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CMA Inter Group-I
(2016 Syllabus)

Questions of Dec. 2018 in Chapters with Analysis-Solutions Online

Containing Questions
of Last 20 Exams

Paper-5

FINANCIAL ACCOUNTING

22nd Edition

Applicable for
May 2019 Attempt

Prof. Arun Kumar
CA Mohit Bahal
CS (Dr.) Himanshu Srivastava

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CMA Inter Gr. I

(2016 Syllabus)
Paper 5 - Financial Accounting

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Preface to Scanner

We are pleased to commend to readers the Twenty second edition of Financial Accounting Scanner, which has been revised and enlarged as per 2016 Syllabus of CMA Inter Exam.

It is a comprehensive presentation of the subject matter containing solved problems from past years examination paper. These will help students to maintain a meaningful focus on examination requirements.

The book is intended to serve as a standard text for students pursuing their CMA Inter and many more Professional Courses.

The following are the main features of the book:
1. Including Questions of June, 2018 and December, 2018.
2. Chapter- wise Classification.
3. Questions with Complete Solutions.
4. Trend Analysis with Lot of Analysis, Graphs and Ratings.
5. Examination Trend Analysis- 5 attempts.
6. Repeatedly Asked and Compulsory Questions listed.
7. Study Material Based Classification.

We hope this edition will endear itself to students and peers. We welcome comments and suggestions for improving the utility of this book.

Prof. Arun Kumar
CA Mohit Bahal
CS (Dr.) Himanshu Srivastava

Contents to Scanner

Paper - 5 Financial Accounting

Dedicated To

My Cute Daughters

Sumedha and Kamakshi

CA Mohit Bahal

Dedicated To

My Sweet Daughters

Saanvi and Koohu

CS (Dr.) Himanshu Srivastava

Our Story

Scanner contains questions of previous examinations which are arranged topic and category wise with lots of analysis to understand the trend of question papers. In 1989, Prof. Arun Kumar invented “Scanner” to reduce confusion and uncertainty in the preparation of CA Examination. Today, Scanner is the most sought after book by the professional students doing CA, CS & CMA.

UNIQUE FEATURES OF THIS EDITION

→ An **Examination Trend Analysis** for question paper based contents of last five examinations before the paper.

→ Questions are arranged according to the **subject/topic** in ascending order of examinations/years.

→ **Graph** for every chapter, showing marks allotment for last twenty examinations amongst Short Notes, Distinguish Between, Descriptive Questions and Practical Questions.

→ Line Chart Showing Relative Importance of Chapters.

→ Table Showing Marks of **Compulsory Questions** at the end of every chapter.

→ Analytical Classification of every Chapter in **Four** Categories:

(1) Short Notes,

(2) Distinguish Between,

(3) Descriptive Questions and

(4) Practical Questions.

→ **100%** Correct Answers of Practical Questions.

→ Complete list of **Repeatedly Asked Questions** at the end of every chapter.

→ Complete Question Paper of June 2018 and December 2018.

→ Pleasant **get-up**.

Praise for Scanner

It's really a wonderful book where we have everything under one place.

Rohit Kumar Gururani, New Delhi

Mirror that reflects our preparation.

Ms. Priya Sharma, Jamshedpur

Scanner is a good approach for CWA students. It had played an important role in my preparation. This book gives an idea about examination. It was really of great help to me in my preparation.

Ganesh Mallinath Kadage, Solapur

The Scanner is very helpful because in it are given chapter-wise questions. Objective type questions are given at one place and it is very easy to prepare at the time of examination.

Mutyala Bala Krishana, Bargarh (Orissa)

" Scanner" is synonym of "Success". By using this book, a student comes to know the important chapters and topics having high ranks. This helps him to score high in very short period of time.

Chatar Singh Kalra, Punjab

Opportunity!!!
Improve your Scanner and Win Reward!

Scanner is a dynamic book to serve your needs with the shifting times. It is the product of immense effort of our team and we feel great pride to make timely editions of such volatile product for our students. Still some human errors may creep-in and some incompleteness may lie.

We seek your participation in improving your Scanner in two ways:

- **Making Your Scanners Error Free:** Find out any kind of mistake/error whatsoever it may be, including spellings etc. in this edition.
- **Making Your Own Working Notes in Scanners:** An expanded, clear, and described working note incorporating the smallest steps and fine nuances of the problem helps students score high.

How to Participate:

1. Mention about the mistake/error found by you. Please mention what according to you would be the correct thing.
2. In case of working notes, suggest the improvement in existing notes, and if required, write the new note where notes are not available. You may mark in the Scanner or write it fresh.
3. Clearly give exact location of mistake/improvement by mentioning: Book Name, Edition (January 2019), Page Number and Question Number.
4. Send the correction/improvement/suggestion to:

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5. You will be awarded ₹ **50 for each correction/improvement/ suggestion** approved by Editorial Board.
6. You will also receive **one Free Copy of Scanner** as per your choice.
7. Send your information giving your name, address, mobile number, and complete postal address including the pin code and e-mail address.
8. The last date of sending the query is 31st May 2019 for January 2019 edition.
9. The decision of the Editorial Board will be final and binding.

Note: *If you are sending one or more mistake/error/suggestions/new working notes from one particular book, you are entitled for one free copy of Scanner of your choice only.*

Hey,

It's crucial for you to manage your time efficiently because time once gone is gone forever. We all have a 24 hour a day. What makes a difference is how well we use it. Let's learn how to manage our time effectively and efficiently with Time Management Technique (TMT).

Plan Your Work, Work Your Plan.

When to Study?

- As per the comprehensive study schedule or time table.
- Before use, first develop it.

How to prepare a time table?

1. Divide total months available into months for completing the course and revising the course.
2. Then, divide the entire syllabus in the months available for completing the course.
3. This way you get the number of days for finishing a chapter.
4. After that prepare a monthly time table followed by daily time table. Applicable to all the subjects.
5. A time table:
   - 5.1. Gives us concrete idea of what to study when
   - 5.2. Saves our time
   - 5.3. Helps in prevention of leaving the things on mood or chance
   - 5.4. Makes us efficient and competent to do the scheduled assignment within the stipulated time
   - 5.5. Removes the tendency of postponement, on our part.
6. Time table must be realistic taking into consideration our interest, availability of time, ability and moral pressures.

What to Study?

1. Be thorough with the content of your syllabus and fix priority of chapters/topics to be studied.
2. Fix the priority by analysing past years examination papers.

3. Weightage of a topic is determined on the basis of:
    3.1. Being repetitively asked
    3.2. Weightage of marks of the questions asked
4. Make the rank table.

Rank Table

Chapter in	Chapters	Total marks asked last 20 exams.	Repeatedly Asked Questions	Rank

From where to Study?

1. Although the syllabus seems vast, the scope of the syllabus is restricted to the various laws, common authenticated and well established rules and regulation and their application.
2. Be it accounts, economics, audit, law cost accounts, direct tax or indirect tax etc. Law/rule/regulation cannot be changed by any author. The difference which is apparent is the presentation, explanation and examples used. So we should be very careful while selecting our source and should stick to it.

How to Study?

The Theory Subject

1. Make maps of topics/chapters in your mind and also on paper to interconnect your entire syllabus to understand the big picture
2. Use Pneumonic Code assets to help you remember things for long.
3. Make your own notes.
4. Make and use cards that bears topic on one face and its points to remember on the other face. It helps you do a quick revision.

The Practical Subject:

1. First grasp the concept of the topics along with the method and formula used.
2. Make a summary notes on it, regarding related laws, rules, formulae or techniques used. During revision this will be a handy tool instead of

struggling with the book.

3. In each chapter there are about 30-40 problems. We should we solve all the questions. Different questions are based on different specific problem areas which needs a particular techniques to solve. Underline these specific problem areas with notes so that during subsequent revision we pay attention to those areas.
4. Categorise questions that belongs to same problem area. This way the 30 - 40 questions will be reduced to groups of 8-10 or 10-12 (as the case may be).
5. This makes us solve the questions speedily as and skip similar problem already solved.

Retain and Remember

6. Do not waste time on common problems but concentrate on specific problem areas in every question.
7. Develop the habit of revising the whole syllabus at specific intervals.
8. Revision is necessary.

   First Revision : within 24 hours

   Second Revision : Exactly after 7 days of first learning

   Third Revision : Exactly after 15 days of first learning
9. Revision efforts gradually decreases with subsequent revisions.

Time Graph

How to Study Daily?

1. Do not study only one subject throughout the day. The general approach is to start and finish one subject and then start other subject. This way you forget the subjects very quickly and easily.
2. Study 3-4 subjects everyday.

3. Follow Mix-n-Match technique.

Mix-n-Match technique:

1. Some chapters are big and some small in every subject.
2. Mark the chapter as “B” if they are big and “S” if they are small. Do this for every subject.
3. Now mix and match the chapters of one subject with the other that makes it easier to study and also at the same time feel less burdened.
4. In addition, match one practical subject with two theory subjects.

How Much to Write?

1. The time allotted to answer each paper in the examination hall is 3 hours out of this 3 hours the effective time is 2 hours 45 minutes i.e. 165 minutes.
2. The maximum marks is 100:
3. Research suggests that a student can write 4000-5000 words in English and 3000-4000 words in Hindi at a stretch in 2½ to 3 hours.

So, we can solve our problem by using a bit of mathematics.

English:

For 100 marks-maximum of 4500 words (approx).

$$\therefore \text{ For 1 marks} - \frac{4500}{100} = 45 \text{ words}$$

Also

For 100 marks – 165 minutes

$$\text{for 1 marks} - \frac{165}{100} = 1.65 \text{ minutes}$$

Thus, our writing speed should be near about 45 words in 1.65 minutes.
or 27 words per minute (approx)

$$\therefore \quad \left[\frac{45 \text{ Words}}{1.65 \text{ Minutes}} = 27 \text{ words (approx)}\right]$$

Thus, for a theory question of 8 marks
Words : 45 words × 8 = 360 words

$$\text{Time} : \frac{360 \text{ Words}}{27 \text{ Words}} = 13.33 \text{ minutes.}$$

Hindi

For 100 marks - 3500 words (approx)

for 1 marks - $\frac{3500}{100} = 35 \text{ words.}$

Also for 100
marks – 165 minutes

for 1 marks – $\frac{165}{100} = 1.65 \text{ minutes.}$

Thus, the writing speed should be 21.2 words per minute.
Thus, for a theory question of 8 marks.
Words : 35 words × 8 = 280 words

$$\text{Time} = \frac{280 \text{ Words}}{21 \text{ Words}} = 13.33 \text{ minutes. If Possible}$$

Presentation of the Answer

- Present your answer in a clear and attractive way. Use tables flow diagrams etc.
- Always give precise and relevant answer to the question.
- No need to write introduction/conclusion for direct theory question.
- Length of the answer should commemorate with the weightage of the marks (already discussed) and manage the time in such a way which ensure that you spend at least 5-7 minutes at the end for reviewing purpose.
- Don't use red ink or any sketch pen for underlining the heading or important points. Use black pen/pencils for underlining.
- Don't strike off any answer even if it is 100% wrong especially when you have no other opportunity due to time constraint. It may happen that you may get step marks for parts of the wrong answer.

How to use the Various Schedules?

The schedules mentioned are scientific and systematic and are designed in such a way that if a student follows, he will complete the course within the stipulated time, revise it and retain it, not only till the date of examination but also thereafter.

The various schedules to be followed are:

1. Rank table
2. Time manager
3. Budgeted time schedule

In what order should the schedules be used?

1. Firstly analyse the GRAPH and QUICK LOOK and assign weightage accordingly.

2. Then on the basis of weightage of the chapter ranks make RANK TABLE. Next use the TIME MANAGER.

Benefits of schedules

Rank Table:

The chapters of the entire subject is ranked on the basis of various factors such as:

1. Total marks asked in last 20 exams.
2. Repeatedly asked question.
3. Frequency of question in last 20 exams

Use rank table. Ranking helps a student to give priority to the important chapters.

Time Manager:

It acts as a booster and inspires a student to complete the first learning or subsequent revision within the stipulated time.

Time Manager		Plan and Manage your Time						
Time	First In-depth learning	Instant Revision (In hours)		Periodic Revision (In hours)				
	i.e. .... Day 1	Next day i.e. .... Day 2	After 7 days i.e. on.................... Day 8	After 30 days i.e. on.................... Day 30	After 60 days i.e. on.................... Day 60	After 90 days i.e. on.................... Day 90	Fix as per your need	
1. Budgeted								
2. Actual								
3. Variance (1-2)								

Note:

1. Budgeted hours has been fixed on the basis of survey amongst the students, however you may fix it according to your capacity and ability.
2. Write the actual time taken by you.
3. Variance may be favourable or unfavourable
   - if favourable it is a positive sign.
   - if unfavourable then you try to recoup it in subsequent learning.

Over come Procrastination

Procrastinating is putting things off or delaying. Procrastination is the thief of time. It waste time. All the schedules and planners will fail if we procrastinate. Once we have defined are goals and set deadlines for achieving it we should stick to it. We should never wait for the right mood but start right away. No matter what causes the do it later urge- we should overcome the urge with a do-it-now action.

The best day to start is today and the best time is now. Plan well and execute well. When feel disappointed, come back with a bang.
Always there.

Syllabus

Paper 5 **(100 marks)**

Financial Accounting (FAC)

Syllabus Structure:

The syllabus comprises the following topics and study weightage

A	Accounting Basics	25%
B	Preparation of Financial Statements	40%
C	Self Balancing Ledger, Royalties, Hire Purchase & Installment System, Branch & Departmental Accounts	20%
D	Accounting in Computerised Environment and Accounting Standards	15%

Objectives:

To gain understanding and to provide working knowledge of accounting concepts, detailed procedures and documentation involved in financial accounting system.

Section A : Accounting – Basics [25 Marks]

1. **Fundamentals of Accounting:**
   Accounting - Meaning, Scope and Significance of Accounting - Accounting Principles, Concepts and Conventions Capital and Revenue Transactions – Depreciation - Rectification of Errors.
2. **Accounting for Special Transactions**
   Bills of Exchange - Consignment - Joint Venture - Insurance Claims (Loss of Stock and Loss of Profit).

Section B : Preparation of Financial Statements [40 Marks]

3. **Preparation of Final Accounts of Profit Oriented organizations, Non-Profit Organizations and from Incomplete Records**
   (i) Preparation of Financial Statements of Profit Oriented organizations: P&L Account, Balance Sheet.
   (ii) Preparation of Financial Statements of Non-Profit making organizations: Preparation of Receipts & Payments Account, Income and Expenditure account and Balance Sheet.
   (iii) Preparation of Financial Statements from incomplete records (Single entry)

4. **Partnership Accounts**
Admission, Retirement, Death, Treatment of Joint Life Policy, Dissolution of partnership firms including piece meal distribution, Amalgamation of partnership firms, Conversion of partnership firm into a company and sale of partnership firm to a company

Section C: Self Balancing Ledgers, Royalties, Hire Purchase & Installment System, Branch & Departmental Accounts [20 Marks]

5. Self-Balancing Ledgers
6. Royalty Accounts, Hire Purchase and Installment System.
7. Branch and Departmental Accounts.

Section D: Accounting in Computerized Environment and Accounting Standards [15 marks]

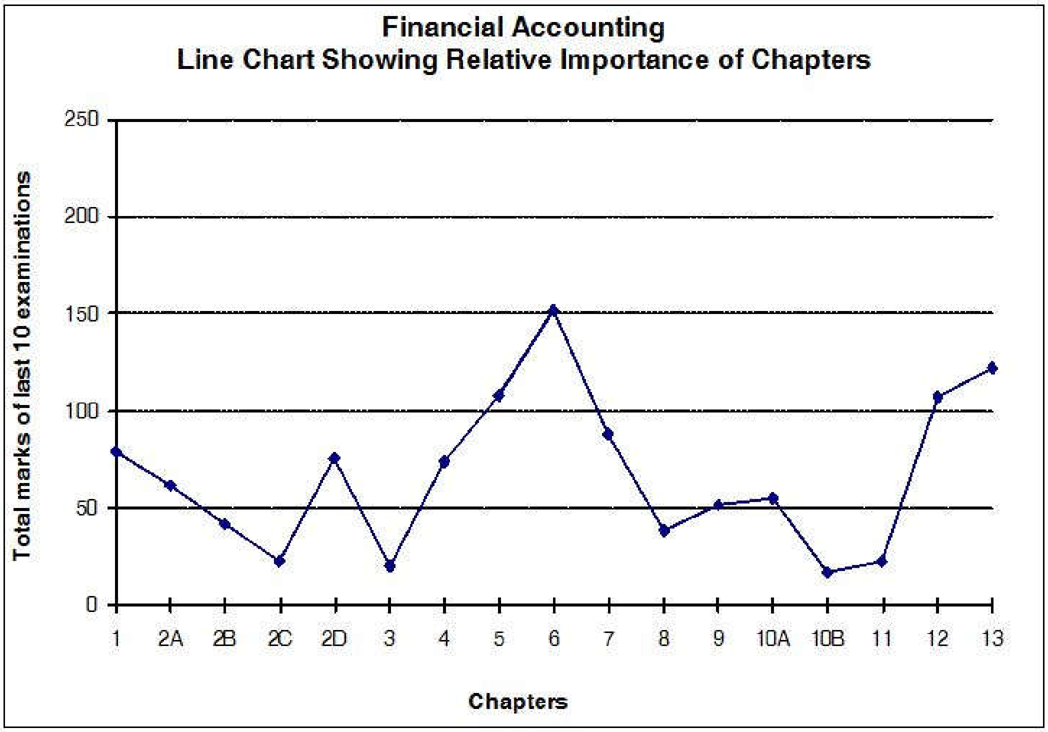
8. Computerized Accounting System – Features, Significance, Grouping of Accounts, Ledger hierarchy, Accounting Packages and their selection criteria
9. Accounting Standards (AS-1, AS-2, AS-7, AS-9, AS-10)

Examination Trend Analysis

Paper 5 **Financial Accounting**

Question Paper Based Contents of Last Five Examinations

Years	Q. No.		Chapter No.	Chapter Name	Page No.
2016 Dec.	1	(a)	13	Objective Questions	467
		(c)	13	" " "	467
		(d)(i)	12	Accounting Standards	434
		(ii)	12	" " "	434
		(iv)	6	Partnership	252
	2.	(a)	7	Self Balancing Ledger	291
		(b)	2A	Bills of Exchange	60
	3.	(a)	2C	Joint Venture Accounts	88
		(b)	2D	Insurance Claims	103
	4.		6	Partnership	252
	5.	(a)	5	Preparation of Financial Statements from Incomplete Records	178
		(b)	3	Financial Statements of Profit Oriented Organizations	118
	6.	(a)	10A	Branch Accounts	377
		(b)	9	Hire Purchase and Installment System	344
	7.	(a)	12	Accounting Standards	435
	9.	(b)	4	Financial Statements of Not-for Profit Organizations	125
		(d)	8	Royalties	302
2017 June	1.	(a)	13	Objective Questions	468
		(b)	13	" " "	470
		(c)	13	" " "	470
		(d)	13	" " "	470
	2.	(a)	2A	Bills of Exchange	63
		(b)	1	Fundamentals of Accounting	34
	3.	(a)	1	" " "	35
		(b)	1	" " "	35
		(c)	11	Computerised Accounting System	400
	4.		5	Preparation of Financial Statements from Incomplete Records	182
	5.	(a)	9	Hire Purchase and Installment System	345
		(b)	2D	Insurance Claims	105


Financial Accounting
Line Chart Showing Relative Importance of Chapters
Total marks of last 10 examinations
250
200
150
100
50
0
1
2A
2B
2C
2D
3
4
5
6
7
8
9
10A
10B
11
12
13
Chapters

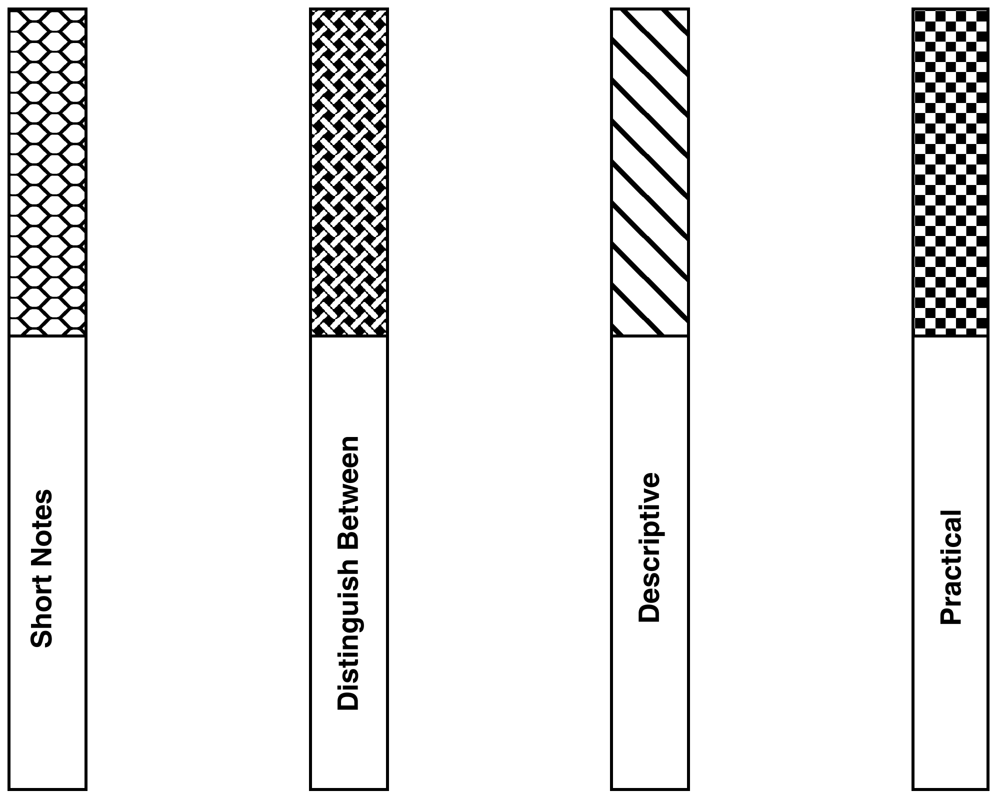
Frequency Table Showing Distribution of Marks

Chap No.	Years Chapter Name	14 June	14 Dec.	15 June	15 Dec.	16 June	16 Dec.	17 June	17 Dec.	18 June	18 Dec	Total	Ave.
1.	Fundamental of Accounting		4	4	8	7		20	16	8	12	79	7.9
2A.	Bills of Exchange	6		16	10	10	7	9		4		62	6.2
2B.	Consignment Accounting	8	4	8		7		5	5	5		42	4.2
2C.	Joint Venture Accounts		8		8		7					23	2.3
2D.	Insurance Claims	8	8	8	2	8	8	7	10	5	12	76	7.6
3.	Financial Statements of Profit Oriented...	8				2	3			7		20	2.0
4.	Financial Statements of Not-for Profit...	12		2	12		3		15	15	15	74	7.4
5.	Preparation of Financial Statements from...	2	4	12		15	12	20	15	20	8	108	10.8
6.	Partnership	12	14	14	12	17	17	15	16	15	20	152	15.2
7.	Self Balancing Ledger	10	10	14	14	8	8	6	7	5	6	88	8.8
8.	Royalties	2		12	2	9	5				8	38	3.8
9.	Hire Purchase and Installment System	2	2	2	12	2	6	8	8	5	5	52	5.2
10A.	Branch Accounts	6	12	2	2	9	9	9		6		55	5.5
10B.	Departmental Accounts								8		9	17	1.7
11.	Computerised Accounting System							6	5	5	7	23	2.3
12.	Accounting Standards	12	24	16	12	6	9	5	5	10	8	107	10.7
13.	Objective Questions					14	8	25	25	25	25	122	12.2

