BANK RECONCILIATION STATEMENT

SOLUTIONS

ANSWER TO Q. No. 1

Bank Reconciliation Statement as on …………

Particulars	**Amounts (in Rs.)**
Balance as per Cash Book	2,40,000
Add:	
Cheques issued but not presented in the bank	1,36,000
Interest credited by bank	1,250
Less:	
Cheques deposited in bank but not yet cleared	90,000
Bank Charges	300
Balance as per pass book	**2,86,950**

ANSWER TO Q. No. 2

Adjusted Cash Book

Dr. **Cr.**

Particulars	**Amount (in Rs.)**	**Particulars**	**Amount (in Rs.)**
To Balance b/d	6,000	By Bank A/c	1,500
To Dividend A/c	4,000	By Balance c/d	8,700
To Wrong Posting	200		
	10,200		**10,200**

Bank Reconciliation Statement as on 31st December

Particulars	**Amounts (in Rs.)**
Balance as per Adjusted Cash Book	8,700
Add: Cheques issued but not presented	7,000
Wrong credit by bank	2,000
Less:	
Cheques deposited in bank were not cleared	10,000
Balance as per Pass Book	**7,700**

ANSWER TO Q. No. 3

Adjusted Cash Book

Dr. **Cr.**

Particulars	Amount (in Rs.)	Particulars	Amount (in Rs.)
To Balance b/d	2,30,000	By Debtors A/c	2,000
		By Party A/c	30,000
		By Trade Subscription A/c	15,000
		By Balance c/d	1,83,000
	2,30,000		**2,30,000**

Bank Reconciliation Statement as on 31st March

Particulars	Amounts (in Rs.)
Balance as per Adjusted Cash Book	1,83,000
Add:	
Cheques issued but not presented	7,000
Bank credited by mistake	7,000
Less:	
Wrong debit by bank	20,000
Balance as per Pass Book	**1,77,000**

ANSWER TO Q. No. 4

Bank Reconciliation Statement as on 31st December

Particulars	Amount (Rs.)
Bank overdraft as per cash book	(22,45,900)
Add:	
Cheque issued but not presented	6,60,000
Subsidy received by back directly	14,25,000
Bills for collection credited by bank	8,36,000
Less:	
Interest debited by bank	(2,78,700)
Cheque deposited but not cleared	(13,50,000)
Amount wrongly debited by bank	(7,40,000)
Overdraft per passbook	**(16,93,600)**

ANSWER TO Q. No. 5

Bank Reconciliation Statement as on ……

Particulars	Amount (Rs.)
Balance as per cash book	1,500
Add:	
Cheque issued but not presented	150
Interest allowed by bank	50
Dividend collected by bank	50
Less:	
Cheque deposited but not cleared	100
Balance as per passbook	**1,650**

ANSWER TO Q. No. 6

Bank Reconciliation Statement as on 31st March

Particulars	Amount (Rs.)
Bank overdraft as per cash book	(5,000)
Add :	
Cheque issued but not presented	12,00,000
Wrongly credited by bank	30,68,000
Less :	
Cheque deposited but not cleared	20,00,000
Interest credited by bank	10,00,000
Bank charges	2,500
Balance as per pass book	**12.60.500**

ANSWER TO Q. No. 7

Bank Reconciliation Statement of X as on …………

Particulars	Amounts (in Rs.)
Balance as per pass book	5,000
Add:	
Interest debited by Bank but no advice received	380
Insurance premium paid by bank as per standing instruction	1,600

Cash sales were wrongly recorded in the Bank Column of the cash-book	90,000
Less:	
Bills for collection credited by the Bank but no advice was received by X	83,000
Wrong credit given by the bank	4,000
Balance as per cash book	**9,980**

ANSWER TO Q. No. 8

Bank Reconciliation Statement as on March 31

Particulars	**Amount (Rs.)**
Balance as per cash book	11,500
Add:	
Cheque issued but not presented (Ramesh's cheque)	1,500
Less:	
Cheque deposited but not cleared (Goyal and Patel's cheque)	9,800
Balance as per passbook	**3,200**

ANSWER TO Q. No. 9

Bank Reconciliation Statement as on 31st December, 2017

Particulars	**Amounts (in Rs.)**
Bank Overdraft as per Cash Book	(6,340)
Add:	
Cheques issued but not cashed	11,68,000
Interest on investment collected by the bank and credited in the Pass Book	12,00,000
Less:	
Interest on overdraft for	160
Bank charges debited in the Pass Book	400
Cheques paid into bank but not cleared	22,17,000
Balance as per Pass Book	**1,44,100**

ANSWER TO Q.NO. 10

Dr **Adjusted Cash Book (Bank Column only)** Cr

Particulars	Rs.	Particulars	Rs.
To bal b/d	8,000	By under casting	100
To wrong Carry forward	3,052	By party A/c	9000
To party A/c	150	By party A/c	131
		By bal c/d	1971
	11,202		**11,202**

Bank Reconciliation Statement as on 31st December

Particulars	Amount (Rs.)
Bank Overdraft as per adjusted cash book	1,971
Less: Cheques deposited, but not cleared	9,200
Bank overdraft as per pass book	7,229

ANSWER TO Q. No. 11

Bank Reconciliation Statement of Ram as on June 30

Particulars	Amounts (in Rs.)
Balance as per pass book	1,50,000
Add:	
Cheques deposited in bank but not yet cleared (1,12,500 + 50,000)	1,62,500
Wrong recording in Cash book	160
Debit in Pass book	100
Less:	
Wrong credit by bank	1,00,000
Balance as per Cash Book	**2,12,760**

ANSWER TO Q. No. 12

Bank Reconciliation Statement as on 31st December, 2017

Particulars	Amounts (in Rs.)
Bank Overdraft as per Cash Book	(9,340)
Add:	
Cheques issued but not presented	4,630
Dividend collected by bank	38
Less:	
Cheque dishonoured	730
Cheques paid into bank but not cleared	1,250
Overdraft as per Pass Book	**6,652**

ANSWER TO Q. No. 13

Bank Reconciliation Statement of Mr. Gadbadwala as on 31st Dec., 2017

Particulars		Amount (Rs.)
Balance as per the Cash Book		8,36,400
Add:		
Mistake in bringing forward Rs.15,260 debit balance as credit balance on 18th Dec., 2017		30,520
Cheques issued but not presented : Issued Cashed	 11,514 7,815	 3,699
Dividends directly collected by bank		25,000
Cheque recorded twice in the Cash Book		3,50,000
Deposit not recorded in the Bank column		1,50,000
Less:		
Wrong casting in the Cash Book		10,000
Cheques issued but not entered in the Bank column		1,31,000
Subscription paid by the bank directly		1,000
Balance as per the Pass Book		**12,53,619**

ANSWER TO Q. No. 14

Bank Reconciliation Statement as on 31st December, 2017

Particulars	Amounts (in Rs.)
Balance as per Pass Book	10,392
Add:	
Draft deposited but not credited	13,500
Wrong debit to company account	7,400
Trade subscription paid by bank	1,500
Less:	
Transport subsidy received by bank	42,500
Overdraft as per Cash Book	**9,708**

ANSWER TO Q. No. 15

Adjusted Cash Book as on 31.3.2017

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

Bank Reconciliation Statement as on 31.3.2017

Particulars	Amount Rs.
Bank balance as per the cash book	29,61,600
Add: Cheques issued but not yet presented for payment	35,62,000
Wrong credit given by bank	1,50,000
Less: Cheques deposited but not yet credited by bank	(44,75,000)
Balance as per the pass book	21,98,600

The bank balance of Rs. 29,61,600 will appear in the trial balance as on 31st March, 2017.

Note: Cash sales should have been recorded by passing the following entry:
Cash A/c Dr 2,55,000
To Sales A/c 2,55,000

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:
Cash A/c Dr 2,55,000
To Bank A/c 2,55,000

ANSWER TO Q. No. 16

Bank Reconciliation Statement as on March 31

Particulars	**Amount (Rs.)**
Balance as per cash book	1,47,500
Add:	
Cheque issued but not presented (Simmi and Shilpa's cheque)	29,000
Less:	
Cheque deposited but not cleared (Jyoti and Anil's cheque)	33,000
Balance as per passbook	**1,43,500**

ANSWER TO Q. No. 17

Bank Reconciliation Statement as on 31st December, 2017

Particulars	**Amounts (in Rs.)**
Bank Overdraft as per Cash Book	(6,340)
Add:	
Amount received directly by bank	1,740
Interest collected by bank	1,200
Wrong credit by bank	2,000
Less:	
Interest entered in pass book	160
Overdraft as per Pass Book	**1,560**

ANSWER TO Q.18.

Adjusted Cash Book (Bank Column)

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Party A/c	16,000		By Balance b/d	4,062
	To Customer A/c (Direct deposit)	1,17,400		By Bank charges	580
	To Balance c/d	11,242		By Customer A/c (B/R dishonoured)	1,40,000
		1,44,642			**1,44,642**

Bank Reconciliation Statement as on 30th September, 2017

Particulars	Amount in Rs.
Overdraft as per Cash Book	(11,242)
Less: Cheque deposited but not collected	(13,14,000)
Less: Cheques issued but not presented for payment	13,26,000
Add: Credit by Bank erroneously on 6th September	20,000
Balance as per bank statement	20,758

ANSWER TO Q.19.

Adjusted Cash Book (Bank column)

Date	Particulars	Amount in Rs.	Date	Particulars	Amount in Rs.
Dec. 30	To Balance b/d	4,610	Dec. 30	By Party a/c (Cheque dishonoured)	73,000
	To Dividend	3,80,000		By Bank interest and charges	4,200
				By Trade Subscription	10,000
			Dec. 31	By Balance c/d	2,97,410
		3,84,610			**3,84,610**

Bank Reconciliation Statement as at 30th December, 2017

Particulars	Amount Rs.
Balance per cash book	2,97,410
Add: Cheques issued but not yet presented	6,30,000
Deduct: Cheques deposited but not cleared	(2,50,000)
Deduct: Cheque wrongly charged by bank	(27,000)
Balance as per the bank statement	6,50,410

ANSWER TO Q. No. 20

Bank Reconciliation Statement as on March 31

Particulars	Amount (Rs.)
Balance as per cash book	2,370
Add: Cheque issued but not presented	1,510
Interest collected by bank	200
Less: Cheque deposited but not cleared	1,390
Premium paid by bank	250
Bank charges	10
Balance as per pass book	**2,430**

ANSWER TO Q. No. 21

Bank Reconciliation Statement as on March 31

Particulars	Amount (Rs.)
Balance as per pass book	1,50,000
Add: Cheque recorded in cash book	5,000
Cheque deposited but not cleared	22,000
Bank charges	250
Less:	
Cheque issued but not presented	48,000
Amount not recorded in cash book	15,700
Interest credited by bank	1,500
Balance as per cash book	**1,12,050**

ANSWER TO Q.22
IN THE BOOKS OF GOPI
ADJUSTED CASH BOOK (Bank Column)

Dr. **Cr.**

Receipts	Amount in Rs.	Payments	Amount in Rs.
To Balance b/d	44,50,000	By Insurance premium A/c	27,000
To Dividend A/c	40,000	By error of undercasting	5,000
To Rent A/c	6,00,000	By Bank charges	1,500
To Bill receivable A/c	59,000	By Bill payable	2,00,000
		By Balance c/d	**49,15,500**
	51,49,000		**51,49,000**

Bank Reconciliation Statement as on 30th June, 2017

Particulars	Amount in Rs.
Adjusted balance as per cash book (Dr.)	49,15,500
Add: Cheques issued but not presented for payment till 30th June, 2017	6,00,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2017	(5,55,000)
Balance as per pass book	**49,60,500**

ANSWER TO Q. No. 23
Bank Reconciliation Statement as on March 31

Particulars	Amount (Rs.)
Overdraft as per pass book	32,675
Add:	
Cheque recorded in cash book	
Cheque deposited but not cleared	26,000
Bank charges	150
Less:	
Cheque issued but not presented	18,513
Interest collected by bank	1,200
Overdraft as per cash book	**26,238**

ANSWER TO Q. No. 24

Bank Reconciliation Statement as on March 31

Particulars	**Amount (Rs.)**
Balance as per cash book	60,000
Add:	
Cheque issued but not presented	11,00,000
Amount deposited by debtor	5,00,000
Less:	
Cheque deposited but not cleared	16,40,000
Cheque dishonoured	4,00,000
Bank charges	2,000
Overdraft as per pass book	**3,82,000**

ANSWER TO Q. No. 25

Bank Reconciliation Statement as on March 31

Particulars	**Amount (Rs.)**
Balance as per pass book	10,00,000
Add:	
Cheque received but not sent to bank	11,20,000
Insurance premium paid by bank	60,000
Cheque entered twice in cash book	10,000
Credit side of bank column short	2,000
Bill discounted dishonoured	5,00,000
Less:	
Cheque issued but not presented	5,00,000
Cheque deposited not recorded in cash book	5,00,000
Interest credited by bank	
Bank charges	2,000
Balance as per cash book	**16,90,000**

ANSWER TO Q.NO. 26

Bank Reconciliation Statement of Mr. Anil as on 31st December

Particulars	Amount (Rs.)
Overdraft balance as per pass book	**(6,000)**
Add:	
Cheques deposited into bank but not yet collected	9,000
Bank commission	30
Less:	
Cheque issued but not yet presented to bank for payment	5,500
Wrong recording in cash book	2,000
Credit balance as per cash book	**(4,470)**

ANSWER TO Q.NO. 27

Bank Reconciliation Statement as on 31st March

Particulars	Amount (Rs.)
Debit balance as per cash book	**37,20,000**
Add:	
Cheque issued but not yet presented	7,20,000
Dividend received by bank not entered in cash book	5,00,000
Interest allowed by bank	12,500
Less:	
Cheques deposited into bank but not yet collected	15,40,000
Bank charges	2,000
A cheque deposited into bank was dishonoured	3,20,000
House tax paid by bank	3,50,000
Credit balance as per pass book	**27,40,500**

ANSWER TO Q.NO. 28

Bank Reconciliation Statement of Mr. P. Roy as on 31st December

Particulars	Amount (Rs.)
Bank Balance as per Cash Book	**75,000**
Add:	
Cheques issued but not presented for payment (Rs.3,000, Rs.4,000 & Rs.1500 respectively)	8,500
Collection by Bank from a Customer	8,000
Less:	
Cheques deposited but not credited in the Pass Book	11,000
Bank charges not recorded in the cash book	30
Balance as per Pass Book	**80,470**

ANSWER TO Q.NO. 29

Bank Reconciliation Statement of Mr. Suresh as on 31st January

Overdraft as per Cash Book	**11,515**
Less:	
Cheques deposited but not cleared (7,000 - 4,000)	3,000
Bank commission charged by the Bank	45
Add:	
Cheque issued but not presented for payment (15,000 - 9,000)	6,000
Direct deposit by a customer	6,400
Interest on investment credited in the Pass Book only	1,400
Withdrawals of Rs. 3,000 recorded in the Cash Book as Rs. 5,000	2,000
Bank balance as per Pass Book (Cr.)	**1,240**

ANSWER TO Q.NO. 30

Bank Reconciliation Statement as on 31st March

Particulars	Amount (Rs.)
Overdraft as per Pass Book	**8,800**
Less: Cheques issued but not presented till 31st March	5,800
Transfer from fixed deposit	2,000
Direct deposit by M/s Rajesh Traders	400
Add: Cheques deposited but not cleared (5,800 - 2,000)	3,800
Dividend collected excess recorded (1,520 - 1,250)	270
Interest on overdraft	930
Corporation tax paid	1,200
Overdraft as per Cash Book	**10,800**

ANSWER TO Q.NO. 31

In the Books of Mr. D

Dr **Adjusted Cash Book (Bank Column only)** **Cr**

Date	Particulars	Amount	Date	Particulars	Amount
31 Mar	To Dividend A/c	90	31 Mar	By Balance b/d	3,630
	To Error (under casting in debit side)	300		By Electric Charges A/c (Cheque drawn for Rs. 182 wrongly recorded as Rs. 128)	54
	To Balance c/d	3,732		By S. Gupta's A/c	210
				By Bank Interest	228
		4,122			**4,122**

Bank Reconciliation Statement of Mr. D as at 31st March

Particulars	Amount (Rs.)
Overdraft as per Adjusted Cash Book	**3,732**
Less: A cheque for Rs. 126 wrongly debited by Bank.	126
A lodgement not credited by Bank	1,080
Add: A cheque was issued in favour of Rath Associates not debited by Bank	1,560
Overdraft as per Pass Book	**3,378**

ANSWER TO Q.NO. 32

Dr. Adjusted Cash Book (Bank column) Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Interest received	400	By Balance b/d	5,000
		By collection charges	100
		By Bank interest	300
To Balance c/d	5,400	By customer (cheque dishonoured)	400
	5,800		**5,800**

Bank reconciliation statement as on 31st March

Particulars	Amount (Rs.)
Bank Overdraft as per adjusted cash book	5,400
Less: Cheques deposited, but not cleared	1,200
Add: cheques issued but not encashed	2,400
Bank overdraft as per pass book	4,200

ANSWER TO Q.NO. 33

Bank Reconciliation Statement of Shri Gupta as on 31st March

Particulars	Amount (Rs.)
Bank overdraft as per cash book	**30,000**
Less : Cheques deposited but not collected	300
Debit in the pass book for interest on overdraft and bank charges not recorded in the cash book (2,000 + 600)	2,600
Credit side of the bank column of the cash book undercast	100
Cheques issued to creditor not recorded in the cash book	1,000
Add : Cheques wrongly recorded in the credit side of the cash book	2,000
Cheques issued but not yet presented for payment	4,000
Dividend collected by the bank but not recorded in the cash book	500
Bank overdraft as per pass book	**27,500**

ANSWER TO Q.NO. 34

Bank Reconciliation Statement of Ajay Ghosh as on 31st March

Particulars	Amount (Rs.)
Overdraft as per cash book	**3,458**
Less :	
Cheques entered in cash book but not banked	1,000
Cheques deposited but not collected	500
Cheques deposited but dishonoured	300
Add :	
Cheques issued, not presented for payment	1,200
Bill collected, not entered in cash book	3,000
Overdraft as per pass book	**1,058**

ANSWER TO Q.NO. 35

Bank Reconciliation Statement of Mr. Sircar

Particulars	Amount (Rs.)
Overdraft as per cash book	**1,970**
Less : Cheques deposited with the bank but not yet credited in pass book	8,505
Add : Cheques issued but not yet presented to bank for payment	12,500
Interest on fixed deposit credited by bank under standing instructions	650
Balance as per pass book	**2,675**

ANSWER TO Q.NO.36

Bank Reconciliation Statement of Shri Mehta as on 31st March

Particulars	Amount (Rs.)
Bank balance as per bank statement (overdraft)	**1,65,000**
Less: Cheques issued but not presented for payment	87,500
Add: Cheques deposited with the bank but not collected	1,05,000
Cheques recorded in cash book but not sent to bank for collection	20,000
Bank balance as per adjusted cash book (overdraft)	**1,27,500**

Adjusted Cash Book

Dr. **(Bank Column)** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3	To Balance b/d **(balancing fig.)**	29,600	31.3	By Bank charges	200
	To Customer	35,000		By Customer	30,100
	To Balance c/d (calculated from BRS)	1,27,500		By Drawings (insurance premium paid by bank)	1,800
				By Error (overdraft balance carried over as debit balance)	1,60,000
		1,92,100			**1,92,100**

ANSWER TO Q.NO. 37:

Bank Reconciliation Statement of Ajay Ghosh as on 31st March

Particulars		Amount (Rs.)
Overdraft as per cash book		**3,458**
Less :		
Bill collected but omitted to be entered in pass book	300	
Pay off of bills payable not entered in cash book	600	
Bank charges	30	
Interest on overdraft	170	
Add :		
Direct deposit of rent into bank	340	
Overdraft as per pass book		**4,218**

ANSWER TO Q.NO. 38:

Bank Reconciliation Statement of the trader as on 31st March

Particulars	Amount (In Rs.)
Overdraft as per cash book	**15,280**
Less: Cheques deposited with the bank but not yet credited by bank	20,000
Bank charges not yet recorded in the cash book	680
Add:	
Interest on securities collected by the bank	2,560
Dividend collected by the bank	2,000
Cheques issued but not yet presented	74,800
Balance as per pass book	**43,400**

ANSWER TO Q.NO. 39:

Bank Reconciliation Statement of Mr.Gupta as on 31st March

Particulars	Amount (In Rs.)
Debit Bank Balance	**4,800**
Less: Cheques deposited but not yet credited by bank	3,610
Bank charges appearing in pass book but not yet recorded in cash book	40
Add:	
Cheques issued but not yet presented by payees for payment in the bank	2,050
Collections made by the bank and appearing in pass book but not yet recorded in cash book	1,000
Balance as per pass book	**4,200**

ANSWER TO Q.NO. 40:

Bank Reconciliation Statement of the trader as on 31st March

Particulars	Amount (In Rs.)
Overdraft as per cash book	**1,800**
Less: Cheques deposited with the bank on 31st March, but credited by bank on 1st April	9,200
Bank Charges debited by bank	230
Add:	
Cheques issued but not yet presented for payment	8,500
Dividend collected by bank on behalf of the trader	5,000
Wrong entry in cash book	1,000
Balance as per pass book	**3,270**

VALUATION OF INVENTORIES

SOLUTIONS

ANSWER TO Q.NO. 1

In the books of Manufacturer

Total No. of units purchased	2,600
Less: Total No. of units sold	1,600
Closing Stock	1,000

Statement showing the valuation of closing stock by FIFO Method

PARTICULARS	Rs.
The value of 800 units @ Rs.47	37,600
The value of 200 units @ Rs.60	12,000
Total	**49,600**

ANSWER TO Q. No. 2

Books of manufactures Stock ledger by LIFO

Date	Receipts			Issues			Balance		
Dec	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
4	900	50	45000	-	-	-	900	50	45000
5	-	-	-	500	50	25000	400	50	20000
10	400	55	22000	-	-	-	400 400	50 55	20000 22000
11	300	55	16500	-	-	-	400 400 300	50 55 55	20000 22000 16500
19	200	60	12000	-	-	-	400 400 300 200	50 55 55 60	20000 22000 16500 12000
20	-	-	-	200 300 100	60 55 55	12000 16500 5500	400 300	50 55	20000 16500

28	800	47	37600	-	-	-	400 300 800	50 55 47	20000 16500 37600
29	-	-	-	500	47	23500	400 300 300	50 55 47	20000 16500 14100

The closing stock consists of 1000 units for Rs. 50,600

ANSWER TO Q. No. 3

In the books of Manufacturer

Total No. of units purchased	2,600
Less: Total No. of units sold	1,600
Closing Stock	1,000

Statement showing the valuation of closing stock by LIFO Method

Particulars	Rs.
The value of 900 units @ Rs.50	45,000
The value of 100 units @ Rs.55	5,500
Total	**50,500**

ANSWER TO Q. No. 4

In the books of Manufacturer

Total No. of units purchased	2,600
Less: Total No. of units sold	1,600
Closing Stock	1,000

Statement showing the valuation of closing stock by Simple Average Method

Particulars	Rs.
Calculation of simple average price $\frac{50+55+55+60+47}{5}$	53.4
The value of 1000 units @ 53.4	53,400
Total	**53,400**

ANSWER TO Q. No. 5

Stock ledger by weighted Avg. Method

Date	**Receipts**			**Issues**			**Balance**		
Dec	**Q**	**P**	**A**	**Q**	**P**	**A**	**Q**	**P**	**A**
4	900	50	45000	-	-	-	900	50	45000
5	-	-	-	500	50	25000	400	50	20000
10	400	55	22000	-	-	-	800	52.5 (WN1)	42000
11	300	55	16500	-	-	-	1100	53.18	58498
19	200	60	12000	-	-	-	1300	54.23	70499
20	-	-	-	600	54.23	32538	700	54.23	37961
28	800	47	37600	-	-	-	1500	50.37	75562
29	-	-	-	500	50.37		1000	50.37	50370

Closing stock consists of 1000 units for Rs. 50,370

Working Note

1. (400 x 50) + (400 x 55) divided by 800 = 52.5

ANSWER TO Q. No. 6

In the books of Manufacturer

Total No. of units purchased	2,600
Less: Total No. of units sold	1,600
Closing Stock	1,000

Statement showing valuation of closing stock by weighted Average Method

Particulars	**Rs.**
The value of 1000 units at weighted average price of Rs.51.19	51,190
Value of Closing Inventory	**51,190**

Working note

1. **Calculation of weighted average price:**

Date	Quantity	Price	P x Q
Dec 4	900	50	45000
Dec 10	400	55	22000
Dec 11	300	55	16500
Dec 19	200	60	12000
Dec 28	800	47	37600
	2,600		**1,33,100**

Weighted Average Price = 133100 / 2600 = 51.19

ANSWER TO Q. No. 7

In the books of Hindustan Ltd.

Stock Ledger by FIFO Method

Date	Receipts			Issues			Balance inventory		
Mar	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
1							100	1.75	175
5	150	1.5	225				100 150	1.75 1.5	175 225
8				100 100	1.75 1.5	175 150	50	1.5	75
12	300	1.6	480				50 300	1.5 1.6	75 480
18				50 200	1.5 1.6	75 320	100	1.6	160

The value of Closing Stock of 100 units is 160

The value of issues of 450 units is 720

ANSWER TO Q.19.

Statement of Valuation of Stock as on 31st March, 2017

PARTICULARS	Rs.
Value of stock as on 1st April, 2016	1,42,500
Add: Purchases	7,62,500
Add: Manufacturing expenses	1,50,000
Less: Cost of goods sold (WN 1)	9,92,500
Value of stock as on 31.3.2017	62,500

WORKING NOTE

Sales	12,45,000
Less: abnormal sales	45,000
Normal sales	12,00,000
Less: GP margin 20%	2,40,000
Cost of normal sales	9,60,000
Cost of abnormal sales (given) (50,000 – 17,500)	32,500
Cost of goods sold	9,92,500

ANSWER TO Q.20.

Statement of Valuation of Stock as on 31st March, 2017

PARTICULARS	Rs.
Value of stock as on 1st April, 2016	7,00,000
Add: Purchases	34,60,000
Add: Manufacturing expenses	7,00,000
Less: Cost of goods sold (WN 1)	41,88,000
Value of stock as on 31.3.2017	6,72,000

WORKING NOTE

Sales	52,20,000
Less: abnormal sales	160000
Normal sales	50,60,000
Less: GP margin 20%	10,12,000
Cost of normal sales	40,48,000
Cost of abnormal sales (given)	1,40,000
Cost of goods sold	41,88,000

ANSWER TO Q.NO.21

Statement showing the valuation of Inventory as on 30th September

Value of Inventory as on 10th October	1,67,500
Less: Cost of old moving items	1,125
Add: NRV of old moving items	525
Value of Inventory as on 30th September	1,66,900

ANSWER TO Q.NO. 22

Selling price of closing inventory = Rs. 50,000

Less: Gross profit Margin @ 20% = Rs. 10,000

Cost price of closing inventory = Rs.40,000

Calculation of gross profit margin:

	Rs.
Sales	2,00,000
Add: Closing inventory (at selling price)	50,000
Less: Opening stock	Nil
Less: Purchases	2,00,000
Gross Profit	50,000

Calculation of gross profit margin:

Rate of gross margin = $\frac{50{,}000}{2{,}50{,}000} \times 100$ = 20%

ANSWER TO Q.NO. 23

Statement of Valuation of Stock as on 31st March, 2017

PARTICULARS	**Rs.**
Value of stock as on 1st April, 2016	1,42,500
Add: Purchases	7,62,500
Add: Manufacturing expenses	1,50,000
Less: Cost of goods sold (WN 1)	9,92,500
Value of stock as on 31.3.2017	62,500

WORKING NOTE

Sales	12,45,000
Less: abnormal sales	45,000
Normal sales	12,00,000
Less: GP margin 20%	2,40,000
Cost of normal sales	9,60,000
Cost of abnormal sales (given) (50,000 – 17,500)	32,500
Cost of goods sold	9,92,500

ANSWER TO Q.NO. 24

Statement showing the valuation of Inventory as on 31st March, 2016

Value of Inventory as on 10th April	1,67,500
Add: Cost of goods sold after 31st March till Inventory taking (Rs.6,875 - Rs.1,719)	5,156
Less: Purchases for the next period (net)	(8,100)
Value of Inventory	1,64,556

ANSWER TO Q.NO. 25

Profit and Loss Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Advertisement (samples)	40,000	By Net profit	6,00,000
To Sales (goods approved in April to be taken as April sales: 75,000 + 25,000)	1,00,000	By Electric fittings / Fixture & fittings (reduction in purchases will increase profit) (it is presumed this cost shall be added to the cost of shop and shall not be charged to profit n loss)	15,000
		By Samples (reduction in purchases will increase profit)	40,000
		By Stock (purchases of March not included in stock)	2,50,000
		By Sales (goods sold in March wrongly taken as April sales)	2,00,000
To Adjusted net profit	10,40,000	By Stock (goods sent on approval basis not included in stock)	75,000
	11,80,000		**11,80,000**

Calculation of value of inventory on 31st March, 2016

Stock on 31st March, 2016 (given)	3,75,000
Add: Purchases of March, 2016 not included in the stock (Since invoice is entered therefore no impact on profit, only on stock)	2,50,000
Goods lying with customers on approval basis	75,000
	7,00,000

ANSWER TO Q.NO. 26

Statement of valuation of Inventory on 31st March, 2017

	Rs.	Rs.
Value of Inventory as on 15th April, 2017		5,00,000
Add: Cost of goods sold during the period between 31st March, 2017 to 15th April, 2017		
Sales (Rs. 4,10,000 - Rs. 10,000)	4,00,000	
Less: Gross Profit (20% of Rs. 4,00,000)	80,000	3,20,000
		8,20,000
Less: Purchases during the period from 31st March, 2017 to 15th April, 2017		50,340
		7,69,660

ANSWER TO Q.NO. 27

Statement of Valuation of Stock on 30th June, 2016

Value of stock as on 23rd June, 2016		48,00,000
Add: Stock of the goods sent on consignment		2,40,000
Purchases during the period from 23rd June, 2016 to 30th June		4,00,000
Less: Cost of sales		
Sales (Rs. 13,60,000 - Rs. 3,20,000) Less: Gross profit 20% X (Rs. 13,60,000 - Rs. 3,20,000 – Rs.1,20,000) = 1,84,000 Less: loss on abnormal sales = 1,20,000 Gross profit	10,40,000 64,000	 9,76,000
Value of stock as on 30th June, 2016		44,64,000

ANSWER TO Q.NO. 28

Statement of Valuation of Physical Inventory

	Rs.
Value of Inventory as per books / perpetual inventory	1,50,000
Add: Goods Purchased and included in the physical stock but no entry was made in the books	10,000
Add: Goods were sold and entered in the books but the stock is yet to be delivered	30,000
Less: Goods were returned to the suppliers but is omitted to be recorded	5,000
Value of the physical inventory	1,85,000

ANSWER TO Q.NO. 29

Calculation of value of inventory

Date		Receipts			Issues			Balance		
		Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
April 01	Opening Stock							50	44	2,200
April 02	Purchases	100	47	4,700				150	46	6,900
April 02	Issued				50	46	2,300	100	46	4,600

Closing stock = 100 Units x 46 = 4,600

ANSWER TO Q.NO. 30

Statement of Valuation of Physical Stock as on 31st March, 2016

		Rs.
Value of stock as on 9th April, 2016		2,50,000
Add: Cost of sales during the intervening period		
Sales	17,200	
Less: Gross profit @25% on sales	(4,300)	12,900
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2016 to 9.4.2016	1,200	
Less: Goods not received upto 9.4.2016	(500)	700
Less: Purchases during March, 2016 received on 4.4.2016		1,000
Value of physical stock as on 31.3.2016		2,61,200

DEPRECIATION ACCOUNTING

SOLUTIONS

ANSWER TO Q.1.

Machinery Account

DATE	PARTICULARS	AMOUNT IN RS.	DATE	PARTICULARS	AMOUNT IN Rs.
2015			**2015**		
July 1	To Bank A/c	15,00,000	Dec. 31	By Depreciation A/c (15,00,000 X 10% X 6/12)	75,000
			Dec. 31	By Balance c/d	14,25,000
		15,00,000			**15,00,000**
2016			**2016**		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c (15,00,000 X 10%)	1,50,000
			Dec. 31	By Balance c/d	12,75,000
		14,25,000			**14,25,000**

Depreciation Account

DATE	PARTICULARS	AMOUNT IN RS.	DATE	PARTICULARS	AMOUNT IN Rs.
2015			**2015**		
Dec. 31	To Machinery A/c	75,000	Dec. 31	By Profit & Loss A/c	75,000
		75,000			**75,000**
2016			**2016**		
Dec. 31	To Machinery A/c	1,50,000	Dec. 31	By Profit & Loss A/c	1,50,000
		1,50,000			**1,50,000**

ANSWER TO Q.2.

DATE	PARTICULARS	AMOUNT IN Rs.	DATE	PARTICULARS	AMOUNT IN Rs.
2015			**2015**		
July 1	To Bank A/c	15,00,000	Dec. 31	By Depreciation A/c (15,00,000 X 10% X 6/12)	75,000
			Dec. 31	By Balance c/d	14,25,000
		15,00,000			**15,00,000**
2016			**2016**		
Jan. 1	To Balance b/d	14,25,000	Dec. 31	By Depreciation A/c (14,25,000 X 10%)	1,42,500
			Dec. 31	By Balance c/d	12,82,500
		14,25,000			**14,25,000**

ANSWER TO Q.3.

Dep for I yr

$$= \frac{1,00,000-10,000}{72,000}\times 5000 = 6250$$

$$\text{II yr} = \frac{1,00,000-10,000}{72,000}\times 10,000 = 12500$$

$$\text{III yr } \frac{1,00,000-10,000}{72,000}\times 12,000 = 15000$$

$$\text{IV yr } \frac{1,00,000-10,000}{72,000}\times 20,000 = 25000$$

ANSWER TO Q.4.

$$\text{III} = \frac{1,10,000 - Nil}{10,000}\times 5000 = 55000$$

ANSWER TO Q.5.

SLM Dep rate = $\frac{SLMDEp}{OC} \times 100$

I Dep = $\frac{1,00,000 - 20,000}{8} = 10,000$

Dep rate = $\frac{10,000}{1,00,000} \times 100 = 10\%$

II Dep $\frac{31000 - 310}{6} = 4650$

Dep rate = $\frac{4650}{31000} \times 100 = 15\%$

III 30%

IV 16%

ANSWER TO Q.NO. 6

Quarry Lease Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2013			2013		
Jan	To Bank A/c	1,00,00,000	Dec. 31	By Depreciation A/c [(2,000/2,00,000) $\times$ Rs.1,00,00,000]	1,00,000
				By Balance c/d	99,00,000
		1,00,00,000			**1,00,00,000**
Jan. 1 14	To Balance b/d	99,00,000	Dec. 31	By Depreciation A/c	5,00,000
			Dec. 31	By Balance c/d	94,00,000
		99,00,000			**99,00,000**
Jan.1, 15	To Balance b/d	94,00,000	Dec. 31, 15	By Depreciation A/c	7,50,000
			Dec. 31	By Balance c/d	86,50,000
		94,00,000			**94,00,000**

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
Dec. 31	To Quarry lease A/c	1,00,000	Dec. 31	By Profit & Loss A/c	1,00,000
		1,00,000			**1,00,000**
Dec.31	To Quarry lease A/c	5,00,000	Dec.31	By Profit & Loss A/c	5,00,000
		5,00,000			**5,00,000**
Dec.31	To Quarry lease A/c	7,50,000	Dec.31	By Profit & Loss A/c	7,50,000
		7,50,000			**7,50,000**

ANSWER TO Q. No. 7

Statement of Annual Depreciation under Machine Hours Rate Method

Year	Annual Depreciation
1-3	$\frac{3{,}000}{24{,}000} \times$ (Rs.30,00,000 – Rs.2,00,000) = Rs.3,50,000
4-6	$\frac{2{,}600}{24{,}000} \times$ (Rs.30,00,000 – Rs.2,00,000) = Rs.3,03,333
7-10	$\frac{1{,}800}{24{,}000} \times$ (Rs.30,00,000 – Rs.2,00,000) = Rs.2,10,000

ANSWER TO Q.8.

In the books of M/s Akash & Co.
Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2015			2015		
Jan. 1	To Balance b/d (WN 1)	3,60,000	Dec.31	By Depreciation A/c (WN 2)	80,000
			Dec.31	By Balance c/d	2,80,000
		3,60,000			**3,60,000**

Depreciation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2015			2015		
Dec. 31	To Machinery A/c	80,000	Dec. 31	By Profit and Loss A/c	80,000
		80,000			**80,000**

Working Notes:

(1) Total of sum of digit of depreciation for 2010-2014

$$= (\text{Rs. } 10{,}00{,}000 - \text{Rs. } 1{,}20{,}000) \times \frac{10 + 9 + 8 + 7 + 6}{\frac{10(10+1)}{2}}$$

$$= \text{Rs. } 8{,}80{,}000 \times \frac{40}{55} = \text{Rs. } 6{,}40{,}000$$

Written down value as on 1-1-2015

Rs.10,00,000 – Rs.6,40,000 = Rs.3,60,000

(2) **Depreciation for 2015**

(Rs. 10,00,000 – Rs. 1,20,000) × 5 / 55 = Rs. 80,000

ANSWER TO Q.9.

Year	Annual Depreciation
1 - 3	$\frac{20,000}{1,50,000}\times$(Rs.20,00,000 - Rs.2,00,000) = Rs.2,40,000
4 - 7	$\frac{15,000}{1,50,000}\times$(Rs.20,00,000 - Rs.2,00,000) = Rs.1,80,000
8 - 10	$\frac{10,000}{1,50,000}\times$(Rs.20,00,000 – Rs.2,00,000) = Rs.1,20,000

ANSWER TO Q.10.

