

Q.16.

Wise, Clever and Dull were trading in partnership sharing profits and losses 4:3:3 respectively. The accounts of the firm are made upto 31st December every year.

The partnership provided, inter-alia, that:

On the death of a partner the goodwill was to be valued at three years' purchase of average profits of the three years upto the date of the death after deducting interest @8 percent on capital employed and a fair remuneration of each partner. The profits are assumed to be earned evenly throughout the year.

On 30th June, 2022, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet.

It was agreed for the purpose of valuation of goodwill that the fair remuneration for work done by each partner would be ₹15,000 per annum and that the capital employed would be ₹1,56,000. Clever and Dull were to continue the partnership, sharing profits and losses equally after the death of Wise.

The following were the amounts of profits of earlier years before charging interest on capital employed.

	₹
2019	67,200
2020	75,600
2021	72,000
2022	62,400

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

(Hint: Value of Goodwill = ₹39,960; Clever's & Dull's Capital will be debited with ₹7,992 each & Wise's Capital will be credited with ₹15,984)

(Study Material)

Q.17.

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, 2017 the firm earned a profit of ₹1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill of the firm:

- (i) By Capitalization Method; and
 (ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.
 (Hint: Value of Goodwill: By Capitalisation Method = ₹2,50,000; By Super Profit Method = ₹1,00,000)
 (RTP May 18)

Q.18.

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses in 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 accounts:		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 is 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.

(Hint: Average Capital Employed = ₹6,00,000; Goodwill = ₹1,00,000)

(RTP Nov 19)

Q.20.

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.

(Hint: Goodwill = ₹20,000)

Note: Designing of this question is w.r.t sole proprietorship, and not partnership firm. However, goodwill calculation will be same as done for partnership firm.

(RTP May 19)

Q.21.

Antoo, Bantoo and Chintoo were in partnership sharing profits and losses 3:4:3 respectively. The accounts of the firm are made up to 31st March every year. The partnership provided, inter alia, that: On the retirement of a partner the goodwill was to be valued at three years' purchase of average profits of the past four years up to the date of the retirement after deducting interest @12%p.a. on capital employed and remuneration of ₹2,000 p.m. to each partner. On 1st April 2022, Antoo retired and it was agreed on his retirement to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet. It was agreed that the capital employed would be

₹6,50,000. Bantoo and Chintoo were to continue the partnership, sharing profits and losses equally after the retirement of Antoo. The following were the amounts of profits of earlier years before charging salary to partners and interest on capital employed.

Year	Profit
2018-19	2,60,000
2019-20	2,75,000
2020-21	2,65,000
2021-22	2,80,000

You are required to compute the value of goodwill and show the adjustment there of in the books of the firm.

(Hint: Value of Goodwill = ₹3,60,000; Debit Bantoo's Capital & Chintoo's Capital by ₹36,000 & ₹72,000 respectively; Credit Antoo's Capital by ₹1,08,000)

(Study Material)

Q.22.

Cu and Au were in partnership sharing profits and losses in the ratio 5:3. On 1st April 2022, they decided to admit Ag the partnership on the following terms:

1. Ag will bring ₹2,00,000/- as capital for $\frac{1}{4}$ share.
2. New profit sharing ratio shall be 2:1:1 among Cu, Au and Ag.
3. Cu was entitled to salary of ₹2,000/- p.m., it was revised to ₹3,000 p.m. from 1st October 2020.
4. Interest on capital was paid at 8% p.a.
5. Capitals as on 31st March 2022 were Cu ₹4,00,000 Au ₹3,00,000, which had remained unchanged since last four years.
6. Goodwill was to be valued on the basis of 3 years purchase of average adjusted weighted average profits of past 4 years. The profits of previous four years, before charging interest on capital and salary to Cu were as follows:

Year	Profit
2018-19	2,10,000
2019-20	2,60,000
2020-21	2,10,000
2021-22	3,05,000

These profits were subject to following rectification

- (a) A machine costing ₹40,000 purchased on 1st October, 2020 was wrongly charged to revenue. The machinery was depreciated at 20% p.a. on written down value method
 - (b) Stock on 31st March 2020 was over valued by ₹20,000/-
 - (c) There was a loss by fire amounting to ₹10,000/- in the year 2018-19 which was not considered in trading account but correctly debited in the Profit & Loss a/c for that year.
 - (d) Debtors as on 31st March 2022 included bad debts of ₹5,800/-
7. Ag shall bring his share of goodwill in cash.

You are required to calculate amount of goodwill Ag is supposed to bring and journal entry for the same.

(Hint: Goodwill = ₹5,40,000; Ag's share to be brought in Cash = ₹1,35,000; Debit Bank A/c by ₹1,35,000 & Credit Cu's Capital & Au's Capital by ₹67,500 each)

(Study Material)

Q.23.

Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of ₹2,40,000, ₹2,16,000 and ₹3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹36,000 in the year 2020.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

(Hint: Goodwill = ₹2,70,000)

Note: Designing of this question is w.r.t sole proprietorship, and not partnership firm. However, goodwill calculation will be same as done for partnership firm.

(May 22 – 5 Marks)

Q.24.

R and S are partners in a firm with a capital of ₹14,00,000 and ₹12,00,000 respectively. During the year ended on 31st March, 2022 firm earned a profit of ₹6,50,000. Assuming that the normal rate of return is 20%. Calculate the amount of Goodwill of the firm by using

- Capitalization method
- Super Profit method, if the goodwill is valued at 6 years purchase of super profits.

(Hint: Goodwill – Capitalisation Method = ₹6,50,000; Super Profit Method = ₹7,80,000)

(Nov 22 – 5 Marks)

Q.25.

Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Balance Sheet of M/s Ved, Jain & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Ved	2,55,000	Inventory	3,00,000
Jain	9,45,000	Trade receivables	1,50,000
Agrawal	6,75,000	Bank	15,000
Trade payables	<u>90,000</u>		
	19,65,000		<u>19,65,000</u>

The partnership earned profit ₹6,00,000 in 2022 and the partners withdrew ₹4,50,000 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.

(Hint: Goodwill = ₹3,00,000)

(RTP Dec 23)

CHAPTER 22: ADMISSION OF NEW PARTNER & CHANGE IN PSR

Q.1.

A and B are partners sharing profits in the ratio 3:2. They admit C for $\frac{1}{3}$ share in future profits. Calculate the new ratio.

(Hint: New PSR = 6:4:5)

(Study Material)

Q.2.

A and B are partners sharing in the ratio 3:2. They admit C as a new partner for $\frac{1}{3}$ rd share in future profits which he gets $\frac{1}{9}$ from A and $\frac{2}{9}$ from B. Calculate the new ratio.

(Hint: New PSR = 22:8:15)

(Study Material)

Q.3.

A and B are partners sharing in the ratio 3:2. They admit C as the new partner. A surrenders $\frac{1}{3}$ rd of his share and B surrenders $\frac{2}{3}$ rd of his share in favour of C. Calculate the new ratio.

(Hint: New PSR = 6:2:7)

(Study Material)

Q.4.

A and B are partners sharing in the ratio 3:2. They admit C for $\frac{1}{5}$ th share in profits which he acquires entirely from A. Calculate the new ratio.

(Hint: New PSR = 2:2:1)

(Study Material)

Q.5.

A and B are partners sharing profits in the ratio 3:2. C is admitted for $\frac{1}{5}$ th share which he acquires from A and B in the ratio of 2:1. Calculate the new ratio.

(Hint: New PSR = 7:5:3)

(Study Material)

Q.6.

X and Y are partners in a firm sharing profits and losses in the ratio 5:3. They admit Z into partnership. The new ratio 3:2:1. Calculate the Sacrificing Ratio.

(Hint: Sacrificing Ratio = 3:1)

(Study Material)

Q.7.

A, B and C are sharing profits and losses in the ratio of 5:3:2. Calculate the new profit sharing ratio and the sacrificing ratio in each of the following alternative cases:

Case (a) If C acquires $\frac{1}{10}$ th share from B (New PSR = 5:2:3; SR = $\frac{1}{10}$ sacrificed by B)

Case (b) If C acquired $\frac{1}{10}$ th share equally from A and B (New PSR = 9:5:6; SR = 1:1)

Case (c) If C's share is increased by $\frac{1}{10}$ th share by acquiring from A. (New PSR = 4:3:3; SR = $\frac{1}{10}$ sacrificed by A)

Case (d) If C's share is increased to 3/10th by acquiring from B. (New PSR = 5:2:3; SR = 1/10 sacrificed by B)

Case (e) if A, B and C decide to share future profits and losses in the ratio of 5:2:3. (SR = 1/10 sacrificed by C towards B)

Case (f) if A, B and C decide to share future profits and losses in the ratio of 2:3:5. (SR = A sacrificed 3/10 towards C)

Case (g) if A, B and C decide to share future profits and losses in the ratio of 2:1:2. (SR = A & B sacrifices 1/10 each towards C)

Case (h) if A, B and C decide to share future profits and losses equally. (B sacrifices 1/30 & C sacrifices 4/30 towards A)

Case(i) If A, B and C decide that the future profit sharing ratio between B and C shall be the same as existing between A and B (New PSR = 25:15:9; SR = A & B sacrifices 5/490 & 3/490 respectively towards C)

(Study Material)

Q.8.

A and B are in partnership sharing profits and losses at the ratio 3:2. They take C as a new partner. Calculate the new profit sharing ratio if -

- (i) C purchases 1/10 share from A
- (ii) A and B agree to sacrifice 1/10th share to C in the ratio of 2: 3
- (iii) Simply gets 1/10th share of profit.

(Hint: New PSR = (i) 5:4:1; (ii) 28:17:5; (iii) 27:18:5)

(Study Material)

Q.9.

The following is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January, 2022:

Liabilities	₹	Assets	₹
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mohan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		60,000

On this date Shyam was admitted on the following:

1. He is to pay ₹25,000 as his capital and ₹10,000 as his share of goodwill for one fifth share in profits.
2. The new profits sharing ratio will be 5:3:2.

3. The assets are to be revalued as under:

	₹
Building	25,000
Plant and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

4. It was found that there was a liability for ₹1,500 for goods received but not recorded in books.

Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

(Hint: Profit on Revaluation = ₹2,000; Capital A/cs – Ram = ₹26,200, Mohan = ₹30,800, Shyam = ₹25,000; Balance Sheet Total after admission = ₹98,500)

(Study Material)

Q.10.

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2022 is given below:

Liabilities	₹	Assets	₹
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		3,50,000

On 1.4.2022 they admit C on the following terms:

- (1) C will bring ₹50,000 as a capital and ₹10,000 for goodwill for 1/5 share;
- (2) Provision for doubtful debts is to be made on Trade receivables @ 2%
- (3) Inventory to be written down by 10%.
- (4) Freehold premises is to be revalued at ₹2,40,000, plant at ₹35,000, furniture ₹25,000 and office equipment ₹27,500.
- (5) Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above-mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm.

(Hint: Profit on Revaluation = ₹39,000; Closing Balance of Capital A/c – A = ₹2,10,680, B = ₹1,07,120, C = ₹42,200; Balance Sheet Total = ₹4,10,000)

(Study Material)

Q.11.

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 1.1.2022 was as follows:

Liabilities	₹	Amount (₹)	Assets	₹	Amount (₹)
Trade payables		17,000	Building		26,000
			Furniture		5,800
Bank overdraft		9,000	Inventories		21,400
Capital accounts:			Trade receivables	35,000	
A	44,000		Less: Provision	(200)	34,800
B	<u>36,000</u>	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) C is admitted for 1/6 share in the 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, they 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 Inventory to be depreciated by 5%. A provision is required for trade receivables @ 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 investments is increased by ₹450.
- (v) It is found that the trade payables included a sum of ₹1,400, which is not to be paid off.

Prepare the following:

- (i) Revaluation account.
- (ii) Partners' capital accounts.

(Hint: Profit/Loss on Revaluation = NIL; Hidden Goodwill = ₹45,000; Closing Balance of Capital A/cs – A = ₹48,500, B = ₹39,000, C = ₹17,500)

(Study Material)

Q.12.

Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities	₹	Assets	₹
Trade payables	12,850	Land and Buildings	25,000
Outstanding Liabilities	1,500	Furniture	6,500
General Reserve	6,500	Inventory of goods	11,750
Capital Account:		Trade receivables	5,500
Mr. Dalal	12,000	Cash in hand	140
Mr. Banerji	12,000	Cash at Bank	960
Mr. Mallick	<u>5,000</u>		
	49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2022 on the following terms:

- (1) Mr. Mistri shall bring ₹5,000 towards his capital.
- (2) The value of Inventory should be increased by ₹2,500 and Furniture should be depreciated by 10%.
- (3) Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.
- (4) The value of land and buildings should be enhanced by 20% and the value of the goodwill be fixed at ₹15,000.
- (5) The value of the goodwill be fixed at ₹15,000.
- (6) General Reserve will be transferred to the Partners' Capital Accounts.
- (7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include ₹1,000 due to Mr. Sen which has been paid by Mr. Dalal.

Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) The Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Mr. Mistri.

(Hint: Profit on Revaluation = ₹6,300; Balance of Partner's Capital A/c – Dalal = ₹19,12, Banerji = ₹18,120, Mallick = ₹7,560, Mistri = ₹3,000; Balance Sheet Total = ₹61,150)

(Study Material)

Q.13.

A and B are in the partnership sharing profits and losses in the proportion of three-fourth and one-fourth respectively. Their balance sheet as on 31st March, 2022 was as follows:

Cash ₹1,000; trade receivables ₹25,000; Inventory ₹22,000; plant and machinery ₹4,000; trade payables ₹12,000; bank overdraft ₹15,000; A's capital ₹15,000; B's capital ₹10,000.

On 1st April, 2022, they admitted C into partnership on the following terms:

- (i) C to purchase one-third of the goodwill for ₹2,000 and provide ₹10,000 as capital. Goodwill not to appear in books.
- (ii) Further profits and losses are to be shared by A, B and C equally.
- (iii) Plant and machinery is to be reduced by 10% and ₹500 is to be provided for estimated bad debts. Inventory is to be taken at a valuation of ₹24,940.
- (iv) By bringing in or withdrawing cash and capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.

Set out entries to the above arrangement in the firm's journal and give the partners' capital accounts in tabular form.

(Hint: Profit on Revaluation = ₹2,040; Goodwill to be paid to A: by B = ₹500, by C = ₹2,000; Capital to be withdrawn: by A = ₹9,030, by B = ₹10; Closing Balance of Capital A/cs = ₹10,000 each)

(Study Material)

Q.14.

A and B are partners of X llp sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2022, the balance sheet of the firm was as follows:

Balance Sheet of X llp as at 31.3.2022

Liabilities	₹	Assets	₹
-------------	---	--------	---

Capital accounts:		Plant and machinery	20,000
A	37,000	Furniture and fittings	5,000
B	<u>28,000</u>	Inventories	15,000
Trade payables	5,000	Trade receivables	20,000
		Cash in hand	10,000
	70,000		70,000

X agrees to join the business on the following conditions as and from 1.4.2022:

- He will introduce ₹25,000 as his capital and pay ₹15,000 to the partners as premium for goodwill for 1/3rd share of the future profits of the firm.
- A revaluation of assets of the firm will be made by reducing the value of plant and machinery to ₹15,000, Inventory by 10%, furniture and fitting by ₹1,000 and by making a provision of bad and doubtful debts at ₹750 on trade receivables.

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

(Hint: New PSR = 1:1:1; Loss on Revaluation = ₹8,250; Closing Balance of Partner's Capital A/c – A = ₹44,050, B = ₹27,700, X = ₹25,000)

(Study Material)

Q.15.

A and B are partners with capitals of ₹7,000 each. They admit C as a partner with 1/4th share in the profits of the firm. C brings ₹8,000 as his share of capital. Give the necessary journal entry to record goodwill.

(Hint: Hidden Goodwill = ₹10,000; C's capital to be debited with ₹2,500 & A's Capital & B's Capital to be credited with ₹1,250 each)

(Study Material)

Q.16.

A and B are in partnership sharing profits and losses equally. The Balance Sheet M/s. A and B as on 31.12.2022, was as follows:

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed Assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade payables	20,000		
	1,10,000		1.10.000

On 1.1.2023 they agreed to take C as 1/3rd partner to increase the capital base to ₹1,35,000. C agrees to pay ₹60,000. Show the necessary journal entries and prepare partners' capital accounts. (Hint: Goodwill = ₹45,000; Capital to be brought in by C = ₹45,000; New PSR = 1:1:1; Closing balance of Partner's Capital A/c – A = ₹45,000, B = ₹45,000, C = ₹45,000; Capital to be withdrawn by A & B = ₹7,500 each)

(Study Material)

Q.17.

The following was the balance sheet of A, B and C who were equal partners on January 1, 2022.

Liabilities		₹	Assets		₹
Bills Payable		3,000	Cash		1,000
Creditors		6,000	Debtors		10,000
Capital Accounts:			Stock		12,000
A	20,000		Furniture		5,000
B	15,000		Buildings		25,000
C	<u>10,000</u>	45,000	Bills Receivable		1,000
		54,000			54,000

They agree to take D into partnership and give him a 1/4 share in the profits on the following terms:

- (1) D should bring in ₹6,000 for goodwill and ₹10,000 as capital;
- (2) one-half of the goodwill shall be withdrawn by old partners;
- (3) stock and furniture be depreciated by 10%.
- (4) a liability of ₹1,300 be created against bills discounted;
- (5) the building be valued at ₹40,000;
- (6) the values of liabilities and assets other than cash are not to be altered.

Give the necessary entries to give effect to the above arrangement; prepare revaluation account and opening balance sheet of the firm as newly constituted.

(Hint: Profit on Revaluation = ₹12,000; Closing Balance of Partner's Capital A/c – A = ₹22,000, B = ₹17,000, C = ₹12,000, D = ₹7,000; Balance Sheet Total = ₹67,000)

(Study Material)

Q.18.

Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms' balance sheet as on 31.03.2022 was as follows:

Liabilities		₹	Assets		₹
Capital accounts:					
Gopal		1,20,000	Fixed assets		3,00,000
Govind		80,000	Investments		50,000
Long term loan		2,00,000	Current assets		2,00,000
Current liabilities		2,50,000	Loans and advances		1,00,000
		6,50,000			6,50,000

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2022 on the following terms:

Guru will be paid 40% of the profits.

Guru will bring in cash ₹1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm and Guru will bring in cash his share of

goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

For the year ended 31.3.2020: profit ₹20,000 (includes insurance claim received of ₹40,000)

For the year ended 31.3.2021: loss ₹80,000 (includes voluntary retirement compensation paid ₹1,10,000).

For the year ended 31.3.2022: profit of ₹1,05,000 (includes a profit of ₹25,000 on the sale of assets)

It was decided to revalue the assets on 31.03.2016 as follows:

	₹
Fixed Assets (net)	4,00,000
Investments	Nil
Current Assets	1,80,000
Loans & Advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Pass journal entries on admission, show goodwill calculation and prepare revaluation account, partners' capital accounts and balance sheet as on 01.04.2016 after the admission of Guru.

(Hint: Goodwill = ₹60,000; Sacrificing Ratio = 5:3; Profit on Revaluation = ₹30,000; Closing Balance of Partner's Capital A/c – Gopal = ₹1,53,000, Govind = ₹1,01,000, Guru = ₹1,00,000; Balance Sheet Total = ₹8,04,000)

(Study Material)

Q.19.

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 & Building	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	Cash in Hand	2,800
Ramesh	15,000	Cash at Bank	2,200
Naresh	<u>10,000</u> 40,000		
	72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

- Suresh shall bring ₹8,000 towards his capital.
- The value of stock to be increased to ₹14,000 and Furniture & Fixtures to be depreciated by 10%.
- Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.
- The value of Land & Buildings to be increased by ₹5,600 and the value of the goodwill be fixed at ₹18,000.
- 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.

(Hint: Profit on Revaluation = ₹5,745; Closing Balance of Partner's Capital A/c: Dinesh = 26,972.50; Ramesh = 21,015; Naresh = ₹10,757.50; Suresh = ₹3,500; Balance Sheet Total = ₹86,245)

(Nov 18 – 10 marks)

Q.20.

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 follows:

Liabilities	₹	Assets	₹
Sundry Creditors	12,900	Building	26,000
Bills Payable	4,100	Furniture	5,800
Bank Overdraft	9,000	Stock in Trade	21,400
Capital Accounts:		Debtors	35,000
A	44,000	Less: Provision	(200)
B	<u>36,000</u>	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:

- He is admitted for 1/6th share in future profits and to introduce a Capital of ₹25,000.
- The new profit sharing ratio of A, B and C will be 3:2:1 respectively.
- '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.
- 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.
- It is found that the creditors included a sum of ₹1,400, which is not to be paid off.

Prepare the following:

- Revaluation Account.
- Partners' Capital Accounts.
- Balance Sheet of New Partnership firm after admission of 'C'.

(Hint: Profit/Loss on Revaluation = NIL; Hidden Goodwill = ₹45,000; Closing Bal of Capital A/c: A = ₹71,000; B = ₹54,000; C = ₹25,000; Bal Sheet Total = ₹1,76,160)

(RTP May 19)

Q.21.

Leena and Meena were in business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	60,000
Leena	60,000	Plant	45,000
Meena	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills Receivable	12,500
Bills Payable	17,400	Stock	42,600
		Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022, they decided to admit Neena into the partnership giving her a 1/5th share in future profits. She brings in ₹80,000 as her share of capital. Goodwill was valued at ₹1,00,000 at the time of admission of Neena. The partners decided to revalue the Assets as follows: Plant ₹40,000, Debtors ₹38,000, Stock ₹42,000, Building ₹90,000, Furniture ₹20,000, Bills Receivable ₹12,000.

You are required to show the following accounts in the books of the firm:-

- Profit & Loss Adjustment Account
- Partners' Capital Accounts
- The Balance Sheet of the new firm.

(Hint: Profit on Revaluation = ₹20,000; Closing Balances of Capital: Leena = ₹92,000; Meena = ₹1,88,000; Neena = ₹60,000; Balance Sheet Total = ₹4,00,000)

(Study Material)

Q.22.