Frequency Table Showing Marks of Compulsory Questions

Chap No.	Years Chapter Name	14 June	14 Dec.	15 June	15 Dec.	16 June	16 Dec.	17 June	17 Dec.	18 June	18 Dec.	Total	Ave.
1.	Fundamental of Accounting											0	0.0
2A.	Bills of Exchange												
2B.	Consignment Accounting											0	0.0
2C.	Joint Venture Accounts												
2D.	Insurance Claims											0	0.0
3.	Financial Statements of Profit Oriented...					2						2	0.2
4.	Financial Statements of Not-for Profit...	2										2	0.2
5.	Preparation of Financial Statements from...	2										2	0.2
6.	Partnership	2				2	2					6	0.6
7.	Self Balancing Ledger	2										2	0.2
8.	Royalties	2										2	0.2
9.	Hire Purchase and Installment System	2				2						4	0.4
10A.	Branch Accounts												
10B.	Departmental Accounts												
11.	Computerised Accounting System												
12.	Accounting Standards	4					4					8	0.8
13.	Objective Questions					14	8					22	2.2

Legends for the Graphs



FOR NOTES

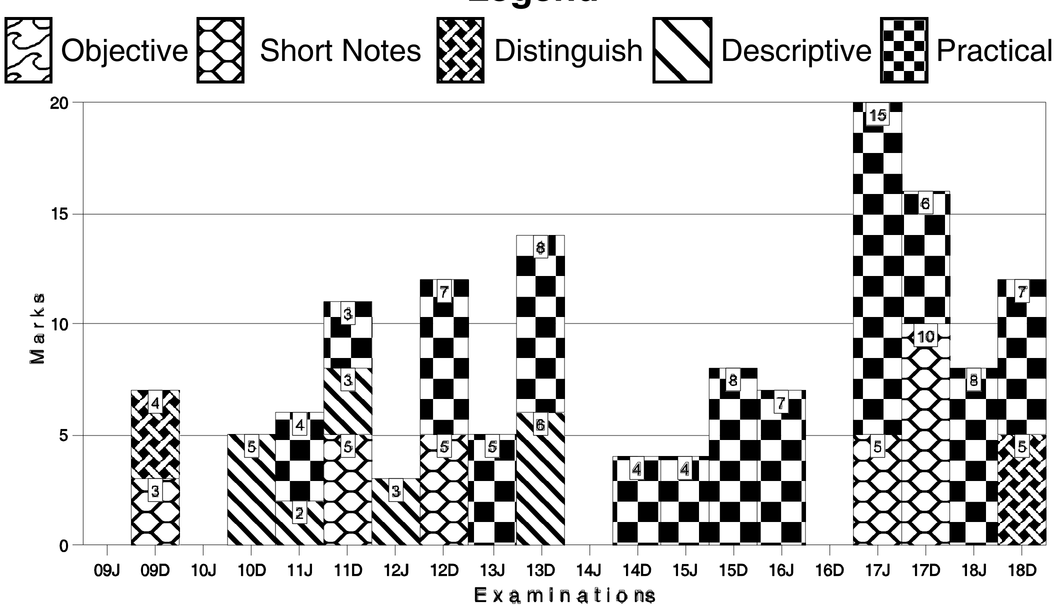
1 FUNDAMENTALS OF ACCOUNTING

THIS CHAPTER INCLUDES

- Basics
- Concepts
- Conventions
- GAAP
- Capital & Revenue Transactions
- Subsidiary Books
- Trial Balance
- Types of Errors
- Rectification of Errors

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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CHAPTER AT A GLANCE

Book-keeping	"Book-keeping is an art of recording business transactions in a set of books."
Financial Accounting	"An art of recoding, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character, and interpreting the results thereof."
Cost Accounting	"Application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability as well as the presentation of information for the purpose of managerial decision-making."
Management Accounting	Management Accounting is concerned with the use of Financial and Cost Accounting information to managers within organizations, to provide them with the basis in making informed business decisions that would allow them to be better equipped in their management and control functions.
Accounting Cycle	When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.
Generally Accepted Accounting Principles	A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board are called Generally Accepted Accounting Principles (GAAP).

Types of Accounts	**(1) Personal Account :** As the name suggests these are accounts related to persons. **(2) Real Accounts :** These are accounts related to assets or properties or possessions. **(3) Nominal Account :** These accounts are related to expenses or losses and incomes or gains.
Capital and Revenue Expenditures	Capital expenditure is the outflow of funds to acquire an asset that will benefit the business for more than one accounting period. A capital expenditure takes place when an asset or service is acquired or improvement of a fixed asset is effected. Revenue expenditure is the outflow of funds to meet the running expenses of a business and it will be of benefit for the current period only. A revenue expenditure is incurred to carry on the normal course of business or maintain the capital assets in a good condition.
Deferred Revenue Expenditures	Deferred revenue expenditures represent certain types of assets whose usefulness does not expire in the year of their occurrence but generally expires in the near future. These type of expenditures are carried forward and are written off in future accounting periods.
Capital and Revenue Receipts	A receipt of money is considered as capital receipt when a contribution is made by the proprietor towards the capital of the business or a contribution of capital to the business by someone outside the business. Capital receipts do not have any effect on the profits earned or losses incurred during the course of a year. A receipt of money is considered as revenue receipt when it is received from customers for goods supplied or fees received for services rendered in

	the ordinary course of business, which is a result of the firm's activity in the current period. Receipts of money in the revenue nature increase the profits or decrease the losses of a business and must be set against the revenue expenses in order to ascertain the profit for the period.
Books of Prime Entry	A journal is often referred to as Book of Prime Entry or the book of original entry. In this book transactions are recorded in their chronological order. The process of recording transaction in a journal is called as 'Journalisation'. The entry made in this book is called a 'journal entry'.
Ledger	Ledger is the main book or principal book of account. The entries into ledger accounts travel through the route of journal and subsidiary books.
Trial Balance	Trial Balance is defined as "a list or abstract of the balances or of total debits and total credits of the accounts in a ledger, the purpose being to determine the equality of posted debits and credits and to establish a basic summary for financial statements."
Rectification Entries (Rectification of errors)	These entries are passed when errors or mistakes are discovered in accounting records. These entries are also known as Correction Entries.

SHORT NOTES

2008 - Dec [8] Write note on:

(e) Materiality concept. **(3 marks)**

Answer:

Materiality Concept : Materiality principle is an exception of full disclosure principle. According to this principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements and any insignificant item which will only increase the work of the accountant but will not be relevant to the users need should not be disclosed in the financial statements. The term materiality is the subjective term. It is on the judgment, common sense and discretion of the accountant that which item is material and which is not. For example stationary purchased by the organization though not used fully in the accounting year purchased still shown as an expense of that year because of the materiality concept. Similarly depreciation on small items like books, calculators etc., is taken as 100% in the year of purchase though used by the company for more than a year, this is because the amount of books or calculator is very small to be shown in the balance sheet though it is the asset of the company.

The materiality depends not only upon the amount of the item but also upon the size of the business, nature and level of information, level of the person making the decision etc. Moreover an item material to one person may be immaterial to another person. What is important is that omission of any information should not impair the decision-making of various users.

—— Space to write important points for revision ——

2009 - Dec [8] Write note on:

(d) Accounting Bases; **(3 marks)**

Answer :

Accounting Bases : There are three bases of Accounting :

1. **Accrual Base :** Here, income as well expenses are considered on the bases of their occurrence in an Accounting period and not on the bases of their actual receipts and payments.
2. **Pure Cash Base :** Here the Revenues are not recognized and recorded unless they are received in cash. Similarly expenses are recognized only when they are paid in cash.

3. **Modified Cash Base or Hybrid system :** The system is the mixture of both the bases of accounting as stated above. In this system Accrual base is followed for expenses and cash system is followed for revenues. Such system is followed by professionals who term their Income Statements as 'Receipts and Expenditure Account'.

—— Space to write important points for revision ——

2011 - Dec [8] Write short note on:

(e) Money measurement concept. **(5 marks)**

Answer :

Money Measurement Concept in accounting also known as Measurability Concept means that only transactions and events that are capable of being measured in monetary terms are recognized in the financial statements.

All transactions and events record in the financial statements must be reduced to a unit of monetary currency. Where it is not possible to assign a reliable monetary value to a transaction or event, it shall not be recorded in the financial statements. However, any material transactions and events that are not recorded for failing to meet the measurability criteria might need be disclosed in the supplementary notes of financial statements to assist the users in gaining a better understanding of the financial performance and position of the entity.

—— Space to write important points for revision ——

2012 - Dec [8] Write short note:

(c) Accounting convention of consistency; **(5 marks)**

Answer :

In order to enable the management to draw important conclusions regarding the working of a company over a number of years it is essential that accounting practices and methods remain unchanged from one accounting period to another. According to AS-1 consistency is a fundamental assumption and it is assumed that accounting policies are consistent from one period to another. Where this assumption is not followed, the fact should be disclosed with proper reasons.

Kohler has talked about three types of consistencies:

(i) **Vertical consistency:** Consistency maintained within the interrelated financial statements of the same date.

(ii) **Horizontal consistency:** This enables the comparison of performance of the organization in one year with its performance of previous/next year.

(iii) **Third dimensional consistency:** Performance of one organization can be compared with that of another organization in the same industry.

Space to write important points for revision

2017 - June [8] Write short note on the following:

(a) The Accrual Concept **(5 marks)**

Answer:

The Accrual Concept :

The accrual concept is based on recognition of both cash and credit transactions. In case of a cash transaction, owner's equity is instantly affected as cash either is received or paid. In a credit transaction, however, a mere obligation towards or by the business is created. When credit transactions exist (which is generally the case), revenues are not the same as cash receipts and expenses are not same as cash paid during the period.

When goods are sold on credit as per normally accepted trade practices, the business gets the legal right to claim the money from the customer. Acquiring such right to claim the consideration for sale of goods or services is called accrual of revenue. The actual collection of money from customer could be at a later date.

Similarly, when the business procures goods or services with the agreement that the payment will be made at a future date, it does not mean that the expense effect should not be recognized. Because an obligation to pay for goods or services is created upon the procurement thereof, the expense effect also must be recognized.

Today's accounting systems based on accrual concept are called as Accrual System or Mercantile System of Accounting.

Space to write important points for revision

2017 - Dec [8] Write short notes on the following:
(a) Objectives of Accounting
(b) Methods/ Criteria to the selection and application of Accounting policies

(5 marks each)

Answer:

(a) Objectives of Accounting:

The main objective of Accounting is to provide financial information to stakeholders. This financial information is normally given via financial statements, which are prepared on the basis of Generally Accepted Accounting Principles (GAAP). There are various accounting standards developed by professional accounting bodies all over the world. In India, these are governed by The Institute of Chartered Accountants of India, (ICAI). In the US, the American Institute of Certified Public Accountants (AICPA) is responsible to lay down the standards. The Financial Accounting Standards Board (FASB) is the body that sets up the International Accounting Standards. These standards basically deal with accounting treatment of business transactions and disclosing the same in financial statement:

The following are the main objectives of accounting:

(a) To ascertain the amount of profit or loss made by the business i.e. to compare the income earned versus the expenses incurred and the net result thereof.
(b) To know the financial position of the business i.e. to assess what the business owns and what it owes.
(c) To provide a record for compliance with statutes and laws applicable.
(d) To enable the readers to assess progress made by the business over a period of time.
(e) To disclose information needed by different stakeholders.

Answer:

(b) The major considerations governing the selection and application of accounting policies are:

1. **Prudence:** Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement, these uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.
2. **Substance over form:** It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.
3. **Materiality:** Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

—— Space to write important points for revision ——

DISTINGUISH BETWEEN

2009 - Dec [1] (h) Distinguish between capital receipts and revenue receipts. **(4 marks)**

Answer :

Capital receipts and revenue receipts:-

Receipts which are obtained in the course of normal trading operations are revenue receipts (e.g. sale of goods, interest income). On the other hand, Receipts which are not revenue in nature are capital receipts (e.g. sale of fixed assets, secured and unsecured loans, owners contribution etc.) Revenue receipts are credited to profit and loss account. On the other hand capital receipts are not directly credited to profit and loss account. Profits and Loss on sale of fixed assets is calculated and recorded in profit and loss account.

—— Space to write important points for revision ——

2018 - Dec [8] (iv) Distinction between Fundamental accounting assumptions and Accounting policies. **(5 marks)**

DESCRIPTIVE QUESTIONS

2010 - Dec [5] (b) State the various accounting concepts. **(5 marks)**

Answer :

Various Accounting concepts are as follows :

1. Money measurement concept
2. Dual aspect concept
3. Going concern concept
4. Periodicity concept
5. Accrual concept
6. Matching concept
7. Realisation concept
8. Materiality concept
9. Consistency concept
10. Business entity concept
11. Historical cost concept

—— Space to write important points for revision ——

2011 - June [1] {C} (f) Name four errors which are not detected by Trial Balance. **(2 marks)**

Answer :

(i) Errors not disclosed by Trial Balance even on its agreement.
(ii) Wrong entries in books of original records.
(iii) Complete omission of a transaction.
(iv) Compensating errors.
(v) Errors of principles.

—— Space to write important points for revision ——

2011 - Dec [7] (c) Classify the following expenditures into Capital Expenditure and Revenue Expenditure :

(i) Expenses on a foreign tour to purchase a machinery
(ii) Annual maintenance fee of a machine
(iii) Money spent to reduce working cost

(iv) Compensation paid to workers under voluntary retirement scheme
(v) Legal expenses to recover dues from customers
(vi) Salaries paid to Engineering staff in erecting a machine **(3 marks)**

Answer :

(i) **Capital Expenditure :** Expenses incurred till the date of ready to put to use of an assets will be capitalized.
(ii) **Revenue Expenditure :** Expenses incurred after the use of the assets is a revenue expenditure.
(iii) **Capital Expenditure :** Any Expenditure incurred to increase the revenue generating capacity is a Capital Expenditure.
(iv) **Revenue Expenditure :** Because it will not help to increase our revenue generating capacity.
(v) **Revenue Expenditure :** Expenses arises during ordinary course of business is revenue expenses.
(vi) **Capital Expenditure :** Expenses incurred till the assets is ready to put to use is a capital expenditure.

—— Space to write important points for revision ——

2012 - June [3] (b) Classify the following accounts into Personal, Real and Nominal accounts.
(i) Patent Rights a/c (ii) Drawing a/c (iii) Purchases a/c (iv) Prepaid Insurance a/c (v) Donation a/c (vi) Bank Overdraft a/c. **(3 marks)**

Answer:

Personal A/c – Drawings, Prepaid insurance, Bank Overdraft
Real A/c – Patent rights
Nominal A/c – Purchases, Donations

—— Space to write important points for revision ——

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

(ii) State briefly the three fundamental accounting assumptions. **(2 marks)**

Answer:

The three fundamental assumptions are (a) going concern; (b) consistency; and (c) accrual.

Going Concern: It is assumed that the concern would be continuing in operation for the foreseeable future. It is also assumed the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operations.

Consistency: The accounting policies followed are consistent from one accounting period to another.

Accrual: The revenues and expenses are accrued, that is recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

—— Space to write important points for revision ——

2013 - Dec [2] (b) What are the steps or phases of 'Accounting Cycle'? **(4 marks)**

Answer:

Steps/ Phases of Accounting Cycle:

(i) **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.

(ii) **Journal:** The transactions are recorded in Journal chronologically.

(iii) **Ledger:** All journals are posted into ledger chronologically and in a classified manner.

(iv) **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

(v) **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

(vi) **Adjusted Trial Balance:** An adjusted Trial Balance may also be prepared.

(vii) **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

(viii) **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

Space to write important points for revision

PRACTICAL QUESTIONS

2011 - June [3] (c) State with reasons whether the following items are Capital expenditure or Revenue expenditure:

(i) A factory building was constructed at a cost ₹ 15,00,000. A sum of ₹ 64,000 were incurred for the construction of the temporary huts for storing building materials.

(ii) ₹ 5,000 paid for removal of stock to a new site.

(iii) Expenses incurred in connection with obtaining a licence to start the business were ₹ 15,000. **(4 marks)**

Answer :

(i) Construction cost of factory building and temporary huts both are capital expenditure. Because factory building gives benefit more than one year and it can be used for production. Construction of temporary huts for storing building material is also capital expenditure because it helps to construct factory building.

(ii) Amount paid for removal of stock to a new site is a revenue expenditure because stock is revenue in nature and any amount spent on it is also revenue in nature.

(iii) Expenses incurred in connection with obtaining a license to start the business of ₹ 15,000 is a Capital Expenditure because without spending on it, we cannot start the business and it is a non recurring expenditure.

Space to write important points for revision

2011 - Dec [2] (a) For the year ending 31st December, 2011, the Sales, Purchases, Opening Stock and Closing Stock of a Trader was ₹ 5,00,000, ₹ 3,80,000, ₹ 65,000 and ₹ 52,000 respectively. Some goods were destroyed by fire (without realization of any value) during the year. If the Trader earned Gross Profit @ 25% on Sales for the year, calculate the value of goods destroyed by fire. **(3 marks)**

Answer :

Calculation of goods destroyed by fire

Opening Stock	65,000
(+) Purchases	3,80,000
	4,45,000
(-) Sales less Gross profit [5,00,000 –(25% of 5,00,000)]	3,75,000
(-) Closing Stock	52,000
Goods destroyed by fire	18,000

—— Space to write important points for revision ——

2012 - Dec [4] (c) Mr. X is owner of a Cinema Hall. He spent a heavy amount for complete renovation of the hall, for installation of air-condition machines and for sitting arrangement with cushion seats. As a result the revenue has been doubled. He also spent for few more doors for emergency exit.

State your opinion about the treatment of the entire expenditure. **(2 marks)**

Answer :

If due to any expenditure, the future benefits from the assets increases beyond its previously assessed standard of performance, then it should be capitalized. The size of the expenditure is not important for capitalizing the expenditure. In the present case, renovation expenses should be capitalized because it has enhanced the revenue generating capacity of the hall but expenditure for making more emergency exit does not enhance the revenue generating capacity of the hall, so it should be charged to revenue.

—— Space to write important points for revision ——

2012 - Dec [6] (b) The total of debit side of the Trial Balance of Lotus Stores as at 31.03.2012 is ₹ 3,65,000 and that of the credit side is ₹ 2,26,000. After checking, the following mistakes were discovered:

Items of account	Correct figures (as it should be) (₹)	Figures as it appears in the Trial Balance (₹)
Opening stock	15,000	10,000
Rent and rates	36,000	63,000
Sundry creditors	81,000	18,000
Sundry debtors	1,04,000	1,58,000

Ascertain the correct total of the Trial Balance. **(5 marks)**

Answer :

In the books of Lotus Stores calculation of correct Total of Trial Balance

Particulars	Dr.	Cr.
Total of Trial Balance as per on 31.03.12	3,65,000	2,26,000
Add: under statement of op. stock	5,000	—
Less: over statement of Rent & Rates	27,000	—
Add: under statement of sundry creditors	—	63,000
Less: over statement of sundry debtors	54,000	—
Correct Total	2,89,000	2,89,000

—— Space to write important points for revision ——

2013 - June [4] (a) State whether the following items are in the nature of Capital, Revenue and/or Deferred Revenue Expenditure:

(i) Expenditure on special advertising campaign ₹ 66,000; suppose the advantage will be received for six years.
(ii) An amount of ₹ 8,000 spent as legal charges for abuse of Trade Mark.
(iii) Legal charges of ₹ 15,000 incurred for raising loan.
(iv) Share issue expenses ₹ 5,000.
(v) Freight charges on a new machine ₹ 1,500 and erection charges ₹ 1,800 for that machine. **(1 × 5 = 5 marks)**

Answer:

(i) As per Para 56 of AS 26, the expenditure incurred on intangible items would have to expense off when they are incurred. So, the Advertisement Expenses is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c. So, ₹ 66,000 consider for revenue expenditure.

(ii) Revenue expenditure ₹ 8,000

(iii) Capital expenditure ₹ 15,000

(iv) Capital expenditure ₹ 5,000

(v) Capital expenditure = 1,500 + 1,800 = ₹ 3,300.

—— Space to write important points for revision ——

2013 - Dec [1] {C} Answer the following questions (give workings wherever required):

(i) A trader acquired furniture & fittings for ₹ 10,000 but included the same in purchase account. He paid ₹ 5,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.

(iii) The company maintains 10% of debtors as provision towards bad debts. It has routed all bad debts through the provision account. The opening balance of provision as on 01.04.2012 was ₹ 68,000. The closing provision i.e. on 31st March, 2013 was ₹ 92,000. Bad debts written off debited to provision account was ₹ 28,000. How much should be debited to Profit & Loss Account towards provision for doubtful debts for the year ended 31st March, 2013? **(2 marks each)**

Answer:

(i) The first error is **error of principle**. The capital expenditure has been claimed as revenue expenditure. The second one is, **error of omission**. The Journal Entries are:

Particulars		₹	₹
Furniture & Fittings A/c	Dr.	10,000	
To Purchase A/c			10,000
[Being error in purchase A/c being rectified]			

Sundry Creditors A/c	Dr.	5,000	
To Cash A/c			5,000
[Being the omission to record the transaction now being recorded]			

(iii) Provision for bad and doubtful debts account

Date	Particulars	₹	Date	Particulars	₹
31.03.2013	To Sundry Debtors	28,000	01.04.2012	By Balance b/d	68,000
31.03.2013	To Balance c/d	92,000	31.03.2013	By P & L A/c	52,000
		1,20,000			1,20,000

—— Space to write important points for revision ——

2013 - Dec [6] (b) State with reason whether the followings are capital or revenue expenditure:

(i) Freight charges of ₹ 12,000 incurred for machinery purchased for ₹ 2,00,000.

(ii) ₹ 90,000 being expenditure incurred for well equipped labour welfare centre.

(iii) Compensation of ₹ 1,50,000 each paid to three employees who were retrenched.

(iv) Purchase of TV set for ₹ 30,000 to be installed in the reception hall.

(1 × 4 = 4 marks)

Answer:

(i) Expenditure incurred towards freight charges for bringing the machinery to the location and till regular production is capital expenditure. Hence, the freight charge is to be capitalized.

(ii) Labour welfare centre is a permanent addition and therefore a capital expenditure.

(iii) Compensation to retrenched employees will not bring any permanent benefit and hence is revenue expenditure.

(iv) Television set purchased is a capital expenditure unless the person acquiring the same is a dealer of television sets.

—— Space to write important points for revision ——

2014 - Dec [2] Answer the question:

(b) Pass necessary journal entries to rectify the following errors assuming that the errors were detected after the preparation of final accounts:

(i) Return inward book was undercast by ₹ 18,000.

(ii) Goods purchased for proprietor's use for ₹ 10,000 debited to purchase account.

(iii) ₹ 5,200 paid for freight on machinery was debited to freight account.

(iv) No adjustment entry was passed for an amount of ₹ 15,000 relating to outstanding rent.

(v) Furniture of ₹ 13,000 purchased from Chandra Furniture House was entered in purchase book.

(vi) ₹ 10,000 received from Mohan has been credited to Sohan.

(4 marks)

Answer:

		₹	₹
(i) Profit & Loss Adjustment A/c	Dr.	18,000	
To Suspense A/c			18,000
(Under cash of return inward book rectified.)			
(ii) Capital A/c	Dr.	10,000	
To Profit & Loss Adjustment A/c			10,000
(Drawing rectified.)			
(iii) Machinery A/c	Dr.	5,200	
To Profit & Loss Adjustment A/c			5,200
(Wrong debit to freight A/c now rectified.)			
(iv) Profit & Loss Adjustment A/c	Dr.	15,000	
To Outstanding Rent A/c			15,000
(Adjustment entry for outstanding rent passed.)			
(v) Furniture A/c	Dr.	13,000	
To Profit & Loss Adjustment A/c			13,000
(Furniture wrongly entered in purchase book now rectified)			

(vi) Sohan's A/c	Dr.	10,000	
To Mohan's A/c			10,000
(Wrong credit to Sohan's A/c rectified.)			