Books of Firm

Machinery Account

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
2015			2015		
Jan. 1	To Bank A/c	6,00,000	Dec. 31	By Depreciation A/c	70,000
July 1	To Bank A/c	2,00,000		By Balance c/d	7,30,000
		8,00,000			**8,00,000**
2016			2016		
Jan. 1	To Balance b/d	7,30,000	July 1	By Depreciation on sold machine	27,000
July 1	To Bank A/c	4,00,000		By Bank A/c	3,86,000
				By Loss on sale of machinery A/c	1,27,000
			Dec. 31	By Depreciation A/c	39,000
				By Balance c/d	5,51,000
		11,30,000			**11,30,000**

Working Note:

Book Value of Machines

	Machine	Machine	Machine
	I	**II**	**III**
	Rs.	**Rs.**	**Rs.**
Cost	6,00,000	2,00,000	4,00,000
Depreciation for 2014	(60,000)	(10,000)	
Written down value	5,40,000	1,90,000	
Depreciation for 2016	(27,000)	(19,000)	(20,000)
Written down value	5,13,000	1,71,000	3,80,000
Sale Proceeds	(3,86,000)		
Loss on Sale	1,27,000		

ANSWER TO Q.NO. 14

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

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

SLM Depreciation = Total Cost of Asset × Rate of Depreciation × Time period

Accordingly,

(a) If the machine was purchased on 1st April, 2012:

Amount of Depreciation = Rs. 10,00,000 × 20% × $\frac{12}{12}$ = Rs. 2,00,000

(b) If the machine was purchased on 1st July, 2012

Amount of Depreciation = Rs. 10,00,000 × 20% × $\frac{9}{12}$ = Rs. 1,50,000

(c) If the machine was purchased on 1st October, 2012

Amount of Depreciation = Rs. 10,00,000 × 20% × $\frac{6}{12}$ = Rs. 1,00,000

(d) If the machine was purchased on 1st January, 2013

Amount of Depreciation = Rs. 10,00,000 × 20% × $\frac{3}{12}$ = Rs. 50,000

ANSWER TO Q.NO. 15

Dr. **Machinery Account** **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
01.01.11	To Bank A/c	80,000	31.12.11	By Depreciation A/c	8,000
				By Balance c/d	72,000
		80,000			**80,000**
01.01.12	To Balance b/d	72,000	31.12.12	By Depreciation A/c	9,200
01.07.12	To Bank A/c	40,000		By Balance c/d	1,02,800
		1,12,000			**1,12,000**
01.01.13	To Balance b/d	1,02,800	31.3.13	By Bank (Sale) A/c	11,000
30.06.13	To P & L A/c (Profit on Sale)	2,076		By Depreciation A/c	285
	To Bank A/c	20,000	30.6.13	By P & L A/c (Loss on Sale)	115
				By Bank A/c (Sale)	26,700
			31.12.13	By Depreciation A/c	1,296
				By Depreciation A/c	7,048
				By Balance c/d	78,432
		1,24,876			**1,24,876**

ANSWER TO Q.NO. 16

The amount of depreciation to be charged in year 2012 = Rs.4,500

Machinery I purchased on 01 Jan 2012:
Cost = Acquisition + Installation charges = Rs.90,000
Depreciation for 2012 @ 10% for 6 months = 90,000 X 10% X 6/12 = Rs.4,500

Machinery II is purchased on last day of the year. Therefore, no depreciation shall be charged in this year. Depreciation on this machinery shall commence from next year.

ANSWER TO Q.NO. 20

Cost as per supplier's list	Rs.10,40,000	
Less: Agreed discount	Rs.1,00,000	Rs.9,40,000
Add: Delivery charges		Rs.20,000
Add: Erection charges		Rs.40,000
Add: Additional components to increase capacity of the machine		Rs.80,000
Cost of the machine		10,80,000

Depreciation for the third year by WDV:

10,80,000 – 10% - 10% X 10% = 87,480

ANSWER TO Q.NO. 21

Depreciation for the current year: 1,16,700

On old machinery = WDV of old machinery – scrap / Remaining life

= 5,67,000 – nil / 5 = 1,13,400

On new machinery = Cost of machinery – scrap / Remaining life = 66,000 – nil / 10 = 6,600

6 months depreciation = 6,600 / 2 = 3,300

ANSWER TO Q. No. 23

Particulars	Rs.
Depreciation per year = Rs.6,00,000 / 10	Rs.60,000
Depreciation on SLM for three years = Rs.60,000 x 3	Rs.1,80,000
Book value of machine at the end of third year = Rs.6,00,000 – Rs.1,80,000	Rs.4,20,000
Remaining useful life as per revised estimate	5 years
Depreciation from the fourth year onwards = Rs.4,20,000 / 5 =	Rs.84,000 per annum

ANSWER TO Q.NO. 26

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
Jul-01, 2014	To Bank A/c	6,40,000	Dec-31, 2014	By Depreciation A/c (780000 X 20% X 6/12)	78,000
Jul-01	To Bank A/c	80,000	Dec-31	By balance c/d	7,02,000
Jul-01	To Bank A/c	60,000			
		7,80,000			**7,80,000**
Jan-01	To balance b/d	7,02,000	Dec-31	By Depreciation A/c (780000 X 20%) (100000 X 20%)	1,76,000
Jan-01	To Bank A/c	1,00,000	Dec-31	By balance c/d	6,26,000
		8,02,000			**8,02,000**
2016			2016		
Jan-01	To balance b/d	6,26,000	Jul-01	By Bank A/c	1,34,800
	To Bank A/c	50,000	Jul-01	By Depreciation A/c (On machinery sold)	26,000
			Jul-01	By Profit & Loss A/c	21,200
			Dec-31	By Depreciation A/c (520000 x 20%) (100000 x 20%) (50,000 x 10%)	1,29,000
			Dec-31	By balance c/d	3,65,000
		6,76,000			6,76,000

The method of machinery sold as on 1.7.2016 may be obtained as follow:

	Rs.
Cost of machinery sold as on 1.7.2014	2,60,000
Less: Depreciation for 2014 (for ½ year)	(26,000)
Less: Depreciation for 2015	(52,000)
Less: Depreciation for 2016 (for ½ year)	(26,000)
	1,56,600
Less: Amount received	(1,34,800)
	21,200

ANSWER TO Q.NO. 27

MOTOR TRUCK ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
2016 Jan-01	To balance b/d (WN 1)	2,92,50,000	2016 Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (WN 2)	4,50,000	Oct-01	By Depreciation on asset sold	6,75,000
Oct-01	To Bank A/c	50,00,000	Oct-01	By Depreciation A/c (WN 3)	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017 Jan-01	To balance b/d	2,29,75,000	2017 Dec-31	By Depreciation A/c (WN 4)	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. Balance b/d = Dep for 2014 = (45,00,000 x 10) x 20% x 9/12 = 67,50,000
   Dep for 2015 = (45,00,000 x 10) x 20% = 90,00,000
   Balance = 4,50,00,000 – 67,50,000 – 90,00,000 = 2,92,50,000

2. To find out loss on Profit on settlement of truck

	Rs.
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	(6,75,000)
	38,25,000
Less: Depreciation for 2015	(9,00,000)
	29,25,000
Less: Depreciation for 2016 (9 months)	(6,75,000)
	22,50,000
Less: Amount received from Insurance company	(27,00,000)
	4,50,000

3. Depreciation for 2016 = 45,00,000 x 9 trucks x 20% = 81,00,000
   Depreciation on new truck = 50,00,000 x 20% x 3/12 = 2,50,000
   TOTAL DEPRECIATION = 83,50,000

4. Depreciation for 2017 = 45,00,000 x 9 trucks x 20% = 81,00,000
   Depreciation on new truck = 50,00,000 x 20% = 10,00,000
   TOTAL DEPRECIATION = 91,00,000

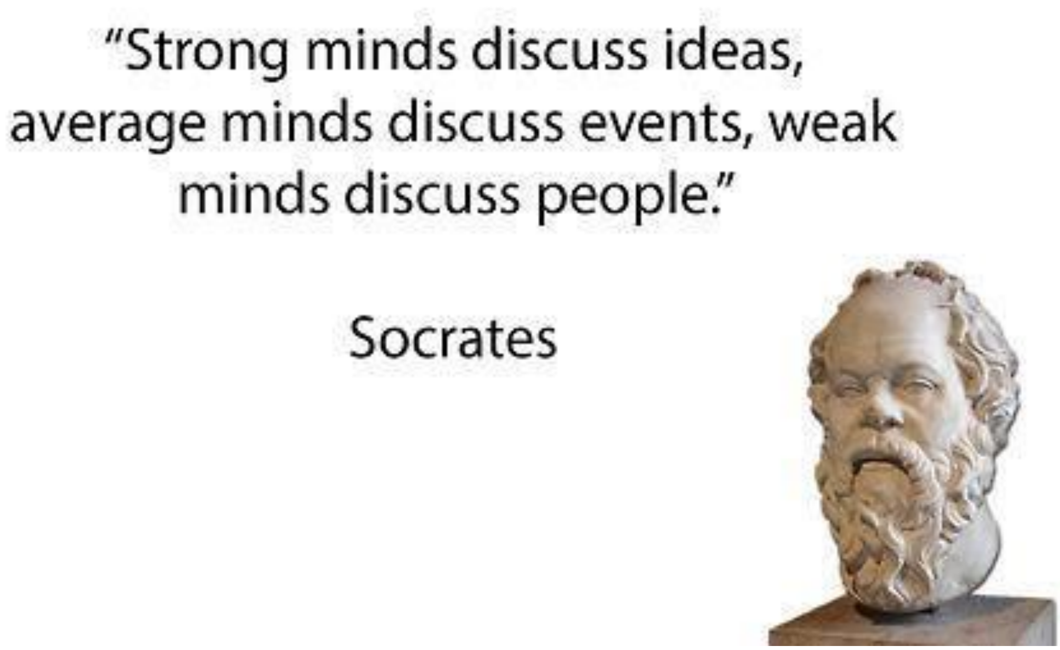
ANSWER TO Q.NO. 29

Depreciation per year = 12,25,000 – 25,000 / 10 = 1,20,000

Depreciation for 4 years (2010 – 2013) = 1,20,000 X 4 = 4,80,000

Cost to be allocated = 12,25,000 – 4,80,000 + 2,00,000 = 9,45,000

Depreciation for 2014 = 9,45,000 – 25,000 / 6 = 1,53,333



PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS

SOLUTIONS

ANSWER TO Q.NO. 1

In the books of M/s. ABC Traders

Trading Account for the year ended 31st March, 2016

Particulars		Amount	Particulars		Amount
	Rs.	Rs.		Rs.	Rs.
To Opening Inventory		1,00,000	By Sales Less : Returns Inward	11,00,000 (1,00,000)	10,00,000
To Purchases Less : Returns outward	6,72,000 (72,000)	6,00,000	By Closing Inventory		2,00,000
To Carriage Inwards		30,000			
To Wages		50,000			
To Gross profit		4,20,000			
		12,00,000			**12,00,000**

Journal Proper in the Books of M/s. ABC Traders

Date 2017	Particulars		Debit Amount Rs.	Credit Amount Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			

	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
	Sales A/c	Dr	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	7,80,000	
	To Opening Inventory A/c			1,00,000
	To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	(Being the transfer of balances of opening Inventory, purchases and wages accounts)			
	Closing Inventory A/c	Dr.	2,00,000	
	To Trading A/c			2,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	4,20,000	
	To Gross Profit			4,20,000
	(Being the amount of gross profit)	Dr.		
	Gross profit		4,20,000	
	To Profit and Loss A/c			4,20,000
	(Being the transfer of gross profit to Profit and Loss Account)			

ANSWER TO Q.NO. 2

In the Books of M/s. ABC Traders

Profit and Loss Account for the year ended 31st March, 2016

Particulars	Amount Rs.	Particulars	Amount Rs.
To Salaries	1,10,000	By Gross Profit	4,20,000
To Legal Charges	25,000	By Discount received	18,000
To Consultancy Fees	32,000		
To Audit Fees	1,000		
To Electricity Charges	17,000		
To Telephone, Postage &Telegrams	12,000		
To Stationery	27,000		
To Depreciation	65,000		
To Discount Allowed	19,000		
To Bad Debts	17,000		
To Interest	70,000		
To Net Profit	43,000		
	4,38,000		**4,38,000**

Journal Proper in the Books of M/s. ABC Traders

Date	Particulars		Amount	Amount
2016			**Rs.**	**Rs.**
March 31	Profit & Loss Account	Dr.	3,95,000	
	To Salaries A/c			1,10,000
	To Legal Charges A/c			25,000
	To Consultancy Fees A/c			32,000
	To Audit Fees A/c			1,000
	To Electricity Charges A/c			17,000
	To Telephone, Postage & Telegrams A/c			12,000
	To Stationery A/c			27,000
	To Depreciation A/c			65,000
	To Discount Allowed A/c			19,000
	To Bad Debts A/c			17,000
	To Interest A/c			70,000
	(Being the transfer of balances of various expenses accounts)			
	Discount Received A/c	Dr.	18,000	
	To Profit & Loss A/c			18,000
	(Being the transfer of discount received account balance)			
	Gross Profit A/c	Dr.	4,20,000	
	To Profit & Loss A/c			4,20,000
	(Being the transfer of gross profit from Trading Account)			
	Profit & Loss A/c	Dr.	43,000	
	To Net Profit A/c			43,000
	(Being the ascertainment of net profit)			
	Net Profit A/c	Dr.	43,000	
	To Capital A/c			43,000
	(Being the transfer of net profit to Capital A/c)			

ANSWER TO Q.NO. 4

Date	Particulars	L.F.	Rs.	Rs.
2017				
Dec. 31	Trading Account	Dr.	30,20,000	
	To Inventory Account			2,00,000
	To Purchase A/c			18,20,000
	To Wages A/c			10,00,000
	(Being the accounts in the Trial Balance which have to be transferred to the Trading Account debit side)			
Dec. 31	Sales Account	Dr.	50,00,000	
	To Trading A/c			50,00,000
	(Being the amount of Sales transferred to the credit of Trading Account)			
Dec. 31	Inventory (Closing) A/c	Dr.	2,70,000	
	To Trading A/c			2,70,000
	(Being the value of Inventory on hand on 31st Dec. 2016)			
Dec. 31	Trading A/c	Dr.	22,50,000	
	To Profit and Loss A/c			22,50,000
	(Being the transfer of gross profit.)			
Dec. 31	Profit and Loss A/c	Dr.	16,50,000	
	To Discount Allowed Account			50,000
	To Salaries A/c			10,00,000
	To Sundry Office Expenses A/c			6,00,000
	(Being the various expense accounts transferred to the P & L Account)			
Dec. 31	Discount Received A/c	Dr.	30,000	
	To P & L Account			30,000
	(Being the credit balance of discount received transferred to Profit and Loss A/c)			
Dec.31	Profit and Loss A/c	Dr.	6,30,000	
	To Capital A/c			6,30,000
	(Being the transfer to Net Profit to the Capital Account)			
			1,28,50,000	**1,28,50,000**

Trading Account of the year ended December 31, 2017

Particulars	Rs.	Particulars	Rs.
To Inventory A/c	2,00,000	By Sales A/c	50,00,000
To Purchases	18,20,000	By Inventory (Closing)	2,70,000
To Wages	10,00,000		
To Gross profit transferred. to P & L A/c	22,50,000		
	52,70,000		52,70,000

Profit and Loss Account for the year ended December 31, 2017

Particulars	Rs.	Particulars	Rs.
To Salaries	10,00,000	By Gross profit transferred. From the Trading Account	22,50,000
To Discount Allowed	50,000	By Discount Received	30,000
To Sundry Office Expenses	6,00,000		
To Net Profit transferred to Capital A/c	6,30,000		
	22,80,000		**22,80,000**

ANSWER TO Q.NO. 5

Trading Account for the year ended 31st March

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To opening Stock A/c	10,000	By Sales A/c 2,00,000	
To Purchases A/c 2,00,000		Less: Returns 5,000	1,95,000
Less: Returns 2,500	1,97,500	By Closing Stock A/c	20,000
To Carriage Inwards A/c	1,500	By Gross Loss transferred to Profit and Loss A/c	7,500
To Freight inwards A/c	2,500		
To Clearing Charges A/c	11,000		
	2,22,500		**2,22,500**

Note: Carriage Outwards will be charged to the Profit and Loss Account.

ANSWER TO Q.NO. 6

Trading Account for the year ended 31st March

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Opening Stock A/c	1,50,000	By Sales A/c:	
To Purchase A/c		Cash Sales 1,60,000	
Cash Purchases 1,50,000		Credit Sales 11,00,000	
Credit Purchases 9,00,000		12,60,000	
10,50,000		Less: Return Inwards 20,000	12,40,000
Less: Returns Outward 10,000	10,40,000	By Closing Stock A/c (Valued at cost or market value whichever is less)	84,000
To Freight Inwards A/c	3,000		
To Carriage Inwards A/c	3,000		
To Wages and Salaries A/c	4,000		
To Gross Profit tfd. to P & L A/c	1,24,000		
	13,24,000		**13,24,000**

ANSWER TO Q.NO. 7

Trading and Profit and Loss Account of Mr. X

For the year ended 31st March, 2012

Dr. **Cr.**

Particulars		Rs.	Particulars		Rs.
To Opening Stock Account		40,000	By Sales Account	1,27,500	
			Less: Returns	2,000	1,25,500
To Purchases Account	60,000		By Closing Stock Account		35,000
Less: Returns	1,275	58,725			
To wages Account		10,000			
To Freight Inwards Account		1,000			
To Gross Profit c/d		50,775			
		1,60,500			**1,60,500**
To Discount Allowed Account		450	By Gross Profit b/d		50,775
To Salaries Account		7,000	By Discount Received Account		800
To Freight outwards Account		1,200			
To Rent, Rates and Taxes Account		2,000			
To Advertisements Account		2,000			
To Net profit transferred to Capital Account		38,925			
		51,575			**51,575**

Balance Sheet

As at 31st March, 2012

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		25,000	Cash at Bank	7,000
Capital:			Sundry Debtors	45,000
Opening Balance	1,13,075		Closing Stock	35,000
Add: Net Profit	38,925	1,52,000	Plant and Machinery	90,000
		1,77,000		**1,77,000**

ANSWER TO Q.NO. 8

In the books of Mr. Mohan

Trading Account for the year ended 31st March

Particulars		Amount	Particulars		Amount
To Opening Inventory		1,10,000	By Sales Less: Returns	9,70,000 (20,000)	9,50,000
To Purchases Less: Returns	4,30,000 (12,000)	4,18,000	By Closing Inventory		1,80,000
To Freight Inwards		40,000			
To Gross profit		5,62,000			
		11,30,000			**11,30,000**

Profit and Loss Account for the year ended 31st March

Particulars	Rs.	Particulars	Rs.
To Depreciation	35,000	By Gross profit	5,62,000
To Salaries	2,10,000	By Discount received	9,000
To Administration expenses	1,50,000		
To Discount allowed	19,000		
To Bad debts	5,000		
To Net profit	1,52,000		
	5,71,000		5,71,000

Balance Sheet as on 31st March

Liabilities		Amount	Assets		Amount
		Rs.			Rs.
Capital	6,50,000		Furniture	3,50,000	
Add: Net profit	1,52,000	8,02,000	Less: Depreciation	(35,000)	3,15,000
Trade payables		1,90,000	Closing Inventory		1,80,000
			Trade receivables		2,10,000
			Investment in Govt securities		1,00,000
			Cash in Hand and Cash at Bank		1,87,000
		9,92,000			**9,92,000**

ANSWER TO Q.NO. 10

Books of C. Wanchoo

Trading Account for the year ended 31st March

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Stock Account	2,000	By Sales Account	50,000
To Purchases Account	15,000	By Closing Stock Account	2,700
To Wages Account	10,000		
To Fuel and Power Account	3,000		
To Factory Lighting Account	200		
To Gross Profit Transferred to Profit and Loss Account	22,500		
	52,700		**52,700**

Profit and Loss Account
For the year ended 31st March

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Salaries Account	7,000	By Gross Profit	22,500
To Discount Allowed Account	500	By Discount Received Account	300
To Advertisement Account	5,000		
To Sundry Office Expenses Account	4,000		
To Net Profit	6,300		
	22,800		**22,800**

ANSWER TO Q.NO. 11

In the books of Shri Mittal

Trading Account

for the year ended 31st March, 2017

Particulars		Amount	Particulars		Amount
		Rs.			Rs.
To Opening inventory		72,000	By Sales Less: Returns	12,10,000 (40,000)	11,70,000
To Purchases Less: Returns	6,05,000 (30,000)	5,75,000	By Closing inventory		1,00,000
To Gross Profit		6,23,000			
		12,70,000			**12,70,000**

Profit and Loss Account

For the year ended 31st March, 2016

Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Salaries	2,70,000	By Gross profit	6,23,000
To Advertisement	1,10,000		
To Other expenses	60,000		
To Net profit	1,83,000		
	6,23,000		**6,23,000**

Balance Sheet as on 31st March, 2017

Liabilities	Rs.	Amount Rs.	Assets	Amount Rs.
Capital	8,70,000		Building	8,90,000
Add: Net profit	1,83,000	10,53,000	Furniture	4,50,000
14% Bank Loan		2,00,000	Trade receivables	90,000
Trade payables		1,70,000	Closing inventory	1,00,000
Overdrafts		1,12,000	Cash in hand	5,000
		15,35,000		**15,35,000**

Note: As loan and overdraft taken at year end so no interest shown.

ANSWER TO Q.NO. 12

Trading and Profit and Loss Account
for the year ending 31st March

Particulars	Rs.	Particulars	Rs.
To Opening Inventory	5,00,000	By Sales	17,00,000
To Purchases	12,50,000	By Closing Inventory	10,00,000
To Wages	3,00,000		
To Gross Profit	6,50,000		
	27,00,000		**27,00,000**
To Bad Debts	50,000	By Gross Profit	6,50,000
To Depreciation	1,50,000		
To Salaries	2,20,000		
To Net Profit transferred to Capital A/c	2,30,000		
	6,50,000		**6,50,000**

Balance Sheet as at 31st March

Liabilities	Rs.	Rs.	Assets	Rs.
Trade payables		9,00,000	Cash in Hand	5,60,000
Capital:			Trade receivables	3,50,000
Previous Balance Add : Net Profit	25,00,000 2,30,000	27,30,000	Closing Inventory	10,00,000
			Furniture & Fixtures	1,50,000
			Plant & Machinery	15,70,000
		36,30,000		**36,30,000**

ANSWER TO Q.NO. 13

Trading and Profit and Loss Account

For the year ended 31st March

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock Account	9,600	By Sales Less Returns Account	24,900
To Purchase Less Returns Account	11,850	By Closing Stock Account	3,500
To Wages and Salaries Account	3,200		
To Commission on Purchases Account	200		
To Freight Account	300		
To Gross Profit c/d	3,250		
	28,400		**28,400**
To Trade Expenses Account	20	By Gross Profit b/d	3,250
To Rent Account	200	By Discount on Purchases Account	400
To Bad Debts Account	500		
To Repairs to Plant Account	160		
To Net Profit	2,770		
	3,650		**3,650**

Balance Sheet of Mohan

As at 31st March

Liabilities		Rs.	Assets	Rs.
Capital:			Plant	2,000
Opening Balance	5,000		Closing inventory	3,500
Add: Net Profit	2,770			
Less: Income Tax	550			
Drawings	650	6,570		
Loan		900	Debtors	4,000
Bills Payable		500	Bills Receivable	600
Creditors		2,330	Cash in hand and at Bank	200
		10,300		**10,300**

ANSWER TO Q.NO. 14

In the Books of M/s Dayal Bros.
Balance Sheet
as on 31st March, 2017

Liabilities	Rs.	Amount Rs.	Assets	Amount Rs.
Capital: Opening Balance Add: Net Profit Less: Drawings	7,00,000 1,00,000 (60,000)	7,40,000	Land & Building	3,00,000
Trade payables		40,000	Furniture	2,00,000
14% Term Loan		4,00,000	Inventories in Trade	6,00,000
Loan from M/s D & Co		4,60,000	Trade receivables	4,20,000
			Advance to suppliers	1,00,000
			Cash in Hand	20,000
		16,40,000		**16,40,000**

ANSWER TO Q.NO. 16

Books of Mr.Popatlal
Opening entry

			(Dr.) Rs.	(Cr.) Rs.
1.4.2017	Fixed Assets A/c	Dr.	1,25,600	
	Inventories A/c	Dr.	2,06,400	
	Trade receivables A/c	Dr.	1,88,000	
	Cash A/c	Dr.	36,200	
	To Trade payables A/c			1,64,000
	To Bank Overdraft A/c			1,46,000
	To Provision for Doubtful Debts A/c			6,200
	To Capital A/c			2,40,000

ANSWER TO Q.NO. 17

1) Computation of Net Profit:

Commission Manager = Rate of Commission X Net Profit before charging such commission

So, Commission to manager = 10/100 X Net Profit before charging such commission

=> Rs. 2,00,000 = 10/100 X Net Profit before charging such commission
=> Net Profit before charging such commission = Rs.20,00,000
=> Net Profit (F) = Rs. (20,00,000 - 2,00,000) = Rs.18,00,000

2) Computation of Selling Expenses:

Total income appearing in P&L A/c = Rs.60,00,000

Total expenses other than selling expenses = Rs. (26,00,000 + 13,00,000 + 2,00,000)
= Rs.41,00,000

So,

Selling Expenses + Remaining Expenses + Net Profit = Total Income

=> Selling Expenses = Rs.60,00,000 - Rs.41,00,000 - Rs.18,00,000
=> Selling Expenses = E = Rs.1,00,000

3) Computation of Sales:

We have been given selling expenses amount to 1% of Sales

So, Sales = $\frac{\text{Selling Expenses}}{1} \times 100$

= A

= Rs. 100,00,000

4) Computation of Gross Profit:

Sales - COGS

So, Gross Profit (B) = Rs.55,00,000

5) Miscellaneous Income = Total Income in P&L - Gross Profit

= Rs. (60,00,000 - 55,00,000)

= Rs.5,00,000 = D

C = Rs.100,00,000

G = Rs.60,00,000

ANSWER TO Q.NO. 19

	Rs.
(i) Salaries to be charged to profit and loss account for the year ended 31st December, 2016:	
Salaries of 8 employees for 12 months @ Rs.33,000 p.m. each	31,68,000
Salaries of 2 trainees for 6 months @ Rs.21,000 p.m. each	2,52,000
	34,20,000
(ii) Salaries actually paid in 2016	
Salaries of 8 employees for January to November, 2016 paid in February-December, 2016 @ Rs.33,000 for 11 months	29,04,000
Salaries of 2 trainees for July to November paid in August to December @ Rs.21,000 for 5 months	2,10,000
December, 2015 salary paid in January, 2016 (8 employees x 30,000)	2,40,000
	33,54,000
(iii) Outstanding salaries as at 31st December, 2016	
8 employees @ Rs.33,000 each for 1 month	2,64,000
2 trainees @ Rs.21,000 each for 1 month	42,000
	3,06,000

ANSWER TO Q.NO.20:

Calculation of Cost of Goods sold:

Particulars	**Rs.**
Opening Stock	2,00,000
Add: Purchases (Closing stock already adjusted)*	10,00,000
	12,00,000

*Since, closing stock appears in Trial Balance, it means following entry has already been passed in books:

Closing Stock A/c	Dr.	3,00,000	
To Purchases A/c			3,00,000

Therefore no more adjustment needs to be made on account of closing stock for computing Cost of goods sold (COGS).

ANSWER TO Q.NO.21:

The Opening Entry : 01-01-2017

		Dr.(Rs.)	**Cr.(Rs.)**
Cash A/c	Dr.	43,000	
Bank A/c	Dr.	2,67,500	
Trade receivables	Dr.	7,49,500	
Inventory A/c	Dr.	9,00,000	
Machinery and Equipment A/c	Dr.	6,00,000	
To Mahendra & Sons A/c			5,60,000
To Capital A/c			20,00,000
(Being the balances brought forward)			
		25,60,000	**25,60,000**

ANSWER TO Q.NO.22:

i) Computation of Income for the year 2016-17:

	Rs.
Money received during the year related to 2016-17	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2016-17	6,50,000

ii) Advance from Customers A/c

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
	To Sales A/c (Advance related to current year transferred to sales)	1,50,000	1.4.2016	By Balance b/d	2,00,000
31.3.17	To Balance c/d	1,70,000		By Bank A/c (Balancing Figure)	1,20,000
		3,20,000			3,20,000

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	6,20,000

ANSWER TO Q.NO. 23

In the Books of Mr. Vimal

Manufacturing Account for the Year ended 30.6.2016

Particulars	Units	Amount	Particulars	Units	Amount
		Rs.			**Rs.**
To Opening Work- in Process	10,000	16,000	By Closing Work- in Process	12,000	20,000
To Raw Materials Consumed: Opening 1,70,000 Add: Purchases 8,20,000 Less: Closing 1,90,000		8,00,000	By Trading A/c – Cost of finished goods produced during the year	5,00,000	19,00,800
To Direct Wages (W.N.1)		4,04,800			
To Direct expenses:					
Hire charges of machine (W.N.2)		3,00,000			
PRIME COST		**15,04,800**			
To Indirect expenses:					
Hire charges of Factory Shed		2,20,000			
Repairs Maintenance		1,80,000			
OVERHEADS		**400,000**			
		19,20,800			**19,20,800**

Working Notes :

(1) Direct Wages: 5,00,000 units @ Rs. 0.80	Rs. 4,00,000
12,000 units @ Rs. 0.40	Rs. 4,800
	Rs.4,04,800
2) Hire charges on Machinery: 5,00,000 units @ Rs. 0.60	Rs.3,00,000

ANSWER TO Q.NO. 24

In the Books Of Mr.Pankaj

Manufacturing Account

For the year ended on 31.03.2016

Particular	Amount	Particulars	Amount
	Rs.		**Rs.**
To Opening W.I.P	3,90,000	By Closing Work in Progress	5,07,000
To Raw Material Consumed: Opening Inventory 3,02,000 Add: Purchases 12,10,000 Less: Return 18,000 Less: Closing inventory 3,10,000	11,84,000	By By - products	20,000
To Direct Wages	2,10,000	By Trading A/c- Cost of finished Goods transferred	13,21,000
Prime cost	**13,94,000**		
To Indirect Material To Indirect wages	16,000 48,000		
Overheads	**64,000**		
	18,48,000		**18,48,000**

ANSWER TO Q.NO.25:

Trading and Profit & Loss Account for the period ended 31st March, 2012

To Opening Stock		11,520	By Sales	1,97,560	
			Less: Returns	(1,360)	1,96,200
To Purchases		80,350	By Closing Stock		13,600
To Wages	20,960				
Less: Erection of Shed	(4,000)	16,960			
To Carriage		4,080			
To Fuel & Power		9,460			
To Gross Profit c/d		87,430			
		2,09,800			**2,09,800**
To Carriage Outward		6,400	By Gross Profit b/d		87,430
To Salaries	30,000				
Add: Outstanding	3,000	33,000			
To General Expenses		6,000			
To Insurance	1,200				
Less: Prepaid	(170)	1,030			
To Depreciation		7,000			
To Provision for Doubtful Debts		1,450			
To Net Profit t/f to Capital A/c		32,550			
		87,430			**87,430**

Balance Sheet as at 31st March, 2012

Creditors		12,600	Cash in hand		1,080
Outstanding Salaries		3,000	Cash at bank		5,260
Capital:			Debtors	29,000	
			Less: Provision	(1,450)	27,550
Opening Balance	1,42,000		Prepaid Insurance		170
Add: Net Profit	32,550		Closing Stock		13,600
Less: Drawings	(10,490)	1,64,060	Building (Rs.60,000 + Rs.4,000)		64,000
			Land		20,000
			Machinery	40,000	
			Less: Depreciation	(4,000)	36,000
			Patents	15,000	
			Less: Depreciation	(3,000)	12,000
		1,79,660			**1,79,660**

ANSWER TO Q.NO. 26

Books of M/s Govaskar, Viswanath & Co.

Trading for the year ended 31st March 2017

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening stock	6,20,000	By sales (WN 4)	22,44,000
To Purchases (WN 8)	13,34,000	By closing stock	4,40,000
To Freight on purchases	12,000		
To Gross profit	7,18,000		
	26,84,000		**26,84,000**
To Provision for debts (WN1)	33,000	By Gross profit	7,18,000
To Depreciation (WN5)	1,20,000	By discount Received	16,000
To Interest on Loan (WN9)	33,000		
To Salaries	1,10,000		
To Godown rent (WN10)	66,000		
To Rates & taxes	21,000		
To Discount	24,000		
To Carriage outward	20,000		
To Insurance (WN)	12,000		
To Printing & stationery	18,000		
To Electricity charges	22,000		
To General office expenses	30,000		
To Bank charges	16,000		
To Motor car	36,000		
To Net profit	1,73,000		
	7,34,000		**7,34,000**

Balance Sheet As at 31st March 2017

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
Creditors	4,30,000	Cash In hand	14,000
Loan from Viswanath	3.00,000	Cash at Bank	26,000
Outstanding interest (WN9)	6,000	Debtors 8,60,000 Less: Provision 43,000	8,17,000
Outstanding rent (WN10)	11,000	Stock in Trade	4,40,000
Capital 16,20,000 Less: Drawings1,60,000 Add: Profit 1,73,000	16,33,000	Prepaid Insurance	3,000
		Furniture & Fixture (WN3)	1,80,000
		Office equipment (WN7)	1,70,000
		Buildings 6,00,000 Less: Dep.(WN5) 30,000	5,70,000
		Motor car 2,00,000 Less: Dep.(WN5) 40,000	1,60,000
	23,80,000		**23,80,000**

Working Notes:

(1) **Provision for bad debts A/c**

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
To bad debts a/c	20,000	By balance b/d	30,000
To balance c/d (8,60,000 X 5%)	43,000	By Profit & Loss A/c (b/f)	33,000
	63,000		63,000

(2)

Bank	14000	Bank	14000
To furniture	14000	To sales	14000
Correct journal		Wrong journal	

Rectification entry :

Sales A/c Dr.	14000
To furniture A/c	14000

(3)

Furniture

Balance as on 31/03	2,14,000
Less: Sales of furniture (WN2)	14,000
Less: Depreciation @ 10%	2,00,000 x 10% = 20,000
Correct Balance	1,80,000

(4)

Calculation of Correct Sales:

Given Balance	23,00,000
Less: Wrong transaction (WN2)	14,000
Less: Sales Return	42,000
Net Sales	22,44,000

(5)

Depreciation:

Furniture & Fixture	20,000
Office equipment	30,000
Building [6L X 5%]	30,000
Motor car [2L X 20%]	40,000
	1,20,000

(6)

Rectification entry :

Office equipment A/c Dr.	40000
To Purchases A/c	40000

(7)

Office Equipment:

Balance	1,60,000
Add: Type writer (WN6)	40,000
Less: Depreciation @ 15%	30,000
	1,70,000

(8)

Purchases	14,00,000
Less: Wrong recording	40,000
Less: Purchase return	26,000
	13,34,000

(9)

Interest on Loan

3,00,000 X 12% X 11/12	33,000
Interest Paid	27,000
Outstanding	6,000

(10)

Godown rent for 2 months = $\frac{55000}{10} X\ 2$

Outstanding Rent =	11,000
Paid	55,000
Rent for the year	66,000

(11)

Insurance Premium	55,000
Less: Drawings	40,000
From 01/04/16 – 30/06/17 [15 months]	15,000

Less: 3 Months Prepaid	15,000 X 3 / 15 = 3000
Transfer to Profit & Loss	12,000

ANSWER TO Q.No.27

Calculation of bad and doubtful debts

	Rs.
Debtors	30,000
Less: further bad debts	3,000
Net debtors	27,000
Provision for bad debts 10% (27,000 X 10%)	2,700

ANSWER TO Q.NO.28:

Calculation of Cash Balance

	Rs.
Opening balance	1,00,000
Cash sales	50,000
Collection from debtors (Credit sales = 4,50,000 Outstanding debtors = 1,00,000 Therefore, collection from debtors = 3,50,000)	3,50,000
Cash balance	5,00,000

ANSWER TO Q.NO.29:

Dr. Provision for bad debts account Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To bad debts	10,000	By bal b/d	15,000
To bal c/d	20,000	By profit and loss (b/f)	15,000
	30,000		**30,000**

ANSWER TO Q.NO.31:

Profit and Loss Account (Revised)

Particulars	**Rs.**	**Particulars**	**Rs.**
To Outstanding expenses	1,80,000	By Balance b/d	15,30,000
To NP (correct)	13,70,000	By Prepaid insurance	20,000
	15,50,000		**15,50,000**

Balance Sheet of Thapar
as on 31st December, 2016

Liabilities		Rs.	Assets		Rs.
Capital	50,00,000		Cash at Bank		10,35,000
Add: Net Profit	13,70,000		Trade receivables	20,00,000	
	63,70,000		Less: Provision for doubtful debts	(1,00,000)	19,00,000
Less : Drawings	(6,00,000)		Plant and Machinery	30,00,000	
	57,70,000		Less: Depreciation	(3,00,000)	27,00,000
Add: Interest on capital	3,00,000	60,70,000	Furniture & Fixture	3,00,000	
Outstanding expenses		1,80,000	Less: Depreciation	(15,000)	2,85,000
Trade payables		11,40,000	Inventories		14,50,000
			Prepaid insurance		20,000
		73,90 000			**73,90,000**

ANSWER TO Q.NO.32:

Calculation of purchase price per piece of cover file

Per 100 files	275
Per 1000 files	2750
Add: sales tax 5% = 2750 X 5%	137.5
Add: transport charges	50
Purchase price	2937.5
Purchase price per piece = 2937.5 / 1000	2.9375

ANSWER TO Q.NO.33:

Dr. **Debtors account** **Cr.**

Particulars	Rs.	Particulars	Rs.
To bal b/d	10,200	By sales return	2,700
To sales (b/f)	37,900	By cash	30,400
		By bad debts	1,200
		By bal c/d	13,800
	48,100		**48,100**

Total sales = cash sales + credit sales = 66,300

ANSWER TO Q.NO.34:

Trading and Profit & Loss Account For the year ended 31st March 2008

To Opening Stock		15,500	By Sales	2,07,300	
To Purchases	1,06,000		Less: Sales Returns	5,100	2,02,200
Less: Purchases Returns	2,100	1,03,900	By Closing Stock		14,900
To Freight on Purchases		2,800			
To Wages	26,000				
Add: Outstanding wages	2,100	28,100			
To Gross Profit c/d		66,800			
		2,17,100			**2,17,100**
To Salaries		11,000	By Gross Profit b/d		66,800
To Rent		3,000	By Discount		1,200
To Postage and Telegrams		1,400			
To Stationery		1,300			
To Repairs		4,500			
To carriage on sales		4,000			
To General Expenses	2,500				
Less: Prepaid Insurance	600	1,900			
To Interest on Loan @ 9%		1,350			
To Bad Debts	600				
Add: Provision for bad debts	1,500	2,100			
To depreciation on:					
Land and Building	700				

Plant and Machinery	5,000				
Fixtures and Furnitures	750	6,450			
To Commission to manager (Note)		2,818			
To Net Profit transferred to capital a/c		28,182			
		68,000			**68,000**

Note: Profit before charging commission is Rs.31,000. commission payable @ 10% of net profit after charging such commission.

