

KEY TO UNSOLVED QUESTIONS

IN ACCOUNTS BOOK

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KEY TO 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

$$\begin{aligned} \text{Average Due Date} &= 3\text{rd July} + \frac{94,000}{2,300} \\ &= 3\text{rd July} + 41 \text{ days} = 13\text{th August} \end{aligned}$$

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. $1000 \times 29/365 \times 5/100$

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

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

January	21
February	28
March	31
April	30
	<u>110</u>

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

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

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

$$\text{Average due date} = \frac{\text{Total of Product}}{\text{Total of Amount}} = \frac{32,59,000}{20,000} = 162.95 = 163 \text{ days}$$

= 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 $2,38,500/3,000 = 79.5$ (approx.)

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 + $\frac{\text{Difference in product}}{\text{Difference in amounts}}$

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

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

$$\begin{aligned} \text{Excess of Green's products over Red's} &= ₹ 2,43,600 - ₹ 1,85,300 = ₹ 58,300 \\ &= ₹ 10,800 - ₹ 9,500 = ₹ 1,300 \end{aligned}$$

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

$$\text{Average} = \frac{5+4+3+2+1}{5} = 3 \text{ years}$$

$$\text{Average due date} = \text{Date of Loan} + \frac{\text{Sum of the number of years / months / days from the date of lending to the date of repayment of each instalment}}{\text{Numbers of Instalments}}$$

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

$$= \text{Jan. 1, 2015} + 3 \text{ years}$$

$$= \text{1st Jan., 2018}$$

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

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

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

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.

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

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

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

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

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

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

Solution to illustration 11

(i) A	Ordinary System :		
	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

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

(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

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

$$9\text{th September 2019} + \frac{8,78,600}{8,400} = 104.60 \text{ days} = 105 \text{ days}$$

$$\text{Average due date} = 9\text{th September 2019} + 105 \text{ days} = 23\text{rd December 2019}$$

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

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

$$= 27^{\text{th}} \text{ June}$$

Interest is chargeable for Yash from 27th June to March 31 i.e. 277 days

$$₹ 1,10,000 \times 10\% \times 277/365 = ₹ 8,348$$

	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

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

$$= 12^{\text{th}} \text{ Dec.}$$

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	$\text{₹ } 67,500 \times \frac{12}{100} \times \frac{0}{365} = 0$	₹ 67,500
(ii) Payment on 25th Aug. 2020			
	₹ 67,500	$\text{₹ } 67,500 \times \frac{12}{100} \times \frac{15}{365} = 333$ Interest to be charged for period of 15 days from 10.8.2020 to 25 th Aug. 2020	₹ 67,833
(iii) Payment on 30th July, 2020			
	₹ 67,500	$\text{₹ } 67,500 \times \frac{12}{100} \times \frac{(11)}{365} = (244)$ Rebate has been allowed for unexpired credit period of 11 days from 30.7.2020 to 10.8.2020	₹ 67,256

ACCOUNT CURRENT**SOLUTIONS****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	1 st Oct.	200	123	4.04	Oct.1	By Cash A/c	1 st Oct	90	123	1.82
Nov.1	To Cash A/c	1 st Nov.	330	92	5	Oct.21	By Purchase A/c	1 st Dec	500	62	5.1
Dec. 1	To Cash A/c	1 st Dec.	330	62	3.36	Dec.5	By Purchase A/c	1 st Jan	500	31	2.55
						Dec. 10	By Purchase A/c	1 st Jan	200	31	1.02
2020 Jan.1	To Cash A/c	1 st Jan.	600	31	3.06	2020 Feb.1	By Balance of interest				4.97
Jan.9	To Sales A/c	1 st 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 date	Amount ₹	Days ₹	Product ₹	Date	Particulars	Due date	Amount ₹	Days ₹	Product ₹
2019						2019					
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				
			949		1,47,300				249		
									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%		49			01.09.19	By B/R A/c	Dec 4	400	27	10,800
	$\left[\frac{1,00,200 \times 18 \times 1}{100 \times 365} \right]$					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		28.53			Aug. 31	By Balance c/d		798.53		
	$\frac{1,00,120}{365} \times \frac{10}{100}$										
			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	1,84,000	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: $3,47,000 \times 8\% \times 1/365 = 76.05$