—— Space to write important points for revision ——

2015 - June [2] Answer the question:

(a) Journalise the following transactions in the books of SHIVA.

01.05.2015 — Started business with ₹ 5,00,000 of which 50% amount was borrowed from SBI and 20% amount was borrowed from his sister Patta.

05.05.2015 — Purchased goods from Chinu Mart worth ₹ 1,60,000 at 25% trade discount and 40% amount paid in cash.

08.05.2015 — Sold goods to Satish ₹ 60,000 at 20% trade discount and received $\frac{1}{4}$ amount in cash.

15.05.2015 — Paid to Chinu Mart ₹ 69,500 in full settlement of A/c.

(4 marks)

Answer:

Journal of SHIVA

Date	Particulars	L. F.	Amount ₹	Amount ₹
1.5.15	Cash A/c Dr.		5,00,000	
	To Capital A/c			1,50,000
	To Loan from Patta A/c			1,00,000
	To Loan from SBI A/c			2,50,000
	(Being business started)			
5.5.15	Purchases A/c Dr.		1,20,000	
	To Cash A/c			48,000
	To Chinu Mart A/c			72,000
	(Being goods purchased and trade discount received)			

8.5.15	Satish A/c Dr. Cash A/c Dr. To Sales (Being goods sold and trade discount allowed)		36,000 12,000	 48,000
15.5.15	Chinu Mart A/c Dr. To Cash A/c To Discount A/c (Being payment made to Chinu Mart in full settlement of his account)		72,000	 69,500 2,500

Space to write important points for revision

2015 - Dec [2] Answer the question.

(a) Trial Balance of ANKIT LTD. failed to agree and the difference was put into Suspense Account pending investigation which discovered the following:

(i) Discount received ₹ 1,320 had been debited to Discount allowed as ₹ 132.

(ii) Goods of the value of ₹ 200 returned by Kishan were entered in the Sales Day Book and posted therefrom to the credit of Krishan as ₹ 20.

(iii) A credit purchase of ₹ 500 from N. Kumar was recorded as sale to M. Kumar for ₹ 50.

(iv) A credit sale of machine of P. Dass for ₹ 600 recorded through Sales Day Book as sale to C. Dass for ₹ 60.

Required:

Pass the Rectifying Entries in the Book of Ankit Ltd. **(4 marks)**

Answer:

In the books of ANKIT LTD.
Journal Entries

(i)	Suspense A/c Dr. To Discount received To Discount allowed (Being wrong debit to discount allowed commission of recording discount received, now rectified)	1,452	 1,320 132
(ii)	Krishan A/c Dr. Sales A/c Dr. Sales Return A/c Dr. To Kishan A/c To Sales A/c (Being sales returns recorded as sale with wrong amount and wrong posting therefrom, now rectified)	20 200 200	 200 220
(iii)	Sales A/c Dr. Purchase A/c Dr. To N. Kumar To M. Kumar (Being the credit purchase recorded as sale, now rectified)	50 500	 500 50
(iv)	Sales A/c Dr. P. Dass A/c Dr. To Machinery To C. Dass (Being the credit sale of machine recorded as sale, now rectified)	60 600	 600 60

2015 - Dec [5] Answer the question.

(a) MILTON LTD. sold goods worth ₹ 1,00,000 to NARMADA LTD. Narmada Ltd. asked for discount of ₹ 16,000 which was agreed by Milton Ltd. The sale was effected and Goods despatched. After receiving, Goods Worth ₹ 14,000 was found defective, which they returned immediately. They made the payment of ₹ 70,000 to Milton Ltd. The accountant of Milton Ltd. booked the Sales for ₹ 70,000.
Discuss whether the accounting entry passed by the accountant of the company is correct? **(4 marks)**

Answer:

The accounting entry passed by the accountant of the company is incorrect as it does not depict the original transaction. Sales should be shown at the gross amount and thereafter, entry of sales return should be passed.
The goods returned cost 14,000 on which discount was availed which needs to be reversed.

$$\text{Discount} = \frac{14,000 \times 16,000}{1,00,000}$$

$$= 2,240$$

—— Space to write important points for revision ——

2016 - June [3] (a) The trial balance of M/s SEWADA & CO., on 31st March, 2016 did not agree. In order to close the books, the accountant placed the difference for ₹ 12,385 (Dr.) to Suspense Account for necessary adjustments in the next period. On 30th April, 2016 the following errors, arising in 2015-16 were detected:

(i) ₹ 1,000 allowed as cash discount to a trade debtor was not debited to the discount account.
(ii) Credit sale of ₹ 4,850 was posted to the credit of the customer's account as ₹ 4,535.
(iii) Machinery purchased for ₹ 50,000 in cash was posted to the Purchases Account in the ledger.
(iv) Sales Book was overcast by ₹ 2,000 in February, 2016.

Required:

(a) Pass the necessary Journal Entries to rectify these errors.

(b) Prepare suspense account in the book of SEWADA & CO.

(5+2 = 7 marks)

Answer :

(a)

Date	Particulars	Dr. (₹)	Cr. (₹)
2016 April 30	P & L Adjustment A/c To Suspense A/c (Being discount allowed not posted to discount A/c, now rectified)	1,000	1,000
April 30	Customer's A/c To Suspense A/c (Being credit sale of ₹ 4,850 wrongly posted to the credit of customer's a/c, as ₹ 4,535, now rectified)	9,385	9,385
April 30	Machinery A/c To P & L Adjustment A/c (Being machinery purchased a/c, now rectified)	50,000	50,000
April 30	P & L Adjustment A/c To Suspense A/c (Being sales day book overcast, now rectified)	2,000	2,000

Suspense A/c

Date	Particulars	₹	Date	Particulars	₹
2016 April 1	To Balance b/d	12,385	2016 April 30 April 30 April 30	 By P & L Adj. A/c By Customer A/c By P & L Adjustment	 1,000 9,385 2,000
		12,385			**12,385**

Space to write important points for revision

2017 - June [2] (b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of Final Accounts.

(i) No adjustment entry was passed for an amount of ₹ 2,000 relating to outstanding rent.

(ii) Purchase book was overcast by ₹ 1,000.

(iii) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.

(iv) ₹ 600 paid for purchase of stationary has been debited to Purchase A/c.

(v) Sales books was overcast by ₹ 1,000.

(vi) ₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. **(6 marks)**

Answer:

Effects of the errors in Profit and Loss A/c and Balance Sheet

Profit and Loss A/c	Balance Sheet
(a) Profit was overstated by ₹ 2,000	(a) Capital was also overstated by ₹ 2,000 and outstanding Liability was understated by 2,000.
(b) Gross profit was under stated by ₹ 1,000 and also the Net Profit.	(b) Capital was understated by ₹ 1,000.
(c) Net Profit was overstated by ₹ 4,000.	(c) Machinery was overstated by ₹ 4,000 and so the Capital A/c was also overstated by ₹ 4,000.
(d) No effect on Net Profit.	(d) No effect in Balance Sheet.
(e) Gross Profit & Net Profit were overstated by ₹ 1,000.	(e) Capital was overstated by ₹ 1,000.
(f) Gross Profit & Net Profit were overstated by ₹ 5,000.	(f) Capital & Sundry Debtors were overstated by ₹ 5,000.

2017 - June [3] (a) Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for current year. Comment. **(3 marks)**

(b) Alex. Ltd. intends to set up a solar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired. **(6 marks)**

Answer:

(a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treatment adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

Answer:

(b)	Cost of Land acquired (7500 × 70,000)	=	5,250 lacs
	Add: Demolishing Cost	=	50 lacs
	Less: Salvage Value of Material (43,57,500×100/105)	=	41.50 lacs
	Add: Stamp Duty & Valuation (5,250 × 5%)	=	262.50 lacs
	Add: Legal & Consultancy Charge	=	5 lacs
	Add: Title Guarantee Insurance	=	2 lacs
	Value of Land	=	5,528 lacs

—— Space to write important points for revision ——

2017 - Dec [4] (b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.

(i) No adjustment entry was passed for an amount of ₹ 2,000 relating to outstanding rent.

(ii) Purchase book was overcast by ₹ 1,000.

(iii) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.

(iv) ₹ 600 paid for purchase of stationary has been debited to Purchase A/c.

(v) Sales books was overcast by ₹ 1,000.

(vi) ₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. **(6 marks)**

Answer:

	Profit & Loss A/c		Balance Sheet
(i)	Profit was overstated by ₹ 2,000.	(i)	Capital was also overstated by ₹ 2,000 and outstanding Liability was understated by ₹ 2,000.
(ii)	Gross profit was under stated by ₹ 1,000 and also the Net Profit.	(ii)	Capital was understated by ₹ 1,000
(iii)	Net Profit was overstated by ₹ 4,000.	(iii)	Machinery was overstated by ₹ 4,000 and so the Capital A/c was also overstated by ₹ 4,000.
(iv)	No effect on Net Profit.	(iv)	No effect in Balance Sheet.
(v)	Gross Profit and Net Profit were overstated by ₹ 1,000.	(v)	Capital was overstated by ₹ 1,000.
(vi)	Gross Profit and Net Profit were overstated by, ₹ 5,000.	(vi)	Capital and Sundry Debtors were overstated by ₹ 5,000.

Space to write important points for revision

2018 - June [2] (a) The Trial Balance of S Ltd. as on 31/03/2018 showed the credit in excess by ₹ 415 which was been carried to Suspense Account. On a closed scrutiny of the books, the following errors were revealed:

(i) A cheque of ₹ 3,456 received from AB Ltd. after allowing it a discount of ₹ 46 was endorsed to CD Ltd. in full settlement for ₹ 3,500. The cheque was finally dishonoured but no entries are passed in the books of account.

(ii) Goods of the value of ₹ 230 returned by PQ Ltd. were entered in Purchase Day book and posted therefrom to MN Ltd. as ₹ 320.

(iii) Bad debts aggregating ₹ 505 written off during the year in Sales Ledger but were not recorded in General Ledger.

(iv) Bill for ₹ 750 received from Z Ltd. for repairs to Machinery was entered in the Inward Invoice Book as ₹ 650.

(v) Goods worth ₹ 1,234 purchased from Y Ltd. on 28/03/2018 had not been entered in Day book and credited to Y Ltd. but Goods were not delivered till 5th April, 2018. The title of Goods was however passed on 28/03/2018 and was taken into stock on 31-03-2018.

(vi) ₹ 79 paid for Freight on Machinery was debited to Freight account as ₹ 97.

Pass the necessary Journal Entries to rectify the above mentioned errors.

(8 marks)

Answer:

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	AB Ltd. A/c Dr.		3,502	
	Discount Received A/c Dr.		44	
	To CD Ltd. A/c			3,500
	To Discount Given A/c			46
	(Being cheque received from AB Ltd. was endorsed to CD Ltd. However, the cheque was later dishonoured)			

	Sales Return A/c Dr MN Ltd. A/c Dr To Purchase A/c To PQ Ltd. A/c To Suspense A/c (Being goods returned by PQ Ltd. were wrongly recorded in purchase book and from thereon wrongly posted to MN Ltd.)		230 320	 230 230 90
	Bad debts A/c Dr. To Suspense A/c (Being Bad debts written off in Sales Ledger but not yet recorded in General Ledger, now recorded)		505	 505
	Repairs A/c Dr. To Purchase A/c To Z Ltd. (Being repair of machinery amounting to ₹ 750 wrongly entered in Inward book as ₹ 650)		750	 650 100
	Goods - in - Transit A/c Dr. To Trading A/c (Being goods - in - transit were recorded in books)		1,234	 1,234
	Machinery A/c Dr. Suspense A/c Dr. To Freight A/c (Being amount paid on Freight on Machinery amounting to ₹ 79 was wrongly debited to Freight A/c as ₹ 97)		79 18	 97

2018 - Dec [2] (a) A bookkeeper extracted the following Trial Balance as on 31st March, 2018:

Heads of Accounts	**Dr. Balance (₹)**	**Cr. Balance (₹)**
Furniture	20,000	—
Capital	—	2,00,000
Debtors	2,00,000	—
Stock (1st April, 2017)	1,04,000	—
Creditors	—	80,000
Trade Expenses	50,000	—
Sales	—	8,58,000
Wages	30,000	—
Stock (31st March, 2018)	98,000	—
Machinery	—	50,000
Purchases	6,25,000	—
Wife's loan to the business	50,000	—
Discount Allowed	—	4,000
Drawings made by the Proprietor	—	45,000
Motor Van	60,000	—
Total	12,37,000	12,37,000

You are required to:

(i) State the errors giving reasons,

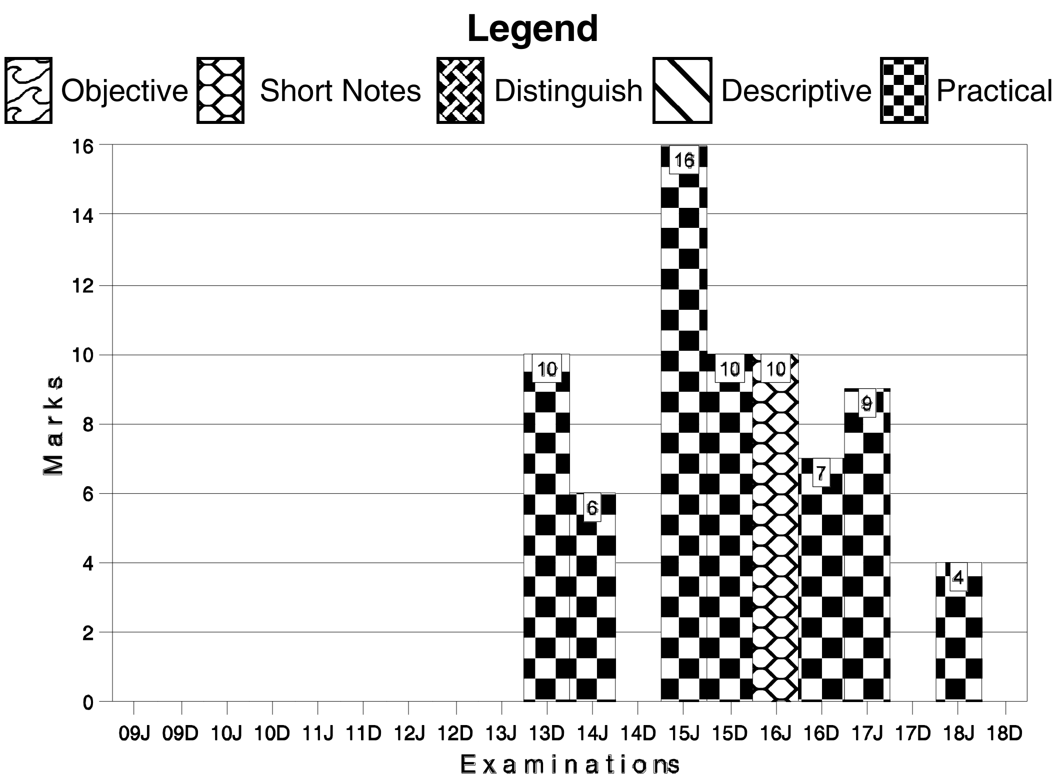
(ii) Redraft the Trial Balance correctly. **(7 marks)**

2A BILLS OF EXCHANGE

THIS CHAPTER INCLUDES

- Bill of Exchange
- Parties Involved
- Discounting
- Renewal
- Retirement
- Accommodation Bills
- Dishonour

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Bill of Exchange	"An instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain some of money only to the order of the certain person or to the bearer of the instrument"
Discounting a Bill	If the holder of a bill wants to get the money of the bill before its due date, he can do so by selling the bill to a bank or a Discounting House who in consideration of a charge called discount, provides him with ready cash. This is known as discounting the bill.
Dishonour of Bill	Dishonour of a Bill means that the acceptor refuses to honour his commitment on due date and for this, payment of the bill on presentation does not take place.
Renewal of Bills	Sometimes the drawee of a bill is not able to meet the bill on due date. He may request the drawer to draw a new Bill for the amount due. Sometimes he pays a certain amount out and accepts a first bill for the balance for which he has to pay a certain amount of interest which is either paid in cash or is included with the fresh bill. This bill is known as Renewal of Bills.
Retirement of Bill	Sometimes the drawee pays the bill before the date of maturity. Under the circumstances, the drawer allows certain amount of rebate or discount which is calculated on certain percentage p.a. basis. The rebate is calculated from the date of payment to the date of maturity.

Types of Bills of Exchange	**(a) Trade bill:** This bill is drawn to settle a trade transaction. **(b) Accommodation bill:** This bill is used without a trade transaction and is for mutual benefit.
Insolvency of Drawee (Acceptor)	Insolvency of acceptor means that he cannot pay the amount owed by him. Therefore , on insolvency of the acceptor, bill will be treated as dishonoured and entries for dishonour of bill will be passed in the books of respective parties.

SHORT NOTES

2016 - June [9] Write short notes on the following:

(a) Accommodation Bill **(5 marks)**

(c) Rebate on Bills Discounted **(5 marks)**

Answer :

(a) ***Please refer 2008 - Dec [3] (b) on page no. 43***

(c) **Rebate on Bills Discounted:** When a bank discounts a bill of exchange, the full amount of the discount earned is credited to the Discount Account but some of the Bills discounted may not mature for payment by the close for the year; as a result, the amount of discount in respect of such bill would not have been earned during the year. On this consideration, the unexpired portion of such discount is carried forward by Debiting the Discount Account and crediting Rebate on Bills Discounted Account. The latter account is shown on the liabilities side of the Balance Sheet as income received which had not accrued before the close of the year. At the commencement of the period next following the account is close off by transfer to the Discount Account.

DESCRIPTIVE QUESTIONS

2008 - Dec [3] (b) Define Accommodation Bill? **(4 marks)** ***[CMAF]***

Answer :

Accommodation Bill : An Accommodation Bill is a bill of exchange signed by-a party as drawer, drawee, endorser to accommodate another party whose credit is not strong enough to enable him to borrow on his single name. It is drawn for the purpose, of arranging temporary finance. Therefore, an Accommodation Bill is a Bill of exchange which has been drawn, on and accepted by a reputable party for the purpose of giving value to the bill so that it can be discounted. What actually happens in the case of an accommodation bill is that one party draws the bill and the other party accepts it. Then, the drawing party gets it discounted from the bank and receives ready cash of which he is in need. The money received is either wholly utilized by the drawer, or by both, the drawee and the acceptor. Before the due date approaches, the required sum of money is sent to the acceptor in order to make him able to honour the bill and the bill is honoured on the due date. Thus, although there is no legal liability, there exists a strong moral understanding between the parties concerned.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2008 - Dec [3] (a) Mr. A draws on Mr. B a bill of exchange for ₹ 5,000 on 1st January, 2008 . Mr. A endorses the bill in favour of Mr. C. Before maturity, Mr. B approaches Mr. A with the request that the bill be renewed for a further period of 3 months at fifteen percent interest per annum. Mr. A pays the sum to Mr. C on due date and agrees to the proposal of Mr. B. Pass the journal entries in the books of Mr. A assuming that the second bill is duly met.

(6 marks) ***[CMAF]***

Answer :

Date	Particulars		₹	₹
2008 Jan,01	Bills Receivable A/c	Dr.	5,000	
	To B A/c			5,000
	(Being the Bill of Exchange Received from B)			
"	C A/c	Dr.	5,000	
	To Bills Receivable A/c			5,000
	(Being the endorsement of bill C)			
2008 Apr, 04	B A/c	Dr.	5,000	
	To C A/c			5,000
	(Being the cancellation of bill received from B endorsed to C)			
"	C A/c	Dr.	5,000	
	To Bank A/c			5,000
	(Payment of amount due to C)			
"	B A/c	Dr.	188	
	To Interest A/c			188
	(Interest due from B on ₹ 5,000 for 3 months @ 15% p.a.)			
"	Bills Receivable A/c	Dr.	5,188	
	To B A/c			5,188
	(Being the new bill for B for the amount due)			
2008 July,07	Bank A/c	Dr.	5,188	
	To Bills Receivable A/c			5,188
	(Due amount received from B in respect of the renewed bill)			

—— Space to write important points for revision ——

2009 - June [3] (b) On 1.4.09. Mr. A draws a bill for ₹ 6,000 for 7 months on Mr. B who returned the bill to Mr. A after acceptance. On 10.4.09 Mr. A endorsed the bill in favour of Mr. C who endorsed the bill on 15.4.09 in favour of Mr. D. On 1.5.09 Mr. D discounted the bill at 10%. On maturity, the bill was dishonoured and banker paid ₹ 50 towards noting charges.
Pass necessary Journal entries in the books of Mr. D. **(3 marks)** ***[CMAF]***

(c) Indicate the due date for payment of bill drawn on 14.3.09 for 30 days after sight on Mr. P who accepted on 17.3.09. **(2 marks)** ***[CMAF]***

Answer :

(b) **In the Books of Mr. D**

Journal Entries

Date	**Particulars**	**Dr.** (₹)	**Cr.** (₹)
15.04.09	Bills Receivable A/c Dr.	6,000	
	To C's A/c		6,000
	(Being the bill of ₹ 6,000 drawn)		
01.05.09	Bank A/c Dr.	5,700	
	Discount A/c	300	
	To Bills Receivable A/c		6,000
	(Being the bill for ₹ 6,000 discounted at 10%)		
01.11.09	C's A/c Dr.	6,050	
	To Bank A/c		6,050
	(Being the bill dishonoured on maturity & noting charges ₹ 50)		

(c) Particulars

Date of Acceptance of the bill	17.03.09
+ Period	30 days
	16.04.09
+ Grace period	3 days
Due date of the bill	19.04.09

—— Space to write important points for revision ——

2009 - Dec [4] (a) Mohan sold goods on 1st September, 2009 for ₹ 2,00,000/- to Sohan. Sohan immediately accepted a 3 months bill. On the due date Sohan requested for the renewal of the bill for a further period of two months. Mohan agrees to pay interest @ 9% per annum to be included in the new bill. Determine the amount of the new bill. **(1 mark)** ***[CMAF]***

Answer :

Amount of Bill :	2,00,000
Interest for 2 months @ 9%	3,000
Amount of New Bill	2,03,000

—— Space to write important points for revision ——

2010 - June [2] (b) X drew a bill on Y for ₹ 1,000 payable two months after date. Immediately after its acceptance, X sent the bill to his banker for collection. On the due date bank collects the bill and sends the advice of collection after deducting ₹ 2 as collection charges.

Pass Journal entries in the books of X and Y. **(3 marks)** ***[CMAF]***

Answer :

In the book of X
Journal Entries

1. When bill is drawn :

Bills Receivable	Dr.	1,000	
To Y			1,000

2. When bill is sent for collection :

Bills for collection	Dr.	1,000	
To Bill Receivable			1,000

3. When bill is collected :

Bank	Dr.	998	
Bank Charges	Dr.	2	
To Bills for collection			1,000

In the book of Y
Journal Entries

1. When the bill is accepted :

X	Dr.	1,000	
To Bills Payable			1,000

2. When the bill is sent :

Bills Payable	Dr.	1,000	
To Cash			1,000

—— Space to write important points for revision ——

2010 - Dec [4] Answer the following:

(a) X draws on Y a bill for ₹ 2,00,000 on 1.4.09 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹ 1,95,000. X immediately remits ₹ 97,500 to Y. On due date, X being unable to remit the amount due accepts a bill for ₹ 1,20,000 for 2 months which is discounted by Y for ₹ 1,17,600. Y sends ₹ 7,800 to X out of the same. How much discount will be borne by X at the time of remittance of ₹ 7,800? **(2.5 marks)** ***[CMAF]***

Answer :

Proportionate Discount to be borne by X = (₹ 2,400 × ₹ 1,07,800/ ₹ 1,17,600) = ₹ 2,200.

—— Space to write important points for revision ——

2011 - June [7] P drew a bill of ₹ 30,000 on Q who accepts it for mutual accommodation. The proceeds are to be shared by P and Q in the ratio of 3 : 2. The bill is discounted by P for ₹ 29,000 and 2/5 of the proceeds remitted to Q. Before the due date Q draws another bill for ₹ 40,000 in order to provide funds to meet the first bill. This bill is discounted for ₹ 38,500 with the help of which the first bill is met and ₹ 5,100 are remitted to P. Before maturity of the second bill P becomes insolvent and Q receives a dividend of 40 paise in a rupee in full settlement.