Alpha and Beeta were partners in a LLP namely Meta-Chem LLP sharing profits and losses equally.

Balance Sheet of Meta-Chem LLP as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital :		Factory Building	4,78,000
Alpha 3,00,000		Plant & Machinery	3,41,000
Beeta <u>2,00,000</u>	5,00,000	Office Furniture	55,850
General Reserve	1,80,000	Inventory	77,740
Workmen compensation fund	60,000	Trade Receivables	1,43,210
Term loan from IDFC bank	2,78,000	Bank	44,200
Trade payables	1,22,000		
	11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2022 on the following terms:

- He shall have one-sixth share in future profits.
- New profit sharing ratio would be 3:2:1

3. He shall bring ₹2,50,000 as his capital.
4. Goodwill of the firm is valued at ₹3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at ₹70,000.
6. Machinery to be appreciated by 20%.and Office furniture to be revalued at ₹50,000
7. Of the trade receivables ₹3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after admission.

(Hint: Profit on Revaluation = ₹1,40,000; Closing Balances of Capital: Alpha = ₹4,90,000; Beeta = ₹4,40,000; Gyama = ₹2,00,000; Closing Balance of Bank A/c = ₹2,94,200; Balance Sheet Total = ₹15,30,000)

(Study Material)

Q.23.

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		<u>10,000</u>
		<u>8,75,000</u>			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.

(Hint: Revaluation Profit = ₹21,000; Balance of Capital Accounts: A = ₹4,20,000; B = ₹1,40,000; C = ₹1,40,000; Balance of Current Accounts: A = ₹44,250 (Dr.); B = ₹45,250 (Cr.); C = ₹40,000 (Dr.))

(Dec 21 – 10 Marks)

Q.24.

X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivable	12,500
Bills payable	15,400	Stock	42,600
Salary payable	<u>2,000</u>	Bank	<u>78,000</u>
	3,00,000		3,00,000

On 1st April, 2022 they decided to admit Z into the

partnership giving him 1/5th share in the future profits. He brings in ₹1,00,000 as his share of capital. Goodwill was valued at ₹1,20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows:

- (i) Plant ₹40,000, Stock ₹42,000, Furniture ₹20,000 and Bills Receivable ₹12,000.
- (ii) Out of total Debtors, ₹2,400 is bad and 5% provision is to be provided for bad and doubtful debts.
- (iii) Building is to be appreciated by 75%.
- (iv) Actual liability towards salary payable is ₹1,200 only.

You are required to show the following accounts in the books of the firm:

- (1) Revaluation Account
- (2) Partner's Capital Accounts
- (3) Balance sheet of the Firm after Admission of Z.

(Hint: Profit on Revaluation = ₹32,000; Balance of Capital Accounts: X = ₹98,400; Y = ₹1,97,600; Z = ₹76,000; Balance Sheet Total = ₹4,31,200)

(Nov 22 – 10 Marks)

Q.25.

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 (₹)	Assets	Amount (₹)
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	<u>400</u>
Beta <u>72,000</u>	1,60,000	Investment	5,000
		Cash	<u>31,000</u>
	<u>2,12,000</u>		<u>2,12,000</u>

'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 ₹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 ₹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 ₹3,120. The value of Buildings having appreciated be brought upto ₹58,400. The value of investment is increased by ₹900.
- (v) It is found that the creditors included a sum of ₹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'

(Hint: Revaluation Loss = ₹2,140; Balance of Capital Accounts: Alpha = ₹95,716; Beta = ₹77,144; Gama = ₹35,000; Balance Sheet Total = ₹2,60,180; Hidden Goodwill = ₹90,000)

Note: Above suggested answer as per ICAI is wrong, as hidden goodwill has been calculated without considering adjusted capitals, i.e. without considering revaluation loss. Correct Answer: Hidden Goodwill = ₹92,140; Capital Accounts – Alpha = ₹95,930; Beta = ₹77,286.5; Gama = ₹34,643.5)

(ICAI MTP – Apr 21 – 15 Marks)

Q.26.

Venus and Mercury are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Mercury and Venus as on 31.3.2022 was as follow:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	51,600	Building		1,04,000
Bill Payable	16,400	Furniture		23,200
Bank Overdraft	36,000	Stock-in-Trade		85,600
Capital Account:		Debtors	1,40,000	
Mercury 1,76,000		Less: Provision	<u>800</u>	1,39,200
Venus <u>1,44,000</u>	3,20,000	Investment		10,000
		Cash		<u>62,000</u>
	<u>4,24,000</u>			<u>4,24,000</u>

'Mars' 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 ₹1,00,000.
- (ii) The new profit sharing ratio of Venus, Mercury and Mars will be 3 : 2 : 1 respectively.

- (iii) 'Mars' 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 'Mars's share in the profits and the capital contribution made by him to the firm.
- (iv) Furniture is to be written down by ₹3,480 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 ₹6,240. The value of Buildings having appreciated be brought upto ₹1,16,800. The value of investment is increased by ₹1,800.
- (v) It is found that the creditors included a sum of ₹5,600, 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 'Mars'.

(Hint: Revaluation Gain/Loss = Nil; Balance of Partners' Capitals – Mercury = ₹2,84,000; Venus = ₹2,16,000; Mars = ₹1,00,000; Hidden Goodwill = ₹1,80,000; Balance Sheet Total = ₹7,04,640)

(ICAI MTP May 22 – 15 Marks)

Q.27.

Moscow and Danial are partners of the firm MD & Co., from 1.4.2017. Initially both of them contributed ₹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 31 st March	2018	2019	2020	2021
	₹	₹	₹	₹
Profit as per accounts prepared and finalized	70,000	1,30,000	1,60,000	1,80,000
Expenses not provided for (as at 31 st March)	15,000	10,000	18,000	12,000
Incomes not taken into account (as at 31 st 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	₹	Assets	₹
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.

(Hint: Profit on Adjustment = ₹5,18,000; Capital to be brought by Spinny = ₹31,900; Balance of Capital Accounts – Moscow = ₹64,750; Danial = ₹94,750; Spinny = ₹31,900; Balance Sheet Total = ₹3,59,900)

(ICAI MTP Nov 21 – 20 Marks)

CHANGE IN PSR:

Q.28.

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	₹	Particulars	₹
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	<u>1,40,000</u>		
	<u>11,00,000</u>		<u>11,00,000</u>

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.

(Hint: Revaluation Profit = ₹80,000; Adjustment Entry – Debit Kamal & Tamal by ₹21,000 & ₹42,000 respectively and Credit Amal by ₹63,000; Balance of Capital Accounts – Amal = ₹3,83,000; Kamal = ₹2,14,000; Tamal = ₹1,43,000; Balance Sheet Total = ₹11,80,000)

(ICAI MTP Mar 22 – 20 Marks)

CHAPTER 23: RETIREMENT OF PARTNER

Q.1.

Alok, Bhaskar and Chetan are partners sharing in the ratio 3:2:1. Calculate new ratio if:

- (a) If Alok retires.
- (b) If Bhaskar retires.
- (c) If Chetan retires.

(Hint: New PSR – a. 2:1; b = 3:1; c. 3:2)

(Study Material)

Q.2.

Aarav, Banta and Chunmun are partners sharing in the ratio 3:2:1. Aarav retires and his share is taken over by the remaining partners as follow

Banta takes $\frac{2}{6}$ th from Aarav.

Chunmun takes $\frac{1}{6}$ th from Aarav.

Calculate new ratio.

(Hint: New PSR = 2:1)

(Study Material)

Q.3.

Deepu, Tasha and Honey are partners sharing profits in the ratio 3:2:1. Tasha retires and his share was acquired by deepu and honey in the ratio 2:1. Calculate new ratio.

(Hint: New PSR = 13:5)

(Study Material)

Q.4.

A, B and C are partners sharing profits and losses in the ratio of $\frac{1}{2}$, $\frac{3}{10}$ and $\frac{1}{5}$ respectively.

B retires from the firm and A&C decide to share future profits and losses in the ratio of 3:2. Calculate Gaining Ratio.

(Hint: Gaining Ratio = 1:2)

(Study Material)

Q.5.

W, A, B and C are partners sharing profits and losses in the ratio of $\frac{1}{3}$, $\frac{1}{6}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively. B retires and W, A and C decide to share future profits and losses equally. Calculate Gaining Ratio.

(Hint: Gaining Ratio = 1:1)

(Study Material)

Q.6.

A, B and C are partners sharing profits and losses in the ratio of 25:15:9. B retires and it is decided that profit sharing ratio between A & C will be the same as existing between B and C. Calculate new ratio & gaining ratio.

(Hint: New PSR = 5:3; Gaining Ratio = 3:5)

(Study Material)

Q.7.

A, B and C are partners sharing profits and losses in the ratio of $\frac{4}{9}$, $\frac{1}{3}$ and $\frac{2}{9}$. B retires and surrenders $\frac{1}{9}$ th of his share in favour of A and remaining in favour of C. Calculate new ratio & gaining ratio.

(Hint: New PSR = 13:14; Gaining Ratio = 1:8)

(Study Material)

Q.8.

A, B & C are partners sharing profits and losses in the ratio of $\frac{1}{2}$, $\frac{3}{10}$ and $\frac{1}{5}$ respectively. B retires and his share is taken by A and C in the ratio of 2:1. Then immediately W is admitted for $\frac{1}{4}$ th share of profit, half of which was gifted by A and remaining share was taken by W equally from A and C. Calculate new ratio.

(Hint: New PSR = 41:19:20)

(Study Material)

Q.9.

A and B are partners in a business sharing profit and losses as A- $\frac{3}{5}$ th and B- $\frac{2}{5}$ th. Their balance sheet as on 1st January, 2022 is given below:

Liabilities		₹	Assets		₹
Capital Accounts			Plant and Machinery		20,000
A	20,000		Inventories		16,000
B	15,000	35,000	Trade receivables		15,000
Reserve Account		15,000	Balance at Bank		6,000
Trade payables		7,500	Cash in hand		500
		57,500			57,500

B retires from the business owing to illness and A takes it over. The following revaluation was made:

- (1) The goodwill of the firm is valued at ₹25,000.
- (2) Depreciate Plant & Machinery by 7.5% and Inventories by 15%.
- (3) Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Required:

Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2022. Give also the opening Balance Sheet of A.

(Hint: Loss on Revaluation = ₹4,500; B's dues to be t/f to B's Loan A/c = ₹29,200; Closing Bal of A's Capital A/c = ₹16,300; Bal Sheet Total = ₹52,850)

(Study Material)

Q.10.

F, G and K were partners sharing profits and losses at the 2:2: 1. K wants to retire on 31.12.2022. Given below is the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31.12.2022

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed Assets	1,50,000
F	1,20,000	Inventories	50,000
G	80,000	Trade Receivables	70,000
K	10,000	(Including Bills Receivable	
Reserve	10,000	₹20,000)	
Trade Payables	50,000	Bank	50,000
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3: 2 in future. Value of Goodwill is taken to be ₹50,000. Sundry Fixed Assets are revalued upward by ₹30,000 and Inventories by ₹10,000. Bills Receivable dishonoured ₹5,000 on 31.12.2022 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also, they wanted to maintain ₹75,000 bank balance for working capital.

Required:

Pass necessary journal entries and draft the Balance Sheet of M/s F & G. Also prepare capital accounts of partners and draft the Balance Sheet of Ms/ F & G after K's retirement.

(Hint: Profit on Revaluation = ₹35,000; Amt. to be paid to K = ₹79,000; Cash to be brought in by F & G = ₹70,000 & ₹34,000 respectively; Closing Balance of Partner's Capital A/cs – F = ₹1,98,000, G = ₹1,32,000, K = NIL; Balance Sheet Total = ₹3,80,000)

(Study Material)

Q.11.

A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2022 was as under:

Liabilities	₹	Assets	₹
Capital accounts:		Fixtures	8,200
A	1,35,930	Inventories	1,57,300
B	95,120	Trade receivables	93,500
C	61,170	Cash	74,910
Trade payables	41,690		
	3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 2022, the terms of which were as follows:

- The profit and loss account for the year ended 31st March, 2022 which showed a net profit of ₹48,000 was to be re-opened. B was to be credited with ₹4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2021, as 3:4:4.
- Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. The valuations arising out of

the above agreement were goodwill ₹56,800 and fixtures ₹10,980. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values. B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to eliminate goodwill from the balance sheet, to retain the fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%.

Required:

Submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

(Hint: Profits to be distributed in new ratio = ₹44,000; Profit on Revaluation on Retirement = ₹910; Amt. to be transferred to A's Loan A/c = ₹1,43,669; Closing Balance of Partner's Capital A/c – B = ₹83,782, C = ₹61,939)

Note: Provision is being further raised from 2% to 6% after retirement. Loss on account of this increase will be borne by B & C only, in their new PSR i.e. 3:2.

(Study Material)

Q.12.

K, L & M are partners sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.2022 and admit his son N in his place.

Balance Sheet of K, L and M as on 31.3.2022

Liabilities	₹	₹	Assets	₹
Capital:			Furniture	20,000
K	40,000		Trade receivables	50,000
L	60,000		Inventory in Trade	50,000
M	<u>30,000</u>	1,30,000	Cash and Bank balances	80,000
Reserve		50,000		
Trade payables		20,000		
		2,00,000		2,00,000

On retirement of L assets were revalued: Furniture ₹10,000 and Inventory in trade ₹30,000. 50% of the amount due to L was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill was valued at ₹50,000. Partners are being paid off their extra balances to make capital proportionate by keeping N's capital as base.

You are required to give:

(i) Necessary journal entries; (ii) balance sheet of M/s K, M and N as on 1.4.2022; (iii) capital accounts of partners.

(Hint: Loss on Revaluation = ₹30,000; Amt. to be paid to L in Cash = ₹40,500; Amt. to be t/f to N's Capital = ₹40,500; Final Closing Balance of Partner's Capital A/c taking N's Capital as base: K = ₹42,500, M = ₹17,000, N = ₹25,500; Amt. to be paid off to: K = ₹7,500; M = ₹17,000; Balance Sheet Total = ₹1,05,000)

(Study Material)

Q.13.

Dowell & 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, 2022 is as under:

Liabilities	₹	Assets	₹
Capitals:		Land	10,000
Mr. A	80,000	Buildings	2,00,000
Mr. B	20,000	Plant & Machinery	1,30,000
Mr. C	<u>30,000</u>	Furniture	43,000
Reserves (un-appropriated profits)	20,000	Investments	12,000
Long Term Debt	3,00,000	Inventories	1,30,000
Bank Overdraft	44,000	Trade receivables	1,39,000
Trade Payables	1,70,000		
	6,64,000		6,64,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2022. 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 be made 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. A, Mr. C and Mr. D 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.

Required:

Prepare:

- (a) Revaluation account;
- (b) Partners' capital accounts;
- (c) Bank account; and
- (d) Balance sheet of the reconstituted firm as on 1st April, 2022.

(Hint: Loss on Revaluation = ₹60,800; Amt. to be t/f to B's Loan A/c = ₹22,760; Closing Balance of Partner's Capital A/c – A = ₹80,000, C = ₹80,000, D = ₹40,000; Cash to be brought in by the Partners – A = ₹10,400, C = ₹78,160, D = ₹60,000; Closing Balance of Bank A/c = ₹1,04,560; Balance Sheet Total = ₹6,92,760)

Note: Bank Overdraft will be taken as open balance in the Bank A/c on the credit side as "By Bank Overdraft"

(Study Material)

Q.14.

M/s X 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 2022, was as under:

Balance Sheet of M/s. X as on 30.06.2022

Liabilities	₹	Assets	₹
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Building	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long Term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade payables	1,93,000	Trade receivables	1,39,000
	9,57,000		9,57,000

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, 2022. For this purpose, the following adjustments are to be made:

- Goodwill of the firm is to be valued at ₹2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.
- Buildings and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹25,000. Trade receivables are considered good only upto 90% of balance sheet figure. Balance be considered bad.
- In the reconstituted firm, the total capital will be ₹3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.
- The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare Revaluation Account and Partners' Capital Accounts.

(Hint: Loss on Revaluation = ₹87,900; Closing Balance of Partner's Capital A/c – A = ₹90,000, C = ₹1,20,000, D = ₹90,000; Capital to be brought in Cash – A = ₹12,370, C = ₹3,950, D = ₹1,50,000; Amt. to be t/f to B's Loan A/c = ₹73,420)

(Study Material)

Q.15.

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2018 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: 2018 nil; 2019 ₹900; 2020 ₹2,000; 2021 ₹3,600.

Black retires on 15th April, 2015.

Required

Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

(Study Material)

Q.16.

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2018 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: 2018 nil; 2019 ₹900; 2020 ₹2,000; 2021 ₹3,600.

Black retires on 15th April, 2022.

Required:

Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.
(Study Material)

Q.17.

A, B and C are in partnership sharing profits and losses at the ratio of 5:3: 2. The balance sheet of the firm on 31.12.2021 was as follows:

Balance Sheet			
Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2022, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2017 for ₹1,00,000 and its surrender value as on 31.12.2021 was ₹25,000. For the purpose of A's retirement goodwill was raised for ₹1,00,000. Sundry Fixed Assets was revalued for ₹1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also, they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance ₹25,000 and to make their capital proportionate.

Required:

Prepare necessary journal entries to give the effect in capital accounts of partners.

(Hint: Revaluation Profit = ₹1,35,000; ,Gaining Ratio = 11:4; Total Capital to be maintained: A = ₹50,833; B = ₹25,417; A's Loan A/c = ₹58,750; Cash to be brought in by Continuing Partners: B = ₹60,333; C = ₹13,417)

Note: ICAI has considered goodwill raised for ascertaining revaluation profit. As per the requirement of the question, students have to pass an adjustment entry through capital accounts for the revaluation profit.

(Study Material)

Q.18.

Sona, Gabbu and Amit are partners Profit sharing ratio is 3:1:1. Following are the details w.r.t. their Separate Life Policies:

	SONA	GABBU	AMIT
Policy	1,00,000	2,00,000	3,00,000
Surrender Value	10,000	20,000	30,000

Calculate Amit's share in the above policies if he retires.

(Hint: Amit's share = ₹12,000)

(Study Material)

Q.19.

On 31st March, 2022, the balance sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Land & Building		2,00,000
Ram	3,00,000		Machinery		2,00,000
Rahul	2,00,000		Closing Stock		1,00,000
Rohit	<u>1,00,000</u>	6,00,000	Sundry Debtors		2,00,000
Sundry Creditors		2,00,000	Cash & Bank Balances		1,00,000
		8,00,000			8,00,000

On 31st March, 2022, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liabilities on that date on the following basis:-

1. Land and buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing stock to be valued at ₹80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors ₹10,000 be written back.
6. Joint life policy of the partners surrendered and cash obtained ₹60,000.
7. Goodwill of the entire firm be valued at ₹1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis:-
50% on retirement and the balance 50% within one year

Prepare revaluation account, capital account of partners: Rahul & Rohit, loan account of Ram, cash account and balance sheet as on 1.4.2022 of M/s Rahul and Rohit.

(Hint: Profit on Revaluation = ₹60,000; Cash to be brought in by Continuing Partners: Rahul = ₹1,10,000; Rohit = ₹2,50,000; Amount to be transferred to Ram's Loan A/c = ₹2,10,000; Closing balance of Cash & Bank A/c = ₹3,10,000; Balance Sheet Total = ₹10,00,000)

(Study Material)

Q.20.

A, B, C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.3.2022 was as under:

Liabilities		₹	Assets		₹
-------------	--	---	--------	--	---

Capital A/cs:		Fixtures	30,000
A	1,50,000	Stock	1,70,000
B	1,00,000	Sundry Debtors	90,000
C	<u>50,000</u>	Cash	50,000
Sundry Creditors	40,000		
	3,40,000		3,40,000

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2022, the terms of which were as follows:

- (a) The profit and loss account for the year ended 31.3.2022, which showed a net profit of ₹42,000 was to be re-opened. B was to be credited with ₹6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2021.
- (b) Goodwill was to be valued at two years' purchase of the average profits of five years. Profits for these five years ending on 31st March were as under:

	₹
31.3.2018	15,000
31.3.2019	23,000
31.3.2020	25,000
31.3.2021	35,000
31.3.2022	42,000

- (c) Fixtures are to be valued at ₹39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.
- (d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6%. Total capital of the firm will be ₹3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C after giving effect to the above arrangements on the retirement of A.

(Hint: Profit as per P&L Adjustment = ₹36,000; Profit on Revaluation = ₹8,000; Closing Balance of Capital Accounts – B = ₹2,25,000; C = ₹75,000; Capital withdrawn by B = ₹34,634; Capital to be brought in by C = ₹30,234; Closing balance of Cash A/c = ₹45,600; Balance Sheet Total = ₹3,40,000)

Note: Provision is being further raised from 2% to 6% after retirement. Loss on account of this increase will be borne by B & C only, in their new PSR i.e. 3:1.

(Study Material)

Q.21.

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 A/cs:		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	Sundry Debtors	3,00,000
Sundry Creditors		3,70,000	Less: Provision	(30,000) 2,70,000
General Reserves		3,60,000	Joint Life Policy	1,60,000
			Stock	2,50,000
			Cash at Bank	1,50,000
		23,50,000		23,50,000

B retired on 1st April, 2018 subject to the following conditions:

- Office Equipments revalued at ₹3,27,000.
- Building revalued at ₹15,00,000. Furniture is written down by ₹40,000 and Stock is reduced to ₹2,00,000.
- Provision for Doubtful Debts is to be created @5% on Debtors.
- Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹1,50,000.
- Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

- 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.

(Hint: Profit on Revaluation = ₹4,62,000; Goodwill = ₹3,60,000; Amt. to be transferred to B's Loan A/c = ₹8,14,000; Closing Balance of Partner's Capital A/c: A = ₹11,21,000; C = ₹5,07,000; Balance Sheet Total = ₹28,12,000)

Note: Loss on account of JLP has been debited to Revaluation A/c. Alternatively, JLP A/c of ₹10,000 can be debited to Partners Capital A/c in the profit sharing ratio. In that case, the revaluation Profit will become ₹4,72,000/- and credited to Partners Capital A/c in profit sharing ratio.