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 x 15) as per contra	May 15		15	1,12,500	April 30	By Red Ink Product as per contra (5,000 x 41)	June 10	-	41	2,05,000
April 30	To Red Ink product (₹ 6,000 x 15) 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 $4,17,500 \times \frac{10}{100} \times \frac{1}{365}$		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 Firm (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

Interest = ₹1,34,900 × $\frac{5}{100}$ × $\frac{1}{365}$ = ₹ 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 = $1,47,050 / 366 \text{ days} \times 8\% = ₹ 32$ (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 31st October, 2020**

Date 2020	Particulars	Amount ₹	Days	Products	Date 2020	Particulars	Amount ₹	Days	Products
July 1	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 = $1,45,580 / 366 \times 12\% = ₹ 47.73$

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 = $1,45,580 / 365 \times 12\% = ₹ 47.86$ (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				38,90,000	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	400	64	25,600
						Returns			
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	<u>1,037</u>		2,70,300
		<u>4,037</u>			31.10.18	By Bal. c/d	<u>4,037</u>		<u>3,64,500</u>

Note:

$$\text{Interest} = ₹2,70,000 \times \frac{5}{100} \times \frac{1}{365} = ₹37 \text{ (approx.)}$$

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

KEY TO FINANCIAL STATEMENTS
OF NOT FOR PROFIT ORGANIZATION

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
Less: Received on account of 2020	1,600	45,000
2021	<u>600</u>	(2,200)
		42,800

The various accounts will appear as under:

Subscription Outstanding Account

2020		₹	2020		₹
Jan. 1	To Balance b/d	1,600	Dec. 31	By Subscription A/c	1,600
	(transfer)				
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 for 2020 <u>40,000</u>	2,05,000	Add: Outstanding Subscriptions for 2020 55,000	
To Office expenses 35,000		Less: Outstanding Subscriptions for 2019 <u>65,000</u>	4,10,000
To Depreciation (25% × 3,42,000) 85,500		By Donations 55,000	
To Telephone Charges 28,000		By Entrance fees (50% × 85,000) 42,500	
To Electricity charges 32,000			
To Travelling and conveyance 65,000			
Excess of income over expenditure 57,000			
	5,07,500		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 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	3,67,500	By Bank A/c	4,10,000
To Advance subscriptions (2021)	62,000	By Outstanding (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 (Fares) less expenses (₹300 - ₹250)	50
To Fares' Expenses	400		By Proceeds of Variety Entertainment	780
Less: Contribution	(100)	300	By Interest (₹30 + ₹20)	50
To printing & office expenses		260		
To Repairs		460		
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		3,4

Balance sheet of Exe Club as on 31st March, 2020

Liabilities		₹	Assets	₹
Outstanding Expenses:			Cash in hand	250
Groundsman Bonus		300	Cash in Deposit A/c	3,090
Printing		80	Subscription Due	100
Honorarium		600	Interest Due	20
Bank Overdraft (₹260 - ₹150)		110	Machinery & Equipments	1,750
Capital Fund: Opening	3,080			
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 Honorarium (₹100 + ₹400)	500	Cash in hand	100
Capital Fund (Balancing Figure)	3,080	Cash in Deposit A/c	2,230
		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	Fixed Deposit	20,000
Capital Fund (Balancing figure)		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		By Subscription	28,912
To Rent & Electricity		By Interest on FD	2,000
To Magazines & Newspapers		By Misc. Income	700
To Sundry Expenses		By Excess of expenditure over income	2,888
To Depreciation :			
Furniture	960		
Sports Equipment	1,640		
Library Books	750		
	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	
Rent & Electricity	973	Less : Depreciation	(960)	8,640
Newspapers	340	Magazines & Sport		
Capital Fund:		Equipment:		
Opening balance	47,000	Opening balance	7,200	
Less: Excess of exp. over income	(2,888)	Addition	1,000	
	44,112		8,200	
		Less : Depreciation	(1,640)	6,560
		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 Less : Prepaid on 31.3.2020 Expenditure for the year	(710)	(864)	(226)	— (620)
		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 Revalued at			6,000	
	Subscription			(5,250)	750
(iii)	Received in cash				28,600
	Add : Receivable on 31.3.2020				1,575
	Less: Receivable on 31.3.2019				30,175
					(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	600		Less: Unpaid for 2020	(450)	4,700
2021's Received	270		By General Expenses	500	
	8,370		Add: Paid for 2021	60	560
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		1,500
To Contribution for annual dinner		1,000	Expenses		
To Sport meet: Receipt		750	By Interest & Bank Charges		150
			By Sports Equipments [2700 - (2600 - 300)]		400
			By Balance c/d		1,600
		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 :			Less : Depreciation	(300)	2,700
Balance as per previous Balance Sheet	11,540		Subscription Outstanding		750
Add : Surplus for 2020	600	12,140	Insurance Prepaid		60
			Cash in hand		1,600
		15,110			15,110