Pass journal entries and also prepare Q's account in the books of P.

(10 marks) ***[CMAF]***

Answer :

In the Book of P
Journal Entries

Particulars		₹	₹
B/R A/c	Dr.	30,000	
To Q A/c			30,000
Bank A/c	Dr.	29,000	
Discount A/c	Dr.	1,000	
To B/R A/c			30,000
Q A/c	Dr.	12,000	
To Bank A/c			11,600
To Discount A/c			400
Q A/c	Dr.	40,000	
To B/P A/c			40,000
Bank A/c	Dr.	5,100	
Discount A/c	Dr.	900	
To Q A/c			6,000
B/P A/c	Dr.	40,000	
To Q A/c			40,000
(Acceptance dishonoured)			
Q A/c		24,000	
To Bank A/c			9,600
To Deficiency A/c			14,400

Ledger
Q's Account

Particulars	₹	Particulars	₹
To Bank A/c	11,600	By B/R A/c	30,000
To Discount A/c	400	By Bank A/c	5,100
To B/P A/c	40,000	By Discount A/c	900
To Bank A/c (24,000 × 0.40)	9,600	By B/P A/c	40,000
To Deficiency A/c (24,000 × 0.60)	14,400		
	76,000		76,000

Space to write important points for revision

2011 - Dec [3] (a) Mr. Sinha draws a bill on 1st January, 2009 on Mr. Mane for ₹ 36,000/- for 4 months period. Mane accepts the bill on 2nd January, 2009 and returns it to Sinha. Sinha discounts the bill @ 8% p.a. Before due date Mane requests Sinha to accept ₹ 24,000/- in cash and draws a second bill for the balance. Sinha draws a new bill for the balance plus interest @ 12% p.a. for two months, on 4th May as per the request. The bill is sent to the Bank for collection and honoured on due date. Pass journal entries in the books of Mr. Sinha. **(6 marks)** ***[CMAF]***

Answer :

In the Books of Mr. Sinha
Journal Entries

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2009 Jan. 1	Bills Receivable A/c Dr.		36,000	
	To Mane's A/c			36,000
	(Being bill drawn on and accepted by Mane)			
Jan. 2	Bank A/c Dr.		35,040	
	Discount A/c Dr.		960	
	To Bills Receivable A/c			36,000
	(Being Mane's acceptance discounted with the bank)			
May 4	Mane's A/c Dr.		36,000	
	To Bank A/c			36,000
	(Being the bill dishonoured on due date)			
May 4	Mane's A/c Dr.		240	
	To Interest A/c			240
	(Being Interest on renewal charged)			
May 4	Bill Receivable A/c Dr.		12,240	
	Cash A/c Dr.		24,000	
	To Mane's A/c			36,240
	(Being part payment and accepted bill with interest received from Mane)			

May 4	Bill sent to Bank for collection A/c Dr. To Bills Receivable A/c (Being Mane's new accepted bill sent to bank for collection)	12,240	 12,240
July 7	Bank A/c Dr. To Bill sent to bank for collection A/c (Being Mane's new acceptance honoured on due date)	12,240	 12,240

Space to write important points for revision

2013 - Dec [3] (a) On 20th July, 2012, Sohan drew a bill for ₹ 50,000 on Mohan for the period of four months and Mohan accepted it. It was for mutual accommodation of both to the extent of 2/ 3rd and 1/ 3rd . On 23rd July, 2012, Sohan discounted the bill with the Bank @ 12% per annum and remitted one-third of proceeds to Mohan. On 18th November, 2012 Mohan drew another bill for ₹ 71,000 on Sohan to provide funds to meet the first bill, for the period of three months, which was accepted by Sohan. On 21st November, 2012, Mohan discounted it with Bank @ 12% per annum. With this amount, the first bill was met out and ₹ 12,580 was remitted to Sohan. On 1st February, 2013, Sohan became insolvent and Mohan received a dividend of 60 paise in a rupee in full settlement on 15th February, 2013.
Give journal entries to record the above transactions in the books of Sohan and prepare Sohan's account in the ledger of Mohan. **(10 marks)**

Answer:

Journal of Sohan

Date	Particulars	₹	₹
20.07.2012	B/R A/c Dr. To Mohan A/c (B/R Acceptance received)	50,000	 50,000

23.07.2012	Bank A/c Dr.	48,000	
	Discount A/c Dr.	2,000	
	To B/R A/c		50,000
	(B/R discounted @ 12% per annum)		
23.07.2012	Mohan A/c Dr.	16,667	
	To Bank / Cash A/c		16,000
	To Discount A/c		667
	(Remittance sent to Mohan & 1/3 of discount debited)		
18.11.2012	Mohan A/c Dr.	71,000	
	To B/P A/c		71,000
	(Bill of Mohan accepted)		
24.11.2012	Cash A/c Dr.	12,580	
	Discount A/c Dr.	1,420	
	To Mohan A/c		14,000
	(Amount received from Mohan & 2/3 discount charged by him)		
01.02.2013	B/P A/c Dr.	71,000	
	To Mohan A/c		71,000
	(B/P dishonoured)		
15.02.2013	Mohan A/c Dr.	47,333	
	To Cash A/c		28,400
	To Deficiency A/c		18,933
	(Payment of 60 paise in a rupee made to Mohan for the amount due)		

Ledger of Mohan
Sohan's A/c

Date	Particulars	₹	Date	Particulars	₹
20.07.12	To B/P A/c	50,000	23.7.12	By Cash A/c	16,000
24.11.12	To Cash A/c	12,580	23.7.12	By Discount A/c	667
24.11.12	To Discount A/c	1,420	18.11.12	By B/R A/c	71,000
01.02.13	To B/R A/c	71,000	15.2.13	By Cash A/c	28,400
				By Bad Debts	18,933
		1,35,000			1,35,000

Calculation of distribution of discount

In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Sohan and Mohan is given as two third and one third.

	1st Bill		2nd Bill	
	Proceeds (₹)	**Discount** (₹)	**Proceeds** (₹)	**Discount** (₹)
Sohan (2/3)	32,000	1,333	45,913	1,420
Mohan (1/3)	16,000	667	22,957	710
Total	48,000	2,000	68,870	2,130

—— Space to write important points for revision ——

2014 - June [4] (b) Big owes Fast ₹ 12,000 for which the former accepts a three months' bill drawn by the latter. Fast immediately discounts the bill with his banker, Strong Bank, at 12% p.a. On the due date the bill is dishonoured and Strong Bank pays ₹ 40 as noting charges. Big pays ₹ 2,360 including interest of ₹ 400 and gives another bill at three months' for the balance. Fast endorses the bill to his creditor Thin in full settlement of his debt for ₹ 10,200. Thin discounts the bill with banker Strong Bank who charges ₹ 80 as discount. Before maturity Big becomes bankrupt and first and final dividend of 20 paise in a ₹ is realized from his estate.

Show the journal entries in the books of Thin and Strong Bank and the ledger account of Big in the books of Fast. **(6 marks)**

Answer:

In the books of Thin Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bills Receivable A/c Dr.		10,080	
Discount Allowed A/c Dr.		120	
To Fast A/c			10,200
(Being Endorsed bill received from Fast in full settlement)			
Bank A/c Dr.		10,000	
Discount A/c Dr.		80	
To Bills Receivable A/c			10,080
(Being Bill discounted by the bank)			
Fast A/c Dr.		10,200	
To Bank A/c			10,080
To Discount Allowed A/c			120
(Being Bills dishonoured at maturity)			

In the books of Strong Bank Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bills Discounted A/c Dr.		12,000	
To Fast's Current A/c			11,640
To Discount A/c			360
(Being bill discounted which is due for 3 months)			
Noting Charges A/c Dr.		40	
To Cash A/c			40
(Being Noting charges incurred for dishonor of bill)			
Fast's Current A/c Dr.		12,040	
To Bills Discounted A/c			12,000
To Noting Charges A/c			40
(Being Bills dishonoured, noting charges being ₹ 40)			

Bills Discounted A/c Dr.		10,080	
To Thin's Current A/c			10,000
To Discounted A/c			80
(Being Bill discounted which is due for 3 months)			
Thin's Current A/c Dr.		10,080	
To Bills Discounted A/c			10,080
(Being Bill dishonoured at maturity)			

In the books of Fast Big Account

Particulars	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Balance b/d	12,000	By Bills Receivable A/c		12,000
To Strong Bank A/c	12,040	By Cash A/c		2,360
To Interest A/c	400	By Bills Receivable A/c		10,080
To Thin A/c	10,080	By Cash A/c (20%)	2,016	
		By Bad Debt A/c	8,064	10,080
	34,520			34,520

—— Space to write important points for revision ——

2015 - June [6] Answer the question:

(a) BABAI sold goods to KACHARI for ₹ 90,000 on 1st April, 2014 for which the later accepted three bills of ₹ 30,000 each due respectively in 1, 2 and 3 months. The first bill is retained by Babai and is duly met. The second bill was discounted (discount being ₹ 600) and is met in due course. The third bill is also discounted (discount being ₹ 900) and is dishonoured, the Noting charges being ₹ 150.

New arrangements were duly made whereby Kachari pays Cash ₹ 10,150 and accepts a new bill due in 2 months for the balance of the amount with interest at 15% p.a. The bill is retained. On due date the same is dishonoured, noting charges being ₹ 180. Kachari declared insolvent on 15th Sept. 2014 and 35 paise in a rupee were received from his estate.

Required:

Pass Journal entries in the Books of BABAI. **(8 marks)**

Answer:

In the book of Babai

Journals

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2014 April 1	Bills receivable A/c Dr. To Kachari A/c (Acceptance received for 3 bills for ₹ 30,000 each payable at one, two and three months after date respectively)		90,000	 90,000
April 1	Bank A/c Dr. Discount on Bills Receivable A/c Dr. To Bills receivable A/c (Second bill discounted)		29,400 600	 30,000
April 1	Bank A/c Dr. Discount on Bills Receivable A/c Dr. To Bills receivable A/c (Third bill discounted)		29,100 900	 30,000
May 4	Bank A/c / Cash A/c Dr. To Bills receivable A/c (Payment of first bill received)		30,000	 30,000
July 4	Kachari A/c Dr. To Bank A/c (Third bill dishonoured and noting charges paid by Bank)		30,150	 30,150
July 4	Cash A/c Dr. To Kachari A/c (Cash received from Kachari under new arrangement)		10,150	 10,150

July 4	Kachari A/c Dr. To Interest A/c [20,000 ×15% × 2/12] (Interest charged on renewal of bill)		500	500
July 4	Bills receivable A/c Dr. To Kachari A/c (Acceptance received for new bill)		20,500	20,500
Sept. 7	Kachari A/c Dr. To Bills receivable A/c To Cash A/c (noting charges) (Bill dishonoured by Kachari and noting charges paid)		20,680	20,500 180
Sept. 15	Cash A/c (20,680 × 0.35) Dr. Bad debts A/c Dr. To Kachari A/c (35 paise in a rupee received on the insolvency of Kachari)		7,238 13,442	20,680

—— Space to write important points for revision ——

2015 - June [7] Answer the question:

(a) On 1st April, 2014 NANU BANK LTD. had a balance of ₹ 45 Lakhs in 'Rebate on Bills Discounted Account.'

During the year ended 31st March, 2015, Nanu Bank Ltd. discounted bills of exchange of ₹ 51,000 Lakh charging interest at 15% per annum, the average period of discount being for 73 days. Out of these, Bill of Exchange of ₹ 3,067 Lakh were due for realization from the acceptor/customers after 31st March, 2015, the average period outstanding after 31st March, 2015 being 53 days.

You are required to pass the necessary Journal Entries and show the Ledger Accounts in the Books of NANU BANK LTD. pertain to

(i) Rebate on Bills Discounted Account

(ii) Interest and Discount Account **(4 + (2 + 2) = 8 marks)**

Answer:

In the books of NANU BANK Ltd.

				(₹ in lacs)
Date	**Particulars**	**L.F.**	**Debit**	**Credit**
01.04.2014	Rebate on bill disc. Dr. To Discount on bills. (Being t/f of opening balance to Rebate on bill discount A/c)		45	 45
20.14.15	Cash A/c Dr. To Bills Purchased and Discount A/c (Being the discounted bills collected)		51,000	 51,000
,,	Bills purchased & discount Dr. To Client To Discount on bills (51,000 lacs × 15/100 × 73/365)		51,000	 49,470 1,530
31.03.2015	Discount on bills Dr. To Rebate on bills disc. (Being the prov. for unexp. discount)		66.80	 66.80
,,	Discount on bills Dr. To P/L (Being amount of income for year from discounting of bills T/F to P/L)		1508.20	 1508.20

Rebate on bills discount

Date	Particular	Amount	Date	Particular	Amount
1.4.14	To Discount on bills	45.00	1.4.14	By Balance b/d	45.00
31.3.15	To Balance c/d	66.80	31.3.15	By Discount on bills	66.80
		111.80			111.80

Interest and Discount Account

31.3.15	To	Rebate on bills discount	66.80	1.4.14	By	Rebate on bills	66.80
					By	Bills purchased &	1,508.20
”	To	P/L	1,508.20	2014-15		discount A/c	
			1,575.00				1,575.00

—— Space to write important points for revision ——

2015 - Dec [1] Answer the following question (Give workings):

(g) On 1st April, 2015 ALOKE accepted a bill for ₹ 5,000 for 3 months drawn by KUNTAL. Kuntal endorses the bill in favour of Chinu. At maturity, the bill was dishonoured.

Pass the Journal Entries in the Book of KUNTAL. **(2 marks)**

Answer:

In the Books of Kuntal

1.4.15	B/R A/c Dr. To Aloke A/c (Being a bill drawn on Aloke)	5,000	5,000
1.4.15	Chinu A/c Dr. To B/R A/c (Being the bills previously drawn on Aloke new endorsed in favour of Chinu)	5,000	5,000
4.7.15	Aloke A/c Dr. To Chinu A/c (Being the bill dishonoured at maturity)	5,000	5,000

—— Space to write important points for revision ——

2015 - Dec [6] (b) GOURU and GYANI were friends and in need of funds. On 1st April, 2015 Gouru drew a bill for ₹ 2,00,000 for three months on Gyani. On 4.4.15 Gouru got the bill discounted at 15% per annum and remitted half of the proceeds to Gyani. On the due date, Gyani could not meet the bill, instead, Gouru accepted Gyani's bill for ₹ 1,20,000 on 4th July, 2015 for two months. This was discounted by Gyani at 15% per annum and out this

₹ 19,500 was paid to Gouru after deducting ₹ 500 discounting charges. Due to financial crisis, Gouru became insolvent and the bill drawn on him was dishonoured and his estate paid 40%.

- Days of grace for discount purposes may be ignored.

Required:

(i) Give Journal Entries and

(ii) Prepare Gyani's Account - in the books of Gouru. **(6 + 2 = 8 marks)**

Answer:

In the Books of Gouru

1.4.15	B/R A/c	Dr.	2,00,000	
	To Gyani A/c			2,00,000
4.4.15	Bank A/c	Dr.	1,92,500	
	Discount A/c	Dr.	7,500	
	To B/R			2,00,000
4.4.15	Gyani A/c	Dr.	1,00,000	
	To Bank			96,250
	To Discount			3,750
4.7.15	Gyani A/c	Dr.	1,20,000	
	To B/P			1,20,000
4.7.15	Discount A/c	Dr.	500	
	Bank A/c	Dr.	19,500	
	To Gyani			20,000
7.9.15	B/P A/c	Dr.	1,20,000	
	To Gyani			1,20,000
7.9.15	Gyani A/c	Dr.	1,20,000	
	To Bank			48,000
	To Deficiency A/c			72,000

In the Books of Gyani

1.4.15	Gouru A/c	Dr.	2,00,000	
	To B/P			2,00,000
4.4.15	Bank A/c	Dr.	96,250	
	Discount A/c	Dr.	3,750	
	To Gouru A/c			1,00,000

4.7.15	B/R A/c	Dr.	1,20,000	
	To Gouru A/c			1,20,000
4.7.15	Bank A/c	Dr.	1,17,000	
	Discount A/c	Dr.	3,000	
	To B/R A/c			1,20,000
4.7.15	Gouru A/c	Dr.	20,000	
	To Bank A/c			19,500
	To Discount A/c			500
7.9.15	Gouru A/c	Dr.	1,20,000	
	To Bank A/c			1,20,000
7.9.15	B/P A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
7.9.15	Bank A/c	Dr.	48,000	
	Bad- Debts A/c	Dr.	72,000	
	To Gouru A/c			1,20,000

In the books of Gouru
Gyanies A/c

To Bank	96,250	By B/R	2,00,000
To Discount	3,750	By Discount	500
To B/P	1,20,000	By Bank	19,500
To Bank	48,000	By B/P	1,20,000
To Deficiency	72,000		
	3,40,000		3,40,000

Space to write important points for revision

2016 - Dec [2] (b) VISHAN for mutual accommodation of TITHAN and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted 1/2 of the proceeds to Tithan.
On 1st August 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the

amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2016.

Note: Days of grace for discounting purposes may be ignored.

Required:

Pass the necessary Journal Entries in the Books of VISHAN.

(4 + 3 = 7 marks)

Answer:

In the books of VISHAN
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
July 1,2015	Bills Receivable A/c Dr. To Tithan A/c (Being a bill drawn on Tithan for mutual accommodation for 3 months)		24,000	 24,000
July 4	Bank A/c Dr. Discount on Bills A/c Dr. To Bills receivable A/c (Being the bill discounted with the bank @ 6% pa)		23,640 360	 24,000
	Tithan A/c Dr. To Bank A/c To Discount on Bills A/c (Being ½ of the proceeds sent to Tithan and ½ of the discount charged to him)		12,000	 11,820 180
August 1	Tithan A/c Dr. To Bills Payable A/c (Being a bill accepted for mutual accommodation for 3 months)		9,600	 9,600

August 4	Bank A/c Dr. Discount on Bills A/c Dr. To Tithan A/c (Being ½ on the proceeds received and ½ of the discount shared)		4,728 72	 4,800
October 4	Tithan A/c Dr. To Bank A/c (Being the bill dishonoured and taken back from bank)		24,000	 24,000
Nov. 4	Bills payable A/c Dr. To Bank A/c (Being the bill honoured at maturity)		9,600	 9,600
Nov. 4	Tithan A/c Dr. To Interest A/c (Being the interest due to Tithan)		200	 200
Nov. 4	Bills receivable A/c (see note) Dr. To Tithan A/c (Being a new bill drawn on Tithan for 2 months)		17,000	 17,000
2016 Jan. 1	Tithan A/c Dr. To Bills receivable A/c (Being the bill dishonoured due to Tithan's insolvency)		17,000	 17,000
March 31	Bank A/c Dr. Bad debt A/c Dr. To Tithan A/c (Being final dividend received from Tithan estate @ 40 paise in a rupee)		6,800 10,200	 17,000

Note: Value of the new bill will be ₹ 12,000 for 1st bill + ₹ 4,800 for 2nd bill + ₹ 200 for interest = ₹ 17,000.

—— Space to write important points for revision ——

2017 - June [2] (a) Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April. Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges ₹ 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July. Before the new bill become due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil. **(9 marks)**

Answer:

Journal entries in the books of Anil

Date	**Particulars**	**L.F.**	**Dr.** (₹)	**Cr.** (₹)
April, 1	Bills Receivables A/c Dr. To Sunil's A/c (Being acceptance by Sunil)		80,000	 80,000
April, 15	Bank A/c Dr. Discount A/c Dr. To Bills Receivables A/c (Being discounting of the bill @ 12% p.a. and discounting charges for 2.5 months)		78,000 2,000	 80,000
June, 30	Sunil's A/c Dr. To Bank A/c (Being dishonour of the bill and noting charges paid by bank)		80,100	 80,100
June, 30	Bank A/c Dr. To Cash A/c (Being cash paid to bank)		80,100	 80,100
July, 1	Sunil's A/c Dr. To Interest A/c (Being interest due from Sunil)		3,000	 3,000

July, 1	Bills Receivables A/c Dr. To Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 and interest of ₹ 3,000)		83,100	 83,100
July, 1	Bank A/c Dr. Rebate A/c Dr. To Bills Receivables A/c (Being the amount received on retirement of the bill)		82,600 500	 83,100

Space to write important points for revision

2018 - June [7] (a) (i) (A) X sells goods to Y for ₹ 2,00,000. Instead of one bill of ₹ 2,00,000, X draws three bills of exchange on Y for ₹ 40,000; ₹ 60,000 and ₹ 1,00,000. What is the value involved in drawing three bills instead of one?

(B) Sunny draws a bill on Vivek for three months. On the due date, Vivek finds himself in financial difficulties and requests Sunny to renew the bill for a further period of one month. Sunny agrees to his request. What is the virtue involved in renewing the bill?

(C) What is the value involved in accepting an accommodation bill?

(D) What is the reason that a drawer cannot file a suit against drawee in case of dishonour of an accommodation bill? **(1 × 4 = 4 marks)**

Answer:

(A) Any of three bills may be put to different uses i.e., any of the bill may either be discounted, endorsed or kept till the date of maturity. **For example,** if X is in need of ₹ 30,000 he may get only the first bill discounted from the bank.

(B) Virtue involved is the expression of morality and humanism towards a fellow businessman by helping him in case of need.

(C) Value involved in accepting an accommodation bill is helping a friend who is temporarily in need of money.

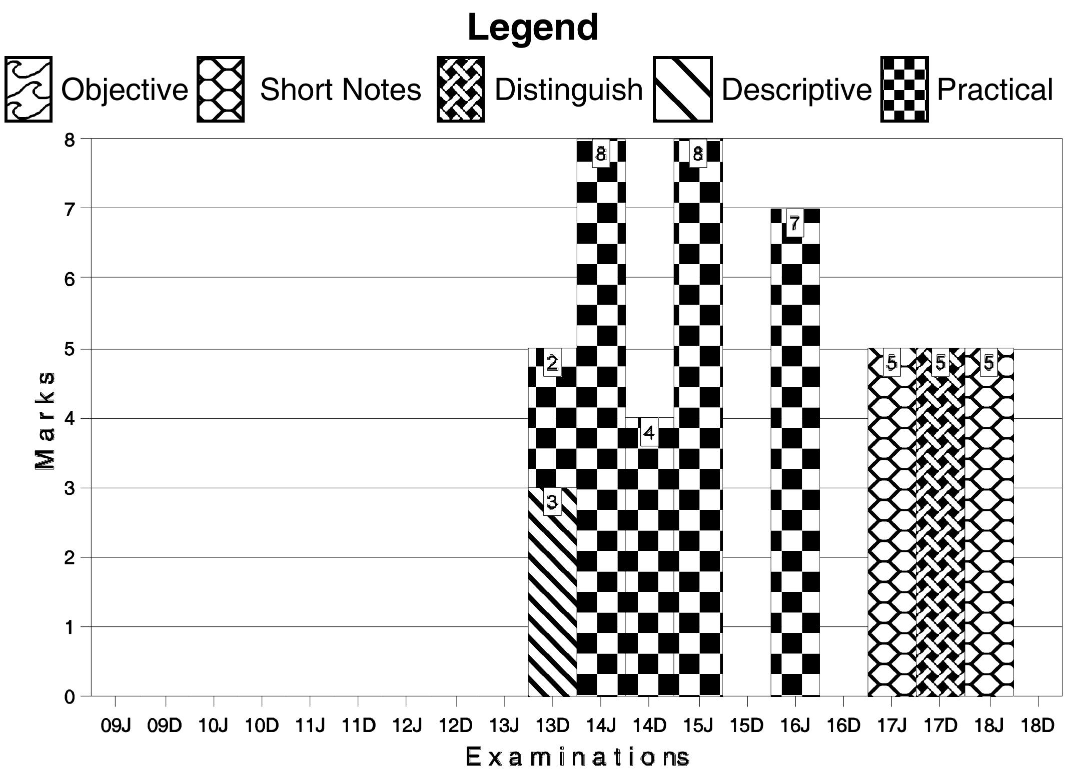
(D) Because accommodation bills are drawn without consideration.