Manager's Commission

= Net Profit $\times$ % of Commission/100 + % of Commission

= Rs.31,000 $\times$ 10/110 = Rs.2,818

Balance Sheet

As at 31st March, 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry Creditors		9,600	**Current Assets**		
Wages outstanding		2,100	Cash in Hand		100
Manager's commission (Note)		2,818	Cash at Bank		6,400
Mrs. Ram Narain's Loan	30,000		Sundry Debtors	30,000	
Add: Interest on Loan	1,350	31,350	Less: Provision for Doubtful Debts	1,500	28,500
Capital			Closing stock		14,900
Opening Balance	60,000		Unexpired Insurance		600
Add: Net Profit	28,182	88,182	**Fixed Assets**		
			Furniture and Fixtures	5,000	
			Less: Depreciation	750	4,250

			Machinery	50,000	
			Less: Depreciation	5,000	45,000
			Land and Building	35,000	
			Less: Depreciation	700	34,300
		1,34,050			**1,34,050**

ANSWER TO Q.NO.35:

In the books of Shri Mittal
Trading Account
for the year ended 31st March, 2017

Particulars		**Amount**	**Particulars**		**Amount**
		Rs.			**Rs.**
To Opening inventory		72,000	By Sales	12,10,000	
To Purchases	6,05,000		Less: Returns	(40,000)	11,70,000
Less: Returns	(30,000)	5,75,000	By Closing inventory		1,00,000
To Gross Profit		6,23,000			
		12,70,000			**12,70,000**

Profit and Loss Account
For the year ended 31st March, 2016

Particulars	**Amount**	**Particulars**	**Amount**
	Rs.		**Rs.**
To Salaries	2,70,000	By Gross profit	6,23,000
To Advertisement	1,10,000		
To Other expenses	60,000		
To Net profit	1,83,000		
	6,23,000		**6,23,000**

Balance Sheet as on 31st March, 2017

Liabilities		**Amount**	**Assets**	**Amount**
	Rs.	Rs.		Rs.
Capital	8,70,000		Building	8,90,000
Add: Net profit	1,83,000	10,53,000	Furniture	4,50,000
14% Bank Loan		2,00,000	Trade receivables	90,000
Trade payables		1,65,000	Closing inventory	1,00,000
Overdrafts		1,12,000		
		15,30,000		**15,30,000**

ANSWER TO Q.NO.36: **In the Books of M/s Dayal Bros.**

Balance Sheet as on 31st March, 2017

Liabilities		**Amount**	**Assets**	**Amount**
Capital: Balances	7,00,000		Land & Building	3,00,000
Add: Net Profit	1,00,000		Furniture	2,00,000
	8,00,000		Inventories in Trade	6,00,000
Less: Drawings	(60,000)	7,40,000	Trade receivables	4,20,000
14% Term Loan		4,00,000	Advances to Suppliers	1,00,000
Loan from M/s D & Co.		4,60,000	Cash in Hand	20,000
Trade payables		40,000		
		16,40,000		**16,40,000**

ANSWER TO Q.No.37:

C. WANCHOO

Dr. **Trading Account of the year ended 31st December** **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Stock A/c	2,000	By Sales A/c	50,000
To Purchases	18,200	By Closing Stock	2,700
To Wages	10,000		
To Gross profit trfd. to P & L A/c	22,500		
	52,700		**52,700**

Profit and Loss Account for the year ended 31st December

Particulars	Rs.	Particulars	Rs.
To Salaries	10,000	By Gross profit	22,500
To Discount Allowed	500	By Discount Received	300
To Sundry Office Expenses	6,000		
To Net Profit	6,300		
	22,800		**22,800**

ANSWER TO Q.NO.38:

Calculation of amount to be paid by suraj without any discount

	Rs.
After availing cash discount of 10%, amount paid	1800
So, liability settled for Rs. 1800 x 100/90	2000
After availing cash discount of 5%, amount paid	2850
So, liability settled for Rs. 2850 x 100/95	3000
On account of final settlement = 7000 – 2000 – 3000	2000

ANSWER TO Q.NO.39:

In the books of Mr. Mohan

Trading Account for the year ended 31st March, 2017

Particulars		Amount	Particulars		Amount
		Rs.			Rs.
To Opening Inventory		1,10,000	By Sales	9,70,000	
To Purchases	4,30,000		Less: Returns	(20,000)	9,50,000
Less: Returns	(12,000)	4,18,000	By Closing Inventory		1,80,000
To Freight Inwards		40,000			
To Gross profit		5,62,000			
		11,30,000			**11,30,000**

Profit and Loss Account

for the year ended 31st March, 2017

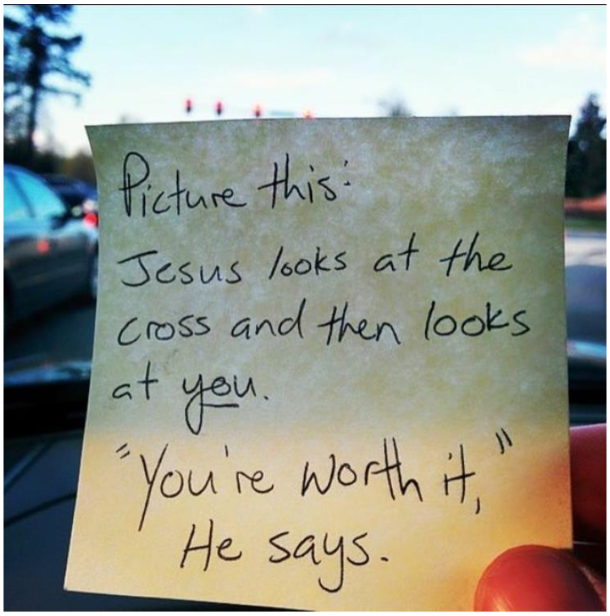
Particulars	Rs.	Particulars	Rs.
To Depreciation	35,000	By Gross profit	5,62,000
To Salaries	2,10,000	By Discount received	9,000
To Administration expenses	1,50,000		
To Discount allowed	19,000		
To Bad debts	5,000		
To Net profit	1,52,000		
	5,71,000		**5,71,000**

ANSWER TO Q.NO.40:

Profit and Loss Account

Dr. **for the year ended 31st March** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Expenses on Sale	33,000	By Gross Profit	1,25,000
To Expenses on Administration	18,000		
To Financial Charges	6,000		
To Net Profit	68,000		
	1,25,000		**1,25,000**



SPECIAL TRANSACIONS

BILLS OF EXCHANGE

ANSWER TO Q.NO. 1

Books of Vijay

Journal

2016		Rs.	Rs.
1-Apr	Pritam Dr. To Sales Account (Sales of goods to Pritam as per Invoice No...)	1,06,000	 1,06,000
	Bills Receivable Account Dr. To Pritam (3 months acceptance received from Pritam)	1,06,000	 1,06,000
4 – July	Pritam Dr. To Bills Receivable Account (Pritam acceptance cancelled because of renewal)	1,06,000	 1,06,000
	Bills Receivable Account Dr. Cash Account Dr. To Pritam To interest [New acceptance for 2 months for Rs.106,000 and Cash (for interest @ 9%) received from Pritam	1,06,000 1,590	 1,06,000 1,590
7 – Sep	Bank Account Dr. To Bills Receivable Account (Cash received against Pritam's second acceptance)	1,06,000	 1,06,000

Books of Pritam

Journal

2016		Rs.	Rs.
1-Apr	Purchase Account Dr. To Vijay A/c (Purchase of goods from Vijay as per Invoice No...)	1,06,000	 1,06,000
	Vijay A/c Dr.	1,06,000	

	To Bills Payables Account (3 months acceptance given to Vijay)		1,06,000
4 – July	Bills Payable Account Dr. To Vijay A/c (Cancellation of bill because of renewal)	1,06,000	1,06,000
	Vijay Account Dr. Interest Account Dr. To Cash Account To Bills Payable Account [New acceptance for 2 months for Rs. 106,000 and Cash (for interest) paid to Vijay]	1,06,000 1,590	 1,590 1,06,000
7 – Sep	Bills Payable Account Dr. To Bank Account (Cash paid against second bill)	1,06,000	1,06,000

ANSWER TO Q.2.

Journal Entries in the books of B

Date 2016	**Particulars**	**Debit Rs.**	**Credit Rs.**
Jan. 1	Purchases account Dr. To A's account (Being the goods purchased from A on credit)	10,000	10,000
	A's account Dr. To Bills payable account (Being the acceptance of bill given to A)	10,000	10,000
1-Mar	Bills payable account Dr. To Bank account To Rebate account (Being the bill discharged under rebate @ 12% p.a. for 1 month)	10,000	 9,900 100

Working Note :

Calculation of rebate:

10,000 x 12/100 x 1/12 = Rs. 100

ANSWER TO Q.3.

Journal of A

		Rs.	Rs.
Bills receivable (No. 1) A/c Bills receivable (No. 2) A/c Bills receivable (No. 3) A/c To B (Three bills for Rs. 3,000, Rs. 2,000 and Rs. 1,000 drawn on B and duly accepted by him received)	Dr. Dr. Dr.	3000 2000 1000	 6,000
B To Bills Receivable (No. 1) A/c (Bill received from B cancelled for renewal)	Dr.	3,000	 3,000
Cash Account Bill Receivable (No. 4) Account To B To Interest Account (Amount received on cancellation of the first bill,50% along with a new bill for 50% of the amount plus interest Rs. 100)	Dr. Dr.	1,500 1,600	 3,000 100
C To Bills Receivable (No. 4) A/c (A's acceptance endorsed in favour of C)	Dr.	1,600	 1,600
Bank A/c Discount A/c To Bills Receivable (No. 2) A/c (Second Bill for Rs. 2,000 discounted with the bank @ 5%) **Note: time is not mentioned in question**	Dr. Dr.	1,900 100	 2,000
B To Bank A/c (Second Bill for Rs. 2,000 discounted with the Bank dishonoured, noting charges Rs. 30 paid by the Bank)	Dr.	2,030	 2,030
Bank A/c To Bills Receivable (No.3) A/c (Amount received on maturity of the third bill)	Dr.	1,000	 1,000

ANSWER TO Q.4.

Journal Entries in the books of Ankita

Date	Particulars	Rs.	Rs.
2016 Jan. 1	Bhavika's account Dr. To Sales account (Being the goods sold to Bhavika on credit)	5,00,000	 5,00,000
	Bills receivable account Dr. To Bhavika's account (Being the acceptance of bill received)	5,00,000	 5,00,000
1-Mar	Bank account Dr. Rebate on bills account Dr. To Bills receivable account (Being retirement of bill by Bhavika one month before maturity, the rebate being given to her at 12% p.a.)	4,95,000 5,000	 5,00,000

Journal Entries in the books of Bhavika

Date	Particulars	Rs.	Rs.
2016 Jan. 1	Purchases account Dr. To Ankita account (Being the goods purchased from Ankita on credit)	5,00,000	 5,00,000
	Ankita Account Dr. To Bills Payable Account (Being the acceptance of bill)	5,00,000	 5,00,000
1-Mar	Bills payable Account Dr. To Rebate Income Account To Bank account (Being retirement of bill one month before maturity, the rebate being received at 12% p.a.)	5,00,000	 5,000 4,95,000

ANSWER TO Q.5.

Books of K. Katrak
Journal Entries

		Rs.	Rs.
(i)	Bills Payable Account Dr. Interest Account Dr. To Cash A/c To Bills Payable Account (Bills Payable to Basu discharged by cash payment of Rs. 1,000 and a new bill for Rs. 1,550 including Rs. 50 as interest)	2,500 50	 1,000 1,550
(ii)	(a) G. Gupta Dr. To M. Mehta (G. Gupta's acceptance for Rs. 4,000 endorsed to M Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)	4,020	 4,020
	(b) M. Mehta Dr. To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)	4,020	 4,020
(iii)	Bank Account Dr. Rebate Account Dr. To Bills Receivable Account (Payment received from D. Dalal against his acceptance for Rs. 2,000. Allowed him a discount of Rs. 10)	1,990 10	 2,000
(iv)	Bills Payable Account Dr. To Bills Receivable Account (Bills Receivable from P. Mody endorsed to P. Patel in settlement of bills payable issued to him earlier)	5,000	 5,000

ANSWER TO Q.NO.8

Journal entries in the books of Eknath

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
Jan. 1	Vilas A/c Dr. To Bills Payable A/c (Being the bill draws by him accepted)		10,000	 10,000
Mar. 4	Bills Payable A/c Dr. To Bank A/c To Rebate A/c (Being retirement of acceptance 1 month before maturity, interest allowed at 12% p.a.)		10,000	 9,900 100

ANSWER TO Q.NO.9

Journal entries in the books of Vilas

Date	Particulars	Rs.	Rs.
2016 Jan. 1	Bills Receivable A/c Dr. To Eknath A/c (Being bill of exchange drawn on Eknath due for payment on 4th April 2016)	10,000	 10,000
Mar. 4	Bank A/c Dr. Rebate A/c Dr. To Bills Receivable A/c (Being retirement of bill of exchange due for maturity on 4th April, 2016 by Eknath 1 month before maturity, the rebate being given to him at 12% p.a.)	9,900 100	 10,000

ANSWER TO Q.NO. 10

In the books of Harry

Journal Entries

Date	Particulars	Rs.	Rs.
1.7.2016	Gorge's account Dr. To Bills payable account (Acceptance of bill drawn by Gorge)	1,80,000	1,80,000
1.9.2016	Jack's account Dr. To Sales account (Sales made to Jack)	1,90,000	1,90,000
1.9.2016	Bills receivable account Dr. Bank account Dr. Discount account Dr. To Jack's account (Acceptance received from Jack's endorsement of bill received from Gorge for Rs.1,80,000 and Rs.9,000 received in full settlement of the amount due)	1,80,000 9,000 1,000	1,90,000
1.9.2016	Bills payable account Dr. To Bills receivable account (Own acceptance received from Jack's endorsement, cancelled)	1,80,000	1,80,000
1.10.2016	Purchase account Dr. To Gorge's account (Purchases made from Gorge)	2,00,000	2,00,000
	Gorge's account Dr. To Bank account (Amount paid to Gorge after adjusting Rs. 180,000 for accommodation extended to him)	20,000	20,000

In the books of Gorge
Journal Entries

Date	Particulars		Rs.	Rs.
1.7.2016	Purchases Account To Jack Account (Purchase of goods from Jack)	Dr.	1,81,000	 1,81,000
1.7.2016	Bills Receivable Account To Harry Account (Acceptance by Harry of bill drawn on him)	Dr.	1,80,000	 1,80,000
1.7.2016	Jack's account To discount Account To Bills Receivable Account (Harry's bill endorsed to Jack)	Dr.	1,81,000	 1,000 1,80,000
1.10.2016	Harry Account To Sales account (Sales to Harry)	Dr.	2,00,000	 2,00,000
1.10.2016	Bank Account To Harry account (Amount received from Gorge after adjusting Rs.180,000 for accommodation extended by him)	Dr.	20,000	 20,000

ANSWER TO Q.NO.11

Journal Entries in the books of Mr. David

Date	Particulars	Rs.	Rs.
Jan. 1	Bills receivable (No. 1) A/c Dr. Bills receivable (No. 2) A/c Dr. To Mr. Thomas's A/c (Being drawing of bills receivable No. 1 due for maturity on 4.3.2016 and bills receivable No. 2 due for maturity on 4.4.2016)	6,000 10,000	 16,000
4-Mar	Mr. Thomas's A/c Dr. To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on agreed renewal)	6,000	 6,000
	Bills receivable (No. 3) A/c Dr. To Interest A/c To Mr. Thomas's A/c (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2016 together with interest at18%p.a. in lieu of the original acceptance of Mr. Thomas)	6,180	 180 6,000
20-Mar	Bank A/c Dr. Discount A/c Dr. To Bills receivable (No. 2) A/c (Being the amount received on retirement of bills No.2 before the due date)	9,900 100	 10,000
7-May	Mr. Thomas's A/c Dr. To Bills receivable (No. 3) A/c (Being the amount due from Mr. Thomas on dishonour of his acceptance on presentation on the due date)	6,180	 6,180
	Bank A/c Dr. To Mr. Thomas's A/c (Being the amount received from official assignee of Mr. Thomas at 50 paise per rupee against dishonoured bill)	3,090	 3,090
	Bad debts A/c Dr. To Mr. Thomas's A/c (Being the balance 50% debt in Mr. Thomas's Account arising out of dishonoured bill written as bad)	3,090	 3,090

ANSWER TO Q.NO.12

In the books of Siriman

Journal Entries

Particulars	L.F.	Rs.	Rs.
Bills Receivable A/c To Rita (Being a 3 month's bill drawn on Rita for the amount due)	Dr.	1,00,000	 1,00,000
Bank A/c Discount A/c To Bills Receivable A/c (Being the bill discounted)	Dr.	99,000 1,000	 1,00,000
Rita To Bank A/c (Being the bill cancelled up due to Rita's inability to pay it)	Dr.	1,00,000	 1,00,000
Rita To Interest A/c (Being the interest due on Rs.5,000 @ 12% for 3 months)	Dr.	1,500	 1,500
Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	51,500	 51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)	Dr.	50,000	 50,000
Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)	Dr.	50,000	 50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from rita's estate)	Dr. Dr.	20,000 30,000	 50,000

ANSWER TO Q.NO. 13

Books of Don

(a)	Ray Dr. To Bob (Ray's acceptance endorsed to Bob dishonoured on due date nothing charges paid by Bob Rs.40)	3,040	 3,040
	Bob Dr. Interest Dr. To Cash To Bills Payable A/c (Amount payable to Bob Rs. 3,040 settled by cash payment Rs. 1,000 and issue of new bill for Rs. 2,091 including interest Rs. 51 for three months on Rs. 2,040 @ 10% p.a.)	3,040 51	 1,000 2,091
	Bills Receivable A/c Dr. To Ray To Interest (Bill received from Ray for Rs.3,040 due against earlier acceptance dishonoured plus Rs. 60.80 interest for two months @ 12% p.a.)	3,100.80	 3,040.00 60.8
(b)	Bills Payable A/c Dr. Discount A/c Dr. To James (Cancellation of bills payable to Ralph for Rs. 3,160 in settlement of Rs. 3,200 due from James)	3,160 40	 3,200
(c)	Bills payable A/c Dr. To Bills Receivable A/c To Discount A/c (Settlement of acceptance issued to Mr. Singh by endorsement of John's Acceptance for Rs. 4,450)	4,500	 4,450 50
(d)	Bank A/c Dr. Discount A/c Dr. To Total Bills Receivable A/c (Amount received from Ray in settlement of Bills Payable, retired one month before due date)	3,085.30 15.5	 3,100.80

ANSWER TO Q.NO. 14

In the books of X

Journal Entries

Date 2016	Particulars		Debit Rs.	Credit Rs.
1-Apr	Bills receivable account	Dr.	4,000	
	To Y's account			4,000
	(Acceptance received from Y for mutual accommodation)			
1-Apr	Bank account	Dr.	3920	
	Discount account	Dr.	80	
	To Bills receivable account			4000
	(Bill discounted for Rs. 3,920)			
	Y's account	Dr.	2,000	
	To Cash account			1,960
	To Discount account			40
	(Half of proceeds remitted to Y)			
Aug. 4	Y's account	Dr.	7,000	
	To Bills payable account			7,000
	(Acceptance given to Y, being unable to remit the due amount)			
	Bank account	Dr.	1,300	
	Discount account	Dr.	200	
	To Y's account			1,500
	(Amount received from Y and discount amount credited to him)			
	Bills payable account	Dr.	7,000	
	To Y's account			7,000
	(Acceptance to Y dishonoured because of insolvency)			
	Y account	Dr.	3,500	
	To Bank account			875
	To Deficiency account			2,625
	(Amount paid @ 25 paise in a rupee and balance credited to deficiency account as being unable to pay)			

ANSWER TO Q.NO. 15

In the books of Anil

Journal Entries

Date 2016	Particulars		Debit Rs.	Credit Rs.
5- Apr	Bills receivable account	Dr.	9,000	
	To Sanjay's account			9,000
	(Being acceptance received from Sanjay for mutual accommodation)			
8-Apr	Bank account	Dr.	8,820	
	Discount account	Dr.	180	
	To Bills receivable account			9,000
	(Being bill discounted with bank)			
8-Apr	Sanjay's account	Dr.	3,000	
	To Bank account			2,940
	To Discount account			60
	(Being one-third proceeds of the bill sent to Sanjay)			
8-Jul	Sanjay's account	Dr.	12,600	
	To Bills payable account			12,600
	(Being Acceptance given)			
8-Jul	Bank account	Dr.	2,220	
	Discount account	Dr.	180	
	To Sanjay's account			2,400
	(Being proceeds of second bill received from Sanjay)			
Oct. 11	Bills payable account	Dr.	12,600	
	To Sanjay's account			12,600
	(Being bill dishonoured due to insolvency)			
Oct. 15	Sanjay's account (12,600 X 2/3)	Dr.	8,400	
	To Bank account			4,200
	To Deficiency account			4,200
	(Being insolvent, only 50% amount paid to Sanjay)			

CONSIGNMENT ACCOUNTING

ANSWER TO Q.No.27

In the books of Mr. X

Consignment Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Goods sent on Consignment	1,50,000	By Y's account: (Sales)	1,60,000
To Bank account: Freight and packing etc.	5,500	By Goods sent on consignment (Cancellation of loading)	50,000
To Y's account: Selling expenses Commission (W.N.1)	 2.000 16,000	By Inventories on consignment (W.N.2)	28,990
To Inventories Reserve (W.N.3)	10,000		
To Profit and loss account (profit on consignment transferred)	55,490		
	2,38,990		**2,38,990**

Trading and Profit and Loss Account for the year ended…….

Particulars	Amount Rs.	Particulars	Amount Rs.	Amount Rs.
To Purchases	2,00,000	By Sales		90,000
To Gross profit c/d	26,000	By Goods sent on consignment By Inventories in hand Cost Less: 10%	 40,000 4,000	1,00,000 36,000
	2,26,000			2,26,000
To Expenses and commission	3,000	By Gross profit b/d		26,000
To Net profit	78,490	By Consignment A/c (profit on consignment)		55,490
	81,490			**81,490**

Working Notes:

i. **Calculation of commission payable to Y:** **Rs.**

Total sale proceeds of Y 1,60,000

Surplus proceeds realised over Rs.30 per metre	
[4,000 x Rs.(40-30)]	40,000
Commission:	
5% of total sale proceeds (5% of Rs.1,60,000)	8,000
20% of surplus (20% of Rs.40,000)	8,000
	16,000

ii.	Inventories on Consignment:	Rs.
	Cost of consignment Inventories (1000 mtrs@ Rs.30)	30,000
	Add: Expenses of consignor (5,500X1/5)	1,100
		31,100
	Less: Reduction of 10% in cost due to fall in market price	
	(20,000+1,100) x 10%	2,110
		28,990
iii.	**Loading** (Rs.10 x 1,000 mtrs)	10,000

ANSWER TO Q.No.28

In the books of A

D's Account

Feb. 1	To Bills payable A/c (80% of Rs. 8,00,000)	6,40,000	Mar. 31	By Cash/Bank A/c (820 x Rs.930)	7,62,600
Mar. 31	To Cash A/c (expenses)	12,500			
	To Commission earned A/c	70,520			
	To Bank A/c	39,580			
		7,62,600			**7,62,600**

Value of closing inventory with A

160 cycles at Rs. 640 (cost price including freight)	1,02,400
20 cycles (shop-spoiled) at 50% of the cost i.e. at Rs. 320 each	6,400
Value of closing inventory with A i.e. the amount (net effect of the loading) at which D will account for in his books on 31st March, 2016	-
	1,08,800

Working Note: CALCULATION OF COMMISSION:

	7.5 % on the invoice price amount (820x Rs. 800) i.e. Rs. 6,56,000	49,200
	20% on the surplus price amount (820 x Rs. 130) Rs. 1,06,600	21,320
		70,520

ANSWER TO Q.No.29

In the books of Mr. A

Consignment to Mumbai Account

2016		**Rs.**	**2016**		**Rs.**
March 1	To Goods sent on consignment A/c	1,00,000	Dec. 31	By B's A/cs	1,50,000
	To Cash A/c (freight and insurance)	12,000			
	To B's A/c:				
	Clearance expenses 3,000				
	Selling expenses 2,000				
	Commission @ 5% on Rs. 1,50,000 7,500				
	Del-credere commission @3% on Rs. 1,50,000 4,500	17,000			
Dec. 31	To Provision for expenses (bank charges)	260			
	To Profit and loss A/c (profit on consignment)	20,740			
		1,50,000			**1,50,000**

B's Account

Dec. 31	To Consignment A/c	1,50,000	Dec. 31	By Consignment A/c		
				Clearance expenses	3,000	
				Selling expenses	2,000	
				Commission	7,500	
				Del-credere commission	4,500	17,000
				By Balance c/d		1,33,000
		1,50,000				**1,50,000**

Bank Account

Jan. 5	To B's account	1,33,000	Jan. 5	By Bank charges	260
			Jan. 5	By Balance c/d	1,32,740
		1,33,000			**1,33,000**

Provision for Expenses Account

Jan. 5	To Bank charges	260	Jan. 1	By Balance b/d	260
		260			**260**

ANSWER TO Q.NO.30

In the books of Mr. A

Consignment Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods sent on consignment A/c (800x Rs.900)	7,20,000	By Consignee's A/c-Sales (740x100x Rs.12)	8,88,000
To Cash A/c (expenses 800x Rs.100)	80,000	By Abnormal Loss Cash A/c (insurance claim)	570
To Consignee's A/c Recurring expenses Non-recurring expenses Commission @ 2% on Rs.8,88,000 Del-credere commission @ 1% on Rs.8,88,000	 22,500 39,950 17,760 8,880	By Profit and loss account (abnormal loss)	430
To Profit and loss A/c (profit on consignment)	61,860	By Consignment stock A/c	61,950
	9,50,950		**9,50,950**

ANSWER TO Q.NO.31

Journal Entries in the books of Consignee

July 3	Exe	Dr.	30,000	
	To Bills Payable A/c			30,000
July 3	Exe	Dr.	2,800	
	To Bank			2,800
Oct. 6	Bills payable	Dr.	30,000	
	To Bank			30,000
	Tradereceivables/Bank	Dr.	55,000	
	To Exe			55,000
	Exe	Dr.	600	
	To Trade receivables			600
	Exe	Dr.	5,500	
	To Commission Earned A/c			5,500
	Exe	Dr	16,100	
	To Bank			16,100

- Consignee does not pass any journal entry when he receives goods on consignment.
- If the commission includes del-credere commission also, he would not be able to debit Exe for the bad debt. Instead he will debit "commission earned" account.

ANSWER TO Q.NO.32

In the books of Miss Rakhi

Consignment Account

Particulars	Rs.	Particulars	Rs.
To Goods send on Consignment A/c	9,00,000	By Miss Geeta A/c	9,00,000
To Cash A/c Freight 7,650 Insurance 3,250	10,900	By Insurance Co.	35.000
To Miss Geeta A/c Carriage 10,500 Repairs 2,500 Commission 54,000	67,000	By Profit & Loss A/c abnormal loss (net)	10,545
To Profit & Loss A/c	1,52,036	By Consignment Inventories	1,84,391
	11,29,936		**11,29,936**

Miss Geeta

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	9,00,000	By Consignment A/c: Carriage 10,500 Repairs 2,500 Commission 54,000	67,000
		By Bank (bal. fig.)	8,33,000
	9,00,000		**9,00,000**

Working Notes:

1. Abnormal loss:

Cost to the consignor: 50 sets @ Rs.900	45,000
Add: Proportionate expenses incurred by the consignor $\frac{50X10,900}{1,000}$	545
Gross abnormal loss	45,545
Less: Insurance claim	(35,000)
Net abnormal loss	10,545

2. Valuation of Inventories

200 sets @ Rs.900	
Add: Proportionate expenses of the consignor $\frac{200X10,900}{1,000}$	2,180
Add: Carriage and customs duty paid by the consignee $\frac{200X10,900}{950}$	2,211
	1,84,391

ANSWER TO Q.No.33

Books of Ajay

Consignment to Vijay Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	1,25,000	By Goods sent on Consignment A/c (Loading)	25,000
To Cash A/c	10,000	By Abnormal Loss	11,000
To Vijay (Expenses)	8,000	By Vijay (Sales)	1,00,000
To Vijay (Commission)	10,938	By Inventories on Consignment A/c	20,250
To Inventories Reserve A/c	3,750	By General Profit & Loss A/c	1,438
	1,57,688		**1,57,688**

Vijay's Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	1,00,000	By Consignment A/c	8,000
		By Consignment A/c	10,938
		By Bank A/c	81,062
	1,00,000		**1,00,000**

Working Notes:

1. Calculation of value of goods sent on consignment:

Abnormal Loss at Invoice price = Rs.12,500.

Abnormal Loss as a percentage of total consignment = 10%

Hence the value of goods sent on consignment = Rs.12,500 × 100/10 = Rs. 1,25,000.

Loading of goods sent on consignment = Rs. 1,25,000 × 25/125 = Rs. 25,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at invoice price = Rs.12,500.

Abnormal Loss at cost = Rs.12,500 × 100/125 = Rs.10,000

Proportionate expenses of Ajay (10% of Rs.10,000) = Rs.1,000

Rs,11,000

3. Calculation of closing Inventories (15%):

Ajay's Basis Invoice price of consignment = Rs.1,25,000

Ajay's expenses on consignment = Rs.10,000

Rs.1,35,000

Value of closing Inventories = 15% of Rs.1,35,000 = Rs. 20,250

Loading in closing Inventories = Rs.25,000 × 15/100 = Rs.3,750

Where Rs.18,750 (15% of Rs.1,25,000) is the basis invoice price of the goods sent on consignment remaining unsold.

4. Calculation of commission:

Invoice price of the goods sold = 75% of Rs.1,25,000 = Rs.93,750

Excess of selling price over invoice price = Rs. 6,250 (Rs.1,00,000 – Rs.93,750)

Total commission = 10% of Rs. 93,750 + 25% of Rs.6,250

= Rs. 9,375 + Rs. 1,562.50

= Rs. 10,937.50 OR 10,938

Note:

1. It has been assumed that final payment received from Vijay.
2. Abnormal loss is always calculated at cost even if invoice price of goods is given.
3. Value of inventories always valued at invoice price if invoice price is given.

ANSWER TO Q.NO.34:

Vikram Milk Foods Co. Ltd.

Consignment to Sonepuri Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Goods sent on Consignment A/c			By Sunder Stores		
2,000 1 kg. tins @ Rs.10	20,000		1,500 1 kg. tins @ Rs.15	22,500	
6,000 1/2 kg. pkts. @ Rs.6	36,000	56,000	4,000 1/2 kg. pkts. @ Rs.7	28,000	50,500
To Sunder Stores:			By Insurance - Claim		450
Freight	1,440		By Profit & Loss A/c		65
Rent and insurance	600		By Inventory on consignment A/c		16,915
Commission	2,525	4,565			
To Profit & Loss A/c		7,365			
		67,930			**67,930**

Sunder Stores, Sonepuri

Particulars	Rs.	Particulars	Rs.
To Consignment to Sonepuri Account	50,500	By Consignment to Sonepuri A/c By Bank A/c	4,565 45,935
	50,500		**50,500**

Working Notes:

(i) **Sale value of total consignment:**

2,000 1 kg. tins @ Rs.15	30,000
6,000 1/2 kg. pkts. @ Rs.7	42,000
	72,000

(ii) Freight @ 2% of above 1,440

(iii) **Inventories at the end:**

450 1 kg. tins @ Rs.10 (Selling Price Rs.6,750)	4,500

2,000 1/2 kg. pkts. @ Rs.6 (Selling Price Rs.14,000)		12,000
		16,500
Add: Freight 2% of (Selling Price Rs.20,750)		415
		16,915
Loss in transit: Cost of 50 1 kg. tins @ Rs.10	500	
Freight @ 2% of Selling Price Rs.750	15	
Gross abnormal Loss	515	
Less : Claim	(450)	
Net abnormal Loss	65	

ANSWER TO Q.NO.35

In the books of Shri Mehta

Consignment to Chennai Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment	10,00,000	By Sundaram (Sales)	9,80,000
To Bank (Expenses)	50,000	By Loss in Transit (WN 1)	52,500
To Sundaram (Expenses)	31,500	By Consignment Inventory(WN2)	
To Sundaram	98,000	In hand 1,59,000	
To Profit on Consignment	1,17,000	In transit 1,05,000	2,64,000
	12,96,500		12,96,500

Sundaram's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	9,80,000	By Consignment A/c	1,29,500
		By Balance c/d	8,50,500
	9,80,000		**9,80,000**

WORKING NOTES:

1. Units lost in transit = 50

Cost price = 50 x 1000 50,000

Add: consignor's expenses = 50000 / 1000 x 50 = 2,500

Total value of goods lost in transit = 52,500

2. Units in stock in hand = 1000 – 700 – 50 – 100 = 150

Cost price = 150 x 1000

Add: consignor's expenses = 50000 / 1000 x 150

Add: clearing charges = 8500 / 850 x 150

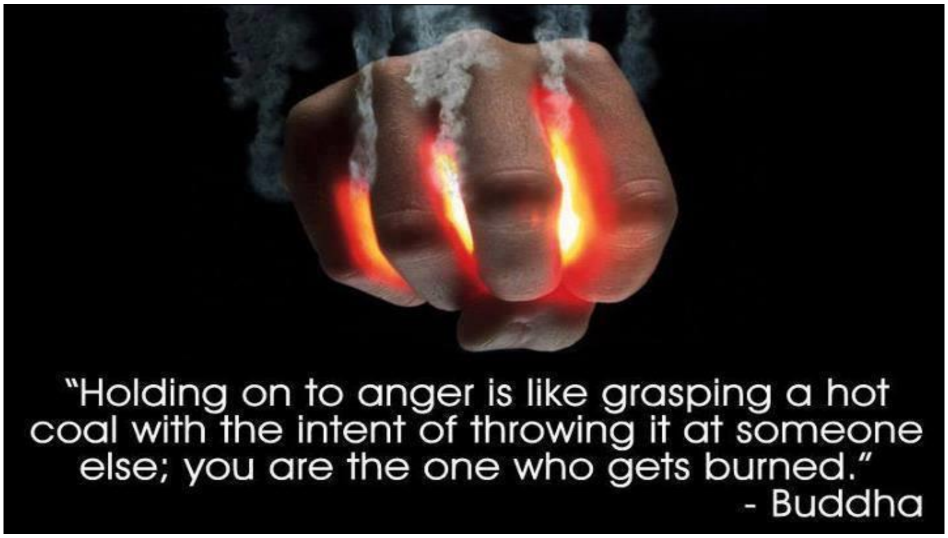
Total value of stock = 159000

Units in stock but in transit = 100

Cost price = 100 x 1000

Add: consignor's expenses = 50000 / 1000 x 100

Total value of stock = 105000



SALE OF GOODS ON APPROVAL

ANSWER TO Q.NO.16: **In the books of CE**

Journal Entries

Date	Particulars	L. F.	Dr. (in Rs.)	Cr. (in Rs.)
2016 Sept. 15	Trade receivables A/c Dr. To Sales A/c (Being goods sent to customers on sale or return basis)		1,00,000	1,00,000
Oct. 20	Return Inward A/c Dr. To Trade receivables A/c (Being the goods returned by customers to whom goods were sent on sale or return basis)		40,000	40,000
Dec. 31	Sales A/c Dr. To Trade receivables A/c (Being the cancellation of original entry of sale in respect of goods on sale or return basis)		20,000	20,000
Dec. 31	Inventories with customers on Sale or Return A/c Dr. To Trading A/c (Being the adjustment for cost of goods lying with customers awaiting approval)		15,000	15,000

ANSWER TO Q.NO.19: **In the books of S. Ltd.**

Date	Particulars	L.F.	Rs	Rs
2016 Dec. 31	Return Inwards A/c (Rs 250 X 50) Dr. To Trade receivables A/c (Being the adjustment for 50 units of goods returned by customers to whom goods were sent on sale or return basis)		12,500	12,500
Dec. 31	Sales A/c (Rs 250 X 80) (Note 1) Dr. To Trade receivables A/c (Being the cancellation of original entry for sale in respect of 80 units of goods not yet returned or approved by customers)		20,000	20,000
Dec. 31	Inventories with Customers on Sale or Return A/c Dr. To Trading A/c (Being the cost of goods sent to customers on approval or return basis not yet approved, adjusted)		16,000	16,000

Note: (1) Quantity of goods lying with dealer as on 31.12.2016 = 200 – 50 – 70 = 80

ANSWER TO Q.NO.20:

Sale or Return Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2016 31-May	To Sundries: Sales	24,000	2016 31-May	By Sundries (Goods sent on sale or return basis)	93,000
15-Jun	To Sundries: Returned	43,000			
15-Jun	To Balance c/d	26,000			
		93,000			**93,000**

P's Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2016 31-May	To Sale or Return A/c	15,000	2016 May 31	By Sale or Return A/c	15,000

ANSWER TO Q.NO.21:

In the books of Caly Company

Journal Entries

Date	Particulars	L.F.	Rs	Rs
	Trade receivables A/c Dr. To Sales A/c (Being the adjustment for excess price of 20 gas containers @ 300 each)		6,000	6,000
	Sales A/c Dr. To Trade receivables A/c (Being the cancellation of original entry for sale in respect of 80 gas containers @ Rs 1,200 each)		96,000	96,000
	Inventories with Customers on Sale or Return A/c Dr. To Trading A/c (Being the adjustment for cost of 80 gas container lying with customers awaiting approval)		72,000	72,000

ANSWER TO Q.NO.22:

In the books of E Ltd.