Balance Sheet of Youth Club as at 31st December, 2019

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 & Expenditure A/c	17,320			
		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	
Teaching		50,000	By Hostel room Rent	1,75,000	
Research		1,50,000	By Mess Receipts	2,00,000	
To Repairs & Maintenance		1,12,000	By Profit-Stores Sales	75,000	
			By Seminar and Conferences		
To Sports & Games Expenses:			Income	4,80,000	
Cash	50,000		By Less: Expenses	(4,50,000)	30,000
Materials	25,000	75,000	By Consultancy charges:		
			Income	1,28,000	
To Students Welfare Expenses:					
Cash			Less: Expenses	(28,000)	1,00,000
Materials	38,000	1,13,000	By Donations		50,000
	<u>75,000</u>				
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		
		<u>21,95,000</u>		<u>21,95,000</u>

Republic Collage
Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	16,06,000		Land		1,00,000
Add: Excess of Income over Expenditure	3,19,000	19,25,000	Building Cost	16,00,000	
Other Funds			Less: Depreciation	(5,60,000)	10,40,000
Research Fund		8,00,000	Equipment Cost	8,50,000	
Building Fund		25,00,000	Less: Depreciation	5,95,000	2,55,000
Current Liabilities:			Furniture & fittings: Cost	6,00,000	
Outstanding Expenses		2,25,000	Less: Depreciation motor vehicles	(3,96,000)	2,04,000
Provident Fund		5,10,000	Cost:	1,80,000	
Security Deposit		1,50,000	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
		<u>61,10,000</u>			<u>61,10,000</u>

Working Notes:

		₹	₹
(1)	Material & Supplies - Closing Stock		
	Opening Stock		3,00,000
	Purchases		8,00,000
			<u>11,00,000</u>
	Less : Cost of Material & Supplies (7,50,000*90% (100-10)) Consumed	6,75,000	
		<u>3,00,000</u>	<u>(9,75,000)</u>
	Balance		<u>1,25,000</u>
(2)	Provisions for Depreciation		
		Building	Plant & Furniture
		₹	Equipment & Fitting
	Opening Balance	4,80,000	₹ 5,10,000 3,36,000
	Addition	80,000	85,000 60,000
	Closing Balance	<u>5,60,000</u>	<u>5,95,000 3,96,000</u>
	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		
	<u>4,76,000</u>		<u>4,76,000</u>

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
	<u>13,92,600</u>		<u>13,92,600</u>

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
	<u>14,06,850</u>		<u>14,06,850</u>

2. Subscription

	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2020	7,000
	<u>2,09,750</u>
Add: Received in advance as on 1.4.2019	15,000
	<u>2,24,750</u>
Less: Outstanding subscription as on 1.4.2019	(12,000)
	<u>2,12,750</u>
Less: Received in advance as on 31.3.2020	(18,000)
	<u>1,94,750</u>

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 sale of asset	(8,000)
	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	8,000
	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	(15,20,000)
Closing balance as on 31.3.2020	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 Equipment	6,000	Show collections	12,500
Building	2,000	Less: Show expenses	(1,500)
	8,000		11,000
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	1,90,500	Equipment	21,000	