Space to write important points for revision

2B CONSIGNMENT ACCOUNTING

<table>
<tr><th colspan="2">THIS CHAPTER INCLUDES</th></tr>
<tr><td>• Basic Terms
• Valuation of Stock</td><td>• Commission
• Normal and Abnormal Loss</td></tr>
</table>

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Consignment Accounting	In case of direct selling, the company usually has depots all over. The stocks are transferred to these depots and from there finally sold to ultimate customers. This involves huge expenses and problems of maintaining the same on a permanent basis. Hence, the firm could appoint agents to whom stocks will be given. These agents distribute the products to ultimate customers and receive commission from the manufacturer. One such way of indirect selling is selling through consignment agents.
Consignor	He is the person who sends goods to agents e.g. a manufacturer or wholesaler.
Consignee	He is the agent to whom goods are sent for selling.
Proforma Invoice	When the consignor sends the goods to the consignee, he prepares only a proforma invoice and not an invoice. A proforma invoice looks like an invoice but is really not one.
Account Sales	This is a periodical statement prepared by consignee to be sent to the consignor giving details of all sales (cash and credit), expenses incurred and commission due for sales, destroyed-in-transit or in godown and deducting the amount of advance remitted by him.
Normal Loss	Normal Losses arise as a result of natural causes, e.g. evaporation, leakage, breakage etc., and they are inherent in nature. Since normal loss is a charge against gross profit no additional adjustment is required for this purpose.

Abnormal Losses -	Abnormal Losses arises as a result of negligence/ accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted.

SHORT NOTES

2017 - June [8] Write short note on the following:

(d) Treatment of Abnormal Loss in case of Consignment Account.

(5 marks)

Answer:

Abnormal Losses arises as a result of negligence/ accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted. The method of calculation is similar to the method of calculating unsold stock. Sometimes insurance company admits the claim in part or in full. The same should also be adjusted against such abnormal loss.

While valuing the abnormal loss the proportionate expenses are taken only upto the stage of the loss. For example, if goods are lost in the transit on way to the consignee's place, the value of abnormal loss will include the basic cost of the goods plus proportionate expenses of the consignor only and not the proportionate expenses of consignee because consignee has spent nothing on account of these goods.

Treatment of Abnormal Loss

(i) For Abnormal Loss -
Abnormal Loss A/c Dr.
To Consignment A/c

(ii) For the insurance claim due / received by the consignor -
Insurance Co./Bank A/c Dr.
To Abnormal Loss A/c

(iii) If goods are not insured -
Profit & Loss A/c Dr.
To Abnormal Loss A/c

(iv) For transferring the net loss -
Profit & Loss A/c Dr.
To Abnormal Loss A/c

—— Space to write important points for revision ——

2018 - June [8] Write short note on the following:
(a) Operating cycle of Consignment Arrangement. (5 marks)

Answer:

Operating Cycle of Consignment Arrangement:

- Goods are sent by consignor to the consignee
- Consignee may pay some advance or accept a bill of exchange
- Consignee will incur expenses for selling the goods
- Consignee maintains records of all cash and credit sale
- Consignee prepares a summary of results called as Account sales
- Consignor pays commission to the consignee.

—— Space to write important points for revision ——

DISTINGUISH BETWEEN

2017 - Dec [8] (c) Differences between sale and consignment. **(5 marks)**

Answer:

Difference between Sale and Consignment:

1. In sale the property in goods is transferred to the buyer immediately whereas in consignment the property transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
2. In sale, the risk attaching to the goods passes with ownership to the buyer, in case of a consignment, the risk attaching to the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.

3. The relationship of consignor and consignee is that of a principal and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.
4. Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

2013 - Dec [3] (b) What is Del Credere commission? **(3 marks)**

Answer:

Sometimes the consignor allows an extra commission to the consignee in order to cover the risk of collection from customers, on account of credit sales which is known as Del Credere Commission. Naturally, if debt is found to be irrecoverable the same must be borne by the consignee. There will be no effect in the books of consignor. In short, the credit sales will be treated as cash sales to consignor.

If no Del Credere Commission is given by the consignor to the consignee, the amount of Bad Debts must be borne by the consignor.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2009 - Dec [3] (a) Shyam consigned 2,00,000 units @ ₹ 5/- each to Mr. Ram, and paid Freight and Insurance amounting to ₹1,00,000. Ram spent further the following amounts:

		₹
(i)	Insurance	5,000
(ii)	Godown Rent	4,000
(iii)	Clearing	6,000

2,000 units were damaged during transit due to heavy rains.
Ram sold 1,00,000 units @ ₹ 10/-per unit.
Ram realised salvage value of damaged units ₹ 2,000/-
Ram is to get a commission @ 5% on sales.
Determine the abnormal loss. **(4 marks)** ***[CMAF]***

Answer :

Abnormal Loss = ₹ 11,00,000 × 2,000 Units/2,00,000 units	₹11,000
	Less 2,000
Abnormal Loss	9,000

—— Space to write important points for revision ——

2010 - Dec [4] Answer the following:

(d) Himanshu Gupta sent out goods costing ₹ 80,000 to Navin Joshi as to show 20% profit on invoice price. 40'% goods were lost in transit. 60% of the goods received were sold half at invoice price and the balance at 20% above the invoice price. Rate of Commission is 10% on sales at invoice price plus 50% of gross sales less all commission exceeds sales at invoice price. Calculate the amount of commission.

(2.5 marks)*[CMAF]*

Answer :

A. Invoice Price of Goods sent (80,000 + 20% on IP)	1,00,000
B. *Less :* Invoice Price of Goods lost (1,00,000 × 40%)	40,000
C. Invoice Price of Balance Goods (A-B)	60,000
D. Invoice Price of Goods sold (60% of 60,000)	36,000
E. 50% Sales at Invoice Price (50% of 36,000)	18,000
F. 50% Sales at 25% above Invoice Price (50% of 36,000) × 125%	22,500
G. Total Sales Proceeds (E + F)	40,500
H. 10% Commission on Sales at Invoice price (10% of 36,000)	3,600

Let Total Commission be = X

X - ₹ 3,600 = 50% (40,500 - X - 36,000)

= 20,250 - 0.5X - 18,000

X = 5,850/1.5 = ₹ 3,900

—— Space to write important points for revision ——

2011 - Dec [4] (c) Goods sent to consignee costing ₹ 4,50,000. Consignor's expenses were ₹ 30,000. 1/5th of the goods were broken in transit and it was treated as normal loss. 4/5th of the remaining goods were sold by consignee. Calculate the value of consignment stock. **(2 marks)*[CMAF]***

Answer :

Cost of goods sent on consignment	=	₹ 4,50,000
Consignor's expenses	=	₹ 30,000
Total Cost	=	₹ 4,80,000
Goods less normal loss	=	$1-\frac{1}{5}=\frac{4}{5}$
Stock sold on consignment	=	$\frac{4}{5}$ of $\frac{4}{5}=\frac{16}{25}$
Value of Closing stock on consignment	=	$\frac{1}{5}$ of 4/5
	=	$\frac{4}{25}\times 4{,}80{,}000$
	=	₹ 76,800

—— Space to write important points for revision ——

2012 - June [2] (c) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized.

Calculate the amount of consignee's commission and give the journal entry for it in the books of the consignor. **(4 marks)*[CMAF]***

Answer :

Invoice value of goods sold = 6,30,000 x $\frac{2}{3}$ x $\frac{100}{(100-20)}$ = ₹5,25,000

Surplus of Sale value over invoice value = 6,00,000 - 5,25,000 = ₹ 75,000

Consignee Commission: ₹

Ordinary ₹ 5,25,000 x $\frac{3}{100}$	= 15,750
Over-riding ₹ 75,000 x $\frac{20}{100}$	= 15,000
Total Commission	= 30,750

In the Books of the Consignor

Consignee Commission:

Consignment A/c	Dr.	30,750	
To Consignee's A/c			30,750

—— Space to write important points for revision ——

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

(ix) From the following particulars, calculate the value of unsold goods on consignment:

	₹
Goods sent on consignment (1500 kgs.)	3,30,000
Consignor's expenses	13,000
Consignee's non-recurring expenses	7,000
Consignee's recurring expenses	3,500
Goods sold by consignee (1000 kgs.)	3,50,000
Wastage treated as normal (100 kgs.)	—

(2 marks)

Answer:

Value of unsold Goods:

Unsold quantity = 1,500 -1,000 - 100 = 400 Kgs.

Cost of goods sent (3,30,000) + Consignor's Exp. (13,000) + Consignee's non-recurring exp. (7,000) = 3,50,000.

Value of unsold goods = [3,50,000 / (1,500 - 100)] x 400 = ₹ 1,00,000.

—— Space to write important points for revision ——

2014 - June [8] (a) On 1st July, 2013 B. Dutta of Kolkata consigned 250 Computers costing ₹ 28,000 each to T. Ramasami, Chennai. Expenses of ₹ 17,000 were met by the consignor. T. Ramasami spent ₹ 14,500 for clearance on 31st July, 2013 and selling expenses were ₹ 1,500 per computer as and when the sale made by consignee. T. Ramasami sold on 4th September, 2013, 150 computers at ₹ 40,000 per computer and again on 21st September, 75 computers at ₹ 42,500.

Mr. Ramasami was entitled to a commission of ₹ 1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of ₹ 35,000 per computer sold. T. Ramasami sent the account sale and the amount due to B. Dutta on 30th September, 2013 by bank demand draft.

You are required to show the consignment account and T. Ramasami's account in the books of B. Dutta. **(8 marks)**

Answer:

Books of B. Dutta of Kolkata
Consignment to Chennai Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.07.13	To Goods Sent on Consignment A/c	70,00,000	04.09.12	By T. Ramasami (Sales)	60,00,000
01.07.13	To Bank A/c (Exp.)	17,000	21.09.13	By T. Ramasami (Sales)	31,87,500
31.07.13	To T. Ramasami (Clearance Exp.)	14,500	30.09.13	By Stock on Consignment A/c	7,03,150
04.09.13	To T. Ramasami (Selling Exp.)	2,25,000			
21.09.13	To T. Ramasami (Selling Exp.)	1,12,500			
30.09.13	To T. Ramasami (Commission)	5,32,500			
30.09.13	To Profit & Loss A/c	19,89,150			
		98,90,650			98,90,650

T. Ramasami Chennai A/c

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
04.09.13	To Consignment A/c	60,00,000	31.07.13	By Consignment A/c (Clearance Exp.)	14,500
21.09.13	To Consignment A/c	31,87,500	04.09.13	By Consignment A/c (Selling Exp.)	2,25,000
			21.09.13	By Consignment A/c (Selling Exp.)	1,12,500
			30.09.13	By Consignment A/c (Commission)	5,32,500*
			30.09.13	By Bank A/c	83,03,000
		91,87,500			91,87,500

Working Notes:

(i) Calculation of Commission

Let 'x' be total commission

$$x = (225 \times 1,500) + \frac{1}{4}\,[60,00,000 + 31,87,500 - x - 1\,(35,000 \times 225)]$$

$$x = 3,37,500 + \frac{1}{4}\,(91,87,500 - x - 78,75,000)$$

$$x = 3,37,500 + 3,28,125 - \frac{x}{4}$$

$$\frac{5}{4}x = 6,65,625$$

$$x = 5,32,500^*$$

(ii) **Valuation of stock on consignment**

Particulars	Amount ₹
Valuation of stock on consignment: 250 - 150 - 75 = 25 computers @ ₹ 28,000	7,00,000
Add: Consignor's Expenses = $17,000 \times \frac{25}{250}$	1,700
Add: Share of Consignee's Clearing Exp. $14,500 \times \frac{25}{250}$	1,450
Value of unsold stock	7,03,150

Space to write important points for revision

2014 - Dec [1] Answer the following questions (Give workings):

(e) Ajay of Jaipur sent goods of ₹ 2,50,000 to Vijay of Mumbai on consignment. Ajay paid ₹ 8,500 as railway freight and ₹ 4,240 as insurance. 2% goods are damaged in the Vijay's godown due to normal circumstances. Vijay incurred cartage ₹ 5,140 and selling expenses ₹ 14,700. Calculate the value of stock of unsold 15% of goods sent to Vijay.

(h) ₹ 3,25,000 is total cost of 6500 units, consignor's expenses are ₹ 65,000, units lost in transit was 700 units and consignee's non-recurring expenses amounted to ₹ 4,300, what will be the value of stock?

(2 marks each)

Answer:

(e)

Closing Stock	=	2,50,000 @ 15% = 37,500
Cost of goods sent	=	2,50,000
Freight paid by Ajay	=	8,500
Insurance paid by Ajay	=	4,240
Cartage paid by Vijay	=	5,140
		2,67,880
2% is Normal loss, hence cost of goods sent	=	2,45,000
Closing Stock	=	$\frac{2,67,880}{2,45,000} \times 37,500$
	=	41,002

Answer:

(h) Cost of 6500 units = Total cost + Consigner expenses

= 3,25,000 + 65,000 = ₹ 3,90,000

Cost of 700 units = (₹ 3,90,000 ÷ 6,500) × 700 = ₹ 42,000

Value of closing stock = 6500 unit cost price – Cost of units lost in transit

= ₹ 3,90,000 – ₹ 42,000 = ₹ 3,48,000

Add: Non-recurring expenses = ₹ 4,300

Total cost price of 5800 units = ₹ 3,52,300

Space to write important points for revision

2015 - June [6] Answer the question:

(c) MR NAITIK sends goods to the value of ₹ 9,37,500 at cost to MR JATIN on consignment basis to be sold at 5% commission on sales on 01.01.2015. Jatin accepted a bill of ₹ 2,50,000 drawn by Naitik for 4 months on the same date. Naitik discounted the bill with his banker @ 15% p.a. on 04.02.2015. Naitik incurred ₹ 75,000 by way of freight and other expenses, whereas expenses of Jatin were ₹ 50,000 out of which 60% were non-recurring. Jatin sent the final balance of ₹ 7,68,750 to Naitik on 31.03.15 along with account sales. The Gross Profit margin is 25% on Sales and 10% of Goods Remained unsold with Jatin.

You are required to prepare:

(i) Consignment Account and

(ii) Jatin Account-in the books of Mr. Naitik. **(8 marks)**

Answer:

In the books of Naitik

Dr. **Consignment A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.01.15	To Goods Sent on Consignment A/c	9,37,500	31.03.15	By Jatin's A/c	11,25,000
	To Cash A/c	75,000		By Stock on Consignment A/c	1,04,250
31.03.15	To Jatin A/c (Exp.)	50,000			
	To Jatin A/c (Comm.)	56,250			
	To General P&L A/c	1,10,500			
		12,29,250			12,29,250

Dr. **Jatin's A/c** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.15	To Consignment A/c	11,25,000	01.01.15	By Bill receivable A/c	2,50,000
			31.03.15	By Consignment A/c	50,000
				By Consignment A/c	56,250
				By Bank A/c (Balance)	7,68,750
		11,25,000			11,25,000

Working Notes:

1. Calculation of amount of goods sold on consignment:

$$\frac{9,37,500}{1-0.25} \times 0.90 = ₹\ 11,25,000$$

—— Space to write important points for revision ——

2016 - June [4] (a) IRANI & Co., of Chennai had consigned 6000 shirts to Vikram of Jaipur at cost of ₹ 425 each. Irani & Co., paid freight ₹ 50,000 and insurance ₹ 7,500. During the transit 550 shirts were totally damaged by fire. Vikram took delivery of the remaining shirts and paid ₹ 82,000 on custom duty. Vikram had sent a bank draft to Irani & Co., for ₹ 3,50,000 as advance payment. 5000 shirts were sold by him at ₹ 550 each. Expenses incurred by Vikram on godown rent and advertisement, etc., amounted to ₹ 12,000. He is entitled to a commission of 5%. One of the customer to whom the goods were sold on credit could not pay the value of 40 shirts which is not recoverable. Vikram settled his account immediately. Nothing was recovered from the insurer for the damaged goods.

You are required to prepare:

(i) Consignment to Vikram Account.

(ii) Vikram Account – in the book of IRANI & Co. **((4 + 1) + 2 = 7 marks)**

Answer :

(i) **In the books of Irani & Co.**

Consignment to Vikram A/c

Particulars		Amount	Particulars	Amount
To Goods sent on consignment A/c		25,50,000	By Vikram A/c (Sales) (5,000 x 550)	27,50,000
To Bank (freight & insurance)		57,500		
To Vikram's A/c:			By Abnormal loss A/c (W -1)	2,39,021
Customs duty	82,000			
Godown rent Adv. etc.	12,000		By Stock on Consignment (W -2)	2,02,333
Commission (5,000 x 550 x 5%)	1,37,500	2,31,500		

Debtors A/c (bad debts)	22,000		
Profit on Consignment	3,30,354		
	31,91,354		**31,91,354**

(ii) **Vikram's A/c**

To Consignment A/c	27,50,000	By Bank A/c	3,50,000
		By Consignment A/c (2,31,500+22,000)	2,53,500
		By Bank A/c	21,46,500
	27,50,000		**27,50,000**

Working Note:

1. Abnormal loss: $\frac{[(425 \times 6{,}000) + (57{,}500)] \times 550}{6{,}000}$ = ₹ 2,39,021

2. **Valuation of Unsold Stock:**

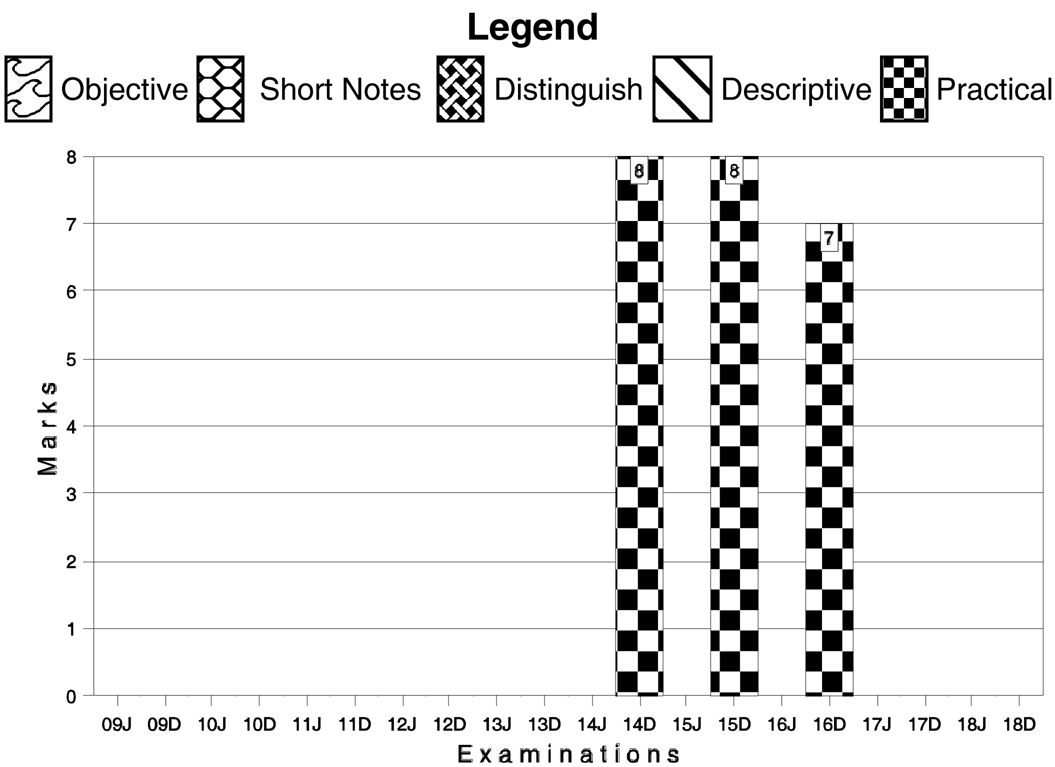
	₹
Cost Value (450 x 425)	1,91,250.00
Freight & Insurance (57,500/6,000 x 450)	4,312.50
Add: Non- recurring ex. of consignee	6,770.64
Customs (82,000/ 5,450 x 450)	2,02,333.14

2C JOINT VENTURE ACCOUNTS

THIS CHAPTER INCLUDES

- Basic Terms
- Methods of Accounting
- Conversion of Consignment to JV.

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Joint Venture Accounts	Joint Venture is a temporary form of business organization. Two or more people having requisite skill sets come together to form a temporary partnership. This is called a Joint Venture.
Basic Features	The basic features of a Joint Venture business are : (i) It is done for a specific purpose and hence has a limited duration. (ii) The partners are called co-venturers. (iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio. (iv) The co-venturers may or may not contribute initial capital. (v) The JV is dissolved once the purpose of the business is over. (vi) The accounts of the co-venturers are settled immediately on dissolution. (vii) A joint venture has no name.

PRACTICAL QUESTIONS

2009 - June [4] (a) Ram and Shyam agreed for purchasing and selling furniture in a joint venture; their profit sharing ratio being 3:2 respectively. Ram purchased 10 sofas @ ₹ 10,000 per sofa. He sent these sofas to Shyam for sale after spending ₹ 1,000 per sofa on insurance and transportation. He drew a bill of ₹ 50,000 on Shyam and this bill was discounted at a discount of ₹ 5,000 after acceptance. Shyam incurred further expenses of ₹ 2,000 on these sofas before sale. He sold all the sofas @ ₹ 15,000 per sofa, giving 5% commission to the dealer.

Prepare Joint Venture with Shyam Account in the books of Ram. Also show Memorandum Joint Venture Account. **(8 marks)** ***[CMAF]***

Answer :

In the Books of RAM

Dr. Memorandum Joint Venture Account Cr.

Particulars		(₹)	Particulars	(₹)
To Bank A/c (Purchase) (10,000×10)		1,00,000	By Shyam (Sales)	1,50,000
To Bank A/c (Expense) (1,000×10)		10,000		
To Discount (Bill of Exchange)		5,000		
To Shyam (Expenses)		2,000		
To Shyam (Commission) (5/100 × 1,50,000)		7,500		
To Profit & Loss A/c:				
Ram	₹ 15,300			
Shyam	₹ 10,200	25,500		
		1,50,000		1,50,000

Dr. Joint Venture with Shyam Account Cr.

Particulars	(₹)	Particulars	(₹)
To Bank A/c (Purchase)	1,00,000	By Bill Receivable A/c	50,000
To Bank A/c (Expense)	10,000	By Balance c/d	80,300
To Discount B/R A/c	5,000		
To Profit & Loss A/c	15,300		
	1,30,300		1,30,300

—— Space to write important points for revision ——

2010 - Dec [4] Answer the following:

(e) A and B enter into a joint venture sharing profit and losses in the ratio 3:2. A purchased goods costing ₹ 2,00,000. B sold 95% goods for ₹ 2,50,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at ₹ 1,50,000. Calculate B's share of profit. **(2.5 marks)** ***[CMAF]***

Answer :

	Amount ₹
Sales	2,50,000
Closing Stock (5% of 2,00,000)	10,000
	2,60,000
Less : Purchase	(-) 2,00,000
A's Commission	(-) 2,000
B's Commission	(-) 12,500
Discount Charges	(-) 10,000
Net Profit	35,500
B's Share of profit (35,500 × 2/5)	14,200

—— Space to write important points for revision ——

2011 - June [3] (a) Sagar and Pankaj entered into Joint Venture and undertook building construction of Patil & Co. Ltd., Bombay for ₹ 5,00,000/-

- Sagar supplied materials of ₹ 35,000 and Pankaj paid ₹ 20,000 his Architect fees.
- Sagar contributed ₹ 1,25,000 and Pankaj contributed ₹ 75,000 and deposited the same amount in the Joint Bank Account.
- They paid from Joint Bank Account for materials ₹ 2,80,000 and wages ₹ 1,20,000.
- On completion of the venture they received contract price as per the terms.
- Pankaj took over the unused materials for ₹ 15,000.

