



BANK RECONCILIATION STATEMENT



LEARNING OUTCOMES

After studying this chapter, you will be able to:

- ◆ Learn the design of a Bank Pass Book.
- ◆ Understand the reasons for difference between Cash Book balance and Pass Book balance and try to ascertain the amount of such differences.
- ◆ Learn, how to resolve such difference in a systematic manner.
- ◆ Understand the purpose for preparing the bank reconciliation statement and its utility.

ILLUSTRATION 4

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2022.

- (1) The bank overdraft as per Cash Book on 31st December, 2022 ₹ 6,340.*
- (2) Interest on overdraft for 6 months ending 31st December, 2022 ₹ 160 is entered in Pass Book.*
- (3) Bank charges of ₹ 400 are debited in the Pass Book 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 Pass Book ₹ 12,00,000.*

ILLUSTRATION 6

On 30th 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 30th 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 30th December, 2022, but were entered in the bank statement on 1st January, 2023.
3. A cheque received for ₹73,000 had been dishonoured prior to 30th 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.



INVENTORIES



LEARNING OUTCOMES

After studying this chapter, you will be able to:

- ◆ Understand the meaning of term 'Inventory'.
- ◆ Learn the technique of Specific Identification Method, FIFO, Average Price, Weighted Average Price and Adjusted Selling Price methods of inventory valuation.
- ◆ Understand the methods of inventory record keeping and comprehend the intricacies relating to Inventory taking.

ILLUSTRATION 3

In the previous example assume that following issues were made during the month of December:

Record of issues

Date	Quantity (units)
<i>Dec. 5</i>	<i>500</i>
<i>Dec. 20</i>	<i>600</i>
<i>Dec. 29</i>	<i>500</i>
<i>Total</i>	<i>1,600</i>

SOLUTION

Computation of closing stock under perpetual inventory system

ILLUSTRATION 6

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

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

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

SOLUTION

ILLUSTRATION 9

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2022 on which date 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.

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ACCOUNTING

SOLUTION

Statement of Valuation of Stock on 31st March, 2022

	₹	₹
Value of stock as on 15th April, 2022		50,000
Add: Cost of sales during the period from 31st March, 2022 to 15 th April, 2022:		
Sales (₹ 41,000-₹ 1,000)	40,000	
Less: Gross profit (20% of ₹ 40,000)	<u>8,000</u>	32,000
Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
		86,800
Less: Purchases during the period from 31st March, 2022 to 15th April, 2022	5,034	
Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
		79,366

ILLUSTRATION 10

Inventory taking for the year ended 31st March, 2022 was completed by 10th April 2022, the valuation of which showed a 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 %. 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 31st March, 2022.

SOLUTION



DEPRECIATION AND AMORTISATION



LEARNING OUTCOMES

After studying this chapter, you will be able to:

- ◆ Understand the meaning and nature of depreciation.
- ◆ Understand how to determine the amount of depreciation from the total value of Property, Plant and Equipment and its useful life.
- ◆ Understand various methods of depreciation and learn advantages and disadvantages of such methods.
- ◆ Understand how to calculate the amount of profit or loss resulting from the sale/disposal of Property, Plant and Equipment.
- ◆ Familiarize with the accounting treatment for change in the method of depreciation from Straight Line Method to Reducing Balance method.
- ◆ Familiarize with the accounting treatment for change in estimated useful life and residual value of property, plant and equipment.
- ◆ Understand the meaning and nature of intangible assets and its amortisation.

ILLUSTRATION 3

M/s Akash & Co. 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.

SOLUTION

3.5 Production Units Method

Under this method depreciation of the asset is determined by comparing the annual production with the estimated total production. The amount of depreciation is computed by the use of following method:

$$\text{Depreciable Amount} \times \frac{\text{Production during the period}}{\text{Estimated total production}}$$

The method is applicable to machines producing product of uniform specifications.

ILLUSTRATION 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:

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

Required

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

ILLUSTRATION 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.



ILLUSTRATION 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.