(May 18 – 10 marks)

Q.22.

On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital A/cs:		Land & Building	30,000
Mr. P	20,000	Plant & 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 & Bank Balances	7,000
	80,000		80,000

On 1st April, 2020, 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:

- Land and Building be appreciated by 20%.
- 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 1.04.2020.

(Hint: Profit on Revaluation = ₹7,000; Amt. to be transferred to P's Loan A/c = ₹13,000; Closing Balance of Capital A/c: Q = ₹35,000; R = ₹35,000; Cash to be brought in: by Q = ₹3,000; by R = ₹16,000; Closing Balance of Cash & Bank = ₹20,550; Balance Sheet Total = ₹91,000)

(RTP Nov 20)

Q.23.

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, 2018 is as under:

Liabilities	₹	Assets	₹
Capitals:		Land	10,000
Mr. P	80,000	Buildings	2,00,000
Mr. Q	20,000	Plant & Machinery	1,30,000
Mr. R	30,000	Furniture	43,000
Reserves (un-appropriated profits)	20,000	Investments	12,000
Long Term Debts	3,00,000	Inventories	1,30,000
Bank Overdraft	44,000	Trade Receivables	1,39,000
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, 2018. 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 be made 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. 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.

Required:

Prepare

- Revaluation account;
- Partners' capital accounts;
- Bank account; and
- Balance sheet of the reconstituted firm as on 1st April, 2018.

(Hint: Loss on Revaluation = ₹60,800; Amt. to be transferred to Q's Loan A/c = ₹22,760; Cash to be brought in by Partners: P = ₹10,400; R = ₹78,160; T = ₹60,000; Closing Balance of Bank A/c = ₹1,04,560; Balance Sheet Total = ₹6,92,760)

(RTP Nov 18)

Q.24.

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:

- 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.
- 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 ₹6,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.
- 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.
- 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.

(Hint: Loss on Revaluation = ₹1,10,850; Adjusted Capital Balances – A = ₹1,20,000; C = ₹1,60,000; D = ₹1,20,000; Transfer to B's Loan = ₹87,830; Capital to be brought in – A = ₹29,255; C = ₹25,425; D = ₹2,10,000)

(Nov 20 – 10 Marks)

Q.25.

Aarav, Nirav and Purav are partners in LLP sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital : Aarav	80,000	Building	50,000
Nirav	50,000	Machinery	67,500
Purav	35,000	Debtors	65,000
General Reserve	60,000	Stock	80,000
Trade Creditors	50,000	Bank	12,500
	2,75,000		2,75,000

Purav retired from the business on 1st April 2022 on the following terms:

- Goodwill was to be valued at 2 years purchase of average profit of past 3 years.
 31st March, 2020 ₹41,000
 31st March, 2021 ₹50,000
 31st March, 2022 ₹55,000
- Goodwill was not to be raised in the books of accounts.
- Provision for Doubtful Debts was to be created on debtors at 5%. Machinery is to be depreciated by 10% and stock is revalued at ₹71,000.
- Building to be appreciated by 20%.
- Aarav and Nirav to bring in additional capital of ₹35,000 and ₹25,000 respectively.
- Balance payable to Purav must be paid immediately.

You are required to prepare:

- Revaluation account
- Partners capital accounts.
- Bank account.
- Balance Sheet after retirement.

(Hint: Loss on Revaluation = ₹9,000; Closing Balance of Capital Accounts – Aarav = ₹1,30,300; Nirav = ₹85,200; Amt. paid to Purav = ₹60,500; Closing Balance of Bank Account = ₹12,000; Balance Sheet Total = ₹2,65,500)

(Study Material)

Q.26.

Satyam, Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March, 2022 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capitals :		Building	2,50,000
Satyam 1,95,000		Plant	1,60,000
Shivam 1,48,000		Investments	85,000

Sunderam	<u>1,12,000</u>	4,55,000	Stock	45,280
General Reserve		80,000	Trade Receivable	68,000
Loan from Satyam		94,000	Bank	95,720
Sundry Creditors		75,000		
		7,04,000		7,04,000

On 1st April 2022 Shivam retired on the following terms:

1. Goodwill is to be valued at ₹1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.
2. Buildings is to be appreciated by 20% and Plant is to be depreciated by 10%.
3. Investments are to be taken over by the Satyam in full settlement of his loan.
4. Provision of 5% is to be made on trade receivables to cover doubtful debts.
5. In the reconstituted firm, the total capital will be ₹3,00,000/- which will be contributed by Satyam and Sunderam in their new profit sharing ratio, which is 2:3.
6. The amount due to retiring partner shall be transferred to his loan account.

You are required to give journal entries to record above adjustments and also prepare Balance Sheet thereafter.

(Hint: Profit on Revaluation = ₹39,600; Shivam's Loan = ₹2,07,900; Closing Balance of Capital A/c – Satyam = ₹1,20,000; Sundaram = ₹1,80,000; Capital Withdrawn by Satyam = ₹86,900; Capital introduced by Sundaram = ₹20,200; Bank A/c = ₹29,020; Balance Sheet Total = ₹5,82,900)

(Study Material)

Q.27.

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).

(Hint: Loss to be recognised in P&L – 2017 = ₹3,000; 2018 = ₹2,100; 2019 = ₹1,900; 2020 = ₹1,400)

(July 21 – 5 Marks)

Q.28.

X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
-------------	------------	--------	------------

Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April, 2021 on the following terms:

- (i) Building to be appreciated by 25%.
- (ii) X and Y to bring in additional capital of ₹5,00,000 each.
- (iii) Machinery to be depreciated by 10%.
- (iv) Stock is revalued at ₹3,72,250.
- (v) Provision for Doubtful Debts to be created at 4%.
- (vi) Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹2,75,000, ₹2,50,000 and ₹1,95,000 respectively.
- (vii) Goodwill was not to be raised in the Books of Accounts.
- (viii) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement. Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill. (Loss on Revaluation = ₹12,000; Amt. paid to Z = ₹9,04,000; Closing Balances of Capital – X = ₹6,03,000; Y = ₹6,06,000; Bank A/c = ₹1,58,500)

(May 22 – 10 Marks)

CHAPTER 24: DEATH OF PARTNER

Q.1.

Arun, Tarun and Neha are partners sharing profits in the ratio of 3:2:1. Neha dies on 31st May 2022. Sales for the year 2021-2022 amounted to ₹4,00,000 and the profit on sales is ₹60,000. Accounts are closed on 31st March every year. Sales from 1st April 2022 to 31st May 2022 is ₹1,00,000. Calculate Neha's share of profit on turnover basis.

(Hint: Neha's profit share = ₹2,500)

(Study Material)

Q.2.

Sona, Gabbu and Amit are partners sharing profits in the ratio of 3:1:1. Details w.r.t. their separate life policies are as follows:

	SONA	GABBU	AMIT
Policy	1,00,000	2,00,000	3,00,000
Surrender Value	10,000	20,000	30,000

Calculate Amit's share in the above policies, if he dies.

(Hint: Amit's share = ₹66,000)

(Study Material)

Q.3.

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2022. Mr. Z died on 31st December, 2022. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2022

Liabilities	₹	Assets	₹
Trade payables	20,000	Building	1,20,000
Bank Loan	50,000	Computers	80,000
General Reserve	30,000	Inventories	20,000
Capital A/cs:		Trade receivables	20,000
X	40,000	Cash at Bank	50,000
Y	80,000	Investments	10,000
Z	<u>80,000</u>		
	3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	Profit/loss
31.3.2022	30,000
31.3.2021	20,000
31.3.2020	(10,000) Loss

Profit for the period from 1.4.2022 to 31.12.2022 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31.3.2022 a car costing ₹40,000 was purchased on 1.4.2021 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows:

Inventory at ₹16,000, building at ₹1,40,000, computers at ₹50,000; investments at ₹6,000. Trade receivables were considered good.

Required:

- (i) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2022 to 31.12.2022.
- (ii) Prepare revaluation account assuming that other items of assets and liabilities remained the same.
- (iii) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2022 (Hint: Adjusted Profit of 2021-22 = ₹62,000; Goodwill = ₹48,000; Z's share in the profits for 1.4.2022 to 31.12.2022 = ₹7,200; Loss on Revaluation = ₹22,800; Amt. to be transferred to Z's Executor A/c = ₹1,22,080; Closing Balance of Capital A/c: X = ₹41,400; Y = ₹82,880; Balance Sheet Total = ₹3,16,400)
(Study Material)

Q.2.

The partnership agreement of a firm consisting of three partners - A, B and C (who share profits in proportion of $\frac{1}{2}$, $\frac{1}{4}$ and $\frac{1}{4}$ and whose fixed capitals are ₹10,000; ₹6,000 and ₹4,000 respectively) provides as follows:

- (a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.
- (b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.
- (c) That an insurance policy of ₹10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.
- (d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.
- (e) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
- (f) That the partnership books be closed annually on 31st December.

A died on 30th September 2022, the amount standing to the credit of his current account on 31st December, 2021 was ₹450 and from that date to the date of death he had withdrawn ₹3,000 from the business.

An unrecorded liability of ₹2,000 was discovered on 30th September, 2022. It was decided to record it and be immediately paid off.

The trading result of the firm (before charging interest on capital) had been as follows: 2019 Profit ₹9,640; 2020 Profit ₹6,720; 2021 Profit ₹7,640; 2022 Profit ₹3,670.

Assuming the surrender value of the policy to be 20 percent of the sum assured.

Required

Prepare an account showing the amount due to A's legal representative as on 31st December, 2022. (Hint: Goodwill = ₹12,000; Share of A in Separate Life Policy = ₹7,000; Share in Profit for 2022 = ₹835; Amt. to be transferred to A's Executor's A/c = ₹21,285)

(Study Material)

Q.3.

The following is the Balance Sheet of M/s. ABC LLP as at 31st December, 2021.

Balance Sheet as at 31st December, 2021

Liabilities	₹	Assets	₹
Capital A/cs:		Machinery	5,000
A	4,100	Furniture	2,800
B	4,100	Fixture	2,100
C	4,500	Cash	1,500
General Reserve	1,500	Inventories	950
Trade payables	2,350	Trade Receivables	4,500
		Less: Provision	(300) 4,200
	16,550		16,550

C died on 3rd January, 2022 and the following agreement was to be put into effect.

- (a) Assets were to be revalued: Machinery to ₹5,850; Furniture to ₹2,300; Inventory to ₹750.
- (b) Goodwill was valued at ₹3,000 and was to be credited with his share, without using a Goodwill Account
- (c) ₹1,000 was to be paid away to the executors of the dead partner on 5th January, 2022.

You are required to show:

- (i) The Journal Entry for Goodwill adjustment.
- (ii) The Revaluation Account and Capital Accounts of the partners.
- (iii) Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C.

(Hint: Profit on Revaluation = ₹150; Amt. to be transferred to C's Executor A/c = ₹5,050; Closing balance of Partner's Capital A/c: A = ₹4,150; B = ₹4,150)

(Study Material)

Q.4.

B and N were partners. The partnership deed provides inter alia:

- (i) That the accounts be balanced on 31st December each year.
- (ii) That the profits be divided as follows:
B: One-half; N: 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:

- (a) the capital to his credit at the date of death; (b) his proportion of profit to date of death based on the average profits of the last three completed years; (c) his share of goodwill based on three years' purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2021

Particulars	Dr. (₹)	Cr. (₹)
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,00,000	2,00,000

The profits for the three years were 2019: ₹42,000; 2020: ₹39,000 and 2021: ₹45,000. N died on 1st May, 2022. Show the calculation of N (i) Share of Profits; (ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account.

(Hint: N's share in Profits for 4 months = ₹5,600; Goodwill = ₹1,26,000; Amt. to be transferred to N's Loan A/c = ₹1,28,000)

(Study Material)

Q.5.

The Balance Sheet of Seed, Plant and Flower as at 31st December, 2021 was as under:

Liabilities	₹	Assets	₹
Trade payables	20,000	Fixed Assets	40,000
General Reserve	5,000	Debtors	10,000
Capital:		Bills Receivable	4,000
X	25,000	Inventories	16,000
Y	15,000	Cash at Bank	10,000
Z	<u>15,000</u>		
	55,000		
	80,000		80,000

The profit sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2022 Plant died. It was agreed that:

- (a) Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:
- | | | | |
|------|---------|------|---------|
| 2018 | ₹10,000 | 2020 | ₹12,000 |
| 2019 | ₹13,000 | 2021 | ₹15,000 |
- (b) The deceased partner to be given share of profits upto the date of death on the basis of the previous year.
- (c) Fixed Assets were to be depreciated by 10%. A bill for ₹1,000 was found to be worthless. These are not to affect goodwill.

- (d) A sum of ₹7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed and Flower agreed to share profits and losses in future in the ratio of 3: 2. Give necessary journal entries.

(Hint: Loss on Revaluation = ₹5,000; Amt. to be transferred to Plant's Executor A/c = ₹27,750)

(Study Material)

Q.6.

Peter, Paul and Prince were partners sharing profits and losses in the ratio 2:1:1. It was provided in the partnership deed that in the event of retirement/death of a partner he/his legal representatives would be paid:-

- (i) The balance in the capital Account
- (ii) His share of goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st December preceding the retirement or death.
- (iii) His share of profits from the beginning of the accounting year of to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%
- (iv) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.
- (v) All the assets are to be revalued on the date of retirement or death and the profit and loss be debited/ credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2022. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 2022 were Peter ₹10,000, Paul ₹5,000 and Prince ₹5,000. The balance in the Current Account as on 1st January, 2022 were Peter ₹20,000, Paul ₹10,000 and Prince ₹7,000. Drawings of Peter till 30th September, 2022 were ₹10,000. The profits of the firm before charging interest on capital for the calendar years 2019, 2020 and 2021 were ₹1,00,000, ₹1,20,000 and ₹1,50,000 respectively. The profits include the following abnormal items of credit:-

	2019 (₹)	2020 (₹)	2021 (₹)
Profit on sale of assets	5,000	7,000	10,000
Insurance claim received	3,000	-	12,000

The firm has taken out a Joint Life Policy for ₹1,00,000. Besides the partners had severally insured their lives for ₹50,000 each, the premium in respect thereof being charged to the Profit and Loss account. The surrender value of the Policies was 30% of the face value. On 30th June, 2022 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of ₹6,000 in the year 2021 and the firm has to pay immediately. The revaluation of the assets indicates an upward revision in value of assets to the extent of ₹20,000. Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2022 along with necessary workings.

(Hint: Goodwill = ₹2,14,000; Peter's share in Profits upto 30.09.2022 = ₹67,125; Share of Peter in JLP & SLP = ₹90,000; Profit on Revaluation = ₹20,000; Total amt. to be transferred to Peter's Executor's A/c = ₹3,04,125)

Q.7.

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally.

Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as:

Liabilities	₹	Assets	₹
Creditors	20,000	Land & Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital:		Stock in Trade	15,000
Monica	1,00,000	Trade Receivables	35,000
Yedhant	75,000	Less: Provision	(2,000) 33,000
Zoya	75,000	Cash at Bank	12,000
		Cash in Hand	7,000
	2,82,000		2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

- Land and Building be valued at ₹1,75,000
- Debtors were all good, no provision is required
- Stock is valued at ₹13,500
- 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.
- Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.
- The profit of the preceding five years ended 1st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

- Revaluation account
- Capital accounts of the partners and
- Balance sheet of the Firm as at 1st July 2018.

(Hint: Profit on Revaluation = ₹25,500; Goodwill = ₹26,250; Share of Zoya in Profits for 3 months = ₹1,8,75; Amt to be transferred to Zoya's Executor's A/c = ₹98,125; Closing bal of Capital A/c: Monika = ₹1,08,125; Yedhant = ₹83,125; Bal Sheet Total = ₹3,09,375)

(May 19 = 10 marks)

Q.8.

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, 2015

Liabilities	₹	Assets	₹
-------------	---	--------	---

Capital A/cs:		Machinery	10,000
L	8,200	Furniture	5,600
M	8,200	Fixture	4,200
N	9,000	Cash	3,000
General Reserve	3,000	Inventories	1,900
Trade payables	4,700	Trade Receivables	9,000
		Less: Provision	(600) 8,400
	33,100		33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect:

- Assets were to be revalued: Machinery to ₹11,700; Furniture to ₹4,600; Inventory to ₹1,500.
- Goodwill was valued at ₹6,000 and was to be credited with his share, without using a Goodwill Account.
- ₹2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.
- After death of N, L and M share profit equally.

You are required to prepare:

- Journal Entry for Goodwill adjustment.
- Revaluation Account and Capital Accounts of the partners.

(Hint: Profit on Revaluation = ₹300; Amt to be transferred to N's Executors A/c = ₹10,100; Closing Bal of Partner's Capital A/c: L = ₹8,300; M = ₹8,300)

(RTP Nov 19)

Q.9.

Arup and Swarup were partners. The partnership deed provides inter alia:

- That the annual accounts be balanced on 31st December each year;
- That the profits be allocated as follows:
Arup: One-half; Swarup: One-third and carried to reserve account: One sixth;
- That in the event of death of a partner, his executor will be entitled to the following:
 - The capital to his credit at the date of death;
 - His proportionate share. of profit to date of death based on the average profits of the last three completed years; and
 - 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 years 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) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account. (Hint: Swarup's share - Profit = ₹6,000; Goodwill = ₹54,000; Amount to be transferred from Swarup's Executors A/c to Swarup's Loan A/c = ₹1,38,000)

(Nov 19 – 10 Marks)

Q.10.

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.

(Hint: P's share in goodwill = ₹11,830; P's share of profit on separate life policy = ₹17,500; P's share of profit of 2020 = ₹4,735; Balance to be t/f to P's Executor's A/c = ₹38,465)

(Jan 21 – 10 Marks)

Q.11.

Diya, Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2022 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
-------------	---	--------	---

Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2022.

The partnership deed provides as follows:

- That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.
- Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were:

2018-19	1,62,000
2019-20	1,99,000
2020-21	1,87,000
2021-22	1,96,000

Average capital during preceding four years may be assumed as ₹3,00,000

- Profits till the date of death to be ascertained on the basis of average profit of previous four years
- Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

- ₹2,00,000 was received from insurance company against Joint life Policy.
- Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹80,000. Bad debts amounted ₹1760.
- Amount payable to Kiya was paid in cash.

You are required to prepare

- Revaluation A/c
- Partners' Capital A/c
- Balance Sheet as on 30th September 2022, assuming other Assets and liabilities remaining the same.

(Hint: Revaluation Profit = ₹15,000; Amt. paid to Kiya = ₹2,79,800; Closing Capitals – Diya = ₹2,28,000; Riya = ₹2,19,000; Balance Sheet Total = ₹5,07,000; Bank Balance = ₹34,710)

(Study Material)

Q.12.

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.

(Hint: Goodwill = ₹1,44,216; Amt. to be transferred to Ram's Executor's A/c = ₹1,00,802; Interest due – 31.3.2021 = ₹2,520; 30.9.2021 = ₹1,890; 31.3.2022 = ₹1,260; 30.9.2022 = ₹630; Instalments – I = ₹27,720.50; II = ₹27,090.50; III = ₹26,460.50; IV = ₹25,830.50)

(July 21 – 10 Marks)

Q.13.

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
Capital Accounts		
A		2,25,000
B		1,12,500
C		1,35,000
Current Account		
A	36,000	
B	54,000	
C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	

Debtors	45,000	
Bank Account	90,000	
Profit for the year before charging interest		2,34,000
Creditors		<u>67,500</u>
Total	7,74,000	7,74,000

Goodwill may be recorded separately, instead of through Revaluation Account. C died on 30th June, 2022. The Partnership deed provided that:

- (a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.
- (b) On the death of partner
 - (i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10% p.a. and a fair remuneration for each of the partners.
 - (ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and
- (c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:
 - (i) Profit for three years, before charging partners' interest were:

2019	₹2,52,000
2020	₹2,83,500
2021	₹2,70,000
 - (ii) The independent valuation on the date of death revealed:

Land and Building	₹2,25,000
Furniture and Fixtures	₹22,500
 - (iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹56,250 per annum and that the capital employed in the business to be taken as ₹5,85,000 throughout.

It was agreed between the partners that:

- (1) Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.
- (2) The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.
- (3) A and B would share profits equally from the date of death of C.
- (4) Depreciation on revised value of assets would be ignored. You are required to prepare:
 - (A) Partners' Capital Account and Current Account; and
 - (B) Balance Sheet of the firm as on 31st December, 2022.

Working should be done correct to the nearest rupee.

(Hint: Revaluation Profit = ₹33,750; Goodwill = ₹1,14,750; Divisible Profit for 2022 – First 6 Months = ₹88,650; Next 6 Months = ₹87,135; C's Executor's A/c = ₹1,60,245; Balance Sheet Total = ₹6,63,750)

(June 23 – 20 Marks)

Q.14.

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	<u>1800</u>	25,200
		99,300			99,300

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

- Assets were to be revalued: Machinery to ₹35,100; Furniture to ₹13,800; Inventory to ₹4,500.
- Goodwill was valued at ₹18,000 and was to be credited with his share, without using a Goodwill Account.
- ₹6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.
- 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.

(Hint: Goodwill Entry: Debit Tina's Capital A/c & Meena's Capital A/c by ₹3,000 each, Credit Rita's Capital A/c by ₹6,000; Revaluation Profit = ₹900; Rita's Executor's A/c = ₹30,300; Partners' Capital A/c – Tina = ₹24,900; Meena = ₹24,900)

(RTP Nov 21)

Q.15.