Prepare Joint Venture A/c, Co-Venturers A/c and Joint Bank A/c.

(6 marks) ***[CMAF]***

Answer :

Dr. **Joint Venture A/c** **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Sagar A/c (Material)	35,000	By Joint Bank	5,00,000
To Pankaj A/c:		By Pankaj A/c:	
Architect fees	20,000	Unused Materials	15,000

To Joint Bank Materials: 2,80,000 Wages: 1,20,000	4,00,000		
To Profit on J.V. Sagar: 30,000 Pankaj: 30,000	60,000		
	5,15,000		5,15,000

Dr. **Co-Venture A/c** **Cr.**

Particulars	Sagar ₹	Pankaj ₹	Particulars	Sagar ₹	Pankaj ₹
To Joint Venture	-	15,000	By Joint Bank	1,25,000	75,000
To Joint Bank	1,90,000	1,10,000	By Joint Venture	35,000	20,000
			By Joint Venture	30,000	30,000
	1,90,000	1,25,000		1,90,000	1,25,000

Dr. **Joint Bank A/c** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Sagar A/c	1,25,000	By Joint Venture	4,00,000
To Pankaj A/c	75,000	By Sagar A/c	1,90,000
To Joint Venture	5,00,000	By Pankaj A/c	1,10,000
	7,00,000		7,00,000

Space to write important points for revision

2011 - Dec [3] (c) A and B purchased 20 old computers for ₹ 7,250 each in a joint venture and spent ₹ 42,500 on repairs. 17 computers were sold for ₹ 1,95,500 and selling expenses amounted to ₹ 2,125. Unsold computers were taken by A at cost price. Calculate profit on joint venture.

(2 marks) ***[CMAF]***

Answer :

Particulars	₹	₹
Sale value of 17 computers		1,95,500
Less: Cost of purchases (₹ 7,250 × 17)	1,23,250	
Cost of repairs (₹ 42,500/20 × 17)	36,125	
Selling expenses	2,125	1,61,500
Profit on Joint Venture		34,000

Space to write important points for revision

2014 - Dec [6] Answer the question:

(c) X and Y entered into a joint venture for purchase and sale of some household items. They agreed to share profits and losses in the ratio of their respective contributions. X contributed ₹ 10,000 in cash and Y ₹ 13,000. The whole amount was placed in a Joint Bank Account. Goods were purchased by X for ₹ 10,000 and expenses paid by Y amounted to ₹ 2,000. They also purchased goods for ₹ 15,000 through the Joint Bank Account. The expenses on purchase and sale of the articles amounted to ₹ 6,000 (including those met by Y). Goods costing ₹ 20,000 were sold for ₹ 45,000 and the balance were lost by fire.
Prepare Joint Venture Account, Joint Bank Account and the Ventures' Accounts closing the venture. **(8 marks)**

Answer:

Joint Venture Account

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To X (Goods)	10,000	By Joint Bank A/c (Sales)	45,000
To Y (Expenses)	2,000		
To Joint Bank A/c (Goods)	15,000		
To Joint Bank A/c (Expenses)	4,000		

To Profit on Joint Venture transferred to:				
X (4/7 share)	8,000			
Y (3/7 share)	6,000	14,000		
		45,000		45,000

Profit of joint venture is to be divided in proportion to the contributions of X and Y. Their contributions are:

	X's Contribution ₹	Y's Contribution ₹
Amount contribution in cash	10,000	13,000
Expenses paid by Y		2,000
Goods purchased by X	10,000	
	20,000	15,000

Thus, profit sharing ratio between X and Y is 20,000 : 15,000, i.e., 4:3 or 4/7 and 3/7 respectively.

Joint Bank Account

Particulars	Amount ₹	Particulars	Amount ₹
To X	10,000	By Joint Venture A/c (Expenses)	4,000
To Y	13,000		
To Joint Venture A/c (Sales)	45,000	By Joint Venture A/c (Goods)	15,000
		By X	28,000
		By Y	21,000
	68,000		68,000

X A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Joint Bank A/c	28,000	By Joint Bank A/c	10,000
		By Joint Venture A/c (Goods)	10,000
		By Joint Venture A/c (Profit)	8,000
	28,000		28,000

Y A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Joint Bank A/c	21,000	By Joint Bank A/c	13,000
		By Joint Venture A/c (Expenses)	2,000
		By Joint Venture A/c (Profit)	6,000
	21,000		21,000

—— Space to write important points for revision ——

2015 - Dec [6] (c) JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3. They guaranteed the subscription at par of 50 lakhs shares of ₹ 10 each in RAINBOW LTD. and to pay all expenses up to allotment in consideration of RAINBOW LTD. issuing to them 3,00,000 other shares of ₹ 10 each fully paid together with a commission @ 5% in cash which will be taken by JIBAN and MITRIK in 3:2.

Co-ventures introduced cash as follows:

JIBAN:	Stamp charges, etc.	₹ 1,65,000
	Advertising charges	₹ 1,35,000
	Car expenses	₹ 1,54,000
	Printing charges	₹ 1,88,000
MITRIK:	Rent	₹ 1,30,000
	Solicitor's charges	₹ 80,000

Application fell short of the 50 lakhs shares by 1,20,000 shares and MITRIK introduced ₹ 12,00,000 for the purchase of those shares.

The guarantee having been fulfilled, Rainbow Ltd. handed over to the venturers 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venturer MITRIK receiving ₹ 12,50,000 and JIBAN ₹ 25,00,000.

You are required to prepare the :

(i) Memorandum Joint Venture Account and

(ii) Joint Venture Account with MITRIK - in the Books of JIBAN.

(6 + 2 = 8 marks)

Answer:

Memorandum joint venture A/c

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Mitrik:			By Jiban:	
	Cost of Shares	12,00,000		Commission (3/5)	15,00,000
	To Jiban:			By Mitrik:	
	Stamp changes	1,65,000		Commission (2/5)	10,00,000
	Advertising charges	1,35,000		By Jiban:	
	Printing Charges	1,88,000		Sale proceeds of shares	25,00,000
	Car expenses	1,54,000		By Mitrik:	
	To Mitrik:			Sale proceeds of shares	12,50,000
	Rent	1,30,000			
	Solicitor's charges	80,000			
	To Profit on Venture Jiban (2/3) 27,98,667 Mitrik (1/3) 13,99,333	41,98,000			
		62,50,000			**62,50,000**

In the Books of Jiban
Joint venture with Mitrik A/c

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Bank-Stamp, Adv. Car exp. & Printing	6,42,000	By Bank (Commission)	15,00,000
To Share of Profit	27,98,667	By Bank (Sale Proceeds of Shares)	25,00,000
To Bank (Remittance)	5,59,333		
	40,00,000		**40,00,000**

—— Space to write important points for revision ——

2016 - Dec [3] (a) THITAN of Tatanagar and NITAN of Nagpur entered into a Joint Venture to trade together in the buying and reselling of cheap machinery. Profit or loss to be shared in the ratio of 2:3. Thitan undertook to make the purchases and Nitan to effect sales.

NITAN remitted ₹ 1,50,000 to Thitan towards the Joint Venture. Thitan Purchased machinery worth ₹ 1,20,000 and paid ₹ 57,000, for repairs of these, 2.5% as buying commission and ₹ 5,400 for other Sundry expenses. He then sent all the machines purchased and repaired to Nitan of Nagpur. While taking delivery of the machinery at Nagpur, Nitan incurred ₹ 9,000 towards Railway Freight and ₹ 4,200 towards Octroi. He sold part of the machinery for ₹ 2,10,000 and kept the remaining for himself at an agreed value of ₹ 45,000. Other expenses of Nitan were:

(i) Godown rent ₹ 2,700
(ii) Insurance ₹ 3,360
(iii) Brokerage ₹ 4,980; and
(iv) Miscellaneous ₹ 3,840

Both the parties decided to close the venture at this stage.

You are required to prepare the

(i) Memorandum Joint Venture Account showing profit of the Business.
(ii) Joint Venture with Nitan Account in the Books of Thitan.

(5 + 2 = 7 marks)

Answer:

(i) **In the books of THITAN**

Memorandum Joint Venture Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Thitan		By Nitan	
Purchase of machinery	1,20,000	Sales	2,10,000
Expenses:		Machinery retained	45,000
Cost of repairs	57,000		
Buying commission (2.5% of ₹ 1,20,000)	3,000		
Sundry expenses	5,400		
To Nitan			
Expenses:			
Railway Freight	9,000		
Octroi	4,200		
Godown rent	2,700		
Insurance	3,360		
Brokerage	4,980		
Miscellaneous	3,840		
To Net profit			
Thitan (2/5)	16,608		
Nitan (3/5)	24,912		
	2,55,000		2,55,000

(ii)

In the books of THITAN
Joint Venture with Nitan Account

Dr. **Cr.**

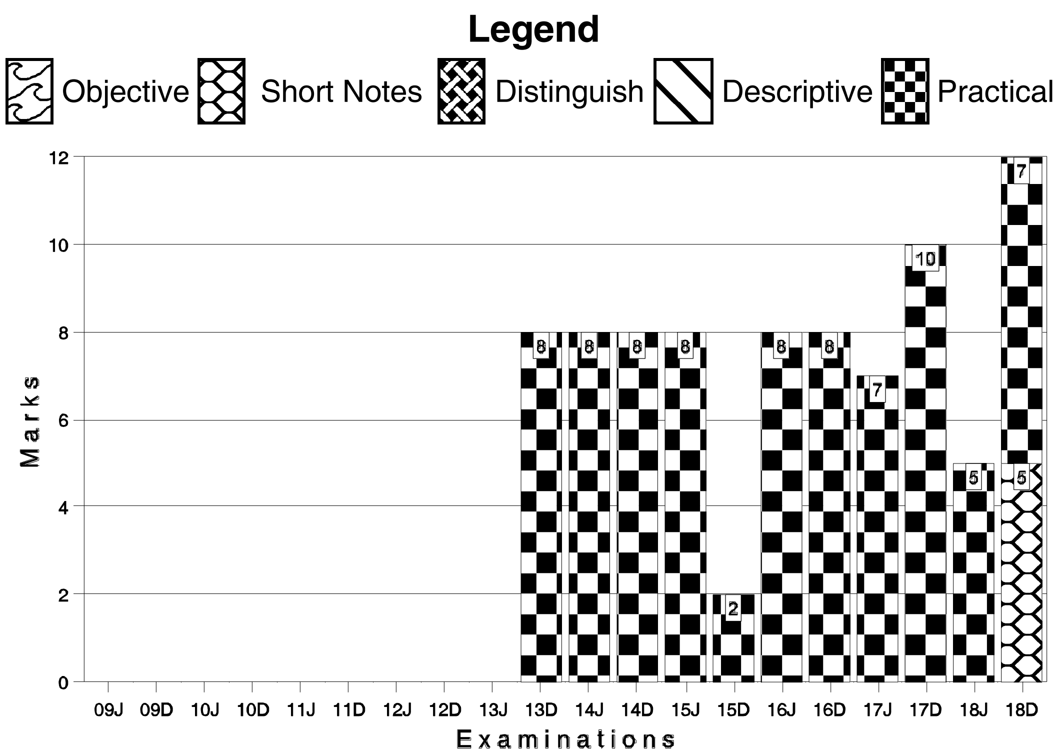
Particulars	₹	Particulars	₹
To Bank Account:		By Bank Account:	—
Purchase of machinery Repairs	1,20,000 57,000	(Amount received from Nitan)	1,50,000
Commission	3,000	By Balance c/d	52,008
Sundry Expenses	5,400		
To Profit & Loss A/c			
(2/5* Share of Profit on Joint Venture)	16,608		
	2,02,008		2,02,008

—— Space to write important points for revision ——

2D INSURANCE CLAIMS

THIS CHAPTER INCLUDES	
• Loss of Stock • Average Clause	• Loss of Profit • Calculation of Claim

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Insurance Claims	The business pays insurance premium yearly or quarterly or as per agreement. If any accidental loss occurs, the business has to compute the amount of loss and file a claim for compensation to the Insurance Company.
Loss of Stock	As stocks constitute a considerable portion of the working capital of any business and specially for trading concerns, any loss of stock directly affects the solvency of the business. A business has to cover this risk adequately. If stock records and stock are destroyed, it becomes difficult to ascertain the amount of stock lost. When the loss suddenly occurs, up-to-date value of stock does not become available.
Average Clause	It is a clause contained in a fire insurance policy. It encourages full insurance and discourages under-insurance. The insured person also has to bear a portion of loss himself in case the value of-stock lost is more than the value of the policy.
Elimination of Abnormal/ Defective Items	Goods which cannot fetch the usual rate of gross profit are considered as unusual or abnormal items.
Loss of Profit	A fire may create a consequential loss to a business over and above the instantaneous damage of stock. It disrupts normal activities for some time during which the business has to go on paying standing charges like rent, salaries etc. without any effective return. It also causes a loss of profits which the business could have earned if normality was not disturbed by the accident.

SHORT NOTES

2018 - Dec [8] Write short note on the following:

(ii) Consequential Loss Policy. **(5 marks)**

PRACTICAL QUESTIONS

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

(iv) A fire damaged the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decide the quantum of claim to be lodged with the insurance company. **(2 marks)**

Answer:

Loss of Stock	= ₹ 1,10,000
Less: Stock salvage	= ₹ 40,000
Net Loss	= ₹ 70,000

Applying average clause,

Amount of claim = Amount of policy x Net loss / Actual loss of stock

= ₹ 50,000 x 70,000 / 1,10,000

= ₹ 31,818

—— Space to write important points for revision ——

2013 - Dec [8] (b) Due to flood, business of Mr. Singh was dislocated from 01.04.2013 to 31.08.2013 (5 months). From the following details, calculate the amount of claim to be lodged in respect of loss of profit policy.

Particulars	₹
Policy amount	1,25,000
Turnover from 01.04.2013 to 31.08.2013	2,40,000
Standing charges from 01.04.2013 to 31.08.2013	60,000
Turnover during 01.04.2012 to 31.03.2013	12,00,000

Gross profit ratio	10% on sales
Standing charges for the year 2012-13	84,000

The turnover for the year 2013-14 was anticipated to increase by 10% over the turnover of the preceding year. **(6 marks)**

Answer:

Particulars	₹
Standard turnover per month (2012—13)	1,00,000
Add: Increase anticipated plus 10%	10,000
Expected turnover per month	1,10,000
Standard turnover for the period of dislocation [1,10,000 x 5]	5,50,000
Less: Actual turnover for the period of dislocation	2,40,000
Short sales	3,10,000
Gross profit on short sales @ 10%	31,000
Add: Increased cost of working actual	
Standard charges for the period of dislocation (7,000 x 5 = 35,000)	
Actual standing charges incurred during the period of dislocation ₹ 60,000	
Increase in cost of working during period of dislocation ₹ 60,000 - ₹ 35,000	25,000
Claim to be lodged	56,000

Note:

1. *In absence of any information regarding Insured standing charges, Uninsured standing charges, Net profit etc. increase in cost of working during the period of dislocation is determined in this manner.*
2. *Since the Annual Turnover is not mentioned the Average Clause is not applied.*

—— Space to write important points for revision ——

2014 - June [7] (a) From the following information, calculate a consequential loss claim:

(i) Financial year ends on 31st March.
(ii) Fire occurs on December 1 following.
(iii) Period of disruption : December 1 to March 31.
(iv) Period of indemnity : 6 months.
(v) Net profit for previous financial year ₹ 15,00,000

(vi) Insured standing charges ₹ 25,00,000
(vii) Uninsured standing charges ₹ 4,00,000
(viii) Increase in the cost of working ₹ 3,20,000
(ix) Saving in insured standing charges ₹ 1,00,000
(x) Reduced turnover avoided through increased cost of workings: ₹ 8,00,000
(xi) 'Special circumstances clause' stipulated :
(a) Increase in turnover (standard and annual) : 20%
(b) Increase in rate of gross profit : 5%
(xii)

Turnover for the four months ending	31st July	30th Nov.	31st March
I Year (₹)	40,00,000	90,00,000	70,00,000
II Year (₹)	60,00,000	1,10,00,000	20,00,000

(xiii) Sum insured : ₹ 50,00,000. **(8 marks)**

Answer:

Computation of Short Sales:

Particulars	Amount (₹)
Sales during the same period in last year	70,00,000
Add: 20% increase stipulated	14,00,000
Adjusted Sales	84,00,000
Less: Actual sales during disruption period	20,00,000
Amount of Short Sale	64,00,000

Computation of G.P.(Agreed):

Rate of Gross Profit (G.P.) for Proceeding accounting year:

$$\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Sales for the preceding accounting year}} \times 100 = \frac{15,00,000 + 25,00,000}{40,00,000 + 90,00,000 + 70,00,000} \times 100$$

$$= \frac{40,00,000}{2,00,00,000} \times 100 = 20\%$$

∴ Agreed Rate of G.P. = 20% + 5% = 25%

Loss of profit on Short Sales = 25% of ₹ 64,00,000 i.e. ₹ 16,00,000.

Particulars	Amount (₹)
Annual Turnover [12 months immediately preceding the date of fire]	2,40,00,000
Add: 20% Increase	48,00,000
Adjusted Annual Sales	2,88,00,000
G.P. on Adjusted Annual Sales or Insurable Amount ₹ 2,88,00,000 x 25%	72,00,000

Computation of Additional Expenses to be considered:

Particulars	Amount (₹)
(a) Actual expense incurred	3,20,000
(b) G.P. on reduced turnover avoided ₹ 8,00,000 x 25% i.e. ₹ 2,00,000	2,00,000
(c) $\text{Increase in cost of working x } \frac{\text{Net Profit + Insured Standing Charges}}{\text{Net Profit + All Standing Charges}}$ i.e. $₹\,3{,}20{,}000\ x\ \frac{(15{,}00{,}000 + 25{,}00{,}000)}{(15{,}00{,}000 + 29{,}00{,}000)}$ i.e.₹ 2,90,909	2,90,909
Hence, least of (a), (b) and (c) i.e. ₹ 2,00,000 will be considered	

Computation of Claim:

Particulars	Amount (₹)
Loss of profit on short sales	16,00,000
Add: Additional Expenses allowed	2,00,000
Less: Savings in insured charges	1,00,000
	17,00,000

Insurance Claim = $\frac{\text{Insured Amount}}{\text{Insurable Amount}}$ x Total Consequential Loss	
i. e. $\frac{₹50,00,000}{₹72,00,000} x ₹17,00,000 =$	11,80,556

—— Space to write important points for revision ——

2014 - Dec [6] (b) There was a serious fire in the premises of M/s Fortunate on 1st September, 2011. Their business activities were interrupted until 31st December, 2011, when normal trading conditions were re-established. M/s Fortunate are insured under the loss of profit policy for ₹ 42,000 the period of indemnity being six months.

You are able to ascertain the following information:

(i) The net profit for the year ended 31st December, 2010 was ₹ 20,000

(ii) The annual insurable standing charges amounted to ₹ 30,000 of which ₹ 2,000 were not included in the definition of insured standing charge under the policy.

(iii) The additional cost of working in order to mitigate the damage caused by the fire amounted to ₹ 600, and, but for this expenditure, the business would have had to shut down.

(iv) The saving in insured charges in consequence of the fire amounted to ₹ 1,500.

(v) The turnover for the period of four month ended April 30, August 31 and December 31, for each of the years 2010 and 2011 was as under:

	₹	₹	₹
2010	65,000	80,000	95,000
2011	70,000	80,000	15,000

You are required to compute the relevant claim under the terms of the loss of profits policy. **(8 marks)**

Answer:

Calculation of short sales:	₹
Standard turnover: Sales from September 1,2010 to Dec. 31,2010	95,000
Less: Sales during disruption period (1-9-2011 to 31-12-2011)	15,000
Short Sales	80,000

Calculation of Rate of Gross Profit:

$$\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Sales of the last accounting year}} \times 100$$

$$\frac{(₹20{,}000 + ₹28{,}000)}{[₹65{,}000 + ₹80{,}000 + ₹95{,}000\,(\text{i.e., Sales for 2010})]} \times 100$$

$$= \frac{48{,}000}{₹2{,}40{,}000} \times 100 = 20\%$$

Calculation of Amount of Claim for Loss of Profit:

	₹
Loss of Profit on short sales of ₹ 80,000 @ 20%	16,000
Add: Increased cost of working:	
$\frac{\text{Net Profit} + \text{Insured standing charges}}{\text{Net Profit} + \text{All standing charges}} \times \textit{Increased cost of working}$	
$\frac{₹20{,}000 + ₹28{,}000}{₹20{,}000 + ₹30{,}000} \times ₹600$	576
	16,576
Less: Saving in insured charges as a result of fire	1,500
	15,076

Gross Claim

Application of Average Clause:

Sum Insured /Gross Profit on 12 months (Sales preceding the date of fire) ×Gross claim

= ₹ 42,000/20% of ₹ 2,45,000 (1)×15,076 = ₹ 12,922

Therefore, claim for loss of profit to be lodged is ₹ 12,922

—— Space to write important points for revision ——

2015 - June [6] Answer the question:

(b) On 15th December, 2014 the premises of NAGAR LTD. were destroyed by fire, but sufficient records were saved from which the following particulars were ascertained:

	₹
Stock at cost on 1st April, 2013	2,20,500
Stock at cost on 31st March, 2014	2,38,800

Purchases less returns, year ended 31st March, 2014	11,94,000
Sales less returns, year ended 31st March, 2014	14,61,000
Purchases less returns, 1st April, 2014 to 15th December, 2014	10,15,000
Sales less returns, 1st April, 2014 to 15th December, 2014	11,62,000

In valuing stock for Balance Sheet as at 31st March, 2014 ₹ 6,900 had been written off for certain stock which was a poor selling line, having cost of ₹ 20,700. A portion of these goods were sold in June, 2014 at a loss of ₹ 750 on the original cost of ₹ 10,350. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged was ₹ 17,500. The stock was insured for ₹ 2,50,000.

Required:

Calculate the amount of claim to be lodged with the Insurance company for Loss of Stock. **(8 marks)**

Answer:

Trading A/c
for the year ended 31.3.2014

Particulars	Normal	Abnormal	Total	Particulars	Normal	Abnormal	Total
Op. Stock	2,20,500	-	2,20,500	Sales	14,61,000	-	14,61,000
Purchase	11,73,300	20,700	11,94,000	Closing Stock	2,25,000	20,700	2,45,700
Gross Profit	2,92,200	-	2,92,200		-		
	16,86,000	20,700	17,06,700		16,86,000	20,700	17,06,700

$$\text{G.P. ratio} = \frac{2,92,200}{14,61,000} \times 100$$

$$= 20\%$$

Memorandum Trading A/c

Dr. From 1.4.14 to 15.12.14 Cr.

Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)	Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)
To Opening Stock	2,25,000	20,700	2,45,700	By Sales	11,52,400	9,600	11,62,000
To Purchases	10,15,000	-	10,15,000	By Loss	---	750	750
To Gross Profit (20% of ₹ 11,52,400)	2,30,480		2,30,480	By Closing Stock (b/f)	3,18,080	10,350	3,28,430
	14,70,480	**20,700**	**14,91,180**		**14,70,480**	**20,700**	**14,91,180**

Account of Loss of Stock:

Value of Stock on date of fire	3,28,430
Less: Stock Salvaged	17,500
Loss of Stock by fire	3,10,930

Since the value of the stock is more than the insurance policy. Average clause should be applied.

Application of Average Clause:

Claim = Loss of stock × $\frac{\text{Policy value}}{\text{stock on day of fire}}$

$= 3,10,930 \times \frac{2,50,000}{3,28,430}$

$= 2,36,679$

—— Space to write important points for revision ——

2015 - Dec [1] Answer the following question (Give workings):

(h) The godown of KODIAC LTD. was engulfed in fire on 31st May, 2015 as a result of which a part of stock burnt to ashes. The stock was covered by Fire Policy for ₹ 2,00,000 subject to Average Clause. The records of the company revealed the following particulars.