SOLUTION



BILLS OF EXCHANGE AND PROMISSORY NOTES



LEARNING OUTCOMES

After studying this chapter, you would be able to:

- ◆ Understand the meaning of Bills of Exchange and Promissory Notes and also try to grasp their underlying features.
- ◆ Understand the accounting treatments relating to issue, acceptance, discounting, maturity and endorsement of bills in the books of drawer and drawee.
- ◆ Learn the technique of accounting relating to accommodation bills.
- ◆ Learn the special treatment needed in case of insolvency as well as early retirement of bill.

ILLUSTRATION 4

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 was discharged by endorsing Mody's acceptance to Katrak for a similar amount.

SOLUTION

ILLUSTRATION 7

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.

ILLUSTRATION 9

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 , Gorge and Jack.

SOLUTION

ILLUSTRATION 10

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.

SOLUTION



PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS



UNIT – 1 FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES

LEARNING OUTCOMES

After studying this unit, you would be able to:

- ◆ Draw final Accounts of Non- manufacturing entities.
- ◆ Learn the relationship between Profit and Loss Account and Balance Sheet.
- ◆ Understand the Trading Account items. This will help you to learn which of the transactions and events should be shown in the Trading Account.
- ◆ Understand the items shown in the Profit and Loss Account. By that you will learn the technique of preparing Profit and Loss Account and deriving the Profit and Loss balance.
- ◆ Learn how to adjust outstanding and pre-paid expenses, accrued income and income received in advance.
- ◆ Understand the items to be shown in the balance sheet. Also learn the classification of assets and liabilities and the order by which they are presented in the Balance Sheet.

ILLUSTRATION 4

On 1st April 2021 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.03.2022 were ₹ 15,00,000; bad debts totaled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

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

SOLUTION

ILLUSTRATION 6

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

Particulars	Debit Balances	Credit Balances
	₹	₹
Capital A/c		7,00,000
Land and 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.

ILLUSTRATION 9

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

Trial Balances as on 31st March, 2022

Particulars	Dr. ₹	Cr. ₹
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	2,000	
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.

ILLUSTRATION 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	Dr.	Cr.
	₹	₹
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2021	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	

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:

PREPARATIONS OF FINAL ACCOUNTS OF SOLE PROPRIETORS

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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. Provision 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 30.6.2022.

ILLUSTRATION 13

The following are the balances as at 31st March, 2022 extracted from the books of M/s Mapple States.

	₹		₹
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.

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PREPARATIONS OF FINAL ACCOUNTS OF SOLE PROPRIETORS

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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 31.3.2022 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, 2022, and a Balance Sheet as on that date. Also show the rectification entries.

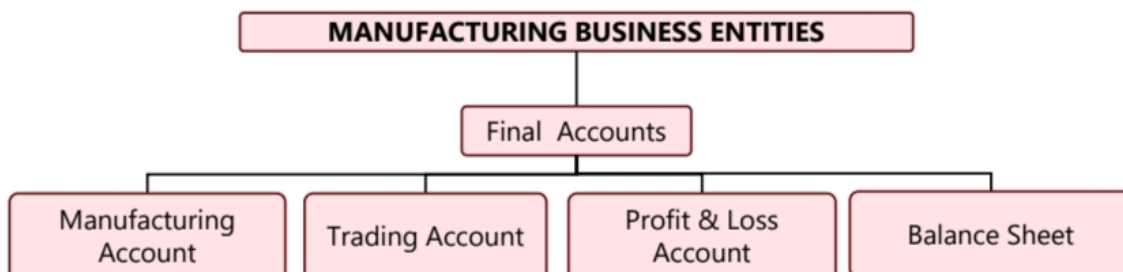
UNIT – 2 FINAL ACCOUNTS OF MANUFACTURING ENTITIES

LEARNING OUTCOMES

After studying this unit, you would be able to:

- ◆ Understand the purpose of preparing Manufacturing Account.
- ◆ Learn the items to be included in the Manufacturing Account
- ◆ Draw Manufacturing accounts of Manufacturing entities

UNIT OVERVIEW



2.1 INTRODUCTION

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet. The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities. Manufacturing costs of finished goods are then transferred from the Manufacturing Account to Trading Account.