The Balance Sheet of Sam, Saif and Sameer as at 31.12.2021 stood as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital:			Land & Buildings		74,000
Sam	60,000		Investments		10,000
Saif	40,000		Advertisement suspense		37,800
Sameer	<u>40,000</u>	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Sam		2,500
General Reserve		8,000	Saif		2,500
Investment Fluctuation Reserve		2,400	Sameer		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	<u>(1,600)</u>	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Sameer died on 31st March, 2022, due to this reason the following adjustments were agreed upon:

- Land and Buildings to be appreciated by 50%.
- Investment to be valued at 6% less than the cost.
- All debtors (except 20% which are considered as doubtful) were good.
- Stock to be reduced to 94%.

- (v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
- (vi) Sameer's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	₹
2017	23,000
2018	28,000
2019	18,000
2020	16,000
2021	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

(Hint: Balance of Policy Account to be transferred to Capitals = ₹9,000; Gain on Revaluation = ₹33,400; Sameer's share in profit till the date of death = ₹1,500; Goodwill = ₹21,000; Balance to be transferred to Sameer's Executor's A/c = ₹53,300)

(ICAI MTP – Nov 22 – 10 Marks)

CHAPTER 25: DISSOLUTION OF PARTNERSHIP FIRMS AND LLP

Q.1.

X, Y, and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4: 3: 2. Following is the Balance Sheet of the firm as on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date.

Fixed assets realized ₹5,20,000 and book debts ₹4,40,000.

Stocks were valued at ₹2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹6,000.

You are required to prepare:

- (i) Realization account;
- (ii) Partners capital account; and
- (iii) Cash account.

(Hint: Loss on Realization = ₹80,000; Amt. paid to Partners – X = ₹4,04,445; Y = ₹53,333; Z = ₹2,02,222; Total of Cash A/c = ₹9,70,000)

(Study Material)

Q.2.

P, Q, and R were partners sharing profits and losses in the ratio of 3: 2: 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2022 is as follows:

Liabilities		₹	Assets	₹
Fixed Capital			Fixed Assets:	
P	20,000		Trademark	40,000
Q	20,000		Freehold Property	8,000
R	<u>10,000</u>	50,000	Plant and Equipment	12,800
Current Accounts:			Motor Vehicle	700
P	500		Current Assets	
Q	<u>9,000</u>	9,500	Stock	3,900
Loan from P		8,000	Trade Debtors	2,000
Trade Creditors		12,400	Less: Provision	<u>(100)</u>
			Cash at Bank	200
			Miscellaneous losses	

		R's Current Account	400
		Profit and Loss Account	12,000
	79,900		79,900

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	₹
Trademark	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹11,700 in full settlement of their debts. The costs of dissolution amounted to ₹1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

Required

- Cash and Bank Account,
 - Realization Account, and
 - Partners Fixed Capital Accounts (after transferring Current Accounts' balances)
- (Hint: Loss on Realization = ₹51,000; R's deficiency = ₹600; Amount paid to – P = ₹14,200; Q = ₹24,200; Total of Cash A/c = ₹59,600)

(Study Material)

Q.3.

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	₹	Assets	₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realized as under:

Particulars	₹
Plant & Machinery	1,250

Furniture	150
Debtors	400
Stock	500

The expenses of realization amounted to ₹175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹200 only.

Show necessary ledger accounts to close the books of the firm.

(Hint: Loss on Realization = ₹2,675; Deficiency = ₹2,275; Amt. paid to creditors = ₹2,525; Total of Cash A/c = ₹2,700)

(Study Material)

Q.4.

A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities	₹	Assets	₹
Creditors	15,700	Bank	535
Employees Provident Fund	6,300	Debtors	15,850
Capital Accounts:		Stock	25,200
A 40,000		Prepaid Expenses	800
B <u>20,000</u>	60,000	Plant & Machinery	20,000
		Patents	8,000
		C's Capital A/c	3,200
		D's Capital A/c	8,415
	82,000		82,000

Following information is given to you: -

- One of the creditors took some of the patents whose book value was ₹5,000 at a valuation of ₹3,200. Balance of the creditors were paid at a discount of ₹400.
- There was a joint life policy of ₹20,000 (not mentioned in the balance sheet) and this was surrendered for ₹4,500.
- The remaining assets were realized at the following values: - Debtors ₹10,800; Stock ₹15,600; Plant and Machinery ₹12,000; and Patents at 60% of their book-values. Expenses of realization amounted to ₹1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

(Hint: Loss on Realization = ₹23,050; D's deficiency = ₹8,040; Amt. brought by C = ₹3,200; Amt. paid to - A = ₹34,640; B = ₹17,320; Total of Bank A/c = ₹71,860)

(Study Material)

Q.5.

M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities		₹	₹	Assets		₹	₹
Capital: X		29,200		Fixed Assets		40,000	
	Y	10,800		Stock		25,000	
	Z	10,000	50,000	Book Debts	25,000		
Z's Loan			5,000	Less: Provision	(5,000)	20,000	
Loan from Mrs. X			10,000	Cash		1,000	
Sundry Trade Creditors			25,000	Advance to Y		4,000	
			90,000			90,000	

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realized ₹20,000; Stock ₹21,000 and Book Debt ₹20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to ₹1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

(Hint: Loss on Realization = ₹24,000; Y's deficiency = ₹4,400; Final Payment to Partners – X = ₹34,300; Z = ₹8,100; Total of Cash A/c = ₹76,900)

(Study Material)

Q.6.

A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹9,600, ₹6,000 and ₹8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	₹	Assets	₹
Liability for interest on loans from:		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying the maximum possible loss procedure.

(Hint: Final Loss on Realization i.e. Capital left unpaid – A = ₹9,400; B = ₹5,640; C = ₹3,760)

(Study Material)

Q.7.

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	₹	Assets	₹
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	<u>9,000</u>		
	49,000		49,000

The assets realized the following sums in instalments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	<u>20,100</u>
	<u>34,000</u>

The expenses of realization were expected to be ₹500 but ultimately amounted to ₹400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

(Hint: Distribution of Cash Payment – Creditors = ₹2,000; Partner's Loan = ₹5,000; Partner's Capitals = ₹27,000; Final Loss on Realization i.e. Capital left unpaid – A = ₹6,000; B = ₹6,000; C = ₹3,000)

(Study Material)

Q.8.

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities		₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		<u>2,00,000</u>		<u>2,00,000</u>

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹29,000 in full settlement of their account. Expenses of realization were estimated to be ₹5,400 but actual amount spent was ₹4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5 th July, 2022	25,200
On 30 th August, 2022	60,000
On 15 th September, 2022	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

(Hint: Amt. unpaid i.e., loss on realisation – A = ₹10,800; B = ₹10,800; C = ₹5,400)

(Study Material)

Q.9.

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities			Assets	
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	<u>50,000</u>	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		<u>2,00,000</u>		<u>2,00,000</u>

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹30,000 and ₹50,000 respectively; There was an unrecorded investment which was sold for ₹25,000; Debtors realized 90% only and ₹1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for ₹2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

(Hint: Profit on Realization = ₹2,620; Final Payment – P = ₹83,060; Q = ₹68,810; Total of Bank Account = ₹1,78,870)

(Study Material)

Q.10.

P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities	₹	Assets	₹
Capital accounts		Plant and Machinery	1,08,000
P	1,20,000	Fixtures	24,000
Q	48,000	Stock	60,000
R	24,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash	60,000
Creditors	<u>48,000</u>		—
	<u>3,00,000</u>		<u>3,00,000</u>

They decided to dissolve the business. The following are the amounts realized:

Particulars	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹1,500. There was an unrecorded asset of ₹6,000 which was taken over by Q at ₹4,800. An amount of ₹4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

- Realization account.
- Partners' capital accounts.
- Cash account.

(Hint: Profit on Realization = ₹9,900; Final Payment – P = ₹1,47,960; Q = ₹71,160; R = ₹37,980; Total of Cash A/c = ₹3,08,400)

(Study Material)

Q.11.

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1. On 30th September, 2022 their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Premises	50,000
Thin	80,000	Fixtures	1,25,000

Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts:			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		3,05,480

'Thin' decides to retire on 30th September, 2022 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹60,000 and the plant for ₹1,07,500. The fixtures realize ₹20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize ₹45,900. Realization expenses amount to ₹4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

- (i) Realization Account;
- (ii) Partners' Current Accounts;
- (iii) Partners' Capital Accounts showing the closing of the firm's books.

(Hint: Loss on Realization = ₹35,540; Fat's deficiency = ₹1,608 to be borne in 8:5; Final Payment – Thin = ₹1,08,710; Short = ₹60,682; Total of Bank A/c = ₹3,02,872)

(Study Material)

Q.12.

Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture	25,500
General Reserve	61,500	Investments	15,000
Kumar's Loan A/c	15,000	Book Debts	60,000
Loan from D	1,20,000	Less: Prov. for bad debts	(6,000)
Trade Creditors	30,000	Stock	36,000

Bills Payable	12,000	Bank	13,500
Outstanding Salary	7,500	Capital Withdrawn: Kumar	32,400
	3,56,400		3,56,400

The following information is given to you:

- (i) Realization expenses amounted to ₹18,000 out of which ₹3,000 was borne by Amit.
- (ii) A creditor agreed to takeover furniture of book value ₹12,000 at ₹10,800. The rest of the creditors were paid off at a discount of 6.25%.
- (iii) The other assets realized as follows:
 - Furniture - Remaining taken over by Kumar at 90% of book value
 - Stock - Realized 120% of book value
 - Book Debts - ₹12,000 of debts proved bad, remaining were fully realized
 - Land & Building - Realized ₹1,65,000
 - Investments - Taken over by Amit at 15% discount
- (iv) For half of his loan, D accepted Plant & Machinery and ₹7,500 cash. The remaining amount was paid at a discount of 10%.
- (v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

(Hint: Profit on Realization = ₹23,160; Final Payment – Amit = ₹79,314; Sumit = ₹89,064; Amt. brought by Kumar = ₹12,618; Total of Bank A/c = ₹2,82,318)

(Study Material)

CHAPTER 26: INTRODUCTION TO COMPANY ACCOUNTS

Meaning

- 'Company' is termed as company which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws (like Companies Act, 1956).
- It is an organisation consisting of individuals, called shareholders by virtue of holding the shares of a company, who are authorised by law to elect a board of directors and, through it, to act as a separate legal entity as regards its activities. Generally, the capital of the company consists of transferable shares, and members have limited liabilities.
- Shareholding denotes ownership in the company. In other words, shareholders are the owners of the company, who are entitled to take various decisions by passing resolution, in accordance with the provisions of Companies Act, 2013.

Salient Features of a Company

- **Incorporated Association:** It is incorporated under the Companies Act, and thus comes into existence through the operation of law.
- **Separate Legal Entity:** It is not affected by changes in its membership. Therefore, a company can contract, sue and be sued in its incorporated name and capacity.
- **Perpetual Existence:** It continues to be in existence despite the death, insolvency or change of members.
- **Common Seal:** Company is not a natural person; therefore, it cannot sign the documents in the manner as a natural person would do. In order to enable the company to sign its documents, it is provided with a legal tool called 'Common Seal'.
- **Limited Liability:** The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
- **Transferability of Shares:** The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
- **Maintenance of Books:** A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
- **Periodic Audit:** As per Companies Act, 2013, periodic audit of financial statements of a company can only be done by a Chartered Accountant in practice, appointed by the shareholders on the recommendation of Board of Directors.

Types of Companies

➤ **Government Company**

According to Section 2(45) of the Companies Act, 2013, "Government company" means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

➤ **Foreign Company**

According to Section 2 (42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which –

- Has a place of business in India whether by itself or through an agent physically or through electronic mode; and
- Conducts any business activity in India in any other manner.

➤ **Private Company**

Section 2(68) of the Companies Act, 2013 defines 'Private company' as a company which by its articles,

- Restrict the right to transfer its shares;
- Except in case of One Person Company limits the number of its members to **200**
Note: where two or more persons hold one or more shares in a company jointly, they shall be treated as a single member.
- Prohibits any invitation to the public to subscribe for any securities of the company.
Note: Shares of a Private Company are not listed on Stock Exchange.

➤ **Public Company**

- Section 2(71) of the Companies Act, 2013 defines Public Company as a company which— is not a private company.
- A private company which is a subsidiary of public company shall be treated as a public company.
- A public company may be **listed** or **unlisted**.
- Companies Act 2013 does not prescribe any minimum Paid-up share capital for private or public company.

➤ **One Person Company**

Section 2 (62) of the Companies Act, 2013 defines "One Person Company" as a company which has only one person as a member.

➤ **Small Company**

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, **other than a public company**

- **paid-up share capital** of which **does not exceed fifty lakh rupees** or **such higher amount** as may be prescribed which shall **not be more than five crore rupees**; or
- **turnover** of which as per its last profit and loss account **does not exceed two crore rupees** or **such higher amount** as may be prescribed which shall **not be more than twenty crore rupees**.

Note: The status of a company as a Small Company may change from year to year.

➤ **Listed Company**

As per Section 2 (52) of the Companies Act, 2013, "listed company" means a company which has **any of its securities listed on any recognised stock exchange**.

The company, whose shares are not listed on any recognised stock exchange, is called "Unlisted Company". An unlisted company can be a public company or a private company.

➤ **Unlimited Company**

Section 2 (92) of the Companies Act, 2013 defines "Unlimited company" means a company not having any limit on the liability of its members.

➤ **Company Limited by Guarantee**

As per Section 2(21) of the Companies Act, 2013, "company limited by guarantee" means 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.

➤ **Company Limited by Shares**

As per Section 2(22) of the Companies Act, 2013, "Company limited by shares" means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

➤ **Holding Company**

According to Section 2(46) of the Companies Act, 2013, "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.

➤ **Subsidiary Company**

Section 2(87) of the Companies Act, 2013 defines "subsidiary company" as a company in which the holding company:

- Controls the composition of the Board of Directors; or

- Exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

A company shall be deemed to be a subsidiary company of the holding company even if there is indirect control through another subsidiary company.

The control over the composition of a subsidiary company's Board of Directors means exercise of some power to appoint or remove all or a majority of the directors of the subsidiary company.

Maintenance of Books of Accounts

- As per Section 128 of the Companies Act, 2013, every company shall prepare and keep at its **registered office**, books of account and other relevant books and papers and financial statement for every financial year which gives a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches.
- Such books shall be kept on **accrual basis** and according to the **double entry system of accounting**:
- The company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

Preparation of Financial Statements

- Financial Statements as per Section 2(40) of the Companies Act, 2013, includes -
 - A balance sheet as at the end of the financial year;
 - A profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
 - Cash flow statement for the financial year;
 - A statement of changes in equity, if applicable; and
 - any explanatory note annexed to, or forming part of, any of the aforesaid document

Note: the financial statements, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

- Financial Statements shall give a true and fair view of the state of affairs of the company as at the end of the financial year.
- Form of financial statements –
 - In case of class of company, for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company (like Banking Company, Insurance Company, Electricity Company) – such prescribed format.
 - In case of all other companies - Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III.

Types of Shares

(1) Preference Shares

Preference shareholders have following preferential rights over Equity shareholders:

- Payment of dividend
- Repayment of capital in the event of winding up of company

Further, Preference shareholders generally do not have any voting rights.

(2) Equity Shares

Equity shares do not carry any preferential rights in payment of dividend or repayment of capital. These shares carry voting rights. The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholders.

Types of Preference Shares

- **Cumulative Preference Shares:** A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate. Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose.
- **Non-cumulative Preference Shares:** A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires.
- **Participating Preference Shares:** Apart from a right to a fixed dividend, this category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate. Similarly, in the event of winding up of the company, this type of share carries the right to receive a pre-determined proportion of surplus as well once the equity shareholders have been paid off.
- **Non-participating Preference Shares:** 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.
- **Redeemable Preference Shares:** These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier, at company's discretion.
- **Non-redeemable Preference Shares:** The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-redeemable Preference Shares. According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue.

- **Convertible Preference Shares:** These shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.
- **Non-convertible Preference Shares:** These shares do not carry any option or term of conversion into equity shares.

Note: Unless mentioned otherwise Preference Shares are Non-Cumulative, Non Participating, Non-Convertible and Redeemable in nature.

Types of Debentures

- **On the basis of Security:**

- (1) **Secured Debentures:** These debentures are secured by a charge upon some or all assets of the company. There are two types of charges: (i) Fixed charge; and (ii) Floating charge. A fixed charge is a mortgage on specific assets. These assets cannot be sold without the consent of the debenture holders. The sale proceeds of these assets are utilized first for repaying debenture holders. A floating charge generally covers all the assets of the company including future one.

- (2) **Unsecured or "Naked" Debentures:** These debentures are not secured by any charge upon any assets, and hence are riskier from the point of view of investors.

- **On the basis of Convertibility:**

- (1) **Convertible Debentures:** These are debentures which will be converted into equity shares (either at par or premium or discount) after a certain period of time from the date of its issue. Such conversion may be partial or full.

- (2) **Non-Convertible Debentures:** These are debentures which cannot be converted into shares in future.

- **On the basis of Permanence:**

- (1) **Redeemable Debentures:** These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.

- (2) **Irredeemable Debentures:** These debentures are not repayable during the life time of the company. These are also called perpetual debentures. These are repaid only at the time of liquidation.

- **On the basis of Negotiability:**

- (1) **Registered Debentures:** These debentures are payable to a registered holder whose name, address and particulars of holding is recorded in the Register of Debenture

holders, and hence are not easily transferable (a transfer deed is required as per Companies Act, 2013, for transfer of such debentures).

(2) Bearer Debentures: These debentures are transferable by delivery. These are negotiable instruments payable to the bearer. Hence, no transfer deed is required for their transfer.

➤ **On the basis of Priority:**

(1) First Mortgage Debentures: These debentures are payable first out of the property charged.

(2) Second Mortgage Debentures: These debentures are payable after satisfying the first mortgage debentures.

PART I OF SCHEDULE III – FORMAT OF BALANCE SHEET

Name of the Company

Balance Sheet as at

(₹ in)

S No.	Particulars	Note No.	Figures as at end of the current reporting period	Figures as at end of the previous reporting period
	EQUITY AND LIABILITIES			
1.	Shareholder's funds			
	a. Share Capital (A)		XXX	XXX
	b. Reserves & Surplus (B)		XXX	XXX
	c. Money received against share warrants		XXX	XXX
2.	Share application money pending allotment		XXX	XXX
3.	Non-current Liabilities			
	a. Long-term borrowings (C)		XXX	XXX
	b. Deferred tax liabilities (Net)		XXX	XXX
	c. Other long-term liabilities		XXX	XXX
	d. Long-term provisions (D)		XXX	XXX
4.	Current Liabilities			
	a. Short-term borrowings (E)		XXX	XXX
	b. Trade Payables		XXX	XXX
	c. Other current liabilities (F)		XXX	XXX
	d. Short-term provisions		XXX	XXX
	Total		XXX	XXX
	ASSETS			
1.	Non-current assets			
	a. Property, Plant & Equipment			
	i. Tangible assets (G)		XXX	XXX
	ii. Intangible assets (H)		XXX	XXX
	iii. Capital Work-in-progress		XXX	XXX
	iv. Intangible assets under development		XXX	XXX
	b. Non-current investments (I)		XXX	XXX
	c. Deferred tax assets (net)		XXX	XXX
	d. Long-term loans & advances (J)		XXX	XXX
	e. Other non-current assets		XXX	XXX
2.	Current Assets			
	a. Current investments (K)		XXX	XXX
	b. Inventories (L)		XXX	XXX
	c. Cash and cash equivalents (M)		XXX	XXX
	d. Short-term loans and advances		XXX	XXX
	e. Other current assets		XXX	XXX
	Total		XXX	XXX

Selective items of balance sheet are explained as follows:

A. SHARE CAPITAL

For each class of share capital following points is to be kept in mind:

- The number and amount of shares authorised.
- The number of shares which are issued, subscribed and fully paid and which are issued, subscribed but not fully paid.
- The par value per share.
- Shares outstanding at the beginning and at the end of the reporting period should be reconciled.
- Calls unpaid.
- Forfeited shares.