Actual Value of Stock as on 31.05.2015	: ₹ 4,00,000
The Value of Salvaged Stock	: ₹ 90,000

You are required to ascertain the amount of claim to be lodged with the Insurance Company. **(2 marks)**

Answer:

Claim to be lodged =

loss of stock × $\frac{\text{Policy amount}}{\text{Average stock}}$

$= 4,00,000 - 90,000 \times \frac{2,00,000}{4,00,000}$

$= 1,55,000$

—— Space to write important points for revision ——

2016 - June [4] (b) A fire occurred in the premises of BRIGHT LTD. on 1st August 2015. The company had a loss of profit policy for ₹ 6.00 lakhs which was subject to average clause. Sale from 1st August 2014 to 31st July 2015 were ₹ 50 lakhs and from 1st August 2014 to 30th Nov. 2014 being ₹ 15 lakh. During the indemnity period which lasted four months sales amounted to only ₹ 2,00,000. The company made up its accounts on 31st March. The Profit and Loss Account for the year ended 31st March 2015 is given below:

Profit & Loss Account for the year ended 31st March, 2015			
Particulars		**Particulars**	
Opening Stock	5,00,000	Sales	47,50,000
Purchases	30,00,000	Closing Stock	2,50,000
Manufacturing Expenses	3,35,000		
Variable Selling Expenses	4,52,500		
Fixed Expenses	3,62,500		
Net Profit	3,50,000		
	50,00,000		50,00,000

Comparing the sales of first four months of year 2015-16 those of year 2014-15, it was found that sales were 20% higher in the year 2015-16.

You are required to compute the amount of claim to be lodged with the Insurance Company under the Loss of Profit Policy. **(4 + 2 + 2 = 8 marks)**

Answer :

BRIGHT LTD.

Computation of short Sales:

Sales from 1st August 2014 to 30th Nov 2014	₹ 15,00,000
Add: 20% increase observed in year 2015-16 over year 2014-15	₹ 3,00,000
	₹ 18,00,000
Less: Sales from 1st August 2015 to 30th Nov 2015	₹ 2,00,000
Short Sales:	**₹ 16,00,000**

Gross Profit Ratio:

$$= \frac{\text{(Net Profit (2014 − 15) + Insured Standard Charges (2014 − 15)}}{\text{Sales for the year 2014 − 15}} \times 100$$

$$\frac{3{,}50{,}000 + 3{,}62{,}500}{47{,}50{,}000} \times 100 \text{ or, } \frac{7{,}12{,}500}{47{,}50{,}000} \times 100 = 15\%$$

Loss of profit on short Sales = 15% on ₹ 16,00,000 = ₹ 2,40,000.

Application of Average Clause:

	₹
Annual Turnover: Sales for 12 months to 31st July 2015	50,00,000
Add: 20% increase in the current year	10,00,000
	60,00,000
Actual insurable value (60,00,000 x 15%)	9,00,000
Amount of policy	6,00,000

$$\text{Amount of Claim} = \frac{\text{Loss Suffered} \times \text{Sum Insured}}{\text{Actual Insurable Value}}$$

$$= \frac{2{,}40{,}000 \times 6{,}00{,}000}{9{,}00{,}000} = ₹\ 1{,}60{,}000$$

—— Space to write important points for revision ——

2016 - Dec [3] (b) The factory premises of AURISHI LTD. were engulfed in the fire on August 16, 2016, as a result of which a major part of stock burnt to ashes.

The stock was covered by policy for ₹ 90,000, subject to Average Clause.

The records at the office of the company revealed the following information:

	₹
Stock on 1st April, 2015	1,15,200
Purchases during the year ended 31st March, 2016	4,80,000
Sales during the year ended 31st March, 2016	6,07,800
Closing stock on 31st March, 2016	95,400
Purchases from 1st April, 2016 to August 16, 2016	1,62,000
Sales from 1st April, 2016 to August 16, 2016	1,84,200

An item of stock purchased in 2014 at a cost of ₹ 30,000 was valued at ₹ 18,000 on 31st March, 2015, due to obsolescence. Half of this stock was sold in July, 2015 for ₹ 7,800; the remaining was valued at ₹ 7,200 on 31st March, 2016. One-fourth of the original stock was sold in June, 2016, for ₹ 4,200.

Salvaged stock was valued at ₹ 36,000.

You are required to compute the amount of claim to be lodged with Insurance Company for Loss of Stock.

(3+3+2= 8 marks)

Answer:

AURISHI LTD.
Trading Account for the year ended 31st March, 2016

Particulars	Normal	Abnormal	Total	Particulars	Normal	Abnormal	Total
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Stock (Op, at cost)	97,200	30,000	1,27,200	By Sales	6,00,000	7,800	6,07,800
To Purchase	4,80,000		4,80,000	By Profit & Loss Account (loss)		7,200	7,200
To Gross profit	1,11,000		1,11,000	By Stock (at cost)	88,200	15,000	1,03,200
	6,88,200	30,000	7,18,200		6,88,200	30,000	7,18,200

Gross profit to Sales Ratio = (1,11,000/6,00,000) × 100 = 18.50%.

Memorandum Trading Account upto 16th August, 2016

Dr. **Cr.**

Particulars	Normal	Abnormal	Total	Particulars	Normal	Abnormal	Total
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Stock (at cost)	88,200	15,000	1,03,200	By Sales	1,80,000	4,200	1,84,200
To Purchase	1,62,000		1,62,000	By Profit & Loss Account (loss)		6,300	6,300
To Gross profit 18.5% on sales of normal goods	33,300		33,300	By Stock (Balancing figure)	1,03,500	4,500	1,08,000
	2,83,500	15,000	2,98,500		2,83,500	15,000	2,98,500

Value of stock on 16th August, 2016	₹	₹
Normal	1,03,500	
Abnormal (adjusted price)	4,500	1,08,000
Less: Stock Salvaged		36,000
Stock destroyed by fire		72,000

Since there is an average clause in the policy, the **claim will be:**
(Amount of the policy/stock on the date of fire) × stock destroyed by fire = ₹ 72,000 × (90,000/1,08,000) = ₹ **60,000.**

Note: As an item of stock as on 31st March, 2015 was valued below cost, it was an abnormal item. It is shown under abnormal stock column at its original cost i.e., ₹ 30,000. The normal items have been separated to arrive at the normal rate of gross profit.

Assume: Ratio of G.P. was uniform throughout.

—— Space to write important points for revision ——

2017 - June [5] (b) Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trade provides you the following additional information:

	₹
Cost of stock on 1st April, 2015	3,55,250
Cost of stock on 31st March, 2016	3,95,050
Purchases during the year ended 31st March, 2016	28,39,800
Purchases from 1st April, 2016 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire	1,000
Sales for the year ended 31st March, 2016	40,00,000
Sales from 1st April, 2016 to the date of fire	22,68,000

The insurance company also admitted fire fighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. **(7 marks)**

Answer:

Trading A/c for the year ending 31.3.2016

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchase	28,39,800	By Closing Stock	3,95,050
To GP	12,00,000		
	43,95,050		43,95,050

Rate of GP on Sales = $\frac{12,00,000}{40,00,000} \times 100 = 30\%$.

Trading A/c for 1.4.2016 to 29.8.2016

Particulars		Amount (₹)	Particulars	Amount (₹)
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchase	16,55,350		By Closing Stock (Bal. figure)	4,41,300
Less: Sample distribution	20,500			
Less: Drawings	1,000	16,33,850		
To GP (30% of Sales)		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

Particulars	₹
Value of stock destroyed by fire	441300
Less: Salvaged Stock	-54000
Add: Fire Fighting Expenses	2350
Insurance Claim	389650

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Space to write important points for revision

2017 - Dec [7] (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2013. Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2013-2014 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

(i) In July, 2014, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) The rate of gross profit is constant.

X Ltd. had taken an insurance policy of ₹ 5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company. **(10 marks)**

Answer:

Memorandum Trading Account
from 1st April, 2014 to 22nd January, 2015:

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases *Less:* Cost of goods used for advertising	34,82,700 (1,00,000)	 33,82,700	By Stock on 22nd January, 2015 – Balancing figure	7,76,300
To Gross Profit 20% of sales (Working Note)		 9,83,400		
		56,93,300		**56,93,300**

Stock in hand on date of fire = ₹ 7,76,300.

Computation of claim for loss of stock

Particulars	Amount (₹)
Stock on the date of fire i.e. on 22nd January, 2015	7,76,300
As the value of goods salvaged was negligible, therefore Loss of stock	7,76,300

As policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹ 5,50,000 should be lodged by X Ltd. to the insurance company.

Working Note:

Trading Account for the year ended on 31st March, 2014

Particulars	₹	Particulars	₹
To Opening Stock	9,62,200	By Sales	52,00,000
To Purchases	45,25,000	By Closing Stock	13,27,200
To Gross Profit	10,40,000		
	65,27,200		**65,27,200**

Rate of gross profit to sales = 10,40,000/52,00,000 x 100 = 20%.

—— Space to write important points for revision ——

2018 - June [5] (b) On 15th December, 2017, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of Stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available:

(i) Stock at the close of account on 31st March, 2017 was valued at ₹ 9,40,000.

(ii) Purchases from 01.04.2017 to 15-12-2017 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

(5 marks)

Answer:

Memorandum Trading Account for the period 01.04.2017 – 15.12.2017

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	9,40,000	By Sales	20,25,000
To Purchases	13,20,000	By Closing stock (Balancing Figure)	6,40,000
To Gross Profit @ 20%	4,05,000		
	26,65,000		**26,65,000**

Statement of Claim

Particulars	₹
Estimated value of Stock as at date of fire	6,40,000
Less: Value of Salvaged Stock	1,40,000
Estimated Value of Stock lost by Fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

Amount of Claim = $\frac{\text{Amount of policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$

Amount of Claim = $\frac{4,00,000}{6,40,000} \times 5,00,000$ = ₹ 3,12,500.

—— Space to write important points for revision ——

2018 - Dec [6] (a) CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around ₹ 3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

	₹
Total variable expenses	24,00,000
Fixed expenses:	
Salaries	3,30,000
Rent, Rates and Taxes	30,000
Travelling expenses	50,000
Postage, Telegram, Telephone	60,000
Director's fees	10,000
Audit fees	20,000
Miscellaneous income	70,000
Net Profit	4,20,000

Determine the amount of policy to be taken for the current year.

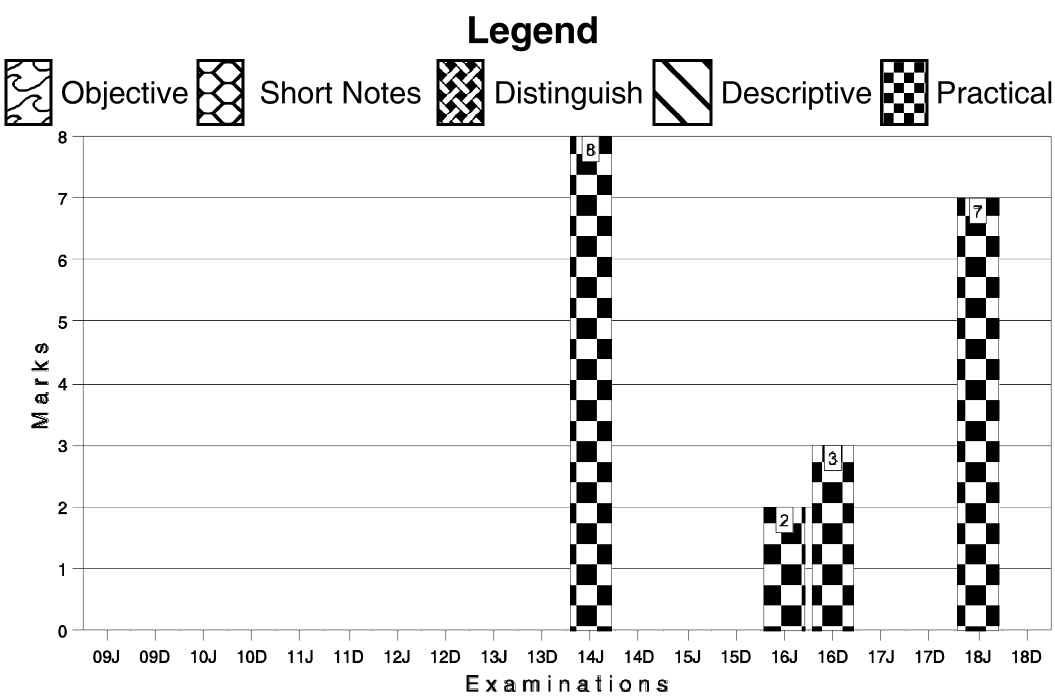
(7 marks)

3 FINANCIAL STATEMENTS OF PROFIT ORIENTED ORGANIZATIONS

THIS CHAPTER INCLUDES

- Preparation of Trading A/c
- P/L Account
- Balance Sheet
- P/L Appropriation A/c
- Bad Debts

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Profitability Statement	This statement is related to a complete accounting period. It shows the outcome of business activities during that period in a summarized form.
Balance Sheet	The Balance Sheet shows the list of resources and the funding of the resources i.e. assets and liabilities (towards owners and outsiders).
Trading Account	It is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period. The purpose of it to find out the gross profit or gross loss which is an important indicator of business efficiency.
Direct expenses	It means all those expenses which are incurred from the time of purchases to making the goods in suitable condition.
Capital	This indicates the initial amount the owner or owners of the business contributed.
Reserves and Surplus	The business is a going concern and will keep making profit or loss year by year. The accumulation of these profit or loss figures (called as surpluses) will keep on increasing or decreasing owners' equity.
Long Term or Non-Current Liabilities	These are obligations which are to be settled over a longer period of time say 5-10 years.

Short Term or Current Liabilities	A liability shall be classified as Current when it satisfies any of the following : • It is expected to be settled in the organisation's normal Operating Cycle, • It is held primarily for the purpose of being traded, • It is due to be settled within 12 months after the Reporting Date.
Fixed Assets	These represent the facilities or resources owned by the business for a longer period of time. The basic purpose of these resources is not to buy and sell them, but to use for future earnings. The benefit from use of these assets is spread over a very long period.
Investments	These are funds invested outside the business on a temporary basis.
Current Assets	An asset shall be classified as Current when it satisfies any of the following : • It is expected to be realised in, or is intended for sale or consumption in the organisation's normal Operating Cycle, • It is held primarily for the purpose of being traded, • It is due to be realised within 12 months after the Reporting Date, or • It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for at least 12 months after the Reporting Date.
Stocks	This includes stock of raw material, semi-finished goods or WIP, and finished goods.

Debtors	They represent customer balances which are not paid. The bad debts or a provision for bad debt is reduced from debtors and net figure is shown in balance sheet.
Bills receivables	Credit to customers may be given based on a bill to be signed by them payable to the business at an agreed date in future.
Cash in Hand	This represents cash actually held by the business on the balance sheet date.
Cash at Bank	Dealing through banks is quite common. Funds held as balances with bank are also treated as current asset, as it is to be applied for paying to suppliers.
Prepaid Expenses	They represent payments made against which services are expected to be received in a very short period.
Advances to suppliers	When amounts are paid to suppliers in advance and goods or services are not received till the balance sheet date, they are to be shown as current assets.
Bad Debts	Bad debts are uncollectible or irrecoverable debt or debts which are impossible to collect is called Bad Debts.
Doubtful Debts	The debts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts.
Good Debts	The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.

PRACTICAL QUESTIONS

2014 - June [2] (a) On 1st April, 2013 the balance of provision for bad and doubtful debts was ₹ 13,000. The bad debts during the year 2013-14 were ₹ 9,500. The sundry debtors as on 31st March, 2014 stood at ₹ 3,25,000 out of these debtors of ₹ 2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors.

(i) Pass necessary adjustment entries for bad debts and its provision on 31st March, 2014.

(ii) Prepare the necessary ledger accounts.

(iii) Show the relevant items in the profit and loss account and Balance Sheet. **(3+3+2= 8 marks)**

Answer:

(i)

In the books of ....
Journal

Date	Particulars	Debit (₹)	Credit (₹)
31.03.14	Bad Debts A/c Dr. To Sundry Debtors A/c (Being Bad Debts)	2,500	2,500
31.03.14	Provision for Bad & Doubtful Debts A/c Dr. To Bad Debts A/c (Being Bad Debts during the year)	12,000	12,000
31.03.14	Profit and Loss A/c Dr. To Provision for Bad & Doubtful Debts A/c (Being Provision for Bad Debts transferred to Profit & Loss A/c)	15,125	15,125

(ii) Ledger

Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.14	To Balance b/d	9,500	31.03.14	By Provision for Bad & Doubtful Debts A/c	12,000
31.03.14	To Sundry Debtors A/c	2,500			
		12,000			12,000

Provision for Bad & Doubtful Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.14	To Bad Debts A/c	12,000	01.04.13	By Balance b/d	13,000
31.03.14	To Balance c/d [5% on (3,25,000 - 2,500)]	16,125	31.03.14	By Profit and Loss A/c (b/f)	15,125
		28,125			28,125

Sundry Debtors Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.14	To Balance b/d	3,25,000	31.03.14	By Bad Debts A/c	2,500
			31.03.14	By Balance c/d	3,22,500
		3,25,000			3,25,000

(iii)

Profit and Loss Account
For the year ended 31st March, 2014

Particulars		Amount (₹)
To Provision for Bad & Doubtful Debts:	₹	
New Provision	16,125	
Add: Bad Debts (9,500 + 2,500)	12,000	
	28,125	
Less: Old Provision	13,000	15,125

Balance Sheet as on 31st March, 2014

Liabilities	Amount (₹)	Assets		Amount (₹)
		Sundry Debtors	3,25,000	
		Less: Further Bad Debts	2,500	
			3,22,500	
		Less: Provision for Bad Debts	16,125	3,06,375

Space to write important points for revision

2016 - June [1] {C} (d) Answer the following question.

(iii) The following details are abstracted from the record of VENELA LTD. for the year ended March 31, 2016.

Net Working Capital	₹ 35,00,000
Profit before Tax	₹ 25,00,000
The Current Ratio	2.4:1

You are required to calculate the amount of Current Assets of Venela Ltd. for the year ended March 31,2016. **(2 marks)**

Answer :

Net Working Capital

= Current Assets (C.A) - Current Liabilities (C.L) = ₹ 35,00,000

Or, C.A - C.L = ₹ 35,00,000 .... Equation (i)

Again Current Ratio = $\frac{C.A}{C.L} = \frac{2.4}{1}$

$\therefore$C.A = 2.4C.L

Or, C.A. -2.4 C.L = 0 ....Equation (ii)

After multiplying (i) with 2.4 we get

2.4 C.A - 2.4 C.A = ₹ 84,00,000 ....Equation (iii)

$\therefore$[(iii) - (ii)] —

2.4 C.A - 2.4 C.L	=	₹ 84,00,000
C.A - 2.4 C.L	=	0
1.4 C.A	=	₹ 84,00,000
C.A	=	₹ 60,00,000

Hence, Current Assets of Venela Ltd. = ₹ 60,00,000

—— Space to write important points for revision ——

2016 - Dec [5] (b) M/S ADHUNA & CO. had a provision for Bad Debts of ₹ 13,000 against their book debts on 1st April, 2015. During the year ended 31st March, 2016, ₹ 8,500 proved irrecoverable and it was desired to maintain the provision for bad debts @5% on Debtors which stood at ₹ 3,90,000 before writing off Bad Debts.

Prepare the provision for Bad Debt Account for the year ended March 31, 2016. **(3 marks)**

Answer:

M/S ADHUNA & CO.

Provision for Bad Debt Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.3.16	To Bad Debts A/c	8,500	1.4.15	By Balance b/d	13,000
31.3.16	To Balance c/d 5% of (3,90,000 – 8,500)	19,075	31.3.16	By Profit & Loss A/c (further provn. required)	14,575
		27,575			27,575

—— Space to write important points for revision ——

2018 - June [2] (b) A company maintains its reserve for bad debts @ 5% and a reserve for discount on debtors @ 2%. You are given the following details:

Particulars	2016	2017
Bad debts	800	1,500
Discount allowed	1,200	500
Sundry debtors (before providing all bad debts and discounts)	60,000	42,000

On 01/01/2016, Reserve for bad debts and Reserve of discount on debtors had balance of ₹ 4,550 and ₹ 800 respectively.

Show Reserve for Bad Debts and Reserve for Discount on Debtors Account for the year 2016 and 2017. **(7 marks)**

Answer:

Reserve for Bad Debts Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.12. 2016	To Bad Debts A/c	800	01.01. 2016	By Balance b/d	4,550
31.12. 2016	To Profit & Loss A/c	850			
31.12. 2016	To Balance c/d (5% on ₹ 58,000)	2,900			
		4,550			**4,550**
31.12. 2017	To Bad Debts A/c	1,500	01.01. 2017	By Balance b/d	2,900
31.12. 2017	To Balance c/d (5% on ₹ 40,000)	2,000	31.12. 2017	By Profit & Loss A/c	600
		3,500			**3,500**

Reserve for Discount on Debtors Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.12. 2016	To Discount A/c	1,200	01.01. 2016	By Balance b/d	800
31.12. 2016	To Balance c/d (2% on ₹ 58,000 - ₹ 2,900)	1,102	31.12. 2016	By Profit & Loss A/c	1,502
		2,302			**2,302**
31.12. 2017	To Discount	500	01.01. 2017	By Balance b/d	1,102
31.12. 2017	To Balance c/d (2% on ₹ 40,000 - ₹ 2,000)	760	31.12. 2017	By Profit & Loss A/c	158
		1,260			**1,260**

Space to write important points for revision

Table Showing Marks of Compulsory Questions

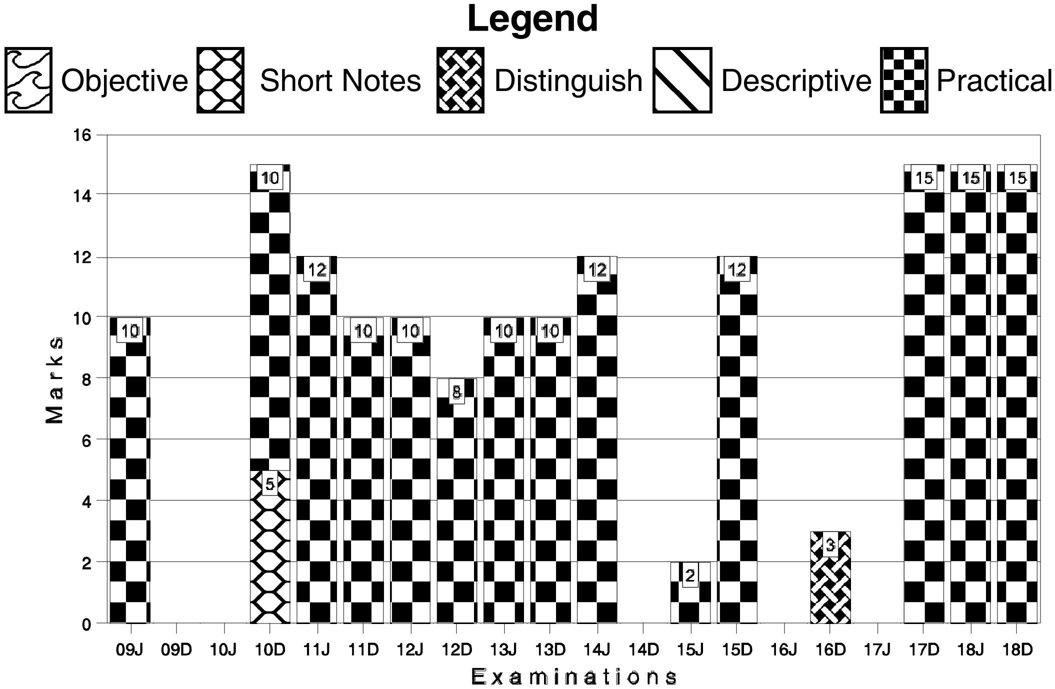
Year	14 J	14 D	15 J	15 D	16 J	16 D	17 J	17 D	18 J	18 D
Practical					2					
Total					2					

4 FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

THIS CHAPTER INCLUDES

- Receipt & Payment Account
- Income & Expenditure Account
- Balance Sheet

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Receipt and Payment Account	This is similar to cash book. Entries are made on cash basis and items pertaining to previous year or current year or subsequent years are also recorded. Receipts are shown on debit side and payments are shown on credit side. Capital as well as revenue items are entered in the R & P A/c.
Income and Expenditure Account	This is similar to the Profit and loss A/c and is prepared exactly based on same principles. As the name suggests only revenue items are recorded herein. Incomes are recorded on the credit side while the expenses on the debit side. Both incomes and expenses must be taken on the basis of accrual concept.
Balance Sheet	It is prepared as on the last day of the accounting period. It also has assets and liabilities and prepared based on accounting equation. But, there's no capital account. Instead there is a capital fund. The surplus or deficit from Income & Expenditure A/c is adjusted against this capital fund at the end of the year.
Capital Fund	It is also called "General Fund" or "Accumulated Fund." It is actually the Capital of a non-profit concern. It may be found out as the excess of assets over liabilities. Usually "Surplus" or "Deficit" during a period is added with or deducted from it.
Special Fund	It may be created out of special donation or subscription or out of a portion of the "Surplus".