Subscription received in advance	700	Add: Purchase	15,000	
			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
		44,000
Less: Stock of medicine on 31.12.2020		(15,000)
		29,000
Depreciation equipment:		
Value of equipment 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:			Club Premises		7,60,000
Balance as per previous Balance Sheet	8,82,400		Sport Equipment		2,52,000
Add: Surplus for 2020	<u>1,20,000</u>	10,02,400	Subscription Outstanding		72,000
Bank Loan		1,20,000	Cash in hand		1,14,000
Subscription received in advance		33,600			
Audit Fee Outstanding		10,000			
Salaries Outstanding		32,000			
		<u>11,98,000</u>			<u>11,98,000</u>

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		
	<u>10,86,400</u>		<u>10,86,400</u>

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	<u>64,000</u>
	7,77,600
Less: Outstanding to be received on 31.03.2020	72,000
Amount of 2019-20 received in 2018-19	<u>52,000</u>
	Rs <u>6,53,600</u>
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	<u>32,000</u>
	Rs <u>4,72,000</u>
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	<u>10,000</u>
	₹ <u>8,000</u>

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	<u>24,000</u>	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	<u>78,000</u>	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			
		<u>20,52,000</u>			<u>20,52,000</u>

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	<u>3,14,500</u>	16,22,500	Less: Dep.	<u>(5,67,500)</u>	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
			Less: Dep.	<u>(5,90,000)</u>	2,60,000
Current Liabilities:			Furniture & Fittings:		
Outstanding Expenses		2,35,000	Cost	5,40,000	
Security Deposit		1,55,000			

		Less: Dep.	<u>(3,80,000)</u>	1,60,000
		Motor Vehicles Cost:	2,40,000	
		Less: Dep.	<u>(48,000)</u>	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		<u>3,16,000</u>
			<u>39,22,500</u>	<u>39,22,500</u>

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			<u>8,20,000</u>
				11,30,000
	<i>Less:</i> Cost of Goods Sold		6,46,000	
	Material Consumed		<u>2,99,000</u>	<u>(9,45,000)</u>
	Balance			<u>1,85,000</u>
(2)	Provisions for Depreciation			
		Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	<u>77,500</u>	<u>85,000</u>	<u>54,000</u>
	Closing Balance	<u>5,67,500</u>	<u>5,90,000</u>	<u>3,80,000</u>

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	<u>440</u>		
	<u>41,514</u>		<u>41,514</u>

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	<u>19,052</u>			
		<u>20,042</u>			<u>20,042</u>

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	10,000
To Subscription received (W.N.1)	2,45,000	₹ (25,000-15,000)	
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000	₹ (20,000-10,000)	
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid ₹ (24,000 -2,000)	
		By Miscellaneous expenses	22,000
		By Balance c/d	5,000
		Cash and bank	
			2,90,000
	<u>4,47,000</u>		<u>4,47,000</u>

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	<u>2,250</u>	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)
	<u>2,45,000</u>

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	<u>6,000</u>

4. Depreciation

Furniture - ₹14,000 × 10%	=	1,400
Machinery- ₹10,000 × 15%	=	1,500
Sports goods – ₹15,000 × 15%	=	<u>2,250</u>

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	<u>3,500</u>

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 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 Capital And Revenue Expenditures and Receipts

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 enduring 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 Contingent Assets and Contingent Liabilities

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 firm will need to pay off the obligation, this gives rise to provision.

Unit -6 Accounting Policies

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 Accounting as a Measurement Discipline – Valuation Principles, Accounting Estimates

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 trial 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 Cash Book

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 Rectification of Errors

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: $\text{Closing stock} = \text{Cost of goods sold} - (\text{Opening inventory} + \text{Purchases} + \text{Direct expenses})$.
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 $10/55 \times (12,00,000 - 1,00,000) = 2,00,000$
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 is 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 not 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 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 is 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 Introduction to Partnership Accounts

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 Treatment of Goodwill in Partnership Accounts

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, capitilisation 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 Admission of a New Partner

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 Retirement of a Partner

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 Death of a Partner

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 its members.
5. False: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect its 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 & then 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.