B. RESERVES AND SURPLUS

Reserves and surplus can be distributed among the following sub-heads:

- Capital reserves
- Capital redemption reserves
- Securities Premium
- Debenture Redemption reserve
- Revaluation reserve
- Surplus; the balance as per profit and loss statement
- Other reserves (specify the nature and purpose)

C. LONG TERM BORROWINGS

Long term borrowings can be classified under the following sub-heads:

- Bonds/Debentures
- Term loans
- Deferred payment liabilities
- Deposits
- Long term maturities of finance lease obligations
- Loans and advances from related parties
- Other loans and advances (specify nature)

D. LONG TERM PROVISIONS

This can be classified as follows:

- Employee benefits provision like gratuity, provident fund etc.
- Other provisions (specify the nature)

E. SHORT TERM BORROWINGS

Short term borrowings can be classified among the following sub-heads:

- Loans repayable on demand
- Loans and advances from related parties
- Deposits
- Other loans and advances (specify the nature)

F. OTHER CURRENT LIABILITIES

Some of the other current liabilities can be grouped as under:

- Interest accrued but not/and due on borrowings
- Income received in advance
- Unpaid dividends

- Application money received for allotment of securities and due for refund and interest accrued thereon
- Other current liabilities (specify the nature)

G. TANGIBLE ASSETS

Tangible assets can be classified as follows:

- Land
- Buildings
- Plant and Equipments
- Furniture and Fixtures
- Vehicles
- Office equipments
- Others (specify the nature)

Note: A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

H. INTANGIBLE ASSETS

Intangible assets can be classified as follows:

- Goodwill
- Brands/trademarks
- Computer software
- Mining rights
- Publishing titles
- Copyrights, patents and other intellectual property rights, services and operating rights.
- Licence and franchise
- Recipes, models, designs, formulae and prototypes
- Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

I. NON-CURRENT INVESTMENTS

Investments can be classified as under:

- Investments in property
- Investments in equity instruments
- Investments in preference shares
- Investments in governments or trust securities
- Investments in debentures or bonds
- Investments in mutual funds
- Investments in partnership firms
- Other non-current investments (specify the nature)

J. LONG TERM LOANS AND ADVANCES

It can be classified under the following sub-groups:

- Capital advances
- Security deposits
- Loans and advances to related parties
- Other loans and advances (specify nature)

The above shall also be sub-classified as follows:

- Secured, considered goods
- Unsecured, considered goods
- Doubtful

K. CURRENT INVESTMENTS

It can be classified as follows:

- Investments in equity instruments
- Investments in preference shares
- Investments in government or trust securities
- Investments in bonds or debentures
- Investments in mutual funds
- Investments in partnership firms
- Other investments (specify the nature)

L. INVENTORIES

Inventories can be classified as:

- Raw materials
- Work-in-progress
- Stores and spares
- Finished goods
- Loose tools
- Stock in trade
- Goods in transit
- Others (specify the nature)

M. CASH AND CASH EQUIVALENTS

The following head can be classified as follows:

- Balances with banks
- Cheques, drafts in hand
- Cash in hand
- Others (specify the nature)

PART II OF SCHEDULE III – FORMAT OF STATEMENT OF PROFIT AND LOSS

Name of the Company

Profit & loss statement for the year ended

(₹ in)

S No.	Particulars	Note No.	Figures as at end of the current reporting period	Figures as at end of the previous reporting period
I.	Revenue from operations		XXX	XXX
II.	Other income		XXX	XXX
III.	Total Revenue (I+II)		XXX	XXX
IV.	Expenses:		XXX	XXX
	Cost of materials consumed		XXX	XXX
	Purchase of Stock-in-trade		XXX	XXX
	Changes in inventories of finished goods, Work in progress and Stock-in-trade		XXX	XXX
	Employee benefit expense		XXX	XXX
	Finance costs		XXX	XXX
	Depreciation and amortisation expense		XXX	XXX
	Other expenses		XXX	XXX
	Total expenses		XXX	XXX
V.	Profit before exceptional and extraordinary items and tax (III-IV)		XXX	XXX
VI.	Exceptional items		XXX	XXX
VII.	Profit before extraordinary items and tax (V-VI)		XXX	XXX
VIII.	Extraordinary items		XXX	XXX
IX.	Profit before tax (VII – VIII)			
X.	Tax expense:			
	(1) Current tax		XXX	XXX
	(2) Deferred tax		XXX	XXX
XI.	Profit (Loss) after tax for the period from continuing operations (IX-X)		XXX	XXX
XII.	Profit (Loss) from discontinuing operations		XXX	XXX
XIII.	Tax expense of discontinuing operations		XXX	XXX
XIV.	Profit (Loss) after tax from discontinuing operations		XXX	XXX
XV.	Profit (Loss) for the period (XI+XIV)		XXX	XXX
XVI.	Earnings per equity share:			
	(1) Basic		XXX	XXX
	(2) Diluted		XXX	XXX

CHAPTER 27: ISSUE, FORFEITURE & RE-ISSUE OF SHARES

Q.1.

A company had an authorised capital of ₹10,00,000 divided into 1,00,000 equity shares of ₹10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3 -2022, it has demanded or called ₹9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only ₹7 per share.

Prepare a balance sheet assuming there are no other details.

(Hint: Balance Sheet Total = ₹5,30,000)

(Study Material)

Q.2.

A company invited applications for 10,000 equity shares of ₹50 each payable on application ₹15, on Allotment ₹20, on first and final call ₹15. Applications are received for 10,000 shares and all the applicants are allotted the number of shares they have applied for and instalment money was duly received by the company. Show Journal entries in the books of the company.

(Study Material)

Q.3.

On 1st April, 2021, A Ltd. issued 43,000 shares of ₹100 each payable as follows:

₹20 on application;

₹30 on allotment;

₹25 on 1st October, 2021; and

₹25 on 1st February, 2022.

By 20th May, 40,000 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. Journalise the transactions when accounts were closed on 31st March, 2022.

(Study Material)

Q.4.

Pant Ltd. invited applications for 50,000 equity shares at ₹50 each, which are payable as on application ₹20, on allotment ₹10 and on first and final call ₹20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

(Hint: Amt. to be refunded = ₹2,00,000; Calls in Arrears = ₹50,000)

(Study Material)

Q.5.

The Delhi Artware Ltd. issued 50,000 equity shares of ₹100 each and 1,00,000 preference shares of ₹100 each. The Share Capital was to be collected as under:

	Equity Shares	Preference Shares
	₹	₹
On Application	25	20

On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

(Hint: Closing bal. of cash book = ₹1,44,40,000)

(Study Material)

Q.6.

On 1st October, 2022 Pioneer Equipment Limited received applications for 2,50,000 Equity Shares of ₹100 each to be issued at a premium of 25 per cent payable as :

On Application	₹25
On Allotment	₹75 (including premium)
Balance Amount on Shares	As and when required

The shares were allotted by the Company on October 20, 2022 and the allotment money was duly received on October 31, 2022.

Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

(Study Material)

Q.7.

JHP Limited is a company with an authorised share capital of ₹10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2021. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

- ₹2 per share payable on application, to be received by 1st July, 2021;
- Allotment to be made on 10th July, 2021 and a further ₹5 per share (including the premium) to be payable;
- The final call for the balance to be made, and the money received by 30th April, 2022.

Applications were received for 3,55,000 shares and were dealt with as follows:

- Applicants for 5,000 shares received allotment in full;
- Applicants for 30,000 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;
- Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- 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 JHP Limited.

(Hint: Amt. to be adjusted against Allotment money = ₹4,30,000; Refund = ₹80,000)

(Study Material)

Q.8.

Shreyas Ltd. did not receive the first call on 10,000 equity shares @ ₹3 per share which was due on 1.7.2021. This amount was received on 1.4.2022.

Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2021 and 1.4.2022.

(Study Material)

Q.9.

Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; ₹2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 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 1,000 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. Nair. Give journal entries to record these transactions.

(Hint: Interest on Calls in Advance = ₹750; Interest on Calls in Arrears = ₹41.67)

(Study Material)

Q.10.

A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share and allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

(Hint: Share Forfeiture A/c = ₹1,80,000)

(Study Material)

Q.11.

X Ltd forfeited 20,000 equity shares of ₹10 each, ₹8 called-up, for non-payment of first call money @ ₹2 each. Application money @ ₹2 per share and allotment money @ ₹4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

(Hint: Share Forfeiture A/c = ₹1,20,000)

(Study Material)

Q.12.

X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium); on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

(Hint: Share Forfeiture A/c = ₹1,00,000)

(Study Material)

Q.13.

Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ ₹2 per share but has been allotted only 600 shares. The shares have a face value of ₹10 and a premium of ₹2 per share, which are payable as: on Allotment- ₹5 (including premium) and on final call ₹5. Mr.

Shami doesn't pay allotment money and final call and his shares are forfeited. Pass journal entry on forfeiture.

(Hint: Share Forfeiture A/c = ₹2,000; Amt. not received on allotment – for premium = ₹1,200; for capital = ₹1,000) (Study Material)

Q.14.

Mr. Long who was the holder of 2,000 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 1500 of such shares to Mr. Short at ₹65 per share paid-up as ₹75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

(Hint: Share Forfeiture A/c = ₹50,000; Amt. to be transferred to Capital Reserve = ₹22,500) (Study Material)

Q.15.

Beautiful Co. Ltd issued 30,000 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 the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of ₹2 per share.

Pass the necessary entries in the Journal of the company to record the forfeiture and re-issue of the share. Also prepare the Balance Sheet of the company.

(Hint: Share Forfeiture A/c = ₹7,500; Amt. to be transferred to Capital Reserve = ₹3,500; Paid up Share Capital = ₹2,99,000; Securities Premium = ₹59,000)

(Study Material)

Q.16.

A holds 2,000 shares of ₹10 each on which he has paid ₹2 as application money. B holds 4,000 shares of ₹10 each on which he has paid ₹2 per share as application money and ₹3 per share as allotment money. C holds 3,000 shares of ₹10 each and has paid ₹2 on application, ₹3 on allotment and ₹3 for the first call. They all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for ₹12 per share fully paid-up.

Journalise the transactions relating to the forfeiture and re-issue.

(Hint: Amt. to be transferred to Capital Reserve = ₹48,000)

(Study Material)

Q.17.

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹10 each. The company purchased land and buildings from Y Co. Ltd for ₹4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

(Hint: Balance Sheet Total = ₹9,00,000)

(Study Material)

Q.18.

X Ltd. invited applications for 10 lakhs shares of ₹100 each payable as follows:

	₹
On Application	20
On Allotment (on 1st May, 2022)	30
On First Call (on 1st Oct., 2022)	30
On Final Call (on 1st Feb., 2023)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2023.

(Hint: Interest on Calls in Advance = ₹0.66 lakhs)

(Study Material)

Q.19.

A limited Company, with an authorized capital of ₹20,00,000 divided into shares of ₹100 each, issued for subscription 10,000 shares payable at ₹25 per share on application, ₹30 per share on allotment, ₹20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2022 when application money on 10,000 shares was duly received and allotment was made on March 1, 2022. All amounts due were received within one month of the date they were called.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares.

Give journal entries in the books of the Company to record these share capital transactions.

(Hint: Calls in Arrears = ₹20,000; Calls in Advance = ₹12,500)

(Study Material)

Q.20.

B Ltd. issued 20,000 equity shares of ₹100 each at a premium of ₹20 per share payable as follows: on application ₹50; on allotment ₹50 (including premium); on final call ₹20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

(Hint: Share Forfeiture A/c = ₹7,500)

(Study Material)

Q.21.

A Ltd. forfeits 100 shares of Rs.10 each fully called upon. The shareholder failed to pay the first call money of ₹4 per share and the second and final Call Money of ₹4 per share. Give journal entry to show the effect of this transaction.

(Hint: Share Forfeiture = ₹200)

(Study Material)

Q.22.

Pihu Limited issued at par 2,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; ₹2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 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 2,000 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. Pal.

You are required to prepare journal entries to record these transactions.

(Hint: Interest on Calls in Advance = ₹1,500; Interest on Calls in Arrears = ₹83.34)

(RTP May 18)

Q.23.

Mr. Hello who was the holder of 4,000 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 3,000 of such shares to Mr. X 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.

(Hint: Share Forfeiture A/c = ₹1,00,000; Amt. to be transferred to Capital Reserve = ₹45,000)

(RTP May 18)

Q.24.

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 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, 2018.

(RTP Nov 18)

Q.25.

Mr. P who was the holder of 2,500 preference shares of ₹100 each, on which ₹70 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 2,000 of such shares to Mr. Q at ₹60 per share paid-up as ₹70 per share.

You are required to prepare the Journal Entries to record the above forfeiture and re-issue in the books of the company.

(Hint: Share Forfeiture A/c = ₹75,000; Amt. to be transferred to Capital Reserve = ₹40,000)

(RTP Nov 18)

Q.26.

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.

(Hint: Calls in Arrears = ₹2,000; Calls in Advance = ₹1,250)

(RTP May 19)

Q.27.

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, 2017. 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 1 July, 2017;
- (ii) Allotment to be made on 10th July, 2017 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, 2018.

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.

(Hint: Excess application money to be adjusted against allotment = ₹4,00,000; Amt to be refunded = ₹1,80,000)

(May 18 – 10 marks)

Q.28.

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.

(Hint: (i) Share Forfeiture A/c = ₹900; Discount on Re-issue of shares = ₹600; Amt to be transferred to Capital Reserve = ₹300; (ii) Share Forfeiture A/c = ₹1,000; Discount on Re-issue of shares = ₹600; Amt to be transferred to Capital Reserve = ₹150; Share Forfeiture A/c = ₹200; Discount on Re-issue of shares = ₹160; Amt to be transferred to Capital Reserve = ₹80)

(Nov 18 – 10 marks)

Q.29.

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.

(Hint: Share Forfeiture A/c = ₹24,000; Discount on Re-issue of shares = ₹10,000; Amt. to be transferred to Capital Reserve = ₹10,000)

(May 19 – 10 marks)

Q.30.

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 full received except from X, holding 1,000 shares who failed to pay the allotment and call money and Y, holding 2,000 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.

(Hint: Profit on re-issue of forfeited shares to be transferred to Capital Reserve = ₹7,000; Balance Sheet Total = ₹6,03,000)

(Nov 19 – 15 Marks)

Q.31.

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 were 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.

(Hint: Share Forfeiture A/c = ₹1,500; Discount on issue of forfeited shares = ₹600; Profit on re-issue to be transferred to Capital Reserve = ₹900)

(Nov 20 – 10 Marks)

Q.32.

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.

(Hint: Excess Money to be adjusted against allotment = ₹5,50,000; Amount to be refunded = ₹3,00,000)

(Jan 21 – 15 Marks)

Q.33.

Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ₹10 each. The amount was payable as follows:

- | | | |
|-------|--------------------------|--------------|
| (i) | On Application | ₹1 per share |
| (ii) | On Allotment | ₹2 per share |
| (iii) | On First call | ₹3 per share |
| (iv) | On Second and final Call | ₹4 per share |

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹9 per share fully paid-up.

Pass necessary Journal entries in the books of Fashion Garments Ltd.

(Hint: Amt. to be transferred to Capital Reserve = ₹550)

(Dec 21 – 15 Marks)

Q.34.

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.

(Hint: Amt. to be transferred to Capital Reserve = ₹3,375)

(July 21 – 15 Marks)

Q.35.

BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹10 each at a premium of ₹2 per share payable as follows:

On Application - ₹3 per share
On Allotment - ₹5 per share (including premium) On First and
Final Call - ₹4 per share

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	No. of shares Applied	No. of shares Allotted
I	1,60,000	80,000
II	1,20,000	40,000

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of BP Ltd. Open call in arrears account whenever required.

(Hint: Amt. adjusted against allotment = ₹4,40,000; Refund = ₹2,80,000; Amt. to be transferred to Capital Reserve = ₹2,040)

(June 23 – 15 Marks)

Q.36.

A Limited issued 20,000 Equity shares of ₹10 each at a premium of 10%, payable ₹2 on application; ₹4 on allotment (including premium); ₹2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c.

Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).

(Hint: Interest on Calls in Advance = ₹240; Interest on Calls in Arrears = ₹15)

(May 22 – 15 Marks)

Q.37.

PQR Limited issued 2,00,000 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 Mr. J, holding 5,000 shares who failed to pay the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹1 per share.

Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company.

(Hint: Amt. credited to Share Forfeiture A/c = ₹75,000; Amt. to be transferred to Capital Reserve = ₹35,000; Balance Sheet Total = ₹24,05,000)

(Nov 22 – 15 Marks)

Q.38.

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.

(Hint: Amt. credited to Forfeited Share A/c = ₹2,40,000; Amt. transferred to Capital Reserve = ₹1,00,000)

(RTP Nov 21)

Q.39.

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. (Hint: Amt. transferred to Capital Reserve = ₹800)

(RTP May 22)

Q.40.

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)

Q.41.

Give necessary journal entries for the forfeiture and re-issue of shares:

- (i) Avtar Ltd. forfeited 900 shares of ₹10 each fully called up, held by Varun 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 Nitesh 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.

(Hint: Amt. to be transferred to Capital Reserve: (i) ₹900; (ii) ₹150)

(RTP May 23)

Q.42.

Ashish applies for 2,000 shares of ₹10 each at a premium of ₹2.50 per share. He was allotted 1,000 shares. After having paid ₹3 per share on application, he did not pay the allotment money of ₹4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹2 per share, his share were forfeited. These share were reissued at ₹8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Ashish, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

(Hint: Amt. credited to Forfeited Shares = ₹5,000; Amt. to be transferred to Capital Reserve = ₹3,000)
(ICAI MTP – Apr 23 – 10 Marks)

Q.43.

Deepak Chemicals Ltd. invited applications for 10 lakhs shares of ₹100 each payable as follows:

	₹
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.

(Hint: Interest on Calls in Advance = ₹0.63 lakhs)

(ICAI MTP – Mar 21 – 10 Marks)

Q.44.

Give necessary journal entries for the forfeiture and re-issue of shares:

- (i) Akhil Pvt. Ltd. forfeited 9,000 shares of ₹10 each fully called up, held by Aditya 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 Katen for ₹8 per share.
- (ii) Mr. C, who was the holder of 10,000 preference shares of ₹100 each, on which ₹70 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 8,000 of such shares to Mr. D at ₹60 per share paid-up as ₹70 per share.

(Hint: Amt. to be transferred to Capital Reserve: (i) ₹9,000; (ii) ₹1,60,000)

(ICAI MTP – Mar 22 – 10 Marks)

Q.45.

Hament applies for 2,000 shares of ₹10 each at a premium of ₹2.50 per share. He was allotted 1,000 shares. After having paid ₹3 per share on application, he did not pay the allotment money of ₹4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹2 per share, his shares were forfeited. These shares were reissued at ₹8 per share, his shares were forfeited.

At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

(Hint: Amt. credited to Forfeited Share = ₹5,000; Amt. to be transferred to Capital Reserve = ₹3,000)

(ICAI MTP – Nov 21 – 10 Marks)

CHAPTER 28: ISSUE OF DEBENTURES

Q.1.

Amol Ltd. issued 40,00,000, 9% debentures of ₹50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

(Study Material)

Q.2.

Atul Ltd. issued 1,00,00,000, 8% debenture of ₹100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:

₹30 on application

₹60 on allotment

Record necessary journal entries regarding issue of debenture.

(Study Material)

Q.3.

Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money.

(Study Material)

Q.4.

Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹100 payable as follows : On application ₹30

On allotment ₹70

The debentures were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

(Hint: Debenture Redemption Premium A/c = ₹40 lakhs)

(Study Material)

Q.5.

Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: ₹50 on application and ₹44 on allotment. Record necessary journal entries for issue of debentures.

(Hint: Loss on Issue of Debenture = ₹1,650 lakhs; Premium on Redemption = ₹750 lakhs)

(Study Material)

Q.6.

Simmons Ltd. issued 1,00,000, 12% Debentures of ₹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 necessary Journal Entries (including cash transactions) in the books of the company.

(Study Material)

Q.7.

X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2022. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2022. Excess monies were refunded on the same date. Pass necessary Journal Entries. Also show necessary ledger accounts.

(Hint: Refund = ₹18,00,000; Discount on Issue of Debenture = ₹10,00,000)

(Study Material)

Q.8.

X Ltd. obtains a loan from IDBI of ₹1,00,00,000, giving as collateral security of ₹1,50,00,000 (of ₹10 each), 14%, First Mortgage Debentures. Show its accounting treatment using both the methods.

(Study Material)

Q.9.

X Company Limited issued 10,000 14% Debentures of the nominal value of ₹50,00,000 as follows:

- (a) To sundry persons for cash at 90% of nominal value of ₹25,00,000.
- (b) To a vendor for purchase of fixed assets worth ₹10,00,000 – ₹12,50,000 nominal value.
- (c) To the banker as collateral security for a loan of ₹10,00,000 – ₹12,50,000 nominal value.

Pass necessary Journal Entries.

(Study Material)

Q.10.

HDC Ltd issues 1,00,000, 12% Debentures of ₹100 each at ₹94 on 1st January, 2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

(Hint: Discount to be written off every year = ₹1,20,000)

(Study Material)

Q.11.

HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written-off from 2022 to 2026.

(Hint: Discount to be written off – 2022 = ₹40,000; 2023 = ₹32,000; 2024 = ₹24,000; 2025 = ₹16,000; 2026 = ₹8,000)

(Study Material)

Q.12.

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2022. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2022.

(Hint: Loss on Issue of Debenture = ₹1,50,000; Total interest for 2022 = ₹1,20,000; Loss to be written off in 2022 = ₹30,000; TDS on Interest for 2022 = ₹12,000)

(Study Material)

Q.13.

Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹100 each at premium of 5% payable fully on application and redeemable at premium of ₹10

Pass necessary journal entries at the time of issue.

(Hint: Debenture Redemption Premium = ₹10,00,000; Securities Premium = ₹5,00,000)

(Study Material)

Q.14.

Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

(Study Material)

Q.15.

Kapil Ltd. issued 50,000, 12% Debentures of ₹100 each at a premium of 10% payable in full on application by 1st March, 2022. The issue was fully subscribed and debentures were allotted on 9th March, 2022.

Pass necessary Journal Entries (including cash transactions).

(Study Material)

Q.16.

On 1st April 2022 Sheru Ltd. issued 1,00,000 12% debentures of ₹100 each at a discount of 5%, redeemable on 31 March 2027. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:

- i) Journal Entries at the time of issue of debentures.
- ii) Discount on issue of Debenture Account
- iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

(Hint: Amt. to be refunded = ₹19,000; Discount to be written off every year = ₹1,00,000; Interest p.a. = ₹12,00,000; TDS on Interest p.a. = ₹1,20,000)

(Study Material)

Q.17.

A Limited issued 14% Debentures of the nominal value of ₹10 each as follows:

- (a) To sundry persons 1,00,000 Debentures for cash at 10% discount.
- (b) To a vendor for purchase of inventory worth ₹1,00,000, 8,000 Debentures at 25% premium.
- (c) To the banker as collateral security for a loan of ₹1,00,000 – ₹1,50,000 nominal value.

Pass necessary Journal Entries.

(Study Material)

Q.18.

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 nominal value.

Pass necessary Journal Entries.

(Hint: (a) Discount on Issue of Debentures = ₹5,00,000; (b) Discount on Issue of Debentures = ₹5,00,000)

(RTP May 18)

Q.19.

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.

(Hint: Amt. to be refunded = ₹35,00,000)

(RTP Nov 20)

Q.20.

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.

(Hint: No. of Debentures to be issued – (i) 1,980; (ii) 2,200; (iii) 1,800)

(RTP May 19)

Q.21.

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.

(Hint: Discount on Issue of Debenture = ₹5,00,00,000)

(RTP Nov 19)

Q.22.

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.

(Hint: Discount to be written off every year = ₹12,000)

(Nov 18 – 5 marks)

Q.23.

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.

(Hint: Loss on Issue of Debenture = ₹3,00,000; Deb Redemption Premium = ₹1,00,000; Interest for 2018 = ₹2,00,000; TDS on Interest for 2018 = ₹20,000; Loss to be written off every year = ₹60,000)

(May 19 – 5 marks)

Q.24.