Journal Entries

Date	Particulars	L.F.	Rs.	Rs.
2016 Dec 24	Trade Receivables Account Dr. To Sales Account (300 x 280)		84,000	84,000
Dec.31	Sales A/c (Rs.30 x 90) Dr. To Trade receivables A/c (Being the adj. for reduction in the selling price of 90 accounting machines @ Rs. 30 each)		2,700	2,700
Dec.31	Sales A/c (Rs. 280 x 210) Dr. To Trade receivables A/c (Being the cancellation of original entry for sale in respect of 210 accounting machines sent to customers not yet returned or approved)		58,800	58,800
	Inventories with customers on Sale or Return A/c Dr. To Trading A/c (Being the cost of 210 accounting machines @ Rs. 200 each adjusted against Trading Account)		42,000	42,000

ANSWER TO Q.NO.23:

Journal Entries

	Particulars	L.F.	Rs	Rs
2016 31st Dec.	Sales A/c Dr. To Ritu's A/c (Being cancellation of entry for sale of goods, not yet approved)		3,000	3,000
	Inventories with customers A/c (Refer W.N.) Dr. To Trading A/c (Being Inventories with customers recorded at market price)		2,250	2,250

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	Rs 3,000
Less: Profit (3,000 x 20/120)	Rs 500
Cost of goods	Rs 2,500

Market price = 2,500 - (2,500 x 10%) = Rs 2,250.

ANSWER TO Q.NO.24:

In the books of 'X'

Goods on sales or return, sold and returned day book

Date 2016	Party to whom goods sent	Goods sent Rs.	Sold Rs.	Returned Rs.	Balance
Dec.10	M/s. ABC Co.	10,000	10,000	-	-
Dec.12	M/s. DEF Co.	15,000	-	15,000	-
Dec.15	M/s. GHI Co.	12,000	10,000	2,000	-
Dec.20	M/s. DEF Co.	16,000	16,000	-	-
Dec.25	M/s. ABC Co.	11,000	11,000	-	-
Dec.30	M/s. GHI Co.	13,000	-	-	13,000
		77,000	**47,000**	**17,000**	**13,000**

Goods on Sales or Return Total Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2016 Dec. 31	To Sundries	17,000	2016 Dec. 31	By Sundries	77,000
	To Sundries	47,000			
	To Balance c/d	13,000			
		77,000			**77,000**

ANSWER TO Q.NO.25:

In the Books of A

Journal Entries

Date	Particulars	L.F.	Rs.	Rs.
2016 March 31	Sales A/c Dr. To Trade receivables A/c (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)		7,000	7,000
31-Mar	Inventories with Customers on Sale or Return A/c Dr. To Trading A/c (Note 1) (Being the adjustment for cost of goods lying with customers awaiting approval)		5,600	5,600
APRIL 30-Apr	Trade receivables A/c Dr. To Sales A/c (Being goods costing Rs.3,200 sent to Mr. X on sale or return basis has been accepted by him)		4,000	4,000

Balance Sheet of A & Co. as on 31st March, 2016 (Extracts)

Liabilities	Rs.	Assets	Rs.	Rs.
		Trade receivables (Rs.1,00,000–Rs. 7,000)		93,000
		Inventories-in-trade	60,000	
		Add: Inventories with customers on Sale or Return	5,600	65,600
				1,58,600

Notes:

(1) Cost of goods lying with customers = 1/5 x Rs. 7,000 = Rs. 5,600

(2) No entry is required on 10th April, 2016 for goods returned by Mr. Y. Goods should be included physically in the Inventories-in-trade.

ACCOUNTING PROCESS

SOLUTIONS

ANSWER TO Q.NO.1:

Particulars	Rs.	Rs.
Bank Account Dr. To Capital Account (Being capital introduced by Shri Mohan)	50,00,000	50,00,000
Cash Account Dr. To Bank Account (Being cash deposited in Bank)	25,000	25,000
Furniture Account Dr. To Bank Account (Being Furniture purchased vide CM No....)	12,00,000	12,00,000
Purchases Account Dr. To Bank Account (Being goods purchased vide CM No....)	4,00,000	4,00,000
Purchases Account Dr. To M/s Ram Narain Bros. (Being goods purchased vide Bill No.....)	10,00,000	10,00,000
Bank Account Dr. To Sales Account (Being goods sold vide CM No....)	6,00,000	6,00,000
Ramesh Dr. To Sales Account (Being goods sold vide Bill No....)	13,00,000	13,00,000
Bank Account Dr. To Ramesh (Being cash received against Bill No....)	13,00,000	13,00,000
Rent Account Dr. To Bank Account (Being rent paid for the month of ....)	1,00,000	1,00,000
Salary Account Dr. To Bank Account (Being salary paid to Mr..... for the month of ....)	22,000	22,000
Bank Account Dr. To Interest Account (Being interest received from........ for the period ....)	2,20,000	2,20,000

ANSWER TO Q.NO.2:

Journal

Date	Particulars	Nature of Account	L.F.	Debit (Rs.)	Credit (Rs.)
Dec. 1	Bank Account Dr. To Capital Account (Being commencement of business)	Personal A/c Personal A/c		4,00,000	 4,00,000
Dec. 3	Cash Account Dr. To Bank Account (Being cash withdrawn from the Bank)	Real A/c Personal A/c		2,000	 2,000
Dec. 5	Purchases Account Dr. To Bank Account (Being purchase of goods for cash)	Real A/c Personal A/c		15,000	 15,000
Dec. 8	Bank Account Dr. To Sales Account (Being goods sold for cash)	Personal A/c Real A/c		16,000	 16,000
Dec. 10	Furniture Account Dr. To Bank Account (Being purchase of furniture, paid by cheque)	Real A/c Personal A/c		2,500	 2,500
Dec. 12	Arvind Dr. To Sales Account (Being sale of goods)	Personal A/c Real A/c		2,400	 2,400
Dec. 14	Purchases Account Dr. To Amrit (Being purchase of goods from Amrit)	Real A/c Personal A/c		10,000	 10,000
Dec. 15	Amrit Dr. To Purchases Returns Account (Being goods returned to Amrit)	Personal A/c Real A/c		500	 500
Dec. 16	Bank Account Dr. Discount Account Dr. To Arvind (Being cash received from Arvind in full settlement and allowed him Rs. 100 as discount)	Personal A/c Nominal A/c Personal A/c		2,300 100	 2,400

Dec. 18	Drawings Account Dr. To Purchases Account (Being withdrawal of goods for personal use)	Personal A/c Real A/c		1,000	 1,000
Dec. 20	Drawings Account Dr. To Cash Account (Being cash withdrawal from the business for personal use)	Personal A/c Real A/c		2,000	 2,000
Dec. 24	Telephone Expenses Account Dr. To Bank Account (Being telephone expenses paid)	Nominal A/c Personal A/c		110	 110
Dec. 26	Amrit Dr. To Bank Account To Discount Account (Being cash paid to Amrit and he allowed Rs. 50 as discount)	Personal A/c Personal A/c Nominal A/c		9,500	 9,450 50
Dec. 31	Stationery Expenses Dr. Rent Account Dr. Salaries Account Dr. To Bank Account (Being expenses paid)	Nominal A/c Nominal A/c Nominal A/c Personal A/c		200 5,000 2,000	 7,200
Dec. 31	Advertisement Expenses Account Dr. To Purchases Account (Being distribution of goods by way of free samples)	Nominal A/c Real A/c		2,000	 2,000

ANSWER TO Q.NO.3:

2017 April	Explanation	Accounts Involved	Nature of Accounts	How affected	Debit (Rs. in 000)	Credit (Rs. in 000)
1.	Rs. 5,000 cash invested in business	Bank and R's Capital	Asset Capital	Increased Increased	5,000	 5,000
2.	Purchased furniture for Rs. 1,200	Furniture and Bank	Asset Asset	Increased Decreased	1,200	 1,200
3.	Paid Rs. 1,100 to employee for salary	Salary & Bank	Expense Asset	Increased Decreased	1,100	 1,100
4.	Paid Rent Rs. 1,150	Rent & Bank	Expense Asset	Increased Decreased	1,150	 1,150
5.	Received interest Rs. 2,000	Cash & Interest	Asset Income	Increased Increased	2,000	 2,000

ANSWER TO Q.NO.5:

Dr. **Stationery Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.2015	To Balance b/d	480	31.12.2015	By Balance c/d	2,560
5.4.2015	To Bank A/c	800			
15.11.2015	To Five Star Stationery Mart A/c	1,280			
		2,560			**2,560**

ANSWER TO Q.NO.7:

JOURNAL

Date 2017	Particulars	L.F.	Dr. Amount	Cr. Amount
April 1	Bank Account Dr. To Capital Account (Being the amount invested by Ramesh in the business as capital)	1 4	10,00,000	 10,00,000
April 3	Purchases Account Dr. To Bank Account (Being goods purchased for cash)	7 1	50,000	 50,000
April 5	Cash Account Dr. To Bank Account (Being cash withdrawn from bank)	5 1	10,000	 10,000
April 13	Krishna Dr. To Sales Account (Being goods sold to Krishna on credit)	9 11	1,50,000	 1,50,000
April 20	Purchases Account Dr. To Shyam (Being goods bought from Shyam on credit)	7 10	2,25,000	 2,25,000
April 24	Bank Account Dr. Discount Account Dr. To Krishna (Being cash received from Krishna and discount allowed to him)	1 12 9	1,45,000 5,000	 1,50,000

April 28	Shyam Dr. To Bank Account To Discount Account (Being cash paid to Shyam and discount allowed by him)	10 1 12	2,25,000	 2,15,000 10,000
April 30	Bank Account Dr. To Sales Account (Being goods sold for cash)	1 11	8,00,000	 8,00,000
April 30	Rent Account Dr. Salaries Account Dr. To Bank Account (Being the amount paid for rent and salary)	15 14 1	50,000 1,00,000	 1,50,000
			27,60,000	**27,60,000**

ANSWER TO Q.NO.8:

Transaction	ACCOUNTS INVOLVED	NATURE	DEBIT OR CREDIT	Journal Entry
Started business with capital of Rs.50,00,000	Bank account Capital account	Personal Personal	Debit (Receiver) Credit (giver)	Bank A/c Dr. To Capital A/c
Wages and salaries paid	Wages/salaries Bank	Nominal Personal	Debit (expense) Credit (giver)	Wages/ Salaries Dr. To Bank A/c
Rent received	Bank Rent	Personal Nominal	Debit (Receiver) Credit (income)	Bank A/c Dr. To Rent A/c
Purchases made on credit	Purchases Creditor	Nominal Personal	Debit (expense) Credit (giver)	Purchases A/c Dr. To Creditor A/c
Goods sold and payment received in cheque	Bank Sales	Personal Nominal	Debit (Receiver) Credit (gains)	Bank A/c Dr. To Sales A/c

ANSWER TO Q.NO.9:

Cash Account

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 1	To Balance b/d		8,000	Jan.1	By Purchases A/c		3,800
Jan. 4	To Vijay A/c		1,980	Jan. 8	By Plant A/c		300
Jan. 15	To Rahim A/c		300	Jan. 31	By Balance c/d		7,180
Jan. 18	To Sales A/c		1,000				
			11,280				11,280

Vijay

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 1	To Balance b/d		2,000	Jan.4	By Cash A/c		1,980
					By Discount A/c		20

Purchases Account

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 1	To Cash A/c		3,800				
Jan. 1	To Discount A/c		200	Jan.31	By Trading A/c		4,000
			4,000				4,000

Discount Account

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 4	To Vijay A/c		20	Jan. 1	By Purchases A/c		200
Jan. 31	To P & L A/c		180	Jan.31			
			200				200

Plant Account

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 8	To Mukesh A/c		5,000	Jan. 31	By Balance c/d		5,300
Jan. 8	To Cash A/c		300				
			5,300				5,300

Mukesh

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 31	To Balance c/d		5,000	Jan. 8	By Plant A/c		5,000
			5,000				5,000

Sales Account

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 31	To Trading A/c		1,600	Jan. 12	By Rahim A/c		600
Jan. 8				Jan. 18	By Cash A/c		1,000
			1,600				1,600

Rahim

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 12	To Sales A/c		600	Jan. 15	By Cash A/c		300
Jan. 8				Jan. 15	BY Bad Debts A/c		300
			600				600

Bad Debts Account

Date	Particulars	L.F.	(Rs.)	Date	Particulars	L.F.	(Rs.)
Jan. 15	To Rahim A/c		300	Jan. 31	By P & L A/c		300
			300				

ANSWER TO Q.NO.11:

Trial Balance of Anuradha Traders as on 31.03.2016

S.NO.	Particulars	L.F.	Debit balances Rs.	Credit balances Rs.
1.	Purchases		1,50,000	
2.	Sales return		1,000	
3.	Discount allowed		2,000	
4.	Expenses		10,000	
5.	Trade receivables		75,000	
6.	Investments		15,000	
7.	Cash at bank and in hand		37,000	
8.	Insurance paid		2,500	
9.	Capital			1,00,000
10.	Sales			1,66,000
11.	Trade payables			25,000
12.	Interest received on investments			1,500
	Total		**2,92,500**	**2,92,500**

ANSWER TO Q.NO.12

Corrected Trial Balance of Mr. Singhania as on 31st March, 2016

S.NO.	Particulars	L.F.	Debit balances Rs.	Credit balances Rs.
1.	Singhania's Capital			1,556
2.	Singhania's Drawings		564	
3.	Leasehold premises		750	
4.	Sales			2,750
5.	Due from customers		530	
6.	Purchases		1,259	
7.	Purchases returns			264
8.	Loan from Bank			256
9.	Trade payables			528
10.	Trade expenses		700	
11.	Cash at Bank		226	
12.	Bills payable			100
13.	Salaries and Wages		600	
14.	Inventory (1.4.2015)		264	
15.	Rent and rates		463	
16.	Sales return		98	
	TOTAL		**5,454**	**5,454**

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets go out.
3. Balance in Creditors Account is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets

Answer to Question No: 13

Trial Balance as on 30th June, 2017

Heads of Accounts	Debit Rs.	Credit Rs.
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
Suspense A/c (balancing figure)	1,175	
Total	**25,580**	**25,580**

ANSWER TO Q.NO.14:

Purchase Book

Date	Particulars	Gross Amount	Trade Discount	Net Price	Sales Tax	Freight	Total Amount
4 April	Ajay Enterprises 100 Doz chappal @ Rs. 120 per Doz - Rs. 12,000 200 Doz Palki Leather Chappal @ Rs. 300 per Doz - Rs. 60,000 Less trade discount @ 10%	72,000	7,200	64,800	6,480	150	71,430
15 April	Balaji Traders, Delhi 50 Doz Max Shoes @ Rs. 400 per Doz - Rs. 20,000 100 pair Sports shoes @ Rs. 140 per pair - Rs. 14,000 Less trade discount @ 10%	34,000	3,400	30,600	3,060	200	33,860
April 28	Tripti Industries, Bahadurgarh 40 pair Leather shoes @ Rs. 400 per pair - Rs. 16,000 100 DOZ Rosy Hawai Chappal @ Rs. 180 per DOZ - Rs. 18,000 Less trade discount @ 10%	34,000	3,400	30,600	3,060	100	33,760
		1,40,000	**14,000**	**1,26,000**	**12,600**	**450**	**1,39,050**

Ledgers

Dr.		Purchases A/c			Cr.
2011		Rs.			Rs.
April 30	To amount as per purchase book	1,38,600			

Freight A/c

2011		Rs.			
April 30	To amount as per purchase book	450			

Ajay Enterprises

					Rs.
			April 4	By purchase A/c	71,280
				By Freight A/c	150

Balaji Traders

					Rs.
			April 15	By purchase A/c	33,660
				By Freight A/c	200

Tripati Industries

					Rs.
			April 28	By purchase A/c	33,660
				By Freight A/c	100

Purchase Account will be debited by net price and sales tax because sales tax is a part of cost of goods purchased.

ANSWER TO Q.NO.15:

Purchase Returns Book

Date 2016	Debit Note No.	Name of supplier	L.F.	Amount
Jan. 4	101	Goyal Mills, Surat		5,000
Jan. 16	102	Mittal Mills, Bangalore		13,000
Jan. 31		**Purchases Returns Account (Cr.)**		**18,000**

In purchase return account this total of 18,000 shall be shown on the credit side.

ANSWER TO Q.NO.16:

Dr. **Cash Book** **Cr.**

Date 2016	Receipts	Amount Rs.	Date 2016	Payments	Amount Rs.
Jan. 1	To Balance b/d	1,200	Jan. 07	By Rent A/c	30
Jan. 5	To Ram A/c	300	Jan. 10	By Shyam A/c	700
Jan. 8	To Sales A/c	300	Jan. 27	By Furniture A/c	200
			Jan. 31	By Salaries A/c	100
			Jan. 31	By Balance c/d	770
		1,800			**1,800**
2016					
Feb. 1	To Balance b/d	770			

(i) In the simple cash book only the cash receipts and cash payments are recorded.

(ii)The total of debit side is always greater than the total of credit side since the payment cannot exceed the available cash.

ANSWER TO Q.NO.18:

Petty Cash Book

Receipt Rs.	Date 2016	Particulars	Total	Conve -yance	Carta -ge	Statio -nery	Postage Telegram	Wages	Sundries
100	Jan.1	To Cash							
	2	By Conveyance	.50	.50					
		By Cartage	2.50		2.50				
	3	By Postage Telegrams	5.00				5.00		
		By Wages	6.00					6.00	
	4	By Stationery	4.00			4.00			
		By Conveyance	2.00	2.00					
	5	By Repairs to Furniture	15.00						15.00
		By Conveyance	1.00	1.00					
		By Cartage	4.00		4.00				
	6	By Postage Telegrams	7.00				7.00		
	6	By Conveyance	3.00	3.00					
	6	By Cartage	3.00		3.00				
	6	By Stationery	2.00			2.00			
	6	By General Expenses	5.00						5.00
			60.00	**6.50**	**9.50**	**6.00**	**12.00**	**6.00**	**20.00**
		By Balance c/d	**40.00**						
100			**100**						
40.00		To Balance b/d							
60.00	8	To Cash							

ANSWER TO Q.NO.19:

Journal Entries

	Particulars		**L.F.**	**Dr. Rs.**	**Cr. Rs.**
(i)	Suspense Account To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- Rs.4,593 carried forward instead of Rs.4,539)	Dr.		54	 54
(ii)	Profit & Loss Adjustment A/c Customer's Account To Suspense Account (Correction of the entry by which (a) Sales A/c was over credited by Rs.180 (b) customer was credited by Rs.753 instead of being debited by Rs.573)	Dr. Dr.		180 1,326	 1,506
(iii)	Suspense Account To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by Rs.510 instead of Returns Outwards Account being credited by Rs. 510)	Dr.		1,020	 1,020
(iv)	Suspense Account To C. Dass To G. Dass (Removal or wrong debit to G. Dass and giving credit to C. Dass from whom cash was received).	Dr.		1,240	 620 620
(v)	Customer's Account To Profit & Loss Adjustment A/c (Rectication of the error arising from non- preparation of invoice for goods delivered)	Dr.		840	 840
(vi)	Profit & Loss Adjustment A/c Inventory Account To Customer's Account (The Customer's A/c credited with Rs.1,000 for goods not yet purchased by him; cost of the goods debited to inventory and "Profit" debited to Profit & Loss Adjustment Account)	Dr Dr.		200 800	 1,000
(vii)	Profit & Loss Adjustment A/c To Capital Account (Transfer of P & L Adjustment A/c balance to the Capital A/c)	Dr.		1,534	 1,534

ANSWER TO Q.NO.20:

Journal of Mr. A

DATE	PARTICULARS		L.F.	DR. RS.	CR. Rs.
2015 (I)	Mrs. Mala Mr. Lala To Suspense A/c (Correction of error by which a sale of Rs. 2,300 to Mr. Lala was posted to the Credit of Mrs. Mala)	Dr.		2,300 2,300	 4,600
(ii)	Profit and Loss Adjustment A/c To Suspense A/c (Rectification of omission to post the total of Returns Inward Book for July, 2010)	Dr.		 1,240	 1,240
(iii)	(a) Machinery A/c Suspense A/c To Profit & Loss Adjustment A/c (Correction of error by which freight paid for a machine Rs. 5,600 was posted to Freight Account at Rs. 6,500 instead of capitalising it)	Dr. Dr.		5,600 900	 6,500
(iv)	Suspense A/c To Profit & Loss Adjustment A/c (Correction of wrong carry forward of total in the purchase Account to the next page Rs. 65,590 instead of Rs. 56,950)	Dr.		8,640	 8,640
(v)	Mr. Mehta To Plant & Machinery A/c To Prot & Loss Adjustment A/c (Correction of omission of a sale of machine on credit to Mr. Mehta for Rs. 9,000)	Dr.		9,000	 6,750 2,250

Comments

The Suspense Account will now appear as shown below:

Dr. **Suspense Account** **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2015	To Profit and Loss Adjustment A/c	900	2014	By Balance b/d	830
	To Profit and Loss		Oct. 1	By Sundries	2,300

	Adjustment A/c	8,640		Mrs. Mala Mr. Lala	2,300
				By Profit and Loss Adjustment A/c	1,240
				By balance c/d	2,870
		9,540			**9,540**

Since the Suspense Account still shows a balance, it is obvious that there are still some errors left in the books

ANSWER TO Q.NO.22:

Computing opening capital: (All figure in Rs.' 000)

Closing capital - profits earned during the year

= 35,000 - 5,000

= 30,000

Assets = liabilities + capital

Therefore, opening assets (A) = 12,000 + 30,000

= 42,000

Computation of liabilities at the end of the year:

Total liabilities including capital = 50,000

Less: closing capital = (35,000)

Liabilities at the end of the year (C) = 15,000

Also assets at the end of the year (B) = closing capital + liabilities at the end of the year

= 35,000 + 15,000

= 50,000

ANSWER TO Q.NO.23:

	Particulars		Dr.	Cr.
(i)	Suspense Account	Dr.	6,160	
	To Return Outward A/c			6,160
(ii)	Suspense Account	Dr.	2,640	
	To Discount Allowed Account			1,320

	To Discount Received Account			1,320
(iii)	Suspense Account	Dr.	10,000	
	To Sales Account			10,000
(iv)	Suspense Account	Dr.	270	
	To Customer Account			270
(v)	Suspense Account	Dr.	1,500	
	To Vehicle Account			1,200
	To Profit on Sale of Vehicle Account			300
(vi)	Telephone Charges Account	Dr.	560	
	To Outstanding Expenses Account			560
(vii)	Bad Debts Account	Dr.	1,560	
	To Trade receivables Account			1,560
	Provision for Doubtful Debts Account	Dr.	164	
	To Profit and Loss Account			164
(viii)	Loose Tools Account	Dr.	1,200	
	To Purchases Account			1,200
(ix)	Drawings Account	Dr.	1,960	
	To Purchases Account			1,960

1. Bad debts will be debited in the profit and loss account.
2. Provision @ 10% of Rs.21,560 i.e. 2,156; Excess provision Rs.164 (2320 - 2156 = 164).

ANSWER TO Q.NO.24:

S.No.	Increase (+) / Decrease (-) / No Change (0) in Assets	Reasons
(a)	+	Furniture has been purchased making it an increase in assets and also it being purchased on credit it increases liability and there is no outflow of assets like cash or bank.

(b)	+	Cash has flowed in for services provided making it an increase in assets.
(c)	+	Here with goods sold there is a decrease in inventory (assets) but given there is an increase in debtors there will be a net increase in assets. Though if goods are sold at cost it will result in no change whereas sale at below cost will result in decrease in assets.
(d)	-	Here cash has been withdrawn from business resulting in decrease in assets and capital.
(e)	0	Only hiring of employee has been done resulting in no change in assets.
(f)	-	Outflow of goods has resulted in decrease in assets while money owed to creditors reduce on the liability side.
(g)	-	Here both assets and liabilities reduce by same amounts meaning a decrease in assets.
(h)	0	Only a purchase agreement has been entered into with no transaction taking place yet.

ANSWER TO Q.NO.25:

Calculation of missing figures:

Trade Receivable Balance (B) = Sales- Amount received during the year
= Rs. (15,55,000 - 15,00,000) = **Rs. 55,000**.

Assets = Capital + Liabilities
If total liabilities is 14,15,000, Therefore, balance of assets is also Rs.14,15,000

So, total assets:

Total Assets	14,15,000
Less: Machinery	(12,00,000)

Less: Inventory	(60,000)
Less: Bank	(80,000)
Less: Receivables	(55,000)
Cash (A)	**20,000**

Computation of Closing Capital (D):

Opening Capital	10,00,000
Add: Introduced during the year	1,00,000
Less: Loss incurred during the year	(35,000)
Closing Capital	**10,65,000**

So, Loan amount (C) = Total Liabilities - Closing Capital - Trade Payables
= Rs. (14,15,000 - 10,65,000 - 1,00,000) = **Rs. 2,50,000**

ANSWER TO Q.NO.29:

Journal Entries in the books of Mr. Roy

Date	Particulars	Dr.	Cr.
(1)	Motor Vehicles Account Dr. To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified Rs. 3,000 less 10% depreciation)	2,700	2,700
(2)	Suspense Account Dr. To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year now rectified)	10,000	10,000
(3)	Profit & Loss Adjustment A/c Dr. To P's Account (Credit purchase from P Rs. 2,000, entered as sales last year; now rectified)	4,000	4,000
(4)	B's Account Dr. To A's Account (Amount received from A wrongly posted to the account of B; now rectified	1,000	1,000
(5)	Suspense Account Dr. To C's Account (Rs. 500 received from C wrongly debited to his account; now rectified)	1,000	1,000

(6)	Trade receivables Dr. To Suspense Account (Rs. 500 due by Q not taken into trial balance; now rectified)	500	 500
(7)	R's Account Dr. To Profit & Loss Adjustment A/c (Sales to R omitted last year; now adjusted)	2,000	 2,000
(8)	Suspense Account Dr. To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, Rs. 2,593, instead of Rs. 2,395, now adjusted)	198	 198
(9)	Profit & Loss Adjustment A/c Dr. To Roy's Capital Account (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	10,898	 10,898
(10)	Roy's Capital Account Dr. To Suspense Account (Balance of Suspense Account transferred to the Capital Account)	10,698	 10,698

Profit and Loss Adjustment Account

(Prior Period Items)

	Rs.		**Rs.**
To P	4,000	By Motor Vehicles A/c	2,700
To Roy's Capital (transfer)	10,898	By Suspense A/c	10,000
		By R	2,000
		By Suspense Account	198
	14,898		**14,898**

Suspense Account

	Rs.		**Rs.**
To Profit & Loss Adjustment Account	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital Account (Transfer)	10,698
To Profit & Loss Adjustment Account	198		
	11,198		**11,198**

ANSWER TO Q.NO.30:

Journal Entries

	Particulars	**L.F.**	**Rs.**	**Rs.**
(a)	Cash Account Dr. To D. Das (Being the amount received)		100	100
(b)	Returns Inward Account Dr. To Suspense Account (Being the mistake in totalling the Returns Inward Book corrected)		100	100
(c)	Furniture Account Dr. To Purchases Account (Being the rectification of mistake by which purchase of furniture was entered in Purchases book and hence debited to Purchases Account)		300	300
(d)	Furniture Account Dr. To Wages Account (Being the wages paid to workmen for making show-cases which should be capitalised and not to be charged to Wages Account)		375	375
(e)	Suspense Account Dr. To Creditors (personal) Account (Being the mistake in crediting the Trade payables Account less by Rs. 7, now corrected)		7	7
(f)	P.C. Joshi Dr. To Allowances Account (Being the cheque of P.C. Joshi dishonoured, previously debited to Allowances Account)		200	200
(g)	Drawings Account Dr. To Miscellaneous Expenses (Being the motor cycle purchased for Mr. Dutt debited to his Drawings Account instead of Miscellaneous Expenses Account as previously done by mistake)		1,000	1,000
(h)	Returns Inward Account Dr. To Debtors (Personal) Account (Correction of the omission to record return of goods by customers)		100	100

(i)	Singh & Co. Dr. To Suspense Account (Being the correction of mistake by which the account of Singh & Co. was credited by Rs. 200 instead of being debited)		400	400

Dr. **Suspense Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2015		**Rs.**	**2015**		**Rs.**
Dec.31	To Difference in Trial Balance	493	Dec. 31	By Returns Inwards A/c	100
Dec.31	To Trade Payables A/c	7	Dec.31	By Singh & Co.	400
		500			**500**

ANSWER TO Q.NO.31:

Nature of Account

Sl. No.	Title of Account	Traditional Approach	Accounting Equation Approach
a	Rent Outstanding	Personal	Liability
b	Closing Inventory	Real	Asset
c	Sales	Real	Revenue
d	Bank Fixed Deposit	Personal	Asset
e	Cash	Real	Asset
f	Bad Debts	Nominal	Expense
g	Capital	Personal	Capital
h	Sales Tax Payable	Personal	Liability
i	Trade receivables	Personal	Asset
j	Depreciation	Nominal	Expense
k	Drawings	Personal	Drawings

ANSWER TO Q.NO.32: **Journal**

Particulars		L.F.	Debit Rs.	Credit Rs.
Cash Account	Dr.		20,000	
To Capital Account				20,000
(Being commencement of business)				
Purchase Account	Dr.		4,000	
To Y				4,000
(Being purchase of goods on credit)				
Y	Dr.		2,000	
To Cash				2,000
(Being payment of cash to Y)				
Z	Dr.		4,000	
To Sales				4,000
(Being goods sold to Z)				
Cash Account	Dr.		6,000	
To Z				6,000
(Being cash received form Z)				
Purchase Account	Dr.		4,000	
To Y				4,000
(Being payment of goods from Y)				
Y	Dr.		2,000	
To Cash Account				2,000
(Being payment of cash to Y)				
Z	Dr.		4,000	
To Sales Account				4,000
(Being goods sold to Z)				
Cash Account	Dr.		2,000	
To Z				2,000
(Being cash received from Z)				
TOTAL			**48,000**	**48,000**

Dr. **Cash Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Capital A/c	20,000		By Y	2,000
	To Z	6,000		By Y	2,000
	To Z	2,000		By Balance c/d	24,000
		28,000			**28,000**

Dr. **Capital Account** **Cr.**

Date	Particulars	Rs	Date	Particulars	Rs.
Jan. 31	To Balance c/d	20,000		By Cash A/c	20,000
		20,000			**20,000**
			Feb. 1	By Balance b/d	20,000

Dr. **Purchase Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			
		8,000			**8,000**
Feb.1	To Balance b/d	8,000			

Dr. **Y's Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Cash	2,000		By Purchases	4,000
	To Cash	2,000		By Purchases	4,000
Jan. 31	To Balance c/d	4,000			
		8,000			**8,000**
				By Balance b/d	4,000

Dr. **Z's Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			**8,000**

Dr. **Sales Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	8,000		By Z	4,000
				By Z	4,000
		8,000			**8,000**
			Feb.1	By Balance b/d	8,000

ANSWER TO Q.NO.34:

(a) 12,50,000

(b) 2,25,000

(c) 75,000

(d) 59,80,000

These have been solved using the Accounting Equation:

Assets = Capital + Liabilities

ANSWER TO Q.NO.35:

Petty Cash Book

Date 2015	Receipts	Amount Rs.	Payment	Total Amount Rs.	Statio-nery Rs.	Trave-lling Rs.	Misc Exps. Rs.	Repair Rs.
Sept. 7	To Balance b/d	134.90	By Stationery	49.80	49.80			
	To Reimbursemen	365.10	By Misc. Expenses	20.90			20.90	
			By Repairs	156.70				156.70
			By Travelling	68.50		68.50		
			By Stationery	71.40	71.40			
			By Misc. Expenses	6.30			6.30	
			By Repairs	48.30				48.30
				421.90	121.20	68.50	27.20	205.00
			By Balance c/d	78.10				
		500.00		**500.00**				

ANSWER TO Q.NO.36:

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
(a)	Suspense Account Dr. To Sales Account (Being the correction arising from under- casting of Sales Day Book)		100	 100

(b)	Return Inward Account Dr. To Green & Co (Being the recording of unrecorded returns)		150	 150
(c)	Suspense Account Dr. To Gupta & Co. (Being the correction of the error by which Gupta & Co. was debited instead of being credited by Rs. 250).		500	 500
(d)	Furniture Account Dr. To Purchases Account (Being the correction of recording purchase of furniture as ordinary purchases)		1,000	 1,000
(e)	Red & black Dr. To Discount Account (Being the recording of discount omitted to be recorded)		15	 15
(f)	Discount Account Dr. To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).		18	 18

ANSWER TO Q.NO.37:

Journal

	Particulars	**L.F.**	**Dr. Rs.**	**Cr. Rs.**
(1)	Furniture A/c To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased)	Dr.	500	 500
(2)	Repairs A/c To Building A/c (Correction of wrong debit to building A/c for repairs made)	Dr.	50	 50
(3)	Drawings A/c. To Trade Expenses A/c (Correction of wrong debit to Trade Expenses A/c for cash withdrawn by the proprietor for his personal use)	Dr.	100	 100
(4)	Rent A/c To Landlord's Personal A/c (Correction of wrong debit to landlord's A/c for rent paid)	Dr.	100	 100

(5)	Salaries A/c To Clerk's (Personal) A/c Correction of wrong debit to Clerk's personal A/c for salaries paid)	Dr.	125	 125
(6)	Shaw & Co. To Shah & Co. (Correction of wrong credit to Shaw & Co. Instead of Shah & Co.)	Dr.	100	 100
(7)	Typewriter A/c To Office Expenses A/c (Correction of wrong debit to Office Expenses A/c for purchase of typewriter)	Dr.	700	 700

ANSWER TO Q.NO.38:

1. The Purchases Account should receive another debit of Rs.100 since it was debited short previously: "To Undercasting of Purchases Book for the month of --- Rs.100."
2. Due to this error the Returns Inward Account has been posted short by Rs. 50 : the correct entry will be: "To Undercasting of Returns Inward Book for the month of --- Rs.50."
3. The omission of the debit to the Depreciation Account will be rectified by the entry: "To Omission of posting on Rs. 250".
4. The excess debit will be removed by a credit in the Salaries Account by the entry: "By double posting on Rs. 75".
5. Rs.1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by Rs. 3,000 by the entry: "To Wrong posting of B/R received on Rs. 3,000"
6. The rectification entry will be: "To Wrong posting Rs. 36".
7. Due to this error, the discount account has been debited short by Rs. 25. The required entry is : "To Omission of discount allowed to Satish on Rs. 25."

ANSWER TO Q.NO.39:

Trial balance as on…..

1.	Capital Account	-	4,00,000
2.	Computer Account	25,000	-
3.	Air conditioner and furniture Account	1,00,000	-
4.	Fixed deposits Account	2,00,000	-
5.	Salaries Account	8,00,000	-
6.	Fees received Account	-	12,00,000
7.	Traveling expenses Account	1,50,000	-
8.	Rent and office expenses Account	2,40,000	-
9.	Cash Account	1,80,000	-
10.	Bank overdraft Account	-	95,000
	Total	**16,95,000**	**16,95,000**

ANSWER TO Q.NO.44:

Trial balance as on…..

S.NO.	NAME OF ACCOUNT	DEBIT BALANCE (Rs.)	CREDIT BALANCE (Rs.)
1.	Cash account	3,180	-
2.	Capital account	-	10,000
3.	Bank account	6,900	-
4.	Purchases account	725	-
5.	Sales account	-	950
6.	Krishna's account	-	-
7.	Salary outstanding account	-	5
8.	Rent account	150	-
	Total	**10,955**	**10,955**

ANSWER TO Q.NO.50:

Trial balance as on…..

S.NO.	NAME OF ACCOUNT	DEBIT BALANCE (Rs.)	CREDIT BALANCE (Rs.)
1.	Capital account	-	12,000
2.	Furniture account	2,000	-
3.	Sales account	-	50,000
4.	Purchases account	30,000	-
5.	Debtors account	10,000	-
6.	Creditors account	-	5,000
7.	Expenses account	19,300	-
8.	Cash account	5,700	-
	Total	**67,000**	**67,000**

Calculations: Capital = Cash + Furniture = 10,000

Cash account: Opening balance = 10,000 + Cash sales = 5,000 + Received from debtors = 35,000

Less: cash purchases = 10,000 Less: payment to creditors = 15,000 Less: expenses paid = 19,300

THEORETICAL FRAMEWORK

SOLUTION TO Q.16.

1. **False:** Overhaul expenses are incurred to put second-hand machinery in working condition. So it should be capitalised.
2. **False:** It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.
3. **True:** Legal fee paid to acquire any property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
4. **False:** Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff are maintenance expenditure of the asset. Maintenance expenditure in relation to an asset is revenue expenditure.
5. **False:** Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.
6. **False:** Repairing and white washing expenses for the first time of an old building are incurred to put the building in usable / working condition. These are the part of the cost of building. Accordingly, these are capital expenditure.
7. **True:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense (incurred before the working condition) which is capitalised.
8. **True:** Cost of temporary huts constructed which were necessary for the construction of the cinema house is part of the construction cost of the cinema house. Therefore such costs are to be capitalised.

SOLUTION TO Q.17.

1. Money paid Rs. 10,000 for obtaining license to start a factory is a capital expenditure.

2. Rs. 1,000 paid for removal of Inventory to a new site is revenue expenditure. Such expenditure occur regularly during business.

3. Rs. 5,000 spent in changing Rings and Pistons of an engine to get fuel efficiency is capital expenditure. This is an expenditure on improvement of a fixed asset resulting in increase in its efficiency.

4. Money deposited with MTNL for installation of telephone in office is not an expenditure. This is treated as an asset and the same is adjusted over a period of time against actual telephone bills.

5. Cost of construction of building including cost of temporary huts is capital expenditure. Building is fixed asset which will generate enduring benefit to the business over more than one accounting period. Construction of temporary huts is incidental to the main construction. Such cost is also capitalised with the cost of building.

SOLUTION TO Q.18.

i. The total cost of the furniture should be treated as Rs. 10,200 i.e., all the amounts mentioned should be capitalised since without such expenditure the furniture would not be available for use.

ii. License for running the cinema house is necessary, hence its cost of Rs.20,000 should be capitalised. But the fine of Rs.1,000 is revenue expenditure. The renewal fee of Rs.2,000 for the next year is also revenue expenditure but pertains to the next year; hence, it is a prepaid expense.

iii. Half of the insurance premium pertains to the year beginning on 1st April, 2016. Hence such amount should be treated as prepaid expense. The remaining amount is revenue expense for the current year.

iv. Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

SOLUTION TO Q.19.

1. Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. So this expenditure should be capitalised.