ILLUSTRATION 3

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

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**PREPARATIONS OF FINAL ACCOUNTS OF
SOLE PROPRIETORS**
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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 1/2 %

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.



FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANISATIONS



LEARNING OUTCOMES

After studying this Chapter, you would be able to:

- ◆ Understand the meaning of Not-for-profit-organisations and distinction between a profit-making organisation and a Not-for-profit-organisation.
- ◆ Accounting for Not-for-profit-organisations.
- ◆ Understand the meaning and technique of preparation of Receipts and Payments Account and Income and Expenditure Account and understand the distinction between the two Accounts.
- ◆ Learn the technique of preparing Balance Sheet of Not-for-profit-organisations.
- ◆ Understand the different adjustments and their accounting treatment in the books of Not for profit organisations.

ILLUSTRATION 4

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 31st March 2022 Cr			
Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	2,50,000	By Salaries and wages	1,65,000

FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATIONS

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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.

ILLUSTRATION 8

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 2021	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 outstanding		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 Balance Sheet for period ending 31st March, 2022.

SOLUTION

ILLUSTRATION 9

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

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FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATIONS

8.21

		By Sundry expenses	10,278
		By Sports equipments	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 equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments 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.



ACCOUNTS FROM INCOMPLETE RECORDS



LEARNING OUTCOMES

After studying this Chapter, you would be able to:

- ◆ Learn how to derive capitals at two different points of time through statement of affairs.
- ◆ Learn the technique of determining profit by comparing capital at two different points of time.
- ◆ Prepare Trading and Profit and Loss Account and Balance Sheet from incomplete records.

ILLUSTRATION 6

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	???

SOLUTION



ILLUSTRATION 9

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.

ACCOUNTS FROM INCOMPLETE RECORDS**9.27**

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
<i>Details relating to transactions in the year:</i>		
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

ILLUSTRATION 10

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.

ACCOUNTS FROM INCOMPLETE RECORDS

9.31

- (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 via

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- (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 via cheque 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.



ACCOUNTING PROCESS



UNIT -1 BASIC ACCOUNTING PROCEDURES – JOURNAL ENTRIES

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand meaning and significance of Double Entry System.
- ◆ Familiarize with the term 'account' and understand the classification of accounts into personal, real and nominal.
- ◆ Note the utility of such classification and sub-classifications.
- ◆ Understand how debits and credits are determined from transactions and events.
- ◆ Observe the points to be taken care of while recording a transaction in the journal.

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ILLUSTRATION 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:

	₹
Capital	?
Loan	11,500
Trade payables	5,800
Fixed Assets	12,720

Inventory	22,900
Trade receivables	17,500
Cash at Bank	15,600

- Reset the equation and find out profit.
- Prepare Balance Sheet at the end of the accounting period.

ILLUSTRATION 3

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

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

ILLUSTRATION 6

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.

SOLUTION

Nature of Account

ILLUSTRATION 8

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 @ 9% 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 ₹ 30,000 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.*
-

UNIT 2 : LEDGERS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand the concept of Ledgers.
- ◆ Learn the technique of ledger posting and how to balance an account.
- ◆ Learn the technique of opening accounts each year taking closing balances of the previous year. Note also the use of term 'balance c/d' and 'balance b/d'