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹60,00,000 as follows:

- (i) To a vendor for purchase of fixed assets worth ₹13,00,000 - ₹15,00,000 nominal value.
 - (ii) To sundry persons for cash at 90% of nominal value of ₹30,00,000.
 - (iii) To the banker as collateral security for a loan of ₹14,00,000 - ₹15,00,000 nominal value,
- You are required to pass necessary Journal Entries.

(Hint: Discount on Issue of Debentures A/c – (i) ₹2,00,000; (ii) ₹3,00,000)

(Nov 20 – 5 Marks)

Q.25.

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)

Q.26.

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.

(Hint: No. of Debentures to be issued – (i) 9,900; (ii) 12,375; (iii) 8,250)

(RTP Nov 21)

Q.27.

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.

(Hint: Goodwill = ₹50,000; No. of Debentures to be issued as Purchase Consideration = 4,000; Loss on Issue of Debentures issued for cash = ₹45,000)

(RTP May 22)

Q.28.

On 1st January 2022 Samar 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 2022.

(Hint: Interest on Debenture for 2022 = ₹2,00,000; TDS = ₹20,000; Loss on Issue to be written off in 2022 = ₹60,000)

(RTP Dec 23)

Q.29.

Sampati Ltd. issued 300 lakh 8% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: ₹50 on application and ₹44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures.

(Hint: Loss on Issue of Debenture = ₹3,300 lakhs; Premium on Redemption = ₹1,500 lakhs)

(ICAI MTP – May 22 – 5 Marks)

CHAPTER 29: BONUS ISSUE AND RIGHTS ISSUE

Q.1.

Alpha Company announced bonus issue to its shareholders in the ratio of 2:3 i.e. 2 shares for every 3 shares held. Shareholder X has 6,000 shares before announcement of bonus issue. How much shares would he have after bonus issue?

(Hint: No. of Shares after Bonus Issue = 10,000; Bonus Shares = 4,000)

(Study Material)

Q.2.

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	₹
40,000 Equity shares of ₹10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

(Hint: Bonus to Shareholders = ₹1,00,000; Reduction in Free Reserves i.e. General Reserve = ₹15,000)

(Study Material)

Q.3.

Pass Journal Entries in the following circumstances:

- A Limited company with subscribed capital of ₹5,00,000 consisting of 50,000 Equity shares of ₹10 each; called up capital ₹7.50 per share. A bonus of ₹1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- A Limited company having fully paid up capital of ₹50,00,000 consisting of Equity shares of ₹10 each, had General Reserve of ₹9,00,000. It was resolved to capitalize ₹5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹10 each, each shareholder to get one such share for every ten shares held by him in the company.

(Study Material)

Q.4.

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

	₹
Authorised capital :	
10,000 12% Preference shares of ₹10 each	1,00,000

1,00,000 Equity shares of ₹10 each	<u>10,00,000</u>
	<u>11,00,000</u>
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹10 each fully paid	80,000
90,000 Equity shares of ₹10 each, ₹8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ₹100 each	5,00,000

On 1st April, 2022 the Company has made final call @ ₹2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

(Hint: Final Call = ₹1,80,000; Bonus to Shareholders = ₹2,25,000; Balance Sheet – Share Capital = ₹12,05,000; Reserves & Surplus = ₹1,95,000; LT Borrowings = ₹5,00,000; Increase in Authorised Capital = ₹1,25,000)

(Study Material)

Q.5.

Following notes pertain to the Balance Sheet of Preet Ltd. as at 31st March, 2022

	₹
Share capital:	
Authorised capital:	
15,000 12% Preference shares of ₹10 each	1,50,000
1,50,000 Equity shares of ₹10 each	<u>15,00,000</u>
	<u>16,50,000</u>
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹10 each fully paid	1,20,000
1,35,000 Equity shares of ₹10 each, ₹8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000

Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2022, the Company has made final call @ ₹2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

(Hint: Final Call = ₹2,70,000; Bonus to Shareholders = ₹3,37,500; Increase in Authorised Capital = ₹1,87,500; Balance Sheet: Share Capital = ₹18,07,500; Reserves & Surplus = ₹2,40,000)

(Study Material)

Q.6.

A company offers new shares of ₹100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹150. Calculate the value of a right. What should be the ex-right market price of a share?

(Hint: Value of Right = ₹5 per share; Ex-Right Value = ₹145 per share)

(Study Material)

Q.7.

A Company having 70,000 shares of ₹10 each as its issued share capital and having market value of ₹21 issues rights shares in the ratio of 1:10 at an issue price of ₹10. Pass journal entry for issue of right shares.

(Hint: No. of Right Shares = 7,000)

(Study Material)

Q.8.

A company having 1,00,000 shares of ₹10 each as its issued share capital, and having a market value of ₹46, issues rights shares in the ratio of 1:10 at an issue price of ₹31. Pass journal entry for issue of right shares.

(Hint: No. of Right Shares = 10,000)

(Study Material)

Q.9.

Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2022:

Particulars	Amount
4,500 Equity Shares of ₹100 each	4,50,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

(Hint: Reduction in Free Reserve i.e. General Reserve = ₹40,000; Bonus to Shareholders = ₹1,50,000)
(Study Material)

Q.10.

The following notes pertain to Brite Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	₹ in Lakhs
(1) Share Capital Authorised:	
20 crore shares of ₹10 each	
Issued and Subscribed :	<u>20,000</u>
10 crore Equity Shares of ₹10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹10 each	2,000
Total	12,000
Called and paid up:	
10 crore Equity Shares of ₹10 each, ₹8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of ₹10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus :	
Capital Redemption Reserve	1,485
Securities Premium (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 2022, the company made the final call on equity shares @ ₹2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

(Hint: Final Call = ₹2,000 lakhs, Bonus to Shareholders = ₹4,000 lakhs; General Reserve Utilised = ₹515 lakhs; Share Capital = ₹16,000 lakhs; Reserves & Surplus = ₹798 lakhs)

(Study Material)

Q.11.

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹240 and the company is offering one share of ₹120 each. Calculate the value of a right. What should be the ex-right market price of a share?

(Hint: Value of Right = ₹40 per share; Ex-Right Value of Shares = ₹200 per share)

(Study Material)

Q.12.

Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2022.

Authorised capital:	₹
30,000 12% Preference shares of ₹10 each	3,00,000
3,00,000 Equity shares of ₹10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹10 each fully paid	2,40,000
2,70,000 Equity shares of ₹10 each, ₹8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2022, the Company has made final call @ ₹2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

(Hint: Final Call = ₹5,40,000; Bonus to Shareholders = ₹6,75,000; General Reserve Utilised = ₹3,60,000; P&L Utilised = ₹1,20,000; Authorised Capital = ₹36,75,000; Share Capital = ₹36,15,000; Reserves & Surplus i.e. P&L A/c = ₹4,80,000)

(Study Material)

Q.13.

A Ltd company having share capital of 25,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

(Hint: No. of Right Shares = 6,250)

(Study Material)

Q.14.

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹10 each	5,00,000
5,00,000 Equity shares of ₹10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹10 each fully paid	5,00,000
4,00,000 Equity shares of ₹10 each, ₹8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit and Loss Account	16,00,000

On 1st April, 2022, the Company has made final call @ ₹2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on 1st May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

(Hint: Final Call = ₹8,00,000; Bonus to Shareholders = ₹10,00,000; General Reserve Used = ₹1,60,000; P&L Used = ₹3,25,000; No. of Right Shares = 2,00,000)

(Study Material)

CHAPTER 30: REDEMPTION OF PREFERENCE SHARES

Q.1.

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

(Hint: Amt. due to preference shareholders = ₹5,00,000; No. of Equity Shares issued = 50,000)

(Study Material)

Q.2.

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹10 each at a premium of ₹2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

(Hint: Amt. due to preference shareholders = ₹10,00,000; No. of Equity Shares issued = 1,00,000)

(Study Material)

Q.3.

G India Ltd. had 9,000 10% redeemable Preference Shares of ₹10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

(Hint: Amt. due to preference shareholders = ₹90,000; No. of Equity Shares issued = 1,00,000)

(Study Material)

Q.4.

The Board of Directors of a Company decided to issue minimum number of equity shares of ₹9 to redeem ₹5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹3,00,000. Calculate the number of shares to be issued by the company to ensure that the provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹50 only.

(Hint: No. of shares to be issued = 22,223; No. of shares if to be issued in multiples of 50 = 22,250)

(Study Material)

Q.5.

X Ltd. gives you the following information as at 31st March, 2023:

(NEXT PAGE)

	Particulars	₹
1.	EQUITY AND LIABILITIES	
	Shareholders' funds	
	<i>a</i> Share capital	2,90,000
	<i>b</i> Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
1.	ASSETS	3,45,000
2.	Property, Plant and Equipment	18,500
3.	Non-current investments Current Assets	
	Cash and cash equivalents (bank)	31,000

The share capital of the company consists of ₹50 each equity shares of ₹2,25,000 and ₹100 each Preference shares of ₹65,000 (issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

- (a) to sell all the investments for ₹15,000.
- (b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹12,000.
- (c) to issue minimum equity share of ₹50 each share to raise the balance of funds required.

You are required to pass the necessary Journal Entries to record the above transactions.

(Hint: Loss on Sale of Investment = ₹3,500; Amt. due to Preference Shareholders = ₹71,500; No. of Equity Shares to be issued = 750; Amt. to be transferred to CRR = ₹27,500; Premium on Redemption of ₹6,500 to be written off from P&L A/c)

(Study Material)

Q.6.

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

Share capital: 40,000 Equity shares of ₹10 each fully paid – ₹4,00,000; 1,000 10% Redeemable preference shares of ₹100 each fully paid – ₹1,00,000.

Reserve & Surplus: Capital reserve – ₹50,000; Securities premium – ₹50,000; General reserve – ₹75,000; Profit and Loss Account – ₹35,000

On 1st January 2023, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

(Hint: Amt. due to Preference Shareholders = ₹1,00,000; CRR = ₹1,00,000)

(Study Material)

Q.7.

C Limited had 3,000, 12% Redeemable Preference Shares of ₹100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 25,000 Equity Shares of ₹10 each at par,
- (ii) 1,000 14% Debentures of ₹100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

(Hint: Amt. due to Preference Shareholders = ₹3,30,000; CRR = ₹50,000; Premium on Redemption to be written off from P&L = ₹30,000)

(Study Material)

Q.8.

The capital structure of a company consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.2021).

Undistributed reserve and surplus stood as: General Reserve ₹80,000; Profit and Loss Account ₹20,000; Investment Allowance Reserve (out of which ₹5,000, not free for distribution as dividend) ₹10,000; Securities Premium ₹2,000, Cash at bank amounted to ₹98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements.

(Hint: No. of Equity Shares to be issued = 2,500; CRR = ₹75,000; Amt. due to Preference Shareholders = ₹1,10,000; Premium on Redemption to be written off from P&L = ₹10,000)

(Study Material)

Q.9.

The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information

	₹
50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000

Bank 15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹100 each at ₹110 per share, ₹20 being payable on application, ₹35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries. (Ignore date column)

(Hint: Preference Shares Final Call = ₹15,00,000; CRR = ₹27,50,000; Amt. due to Preference Shareholders = ₹52,50,000; Premium on Redemption to be written off from General Reserve = ₹2,50,000)

(Study Material)

Q.10.

With the help of the details in Q9 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices. (Ignore date column)

(Hint: Shares Forfeited A/c = ₹1,40,000; Calls in Arrears A/c = ₹60,000; CRR = ₹25,50,000; Amt. due to Preference Shareholders = ₹50,40,000; Premium on Redemption to be written off in General Reserve = ₹2,40,000; Capital Reserve = ₹1,40,000)

(Study Material)

Q.11.

The books of B Ltd. showed the following balance on 31st December, 2023:

30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹10 each, ₹8 paid up (all shares issued on 1st April, 2022).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹80,000; General Reserve ₹1,20,000; Securities Premium Account ₹15,000 and Capital Reserve ₹21,000.

For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2024 at a premium of ₹2 per share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column)

(Hint: Amt. due to Preference Shareholders = ₹2,16,000; Premium on Redemption to be written off in P&L A/c = ₹36,000; CRR = ₹1,50,000; Bonus to Shareholders = ₹1,20,000; Partly paid-up shares will not be redeemed)

(Study Material)

CHAPTER 31: REDEMPTION OF DEBENTURES

Q.1.

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of ₹100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹9,00,000.

The Interest on debentures had been paid up to December 31, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

(Hint: Amt. to be transferred to DRR before redemption = ₹1,00,000)

(Study Material)

Q.2.

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:

- (i) 12 % Debentures ₹7,50,000
- (ii) Balance of DRR ₹25,000
- (iii) DRR Investment 1,12,500 represented by 10% ₹1,125 Secured Bonds of the Government of India of ₹100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

- (1) Debentures Account
- (2) DRR Account
- (3) DRR Investment Account
- (4) Bank Account
- (5) Debenture Holders Account.

(Hint: DRR before Redemption = ₹75,000)

(Study Material)

Q.3.

XYZ Ltd. has issued 1,000, 12% convertible debentures ₹100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹10 each at a price of ₹20 per share and balance in cash. Debenture holders amounting ₹20,000 opted to get their debentures converted into equity shares as per terms of the issue.

You are required to calculate the number of shares issued and cash paid for redemption of ₹20,000 debenture holders.

(Hint: No. of Debentures converted = 40; No. of Shares Issued = 210; Cash to be paid for redemption = ₹16,800)

(Study Material)

Q.4.

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2021 is as under:

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000
(b) Reserves and Surplus	2	1,20,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,20,000
(3) Current Liabilities		
(a) Trade payables		1,15,000
Total		5,55,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	1,15,000
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables		75,000
(c) Cash and bank balances	5	2,30,000
Total		5,55,000

Notes to Accounts

	₹
1. Share Capital	
Authorised share capital	
30,000 shares of ₹ 10 each fully paid	<u>3,00,000</u>
Issued and subscribed share capital	
20,000 shares of ₹ 10 each fully paid	<u>2,00,000</u>

2. Reserve and Surplus		
Profit & Loss Account		1,20,000
3. Long term borrowings		
12% Debentures		1,20,000
4. Property, Plant and Equipment		
Freehold property		1,15,000
5. Cash and bank balances		
Cash at bank	2,00,000	
Cash in hand	<u>30,000</u>	2,30,000

At the Annual General Meeting, it was resolved:

- To give existing shareholders the option to purchase one ₹10 share at ₹15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- To issue one bonus share for every five shares held.
- To repay the debentures at a premium of 3%. Give the necessary journal entries for these transactions.

(Hint: Bonus to Shareholders = ₹50,000; DRR Created = ₹12,000; DRR Investment made = ₹18,000; Amt. due to Debentureholders = ₹1,23,600; Premium on Redemption written off from P&L = ₹3,600)
(Study Material)

Q.5.

A company had issued 20,000, 13% debentures of ₹100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹10) at a price of ₹15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(Hint: No. of Debentures to be Converted = 3,500; No. of Shares to be issued = 24,500)

(Study Material)

Q.6.

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

- No. of partly convertible debentures issued - 2,00,000; face value and issue price- ₹100 per debenture.
- Convertible portion per debenture - 60%, date of conversion - on expiry of 6 months from the date of closing of issue.
- Date of closure of subscription lists - 1.5.2021, date of allotment - 1.6.2021, rate of interest on debenture - 15% payable from the date of allotment, value of equity share for the purpose of conversion - ₹60 (Face Value ₹10).
- No. of debentures applied for - 2,00,000.

(e) Interest payable on debentures half-yearly on 30th September and 31st March.
Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

(Hint: Debenture Redemption Investment to be purchased = ₹12,00,000; No. of Debentures Converted = 12,000; No. of Shares issued for debentures converted = 2,00,000; Interest on Debentures – 30.9.2021 = ₹10,00,000; 31.3.2022 = ₹7,50,000)

(Study Material)

Q.7.

Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2022:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of ₹10 each fully paid	4,50,000
Issued and subscribed share capital:	
30,000 equity shares of ₹10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000
Debenture Redemption Reserve	18,000
Non-current liabilities	
(a) Long term borrowings	
12% Debentures	1,80,000
Current Liabilities	
(a) Trade payables	1,72,500
Non-current assets	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment:	
DRR Investment	27,000
Current assets	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2022, it was resolved:

- (a) To give existing shareholders the option to purchase one ₹10 share at ₹15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%. Give the necessary journal entries for these transactions.

(Hint: Bonus to Shareholders = ₹75,000; Amt. due to Debentureholders = ₹1,85,400; Premium on Redemption written off P&L A/c = ₹5,400)

(Study Material)

CHAPTER 32: FINANCIAL STATEMENTS OF NPO

Q.1.

The receipts and payments for the Swaraj Club for the year ended March 31, 2022 were: Entrance fees ₹300; Membership Fees ₹3,000; Donation for Club Pavilion ₹10,000, Foodstuff sales ₹1,200; Salaries and Wages ₹1,200 Purchase of Foodstuff ₹800; Construction of Club Pavilion ₹11,000; General Expenses ₹600; Rent and Taxes ₹400; Bank Charges ₹160.

Cash in hand—April. 1st ₹200, March. 31st ₹350

Cash in Bank—April. 1st ₹400; March. 31st ₹590

You are required to prepare Receipts and Payment Account.

(Study Material)

Q.2.

During 2022, subscription received in cash is ₹42,000. It includes ₹1,600 for 2021 and ₹600 for 2023. Also ₹3,000 has still to be received for 2022.

Required

Calculate the amount to be credited to Income and Expenditure Account in respect of subscription. (Hint: Subscription to be credited to I & E A/c = ₹42,800)

(Study Material)

Q.3.

Suppose salaries paid during 2022 were ₹23,000. The following further information is available:

	₹
Salaries unpaid on 31st March, 2021	1,400
“ pre-paid on 31st March, 2021	400
“ un-paid on 31st March, 2022	1,800
“ pre-paid on 31st March, 2022	600

Required

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

(Hint: Salary to be debited to I & E A/c = ₹23,200)

(Study Material)

Q.4.

The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2022

(All the figures in thousands)

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500

Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2015	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2021 (₹)	March, 31, 2022 (₹)
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unrepresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman o/s.		300

For the year ended March. 31, 2022, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹200. Prepare the Income and Expenditure Account and the Balance Sheet for period ending 31-03-2022.

(Hint: Opening Capital Fund = ₹3,080; Opening Balance Sheet Total = ₹3,580; Surplus = ₹40; Closing Balance Sheet Total = ₹5,210)

(Study Material)

Q.5.

The Income and Expenditure Account of the Youth Club for the Year 2022 is as follows:

Expenditure	₹	Income	₹
To Salaries	4,750	By Subscription	7,500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for annual dinner	1,000
To Secretary's Honorarium	1,000	By Annual Sport meet receipts	750
To Stationery & Printing	450		
To Annual Dinner Expenses	1,500		
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	600		
	9,500		9,500

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2021	600
Subscription received in Advance on 31st December, 2021	450
Subscription received in advance on 31st December, 2022	270

Subscription outstanding on 31st December, 2022

750

Salaries Outstanding at the beginning and the end of 2022 were respectively ₹400 and ₹450. General Expenses include insurance prepaid to the extent of ₹60. Audit fee for 2022 is as yet unpaid. During 2022 audit fee for 2021 was paid amounting to ₹200.

The Club owned a freehold lease of ground valued at ₹10,000. The club had sports equipment on 1st January, 2022 valued at ₹2,600. At the end of the year, after depreciation, this equipment amounted to ₹2,700. In 2021, the Club has raised a bank loan of ₹2,000. This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹1,600.

Required

Prepare the Receipts and Payments Account for 2022 and Balance Sheet as at the end of the year. (Hint: Opening Cash Balance = ₹1,390; Opening Capital Fund = ₹11,540; Balance Sheet Total = ₹15,110)

(Study Material)

Q.6.

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, 2016:

Income & Expenditure Account for the year 2015-16

	₹		₹
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Misc. Income	400
		By Deficit	2,820
	23,600		23,600

Balance Sheet as at 31st March, 2016

Liabilities		₹	Assets		₹
Subscription in Advance (2016-17)		100	Furniture		9,000
Prize Fund:			Ground and Building		47,000
Opening Balance	25,000		Prize Fund Investment		20,000
Add: Interest	1,000		Cash in Hand		2,300
Less: Prizes	(2,000)	24,000	Subscription (outstanding)		
			(2015-16)		700
General Fund:					
Opening Balance	56,420				
Less: Deficit	(2,820)				
Add: Entrance Fee	1,300	54,900			
		79,000			79,000

The following adjustments have been made in the above accounts:

- (1) Upkeep of ground ₹600 and Printing ₹240 relating to 2014-2015 were paid in 2015-16.
 - (2) One-half of entrance fee has been capitalised by transfer to General Fund.
 - (3) Subscription outstanding in 2014-15 was ₹800 and for 2015-16 ₹700.
 - (4) Subscription received in advance in 2014-15 was ₹200 and in 2015-16 for 2016-17 ₹100.
- (Hint: Opening Bal of Receipts & Payments A/c = ₹4,660; Subscription received during the year = ₹17,320)

(Study Material)

Q.7.

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2022:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipment	1,000
		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

As at March 31		
	2021 (₹)	2022 (₹)
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipment	7,200	
Library books	5,000	

The closing values of furniture and sports equipment are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2022 was ₹5,250.

Required

From the above information you are required to prepare:

- The Club's Balance Sheet as at March 31, 2021;
- The Club's Income and Expenditure Account for the year ended March 31, 2022.
- The Club's Closing Balance Sheet as at March 31, 2022.

(Hint: Opening Capital Fund = ₹47,000; Deficit = ₹2,888; Closing Balance Sheet Total = ₹45,595)

(Study Material)

Q.8.