2. Inauguration expenses incurred on the opening of a new unit is in the nature of revenue expenditure, as this expenditure is not necessary to bring assets into working condition.

3. The amount paid to workers on voluntary retirement is in the nature of revenue expenditure. But since the magnitude of the amount of expenditure is very high, it is better to capitalize it.

SOLUTION TO Q.20.

i. Capital expenditure since without such expenditure the capital assets would not be available for use.

ii. Revenue receipt as this receipt is a normal regular receipt of business.

iii. Capital expenditure since the demolition of old building was necessary for the construction of big building, their cost should be added to the cost of the building.

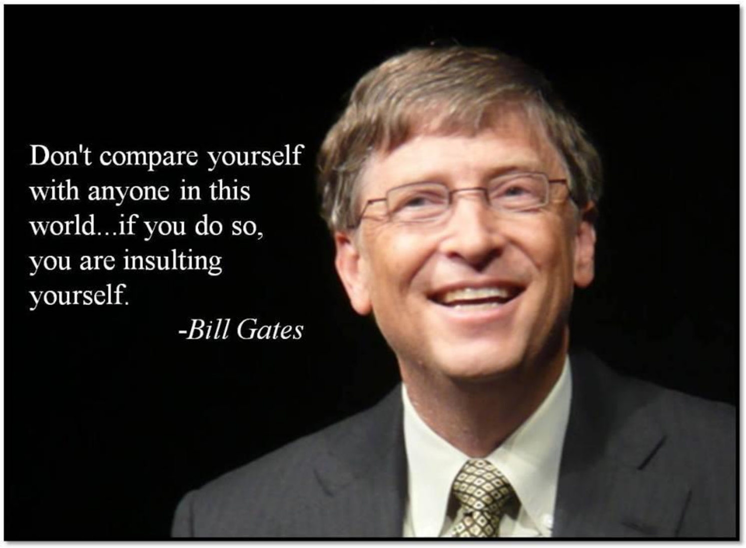
iv. Capital receipt as this receipt occur once in a while and normally involves huge amount.

SOLUTION TO Q.21.

i. Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

ii. Expense incurred to recover installments due from customer does not increase the revenue generating capability in future. It is a normal recurring expense of the business. Thus the legal expenses incurred in this case are revenue expenditure in nature.

iii. Expenses incurred on account of transportation of fixed asset are capital expenditure in nature.



COMPANY ACCOUNTS

SOLUTION TO Q.2. **A Ltd.**

Journal

2017	Particulars		Rs.	Rs.
May 20	Bank Account To Share Application A/c (Application money on 40,000 shares at Rs.20 per share received.)	Dr.	8,00,000	 8,00,000
June 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares at – Rs.20 on application. Directors' resolution no...... dated…..)	Dr.	8,00,000	 8,00,000
	Share Allotment A/c To Share Capital A/c (Being share allotment made due at Rs.30 per share. Directors' resolution no...... dated…..)	Dr.	12,00,000	 12,00,000
July 15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	12,00,000	 12,00,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs.25 as per Directors, resolution no... dated...)	Dr.	10,00,000	 10,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	10,00,000	 10,00,000
2018 Feb. 1	 Share Second and Final Call A/c To Share Capital A/c	Dr.	 10,00,000	 10,00,000

	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)		
Mar. 5	Bank Account Dr. To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs. 25 per share.)	10,00,000	 10,00,000

SOLUTION to Q.3

Pioneer Equipment Limited

Journal

Date 2017	**Particulars**		**Debit (Rs.000)**	**Credit (Rs.000)**
Oct. 1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 2,50,000 shares @ Rs. 25 per share)		6,250	 6,250
Oct. 20	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment to share capital)		6,250	 6,250
Oct. 20	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on allotment of 2,50,000 shares @ Rs. 75 per share including premium)		18,750	 12,500 6,250
Oct. 31	Bank A/c Dr. To Equity Share Allotment A/c (Money received including premium consequent upon allotment)		18,750	 18,750

SOLUTION to Q.4.

Pant Ltd.

Journal

Particulars	Rs.	Rs.
Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 60,000 shares at Rs.20 per share)	12,00,000	 12,00,000
Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Being share allotment made for 50,000 shares and excess refunded.)	12,00,000	 10,00,000 2,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 50,000 equity shares at Rs. 10 per share as per Directors' resolution no... dated...)	5,00,000	 5,00,000
Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c (Being allotment money received for 45,000 shares at Rs.10 per share.)	4,50,000 50,000	 5,00,000

SOLUTION to Q.6.

Journal Entries in the Books of the Company

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
Jan. 31	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 10,000 shares @ Rs. 25 per share)		2,50,000	 2,50,000

March 1	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)	Dr.		2,50,000	 2,50,000
March 1	Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ Rs. 30 per share)	Dr.		3,00,000	 3,00,000
	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.		3,00,000	 3,00,000
June 1	Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 10,000 shares @ Rs. 20 per share)	Dr.		2,00,000	 2,00,000
	Bank A/c Calls-in-Arrears A/c To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 9000 shares and calls-in- advance on 500 shares @ Rs. 25 per share)	Dr. Dr.		1,92,500 20,000	 2,00,000 12,500
	Alternatively, Bank A/c To Equity Share First Call A/c To Equity Share second n final call A/c (First call money received on 9000 shares and calls-in- advance on 500 shares @ Rs. 25 per share)	 Dr.		 1,92,500	 1,80,000 12,500

ANSWER TO Q.NO.7:

In the books of A Ltd.

Date	Journal Particulars	Rs.	Rs.
	Equity Share Capital A/c (30,000 x Rs. 10) Dr.	3,00,000	
	To Equity Share Final Call A/c (30,000 x Rs. 4)		1,20,000
	To Forfeited Shares A/c (30,000 x Rs. 6)		1,80,000
	(Being the forfeiture of 30,000 equity shares of Rs.10 each fully called-up for non-payment of final call money @ Rs.4 each as per Board's Resolution No…. dated….)		

ANSWER TO Q.NO.8:

<u>Journal Entries in the Books of the Company</u>

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Bank A/c Dr.		2,50,000	
To Equity Share Application A/c			2,50,000
(Money received on 1,00,000 shares @ Rs.2.5 per share)			
Equity Share Application A/c Dr.		2,50,000	
To Equity Share Capital A/c			2,50,000
(Transfer of application money on to share capital) Dr.			
Equity Share Allotment A/c Dr		3,00,000	
To Equity Share Capital A/c			3,00,000
(Amount due on allotment 1,00,000 shares @ Rs.3 per share)			
Bank A/c Dr.		3,00,000	
To Equity Share Allotment A/c			3,00,000
(Allotment money received)			
Equity Share First Call A/c Dr.		2,00,000	
To Equity Share Capital A/c			2,00,000
(First call money on 1,00,000 shares @ Rs.2 per share)			
Bank A/c Dr.	2,25,000		
To Equity Share First Call A/c		2,00,000	
To Calls in Advance A/c		25,000	

(Being first call money received along with calls in advance on 10,000 shares at Rs.2.50 per share)				
Equity Share Final Call A/c	Dr.	2,50,000		
To Equity Share Capital A/c			2,50,000	
(Being final call made due on 1,00,000 shares at Rs.2.50 each)				
Bank A/c	Dr.	2,22,500		
Calls in Advance A/c	Dr.	25,000		
Calls in Arrears A/c	Dr.	2,500		
To Equity Share Final Call A/c			2,50,000	
(Being final call received for 89,000 shares and calls in advance for 10,000 shares adjusted)				
Interest on Calls in Advance A/c	Dr.	750		
To Shareholders A/c			750	
(Being interest made due on calls in advance of Rs.25,000 at the rate of 12% p.a.)				
Shareholders A/c	Dr.	750		
To Bank A/c			750	
(Being payment of interest made to shareholder)				
Shareholders A/c	Dr.	41.67		
To Interest on Calls in Arrears A/c			41.67	
(Being interest on calls in arrears made due at the rate of 10%)				
Bank A/c	Dr.	2,541.67		
To Calls in Arrears A/c			2,500	
To Shareholders A/c			41.67	
(Being money received from shareholder for calls in arrears and interest thereupon)				

ANSWER TO Q.NO.9: **Journal of X Ltd.**

2020		Rs. In lakhs	Rs. In lakhs
May 1	Bank A/c Dr.	200	
	To Share Application A/c		200
	(Receipt of applications for 10 lakh shares along with application money of ₹ 20 per share.)		
May 1	Share Application A/c Dr.	200	
	Share Allotment A/c Dr.	300	
	To Share Capital A/c		500
	(The allotment of 10 lakh shares : payable on application ₹20 share and ₹30 on allotment as per Directors' resolution no…. dated…..)		
May 1	Bank A/c Dr.	310	
	To Shares allotment A/c		300
	To Calls in Advance A/c		10
	(Receipt of money due on allotment @ ₹30, also the two calls Directors, resolution no….dated….)		
Oct. 1	Share First Call A/c Dr.	300	
	To Share Capital A/c		300
	(The amount dur on 10 lakh shares @ ₹30 on first call, as per Directors, resolution no… dated…)		
	Bank A/c Dr.	294	
	Calls in Advance A/c Dr.	6	
	To Share First Call A/c		300
	(Receipt of the first call on 9.80 lakh shares, the balance having been previously received and now debited to call in advance account.)		
2021			
Feb.1	Share Final Call A/c Dr.	200	
	To Share Capital A/c		200
	(The amount due on Final Call on 10 lakh shares @ ₹20 per share, as per Directors' resolution no…dated…)		
Feb.1	Bank A/c Dr.	196	
	Call in Advance A/c Dr.	4	
	To Share Final Call A/c		200
	(Receipt of the moneys due on final call on 9.80 lakhs shares, the balance having been previously received.)		

Feb.1	Interest on calls in Advance A/c	Dr.	0.66	
	To Shareholder A/c			0.66
	(Being interest on call in advance made due)			
Feb.1	Shareholder A/c	Dr.	0.66	
	To Bank A/c			0.66
	(Being interest paid)			

Working Note:

The interest on calls in advance paid @ 12% on:	₹
₹ 6,00,000 (first call) from 1st May to 1st Oct., 2020-5 months	30,000
₹ 4,00,000 (final call) from 1st May to 1st Feb., 2021-9 months	36,000
Total Interest Amount Due	66,000

ANSWER TO Q.NO.10: **In the books of X Ltd.**

Date	Particulars	Dr.	Rs.	Rs.
	Equity Share Capital A/c (5,000 x Rs.100)	**Dr.**	5,00,000	
	Securities Premium A/c (See Note)		1,00,000	
	To Equity Share Allotment A/c (5,000 x Rs.50)			2,50,000
	To Equity Share First and Final Call A/c (5000 x Rs.50)			2,50,000
	To Forfeited Shares A/c (5000 x Rs.20)			**1,00,000**
	(Being the forfeiture of 5,000 equity shares of Rs.100 each fully called-up, issued at a premium of 20%, for non payment of allotment and call money as per Board's Resolution No…..dated….)			

ANSWER TO Q.NO.11:

	Journal		**Rs.**	**Rs.**
	Preference Share Capital A/c (2,000 x Rs.75)	Dr.	1,50,000	
	To Preference Share Allotment A/c			50,000
	To Preference Share First Call A/c			50,000
	To Forfeited Share A/c			50,000
	(Being the forfeiture of 2,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
	Bank A/c (1,500 x Rs.65)	Dr.	97,500	
	Forfeited Shares A/c (1,500 x Rs.10)	Dr.	15,000	
	To Preference Share Capital A/c			1,12,500

	(Being re-issue of 1500 shares at Rs. 65 per share paid-up as Rs.75 as per Board's Resolution No…..dated….)		
	Forfeited Shares A/c Dr.	22,500	
	To Capital Reserve A/c (Note 1)		22,500
	(Being profit on re-issue transferred to Capital/Reserve)		

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = Rs.50,000/2000 = Rs. 25

Loss on re-issue = Rs.75 – Rs.65 = Rs.10

Surplus per share re-issued Rs.15

Transferred to capital Reserve Rs.15 x 1500 = Rs.22,500

ANSWER TO Q.NO.12:

Journal

Date	Particulars	Rs.	Rs.
1.	Land and Buildings A/c Dr.	4,00,000	
	To Y Co. Ltd A/c		4,00,000
	(Being the land and buildings purchased from Y Co. Ltd as per agreement dated…).		
2.	Y.Co. Ltd A/c Dr.	4,00,000	
	To Equity Share Capital A/c		4,00,000
	(Being 40,000 shares of Rs. 10 each issued to Y Co. Ltd. on purchase of land and building)		
3.	Bank A/c Dr.	5,00,000	
	To Equity Share Application & Allotment A/c		5,00,000
	(Being the issue of 50,000 shares of Rs.10 each as per Board's Resolution No…..dated…)		
4.	Equity Share Application and Allotment A/c Dr.	5,00,000	
	To Equity Share Capital A/c		5,00,000
	(Being shares allotted for application money received.)		

Balance Sheet of X Company Limited as at….

	Particulars	Notes No.	Rs.
	EQUITY AND LIABILITIES		
	Shareholders' funds		
	Share capital	1	9,00,000
	Total		9,00,000
	ASSETS		
1.	**Non-current assets**		
	a Property, plant and Equipment		
	i. Tangible assets	2	4,00,000
2.	**Current assets**		
	Cash and cash equivalents	3	5,00,000
	Total		**9,00,000**

Notes to accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	Authorised share capital	
	90,000 Equity shares of Rs.10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of Rs.10 each	9,00,000
	Subscribed Share Capital	
	90,000 Equity Shares of Rs.10 each	9,00,000
	Called up and Paid up Capital	
	90,000 Equity Shares of Rs.10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to Contract without payment being received in cash)	

2.	**Tangible Assets**	
	Land and Building	4,00,000
3.	**Cash and cash equivalents**	
	Balances with banks	5,00,000

ANSWER TO Q.NO.13:

Journal of Shreyas Ltd

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
1.7.2016	Calls in Arrears A/c Dr.		30,000	
	To Equity Share First Call A/c			30,000
	(Being amount due on first call on 10,000 shares at Rs.3 per share transferred to calls in arrears account)			
1.4.2017	Bank A/c Dr.		30,000	
	To Calls in Arrears A/c			30,000
	(Being calls in arrears received)			

ANSWER TO Q.NO.14:

Delhi Artware Ltd.

Cash Book

	Particulars	Rs.	Particulars	Rs.
To	Equity Shares Applications Account (application money on 50,000 shares at Rs.25)	12,50,000	By Balance c/d	14,440,000
To	Preference Share Application A/c (application money on 1,00,000 shares at 20)	20,00,000		
To	Equity Share Allotment A/c (allotment money on 50,000 shares at Rs.20)	10,00,000		
To	Preference Share Allotment A/c (allotment money on 1,00,000 shares at Rs.30)	30,00,000		
To	Equity Shares First Call A/c (Rs.30 on 50,000 shares)	15,00,000		
To	Preference Share First Call A/c (Rs.20 on 1,00,000 shares)	20,00,000		
To	Equity Shares Final Call A/c (Rs.25 on 42,000 shares)	10,50,000		

To	Preference Share Final A/c (Rs.30 on 88,000 shares)	26,40,000		
		<u>14,440,000</u>		<u>14,440,000</u>

Journal

		Rs.	Rs.
Equity Share Application A/c	Dr.	12,50,000	
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			22,50,000
[The Credit to share capital on allotment of 50,000 equity shares at Rs.45 per share(Rs.25 on application and Rs.20 on allotment) allotted as per Directors resolution no.... dated.....]			
Preference Share Application A/c	Dr.	20,00,000	
Preference Share Allotment A/c	Dr.	30,00,000	
To Preference Share Capital A/c			50,00,000
[The credit to Preference Share Capital on allotment of 1,00,000 preference shares at Rs.50 per share (Rs.20 on application and Rs.30 on allotment), allotted as per Directors' resolution no... dated...]			
Equity Share First Call A/c	Dr.	15,00,000	
To Equity Share Capital A/c			15,00,000
(Amount due on 50,000 equity shares at Rs.30 per share as per Directors' resolution no... dated...)			
Preference Share First Call A/c	Dr.	20,00,000	
To Preference Share Capital A/c			20,00,000
(Amount due on 1,00,000 preference shares at `20 per share, as per Directors' resolution no...dated...)			
Equity Share Final Call A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Amount due on final call on 50,000 equity shares at` 25 per share, as per Directors' resolution no... dated...)			
Preference Share Final Call A/c	Dr.	30,00,000	
To Preference Share Capital A/c			30,00,000
(Amount due on final call on 1,00,000 preference shares at Rs.30 per share, as per Directors' resolution no... dated...)			

Note: Students may note that cash transactions have not been journalised as these have been entered in the Cash Book.

ANSWER TO Q.NO.15:

Balance Sheet as at 31st March, 2017

Particulars	**Notes No.**	**Rs.**
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	5,30,000
Total		5,30,000
ASSETS		
Current assets		
Cash and cash equivalents	2	5,30,000
Total		5,30,000

Notes to accounts

		Rs.	Rs.
1.	**Share Capital**		
	Equity share capital		
	Authorised share capital		
	1,00,000 Equity shares of Rs.10 each	10,00,000	
	Issued share capital		
	60,000 Equity shares of Rs.10 each	6,00,000	
	Subscribed share capital		
	60,000 Equity shares of Rs.10 each	6,00,000	
	Called up and Paid up share capital		
	60,000 Equity shares of Rs.10 each Rs.9 called up	5,40,000	5,30,000
	Less: Calls unpaid on 5,000 shares @ Rs.2 per share	(10,000)	
2.	**Cash and cash equivalents**		5,30,000
	Balances with banks		

ANSWER TO Q.NO.16:

In the books of Beautiful Co. Ltd.

Date	Particulars		Rs.	Rs.
	Equity Share Capital A/c (1,500 x Rs.10)	Dr.	15,000	
	Securities Premium A/c (500 x Rs.2)	Dr.	1,000	
	To Equity Share Allotment A/c (500 x Rs.5)			2,500
	To Equity Share Call A/c (1,500 x Rs.4)			6,000
	To Forfeited Shares A/c			7,500
	(Being forfeiture of 1,500 equity shares for non-payment of allotment and call money on 500 shares and for non-payment of call money on 1,000 shares as per Board's Resolution No….. dated ….)			
	Bank A/c	Dr.	10,000	
	Forfeited Shares A/c	Dr.	2,500	
	To Equity Share Capital A/c			12,500
	(Being re-issue of 1250 shares @ Rs.8 each as per Board's Resolution No…..dated….)			
	Forfeited Shares A/c	Dr.	3,500	
	To Capital Reserve A/c			3,500
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of Beautiful Limited as at……

Particulars	Notes No.	Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	2,99,000
Reserves and Surplus	2	62,500
Total		**3,61,500**
ASSETS		
Current assets		
Cash and cash equivalents (bank)		3,61,500
Total		**3,61,500**

Notes to accounts

		Rs.	Rs.
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	30,000 Equity shares of Rs.10 each	3,00,000	
	Subscribed, called up and paid up share capital		
	29,750 Equity shares of Rs.10 each	2,97,500	
	Add: Forfeited shares	1,500	2,99,000
2.	**Reserves and Surplus**		
	Securities Premium	59,000	
	Capital Reserve	3,500	62,500

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve:

Amount forfeited per share of Shyam	Rs. 6
Less: Loss on re-issue per share	(Rs.2)
Surplus	Rs.4
Transferred to Capital Reserve: Shyam's Share (750 x Rs.4)	Rs.3,000
Amount forfeited per share of Ram	Rs. 3
Less: Loss on re-issue per share	(Rs.2)
Surplus	Rs.1
Transferred to Capital Reserve: Ram's Share (500 x Re.1)	Rs.500
Total	Rs.3,500

(2) Balance of Security Premium

Total Premium amount receivable on allotment = 60,000

Less: Amount reversed on forfeiture = (1,000)

Balance remaining = 59,000

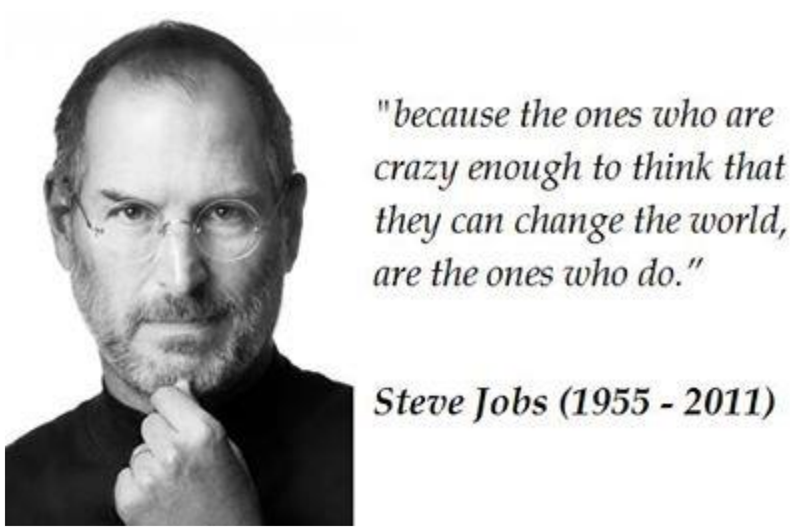
ANSWER TO Q.NO.20:

In the Books of B Ltd.
Cash Book (Bank column only)

Particulars	Rs.	Particulars	Rs.
To Equity Share Application A/c	12,00,000	By Equity Share Application A/c (Being excess money refunded)	2,00,000
To Equity Share Allotment A/c	9,92,500		
To Equity Share Final Call A/c	3,97,000	By Balance c/d	23,89,500
	25,89,500		**25,89,500**

Journal

Date	Particulars		Rs.	Rs.
	Equity Share Application A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	Equity Share Allotment A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium A/c			4,00,000
	Equity Share Capital A/c (150 x Rs.100)	Dr.	15,000	
	Securities Premium A/c (150 x Rs.20)	Dr.	3,000	
	To Equity Share Allotment A/c			7,500
	To Equity Share Final Call A/c			3,000
	To Forfeited Shares A/c			7,500



ISSUE OF DEBENTURES

ANSWER TO Q.NO.1:

Books of Koinal Chemicals Ltd.

Journal Entries

Particulars		Debit Amount (Rs.In 000)	Credit Amount (Rs. In 000)
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	400	 400
Debentures Application A/c To 10% Debentures A/c (Debenture application money transferred to 10% debenture account consequent upon allotment)	Dr.	400	 400
Debenture allotment A/c To 10% Debentures A/c To Securities Premium A/c (Call made on allotment of debenture including premium)	Dr.	700	 600 100
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	700	 700

ANSWER TO Q.NO.2:

Journal Entries in the books of Kapil Limited

Date	**Date**		**(Rs.)**	**(Rs.)**
2017 March 1	Bank A/c To 12% Debentures Application A/c (Being the money received on 50,000 debentures @ Rs.110 each including premium of Rs. 10 each)	Dr.	55,00,000	 55,00,000
March 9	12% Debentures Application A/c To 12% Debentures A/c To Securities Premium A/c (Being the allotment of 50,000 debentures of Rs.100 each, premium @ Rs.10 each transferred to Securities Premium Account as per Board's Resolution No….dated….)	Dr.	55,00,000	 50,00,000 5,00,000

ANSWER TO Q.NO.3:

Journal Entries in the Books of Country Crafts Ltd.

Date	Particulars	L.F.	Debit (Rs.'000)	Credit (Rs..'000)
(a)	Bank A/c Dr.		10,500	
	To Debenture Application A/c			10,500
	(Debenture application money received)			
(b)	Debenture Application A/c Dr.		10,500	
	Loss on Issue of Debenture A/c Dr.		1,000	
	To Securities Premium A/c			500
	To 8% Debentures A/c			10,000
	To Premium on Redemption A/c			1,000
	(Debenture application money transferred to debenture account)			

ANSWER TO Q.NO.4:

Books of Atul Ltd.

Journal Entries

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c	Dr.	30,00,00,000	
	To Debenture Application A/c			30,00,00,000
	(Debenture application money received)			
	Debenture Application A/c	Dr.	30,00,00,000	
	To 8% Debentures A/c			30,00,00,000
	(Application money transferred to 8% debentures account consequent upon allotment)			
	Debenture allotment A/c	Dr.	60,00,00,000	
	Discount on issue of debentures A/c	Dr.	10,00,00,000	
	To 8% Debentures A/c			70,00,00,000
	(Amount due on allotment)			
	Bank A/c	Dr.	60,00,00,000	
	To Debenture Allotment A/c			60,00,00,000
	(Money received consequent upon allotment)			

ANSWER TO Q.NO.5:

In the books of Simmons Limited

Date	Particulars		Rs. 000	Rs. 000
April 1	Bank A/c To 12% Debentures Application A/c (Being money received on 1,10,000 debentures)	Dr.	11,000	 11,000
April 7	12% Debentures Application A/c To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No…..dated…)	Dr.	1,000	 1,000
April 7	12% Debentures Application A/c To 12% Debentures A/c (Being the allotment of 10,000 debentures of Rs. 100 each at par as per Board's Resolution No….dated…)	Dr.	10,000	 10,000

ANSWER TO Q.NO.6: **Books of Agrotech Ltd.**

Journal Entries

Date	Particulars	L.F.	Debit (Rs.) Lakhs	Credit (Rs.) Lakhs
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	7,500	 7,500
	Debenture Application A/c To 9% Debentures A/c (Application money transferred to 9% deb account)	Dr.	7,500	 7,500
	Debenture Allotment A/c Loss on issue of debenture A/c To 9% Debentures A/c To 9% Debentures A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr. Dr.	6,600 1,650	 7,500 7,50
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	6,600	 6,600

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 150 lakh = (Rs.6 + Rs.5) x 150 lakh = Rs.1,650 lakh

ANSWER TO Q.NO.7:

In the books of X Limited

Date 2017	**Particulars**		**Rs. '00**	**Rs. '00**
May 31	Bank A/c To 12% Debentures Application A/c	Dr.	10,800	 10,800
June 9	12% Debentures Application A/c To Bank A/c	Dr.	1,800	 1,800
June 9	12% Debentures Application A/c Discount on Issue of Debentures A/c To 12% Debentures A/c	Dr. Dr.	9,000 1,000	 10,000

Bank Account

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
31.5.17	To 12% Debentures Application A/c	10,800	9.6.2017	By 12% Debentures Application A/c	1,800
			9.6.2017	By Balance c/d	9,000
		10,800			**10,800**

12% Debentures Account

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
30.6.17	To Balance c/d	10,000	9.6.2017	By 12% Debentures Application A/c	9,000
			9.6.2017	By Discount on Issue of Debentures A/c	1,000
		10,000			**10,000**

12% Debentures Application Account

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
9.6.2017	To Bank A/c	1,800	31.5.2017	By Bank A/c	10,800
9.6.2017	To 12% Debentures A/c	9,000			
		10,800			**10,800**

Discount on Issue of Debentures Account

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
9.6.2017	To12% Debentures A/c	1,000	30.6.2017	By Balance c/d	1,000
		1,000			**1,000**

ANSWER TO Q.NO.8:

Method 1:

No journal entry in the books of accounts; only disclosure in notes to accounts as follows:

Notes to Accounts of X Limited as at…(includes)

Long Term Borrowings	Rs.
Secured Loan	
IDBI Loan	1,00,00,000

(Collaterally secured by issue of Rs.1,50,00,000 14% First Mortgage Debentures)

Method 2:

Following journal entry shall be made:

Debentures Suspense Account	1,50,00,000
To % Debentures Account	1,50,00,000
(Being the issue of…debentures collaterally as per Board's Resolution No…..dated)	

The Debentures Suspense Account will appear on the assets side of the Balance Sheet under Other Non- Current Assets and Debentures on the liabilities side of the Balance Sheet. When the loan is repaid, the entry is reversed in order to cancel it.

ANSWER TO Q.NO.9:

In the books of X Company Ltd.

Date	Particulars		Rs.	Rs.
(a)	Bank A/c	Dr.	22,50,000	
	To Debentures Application A/c			22,50,000
	Debentures Application A/c	Dr.	22,50,000	
	Discount on issue of Debentures A/c	Dr.	2,50,000	
	To 14% Debentures A/c			22,50,000
(b)	Fixed Assets A/c	Dr.	10,00,000	
	To Vendor A/c			10,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	10,00,000	
	Discount on Issue of Debentures A/c	Dr.	2,50,000	
	To 14% Debentures A/c			12,50,000

	(Being the issue of debentures of Rs. 12,50,000 to vendor to satisfy his claim)		
(c)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of Rs.10,00,000 taken from bank by issuing debentures of Rs.12,50,000 as collateral security)	10,00,000	10,00,000

Note : No entry is made in the books of account of the company at the time of making issue of such debentures. In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

ANSWER TO Q.NO.10:

Total amount of discount comes to Rs.6,00,000 (Rs.6 X 1,00,000). The amount of discount to be written-off in each year is calculated as under :

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	Rs.1,00,00,000	1/5	1/5th of Rs.6,00,000 = Rs.1,20,000
2nd	Rs.1,00,00,000	1/5	1/5th of Rs.6,00,000 = Rs.1,20,000
3rd	Rs.1,00,00,000	1/5	1/5th of Rs.6,00,000 = Rs.1,20,000
4th	Rs.1,00,00,000	1/5	1/5th of Rs.6,00,000 = Rs.1,20,000
5th	Rs.1,00,00,000	1/5	1/5th of Rs.6,00,000 = Rs.1,20,000

ANSWER TO Q.NO.11:

Calculation of amount of discount to be written-off

At the Year end	Debentures Outstanding before redemption	Ratio of Benefit Derived	Amount of discount to be written-off
2010	Rs.20,00,000	5	5/15th of Rs.1,20,000 = Rs.40,000
2011	Rs.16,00,000	4	4/15th of Rs.1,20,000 = Rs.32,000
2012	Rs.12,00,000	3	3/15th of Rs.1,20,000 = Rs.24,000
2013	Rs.8,00,000	2	2/15th of Rs.1,20,000 = Rs.16,000
2014	Rs.4,00,000	1	1/15th of Rs.1,20,000 = Rs.8,000
	TOTAL	15	**Rs.1,20,000**

ANSWER TO Q.NO.12

CORRECTION IN QUESTION: A COMPANY ISSUED 12% DEBENTURES OF THE FACE VALUE OF RS.10,00,000

Journal Entries

Date	Particulars		(Rs.)	(Rs.)
1-1-2017	Bank A/c	Dr.	9,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	1,50,000	
	To 12% Debentures A/c	Dr.		10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2017	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c			6,000
	(For interest payable)			
	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/c	Dr.	6,000	
	To Bank A/c			60,000
	(For payment of interest and TDS)			
31-12-2017	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c			6,000
	(For interest payable)			
	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/c	Dr.	6,000	
	To Bank A/c			60,000
	For payment of interest and tax)			
	Profit and Loss A/c	Dr.	1,20,000	
	To Debenture Interest A/c			1,20,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c	Dr.	30,000	
	To Discount/Loss on issue of debenture A/c			30,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 1,50,000 x 1/5)			

PARTNERSHIP ACCOUNTS

ANSWER TO Q.NO.1:

Computation of the value of goodwill:

(i)	Average Profit for three years, ending 30th June; before death:		
	Year ending 30th June, 2014 :	**Rs.**	**Rs.**
	1/2 of 2013 profits	33,600	
	1/2 of 2014 profits	37,800	71,400
	Year ending 30th June, 2015 :		
	1/2 of 2014	37,800	
	1/2 of 2015 profits	36,000	73,800
	Year ending 30th June, 2016 :		
	1/2 of 2015	36,000	
	1/2 of 2016 profits	31,200	67,200
	Total		**2,12,400**
	Average Profit		70,800
(ii)	**Average future maintainable profit:**		**Rs.**
	Average profits earned		70,800
	Less : Partner's remuneration	45,000	
	Less : 8% on capital employed	12,480	(57,480)
			13,320
(iii)	Goodwill @ three years' purchase		39,960

Adjustment entries for Goodwill

Journal Entries

Particulars		**Dr. (Rs.)**	**Cr. (Rs.)**
Clever's Capital Account	Dr.	7,992	
Dull's Capital Account	Dr.	7,992	
To Wise's Capital Account			15,984
(Adjusted entry passed for share of goodwill of Wise through remaining partner's capital accounts in gaining ratio)			

Working Note:

Partner	New Share		Old Share		Difference
Wise	-	-	$\frac{4}{10}$	=	$-\frac{4}{10}$
Clever	$\frac{1}{2}$	-	$\frac{3}{10}$	=	$\frac{2}{10}$
Dull	$\frac{1}{2}$	-	$\frac{3}{10}$	=	$\frac{2}{10}$

ANSWER TO Q.NO.2: **A's Capital Account**

2016	Particulars	Rs.	2016	Particulars	Rs.
Dec. 31	To Bank A/C - (Drawings)	8,000	Jan. 1	By Bank A/C	30,000
	To Balance c/d	33,800	Dec. 31	By Profit and Loss app A/c - Interest	1,800
				By Profit and Loss app A/c – (5/8 Profit)	10,000
		41,800			**41,800**

B's Capital Account

2016	Particulars	Rs.	2016	Particulars	Rs.
	To Cash - (Drawings)	10,000	Jan. 1	By Cash	20,000
	To Balance c/d	23,200	Dec. 31	By Profit and Loss A/c	
				- Salary	6,000
				-Interest	1,200
				By Profit and Loss A/c - (3/8 Profit)	6,000
		33,200			**33,200**

ANSWER TO Q.NO.3:

Books of Weak, Able & Lazy

Profit and Loss Appropriation Account for the year ended 31st December, 2016

Particulars	Rs.	Particulars	Rs.
To Weak's Current a/c	7,500	By Net Profit (Adjusted)	55,750
To Able's Current a/c	4,000		
To Lazy's Current a/c	3,000		

(interest on capital)			
To Profit transferred to: Weak's Current a/c Able's Current a/c Lazy's Current a/c	 21,400 10,700 10,700	By Weak's Current a/c By Able's Current a/c By Lazy's Current a/c (Interest on Drawings)	630 520 400
	57,300		**57,300**

Working Notes:

Adjusted Profit	Rs.
Net Profit as per Profit & Loss A/c	60,000
Add : Drawings by Weak : Life Insurance Premium of Weak charged to Miscellaneous Expenditure A/c of the Firm	750
Add :Drawings by Able : Travelling expenses of Able in connection with pleasure trip to U.K. charged to travelling expenses A/c of the firm	3,000
Less: Repairs to Machinery wrongly capitalized *Add* : Depreciation charged @ 20%	(10,000) 2,000
	55,750

Interest on Drawings :

Particulars	**Weak**	**Able**	**Lazy**
Drawings	15,000	10,000	10,000
Add : Rectification adjustments	750	3,000	–
	15,750	13,000	10,000
Interest @ 8% p.a. for 6 months	630	520	400

ANSWER TO Q.NO.5:

There is no partnership deed. Therefore, the following provisions of the Indian Partnership Act are to be applied for settling the dispute.

(i) No interest on capital is payable to any partner. Therefore, Ram is not entitled to interest on capital.

(ii) No remuneration is payable to any partner. Therefore, Rahim is not entitled to any salary.

(iii) Interest on loan is payable @ 6% p.a. Therefore, Karim is to get interest @ 6% p.a. on Rs. 2,000 instead of 12%.

(iv) The profits should be distributed equally.

Profit and Loss Appropriation Account for the year ended……….

Particulars		Rs.	Particulars	Rs.
To Interest on Karim Loan A/c (Rs. 2,000 x 6/100)		120	By Profit and Loss A/c – (Net profit)	45,000
To Reserve A/c – 10% of Rs. (45,000-120)		4,488		
To Share of Profit A/c :				
Ram:	Rs. 13,464			
Rahim:	Rs. 13,464			
Karim:	Rs. 13,464	40,392		
		45,000		**45,000**

ANSWER TO Q.NO.6:

Journal Entries

2016	Particulars	Dr. (Rs.)	Cr. (Rs.)
Jan. 1	Bank Account Dr.	35,000	
	To Shyam's Capital Account		35,000
	(Being amount brought in by Shyam for capital and goodwill)		
	Shyam's Capital Account Dr.	10,000	
	To Ram's Capital Account		5,000
	To Mohan's Capital Account		5,000
	(Being Shyam's share of goodwill adjusted to existing partners' capital accounts in the profit sacrificing ratio 1:1)		
	Revaluation Account Dr.	5,000	
	To Plant and Machinery Account		3,000
	To Provisions for Doubtful Debts Account		500
	To Trade payables Account		1,500
	(Being recording of the reduction in the value of assets and the liability which had been previously omitted)		

	Building Account Dr. To Revaluation Account (Being increase in the value of building brought into account)	7,000	 7,000
	Revaluation Account Dr. To Ram's Capital Account To Mohan's Capital Account (Being profit on revaluation credited to Ram and Mohan in the old profit sharing ratio)	2,000	 1,200 800

Balance Sheet of Ram, Mohan and Shyam as at January 1, 2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		16,500	Buildings		25,000
Capital Accounts :			Plant and Machinery		12,000
Ram	26,200		Inventories		12,000
Mohan	30,800		Trade receivables	10,000	
Shyam	25,000	82,000	Less : Provision for Doubtful Debts	(500)	9,500
			Bank		40,000
		98,500			**98,500**

Working Note: Profit sacrificing ratio:

Ram = 3/5 less 1/2 = 1/10

Mohan = 2/5 less 3/10 = 1/10

ANSWER TO Q.NO.7:

Memorandum Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Provision for Bad Debts A/c	500	By Freehold premises A/c	40,000
To Inventory A/c	3,000	By Furniture A/c	5,000
To Plant A/c	5,000	By Office equipment A/c	2,500
To Profit on Revaluation A/c			
A's Capital-3/5	23,400		
B's Capital-2/5	15,600		
	47,500		**47,500**

To Freehold premises A/c	40,000	By Provision for Bad Debts A/c	500
To Furniture A/c	5,000	By Inventory A/c	3,000
To Office equipment A/c	2,500	By Plant A/c	5,000
		Loss on Revaluation A/c	
		A's Capital -12/25	18,720
		B's Capital-8/25	12,480
		C's Capital-5/25	7,800
	47,500		**47,500**

Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To A's Capital A/c	–	–	6,000	By Balance b/d	2,00,000	1,00,000	-
To B's Capital A/c	–	–	4,000	By Bank A/c	–	–	60,000
To Loss on revaluation A/c	18,720	12,480	7,800	By C's Capital A/c	6,000	4,000	–
To Balance c/d	2,10,680	1,07,120	42,200	By Profit on revaluation A/c	23,400	15,600	–
	2,29,400	**1,19,600**	**60,000**		**2,29,400**	**1,19,600**	**60,000**

Balance Sheet as at 1.4.2016

Liabilities	Rs.	Assets	Rs.
Trade payables	50,000	Freehold premises	2,00,000
Capital A/c :		Plant	40,000
A	2,10,680	Furniture	20,000
B	1,07,120	Office equipment	25,000
C	42,200	Inventories	30,000
		Trade receivables	25,000
		Bank	70,000
	4,10,000		**4,10,000**

ANSWER TO Q.NO.8:

(a) Calculation of Effective Capital

A		B	
Rs.1,00,000 invested for 3 months i.e., Rs. 3,00,000 invested for 1 month	3,00,000	Rs. 60,000 invested for 6 months i.e. Rs. 3,60,000 invested for 1 month	3,60,000
Rs.1,10,000 invested for 3 months i.e. Rs. 3,30,000 invested for 1 month.	3,30,000	Rs. 90,000 invested for 6 months i.e., Rs. 5,40,000 invested for 1 month	5,40,000
Rs.1,15,000 invested for 3 month i.e., Rs. 3,45,000 invested for 1 month.	3,45,000		
Rs. 75,000 invested for 3 months, i.e., Rs. 2,25,000 invested for 1 month.	2,25,000		
	12,00,000		**9,00,000**

(b) Calculation of Interest on Capital

A = Rs. 12,00,000 x 12/100 x 1/12 = Rs. 12,000

B = Rs. 9,00,000 x 12/100 x 1/12 = Rs. 9,000

(c) Calculation of Interest on Drawings

A = Rs. 12,000 x 10/100 x 5.5/12 = Rs. 550

B = Rs. 1,000 x 10/100 x 6/12 = Rs. 50

Rs. 5,000 x 10/100 x 3/12 = Rs. 125

ANSWER TO Q.NO.9.