UNIT OVERVIEW

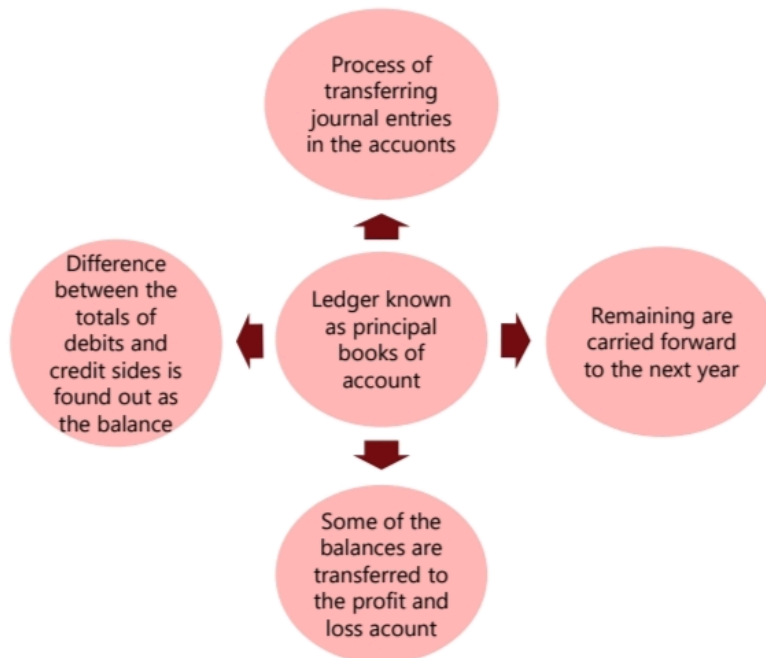


ILLUSTRATION 2

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 and Kapil ₹ 7,000, 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.*

ILLUSTRATION 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 except ₹ 5,000 was cleared by him, by a cheque, because he was declared bankrupt.
- 30 Balance R's Account.

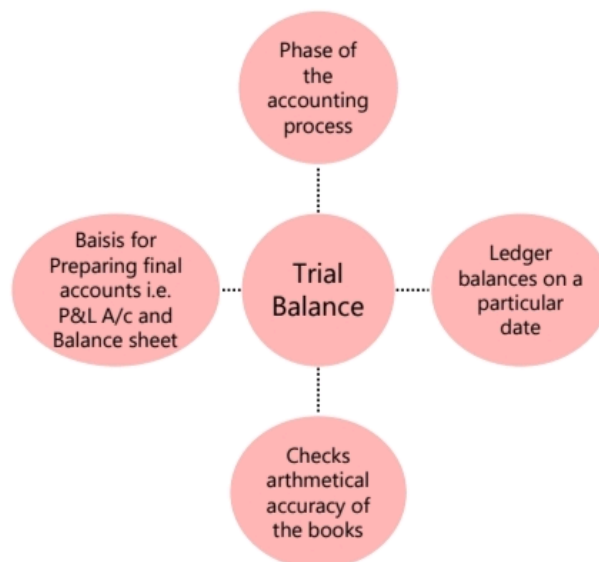
UNIT 3 : TRIAL BALANCE

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Learn the technique of taking balances from ledger accounts to prepare trial balance.
- ◆ Understand what is trial balance and what purposes it can serve..

UNIT OVERVIEW



Trial balance contains various ledger balances on a particular date. It forms the basis for preparing the financial statement i.e. profit and loss account and balance sheet. If it tallies, it means that the accounts are arithmetically accurate but certain errors may still remain undetected. Therefore, it is very important to carefully journalise and post the entries, following the rules of accounting.

ILLUSTRATION 3

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

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ACCOUNTING PROCESS

2.75

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

UNIT – 4 SUBSIDIARY BOOKS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand the techniques of recording transactions in Purchase Book, Sales Book; Returns Inward Book and Returns Outward Book; Bills Receivable and Bills Payable Book.
- ◆ Learn the technique of posting from Subsidiary Books to Ledger.
- ◆ Understand that even if subsidiary books are maintained, journalisation is required for many other transactions and events.
- ◆ Learn the difference between the subsidiary books and principal books.

UNIT OVERVIEW

Principal books

- Ledger
- Cash books

Subsidiary books

- Purchases and Sales book, Purchase and Sales return books
- Bill payable and Bills receivable books
- Journal Proper

ILLUSTRATION 3

The following are some of the transaction 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.

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ACCOUNTING PROCESS

2.93

Less : Trade Discount @ 10%

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

Sold 50 shirts to 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%

ILLUSTRATION 5

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer :

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.