From the following balances and particulars of Republic College, prepare Income & Expenditure Account for the year ended March, 2022 and a Balance Sheet as on the date:

	₹	₹
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit - Students		1,50,000
Capital Fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee Received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies (opening)	3,00,000	
Purchases - Stores & Supplies	8,00,000	
Salaries - Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	

Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation:		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	1,03,85,000

Adjustments:

		₹
(1)	Materials & Supplies consumed: (From college stores)	
	Teaching	50,000
	Research	1,50,000
	Students Welfare	75,000
	Games or Sports	25,000
(2)	Tuition fee receivable from Government for backward class Scholars	80,000
(3)	Stores selling prices are fixed to give a net profit of 10% on selling price	
(4)	Depreciation is provided on straight line basis at the following rates:	
	(1) Building	5%
	(2) Plant & Equipment	10%
	(3) Furniture & Fixtures	10%
	(4) Motor Vehicle	20%

(Hint: Closing Stock of Stores = ₹1,25,000; Surplus = ₹3,19,000; Bal Sheet Total = ₹61,10,000)

(Study Material)

Q.9.

The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2022.

Receipts	₹	Payments	₹
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000

Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at:		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Soft drinks	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance: Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2021 were as follows:

	₹
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

- (i) Subscription received in advance as on 31st March, 2022 was ₹18,000.
- (ii) Outstanding subscription as on 31st March, 2022 was ₹7,000.
- (iii) Outstanding expenses are salaries ₹8,000 and electricity ₹15,000.
- (iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2022.
- (v) The cost of assets sold net as on 1.4.2021 was ₹10,000.
- (vi) Depreciation is to be provided at the rate of 10% on assets.
- (vii) A sum of ₹20,000 received in October 2021 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2022.
- (viii) Purchases made during the year amounted ₹15,00,000.
- (ix) The value of closing stock was ₹2,10,000.
- (x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2022 and the Balance Sheet as on 31st March, 2022 along with necessary workings.
(Hint: Capital Fund – Opening = ₹10,29,850, Closing = ₹10,89,600; Deficit = ₹30,250; Balance Sheet Total = ₹13,92,600)

(Study Material)

Q.10.

During the year ended 31st March, 2022, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2021	12,000
For year ending 31st March, 2022	6,15,000
For year ending 31st March, 2023	18,000
Total	6,45,000

There are 500 members and annual subscription is ₹1,500 per member.

On 31st March, 2022, a sum of ₹15,000 was still in arrears for subscriptions for the year ended 31st March, 2021.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2022. Also show how the items would appear in the Balance Sheet as on 31st March, 2021 and the Balance Sheet as on 31st March, 2022.

(Hint: Subscription to be credited to I & E A/c = ₹7,50,000 i.e. 500 members X ₹1,500 per member; Outstanding Subscription - on 31.3.2015 = ₹27,000; on 31.3.2016 = ₹1,50,000; Unearned Subscription on 31.3.2016 = ₹18,000)

(Study Material)

Q.11.

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2022 are as follows:

Opening cash balance in hand ₹8,000, subscription ₹50,000, donation ₹15,000 (raised for meeting revenue expenditure), interest on investments @ 9% p.a. ₹9,000, payments for medicine supply ₹30,000, Honorarium to doctor ₹10,000, salaries ₹28,000, sundry expenses ₹1,000, equipment purchase ₹15,000, charity show expenses ₹1,500, charity show collections ₹12,500.

Additional information:

	1.1.2022	31.12.2022
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipts and payments account and income and expenditure account for the year ended 31.12.2022 and balance sheet as on 31.12.2022.

(Hint: Closing Cash in Hand = ₹9,000; Opening Capital Fund = ₹1,80,300; Surplus = ₹10,200; Bal Sheet Total = ₹2,04,200)

(Study Material)

Q.12.

Smith Library Society showed the following position on 31st March, 2021:

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, 2022 is given below:

₹		₹	
To Balance b/d		By Electric charges	7,200
Cash at bank	25,000	By Postage and stationery	5,000
Cash in hand	<u>25,000</u> 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 expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	<u>11,300</u> 31,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2022 and a balance sheet as at 31st, March, 2022 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.

- v. Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2021 for ₹40,000.

(Hint: Deficit = ₹16,700; Balance Sheet Total = ₹8,15,800)

(Study Material)

Q.13.

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.

(Hint: Subscription to be credited to I & E A/c = ₹3,84,000; Purchase of Sports Material during the year = ₹2,55,000; Consumption of Sports Material to be shown in I & E A/c = ₹2,17,500)

(RTP Nov 18)

Q.14.

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

Receipts	₹	₹	Payments	₹
To Balance b/d		450	By Expenses (including Payment for sports material ₹2,700)	6,300
To Annual Subscription	4,590		By Loss on Sale of Furniture (cost price ₹450)	180
Add: Outstanding of last year received this year	180		By balance c/d	90,450
Less: Prepaid of last year	(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.

(Hint: Closing Cash Balance as per corrected R & P A/c = ₹90,720; Opening Capital Fund = ₹36,000; Deficit = ₹3,600; Bal Sheet Total = ₹1,22,490)

(RTP May 19))

Q.15.

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 (₹7,200 for 2018)		31,200
Cash	800		By Hospital Equipment		17,000
Bank	<u>5,200</u>	6,000	By Furniture Purchased		6,000
To Subscriptions:			By Additions to Building		50,000
For 2018	5,100		By Printing and Stationery		2,400
For 2019	24,500		By Diet expenses		15,600
For 2020	2,400		By Rent and rates (₹300 for 2020)		2,000
To Government Grant:			By Electricity and water Charges		2,400
For Building	80,000		By office expenses		2,000
For Maintenance	20,000		By Investments		20,000
Fees from Sundry Patients	4,800		By Balance c/d		
To Donations (not to be capitalised)	8,000		Cash	1,400	
To Net collections from benefit shows	6,000		Bank	<u>6,800</u>	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.	

(Hint: Opening Capital Fund = ₹49,300; Surplus = ₹16,000; Closing Bal Sheet Total = ₹2,27,700)

(RTP Nov 19)

Q.16.

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	<u>20,000</u>
For 2017	2,000	By Land	40,000
For 2018	21,000	By Interest	4,000
For 2019	<u>1,000</u>	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).

(Hint: Surplus = ₹12,900; Bal Sheet Total = ₹2,10,100)

(Nov 18 – 10 marks)

Q.17.

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	<u>1,100</u>		Cash in Hand		2,530
	28,600		Subscription (outstanding)		770
Less: Prizes given	<u>2,200</u>	26,400	(2018-2019)		
General Fund:					
Opening balance	62,062				
Less: Deficit	<u>2,387</u>				
	59,675				
Add: Entrance Fee	<u>715</u>	60,390			
		86,900			86,900

The following adjustments have been made in the above accounts:

- Upkeep of ground ₹660 and printing ₹264 relating to 2017-18 were paid in 2018-19.
- One fourth of entrance fee has been capitalized by transfer to General Fund.
- Subscription outstanding in 2017-18 was ₹880 and for 2018-19 ₹770.
- Subscription received in advance in 2017-18 was ₹220 and in 2018-19 for 2019-20 was ₹110.
- Furniture was purchased during the year.

(Hint: Opening balance of Receipts & Payments A/c = ₹16,126; Subscription received during the year in cash = ₹19,052)

(Nov 19 – 10 Marks)

Q.18.

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 Vehicles -	20%

(Hint: Surplus = ₹3,14,500; Balance Sheet Total = ₹39,22,500)

(Nov 20 – 10 Marks)

Q.19.

From the following Income and Expenditure Account and additional information of ATK 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

(Hint: Opening Balance of Receipts & Payments A/c = ₹54,400; Opening Capital Fund = ₹8,82,400; Balance Sheet Total = ₹11,98,000)

(Jan 21 – 10 Marks)

Q.20.

Dr. Deku started private practice on 1st April, 2019 with ₹2,00,000 of his own fund and ₹3,00,000 borrowed at an interest of 12% p.a. 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	2,00,000	Medicines Purchased	2,45,000
Loan	3,00,000	Surgical Equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lecture Fees	24,000	Wages and Salaries	1,05,000
Pension Received	3,00,000	Rent of Clinic	60,000
		General Charges	49,000
		Household Expenses	1,80,000
		Household Furniture	25,000
		Expenses on Daughter's marriage	2,15,000
		Interest on Loan	36,000
		Balance at Bank	1,10,000
		Cash in Hand	19,000
	17,34,000		17,34,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2020 was valued at ₹95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets.

(Hint: Net Income = ₹4,84,000; Closing Balance of Capital A/c = ₹4,94,000)

(Jan 21 – 10 Marks)

Q.21.

Following is the Receipts and Payments Account of New bird Forty Club for the year ended 31st March, 2022:

Dr		Receipts and payments A/c for the year ended on 31 st March 2022		Cr	
Receipts	Amount (₹)	Payments	Amount (₹)		
To balance b/d	2,50,000	By Salaries and wages	1,65,000		
To Subscription- 2020-2021	65,000	By Office expenses	35,000		
2021-2022	3,55,000	By Sports equipment	3,42,000		
To Donations	55,000	By Telephone Charges	28,000		
To Entrance fees	85,000	By Electricity charges	32,000		
		By Travelling and conveyance	65,000		
		By balance c/d	1,43,000		
	8,10,000		8,10,000		

Additional information :

- Outstanding subscriptions for the year ended 31st March, 2022 – ₹55,000.
- Outstanding salaries and wages – ₹40,000 for the year ended on 31st March 2022.
- Depreciate sports equipment by 25% for the year ended on 31st March 2022.
- Capitalize 50% of the entrance fees.

Prepare Income and Expenditure Account of the club from the above particulars for the year ended on 31st March 2022.

(Hint: Surplus = ₹57,000)

(Study Material)

Q.22.

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2022:

Details	Amount (₹)
Match expenses paid during the year ended 31st March 2022	1,10,000

Match fund as on 01.04.2021	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

(Hint: Closing Balance of Match Fund = Nil; Expense to be debited to I & E A/c = ₹5,000)

(Study Material)

Q.23.

During the year ended 31st March, 2022, the subscriptions received by the Jaipur Literary Society were ₹4,50,000. These subscriptions include ₹20,000 received for the year ended 31st March, 2021. On 31st March, 2022, subscriptions due but not received were ₹15,000. Advance subscription received for the year ending 31st March 2022 but pertaining to year 2023 amounted to ₹26,000. The Subscriptions received in advance for the year ending 31st March, 2021 includes ₹18,000 pertaining to year 2021-22. Show the subscription account in book of the society?

(Hint: Subscription to be credited to I & E A/c = ₹4,37,000)

(Study Material)

Q.24.

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2022.

A club has 350 members each paying an annual subscription of ₹1,050. The Receipts and Payments Account for the year showed a sum of ₹4,10,000 received as subscriptions.

The following additional information is provided:

Subscriptions Outstanding on 31st March, 2021 – ₹45,000

Subscriptions Received in Advance on 31st March, 2022 – ₹62,000

Subscriptions Received in Advance on 31st March, 2021 – ₹30,000

(Hint: Amount of Subscription Outstanding for the year ended 31st March, 2022)

(Study Material)

Q.25.

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:

- Income and Expenditure Account for the year ended 31st March, 2021.
- Balance Sheet as on 31st March, 2021.

(July 21 – 10 Marks)

Q.26.

Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31-12-2022.

Receipts and Payments Account for the year ended 31-12-2022

Receipts	Amount ₹	Payments	Amount ₹
To Opening cash in hand	12,000	By Medicine supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000
To Interest on Investment (10%)	10,000	By Sundry expenses.	950
To Charity show collection	16,500	By Purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	<u>13,800</u>
	<u>1,28,500</u>		1,28,500

The following is the additional information provided.

	01-01-2022	31-12-2022
	Amount ₹	Amount ₹
Subscription due	2,500	3,100
Subscription received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500
Value of equipment	21,500	37,200
Value of building	65,000	61,750

You are required to prepare Income and Expenditure account, and Balance sheet as on 31-12-2022.
(June 23 – 15 Marks)

Q.27.

The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:

Receipt and Payment Account of Mumbai Club

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per Pass Book:		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary (2019-20)	40,000
Contribution to Club night	10,000	Balance at Bank as per Pass Book:	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	<u>78,000</u>	Cash in hand	<u>25,000</u>
	6,62,000		6,62,000

You are given the following additional information (All figures are in ₹)

	01.04.20	31.03.21
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unrepresented being payment for repairs	30,000	25,000
Interest not yet entered in the Pass book	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹20,000 and Ground man is to receive a bonus of ₹20,000. Prepare the Income and Expenditure Account for period ended 31st March, 2021 and the Balance Sheet as at that date.

(Hint: Surplus = ₹17,000; Opening Capital Fund = ₹2,88,000; Balance Sheet Total = ₹4,16,000)
(May 22 – 10 Marks)

Q.28.

The Income and Expenditure Account of the Young Boys Club for the rear 2022 is as follows:

Expenditure	Amount (₹)	Income	Amount (₹)

To Salaries	3,750	By Subscription	8,500
To General Expenses	1,500	By Entrance Fees	250
To Audit fee	250	By Contribution for	
To Secretary's Honorarium	1,000	Annual Dinner	1,000
To Stationery and Printing	450	By Annual Sports	
To Annual Dinner expenses	1,500	meet receipts	750
To Interest and Bank Charges	150		
To Depreciation	400		
To Surplus	<u>1,500</u>		
	10,500		10,500

This Account has been prepared after the following adjustments:

	Amount (₹)
Subscription outstanding on 31st December, 2021	700
Subscription received in advance on 31st December, 2021	550
Subscription received in advance on 31st December, 2022	370
Subscription outstanding on 31st December, 2022	750

Salaries outstanding at the beginning and at the end of 2022 were respectively ₹600 and ₹150. General Expense include insurance prepaid to the extent of ₹150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹200.

The club owned a freehold lease of ground valued at ₹20,000. The club had sports equipment on 1st January, 2022 valued at ₹2600. At the end of the year, after depreciation, the balance of equipment amounted to, ₹3,600. In 2021, the club raised a bank loan of ₹5,000, This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹1600.

You are required to prepare:

- (i) Receipts and Payments Account for 2022
- (ii) Balance Sheet as on 31st December, 2022
- (iii) Balance Sheet as on 31st December, 2021.

(Hint: Opening Cash Balance = ₹1,580; Opening Capital Fund = ₹18,530; Balance Sheet Total: 31st Dec 2022 = ₹26,100; 31st Dec 2021 = ₹24,880)

(Nov 22 – 10 Marks)

Q.29.

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. (Hint: Net Income = ₹2,42,000; Closing Capital = ₹2,47,000; Balance Sheet Total = ₹3,97,000)

(RTP May 20)

Q.30.

The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Receipts and payments A/c for the year ended on 31st march 2020

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:

- 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
- 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 1.4.2019

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.

(Hint: Deficit = ₹2,550; Opening Capital Fund = ₹1,13,880; Balance Sheet Total = ₹1,32,980)

(RTP May 21)

Q.31.

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.

(Hint: Surplus = ₹14,150; Opening Capital Fund = ₹36,000; Balance Sheet Total = ₹53,040)

(RTP May 22)

Q.32.

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 Payment for sports material ₹5,400)	12,600
To Annual Income from Subscription	9,180		By Loss on Sale of Furniture (cost price ₹900)	360
Add: Outstanding of last year received this year	<u>360</u>		By Balance c/d	1,80,900
	9,540			
Less: Prepaid of last year	<u>180</u>	9,360		
To Other fees		3,600		
To Donation for Building		<u>1,80,000</u>		
		<u>1,93,860</u>		<u>1,93,860</u>

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.

(Hint: Closing Balance of Correct R&P A/c = ₹1,81,440; Deficit = ₹7,200; Opening Capital Fund = ₹72,000; Balance Sheet Total = ₹2,44,980)

(RTP Nov 21)

Q.33.

From the following information supplied by ABC Club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2022.

	01.04.2021 ₹	31.03.2022 ₹
Outstanding subscription	8,40,000	12,00,000
Advance subscription	1,50,000	1,80,000
Outstanding salaries	90,000	1,08,000
Cash in Hand and at Bank	6,60,000	?
10% Investment	8,40,000	4,20,000
Furniture	1,68,000	84,000
Machinery	60,000	1,20,000
Sports goods	90,000	1,50,000

Subscription for the year amount to ₹18,00,000/-. Salaries paid ₹3,60,000. Face value of the Investment was ₹10,50,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹84,000. Furniture was sold for ₹48,000 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: ₹3,00,000
 Rent: ₹1,44,000 out of which ₹12,000 outstanding
 Misc. Expenses: ₹30,000
 (Hint: Closing Cash & Bank Balance = ₹17,40,000; Surplus = ₹9,86,100)

(RTP Nov 23)

Q.34.

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

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital fund	31,72,000	Electrical fittings	6,00,000
Expenses payable	28,000	Furniture	2,00,000
		Books	16,00,000
		Investment in securities	6,00,000
		Cash at bank	1,00,000
		Cash in hand	1,00,000
	32,00,000		32,00,000

The receipts and payment account for the year ended on 31st March, 2023 is given below:

	₹		₹
To Balance b/d		By Electric charges	28,800
Cash at bank 1,00,000		By Postage and stationary	20,000
Cash in hand <u>1,00,000</u>	2,00,000	By Telephone charges	20,000
To Entrance fee	1,20,000	By Books purchased	2,40,000
To Membership subscription	8,00,000	By Outstanding expenses paid	28,000
To Sale proceeds of old papers	6,000	By Rent	3,52,000
To Hire of lecture hall	80,000	By Investment in securities	1,60,000
To Interest on securities	32,000	By Salaries	2,64,000
		By Balance c/d	
		Cash at bank	80,000
		Cash in hand	<u>45,200</u>
	<u>12,38,000</u>		<u>12,38,000</u>

You are required to prepare Income and Expenditure account for the year ended 31st March, 2023 after making the following adjustments:

Membership subscription included ₹40,000 received in advance. Provide for outstanding rent ₹16,000 and salaries ₹12,000.

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 1.10.20 22 for ₹1,60,000.

(Hint: Deficit = ₹66,800)

(ICAI MTP - Apr 23 – 15 Marks)

Q.35.

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.

(Hint: Subscription to be credited to I&E A/c = ₹23,04,000; Sports Material Consumed to be debited to I&E A/c = ₹13,05,000)

(ICAI MTP – Mar 22 – 5 Marks)

Q.36.

Ankit Sports club gives the following Receipts and Payments account for the year ended March 31,2022:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Opening cash and bank balances	52,000	By Salaries	1,50,000
To Subscription	3,48,000	By Rent and taxes	54,000
To Donations	1,00,000	By Electricity charges	6,000
To Interest on investments	12,000	By Sports goods	20,000
To Sundry receipts	3,000	By Library books	1,00,000

	By Newspapers and periodicals	10,800
	By Miscellaneous expenses	54,000
	By Closing cash and bank balances	1,20,200
	5,15,000	5,15,000

	As on 31.3.2021 (₹)	As on 31.3.2022 (₹)
Liabilities		
Outstanding expense:		
Salaries	10,000	20,000
Newspapers and periodicals	4,000	5,000
Rent and taxes	6,000	6,000
Electricity charges	8,000	10,000
Assets		
Library Books	1,00,000	-
Sports goods	80,000	-
Furniture and fixtures	1,00,000	-
Subscription receivable	50,000	1,20,000
Investment government securities	5,00,000	-
Accrued interest	6,000	6,000

Provide depreciation on Furniture and fixtures @ 10%, Sports goods @ 20%, Library books @ 10%.
Provide full depreciation on additions.

Donations are to be capitalised.

You are required to prepare Club's opening Balance Sheet as on 1.4.2021, Income and expenditure Account for the year ended on 31.3.2022 and Balance sheet as on that date.

(Hint: Opening Capital Fund = ₹8,60,000; Surplus = ₹95,200; Balance Sheet Total = ₹10,96,200)

(ICAI MTP – Nov 22 – 15 Marks)

CHAPTER 33: ACCOUNTS FROM INCOMPLETE RECORDS

Q.1.

Raju does not maintain proper records of his business. However, he provides the following information:

	₹
Opening capital	10,000
Closing capital	12,500
Drawings during the year	3,000
Capital added during the year	3,750

You are required to calculate the profit or loss for the year.

(Hint: Net Profit = ₹1,750)

(Study Material)

Q.2.

Rakesh started his business on 1st of April 2021. He invested a capital of ₹1,00,000. On 31st March 2022, he has the following information available as per the Single-entry system maintained by him.

	₹
Cash Balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2022.

(Hint: Profit = ₹56,000)

(Study Material)

Q.3.

Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021	31-03-2022
	₹	₹
Assets		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200

Liabilities		
Loans	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹40,000 is retained in the business. Proprietor took @ ₹2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022. Also find out the profit for the year ended 31-03-2022.

(Hint: Capitals – 31-3-2021 = ₹2,41,200; 31-3-2022 = ₹4,40,700; Profit = ₹1,83,500)

(Study Material)

Q.4.

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020-2021 and 2021-2022 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2020 and 1st April, 2022.

				₹
1-4-2020	Assets	:	Cash in hand	25,500
			Inventory	56,000
			Sundry debtors	41,500
			Land and Building	1,90,000
			Wife's Jewellery	75,000
			Liabilities	:	Owing to Moti's Brother	40,000
			Sundry creditors	35,000
1-4-2022	Assets	:	Cash in hand	16,000
			Inventory	91,500
			Sundry debtors	52,500
			Land and Building	1,90,000
			Motor Car	1,25,000
			Wife's Jewellery	1,25,000
			Loan to Moti's Brother	20,000
			Liabilities	:	Sundry creditors	55,000

During the two years the domestic expenditure

was ₹4,000 p.m. The declared incomes of the financial years were ₹1,05,000 for 2020-2021 and ₹1,23,000 for 2021-2022 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

(Hint: Capitals – 1-4-2020 = ₹3,13,000; 1-4-2022 = ₹5,65,000; Income Earned during 2 years = ₹3,48,000; Suppressed Income = ₹1,20,000)

(Study Material)

Q.5.