Revaluation Account

2016	Particulars		Rs.	2016	Particulars	Rs.
April 1	To Provision for bad and doubtful debts		550	April 1	By Inventory in trade	2,500
	To Furniture and fittings		650		By Land and Building	5,000
	To Capital A/cs: (Profit on revaluation transferred)					
	Dalal	2,520				
	Banerji	2,520				
	Mallick	1,260	6,300			
			7,500			**7,500**

Partners' Capital Accounts

Particulars	Dalal	Banerji	Mallick	Mistri	Particulars	Dalal	Banerji	Mallick	Mistri
	Rs.	**Rs.**	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**	**Rs.**
To Dalal	–	–	–	1,000	By Balance b/d	12,000	12,000	5,000	–
To Banerji	–	–	–	1,000	By General Reserve	2,600	2,600	1,300	–
To Balance c/d	19,120	18,120	7,560	3,000	By Cash	–	–	–	5,000
					By Mistri	1,000	1,000	–	–
					By Outstanding Liabilities	1,000	–	–	–
					By Revaluation A/c	2,520	2,520	1,260	–
	19,120	**18,120**	**7,560**	**5,000**		**19,120**	**18,120**	**7,560**	**5,000**

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dalal	$\frac{5}{15}$	$\frac{2}{5}$	$-\frac{1}{15}$	—
Banerji	$\frac{5}{15}$	$\frac{2}{5}$	$-\frac{1}{15}$	—
Mallick	$\frac{3}{15}$	$\frac{1}{5}$	No gain No loss	—
Mistri	$\frac{2}{15}$	—	—	$\frac{2}{15}$

Sacrifice by Mr. Dalal and Mr. Banerji= $Rs.15{,}000 \times \frac{1}{15}$ = Rs.1,000 each

Balance Sheet of M/s. Dalal, Banerji, Mallick and Mistri as on 1-4-2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		12,850	Land and Buildings		30,000
Outstanding Liabilities		500	Furniture		5,850
Capital Accounts of Partners :			Inventory of goods		14,250
Mr. Dalal	19,120		Trade receivables	5,500	
Mr. Banerji	18,120		*Less* : Provisions	(550)	4,950
Mr. Mallick	7,560		Cash in hand		140
Mr. Mistri	3,000	47,800	Cash at Bank		5,960
		61,150			**61,150**

ANSWER TO Q.NO.10:

Profit and Loss Appropriation Account for the year ended March 31, 2017

Particulars	Rs.	Particulars	Rs.
To Salary to X	360,000	By Profit and Loss A/c (Net profit)	14,48,000
To Interest on Capital A/c		By Interest on Drawings A/c	
X 1,60,000		X 22,000	
Y 1,28,000	288,000	Y 18,000	40,000
To profit transferred to Capital A/c			
X (2/3) 5,60,000			
Y (1/3) 2,80,000	840,000		
	1,488,000		**1,488,000**

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Drawing A/c	4,80,000	4,80,000	By Balance b/d	20,00,000	16,00,000
To Interest on	22,000	18,000	By Salary A/c	3,60,000	1,28,000

Drawings A/c					
To Balance c/d	25,78,000	1,510,000	By Interest on Capital A/c	1,60,000	
			By Profit and Loss App A/c	5,60,000	2,80,000
	30,80,000	**20,08,000**		**30,80,000**	**2,008,000**

Working Notes:

1. X's Share of Profit

= 2,80,000 x 3/1 x 2/3 = 5,60,000

2. Interest on Drawings

X = 4,80,000 x 11/2 x 1/12 x 10/100 = 22,000

Y = 4,80,000 x 9/2 x 1/12 x 10/100 = 18,000

3. Y's Interest on Capital

= 2,88,000 – 1,60,000 = 128,000

4. Net profit = Salary +Interest on capital + profit transferred to capital accounts – interest on drawings

ANSWER TO Q.NO.11:

Journal Entry

Particulars	Dr. (Rs.)	Cr. (Rs.)
C's Capital A/c [Rs.10,000 x 1/4] Dr.	2,500	
To A's Capital A/c		1,250
To B's Capital A/c		1,250
(Being the share of C in the hidden goodwill adjusted through capital accounts by crediting sacrificing partners in their sacrificing ratio)		

Note: Hidden Goodwill= $\left(8{,}000 \times \frac{4}{1}\right)$ – (Rs. 7,000 + Rs. 7,000+8,000) = Rs.10,000

ANSWER TO Q.NO.12:

Revaluation Account

	Rs.		Rs.
To Furniture	870	By Building	3,200
To Inventory	1,070	By Trade payables	1,400
To Provision for doubtful debts (Rs.1,750 - Rs.200)	1,550	By Investment	450
To Outstanding wages	1,560		
	5,050		**5,050**

Partners' Capital Accounts

	A	B	C		A	B	C
	Rs.	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**
To A	–	–	4,500	By Balance b/d	44,000	36,000	–
To B	–	–	3,000	By Cash A/c	–	–	25,000
To Balance c/d	48,500	39,000	17,500	By C (working note 2)	4,500	3,000	–
	48,500	**39,000**	**25,000**		**48,500**	**39,000**	**25,000**

Working Notes:

1. Calculation of goodwill:

C's contribution of Rs.25,000 consists of only 1/6th of capital.

Therefore, total capital of firm should be Rs.25,000 x 6 = Rs.1,50,000

But combined capital of A, B and C amounts Rs.44,000 + 36,000 + 25,000 = Rs.1,05,000

Thus, the hidden goodwill is Rs.45,000 (Rs.1,50,000- Rs.1,05,000).

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

Partners	**New share**	**Old share**	**Sacrifice**	**Gain**
A	$\frac{3}{6}$	$\frac{3}{5}$	$-\frac{3}{30}$	—
B	$\frac{2}{6}$	$\frac{2}{5}$	$-\frac{2}{30}$	—
C	$\frac{1}{6}$	—	—	$\frac{1}{6}$

Therefore, A will get = Rs.45,000 $\times \frac{3}{30}$ = Rs.4,500;

B will get = Rs.45,000$\times \frac{2}{30}$ = Rs.3,000; and

C will be debited on account of goodwill = Rs.45,000$\times \frac{1}{6}$ = Rs.7,500

ANSWER TO Q.NO.13:

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2015	K's Capital A/c Dr. L's Capital A/c Dr. M's Capital A/c Dr. To Goodwill A/c (Being old goodwill of balance sheet written off)	15,000 9,000 6,000	 30,000
	Profit and Loss Adjustment A/c Dr. To Furniture A/c To Inventory in Trade A/c (Being revaluation of Furniture and inventory in trade recorded)	30,000	 10,000 20,000
	K's Capital A/c Dr. L's Capital A/c Dr. M's Capital A/c Dr. To Profit and Loss Adjustment A/c (Being net revaluation loss debited to capital accounts of K, L and M in the ratio 5 : 3 : 2)	15,000 9,000 6,000	 30,000
	Reserve A/c Dr. To K's Capital A/c To L's Capital A/c To M's Capital A/c (Being reserve transferred to capital accounts, K, L and M)	50,000	 25,000 15,000 10,000
	L's Capital A/c Dr. To Cash A/c To N's Capital A/c (Being 50% of the amount due to L was paid off in cash and balance was retained in the firm as capital of N)	72,000	 36,000 36,000
	N's Capital A/c Dr. To L's Capital A/c (Being adjusting entry for goodwill passed in gaining/ sacrificing ratio)	15,000	 15,000
	M's Capital A/c Dr. To Bank A/c (Being amount paid to M to make his capital proportionate)	14,000	 14,000

Working Note:

1. Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
K	$\frac{5}{10}$	$\frac{5}{10}$	–	–
L	$\frac{3}{10}$	–	–	$\frac{3}{10}$
M	$\frac{2}{10}$	$\frac{2}{10}$	–	–
N	–	$\frac{3}{10}$	$\frac{3}{10}$	–

2. Calculation of excess capital paid off to M to make capital proportionate.

Partner	Capital Balance	Capital Ratio (After all Adjustments)	P/L Ratio	Excess Capital Paid Off
K	35,000	5	5	–
N	21,000	3	3	–
M	28,000	4	2	$\frac{28{,}000}{4}\times 2$ = 14,000

Partners' Capital Accounts

Particulars	K	L	M	N	Particulars	K	L	M	N
To Goodwill	15,000	9,000	6,000	-	By Bal b/d	40,000	60,000	30,000	-
To Profit and Loss Adjustment	15,000	9,000	6,000	-	By Reserve	25,000	15,000	10,000	-
To Cash A/c	-	36,000	-	-	By L's Capital A/c	-	-	-	36,000
To N's Capital	-	36,000	-	-	By N's Capital A/c	-	15,000	-	-
To L's Capital	-	-	-	15,000					
To Bank A/c (B/F)	-	-	14,000	-					
To Balance c/d	35,000	-	14,000	21,000					
	65,000	**90,000**	**40,000**	**36,000**		**65,000**	**90,000**	**40,000**	**36,000**

Balance Sheet of M/s K, M & N
as on 1st April, 2015

Liabilities	Rs.	Rs.	Assets	Rs.
Capital Accounts:			Furniture	10,000
K	35,000		Trade receivables	50,000
M	14,000		Inventory in Trade	30,000
N	21,000	70,000		
Trade payables		20,000		
		90,000		**90,000**

ANSWER TO Q.NO.14:

Journal Entries

	Particulars	Rs.	Rs.
1.	B's Capital A/c Dr. C's Capital A/c Dr. To A's Capital A/c (Share of revaluation profit Rs. 67,500 including good will due to A borne by B and C at the gaining ratio 11 : 4)	49,500 18,000	 67,500
2.	A's Capital A/c Dr. To A's Loan A/c To Bank A/c (Settlement of A's claim on his retirement by payment of 50% in case and transferring the balance to his Loan A/c).	1,17,500	 58,750 58,750
3.	Bank A/c Dr. To B's Capital A/c To A's Capital A/c (Cash brought in by the continuing partners).	73,750	 60,333 13,417

Working Notes:

1. Revaluation Profit	**Rs.**
Goodwill	1,00,000
Sundry Fixed Assets	30,000
Joint Life Policy	5,000
	1,35,000

A's Share Rs. 1,35,000 × 5/10 = Rs. 67,500.

2. Gaining Ratio

B : 2/3 – 3/10 = 11/30

C : 1/3 – 2/10 = 4/30

Gaining Ratio : B : C

11 : 4

3. Total Capital

		Rs.
Assets as per Balance Sheet		1,90,000
Additional Bank Balance		15,000
		2,05,000
Less : Bank Loan	40,000	
Sundry Creditors	30,000	
A's Loan	58,750	(1,28,750)
		76,250
B's Share		50,833
C's Share		25,417

ANSWER TO Q.NO.15:

Joint Life Policy Premium Account

	Particulars	**Rs.**		**Particulars**	**Rs.**
10th June, 2011	To Bank Account	3,000	31st Dec., 2011	By Profit and Loss A/c	3,000
10th June, 2012	To Bank Account	3,000	31st Dec., 2012	By Profit and Loss A/c	3,000
10th June, 2013	To Bank Account	3,000	31st Dec., 2013	By Profit and Loss A/c	3,000
10th June, 2014	To Bank Account	3,000	31st Dec., 2014	By Profit and Loss A/c	3,000

Profit and Loss Account

	Particulars	**Rs.**	**Particulars**	**Rs.**
31st Dec., 2011	To Joint Life Policy Premium Account	3,000		
31st Dec., 2012	To Joint Life Policy Premium Account	3,000		
31st Dec., 2013	To Joint Life Policy			

	Premium Account	3,000		
31st Dec., 2014	To Joint Life Policy Premium Account	3,000		

Joint Life Policy Account

	Particulars	Rs.		Particulars	Rs.
15th April, 2015	To Capital A/cs: (Transfer)		15th April, 2015	By Bank Account	3,600
	Red 5/10	1,800			
	White 3/10	1,080			
	Black 2/10	720			
		3,600			**3,600**

Example:

Red, White and Black shared profits and losses in the ration of 5:3:2. They took out a Joint Life Policy in 2016 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: 2016 nil; 2017 ₹900: 2018 ₹2,000 ₹3,600.

Black retires on 15th April, 2020.

Required:

Prepare ledger accounts assuming Joint Life policy Account ins maintained on surrender value basis.

Solution:

Joint Life Policy Account

		₹			₹
10th June, 2016	To Bank A/c	3,000	31st Dec., 2016	By Profit and Loss A/c	3,000
10th June, 2017	To Bank A/c	3,000	31st De., 2017	By Profit and Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
1st January, 2018	To Balance b/d	900	31st Dec., 2018	By Profit and Loss A/c	1,900
10th June, 2018	To Bank A/c	3,000		By Balance c/d	2,000
		3,900			3,900

1st January, 2019	To Balance b/d	2,000	31st Dec., 2019	By Profit and Loss A/c	1,400
10th June, 2019	To Bank A/c	3,000		By Balance c/d	3,600
		5,000			5,000
1st January, 2020	To Balance b/d	3,600	15th April, 2020	By Bank	3,600
		3,600			3,600

Profit and Loss Accounts

		₹			₹
31st Dec., 2016	To Joint Life Policy A/c	3,000			
31st Dec., 2017	To Joint Life Policy A/c	2,100			
31st Dec., 2018	To Joint Life Policy A/c	1,900			
31st Dec., 2019	To Joint Life Policy A/c	1,400			

ANSWER TO Q.NO.16:

Journal Entries

	Particulars	Rs.	Rs.
(1)	F's Capital A/c Dr. To K's Capital A/c (Being the adjustment for goodwill on K's retirement) - Refer W.N.	10,000	 10,000
(2)	Reserve A/c Dr. To F's Capital A/c To G's Capital A/c To K's Capital A/c (Transfer of Reserve to Partners' Capital A/cs on K's retirement)	10,000	 4,000 4,000 2,000
(3)	Sundry Fixed Assets A/c Dr. Inventory A/c Dr. To Profit and Loss Adjustment A/c (Increase in the value of Sundry Fixed Assets and inventory recorded)	30,000 10,000	 40,000
(4)	Profit and Loss Adjustment A/c Dr. To Trade Receivable A/c (Loss arising out of dishonoured bill recorded)	5,000	 5,000
(5)	Profit and Loss Adjustment A/c Dr. To F's Capital A/c	35,000	 14,000

	To G's Capital A/c To K's Capital A/c (Profit on revaluation transferred to Partners' Capital A/cs on K's retirement)		14,000 7,000
(6)	Bank A/c Dr. To F's Capital A/c To G's Capital A/c (Cash brought in by F and G as per agreement)	1,04,000	 70,000 34,000
(7)	K's Capital A/c Dr. To Bank A/c (Payment made to K on retirement)	79,000	 79,000

Working Note:

Adjusting entry for goodwill

Partner	Old Share	New Share	Gain	Sacrifice
F	$\frac{2}{5}$	$\frac{3}{5}$	$\frac{1}{5}$	–
G	$\frac{2}{5}$	$\frac{2}{5}$	–	–
K	$\frac{1}{5}$	–	–	$\frac{1}{5}$

Working Note:

Adjusting entry:

Particulars	Rs.	Rs.
F's Capital A/c (50,000 x 1/5) Dr.	10,000	
To K's Capital A/c		10,000

Balance Sheet

(after K's retirement)

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Sundry Fixed Assets	1,80,000
F	1,98,000	Inventories	60,000
G	1,32,000	Trade receivables	65,000
Trade payables	50,000	Bank	75,000
	3,80,000		**3,80,000**

Partners' Capital Accounts

Particulars	F	G	K	Particulars	F	G	K
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To K's Capital A/c	10,000	–	–	By Balance b/d	1,20,000	80,000	60,000
To Balance c/d	1,28,000	98,000	79,000	By F's Capital A/c	–	–	10,000
				By P & L Adj. A/c	14,000	14,000	7,000
				By Reserve	4,000	4,000	2,000
	1,38,000	**98,000**	**79,000**		**1,38,000**	**98,000**	**79,000**
To Bank	–	–	79,000	By Balance b/d	1,28,000	98,000	79,000
To Balance c/d	1,98,000	1,32,000	–	By Bank	70,000	34,000	–
	1,98,000	**1,32,000**	**79,000**		**1,98,000**	**1,32,000**	**79,000**

Working Notes:

1. Total Capital	**Rs.**
Sundry Fixed Assets (Rs. 1,50,000 + Rs. 30,000)	1,80,000
Inventory (Rs. 50,000 + Rs. 10,000)	60,000
Trade receivables (Including Bill Receivable of Rs. 15,000)	65,000
Bank	75,000
	3,80,000
Less: Sundry Creditors	(50,000)
	3,30,000
F's share (3,30,000 × 3/5)	1,98,000
G's share (3,30,000 × 2/5)	1,32,000

2. Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By K's Capital A/c	79,000
To F's Capital A/c	70,000	By Balance c/d	75,000
To G's Capital A/c	34,000		
	1,54,000		**1,54,000**

ANSWER TO Q.NO.17:

Revaluation Account

2015	Particulars	Rs.	2015	Particulars		Rs.
July 1	To Building	20,000	July 1	By Investments		3,000
	To Plant and Machinery	57,000		By Partners' Capital A/cs		
	To Bad Debts	13,900		A (3/10)	26,370	
				B (2/10)	17,580	
				C (5/10)	43,950	87,900
		90,900				**90,900**

Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	D Rs.	Particulars	A Rs.	B Rs.	C Rs.	D Rs.
To Rev	26,370	17,580	43,950	–	By bal	1,04,000	76,000	1,40,000	-
To B's and C's Capital A/cs	–	–	–	60,000	By D's Capital A/c (W.N.1)	–	40,000	20,000	–
To Investments A/c	–	25,000	–	–	By Bank A/c	12,370	–	3,950	1,50,000
To B's Loan A/c	–	73,420	–	–					
To Balance c/d (W.N. 2)	90,000	–	1,20,000	90,000					
	1,16,370	**1,16,000**	**1,63,950**	**1,50,000**		**1,16,370**	**1,16,000**	**1,63,950**	**1,50,000**

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at Rs. 2 lakhs

Sacrificing ratio:

A	3/10-3/10	0
B	2/10-0	2/10
C	5/10-4/10	1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place. Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

B : Rs. 60,000 x 2/3 = 40,000

C : Rs. 60,000 x 1/3 = 20,000

2. Capital of partners in the reconstituted firm :

	Rs.
Total capital of the reconstituted firm (given)	3,00,000
A (3/10)	90,000
B (4/10)	1,20,000
C (3/10)	90,000

ANSWER TO Q.NO.18:

(i) Journal Entry in the books of the firm

Date	Particulars		Rs.	Rs.
Jan 3 2016	A's Capital A/c	Dr.	500	
	B's Capital A/c	Dr.	500	
	To C's Capital A/c			1,000
	(Being the required adjustment for goodwill through the partner's capital accounts)			

(ii) Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Furniture A/c (Rs. 2,800 - 2,300)	500	By Machinery A/c (Rs. 5,850 - 5,000)	850
To Inventory A/c (Rs. 950 - 750)	200		
To Partners' Capital A/cs (A - Rs. 50, B - Rs. 50, C - Rs. 50)	150		
	850		**850**

Partners Capital Accounts

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To C (Goodwill)	500	500	–	By Balance b/d	4,100	4,100	4,500
To Cash A/c	–	–	1,000	By General Reserve A/c	500	500	500

To Executors A/c	–	–	5,050	By Revaluation A/c (Profit)	50	50	50
To Balance C/d	4,150	4,150	–	By A (Goodwill)	–	–	500
				By B (Goodwill)	–	–	500
	4,650	**4,650**	**6,050**		**4,650**	**4,650**	**6,050**

(iii) Provision for Doubtful Debts Account is a credit balance. To close, this account is to be debited. It becomes a gain for the partners. Therefore, either Partners' Capital Accounts (including C) or Revaluation Account is to be credited.

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	A	B	C
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain/(Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Profit sharing ratio is equal before or after the death of C because nothing has been mentioned in respect of profit-sharing ratio.

ANSWER TO Q.NO.19:

A's Capital Account

2016	Particulars	Rs.	2016	Particulars	Rs.
Sep. 30	To Current A/c (3,000 - 450)	2,550	Jan. 1	By Balance b/d	10,000
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	1,000	Dec. 31	By Profit and Loss A/c :	
	To Balance Transferred to A's Executor's A/c	18,525		Interest on Capital	1,000
				Share of Profit	835

				B & C (Goodwill)	3,240
				Insurance Policies A/c	7,000
		<u>22,075</u>			**<u>22,075</u>**

Working Notes:

(i)	**Valuation of Goodwill**			
	Year	**Profit before Interest on fixed capital**	**Interest**	**Profit after interest**
		Rs.	**Rs.**	**Rs.**
	2013	9,640	2,000	7,640
	2014	6,720	2,000	4,720
	2015	(-) 640	2,000	(-) 2,640
		15,720	6,000	9,720

		Rs.
	Average	3,240
	Goodwill at two years purchase of average net profits	6,480
	Share of A in the goodwill	3,240
(ii)	**Profit on Separate Life Policy**	
	A's policy	10,000
	B and C's policy @ 20%	4,000
		14,000
	Share of A (1/2)	7,000
(iii)	**Share in profit for 2016**	
	Profit for the year	3,670
	Less : Interest on capitals	(2,000)
		1,670
	A's share in profit (1/2)	835

(iv) As unrecorded liability of Rs.2,000 has been charged to Capital Accounts through Profit and Loss Adjustment Account, no further adjustment in current year's profit is required.

(v) Profits for 2013, 2014 and 2015 have not been adjusted (for valuing goodwill) for unrecorded liability for want of precise information.

ANSWER TO Q.NO.20:

(i)	**Ascertainment of N's Share of Profit**		**(ii)**	**Ascertainment of Value of Goodwill**	
	2013	42,000		2013	42,000
	2014	39,000		2014	39,000
	2015	45,000		2015	45,000
	Total Profit	**1,26,000**		**Total Profit for 3 years**	**1,26,000**
	Average Profit	42,000		Average Profit	42,000
	4 months' Profit	14,000		Goodwill - 3 years	
	N's Share in Profit (2/5th* of Rs. 14,000)	5,600		Purchase of Average Profit	1,26,000
				N's Share of goodwill (2/5 of Rs.1,26,000)	50,400

* Profit sharing ratio between B and N = 1/2; 1/3; = 3: 2, Therefore N's share of Profit = 2/5

N's Executors Account

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
2016			**2016**		
May 1	To N's Loan A/c	1,28,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of Rs.30,000)	12,000
			May 1	By B's Capital A/c (Share of goodwill)	50,400
			May 1	By P/L Suspense A/c (Share of Profit)	5,600
		1,28,000			**1,28,000**

AVERAGE DUE DATE SOLUTIONS

SOLUTION TO ILLUSTRATION 1

Considering 3rd July as the starting day the following table is prepared:

Due Dates	Amount	No. of Days from 3rd July	Products
3rd July	500	0	0
2nd August	800	30	24,000
11th September	1,000	70	70,000
	2,300		94,000

Average Due Date = 3rd July + $\frac{94,000}{2,300}$

= 3rd July + 41 days = 13th August

Loss of Interest: 13th August to 11th September

Assuming 5% is interest rate, the debtor loses interest due to early payment of ₹ 1,000 for 29 days (from 13th August to 11th September) i.e., ₹ 4. 1000 × 29/365 × 5/100

Gain of Interest: 3rd July to 13th August and 2 August to 13th August

He however, gains interest, due to late payment on ₹ 500 for 41 days from 3rd July to 13th August and on ₹ 800 for 11 days i.e. ₹ 2.80 + ₹ 1.20, i.e., ₹ 4.

Thus, the debtor neither loses nor gains by payment of all the amounts on 13th August.

It should be noted that in calculating the number of days only one of the dates, either the starting date or the due date is to be counted.

In the same manner, bill due to one party may be cancelled as against bills of same amount due from the same party after adjustment of interest for the period elapsing between the two average due dates. Instead of payment of several bills on the same date as above, other bill starting from the average due date for agreed period together with interest for the period may be accepted.

SOLUTION TO ILLUSTRATION 2

Taking 10th January as the base date

Due Date (Normal)	Due Date (Actual)	No. of days from 10th January. . .	Amount ₹	Product
10th January	10th January	0	500	0
26th January	25th January	15	1,000	15,000
23rd March	23rd March	72	3,000	2,16,000
18th August	17th August	219	4,000	8,76,000
			8,500	11,07,000

Average Due Date = 10th Jan. + $\frac{11,07,000}{8500}$ = 10th Jan + 131 days = 21st May

January	21
February	28
March	31
April	30
	110

(a) If the payment is made on 18th March rebate will be allowed for unexpired time from 18th March to 21th May i.e., 13 + 30 + 21 i.e. for 64 days. He has to pay the discounted value of the total amount.

Discount = 8,500 x $\frac{8}{100} \times \frac{64}{365} = 680 \times \frac{64}{365} =$ ₹119.2

The amount to be paid on 14th July.
₹ 8,500 + 100.6 = 8600.6

SOLUTION TO ILLUSTRATION 3

Calculation of Average Due Date
Taking 10th August 2019 as the base date

Date of bill	Term	Due date-Maturity Date	No. of days from 10th August 2019	Amount ₹	Product ₹
August 10, 2019	3 months	Nov. 13, 2019	95	6,000	5,70,000
October 22, 2019	60 days	Dec. 24, 2019	137	5,000	6,85,000
December 04, 2019	2 months	Feb. 07, 2020	181	4,000	7,24,000
January 14, 2020	60 days	Mar. 18, 2020	220	2,000	4,40,000
March 14, 2020	2 months	May 17, 2020	280	3,000	8,40,000
				20,000	32,59,000

Average due date $= \frac{\text{Total of Product}}{\text{Total of Amount}} = \frac{32,59,000}{20,000}$ = 162.95 = 163 days
= 163 days after August 10, 2019 i.e. January 20, 2020.

Days of Grace added as it is case of Bills and it is Negotiable Instrument.

SOLUTION TO ILLUSTRATION 4

Calculation of the average due date

Taking 4th May as the base date

Sl. No.	Date of bill	Due Date of Maturity	Amount ₹	No. of days from starting date (4th May)	Product
1	1st March 2020	4th May	400	0	0
2	10th March 2020	13th June	300	40	12,000
3	5th April 2020	8th June	200	35	7,000
4	20th April 2020	23rd May	375	19	7,125
5	11th May 2020	14th July	500	71	35,500
Total :			1,775		61,625

Average Due Date is 61,625/1,775=34.71 i.e., 35 days after the assumed due date, 4th May, 2020. The new bill should be for ₹ 1,775 payable on June 8th, 2020.

SOLUTION TO ILLUSTRATION 5

Taking May 18th as the zero or base date (April 18 +One month Credit=18 May)
For Y's payments:

Date of Transactions (1)	Due Date (2)	Amount (3)	No. of days from the base date (4)	Products (5)
April 18	May 18	60	0	0
May 15	June 15	70	28	1,960
June 17	July 17	80	60	4,800
Amount Due to X		210	Sum of products	6,760

For X's payments
The students should note that the same base date should be taken. Therefore, the base date will be May 18th in this case also.

Date of Transactions (1)	Due Date (2)	Amount (3)	No. of days from the base date (4)	Products (5)
April 23	May 23	52	5	260
May 24	June 24	50	37	1,850
Amount Due to Y		102	Total products	2,110

Excess of Y's products over X's = 6,760 – 2,110
= 4,650
Excess amount due to X ₹ 210 – 102 = ₹ 108.
Number of days from the base date to the date of settlement is

$$\frac{4{,}650}{108} = 43 \text{ days}$$

Hence the date of settlement of the balance is 43 days after May 18 i.e., on June 30. On June 30, Y has to pay X, ₹ 108 to clear the account.

SOLUTION TO ILLUSTRATION 6

Let us take 12.07.2020 as Base date.

Bills receivable

Due date	No. of days from 12.07.2020	Amount	Product
04/09/2020	54	3,000	1,62,000
08/09/2020	58	2,500	1,45,000
12/07/2020	0	6,000	0
14/08/2020	33	1,000	33,000
23/09/2020	73	1,500	1,09,500
		14,000	4,49,500

Bills payable

Due date	No. of days from 12.07.2020	Amount	Product
01/08/2020	20	2,000	40,000
07/09/2020	57	3,000	1,71,000
12/07/2020	0	6,000	0
		11,000	2,11,000

Excess of products of bills receivable over bills payable = 4,49,500 – 2,11,000 = 2,38,500

Excess of bills receivable over bills payable = 14,000 – 11,000 = 3,000

Number of days from the base date to the date of settlement is 2,38,500/3,000 = 79.5 (appox.)

Hence date of settlement of the balance amount is 80 days after 12th July i.e. 30th September.

On 30th September, 2020 Sohan has to pay Manoj ₹ 3,000 to settle the account.

SOLUTION TO ILLUSTRATION 7

Base date-The date of the first transaction - 13.07.2020
Payment to be made by Mr. Khan to Mr. Kapoor

Due date	No. of days from base date	Amount	Product
04.08.2020	22	400	8,800
22.08.2020	40	750	30,000
28.07.2020	15	1000	15,000
09.09.2020	58	1250	72,500
17.09.2020	66	800	52,800
Total		**4200**	**1,79,100**

Payment to be made by Mr. Kapoor to Mr. Khan

Due date	No. of days from base date	Amount	Product
13.07.2020	0	800	0
25.07.2020	12	950	11,400
14.08.2020	32	1,150	36,800
01.09.2020	50	1,800	90,000
12.09.2020	61	1,250	76,250
Total		**5950**	**2,14,450**

Difference in products = Mr. Kapoor to pay to Mr. Khan = 2, 14, 450-1,79,100 = 35350.

Difference in amounts = 5,950-4,200 = 1,750

Average due date = Base date + $\frac{\text{Difference in product}}{\text{Difference in amounts}}$

13th July + $\frac{35,350}{1,750}$ = 13th July + 20.2 days = 20 days

Average due date = 2nd August 2020

SOLUTION TO ILLUSTRATION 8

Calculation of Average Due Date
Taking 6th January, 2020 as base date
For Green's payments

Due date	Amount	No. of days from the base date i.e. 6th Jan. 2020	Product
2020	₹		
6th January	6,000	0	0
2nd February	2,800	27	75,600
31st March	2,000	84	1,68,000
Total	10,800		2,43,600
For Red's payment			
2020			
6th January	6,600	0	0
9th March	2,400	62	1,48,800
20th March	500	73	36,500
Total	9,500		1,85,300

Excess of Green's products over Red's = ₹ 2,43,600 – ₹ 1,85,300 = ₹ 58,300
= ₹ 10,800 – ₹ 9,500 = ₹ 1,300

Number of days from the base date to the date of settlement is 58,300/1,300 = 45 days (approx.)

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.

On 20th February, 2020, Green has to pay Red ₹ 1,300 to settle the account.

SOLUTION TO ILLUSTRATION 9

Due date	No. of years from 1 Jan 2015
1Jan 2015	0
1Jan 2016	1
1Jan 2017	2
1Jan 2018	3
1Jan 2019	4
1Jan 2020	5

Average=5+4+3+2+1/5=3 years

Average due date = Date of Loan +

$$\frac{\text{Sum of the number of years / months / days from the date of lending to the date of repayment of each instalment}}{\text{Numbers of Instalments}}$$

$$= \text{Jan. 1, 2015} + \frac{1+2+3+4+5}{5}$$

= Jan. 1, 2015 + 3 years
= 1st Jan., 2018

Interest at a certain rate on the instalments paid from the date of payment to any fixed date will be the same as on ₹ 10,000 (if lent on 1st Jan., 2018 to that fixed date). There will be no loss to either party. Supposing rate of interest is 5% p.a. and date of settlement is 31st Dec., 2016 then calculation of interest by product method from both parties' point of view will be as follows:
Dass Bros. pays interest as follows:

Amount ₹	**Paid on**	**Money used by Dass Bros upto 31st Dec. 2020**	**Product** ₹
2,000	1st Jan. 2016	5 Years	10,000
2,000	1st Jan. 2017	4 Years	8,000
2,000	1st Jan. 2018	3 Years	6,000
2,000	1st Jan. 2019	2 Years	4,000
2,000	1st Jan. 2020	1 Year	2,000
			30,000

Interest at 5% p.a. on ₹ 30,000 for one year. $= \frac{₹\,30,000 \times 5}{100} = ₹1,500$

Dass Bros. will receive interest (if given on 1st Jan., 2018 on ₹ 10,000 from average due date to 31st Dec., 2020, i.e., for 3 years at 5% p.a. $= \frac{5 \times 3 \times ₹10,000}{100} = ₹1,500$

From the above, it can be concluded that if the borrower pays ₹ 2,000 yearly from 1st Jan., 2016 for 5 years and if the lender gives ₹ 10,000 on 1st Jan., 2018 then both will charge same interest from each other. There is no loss to any of the parties. But actually lender gives ₹ 10,000 on 1st Jan., 2015, therefore, he has given loan 3 years in advance and will charge interest on ₹ 10,000 for 3 years.

Interest $= \frac{₹\,10,000 \times 5 \times 3}{100} = ₹1,500$ (to be charged by Dass Bros.)

SOLUTION TO ILLUSTRATION 10

Due date	**Amount (in ₹)**	**No. of months from 1.1.2015**	**Products**
1st January 2016	2500	12	30,000
1st January 2017	5500	24	1,32,000
1st January 2018	3000	36	1,08,000
1st January 2019	5000	48	2,40,000
1st January 2020	4000	60	2,40,000
	20,000		**7,50,000**

Average due date = Base date + $\frac{\text{Total of product}}{\text{Total of Amount}}$

1st January 2015 + $\frac{7,50,000}{20,000}$ = 37.5 months = 38 months

Average due date= 1st January 2015+ 38 months = 1st March 2018.

Interest for the 38 months $= \frac{20,000 \times 10 \times 3.17}{100} = 6,340$

SOLUTION TO ILLUSTRATION 11

(i)	Ordinary System :		
A	500 for 9 months	=	4,500 for 1 month
	800 for 6 months	=	4,800 for 1 month
	1,000 for 5 months	=	5,000 for 1 month
	400 for 1 month	=	400 for 1 month
	14,700 @ 6% for 1 month		14,700 for 1 month
		=	1/2% of 14,700
		=	₹ 73.50
B	1,000 for 292 days	=	2,92,000
	500 for 232 days	=	1,16,000
	400 for 50 days	=	20,000
	900 for 24 days	=	21,600
			4,49,600

$4,49,600 \times \frac{6}{100} \times \frac{1}{365}$ = ₹ 73.91

(ii) Average Due Date System:
(a) Taking 1st July as the base date (O-day)

	Dates	₹	**Months from O-day**	**Products**
A	1st July	500	0	0
	30th September	800	3	2,400
	1st November	1,000	4	4,000
	28th February	400	8	3,200
		2,700		9,600

Average Due Date = $\frac{9,600}{2,700}$ months from 1st July. i.e., 3.556 months i.e. October 17th.

Interest is chargeable from October 17 to March 31 i.e. 5.444 months

$2,700 \times \frac{6}{100} \times \frac{5.444}{12}$ = ₹ 73.49

Or,
Taking 1st April as the base date (O-day):

	Dates	₹	**Months from O-day**	**Products**
A	1st July	500	3	1,500
	30th September	800	6	4,800
	1st November	1,000	7	7,000
	28th February	400	11	4,400
		2,700		17,700

Average Due Date = $\frac{17,700}{2,700}$ months from 1st April. i.e. 6.556 months i.e. 17th October.

Interest is chargeable from October 17 to March 31 i.e. 5.444 months.

$2{,}700 \times \frac{6}{100} \times \frac{5.444}{12}$ = ₹ 73.49

(b) Taking 12th June as the base date (Zero-day)

	Dates	₹	Days from O-day	Products
B	12th June	1,000	0	0
	11th August	500	60	30,000
	9th February	400	242	96,800
	7th March	900	268	2,41,200
		2,800		3,68,000

Average Due Date = $\frac{3{,}68{,}000}{2{,}800}$ months from 12th June. i.e. 131 days

June 18
July 31
Aug. 31
Sept. 30
110

131 days -110 days i.e. 21st October
So, interest is chargeable from 21st October to 31st March i.e. for 161 days.

$2{,}800 \times \frac{6}{100} \times \frac{161}{365}$ = ₹ 74.10

The Differences in amounts in the two systems (1) and (2) are due to approximation.