UNIT 5 : CASH BOOK

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand that a Cash Book is a type of subsidiary book but treated as a principal book.
- ◆ Be familiar with various kinds of Cash Books, viz., Simple Cash Book, Two-column Cash Book and Three-column Cash Book.
- ◆ Learn the technique of preparation of Simple Cash Book and how to balance it.
- ◆ See how Double-Column Cash Book is prepared adding discount column alongwith cash column.
- ◆ Understand the techniques of preparing Three-column Cash Book.
- ◆ Understand what is a Petty Cash Book and the Imprest System of Petty Cash.
- ◆ Note the advantages of the Petty Cash Book.
- ◆ Learn how to maintain a Petty Cash Book and how to post the entries of the Petty Cash Book in the ledger.
- ◆ Understand the accounting of credit/debit sales transactions.

ILLUSTRATION 4

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

2022		₹
Jan. 1	Received ₹100 for petty cash	
" 2	Paid bus fare	.50
" 2	Paid cartage	2.50
" 3	Paid for Postage	5.00
" 3	Paid wages for casual labourers	6.00
" 4	Paid for stationery	4.00
" 4	Paid Bus charges	2.00
" 5	Paid for the repairs to chairs	15.00
" 5	Bus fare	1.00

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ACCOUNTING PROCESS**2.115**

" 5	Cartage	4.00
" 6	Postage	7.00
" 6	Bus charges	3.00
" 6	Cartage	3.00
" 6	Stationery	2.00
" 6	Refreshments to customers	5.00

ILLUSTRATION 5

Enter the following transaction in Cash Book 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	

UNIT 6 : RECTIFICATION OF ERRORS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand different types of errors which may occur in the course of recording transactions and events.
- ◆ Be familiar with the steps involved in locating errors.
- ◆ Learn the nature of one-sided errors and two-sided errors.
- ◆ Understand why suspense account is opened for rectification of errors.
- ◆ Understand the technique of correcting errors of one period in the next accounting period.

UNIT OVERVIEW

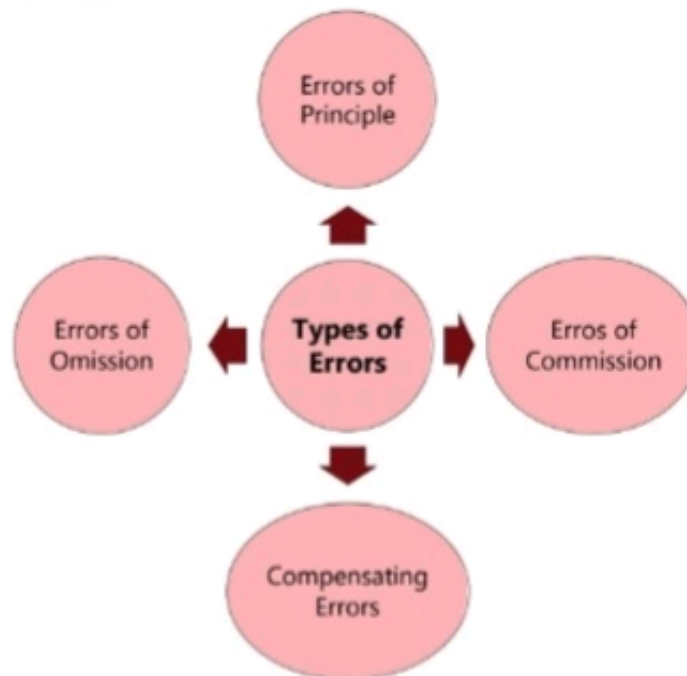


ILLUSTRATION 1

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.*

ILLUSTRATION 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 into 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.*
-

ILLUSTRATION 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 casted short by ₹100.
- (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 for his personal use had been charged to "Miscellaneous Expenses Account".
- (h) Goods amounting to ₹100 had been returned by customer and were taken into 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 correctly made in sales book.

ILLUSTRATION 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; and*
- (4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2022 amounting to ₹ 250 was not posted.*