Calculate the bad debts from the below information:

Opening balance of Debtors	₹5,00,000
Closing balance of Debtors	₹7,00,000
Amount received in Cash	₹6,00,000
Discount allowed	₹10,000
Credit Sales	₹11,40,000
Bills Receivable	₹3,00,000
Bad Debts	???

(Hint: Bad Debts = ₹30,000)

(Study Material)

Q.6.

Calculate the credit purchases from the below information:

Opening balance of creditors	₹4,00,000
Closing balance of creditors	₹5,00,000
Payments made in Cash	₹8,50,000
Discount received	₹20,000

(Hint: Credit Purchases = ₹9,70,000)

(Study Material)

Q.7.

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2022 is given below:

Receipts	₹	Payments	₹
Bank Balance as on 1st April, 2021	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st March, 2022	6,400
		Cash in hand on 31st March, 2022	500
	<u>68,000</u>		<u>68,000</u>

Particulars of other assets and liabilities are as follows:

	1 st April, 2021	31st March, 2022
Sundry debtors	14,500	17,600

Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2022 after providing depreciation at 10 per cent on machinery and furniture and ₹800 against doubtful debts.

(Hint: Gross Profit = ₹14,800; Net Profit = ₹2,830; Balance Sheet Total = ₹42,230; Opening Capital = ₹29,100)

(Study Material)

Q.8.

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on 1st April 2021	As on 31st March 2022
	\	\
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570

Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2022		1,200
Cheques issued to trade creditors		60,270

(Hint: Gross Profit = ₹14,810; Net Profit = ₹4,290; Balance Sheet Total = ₹49,110; Opening Capital = ₹26,770)

(Study Material)

Q.9.

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31 st March 2021	31 st March 2022
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2021- 2022:

- (i) Deposited to bank after payment of shop expenses @ ₹600 p.m., salary @ ₹9,200 p.m. and personal expenses @ ₹1,400 p.m. ₹7,62,750.
- (ii) Cash Withdrawn from bank ₹1,21,000.
- (iii) Cash payment to suppliers ₹77,200 for supplies and ₹25,000 for furniture.
- (iv) Cheques collected from customers but dishonoured ₹5,700.
- (v) Bills accepted by customers ₹40,000.
- (vi) Bills endorsed ₹10,000.
- (vii) Bills discounted ₹20,000, discount ₹750.
- (viii) Bills matured and duly collected ₹16,000.
- (ix) Bills accepted ₹24,000.
- (x) Paid suppliers by cheque ₹3,20,000.
- (xi) Received ₹20,000 on maturity of one LIC policy of the proprietor by cheque.
- (xii) Rent received ₹14,000 by cheque for the premises owned by proprietor.
- (xiii) A building was purchased on 30-11-2021 for opening a branch for ₹3,50,000 and some expenses were incurred on this building, details of which are not maintained.
- (xiv) Electricity and telephone bills paid by cash ₹18,700, due ₹2,200.

Other transactions:

- (i) Claim against the firm for damage ₹1,55,000 is under legal dispute. Legal expenses ₹17,000. The firm anticipates defeat in the suit.
- (ii) Goods returned to suppliers ₹4,200.
- (iii) Goods returned by customers ₹1,200.
- (iv) Discount offered by suppliers ₹2,700.
- (v) Discount offered to the customers ₹2,400.
- (vi) The business is carried on at the rented premises for an annual rent of ₹20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

(Hint: Gross Profit = ₹5,88,650; Net Profit = ₹2,57,700; Balance Sheet Total = ₹7,77,300; Opening Capital = ₹2,38,200)

(Study Material)

Q.10.

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2021 is ₹1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2022.

(Hint: Credit Sales = ₹10,00,000; Total Sales = ₹12,50,000)

(Study Material)

Q.11.

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

- (1) His sales, for the year ended 31st March, 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
Total sales during the year 2020-21 were ₹5,00,000.
- (2) Payments for all the purchases were made by cheques only.
- (3) Goods were sold for cash and credit both. Credit customers pay by cheques only.
- (4) Depreciation on furniture is to be charged 10% p.a.
- (5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹2,000 to the clerk, office expenses ₹1,200 and personal expenses ₹500.

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

	₹
Payment to creditors	3,00,000
Payment of rent up to 31 st March, 2022	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2022:

	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2022, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

(Hint: Gross Profit = ₹1,16,000; Net Profit = ₹34,000; Loss of Cash = ₹23,600; Balance Sheet Total = ₹5,78,000)

(Study Material)

Q.12.

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2021	As on 31.3.2022
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

- Payment to creditors ₹7,00,000
- Payment for business expenses ₹1,20,000
- Receipts from debtors ₹7,50,000
- Loan ₹1,00,000 taken on 1.10.2021 at 10% per annum
- Cash deposited in the bank ₹1,00,000

He informs you that he paid creditors for goods ₹20,000 in cash and salaries ₹40,000 in cash. He has drawn ₹80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as at 31st March, 2022.

(Hint: Gross Profit = ₹3,10,000; Closing Stock = ₹1,20,000; Net Profit = ₹1,45,000; Balance Sheet Total = ₹5,60,000)

(Study Material)

APPENDIX: ACCOUNTING TERMINOLOGIES

1. Acceptance

The drawee's signed assent on bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.

2. Accounting policies

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

3. Accrual

Recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur irrespective of the actual receipts or payments.

4. Accrual/Mercantile 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. The 'accrual basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. This basis is also referred to as mercantile basis of accounting.

5. Accrued Asset

A developing but not yet enforceable claim against another person which accumulates with the passage of time or the rendering of service or otherwise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.

6. Accrued Expense

An expense which has been incurred in an accounting period but for which no enforceable claim has become due in that period against the enterprise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.

7. Accrued Liability

A developing but not yet enforceable claim by another person which accumulates with the passage of time or the receipt of service or otherwise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.

8. Accrued Revenue

Revenue which has been earned in an accounting period but in respect of which no enforceable claim has become due in that period by the enterprise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.

9. Accumulated Depletion

The total to date of the periodic depletion charges on wasting assets.

10. Accumulated Depreciation

The total to date of the periodic depreciation charges on depreciable assets.

11. Advance

Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.

12. Amortised Value

The amortizable amount less any portion already provided by way of amortization.

13. Annual Report

The information provided annually by the management of an enterprise to the owners and other interested persons concerning its operations and financial position. It includes the information statutorily required, e.g., in the case of a company, the balance sheet, profit and loss statement and notes on accounts, the auditor's report thereon, and the report of the Board of Directors. It also includes other information voluntarily provided e.g., value added statement, graphs, charts, etc.

14. Appropriation Account

An account sometimes included as a separate section of the profit and loss statement showing application of profits towards dividends, reserves, etc.

15. Assets

Tangible objects or intangible rights owned by an enterprise and carrying probable future benefits.

16. Authorised Share Capital

The number and par value, of each class of shares that an enterprise may issue in accordance with its instrument of incorporation (i.e. Memorandum of Incorporation). This is sometimes referred to as nominal share capital.

17. Average Cost

The cost of an item at a point of time as determined by applying an average of the cost of all items of the same nature over a period. When weightages are also applied in the computation, it is termed as weighted average cost.

18. Bad Debts

Debts owed to an enterprise which are considered to be irrecoverable.

19. Balance Sheet

A statement of the financial position of an enterprise as at a given date, which exhibits its assets, liabilities, capital, reserves and other account balances at their respective book values.

20. Bill of Exchange

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

21. Bonus Shares

Shares allotted by capitalization of the reserves or surplus of a corporate enterprise.

22. Book Value

The amount at which an item appears in the books of account or financial statements. It does not refer to any particular basis on which the amount is determined e.g., cost, replacement value, etc.

23. Borrowing costs

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

24. Bond/Debenture

A formal document constituting acknowledgment of a debt by an enterprise usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.

25. Call

A demand pursuant to terms of issue to pay a part or whole of the balance remaining payable on shares or debentures after allotment.

26. Called-up Share Capital

That part of the subscribed share capital which shareholders have been required to pay.

27. Capital

Generally, refers to the amount invested in an enterprise by its owners e.g. paid-up share capital in a corporate enterprise. It is also used to refer to the interest of owners in the assets of an enterprise.

28. Capital Assets

Assets, including investments not held for sale, conversion or consumption in the ordinary course of business.

29. Capital Commitment

Future liability for capital expenditure in respect of which contracts have been made.

30. Capital Employed

The finances deployed by an enterprise in its net fixed assets, investments and working capital. Capital employed in an operation may, however, exclude investments made outside that operation.

31. Capital Profit/Capital Loss

Excess of the proceeds realised from the sale, transfer, or exchange of the whole or a part of a capital asset over its cost. When the result of this computation is negative, it is referred to as capital loss.

32. Capital Reserve

A reserve of a corporate enterprise which is not available for distribution as dividend.

33. Capital Work-in-progress

Expenditure on capital assets which are in the process of construction or completion.

34. Cash

Cash comprises cash in hand and demand deposits with banks

35. Cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

36. Cash Basis of Accounting

The method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.

37. Cash Discount

A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.

38. Cash Profit/Loss

The net profit as increased by non-cash costs, such as depreciation, amortization, etc. When the result of the computation is negative, it is termed as cash loss.

39. Carrying amount

Carrying amount is the amount at which an asset is recognized in the balance sheet, net of any accumulated amortization and accumulated impairment losses thereon.

40. Charge

An encumbrance on an asset to secure an indebtedness or other obligations. It may be fixed or floating.

41. Cheque

A bill of exchange drawn upon a specified banker and not expressed to be payable otherwise than on demand.

42. Collateral Security

Security which is given in addition to the principal security against the same liability or obligation.

43. Costs of disposal

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

44. Contingency

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

45. 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.

46. 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.

47. Contra Account

One or two or more accounts which partially or wholly off-set another or other accounts.

48. Cost

The amount of expenditure incurred on or attributable to a specified article, product or activity.

49. Cost of Purchase

The purchase price including duties and taxes, freight inwards and other expenditure directly attributable to acquisition, less trade discounts, rebates, duty drawbacks, and subsidies in respect of such purchase.

50. Cost of Goods Sold

The cost of goods sold during an accounting period. In manufacturing operations, it includes (i) cost of materials; (ii) labour and factory overheads. Selling and administrative expenses are normally excluded.

51. Conversion Cost

Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the direct cost or absorption costing method. Production overheads exclude expenses which relate to general administration, finance, selling and distribution.

52. Convertible Debenture

A debenture which gives the holder a right to its conversion, wholly or partly, in shares in accordance with the terms of issue.

53. Cumulative Dividend

A dividend payable on cumulative preference shares which, if unpaid, accumulates as a claim against the earnings of a corporate enterprise, before any distribution is made to the other shareholders.

54. Cumulative Preference Shares

A class of preference shares entitled to payment of cumulative dividends. Preference shares are always deemed to be cumulative, unless they are expressly made non-cumulative.

55. Current Assets

Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business.

56. Current Liability

Liability including loans, deposits and bank overdraft which falls due for payment in a relatively short period, normally not more than twelve months.

57. Deferral

Postponement of recognition of a revenue or expense after its related receipt or payment (or incurrence of a liability) to a subsequent period to which it applies. Common examples of deferrals include prepaid rent and taxes, unearned subscriptions received in advance by newspapers and magazine selling companies, etc.

58. Deficiency

The excess of liabilities over assets of an enterprise at a given date. The debit balance in the profit and loss statement.

59. Deficit

The debit balance in the profit and loss statement.

60. Depletion

A measure of exhaustion of a wasting asset represented by periodic write off of cost or other substituted value.

61. Depreciation

Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of assets whose useful life is predetermined.

62. Depreciable amount

Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

63. Depreciable assets

Depreciable assets are assets which

- (i) are expected to be used during more than one accounting period; and
- (ii) have a limited useful life; and
- (iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

64. Depreciation Method

Any method of calculating depreciation for an accounting period.

65. Depreciation Rate

A percentage applied to the historical cost or the substituted amount of a depreciable asset (or in case of diminishing balance method, the historical cost or the substituted amount less accumulated depreciation).

66. Diminishing Balance Method

A method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as written down value method.

67. Discount

A reduction from a list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity.

68. Dividend

A distribution to shareholders out of profits or reserves available for this purpose.

69. Entity Concept

The view of the relationship between the accounting entity and its owners which regards the entity as a separate person, distinct and apart from its owners.

70. Equity Share

A share which is not a preference share. Also sometimes called ordinary share. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

71. Expenditure

Incurring a liability, disbursement of cash or transfer of property for the purpose of obtaining assets, goods or services.

72. Expense

A cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period.

73. Expired Cost

That portion of an expenditure from which no further benefit is expected. Also termed as expense.

74. Extraordinary items

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

75. Fair value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

76. Fair Market Value

The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

77. First Charge

A charge having priority over other charges.

78. First In, First Out (FIFO)

Computation of the cost of items sold or consumed during a period as though they were sold or consumed in order of their acquisition.

79. Fixed asset

Asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

80. Fixed Cost

That cost of production which by its very nature remains relatively unaffected in a defined period of time by variations in the volume of production.

81. Fixed Deposit

Deposit for a specified period and at specified rate of interest.

82. Fixed or Specific Charge

A charge which attaches to a particular asset which is identified when the charge is created, and the identity of the asset does not change during the subsistence of the charge.

83. Floating Charge

A general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

84. Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity shares of another enterprise.

85. Foreign currency

Foreign currency is a currency other than the reporting currency of an enterprise.

86. Forfeited Share

A share to which title is lost by a member for non-payment of call money or default in fulfilling any engagement between members or expulsion of members where the articles specifically provide therefor.

87. Free Reserve

A reserve the utilization of which is not restricted in any manner.

88. Functional Classification

A system of classification of expenses and revenues and the corresponding assets and liabilities to each function or activity, rather than by reference to their nature.

89. Fund

An account usually of the nature of a reserve or a provision which is represented by specifically earmarked assets.

90. Fundamental Accounting Assumptions

Basic accounting assumptions which underlie the preparation and presentation of financial statements. They are going concern, consistency and accrual. Usually, they are not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

91. Gain

A monetary benefit, profit or advantage resulting from a transaction or group of transactions.

92. General Reserve

A revenue reserve which is not earmarked for a specific purpose.

93. Going Concern Assumption

An accounting assumption according to which an enterprise is viewed as continuing in operation 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 its operations.

94. Goodwill

An intangible asset arising from business connections or trade name or reputation of an enterprise.

95. Gross Margin or Gross Profit

The excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling, distribution and financing expenses. When the result of this computation is negative it is referred to as gross loss.

96. Government

Government refers to government, government agencies and similar bodies whether local, national or international.

97. Government grants

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.

98. Gross book value

Gross book value of a fixed asset is its historical cost or other amount substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value.

99. Income and Expenditure Statement

A financial statement, often prepared by non-profit making enterprises like clubs, associations etc. to present their revenues and expenses for an accounting period and to show the excess of revenues over expenses (or vice versa) for that period. It is similar to profit and loss statement and is also called revenue and expense statement.

100. Intangible Asset

Asset which does not have a physical identity e.g. goodwill, patents, copyright etc.

Inventories are assets:

- (a) held for sale in the ordinary course of business;

- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

101. Investment

Expenditure on assets held to earn interest, income, profit or other benefits.

102. Investments

Assets held not for operational purposes or for rendering services i.e. assets other than fixed assets or current assets (e.g. securities, shares, debentures, immovable properties).

103. Issued Share Capital

That portion of the authorized share capital which has actually been offered for subscription. This includes any bonus shares allotted by the corporate enterprise.

104. Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

105. Last In, First Out (LIFO)

Computation of the cost of items sold or consumed during a period on the basis that the items last acquired were sold or consumed first.

106. Liability

The financial obligation of an enterprise other than owners' funds.

107. Lien

Right of one person to satisfy a claim against another by holding or retaining possession of that other's assets/property.

108. Long-term Liability

Liability which does not fall due for payment in a relatively short period, i.e., normally a period not more than twelve months.

109. Lease

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

110. Materiality

An accounting concept according to which all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.

111. Mortgage

A transfer of interest in specific immovable property for the purpose of securing a loan advanced, or to be advanced, an existing or future debt or the performance of an engagement which may give rise to a pecuniary liability. The security is redeemed when the loan is repaid or the debt discharged or the obligations performed.

112. Net Assets/Shareholders' funds/Net Worth

The excess of the book value of assets (other than fictitious assets) of an enterprise over its liabilities. This is also referred to as net worth or shareholders' funds.

113. Net Fixed Assets

Fixed assets less accumulated depreciation thereon up-to-date.

114. Net Profit/Net loss

The excess of revenue over expenses during a particular accounting period. When the result of this computation is negative, it is referred to as net loss. The net profit may be shown before or after tax.

115. Net realizable value

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

116. Obsolescence

Diminution in the value of an asset by reason of it 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, or legal or other restrictions.

117. Operating Profit

The net profit arising from the normal operations and activities of an enterprise without taking account of extraneous transactions and expenses of a purely financial nature.

118. Paid-up Share Capital

That part of the subscribed share capital for which consideration in cash or otherwise has been received. This includes bonus shares allotted by the corporate enterprise.

119. Preference Share Capital

That part of the share capital of a corporate enterprise which enjoys preferential rights in respect of payments of fixed dividend and repayment of capital. Preference shares may also have full or partial participating rights in surplus profits or surplus capital.

120. Preliminary Expenses

Expenses relating to the formation of an enterprise. These include legal, accounting and share issue expenses incurred for formation of the enterprise.

121. Prepaid Expense

Payment for expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).

122. Prime Cost

The total cost of direct materials, direct wages and other direct production expenses.

123. Prior Period Item

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

124. Profit/Loss

A general term for the excess of revenue over related cost. When the result of this computation is negative it is referred to as loss.

125. Profit and Loss Account

A financial statement which presents the revenues and expenses of an enterprise for an accounting period and shows the excess of revenues over expenses (or vice versa). It is also known as income statement.

126. Promissory Note

An instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

127. Provision

An amount written off or retained by way of providing for depreciation or diminution in value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.

128. Provision for Doubtful Debts

A provision made for debts considered doubtful of recovery.

129. Prudence

A concept of care and caution used in accounting according to which (in view of the uncertainty attached to future events) profits are not anticipated, but recognised only when realised, though not necessarily in cash. Under this concept, provision is made for all known liabilities and losses, even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

130. Redeemable Preference Share

The preference share that is repayable either after a fixed or determinable period or at any time decided by the management (by giving due notice), under certain conditions prescribed by the instrument of incorporation or the terms of issue.

131. Redemption

Repayment as per given terms normally used in connection with preference shares and debentures.

132. Reserve

The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability. The reserves are primarily of two types: capital reserves and revenue reserves.

133. Revaluation Reserve

A reserve created on the revaluation of assets or net assets of an enterprise represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.

134. Residual value

Residual value is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

135. Revenue/Income

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from various other sources like interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

136. Revenue Reserve

Any reserve other than a capital reserve.

137. Right Share

An allotment of shares on the issue of fresh capital by a corporate enterprise to which a shareholder is entitled on payment, by virtue of his holding certain shares in the enterprise in proportion to the number of shares already held by him. (Shares allotted to certain categories of debenture holders pursuant to the rights enjoyed by them are sometimes called right shares)

138. Sales Turnover/Gross Turnover/Gross Sales

The aggregate amount for which sales are effected or services rendered by an enterprise. The terms gross turnover and net turnover (or gross sales and net sales) are sometimes used to distinguish the sales aggregate before and after deduction of returns and trade discounts.

139. Secured Loan

Loan secured wholly or partly against an asset.

140. Share Capital

Aggregate amount of money paid or credited as paid on the shares and/ or stocks of a corporate enterprise.

141. Share Discount

The excess of the face value of shares over their issue price.

142. Shareholders' Equity

The interest of the shareholders in the net assets of a corporate enterprise. However, in the case of liquidation it is represented by the residual assets after meeting prior claims.

143. Share Issue Expenses

Costs incurred in connection with the issue and allotment of shares. These include legal and professional fees, advertising expenses, printing costs, underwriting commission, brokerage, and also expenses in connection with the issue of prospectus and allotment of shares.

144. Share warrants

Share warrants or options are financial instruments that give the holder the right to acquire equity shares.

145. Securities Premium

The excess of the issue price of shares over their face value.

146. Sinking Fund

A fund created for the repayment of a liability or for the replacement of an asset.

147. Straight Line Method

The method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.

148. Subscribed Share Capital

That portion of the issued share capital which has actually been subscribed and allotted. This includes any bonus shares allotted by the corporate enterprise.

149. Substance over Form

An accounting concept according to which the substance and not merely the legal form of transactions and events governs their accounting treatment and presentation in financial statements.

150. Sundry Creditors / Trade Creditors/Trade payables

Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as trade creditors or account payables or Trade payables.

151. Sundry Debtors / Trade Debtors/ Trade Receivables

Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as debtors, trade debtors, account receivables, trade receivables.

152. Surplus

Credit balance in the profit and loss statement after providing for proposed appropriations, like dividend or reserves.

153. Trade Discount

A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

154. Unexpired Cost

That portion of an expenditure whose benefit has not yet been exhausted.

155. Unissued Share Capital

That portion of the authorised share capital for which shares have not been offered for subscription.

156. Unpaid Dividend

Dividend which has been declared by a corporate enterprise but has not been paid, or the warrant or cheque in respect whereof has not been dispatched within the prescribed period.

157. Useful life

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.

"Some Tips/Dos For Exams"

✓ Every day before starting study its good if we make a small prayer it will ensures our trust which will motivate to work harder.

✓ Don't underestimate theory subjects as they are more important during last 2 months since these have been ignored earlier.

✓ Do plan your studies, take regular breaks.

✓ Take proper sleep of at least 6 hrs.

✓ Avoid Junk food and eat more and more fruits during breaks.

✓ Make Weekly Targets and try to achieve them.

✓ Always keep saying to Yourself that You are going to definitely pass since positive attitude is your biggest wealth in exams preparations.

✓ Success =Hard Work + Positive Attitude + Blessings of God & our parents so ensure this also.

All the Very Best...

My Wishes !!

CA PARAG GUPTA

**LET'S
BEGIN
THE
BATTLE!**