SOLUTION TO ILLUSTRATION 12

Base date= 9th September
Calculation of average due date

Due date	Amount	No of days from base date	Product
9th Sep 2019	900	0	0
10th Oct 2019	1,000	31	31,000
11th Nov 2019	1,100	63	69,300
12th Dec 2019	1,200	94	1,12,800
13th Jan 2020	1,300	126	1,63,800
14th Feb 2020	1,400	158	2,21,200
15th Mar 2020	1,500	187	2,80,500
	8,400		**8,78,600**

Average due date = Base date + $\frac{\text{Total of product}}{\text{Total of Amount}}$

9th September 2019 + $\frac{8,78600}{8,400}$ = 104.60 days = 105 days

Average due date = 9th September 2019 + 105 days = 23rd December 2019

SOLUTION OF PRACTICE QUESTIONS

SOLUTION TO PRACTICE QUESTION 1

Calculation of Interest chargeable from Partners

Taking 1st May as the base date

	Dates	Amount (₹)	Days from 1st May	Products (₹)
Yash	1.5.2019	75,000	0	0
	2.7.2019	20,000	62	12,40,000
	31.3.2020	15,000	334	50,10,000
		1,10,000		62,50,000

Average Due Date = $\frac{62,50,000}{1,10,000}$ days from 1st May. i.e. 57 days

= 27^{th} June

Interest is chargeable for Yash from 27th June to March 31 i.e. 277 days
₹ 1,10,000 x 10% x 277/365 = ₹ 8,348

	Dates	Amount (₹)	Days from 1st May	Products (₹)
Harsh	15.8.2019	60,000	106	63,60,000
	31.12.2019	50,000	244	1,22,00,000
	4.3.2020	75,000	307	2,30,25,000
		1,85,000		4,15,85,000

Average Due Date = $\frac{4,15,85,000}{1,85,000}$ days from 1 May = 225 days.

= 12th Dec.

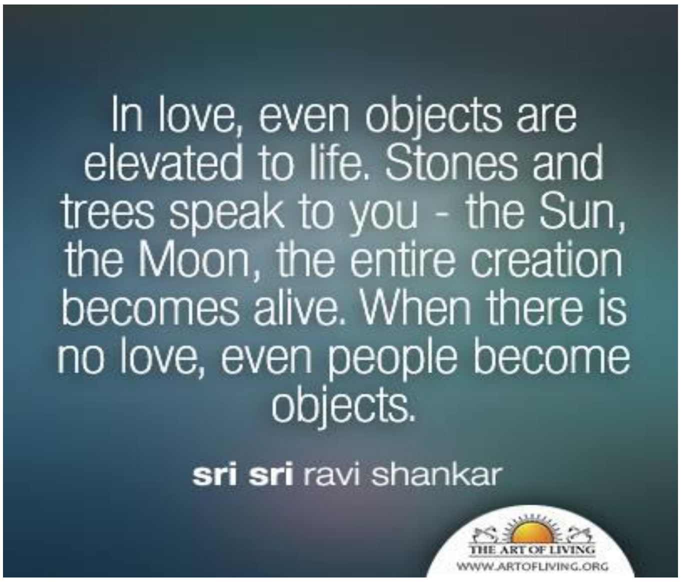
Interest is chargeable for Harsh from 12 December to 31st March i.e. for 109 days.

₹ 1,85,000 $\times \frac{10}{100} \times \frac{109}{365}$ = ₹ 5,525

Thus, interest amounting ₹ 8,348 will be charged from Yash and amount of ₹ 5,525 will be charged from Harsh.

SOLUTION TO PRACTICE QUESTION 2

A	B	C	D = B ± C
	Principal Amount	**Interest from Average Due Date to Actual date of Payment**	**Total amount to be paid**
(i) Payment on average due date			
	₹ 67,500	₹ 67,500 $\times \frac{12}{100} \times \frac{0}{365} = 0$	₹ 67,500
(ii) Payment on 25th Aug. 2020			
	₹ 67,500	₹ 67,500 $\times \frac{12}{100} \times \frac{15}{365} = 333$ Interest to be charged for period of 15 days from 10.8.2020 to 25th Aug. 2020	₹ 67,833
(iii) Payment on 30th July, 2020			
	₹ 67,500	₹ 67,500 $\times \frac{12}{100} \times \frac{(11)}{365} = (244)$ Rebate has been allowed for unexpired credit period of 11 days from 30.7.2020 to 10.8.2020	₹ 67,256



ACCOUNT CURRENT

SOLUTIONS TO ILLUSTRATIONS

SOLUTION TO ILLUSTRATION 1 INTEREST TABLE METHOD

Shyam in Account Current with Nath Brothers

(Interest to 1st February, 2020 @ 6% p.a.)

Date 2019	Particulars	Due Date	Amount ₹	Days	Interest	Date 2019	Particulars	Due Date	Amount ₹	Days	Interest
Sept. 16	To Sales A/c	1st Oct.	200	123	4.04	Oct.1	By Cash A/c	1st Oct	90	123	1.82
Nov.1	To Cash A/c	1st Nov.	330	92	5	Oct.21	By Purchase A/c	1st Dec	500	62	5.1
Dec. 1	To Cash A/c	1st Dec.	330	62	3.36	Dec.5	By Purchase A/c	1st Jan	500	31	2.55
						Dec. 10	By Purchase A/c	1st Jan	200	31	1.02
2020						2020					
Jan.1	To Cash A/c	1st Jan.	600	31	3.06	Feb.1	By Balance of interest				4.97
Jan.9	To Sales A/c	1st Feb	20			Feb.1	By Balance c/d		194.97		-
Feb.1	To Interest		4.97								
			1,484.97		15.46				1,484.97		15.46

Tutorial Notes:

(1) While counting the number of days, the date of due date is ignored and the date upto which the account is prepared, is included.

(2) While counting the number of days, for opening balances, the opening date as well as date upto which the account is prepared, is counted

Calculation of days

Transaction 2019	Due Date	Oct.	Nov.	Dec.	Jan.	Feb.	Total Days
16th Sept.	1st Oct.	30+	30+	31+	31+	1 =	123
1st Oct.	1st Oct.	30+	30+	31+	31+	1 =	123
21st Oct.	1st Dec.	-	-	30+	31+	1 =	62
1st Nov.	1st Nov.	-	29+	31+	31+	1 =	92
1st Dec.	1st Dec.	-	-	30+	31+	1 =	62
5th Dec.	1st Jan.	-	-	-	30+	1 =	31
10th Dec.	1st Jan.	-	-	-	30+	1 =	31
2020							
1st Jan.	1st Feb.	-	-	-	30+	1 =	31
9st Jan.	1st Feb.	-	-	-	-	- =	0

SOLUTION TO ILLUSTRATION 1 USING PRODUCT METHOD

Under this method the number of days are calculated from the due date of the transaction to the date of closing the account (forward method)

Shyam in Account Current with Nath Brothers
(Interest to 1st February, 2020 @ 6% p.a.)

Date	Particulars	Due	Amount	Days	Product	Date	Particulars	Due	Amount	Days	Product
2019		**date**	**₹**	**₹**	**₹**	**2019**		**date**	**₹**	**₹**	**₹**
Sept. 16	To Sales A/c	1st Oct	200	123	24,600	Oct. 1	By Cash A/c	Oct.1	90	123	11,070
1 Nov.	To Cash A/c	1st Nov	330	92	30,360	Oct.21	By Purchase A/c	Dec.1	500	62	31,000
1 Dec.	To Cash A/c	1st Dec	330	62	20,460	Dec.5	By Purchase A/c	Jan. 1	500	31	15,500
						Dec.10	By Purchase A/c	1-Jan	200	31	6,200
2020						2020					
Jan.1	To Cash A/c	1-Jan	600	31	18,600	Feb.1	By Balance of products				30,250
Jan.9	To Sales A/c	1-Feb	20			Feb.1	By Balance c/d		194.97		
Feb.1	To Interest (30,250x6%)/365		4.97								
			1,484.97		94,020				1,484.97		94,020
2020 Feb	To Balance b/d		194.97								

SOLUTION TO ILLUSTRATION 2

(a) Product of individual Transaction Method (Forward Method)

Mr. Y in Account Current with Mr. X (interest to 31st Dec. 2019 @ 18% p.a.)

Date 2019	Particulars	Due date	Amount ₹	Days	Product ₹	Date	Particulars	Due date	Amount ₹	Days	Product ₹
01.07.19	To Balance b/d		600	184	1,10,400	01.08.19	By Purchase	Sep.1	200	121	24,200
30.07.19	To Sales A/c	Aug 30	300	123	36,900	01.09.19	By Cash A/c	Sep.1	100	121	12,100
31.12.19	To Interest on Balance for 1 day @ 18% $\left[\frac{1,00,200 \times 18 \times 1}{100 \times 365}\right]$		49			01.09.19	By B/R Ac	Dec.4	400	27	10,800
						31.12.20	By Balance of product				1,00,200
						31.12.20	By Balance c/d		249		
			949		1,47,300				949		1,47,300

(b) Product of individual Transaction Method (Epoque Method) Backward (or Epoque Method)- Under this method, the number of the days are calculated from the opening date of statement to the due date of transaction.

Mr. Y in Account Current with Mr. X (Interest to 31st Dec. 2019 @ 18% p.a.)

Date	Particulars	Due date	Amt. ₹	Days	Product ₹	Date	Particulars	Due date	Amt. ₹	Days	Product ₹
01.07.19	To Balance b/d		600	184	1,10,400	01.08.19	By Purchase A/c	Sep 1	200	121	24,200
30.07.19	To Sales A/c	Aug 30	300	123	36,900	01.09.19	By Cash A/c	Sep 1	100	121	12,100
31.12.19	To interest on Balance for 1 day @ 18% $\left[\frac{1{,}00{,}200 \times 18 \times 1}{100 \times 365}\right]$		49			01.09.19	By B/R A/c	Dec 4	400	27	10,800
						31.12.20	By Balance of Products				1,00,200
						31.12.20	By Balance c/d		249		
			949		1,47,300				949		1,47,300

SOLUTION TO ILLUSTRATION 3

Mr. Paul in Account Current with Mr. Singh
(Interest to 31st August, 2020 @ 10% p.a.)

Date 2020	Particulars	Due Date	Amt. ₹	Days	Product	Date 2020	Particulars	Due Date	Amt. ₹	Days	Product
June 11	To Sales A/c	June 11	1,020	81	82,620	June 15	By Cash A/c	June 15	500	77	38,500
June 20	To Sales A/c	June 20	650	72	46,800	Aug.8	By Cash A/c	Aug.8	1,100	23	25,300
July 7	To Sales A/c	July 7	700	55	38,500	Aug.31	By Balance of product				1,04,120
Aug.31	To Interest A/c $\frac{1{,}00{,}120}{365} \times \frac{10}{100}$		28.53			Aug. 31	By Balance c/d		798.53		
			2,398.53		1,67,920				2,398.53		1,67,920

SOLUTION TO ILLUSTRATION 4

'You' In Account Current with 'Me'
(Interest to 31st March, 2020 @ 12% p.a.)

Date 2020	Particulars	Due Date	Amt. ₹	Days	Product	Date	Particulars	Due Date	Amt. ₹	Days	Product
Feb 1	To Balance b/d		5,000	59	2,95,000	Feb 08	By Bills Receivable	May 11	10,000	–	–
Feb 5	To Sales A/c	Apr 07	8,250	–	–	Feb 10	By Purchases A/c	Mar 10	11,000	21	2,31,000
Feb 16	To Cash A/c	Feb 16	2,500	43	1,07,500	Feb 12	By Bank A/c	Apr 12	7,500	_	_
Feb 24	To Bills payable	Mar 24	5,000	7	35,000	Feb 28	By cash A/c	Feb 28	2,500	31	77,500
Mar 31	To Red ink product as per contra	May 11	–	41	4,10,000	Mar 31	By Red ink Product as per contra	Apr 07	–	7	57,750
Mar 31	To Red ink product as contra	Apr 12	–	12	90,000	Mar 31	By balance of product				5,71,250
Mar 31	To interest (5,71,250×12% ×1/365)		188								
Mar 31	To balance C/d		10,062								
			31,000		9,37,500				31,000		9,37,500

Balance of ₹ 10,062/- to be paid by me to you.

SOLUTION TO ILLUSTRATION 5

Bali in Account Current with Ali
(Interest to 31st Dec 2020, @ 8% p.a.)

Date 2020	Particulars	Amt. ₹	Days	Product	Date	Particulars	Amt. ₹	Days	Product
Oct.1	To Balance b/d	2,000	92	1,84000	Oct.19	By Purchases A/c	3,200	73	2,33,600
Oct. 25	To Purchase returns A/c	800	67	53,600	Dec. 18	By Bills receivable A/c (drawn for a month)	2,400	13	31,200
Nov. 3	To Sales A/c	5,400	58	3,13,200	Dec 15	By cash A/c	2,000	16	32,000
Nov 30	To bills receivable (dishonoured)	3,000	31	93,000	Dec. 31	By Balance of product			3,47,000
Dec. 31	To Interest Ac	76.05			Dec 31	By Balance c/d	3676.05		
		11,276.05		6,43,800			11,276.05		6,43,800

Calculation of interest: 3,47,000*8%*1/365 = 76.05

SOLUTION TO ILLUSTRATION 6

A. Halder in current Account with Mr. S. Dasgupta

(Interest to 31st December, 2019 @ 5% p.a.)

Date 2019	Particulars	Due Date	Amt. ₹	Days	Product	Date	Particulars	Due Date	Amt. ₹	Days	Product
June 30	To Balance b/d		520	185	96,200	Aug.1	By Cash A/c	Aug.1	500	152	76,000
July 17	To Sales A/c	July 17	40	167	6,680	Sep.1	By Cash A/c	Sep.1	400	121	48,400
Aug.19	To Sales A/c	Aug.19	720	134	96,480	Sep.1	By Bills Receivable A/c (Note:1)	Dec.4	300	27	8,100
Aug. 30	To Sales A/c	Aug.30	50	123	6,150	Oct.22	By Purchases A/c	Oct.22	20	70	1,400
Nov.12	To Sales A/c	Nov.12	14	49	686	Dec.14	By Cash A/c	Dec.14	50	17	850
						Dec.31	By Balance of product				71,446
31 Dec.	To Interest A/c $\frac{71,446 \times 5\%}{365}$		9.79			Dec.31	By Balance b/d		83.79		------
			1,353.79		2,06,196				1,353.79		2,06,196

Note: It is assumed that the bill was honoured on due date. The due date of the bill should be treated as date of payment and days to be calculated from the due date of account.

Workings:

Calculation of Days

Date of Transactions:	Due date	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Opening Balance		1	+31	+31	+30	+31	+30	+31	= 185
July 17	July 17	-	14	+31	+30	+31	+30	+31	= 167
Aug. 1	Aug. 1	-	-	30	+30	+31	+30	+31	= 152
Aug. 19	Aug. 19	-	-	12	+30	+31	+30	+31	= 134
Aug. 30	Aug. 30	-	-	1	+30	+31	+30	+31	= 123
Sep. 1	Sep. 1	-	-	-	29	+31	+30	+31	= 121
Sep. 1	Dec. 4	-	-	-	-	-	-	27	= 27
Oct. 22	Oct. 22	-	-	-	-	9	+30	+31	= 70
Nov. 12	Nov. 12	-	-	-	-	-	18	+31	= 49
Dec. 14	Dec. 14	-	-	-	-	-	-	17	= 17

Note: While counting the number of days, for opening balances, the opening date as well as date upto which the account is prepared, is counted.

SOLUTION TO ILLUSTRATION 7

B in Account Current with A
(Interest to 31st June 2020, @ 6% p.a.)

Date 2020	Particulars	Amount ₹	Days	Products	Date 2020	Particulars	Amount ₹	Days	Products
Jan.1	To Balance b/d	600	182	1,09,200	Jan.18	By Sales Returns	125	164	20,500
Jan. 11	To Sales A/c	520	171	88,920	Feb. 11	By Bank A/c	400	140	56,000
Apr. 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c (due date: March 17)	300	105	31,500
June 30	To Interest A/c	15.75			May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of products			96,050
						By Balance c/d	225.75		
		1,750.75		2,36,250			1,750.75		2,36,250

Calculation of interest

$$\text{interest} = \frac{96050}{366} \times \frac{6}{100} = ₹\,15.75$$

SOLUTION TO ILLUSTRATION 8

'Y' In Account Current with 'X'
(Interest to 30th April, 2020 @ 10% p.a.)

Date 2020	Particulars	Due Date 2020	Amt. ₹	Days	Product	Date	Particulars	Due Date 2020	Amt. ₹	Days	Product
April 7	To Bills Payable	June 10	5,000	-	-	April 1	By Balance b/d		10,000	30	3,00,000
April 10	To Sales A/c	May 10	15,000	-	-	April 12	By Bank A/c (Cheque received dated 15.5.2016)	May 15	7,500	-	-
April 20	To Purchase Return	May 15	1,000	-	-	April 15	By Purchase A/c invoice dated 15.5.2016	May 15	6,000	-	-
April 20	To Bill Receivable A/c	April 20	5,000	10	50,000						
April 30	To Red Ink product (₹ 7,500 x15) as per contra	May 15		15	1,12,500	April 30	By Red Ink Product as per contra (5,000 x 41)	June10	-	41	2,05,000
April 30	To Red Ink product (₹ 6,000 x15) as per contra	May 15		15	90,000	April 30	By Red Ink product as per contra (15,000 x 10)	May 10	-	10	1,50,000
April 30	To Balance of product				4,17,500	April 30	By Red Ink product as per contra (1,000 x 15)	May 15	-	-	15,000

						April 30	By Interest A/c 4,17,500 × $\frac{10}{100} \times \frac{1}{365}$		114.38		
						April 30	By Balance c/d		2,385.62		
			26,000		6,70,000				26,000		6,70,000

No entry is required for matured bill on 10th April since party is not contracted.

SOLUTION TO ILLUSTRATION 9

Vinod Current Account with Allahabad Bank Ltd.

Date	Particular	Dr.	Cr.	Dr. or Cr.	Balance	Days	Dr. Product	Cr. Product
2020								
Jan. 2	By Cash Account	–	30,000	Cr.	30,000	13	–	3,90,000
Jan. 15	By Cash Account	–	12,000	Cr.	42,000	31	–	13,02,000
Feb. 15	To Self	26,000	–	Cr.	16,000	25	–	4,00,000
Mar. 12	By Cash Account	–	8,000	Cr.	24,000	29	–	6,96,000
April 10	To Self	30,000	–	Dr.	6,000	30	1,80,000	–
May 10	By Cash Account	–	16,000	Cr.	10,000	36	–	3,60,000
June 15	To self	14,000	-	Dr.	4,000	15	60,000	-
June 30	By Interest A/c	–	140	Dr.	38,60		–	–
June 30	By Balance c/d		3,860	–				
		70,000	70,000				2,40,000	31,48,000

* Interest is calculated as follows:

On ₹ 31,48,000 @ 2% for 1 day = ₹ 172.49

On ₹ 2,40,000 @ 5% for 1 day = ₹ 32.88

Net Interest = ₹ 139.61 (₹ 172.49- ₹ 32.88)

SOLUTION TO ILLUSTRATION 10

Roshan's Current Account with Partnership _rm (as on 30.9.2020)

Date	Particulars	Dr (₹)	Cr (₹)	Balance (₹)	Dr. or Cr.	Days	Dr. Product (₹)	Cr Product (₹)
01.07.20	To Bal b/d	75,000		75,000	Dr.	13	9,75,000	
14.07.20	By Cash A/c		1,38,000	63,000	Cr.	15		9,45,000
29.07.20	To Self	97,000		34,000	Dr.	20	6,80,000	
18.08.20	By Cash A/c		22,000	12,000	Dr.	22	2,64,000	
09.09.20	To Self	11,000		23,000	Dr.	21	4,83,000	
30.09.20	To Interest A/c	417		23,457	Dr.			
30.09.20	By Bal. c/d		23,417					
		1,83,471	1,83,417				24,02,000	9,45,000

Interest Calculation:

On ₹ 24,02,000 × 10% × 1/365	=	658
On ₹ 9,45,000 × 8% × 1/365	=	(₹ 207)
Net interest to be debited	=	(₹ 417)

SOLUTION TO ILLUSTRATION 11

Siva in Account Current with Ram as on 31st Oct, 2019

		₹	Days	Product (₹)			₹	Days	Product (₹)
01.07.19	To Bal. b/d	750	123	92,250	20.08.19	By Sales Returns	200	72	14,400
15.08.19	To Sales	1,250	77	96,250	22.09.19	By Bank	800	39	31,200
31.10.19	To Interest	18.48			15.10.19	By Cash	500	16	8,000
						By Balance of Product			1,34,900
					31.10.19	By Bal. c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

$$\text{Interest} = ₹1{,}34{,}900 \times \frac{5}{100} \times \frac{1}{365} = ₹18.48$$

EXAMINATION QUESTION

January 2021 Question 3(b) (5 marks)

Solution:

Piyush in Account Current with Amit for the period ending on 31st December, 2020

Date 2020	Particulars	Amount ₹	Days	Products	Date	Particulars	Amount ₹	Days	Products
Sept 1	To Balance b/d	900	122	1,09,800	Oct 20	By Sales Returns	250	72	18,000
Oct 15	To Sales A/c	1,450	77	1,11,650	Nov 22	By Bank A/c	1,200	39	46,800
Dec 31	To Interest A/c	32			Dec 15	By Cash A/c	600	16	9,600
					Dec 31	By Balance of products			1,47,050
						By Balance c/d	332		
		2,382		2,21,450			2,382		2,21,450

Calculation of interest:

Interest = 1,47,050/ 366 days X 8% = ₹ 32 (Rounded off)

Note: 366 days taken for interest calculation since 2020 is a leap year. Alternatively,365 days can also be taken. In that case amount of interest will be ₹ 32.23 (Rounded off ₹ 32) and amount of balance c/d will be ₹ 332.23 (Rounded off ₹ 332).

November 2020 Q3(b)(i) (5 marks)

Solution:

Mr. Sunil in Account Current with Mr. Raju for the period ending on 31stOctober, 2020

Date 2020	Particulars	Amount ₹	Days	Products	Date 2020	Particulars	Amount ₹	Days	Products
July1	To Balance b/d	840	123	1,03,320	Aug. 20	By Sales Returns	240	72	17,280
Aug 15	To Sales A/c	1,310	77	1,00,870	Sept. 22	By Bank A/c	830	39	32,370
Oct. 31	To Interest A/c	47.73							
					Oct. 15	By Cash A/c	560	16	8,960
					Oct .31	By Balance of products			1,45,580
					Oct.31	By Balance c/d	567.73		
		2,197.73		2,04,190			2,197.73		2,04,190

Calculation of interest:

Interest = 1,45,580/366 X 12 % = ₹47.73

Note: Year 2020 is a leap year; hence 366 days are taken for interest calculation.

On the assumption of 365 days interest will be as below:-

Interest = 1,45,580/355 x 12% = ₹47.86 (or) ₹48.

Note: The alternative answer based on backward method i.e. Epoque method is also possible.

November 2019 Q3(c)(ii) (5 marks)

Solution:

Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	Particulars	Dr. (₹)	Cr. (₹)	Balance (₹)	Dr. or Cr.	Days	Dr. Product (₹)	Cr. Product (₹)
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						
30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				38,9	5,70,000

Interest Calculation:
On₹ 38,90,000 x 10% x 1/365 = 1,066
On ₹ 5,70,000 x 8% x 1/365 = ₹ 125
Net interest to be debited = ₹ 941

November 2018 Q2(c)(i) (5 marks)

Solution:

XY in Account Current with AB as on 31st Oct, 2018

		(₹)	*Days*	*Product (₹)*			(₹)	*Days*	*Product (₹)*
01.07.18	To Bal. b/d	1,500	123	1,84,500	28.08.18	By Sales Returns	400	64	25,600
20.8.18	To Sales	2,500	72	1,80,000	25.09.18	By Bank	1,600	36	57,600
31.10.18	To Interest	37			20.10.18	By Cash	1,000	11	11,000
					20.10.18	By Balance of Products	1,037		2,70,300
		4,037			31.10.18	By Bal. c/d	4,037		3,64,500

Note:

Interest = ₹2,70,000 × $\frac{5}{100} \times \frac{1}{365} = ₹37\ (approx.)$

May 2018 Q2(c)(ii) (5 marks)

Solution:

Bhuvanesh
in Account Current with Avinash
for the period ending on 31st March 2018

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2018		₹			2018		₹		
Jan.1	To Balance b/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March, 11	To Sales A/c	720	20	14,400	Feb. 20	By B/R A/c (due date: March 23)	1,500	8	12,000
March, 31	To Interest A/c	24			March, 14	By Cash A/c	800	17	13,600
					March, 31	By Balance of products			1,75,050
						By Balance c/d	94		
		4,044		2,96,400			4,044		2,96,400

FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

1. False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.
2. False: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.
3. False: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.
4. False: They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.
5. False: Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.
6. False: Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.
7. False: The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.
8. False: The excess of the income over the expenditure is called as Surplus and not profit for an Non-profit organisation.
9. False: The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.
10. True: It is Fund based accounting that records the fund balances in the balance sheet.
11. False: Subscription is a regular fees paid by the members to keep the membership alive.
12. True: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.
13. False: Insurance Company has a profit motive, hence it is not a non-profit organization.
14. False: It shall be shown in the Balance sheet- where it is to be capitalized.
15. False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.
16. True: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as LEGACY.
17. True: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.
18. False: The Non-profit organisation has its very existence to the main base line of serving the members and the society. Profit earning shall never be its motive.
19. False: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.
20. False: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.

SOLUTION TO ILLUSTRATION 1

Swaraj Club

Receipts and Payments Accounts for the year ended 31st March, 2020

Receipts	**₹**	**Payments**	**₹**
To Balance b/d (opening bal.)		By Salaries and Wages	1,200
Cash in hand	200		
To Cash with bank	400	By Purchase of Foodstuff	800
To Entrance Fees	300	By Club Pavilion (Expenditure	
To Membership Fees	3,000	on its construction)	11,000
To Donation of Account		By General Expenses	600
of Club Pavilion	10,000	By Rent and Taxes	400
To Sales of foodstuff	1,200	By Bank Charges	160
		By Balance c/d (closing bal)	
		Cash in hand	350
		Cash in bank	590
	15,100		15,100

SOLUTION TO ILLUSTRATION 2

		₹
Amount received		42,000
Add: Outstanding on 31st Dec., 2020		3,000
		45,000
Less: Received on account of 2020	1,600	
2021	600	(2,200)
		42,800

The various accounts will appear as under:

Subscription Outstanding Account

2020		**₹**	**2020**		**₹**
Jan. 1	To Balance b/d (transfer)	1,600	Dec. 31	By Subscription A/c	1,600
Dec. 31	To Subscription A/c	3,000	Dec. 31	By Balance c/d	3,000
		4,600			4,600

Subscription Account

2020		₹	2020		₹
Dec. 31	To Subscription Outstanding A/c (transfer)	1,600	Dec. 31	By Cash A/c	42,000
Dec. 31	To Subscription received in advance A/c	600	Dec. 31	By Subscription Outstanding A/c	3,000
Dec. 31	To Income and Expenditure A/c (transfer)	42,800			
		45,000			45,000

Subscription received in Advance Account

2020		₹	2020		₹
Dec. 31	To Balance c/d	600	Dec. 31	By Subscription A/c	600

Subscription outstanding ₹3,000 and Subscription received in advance ₹600 will be shown in the balance sheet on the assets and liabilities side respectively.

SOLUTION TO ILLUSTRATION 3

Salaries Account

		₹			₹
April, 1 2019	To Prepaid Salaries A/c	400	April, 1, 2019	By Salaries Outstanding A/c	1,400
March, 31, 2020	To Cash	23,000	March, 31, 2020	By Salaries Prepaid A/c	600
	To Salaries Outstanding A/c	1,800		By Transfer to Income & Expenditure A/c	23,200
		25,200			25,200

Salaries Outstanding Account

		₹			₹
April, 1, 2019	To Salaries A/c	1,400	April, 1, 2019	By Balance b/d	1,400
March, 31, 2020	To Balance c/d	1,800	March, 31, 2020	By Salaries A/c	1,800
		3,200			3,200

Salaries Prepaid Account

		₹			₹
April, 2019	To Balance b/d	400	April, 1, 2019	By Salaries A/c (transfer)	400
March, 31, 2020	To Salaries A/c	600	March, 31, 2020	By Balance c/d	600
		1,000			1,000

SOLUTION TO ILLUSTRATION 4

In the books of New bird forty Club

Dr **Income and expenditure Account for the year ended on 31st March 2020** Cr

Expenditure		Amount (₹)	Income		Amount (₹)
Salaries and wages	1,65,000		By Subscriptions	4,20,000	
Add: Outstanding Salaries			Add: Outstanding		
for 2020	40,000	2,05,000	Subscriptions		
			for 2020	55,000	
To Office expenses		35,000	Less: Outstanding		
To Depreciation (25% × 3,42,000)		85,500	Subscriptions		
To Telephone Charges		28,000	for 2019	65,000	4,10,000
To Electricity charges		32,000	By Donations		55,000
To Travelling and conveyance		5,07,500	By Entrance fees (50% × 85,000)		5,07,500

SOLUTION TO ILLUSTRATION 5

Balance sheet as at March 31st 2020 (extract)

Liabilities	Amount (₹)	Assets	Amount (₹)
Match fund	30,000		
Add: Donation for match fund	55,000		
Add: Proceeds from sale of tickets	20,000		
Less: Match expenses (Note 1)	(1,05,000)		
	NIL		

Note: Since the expenses incurred are more than the Match fund available ₹ 105,000 we are limiting the expenses to ₹ 1,05,000. The remaining expenses of ₹ 5000 (1,10,000-1,05,000) will be debited to the Income and expenditure account.

SOLUTION TO ILLUSTRATION 6

In the books of Jaipur literary society

Dr Subscription A/c (for the year ended on 31st March 2020) Cr

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To outstanding subscriptions (2019)	20,000	By Advance subscriptions (2019)	18,000
To Income from Subscriptions A/c	4,37,000	By Bank A/c	4,50,000
To Advance subscriptions (2021)	26,000	By Outstanding subscriptions (2020)	15,000
	4,83,000		4,83,000

SOLUTION TO ILLUSTRATION 7

Subscription Account

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Outstanding subscriptions (2019)	45,000	By Advance subscriptions (2019)	30,000
To Income from subscriptions A/c (300*1050)	3,67,500	By Bank A/c	4,10,000
To Advance subscriptions (2021)	62,000	By Outstanding subscriptions (2019)	34,500
	4,74,500		4,74,500

SOLUTION TO ILLUSTRATION 8

Income and expenditure Account of Exe Club
For the year ending 31st March, 2020

(all figures in thousand)

Expenditure		₹	Income	₹
To Groundman's fee		750	By Donations and Subscription	2,550
To Rent of Ground		250	By Receipts from teas	50
To Fares' Expenses	400		(Fares) less expenses	
Less: Contribution	(100)	300	(₹300 - ₹250)	
To printing & office expenses		260	By Proceeds of Variety Entertainment	780
To Repairs		460	By Interest (₹30 + ₹20)	50
To Depreciation on Machinery				
Opening balance and Purchases	2,300			
Less: Closing Balance	(1,750)			
	550			
Less: Sale	(80)	470		
To Honorarium to Sect. & Treasurer		600		
To Bonus to Groundsman		300		
To Excess of Income over Expenditure		40		
		3,430		3,430

Balance sheet of Exe Club as on 31st March, 2020

Liabilities		₹	Assets	₹
Outstanding Expenses:				
Groundsman Bonus		300	Cash in hand	250
Printing		80	Cash in Deposit A/c	3,090
Honorarium		600	Subscription Due	100
Bank Overdraft (₹260 - ₹150)		110	Interest Due	20
Capital Fund: Opening	3,080		Machinery & Equipments	1,750
Add: Surplus for the year	40	3,120		
Tournament Fund (Donation)		1,000		
		5,210		5,210

Balance Sheet as on 1st April, 2019

Liabilities	₹	Assets	₹
Outstanding Expenses and		Cash in hand	100
Honorarium (₹100 + ₹400)	500	Cash in Deposit A/c	2,230
Capital Fund (Balancing Figure)	3,080	Cash in Current A/c	300
		Subscription Due	150
		Machinery	800
	3,580		3,580

SOLUTION TO ILLUSTRATION 9

(a) **Sportswriters Club**
Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹
Outstanding expenses :			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200
Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (Balancing figure)		47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	500
		48,800		48,800

(b) **Income and expenditure Account for the year ending 31st march, 2020**

Expenditure		₹	Income	₹
To Salaries		11,460	By Subscription	28,912
To Rent & Electricity		7,329	By Interest on FD	2,000
To Magazines & Newspapers		2,286	By Misc. Income	700
To Sundry Expenses		10,075	By Excess of expenditure	
To Depreciation :			over income	2,888
Furniture	960			
Sports Equipment	1,640			
Library Books	750	3,350		
		34,500		34,500

(c) Balance Sheet of Sport Writers Club as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Outstanding Expenses:			Furniture		
Salaries	170		Cost	9,600	8,640
Rent & Electricity	973		Less : Depreciation	(960)	
Newspapers	340	1,483	Magazines & Sport Equipment:		
Capital Fund:			Opening balance	7,200	
Opening balance	47,000		Addition	1,000	6,560
Less: Excess of exp. over income	(2,888)	44,112		8,200	
			Less : Depreciation	(1,640)	
			Library Books:		
			Opening Balance	5,000	
			Addition	1,000	
				6,000	
			Less : Depreciation	(750)	5,250
			Fixed Deposit		20,000
			Cash in hand & at bank		2,450
			Prepaid Expenses		620
			Subscription Receivable		1,575
			Interest accrued		500
		45,595			45,595

Working Notes:

(i)	Expenses	Salaries	Rent & Electricity	Magazines & News-Papers	Sundry Expenses
	Paid during the year	12,000	7,220	2,172	10,278
	Add : Outstanding on 31.3.2020	170	973	340	–
	Add : Prepaid on 31.3.2019	–	–	–	417
		12,170	8,193	2,512	10,695
	Less : Outstanding on 31.3.2019	(710)	(864)	(226)	–
	Less : Prepaid on 31.3.2020	–	–	–	(620)
	Expenditure for the year	11,460	7,329	2,286	10,075

					₹
(ii)	Depreciation				
	(a) Furniture @10% on ₹9,600				960
	(b) Sports Equipment @ 20% on ₹8,200				1,640
	(c) Library books - book value			6,000	
	Revalued at			(5,250)	750
(iii)	Subscription				
	Received in cash				28,600
	Add : Receivable on 31.3.2020				1,575
					30,175
	Less: Receivable on 31.3.2019				(1,263)
					28,912

SOLUTION TO ILLUSTRATION 10

The Youth Club Receipts and Payments Account
for the year ended 31st December, 2020

Receipts	₹	₹	Payments	₹	₹
To Balance b/d (balancing figure)		1,390	By Salaries	4,750	
To Subscriptions as per income & Expenditure Account	7500		Add: Paid for 2019	400	
Add: 2019's Received				(450)	4,700
2021's Received	600		Less: Unpaid for 2020	500	560
	270		By General Expenses	60	
	8,370		Add: Paid for 2021		
Less: 2020's Received in 2019	(450)		By Audit fee (2020)		200
	7,920		By Secy. Honorarium		1,000
Less: 2020's Outstanding	(750)	7,170	By Stationery & Printing		450
To Entrance Fees		250	By Annual Dinner Expenses		1,500
To Contribution for annual dinner		1,000	By Interest & Bank Charges		150
To Sport meet: Receipt		750	By Sports Equipments [2700 - (2600 - 300)]		400
			By Balance c/d		[illegible]
		10,560			10,560
To Balance b/d		1,600			

Balance sheet of youth club as at December 31, 2020

Liabilities	₹	₹	Assets	₹	₹
Subscription received in advance		270	Freehold Ground		10,000
Audit Fee Outstanding		250	Sport Equipment:		
Salaries Outstanding		450	As per last Balance Sheet	2,600	
Bank Loan		2,000	Additions	400	
Capital Fund :				3,000	
Balance as per previous Balance Sheet	11,540		Less : Depreciation	(300)	2,700
Add : Surplus for 2020	600	12,140	Subscription Outstanding		750
			Insurance Prepaid		60
			Cash in hand		1,600
		15,110			15,110

Balance Sheet of Youth Club as at 31st December, 209

Liabilities	₹	Assets	₹
Subscriptions received in advance	450	Freehold Ground	10,000
Salaries outstanding	400	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	600
Bank Loan	2,000	Cash in hand	1,390
Capital Fund (balancing figure)	11,540		
	14,590		14,590

SOLUTION TO ILLUSTRATION 11

Receipts and Payments Account for the year ending 31st March, 2020

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	4,660	By Upkeep of Ground (10,000 + 600)	10,600
To Subscription	17,320	By Printing (1,000 + 240)	1,240
To Interest on Prize Fund Investments	1,000	By Salaries	11,000
To Lecture (fee)	1,500	By Rent	600
To Entrance Fee	2,600	By Prizes	2,000
To Sale of Newspapers (old)	260	By Balance c/d	2,300
To Misc. Income	400		
	27,740		27,740

Note: In order to arrive at the payments under Upkeep of ground and printing, even the payment for 2018-19 has been considered, as receipts and payments A/c shows all the period payments

Subscription Account

2019		**₹**	**2019**		**₹**
April	To Subscription Outstanding (2018-19)	800	April 1	By Cash (Balancing figure)	17,320
	To Subscription In Advance (2020-21)	100		By Subscription Outstanding (2019-20)	700
2020				By Subscription in Advance (2018-19)	200
March	To Income &	18,220			18,220

SOLUTION TO ILLUSTRATION 12

Republic College

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	**₹**	**₹**	**Income**	**₹**	**₹**
To Salaries:			By Tuitions & other fee		8,80,000
Teaching		8,50,000	By Govt. Grants		5,00,000
Research		1,20,000			
To Material & Supplies Consumed:			By Income from Investments		1,85,000
			By Hostel room Rent		1,75,000
Teaching		50,000	By Mess Receipts		2,00,000
Research		1,50,000	By Profit-Stores Sales		75,000
To Repairs & Maintenance		1,12,000	By Seminar and Conferences		
To Sports & Games Expenses:			Income	4,80,000	
			By Less: Expenses	(4,50,000)	30,000
Cash	50,000		By Consultancy charges:		
Materials	25,000	75,000	Income	1,28,000	
To Students Welfare Expenses:			Less: Expenses	(28,000)	1,00,000
Cash	38,000		By Donations		50,000
Materials	75,000	1,13,000			
To Misc. Expenses		65,000			
To Scholarships		80,000			
To Depreciation:					
Building		80,000			
Plant & Equipment		85,000			

Furniture		60,000			
Motor Vehicle		36,000			
To Excess of Income over Expenditure		3,19,000			
		21,95,000			21,95,000

Republic Collage

Balance Sheet as on 31st March, 2020

Labilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	16,06,000		Land		1,00,000
Add: Excess of Income over			Building Cost	16,00,000	
Expenditure	3.19,000	19,25,000	Less: Depreciation	(5,60,000)	10,40,000
Other Funds			Equipment Cost	8,50,000	
Research Fund		8,00,000	Less: Depreciation	5,95,000	2,55,000
Building Fund		25,00,000	Furniture & fittings:		
			Cost	6,00,000	
Current Liabilities:			Less: Depreciation motor	(3,96,000)	2,04,000
Outstanding Expenses		2,25,000	vehicles		
Provident Fund		5,10,000			
Security Deposit		1,50,000	Cost:	1,80,000	
			Less: Depreciation	(36,000)	1,44,000
			Library		3,60,000
			Investments:		
			Capital fund investments		18,50,000
			Research Fund Investment		8,00,000
			P.F. Investment		5,10,000
			Stock (Store)		
			Material & Supplies		1,25,000
			Tuition Fee Receivable		80,000
			Cash in hand & at Bank		6,42,000
		61,10,000			61,10,000

Working Notes:

			₹	₹
(1)	Material & Supplies - Closing Stock			
	Opening Stock			3,00,000
	Purchases			
				11,00,000
	Less : Cost of Material & Supplies (7,50,000*90% (100-10))		6,75,000	
	Consumed			1,25,000
	Balance			
(2)	Provisions for Depreciation	Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,80,000	5,10,000	3,36,000
	Addition	80,000	85,000	60,000
	Closing Balance	5,60,000	5,95,000	3,96,000
	Note: Expense related to income earned like consultancy charges, conference expenses are shown as net of income.			

SOLUTION TO ILLUSTRATION 13

Income and expenditure Account of Lion Club for the year ended 31st March, 2020

Expenditure	**₹**	**Income**	**₹**
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	70,000	By Entrance donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and telex	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Pro t from operations	92,000
To Glass and table linen	12,000	By Excess of expenditure over income	
To Crockery and cutlery	14,000	(deficit) transferred to capital fund	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance	6,000		
To Electricity charges	43,000		
To Loss on sale of assets	2,000		
To Depreciation	49,000		
	4,76,000		4,76,000

Balance Sheet of Lion Club as on 31st March, 2020

Liabilities	₹	Assets	₹
Capital fund	10,89,600	Fixed assets	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors	92,000	Investments	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued	2,000
Outstanding	23,000	Bank	2,24,600
		Cash	8,000
	13,92,600		13,92,600

Working Notes:

1. Opening Balance sheet

Balance sheet of lion club as on 1st April, 2019

Liabilities	₹	Assets	₹
Sundry creditors	1,12,000	Fixed assets	5,00,000
Subscription received in advance	15,000	Stock	3,80,000
Entrance donation received in advance	1,00,000	Investments	5,00,000
Gratuity fund	1,50,000	Subscription outstanding	12,000
Capital fund (balance figure)	10,29,850	Prepaid expenses	1,000
		Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

2. Subscription

	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2020	7,000
	2,09,750
Add: Received in advance as on 1.4.2019	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2019	(12,000)
	2,12,750
Less: Received in advance as on 31.3.2020	(18,000)
	1,94,750

3. Entrance donation

	₹
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2019	1,00,000
	2,00,000
Less: Entrance donation in respect of ineligible member	(20,000)
	1,80,000
Less: 50% capitalized	(90,000)
Taken to income and expenditure account	90,000

4. Loss sale of asset

	₹
Cost of asset sold Less:	10,000
Sale proceeds Loss on	(8,000)
sale of asset	2,000

5. Depreciation

	₹
Fixed asset as per trial balance	5,00,000
Less: Cost of asset sold	(10,000)
	4,90,000
Depreciation on ₹ 4,90,000 @ 10%	49,000

6. Salaries

	₹
Salary paid during the year	1,20,000
Add: Outstanding as on 31.3.2020	[illegible]
	1,28,000

7. Electricity Charge

	₹
Electricity charges paid during the year	28,000
Add: Outstanding as on 31.3.2020	15,000
	43,000

8. Interest

	₹
Interest on 12% Government securities investment (₹5,00,000 @ 12% p.a.)	60,000
Less: Interest received during the year	(58,000)
Interest accrued	2,000
Interest credited to income and Expenditure Account	60,000

9. Profit from operation

	₹
Cost of goods sold:	
Opening stock	3,80,000
Add: Purchases	15,00,000
Less: Closing Stock	18,80,000
Cost of goods sold (A)	(2,10,000)
	16,70,000
Receipts from operations:	
Receipts from coffee room	10,70,000
Receipts from soft drinks	5,10,000
Receipts from swimming pool	80,000
Receipts from tennis court	1,02,000
Total receipts (B)	17,62,000

Profits from operations (B-A)	92,000

10. Insurance

	₹
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2019	1,000
	6,000

11. Sundry Creditors

	₹
Opening balance as on 1.4.2019	1,12,000
Add: Purchases made during the year	15,00,000
	16,12,000
Less: Payments made during the year Closing balance as on 31.3.2020	(15,20,000)
	92,000

12. Outstanding expenses

	₹
Outstanding salaries	8,000
Outstanding electricity charges	15,000
Outstanding expenses	6,000

13. Fixed assets

	₹
Fixed assets as on 1.4.2019	5,00,000
Less: cost of assets sold	(10,000)
	4,90,000
Less: Depreciation	(49,000)
Fixed assets as on 31.3.2020	4,41,000

14. Capital fund

	₹
Capital fund as on 1.4.2019	10,29,850
Add. Entrance donation capitalised	90,000
	11,19,850
Less: Excess of expenditure over income	(30,250)
Balance as on 31.3.2020	10,89,600

SOLUTION TO ILLUSTRATION 14

Income & Expenditure Account (An extract) of Sachin cricket club
for the year ended 31st March, 2020

	₹		₹
		By Subscription (500 members × ₹ 1,500 per member)	7,50,000

Balance sheet of Sachin Cricket club as on 31st March, 2019 (AN extract)

Liabilities	₹	Assets	₹
		By Receivable (1500 + ₹ 12,000)	27,000

Balance sheet of Sachin Cricket Club as on 31st March, 2020 (An extract)

Liabilities	₹	Assets	₹	₹
Unearned Subscription	18,000	Outstanding Subscription		
		of 2018-19	15,000	
		of 2019-20 ₹ (7,50,000 – 6,15,000)	1,35,000	1,50,000

SOLUTION TO ILLUSTRATION 15

Receipts and Payments Account of Bombay Medical Aid Society
for the year ended 31st December, 2020

Receipts	₹	Payments	₹
To Cash in (Opening)	8,000	By medicine supply	30,000
To Subscription	50,000	By Honorarium to doctors	10,000
To Donation	15,000	By Salaries	28,000
To interest on investment	9,000	By Sundry expenses	1,000
To charity show collections	12,500	By Purchase of equipment	15,000
		By Charity show expenses	1,500
		By Cash in hand (closing)	9,000
	94,500		94,500

Income and Expenditure Account of Bombay Medical Aid Society
for the year ended 31st December, 2020

Expenditure	₹	Income	₹
To Medicine consumed	29,000	By subscription	51,200
To Honorarium to doctors	10,000	By Donation	15,000
To Salaries	28,000	By Interest on investments	9,000

To Sundry expenses		1,000	By Profit on charity show:		
To Depreciation on			Show collections	12,500	
Equipment	6,000		Less: Show expenses	(1,500)	11,000
Building	2,000	8,000			
To Surplus-excess of income over expenditure		10,200			
		86,200			86,200

Balance Sheet of Bombay Medical Aid Society as on 31st December, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Building	50,000	
Opening balance	1,80,300		Less: Depreciation	(2,000)	48,000
Add: Surplus	10,200		Equipment	21,000	
		1,90,500	Add: Purchase	15,000	
Subscription received in advance		700		36,000	
Amount due for medicine supply		13,000	Less: Depreciation	(6,000)	30,000
			Stock of medicine		15,000
			Investments		1,00,000
			Subscription receivable		2,200
			Cash in hand		9,000
		2,04,200			2,04,200

Working Notes:

Subscription for the year ended 31st December, 2020:		₹
Subscription received during the year		50,000
Less: Subscription receivable on 1.1.2020	1,500	
Less: Subscription received in advance on 31.12.2020	700	(2,200)
		47,800
Add: Subscription receivable on 31.12.2020	2,200	
Add: Subscription received in advance on 1.1.2020	1,200	3,400
		51,200
Purchase of medicine:		
Payment for medicine supply		30,000
Less: Amounts due for medicine supply on 1.1.2020		(9,000)
		21,000
Add: Amounts due for medicine supply on 31.12.2020		13,000
		34,000
Medicine consumed:		
Stock of medicine on 1.1.2020		10,000
Add: Purchase of medicine during the year		34,000
		44,00
Less: Stock of medicine on 31.12.2020		(15,000)

	29,000
Depreciation equipment:	
Value of equiptment on 1.1.2020	21,000
Add: Purchase of equipment during the year	15,000
	36,000
Less: Value of equipment on 31.12.2020	(30,000)
Depreciation on equipment for the year	6,000

Balance Sheet of Medical Aid Society as on 1st January, 2020

Liabilities	**₹**	**Assets**	**₹**
Capital fund (balancing figure)	1,80,300	Building	50,000
Subscription received in advance	1,200	Equipment	21,000
Amount due for medicine supply	9,000	Stock of medicine	10,000
		Investments (₹ 9,000 x 100/9)	1,00,000
		Subscription receivable	1,500
		Cash in hand	8,000
	1,90,500		1,90,500

EXAMINATION QUESTION

January 2021 Question 5 (c) (10 marks)
Solution:

ATK Club
Receipts and Payments Account
for the year ended 31st March, 2020

RECEIPTS	₹	₹	PAYMENTS	₹	₹
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N. 2)		4,72,000
To Subscriptions Received (W.N.1)		6,53,600	By Audit fee (W.N. 3)		8,000
To Entrance Fees		16,000	By Telephone		6,000
To Misc. Income		1,44,000	By Stationery & Printing		24,000
			By Postage		2000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000
			By Sports Equipment's (W.N.4)		72,000
			By Balance c/d		1,14,000
		8,68,000			8,68,000

Balance Sheet of ATK Club as at March31, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund: Balance as per previous Balance Sheet	8,82,400		Club Premises		7,60,000
Add: Surplus for 2020	1,20,000	10,02,400	Sport Equipment		2,52,000
Bank Loan		1,20,000	Subscription Outstanding		72,000
Subscription received in advance		33,600	Cash in hand		1,14,000
Audit Fee Outstanding		10,000			
Salaries Outstanding		32,000			
		11,98,000			11,98,000

Balance Sheet of ATK Club as at 31st March, 2019

Liabilities	**₹**	**Assets**	**₹**
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	8,82,400		
	10,86,400		10,86,400

Working Notes:

1. Subscription received in 2019-20

Add: Subscription for 2019-20 on accrual basis	6,80,000
Add: Amount received in advance on 31.03.2020	33,600
Outstanding as on 01.04.2019 received in 2019-20	64,000
	7,77,600
Less: Outstanding to be received on 31.03.2020	72,000
Amount of 2019-20 received in 2018-19	52,000
	Rs 6,53,600
2. Salary paid in 2019-20	
Salary for 2019-20 on accrual basis	4,80,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
Less: Outstanding to be paid on 31.03.2020	32,000
	Rs .4,72,000
3. Audit Fees paid in 2019-20	
Audit Fees for 2019-20 on accrual basis	10,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
Less: Outstanding to be paid on 31.03.2020	10,000
	₹ 8,000

4. Sports Equipment purchased during 2019-20

WDV as on 31.03.2020	2,52,000
Add: Depreciation	28,000
Less: WDV as on 31.03.2019	2,08,000
	Rs 72,000

November 2020 Question 4(b) (10 marks)

Solution:

AS College
Income and Expenditure Account
for the year ending 31st March, 2020

Expenditure	₹	₹	Income	₹	₹
To Salaries: Teaching		8,75,000	By Tutions & other fee		8,92,000
Research		1,25,000	By Govt. Grants		5,01,000
To Material & Supplies Consumed			By Income from Investments		1,75,000
Teaching		52,000	By Hostel room Rent		1,65,000
Research		1,45,000	By Mess Receipts		2,05,000
			By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	24,000	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	78,000	1,15,000			
To Scholarships		85,000			
To Depreciation:					
Building		77,500			
Plant & Equipment		85,000			
Furniture		54,000			
Motor Vehicle		48,000			
To Excess of Income over Expenditure		3,14,500			
		20,52,000			20,52,000

AS College
Balance Sheet as on 31st March, 2020

Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
			Fixed Assets:		
Capital Fund			Land		1,50,000
Opening balance	13,08,000		Building Cost	15,50,000	
Add: Excess of Income over Expenditure	3,14,500	16,22,500	Less: Dep.	(5,67,500)	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	(5,90,000)	2,60,000
Outstanding Expenses		2,35,000	Furniture &		

Security Deposit		1,55,000	Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			39,22,500

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			8,20,000
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	Provisions for Depreciation			
		Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	77,500	85,000	54,000
	Closing Balance	5,67,500	5,90,000	3,80,000

November 2019 Question 4 (b) (10 marks)

Solution:

Receipts and Payments Account
for the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d		By Upkeep of Ground	
(Balancing figure)	16,126	(11,000+660)	11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund	1,100	By Salaries	11,100
Investments		By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	1,650	By Rent	1,660
To Entrance Fee	2,860	By Prizes	2,200
To Sale of Newspapers (old)	286	By Balance c/d	2,530
To Misc. Income	440		
	41,514		41,514

Note:

₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

		₹			₹
2018 April	To Subscription Outstanding (2017-18)	880	2018 April 1	By Subscription in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052
2019 March	To Income & Expenditure A/c	19,052			
		20,042			20,042

May 2019 Question 5 (b) (10 marks)

Receipts and Payments Account for the year ended 31-03-2019

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods ₹ (25,000-15,000)	10,000
To Subscription received (W.N.1)	2,45,000		
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000		

To Sale of furniture	8,000	₹ (20,000-10,000) By Sports expenses	50,000
		By Rent paid ₹ (24,000 -2,000)	22,000
		By Miscellaneous expenses	5,000
		By Balance c/d Cash and bank	2,90,000
	4,47,000		4,47,000

Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on Investment		
	78,000		Received	14,000	
Less: Outstanding for 2018	(15,000)	63,000	Accrued (W.N.5)	3,500	17,500
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture (W.N.3)		6,000			
To Depreciation (W.N.4)					
Furniture	1,400				
Machinery	1,500				
Sports goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			3,17,500

Working Notes:

1. Calculation of Subscription received during the year 2018-19

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500 Sales price: ₹ 87,500 × 80% = ₹₹ 70,000

Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000 Profit/loss on sale of investment: ₹ 70,000 - ₹ 70,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. Depreciation

Furniture - ₹14,000 × 10%	=	1,400
Machinery- ₹10,000 × 15%	=	1,500
Sports goods – ₹15,000 × 15%	=	2,250

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

Note: It is assumed that the sale of investment has taken place at the end of the year.

CHAPTER 1: THEORETICAL FRAMEWORK

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

Unit -1 Meaning and Scope of Accounting

1. False : book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records.

Book-keeping is the recording phase while accounting is concerned with the summarising phase of an accounting system.

2. False : Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3. False : Management accounting is concerned with internal reporting to the managers of a business unit.
4. False : Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods
5. False : Recording is the basic function of accounting. Summarising 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
6. True : Balance Sheet is a statement of the financial position of an enterprise at a given date.
7. True : Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.

Unit -2 Accounting Concepts, Principles And Conventions

1. False : Under matching concept all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.
2. True : Since the owner invested capital, he has claim on the profits of the enterprise.
3. False : 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.
4. False : The Realisation Concept also states that no change should be counted unless it has materialised.
5. False : The concept of consistency does not imply non-flexibility as not to allow the introduction of improved method of accounting.
6. True : As per materiality principle, all the items having significant economic effect on the business of the enterprise should be should be disclosed in the financial statements.

Unit -3 Accounting Terminology – Glossary

1. False : 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. False : Unexpired Cost - That portion of an expenditure whose benefit has not yet been exhausted.
3. False : Cash Basis of Accounting is 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.
4. True : Authorised share capital is number and par value of each class of shares that an enterprise may issue in accordance with its instrument of incorporation and is sometimes referred as nominal share capital.
5. False : Net Fixed Assets - Fixed assets less accumulated depreciation thereon up-to-date.
6. False : The debit balance in the profit and loss statement is deficit.

Unit -4 <u>Capital And Revenue Expenditures and Receipts</u>

1. False : For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criteria in separating an expenditure between capital and revenue.
2. False : Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature
3. False : Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.
4. False : Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.
5. False : Legal fee paid to acquire any property is a part of cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.
6. True : Since temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

Unit -5 <u>Contingent Assets and Contingent Liabilities</u>

1. False : A Contingent liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.
2. False : A contingent liability fails to meet the recognition criteria.
3. False : A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset
4. False : When it is probable that the fi rm will need to pay off the obligation, this gives rise to provision.

Unit -6 <u>Accounting Policies</u>

1. False : There cannot be single list of accounting policies, which are applicable to all enterprises in all circumstances. There would always be different policies chosen by different industries under different circumstances.
2. False : Accounting policy has big impact on value of items goes under financial statements, hence it impacts financial performance and financial position of the business.
3. False : A change in accounting policies should be made in the following conditions:
(a) It is required by some statute or for compliance with an Accounting Standard.
(b) Change would result in more appropriate presentation of financial statement.
4. True : For Inventory valuation, an enterprise may adopt FIFO or weighted average method and the method selected for valuation is called an accounting policy.
5. False : It could understate/overstate the performance and financial position of a business entity.

Unit -7 <u>Accounting as a Measurement Discipline – Valuation Principles, Accounting Estimates</u>

1. False : There are four generally accepted measurement bases or valuation principles
(i) Historical Cost; (ii) Current Cost;
(iii) Realizable Value; (iv) Present Value.
2. True : Historical cost means the acquisition price.
3. False : At Realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
4. False : Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.
5. False : Historical cost is 1000000.
6. True : Since similar machine is purchased at 20,00,000, the current cost of machine is 20,00,000

Unit -8 Accounting Standards

1. True : Accounting standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2. False : Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.
3. False : Difficulties in making choice between different treatments is one of the limitation of accounting standard.
4. False : Benefits of accounting standards are:
- Standardisation of alternative accounting treatments
- Comparability of financial statements
- Requirements for additional disclosures
5. False : ASB stands for Accounting standard Board.
6. False : limitations of accounting standards
- Difficulties in making choice between different treatments
- Restricted scope

Unit -9 Indian Accounting Standards

1. False : The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.
2. True : Major beneficiaries of convergence with IFRS's are economy, investors and industry.
3. False : Since India is going global, there was huge demand of global standards for better comparison.
4. False : International Financial Reporting Standards (IFRSs) are considered a "principles-based" set of standards.
5. False : Government of India has taken ASB support to develop Ind AS standards.
6. False : IASC stands for International Accounting Standards Committee.

CHAPTER 2: ACCOUNTING PROCESS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

Unit -1 Basic Accounting Procedures - Journal Entries

1. True: as per the modern accounting equation approach- it is the basic formula in the accounting process
2. False: In the traditional approach a debtor becomes giver.
3. False: The rule of nominal account states that all expenses & losses are recorded on debit side.
4. True: it is one of the book where in the transactions not entered in the other books are entered in this book.
5. False: Capital account has a credit balance.
6. True: as it is considered as an expense.
7. False: All the personal & real account are recorded in balance sheet.
8. False: Asset side of balance sheet contains all the personal & real accounts.
9. True: as it is in the name of the proprietor who is bringing in the capital to the business.
10. True: as the transactions are entered first in this book as a first hand record.

Unit -2 Ledgers

1. True: since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance.
2. True: being an asset under the modern equation approach.
3. False: Posting is the process of transferring the balances from journal to ledger.
4. False: At the end of the accounting year, all the nominal accounts of the ledger book are totaled and transferred to P&L A/c.
5. False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.
6. False: IF the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.
7. True: the increase to an asset shall be debited since the original balance is also debit.

Unit -3 Trial Balance

1. True: which forms the base for the preparation of the final accounts.
2. True: yes only based on the Trial balance we can prepare the financial statements.
3. False: Agreement of Trial balance gives only arithmetical accuracy, there can still be errors in preparing the trail balance.
4. True: since compensating errors cancel out due to their compensating nature of the amounts, hence here is no problem in the Trial balance.
5. False: A Trial balance cannot find the missing entry from the journal.
6. False: Suspense account opened in a trial balance is a temporary account
7. True: as purchases is debited, any returns shall be credited (treated in opposite way)

Unit -4 Subsidiary Books

1. True: since cash purchases are taken to the cash book, it is only credit transactions that are recorded in the purchases book.
2. False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it.
3. False: Credit sales are recorded in the sales book.
4. True: they are maintained as an alternate to the journal.
5. True: yes it is one of the subsidiary book

6. False: Return inward book is also known as sales return book.
7. False: Purchase of a second hand machinery will not be recorded in purchase book.
8. True: since it is reduction from the total sales value, it is debited in the sales account.
9. True: yes when there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.

Unit -5 <u>Cash Book</u>

1. True: since the balance is taken to the Trial balance.
2. False: Two column cash book consists of two columns cash column & discount column.
3. True: it is totaled and transferred to the discount allowed or received account.
4. False: Contra entry is passed in a three column cash book in bank and cash columns
5. True: usually the debit side of opening balance shows a favorable balance, where there is unfavorable-overdraft then it should be shown on the credit side.
6. False: A cash book records only cash transactions.
7. False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

Unit -6 <u>Rectification of Errors</u>

1. True: there are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification
2. False: In case of error of complete omission, the trial balance tallies.
3. True: to balance the difference of balances in the trial balance.
4. True: where the accounts being debited is principally incorrect it is termed as error of principle.
5. True: compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes.
6. False: When amount is written on wrong side, it is known as an error of commission.
7. False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.
8. False: ‘Profit & Loss adjustment account’ is opened to rectify the errors detected in the next accounting period.
9. False: Rent paid to land lord of the proprietors house, must be debited to ‘Drawings account’.
10. False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.

CHAPTER 3: BANK RECONCILIATION STATEMENT

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

1. False : Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.
2. True : These are the three broad categories.
3. False : Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.
4. False : Debit balance as per cash book should be represented by credit or favourable balance in pass book.
5. False : Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.
6. True : Overcasting is an example of an error.
7. True : Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.
8. False : Bank charges should be added when we start with credit or favourable balance in pass book as bank would have debited the charges.
9. True : Since, we don’t know the causes of difference, matching the two statements is only efficient way to identify the difference.
10. False : Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.
11. True : Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.
12. False : Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.
13. True: ₹ 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.
14. True : It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.
15. True : Reconciliation statement can be prepared in either of the two formats.
16. False : Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.
17. False : We need to deduct ₹81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.
18. False : Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.
19. True : In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.
20. False : Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.

CHAPTER 4: INVENTORIES

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

1. True: Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.
2. True: For a construction business a building under construction will be inventory. The building is being built in the normal course of business and will eventually be sold as well as inventory.
3. False: Inventory is valued at lower of cost or net realizable value.
4. False: Under Perpetual Inventory System management have daily information of closing stock.
5. True: A periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.
6. False: When closing inventory is overstated, net income for the accounting period will be overstated.
7. False: Closing stock = Cost of goods sold - (Opening inventory + Purchases + Direct expenses).
8. False: Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
9. False: Costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable overheads.
10. False: Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.
11. False: Periodic system requires closure of business for counting of inventory.
12. True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.
13. True: Value of Closing stock as per average method is more realistic then LIFO.
14. False: The value of stock is shown on the assets side of the balance-sheet as current assets. As it is realisable within 12 months.
15. False: Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.
16. False: Under FIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17. True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net realisable value whichever is less, therefore is based on principle of Conservatism.
18. False: Finished goods are normally valued at cost or market price whichever is lower.

CHAPTER 5: CONCEPT AND ACCOUNTING OF DEPRECIATION

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

1. False : It is the decrease in market value as one of the reasons for depreciation. Increase in market value may result in Revaluation.
2. True : It is not necessary that the asset must be used to be depreciated, thus depreciation may start once it is brought in the location & condition required to be used.
3. False : Non refundable taxes & duties form part of the cost.
4. False : Inauguration costs shouldn't be part of cost.
5. True : SLM method results in same amount and Declining method involves same rate of depreciation.
6. True : Revaluation should be done for the whole class of the asset.
7. False : Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account.
8. True : Sum of years digit method depreciation is calculated as 10/55 x (12,00,000 – 1,00,000) = 2,00,000
9. False : Depletion relates to allocation of cost of natural resources
10. True : Depreciation being non cash expense reduces the distributable profits and hence facilitates replacement of asset when required.
11. False : WDV = ₹ 12,50,000 - ₹ 4,00,000 = ₹ 8,50,000
12. True : Higher depreciation is charged in earlier years under sum of the years digit method.
13. False : It is vice versa as under diminishing balance method; higher depreciation is charged in beginning.
14. False : Land is not depreciated.
15. False : Provision for Depreciation account is credited while charging the depreciation.
16. False : Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.
17. True : At the time of sale of an asset, respective asset account is credited with provision for depreciation account being debited and any resulting gain or loss being charged to profit & loss account.
18. False: Under diminishing balance method, salvage value is not considered initially as it assumes that at the end of the asset's life the remaining value shall be its salvage value.
19. True : Any change in useful life of an asset is accounted for as a change in estimate.
20. False : Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale year.

CHAPTER 6: ACCOUNTING FOR SPECIAL TRANSACTIONS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

Unit -1 Bill Of Exchange and Promissory Notes

1.False: The bills payable account is a liability account that is disclosed in the balance sheet.

2. False: Bill of exchange contains an order to pay the required amount and not a mere promise to pay.

3. False: 3 Days of grace are added to the due date to arrive at the maturity date.

4. False: There can be more than 2 parties- namely the drawer, acceptor and the payee of the bill.

5. True: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.

6. True: In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.

Unit -2 Sale of Goods on Approval or Return Basis

1. False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

2. False: As per the Sale of goods Act, when the goods are retained by the customer after the given time and no express intimation is given with regard to rejection- they are deemed sales.

3. False: At the end of the accounting period- if there are goods sold on approval or return basis, without any information, then the accounting treatment s to reverse the same from the sales and to add it with the existing closing stock at cost price.

4. True: At the end, already the entries pertaining to the reversal of the sale and the addition to the closing stock would have been passed. If subsequently if the customer rejects the goods, no further entry needs to be passed.

5. False: It is the seller who fixes the terms of the period within which the customer has to get back with the answer of rejection or accepting the goods.

6. False: Only upon accepting the goods expressly or doing some act, inconsistent with the title of goods, the ownership and risk associated with the goods pass on to the buyer. Mere transfer of possession does no convey ownership.

Unit -3 Consignment

1. False: The abnormal loss is credited to the consignment account since it is a reduction in the value of the stock. Alternatively it can be credited to the trading account of the consignor too as there is reduction from the stock of the goods.

2. False: The sales account shows the balance receivable on account of the sales- both cash and credit. Whereas the account sales statement is given by the consignee to the consignor on a periodical basis detailing the transactions done by the former.

3. True: The consignor is the owner of the goods sent on consignment. Consignee is a mere agent appointed to sell the goods for a commission and the mere transfer of possession does not entitle consignee to become the owner of the goods.

4. False: The del-credere commission is the commission paid to the consignee for bearing the loss of the bad debts if any.
5. True: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.
6. False: It is a nominal account recording the expenses on the debit and the income on the credit side, balance being the profit/ loss on the consignment account to the trading account.
7. False: Proforma invoice is given by the consignor to the consignee with regard to the goods sent on consignment and their price.
8. False: If del credere commission is given to the consignee then, the bad debts are taken into the accounts of the consignee. It will not appear in the consignment account.
9. False: Abnormal loss occurs due to unforeseen circumstances, but if necessary steps are taken they can be controlled, it is only the natural loss which cannot be controlled since it occurs due to nature of the product.
10. False: The relationship between the consignor and the consignee is that of a principal and agent. It is mere arrangement for sale of goods on behalf of the consignor.

Unit -4 Average Due Date

1. True: Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.
2. True: The rebate is given to the customers who make payment early to the average due date calculate.
3. False: It is single weighted average date calculated in such a way that it does not create any profit / loss to both the parties involved.
4. False: The date of the earlier or most initial transaction that is considered as the base date for the purpose of arriving at the average due date.
5. False: If payment made on the average due date, then there is no need to pay interest or provide rebate as it is a date resulting in no pro-t/loss to either parties.
6. True: This can be understood from the foll ex-where August 15th is the due date, then the revised due date is 14th- which is considered as sudden holiday, then the due date becomes 13th (preceding working day).

Unit -5 Account Current

1. False: Account current statement of running transaction between two parties to ascertain the amount along with interest payable. Current account is an account type to be maintained with the bank. In both the interest is calculate, but then different methods to calculate the interest.
2. True: An extension of the counter transactions between two parties type under the average due date-where in the date of the initial transaction is considered as the base date from which the no. of days to the date of rendering the account is calculated.
3. False: The due date is considered for the purpose of calculation of number of days and not the date of transaction.
4. False: It is B who is preparing and rendering the account current to Mr. A.
5. True: The bills of exchange which is honored will not appear in the account current, only in case of dishonor, it will be appearing in the account current.

CHAPTER 7: PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

Unit -1 Final Accounts of Non-Manufacturing Entities

1. True: Profit and loss account shows either net profit or net loss for a particular period.
2. False: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.
3. True: The salary paid in advance is an asset it is not an expense because it neither reduces assets or nor increase liabilities.
4. True: A loss is an expenditure of the business which does not bring any gain to the business.
5. False: All liabilities which become due for payment in one year are classified as current liabilities.
6. True: Current assets are all the assets which are expected to be realized or sold or consumed within one year.
7. True: When an asset is purchase capital expenditure is incurred and when the asset is put to use expenses are incurred in consumption.
8. True: Debit balance of accounts are treated as expenses whose benefit is already received or expired.
9. True: Gross profit is obtained by deducting cost of goods sold from sales.
10. False: If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.
11. False: The provision for bad debts is debited to debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.
12. True: According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.
13. False: The debts written off as bad, if recovered subsequently are credited to Bad Debts Recovered Account and becomes an income.
14. False: Income received in advance is reduces it from the concerned income in profit and loss account. And, it is shows it as a liability in the current balance sheet under the head Current Liabilities.
15. False: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.
16. True: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.
17. False: Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.
18. True: Any benefit given to the staff is debited to the salary account.
19. False: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.
20. True: The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet.

Unit -2 Final Accounts of Non-Manufacturing Entities

1. False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.
2. False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

3. True: Manufacturing account deals with the raw material, and work in progress.

4. True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.
5. False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.
6. False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

CHAPTER 8: PARTNERSHIP ACCOUNTS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

Unit -1 <u>Introduction to Partnership Accounts</u>

1. False: In absence of any agreement partners share profits equally and not in capital contribution ratio.
2. True: Profit sharing can be different from the that of the capital introduced by each of the partner. Not necessary that partner contributing more capital should have a higher profit sharing ratio and vice versa.
3. False: Registration of firms is not compulsory under Indian Partnership Act 1932.
4. True: Yes loan is given to the firm at a cost. Where the partnership deed is absent, then the interest shall be paid at a minimum of 6% per annum. So the interest on the loan to be paid to the partner.
5. False: Interest on capital can be paid only if it is provided in the partnership deed.
6. False: Every partner need not take part in the business. Even if a partner does not take part in the business he is entitled for his share of profit.
7. True: Yes as per the provisions of the law- it is necessary that the interest on loan at 6% per annum shall be paid to the concerned partner.
8. False: Husband and wife can be partners in the same firm.
9. True: There is no senior or junior partner. Every partner is agent/principal of other partners.
10. True: Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.

Unit -2 <u>Treatment of Goodwill in Partnership Accounts</u>

1. False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.
2. True: Goodwill has to be valued each time when there is a reconstitution to made good the sacrifice made by few partner due to such reconstitution.
3. True: Goodwill is the brand image the firm has in the market due to which it enjoys an advantageous position over the other players in the market.
4. False: At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and it is immediately written off. It can not remain in the books of accounts as asset in balance sheet as per accounting standard.
5. False: Weighted average profit method, capaitlisation method, super profits methods also can be used for valuation of Goodwill.
6. True: It is capacity of the firm to earn excessive profits over the industry normal evidencing the fact that the firm experiences higher goodwill.
7. True: The rate of return is considered as an average for the industry, which is applied to the capital employed in the concerned firm.
8. False: Normal profit depends upon Normal Rate of Return only and not on past profits.
9. True: Generally the goodwill at the time of admission id adjusted through the capital accounts and not shown in the books of the firm.
10. False: Goodwill brought in by new partner is shared by old partners in Sacrifice Ratio and not equally.

Unit -3 <u>Admission of a New Partner</u>

1. False: All the partners have same rights at all times, unless contrary is provided in the partnership deed/ or agreed by the partners.
2. True: With every new partner, remaining old partners have to foregone a proportion in their share which is called as sacrifice ratio.

3. True: Revaluation is also called as profit and loss adjustment account.

4. True: increase in Asset is an income hence credited to revaluation account.
5. True: This can be done by opening Memorandum Revaluation Account.
6. False: New partner is not entitled to have any share in the reserves of the firm prior to his admission. Such reserves are distributed to old partners in their old profit sharing ratio.
7. False: Any Reserve appearing in the Balance Sheet is credited to existing partners in their old profit sharing ratio and not equally.
8. False: If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.
9. True: Every incoming partner shall bring in some amount of capital for the firm
10. False: New partner is not entitled to profit on revaluation, it belongs to old partners in their profit sharing ratio.

Unit -4 <u>Retirement of a Partner</u>

1. False: Business of a partnership is not closed if any one partner retires, remaining partners continue to carry on the business.
2. False: At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their profit sharing ratio.
3. False: After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.
4. False: A partner can retire on any day as per his wish.
5. False: Retiring partner is entitled to his share of goodwill in the firm.
6. False: If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.
7. True: Yes the firm is eligible for the surrender value on the JLP taken on the partners.
8. True: As per the surrender policy method, the JLP reserve is distributed to the partners in their profit sharing ratio through capital account.
9. False: Revaluation account is necessary on retirement of a partner.
10. False: Profit on revaluation is credited to all the partners in their profit sharing ratio.

Unit -5 <u>Death of a Partner</u>

1. False: Surviving partners continue to carry on the business.
2. False: Legal heirs of deceased partners are entitled to dues of the deceased partner. They can not become partner in the business.
3. True: To find out the actual values of the assets and liabilities, revaluation account is prepared.
4. True: reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.
5. False: Legal heirs of a deceased partner are entitled to all the dues of deceased partner.
6. False: It is very much necessary to adjust goodwill on death of a partner.
7. TRUE- Yes, it can be continued in the earlier share or in new share- in either case it leads to computing a new profit sharing ratio.
8. False: On death of a partner the firm gets full value of sum assured of the joint life policy.
9. False: All the partners are entitled to amount received from joint life policy.

CHAPTER 9: FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

1. False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.
2. False: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.
3. False: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.
4. False: They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.
5. False: Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.
6. False: Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.
7. False: The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.
8. False: The excess of the income over the expenditure is called as Surplus and not profit for an Non-profit organisation.
9. False: The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.
10. True: It is Fund based accounting that records the fund balances in the balance sheet.
11. False: Subscription is a regular fees paid by the members to keep the membership alive.
12. True: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.
13. False: Insurance Company has a profit motive, hence it is not a non-profit organization.
14. False: It shall be shown in the Balance sheet- where it is to be capitalized.
15. False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.
16. True: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as LEGACY.
17. True: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.
18. False: The Non-profit organisation has its very existence to the main base line of serving the members and the society. Profit earning shall never be its motive.
19. False: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.
20. False: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.

CHAPTER 10: COMPANY ACCOUNTS

TEST YOUR KNOWLEDGE

ANSWERS/HINTS

True and False

Unit -1 Introduction to Company Accounts

1. False: Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.
2. True: Only the shares of public company are listed on stock exchange. Every listed company is a public company.
3. False: It is mandatory to incorporate a company under the Companies Act. Without such incorporation, a company cannot come into existence.
4. True: Company comes into existence through the operation of law. It is a separate entity distinct from it's members.
5. False: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect it's existence.
6. True: Liability of shareholders is limited to the extent of the unpaid share capital. So, if shares are fully paid-up, he is subject to no further liability.
7. False: Shares of public company are freely transferable. Transferability of shares is restricted in a private limited company.
8. True: Financial statements give a true & fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet, etc.
9. False: Schedule III Part I explains form of Balance Sheet.

Unit -2 Issue, Forfeiture and Re-Issue of Shares

1. False: Liability of the holder of shares is limited to the issue price of shares acquired by them.
2. True: Authorised capital is the amount of capital mentioned in 'capital clause' of the 'Memorandum of Association'. Authorised capital is considered only as presentation and not considered in total of balance sheet.
3. False: Rate of preference dividend is always fixed.
4. False: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.
5. True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
6. False: As per table F, rate of interest on calls in arrears is 10%.
7. False: As per Table F, rate of interest on calls in advance is 12%.
8. False: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.
9. True: Reissue of forfeited shares is not allotment of shares but only a sale.
10. False: Loss on re-issue should not exceed the forfeited amount.

Unit -3 Issue of Debentures

1. False: Debenture holder are the creditors of the company.
2. True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.
3. False: Registered debentures are not easily transferable by delivery. Bearer debentures are transferrable by delivery.

4. True: In case the company cannot repay its loan & the interest thereon on the due date, the lender becomes debenture holder & them only he is entitled to interest on debentures.
5. False: Debentures suspense account appears on asset side of balance sheet under non-current asset.
6. False: Even if the company incurs or earns profit, it has to pay the interest on debentures.
7. False: At the time of liquidation, debenture holders are paid off before shareholders on priority basis.
8. True: At the time of liquidation, debenture holders are paid off before shareholders on priority basis.
9. False: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.
10. True: Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.