Legacy received	It is to be directly added with Capital Fund after deduction of tax,(if any). It is a kind of donation received according to the will made by a deceased person.

SHORT NOTES

2010 - Dec [8] Write short note on:

(c) Features of Financial Accounts and Balance Sheet of non- profit seeking organisations. **(5 marks)**

Answer:

Non-Profit making organisations such as public hospitals, public educations institutions, clubs etc. The intention of these organisations are not to earn profit. These organisations conventionally prepare Receipts and Payment Account and Income and Expenditure Account to show periodic performance and Balance Sheet to show financial position at the end of the period. Its Financial Accounts are:

1. **Receipt & Payment Account:** It is summary of cash bank transactions this account starts with opening Cash & Bank balance & end with closing cash & Bank balance.
2. **Income & Expenditure Account:** It is same to Profit & Loss Account. Profit is called surplus and loss is called deficit. Accrual System is used for accounting.
3. **Balance Sheet:** It is classified summary of the ledger balances left over after accounts of all the revenue items have been closed off by transfer to the Income and Expenditure Account. The Balance sheet included fixed and floating assets, liabilities and the capital fund on the Accumulated.

DISTINGUISH BETWEEN

2008 - Dec [6] (b) Distinguish between 'Receipts and Payments Account' and 'Income and Expenditure Account'. **(5 marks)**

Answer :

Income and Expenditure Account and Receipts and Payments Account:

	Income and Expenditure Account	**Receipts and Payments Account**
1.	It is a Nominal Account.	It is a Real Account.
2.	It is a summary of the working of the organization.	It is a summary of cash and bank transactions of the organization.
3.	It is based on accrual system.	It is based on cash system.
4.	It records expenses and losses on debit side and incomes and gains on credit side.	It records inflow of cash on debit side and outflow of cash on credit side.
5.	It is a temporary account and has no opening and closing balance	It is a real account and starts with opening balance of cash and bank.
6.	It is closed at the end of the year and balance figure of the account is transferred to capital fund.	It is balanced at the end of the year and the balance carried forward shows the cash and bank balance at the end of the period.
7.	It records items of revenue nature only irrespective of their effect on flow of cash.	It records items both of capital and revenue nature provided they affect flow of cash.
8.	It records transactions of current year only.	It records transactions of previous years, current year and subsequent years provided flow of cash is affected.

2016 - Dec [9] (b) Difference between Receipts & Payments Account and Income & Expenditure Account **(3 marks)**

Answer:

Please refer 2008 - Dec [6] (b) on page no. 124

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2008 - Dec [6] (a) The income and expenditure account of an association for the year ended 31st March 2008 is as under:

	₹		₹
To Salaries	1,20,000	By Subscription	1,70,000
Printing and Stationery	6,000	Entrance fee	4,000
Telephone	1,500	Contribution for dinner	36,000
Postage	500		
General expenses	12,000		
Interest and bank charges	5,500		
Audit fees	2,500		
Annual dinner expenses	25,000		
Depreciation	7,000		
Surplus	30,000		
Total	2,10,000		2,10,000

The aforesaid income and expenditure account has been prepared after the following adjustments:

Subscription outstanding as on 31st March 2007	16,000
Subscription outstanding as on 31st March 2008	18,000
Subscription received in advance as on 31st March 2007	13,000
Subscription received in advance as on 31st March 2008	8,400
Salaries outstanding as on 31st March 2007.	6,000
Salaries outstanding as on 31st March 2008.	8,000
Audit fees for 2006-2007 paid during 2007-08	2,000
Audit fee for 2007-2008 not paid	2,500
The building owned by the association since 1990 costs	1,90,000

Equipment as on 31st March, 2007 valued at	52,000
At the end of the year after depreciation of ₹ 7,000, equipment amounted to	63,000
In 2006-2007, the association raised a bank loan of which is still not paid	30,000
Cash in hand as on 31st March 2008	28,500

You are required to prepare liabilities and assets Account of the association for the year ended 31st March 2008 and the Balance Sheet as at that date. **(10 marks)**

Answer :

Receipts and Payments for the year ended 31st March, 2008

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d	13,600	By Salaries W.N. (2)	1,18,000
To Subscription (W.N.3)	1,63,400	By Printing & Stationery	6,000
To Entrance fees	4,000	By Postage	500
To Annual Dinner Contribution	36,000	By Telephone	1,500
		By General Expenses	12,000
		By Audit Fees	2,000
		By Dinner Expenses	25,000
		By Interest	5,500
		By Equipments W.N. (1)	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet as at 31st March, 2008

Liabilities		Amount ₹	Assets	Amount ₹
Capital w.n.4	2,20,600		Buildings	1,90,000
Add: Surplus	30,000	2,50,600	Equipments	63,000
Bank loan		30,000	Cash in hand	28,500
Creditors : Salaries		8,000	Subscription receivable	18,000
Audit fees o/s		2,500		
Subscription received in advance		8,400		
		2,99,500		2,99,500

Working Note (1)

Equipment A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	52,000	By Depreciation	7,000
To Bank A/c (B/f)	18,000	By Balance c/d	63,000
	70,000		70,000

Working Note (2)

Salaries A/c

To Salary O/s (2007 - 08)	8,000	By Income & Exp. A/c	1,20,000
To Bank A/c (B/F)	1,18,000	By Salary O/s (2006-07)	6,000
	1,26,000		1,26,000

Working Note (3)

Subscription A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Subscription receivable (2006-07)	16,000	By Subscription receive in advance (2006-07)	13,000
To Subscription received in advance (2008-09)	8,400	By Subscription receivable (2007-08)	18,000
To Income & Expenditure A/c	1,70,000	By Bank A/c (B/F)	1,63,400
	1,94,400		1,94,400

Working Note (4)

Opening Balance Sheet as at 31st March, 2007

Liabilities	Amount ₹	Assets	Amount ₹
Capital fund (B/F)	2,20,600	Building	1,90,000
Bank loan	30,000	Equipment	52,000
Creditors Salaries	6,000	Cash in hand	13,600
Audit fees o/s	2,000	Subscription receivable	16,000
Subscription received in advance	13,000		
	2,71,600		2,71,600

Space to write important points for revision

2009 - June [7] (a) The following is the Receipts and Payment Account of Sodepore Recreation Club for the year ended 31.12.2008:

Receipts			₹	Payments	₹
To Cash in hand			1,000	By Rent of Club House	2,600
" Cash at Bank			12,000	" Painting of Club House	1,400
" Members Subscription				" Wages of Ground Maintenance	3,000
	2007	200		" General Expenses	2,600
	2008	3,600		" Electricity Charges	3,600
	2009	400	4,200	" Investment	20,000
" Life Membership Subscription			4,000	Secretary's Honorarium	1,200
				" Annual Meeting Expenses	800
" Sale of Ticket of annual exhibition			20,000	Sports Equipment	3,600
				" Purchase of refreshment	11,000
" Sale of refreshment			24,000	" Printing & Stationery	1,000
" Interest on investment			2,600	" Insurance	600
" Sale of furniture (Original Cost on 1.1.02 ₹ 1,000)			200	" Cash in hand	4,000
				" Cash at Bank	12,600
			68,000		68,000

The following information are available to you :

(a) On 31.12.2007 outstanding subscription for 2007 was ₹ 300.

(b) On 31.12.2007 advance subscription for 2008 received was ₹ 100.

(c) On 31.12.2008 outstanding subscription for 2008 was ₹ 600.

(d) A life membership scheme was introduced in 2007. Under this scheme, life membership premium is ₹ 1,000 and it was to be apportioned to income 1/10th every year over a period of 10 years. Life membership subscriptions totaling ₹ 5,000 was collected during 2007.

(e) On 1.1.2008 Investment was ₹ 40,000 and accrued interest on such date was ₹ 2,400.

(f) On 1.1.2007 furniture costing ₹ 16,000 were purchased and it was decided to write off depreciation on furniture and sports equipment @ 10% on cost.

(g) In 2007, a plot of land was purchased for ₹ 20,000 to construct Club House.

(h) Other assets & liabilities of club were (all figures in rupees) as follows:

	Stock of refreshment	Prepaid Insurance	Accrued Rent	Creditors for refreshment
31.12.2007	₹ 3,800	₹ 140	₹ 400	₹ 800
31.12.2008	₹4,200	₹ 100	₹ 200	₹1,000

(10 marks)

Answer :

Income & Expenditure A/c for the period 31.12.08

Particulars		Amount ₹	Particulars		Amount ₹
To Stock of Refreshment		3,800	By Sale of ticket		20,000
To Painting of Club house		1,400	By Sale of refreshment		24,000
To Wages of ground maintenance		3,000	By Interest	2,600	
			Less: Opening o/s	2,400	200
To General expenses		2,600	By Subscription	4,200	
To Electricity charges		3,600	(−) Advance 2009 (Closing)	400	
To Secretary Honorarium		1,200	(+) Outstanding 2008 (Closing)	600	
To Annual meeting expenses		800	(+) Advance (opening)	100	
To Printing & Stationary		1,000	(−) Outstanding (opening)	200	4,300
To Insurance	600.00		By Life membership premium $\left[\frac{4,500}{9}+\frac{4,000}{10}\right]$		900
(-) Prepaid (2008)	100.00		By Stock of Refreshment		4,200
(+) Prepaid (2007)	140.00	640			
To Rent of Clubs house	2,600.00				
(+) Outstanding (c/o)	200.00				
(−) Outstanding (op)	400.00	2,400			
To Purchase of refreshment (W.N.1)		11,200			
To Depreciation on Furniture	1,600.00				
Sports Equipment	360.00	1,960			
To Dep. on sale of Furniture		700			
To Surplus		19,300			
		53,600			53,600

Balance Sheet as on 31.12.2008

Liabilities	Amt.	Assets		Amt.
Capital Fund (W.N.2)	1,08,440	Land		20,000
[89,140 + 19,300]		Stock of Refreshment		4,200
Life member Subscription	7,600	Investment		60,000
[4,500+4,000−900]		(40,000+20,000)		
Advance subscription	400	Cash in hand		4,000
(2009)		Cash at bank		12,600
Creditor for refreshment	1,000	Outstanding Subscription		600
Rent occurred of club	200	" " (2007)		100
house		Prepaid Insurance		100
		Furniture	16,000	
		(−) Depreciation		
		for 2 years	3,200	12,800
		Sports Equipment	3,600	
		(−) Dep.	360	3,240
	1,17,640			1,17,640

(W.N.1) Creditors for Refreshment

Particulars	Amt.	Particulars	Amt.
To Cash A/c	11,000	By Balance b/d	800
To Balance c/d	1,000	By Purchase A/c (b/f)	11,200
	12,000		12,000

(W.N.2) Opening Balance Sheet as at 31.3.2007

Liabilities	Amt.	Assets		Amt.
To Cash Fund (B/F)	89,140	Investments		40,000
Life membership premium	4,500	Acquired interest on		
Advance Subscription	100	investments		2,400
Creditors for refreshment	800	Furniture 07	16,000	
Accrued Rent	400	(−) Depreciation	1,600	14,400
		Furniture 02	1,000	
		(−) Dep	100	900
		Land		20,000

		Refreshment Stock	3,800
		Outstanding subscription	300
		Cash in hand	1,000
		Cash at bank	12,000
		Prepaid insurance	140
	94,940		94,940

—— Space to write important points for revision ——

2010 - Dec [4] (a) The following (i) Receipts and Payments Account for 2009-10; (ii) Balance Sheets on 31st March, 2009 and other information are given by the Shiva City College :-

(i) Receipts and Payments Account for the year ended 31st March, 2010

	₹		₹
To Opening Balance	6,00,000	By Salary & Allowances	21,15,000
To Tuition fees	18,00,000	By Provident Fund Contribution	1,66,200
To Grant	9,00,000	By Printing & Stationery	51,000
To Interest on Bank F.D.	9,000	By Books for Library	78,000
To Hall Rent	30,000	By Postage & Telegram	15,000
		By Newspapers	9,000
		By Laboratory Equipments	29,400
		By Telephone Expenses	25,000
		By Repairs for Building	32,000
		By Misc. Charges	18,000
		By Audit Fee	10,000
		By Creditors for outstanding	21,000
		By Bank Fixed Deposit	4,00,000
		By Closing Balances	3,69,400
	33,39,000		33,39,000

(ii) Balance Sheet as on 31st March, 2009

Liabilities	₹	Assets	₹
Outstanding Exp	21,000	Cash and Bank	6,00,000
Building Fund	18,00,000	Furniture	10,50,000
Scholarship Fund	3,00,000	Land and Building	48,00,000

General Reserves	15,00,000	Tuition Fee (Outstanding)	66,000
Capital Fund	39,15,000	Library Books	7,20,000
		Fixed Deposit in Bank	3,00,000
	75,36,000		75,36,000

(iii) Other information :

(1) It was ascertained that ₹ 1,70,000 was outstanding by way of tuition fees on 31.03.2010

(2) The creditors outstanding for library books amounted to ₹ 30,000 at the end of the financial year 2009-10

(3) Outstanding salaries were ₹ 90,000 as on 31.3.10

(4) Depreciation to be charged : Land and Building at 5%, Furniture at 10% and Library Books at 20%

You are required to prepare for Shiva City College:

(a) Income and Expenditure Account for the year ended 31st March, 2010

(b) Balance Sheet as on 31st March, 2010 **(10 marks)**

Answer :

Income and Expenditure A/c of Shiva City College
For the year ended 31st March 2010

Expenditure		Amt. (₹)	Income		Amt. (₹)
To Salary & Allowance	21,15,000		By Tuition fee	18,00,000	
Add: C/L. Outstanding	90,000	22,05,000	*Less:* O/P Outstanding	66,000	
				17,34,000	
To P.F. Contribution		1,66,200	*Add*: C/L Outstanding	1,70,000	19,04,000
To Printing & Stationary		51,000	By Grant		9,00,000
To Postage & Telegram		15,000	By Interest on F.D		9,000
To Newspapers		9,000	By Hall Rent		30,000
To Telephone Expenses		25,000	By Excess of Expenditure over Income		1,98,800
To Repairs & Building		32,000			
To Misc. Charges		18,000			
To Audit fees		10,000			
To Depreciation on Land & Building (48,00,000 x 5%)	2,40,000				

Furniture (10,50,000 x 10%) 1,05,000			
Library Books (8,28,000 x 20%) 1,65,600	5,10,600		
	30,41,800		30,41,800

Balance Sheet of Shiva City College as on 31.3.2010

Liabilities		Amount	Assets		Amount
Capital Fund	39,15,000		Land & Building	48,00,000	
Less: Excess of Exp over			*Less:* Depreciation	2,40,000	45,60,000
Income	1,98,800	37,16,200	Furniture	10,50,000	
General Reserve		15,00,000	*Less:* Depreciation	1,05,000	9,45,000
Building fund		18,00,000	Library Books	7,20,000	
Scholarship fund		3,00,000	*Add*: Purchases		
Creditor for library books		30,000	(78000 + 30000)	1,08,000	
Outstanding salary		90,000	*Less:* Depreciation	1,65,600	6,62,400
			Laboratory Equipments		29,400
			Fixed Deposits	3,00,000	
			Add :	4,00,000	7,00,000
			Cash & Bank		3,69,400
			Outstanding Tuition fee		1,70,000
		74,36,200			74,36,200

Working Note :

1. Expenses on Laboratory Equipment treated as Capital in nature.

—— Space to write important points for revision ——

2011 - June [2] (a) The following is the Income and Expenditure Account of Rising Sun Club for the year ended 31.12.2010:

(Fig. in ₹)

Expenditure			Income	
To Printing and Stationery	3,200	By	Entrance fees	3,000
Interest and Bank charges	1,100		Subscription	80,200
Annual Dinner expenses	18,400		Annual Dinner receipt	15,000
General expenses	6,400		Profit on annual sports	18,300
Salaries	52,500			
Audit fees	3,200			

Honorarium to Secretary	15,000		
Depreciation on Sports Equip.	4,000		
Surplus (being the excess of income over expenditure)	12,700		
	1,16,500		1,16,500

The following adjustments were made to prepare the accounts :

Subscription outstanding on 1.1.10	₹ 4,000
Subscription outstanding on 31.12.10	₹ 6,300
Subscription received in advance on 31.12.09	₹ 5,600
Subscription received during the year	₹ 3,400
Salaries outstanding on 31.12.09	₹ 5,200
Salaries outstanding on 31.12.10	₹ 6,800

General expenses include insurance prepaid to the extent of ₹ 800; Audit fees due for the year 2010. Audit fees paid in 2010 ₹ 2,800 for 2009.

The Club has the following assets:

Football Ground	₹ 1,80,000
Sports equipments on 1.1.2010	₹ 35,000
Sports equipments on 31.12.2010, such sports equipments after depreciation amounted to	₹ 37,000

The Club had taken a loan of ₹ 30,000 from a bank a few years back which remain outstanding on 31.12.10. On 31.12.10 the cash in hand amounted to ₹ 20,000.

Prepare the Receipts and Payments Account for the year ended 31.12.10 and a Balance Sheet as on that date. **(12 marks)**

Answer :

Balance Sheet as on 01.01.10

Capital/Liabilities	Amount	Assets/Properties	Amount
Subscription	5,600	Subscription	4,000
Salaries outstanding	5,200	Sports equipment	35,000
Audit fees outstanding	2,800	Cash in hand	12,600
Bank Loan	30,000	Football ground	1,80,000
Capital fund B(f)	1,88,000		
	2,31,600		2,31,600

Receipts and Payments A/c for the year ended 31.12.10

Receipts		Amount	Payments		Amount
To Cash in Hand (B/F)		12,600	By Printing & Stationary		3,200
To Entrance Fees		3,000	By Interest & Bank change		1,100
To Subscription	80,200		By Annual dinner Exp.		18,400
Add: O/p Outstanding	4,000		By General Expenses	6,400	
Less: Cl. Outstanding	6,300		*Add:* Prepaid Insurance	800	7,200
Less: Opening Advance	5,600		By Salaries	52,500	
Add: Closing Advance	3,400	75,700	*Add:* o/p outstanding	5,200	
To Annual dinner		15,000	*Less:* c/l outstanding	6,800	50,900
To Profit on annual sports		18,300	By Audit fees	3,200	
			Add: o/p outstanding	2,800	
			Less: closing out.	3,200	2,800
			By Honorarium to Secretary		15,000
			By Sports Equipment (addition)		6,000
			By Cash in hand		20,000
		1,24,600			1,24,600

Balance Sheet as on 31.12.10

Liabilities		Amount	Assets	Amount
Subscription advance		3,400	O/S Subscription	6,300
Outstanding Salaries		6,800	Prepaid Insurance	800
Outstanding Audit fees		3,200	Sports Equipment	37,000
Bank loan		30,000	Football Ground	1,80,000
Capital fund	1,88,000		Cash in hand	20,000
Add surplus	12,700	2,00,700		
		2,44,100		2,44,100

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	35,000	By Depreciation	4,000
To Bank (B/f)	6,000	By Balance c/d	37,000
	41,000		41,000

Space to write important points for revision

2011 - Dec [3] (a) From the following information relating to Evergreen Sports Club, prepare Balance Sheet of the Club as on 1-1-2010 and on 31-12-2010:

(i) Assets as on 1-1-2010

	₹
Club Ground	80,000
Sports Equipment	50,000
Furniture	10,000

(ii) Accrued Subscription as on 1-1-2010 was ₹ 2,000.

(iii) Creditor for stationery as on 1-1-2010 was ₹ 1,800.

(iv) Receipts and Payments Account for the year ended 31-12-2010.

Dr. Receipts	₹	Cr. Payments	₹
To Balance brought down	8,000	By Salaries	14,000
Subscription received (2009)	1,800	Printing and Stationery	3,500
-do- (2010)	22,000	Fire Insurance	2,200
-do- (2011)	600	Advertisement	3,000
Sales of old Newspaper	500	Furniture	4,000
Rent Received	5,800	Investments	21,000
Entrance Fees	18,000	Balance c/d	9,000
	56,700		56,700

Income and Expenditure Account for the year ended 31-12-2010.

Dr. Expenditure	₹	Cr. Income	₹
To Salaries	16,000	By Subscription	24,000
Printing & Stationery	2,000	Entrance Fees	9,000
Advertisement	3,000	Rent	6,000
Audit Fees	800	Sale of old Newspapers	500
Fire Insurance	2,000		
Depreciation :			
Equipment	7,000		
Furniture	1,000		
Excess of Income over Expenditure	7,700		
	39,500		39,500

(10 marks)

Answer :

In the books of Evergreen Sports Club

Balance Sheet as on 1st Jan. 2010

Capital & Liabilities	Amount	Assets	Amount
Capital fund	1,48,200	Cash	8,000
Creditor for stationery	1,800	Club Ground	80,000
		Sports equipment	50,000
		Furniture	10,000
		Subscription outstanding	2,000
	1,50,000		1,50,000

Balance Sheet as on 31st December 2010

Capital & Liabilities		Amount	Assets	Amount
Capital fund	1,48,200		Cash	9,000
(+) Entrance fees	9,000		Club Ground	80,000
(+) Surplus	7,700	1,64,900	Sports Equipment (₹ 50,000 – ₹ 7,000)	43,000
Advance Subscription		600	Furniture	13,000
Outstanding Salary		2,000	(₹ 10,000 + ₹ 4,000 – ₹ 1,000)	
Creditors for stationery		300	Investment	21,000
Outstanding audit fees		800	Outstanding Subscription (200+2000)	2,200
			Advance for fire insurance	200
			Outstanding Rent	200
		1,68,600		1,68,600

Working Note :

(i)	Sports equipment	50,000
	(-) Depreciation	7,000
		43,000
(ii)	Furniture	10,000
	(+) Furniture purchased	4,000
	(-) Depreciation	(1,000)
		13,000

(iii)	Subscription as per I/E A/c	24,000
	(-) Subscription actually Received	22,000
		2,000
	(+) Outstanding for the year 2009	200
	Outstanding Subscription	2,200
(iv)	Fire insurance as per I/E A/c	2,000
	(-) Actual payment made	2,200
	Advance payment made for fire insurance	200
(v)	Rent as per I/E A/c	6,000
	(-) Actual rent received	5,800
	Outstanding rent	200
(vi)	Advance subscription received for the year 2011 ₹ 600	
(vii)	Entrance fees as per I/E A/c	9,000
	(-) Actual entrance fee received	(18,000)
	Entrance fees to be capitalised	(9,000)
(viii)	Salary as per I/E A/c	16,000
	(-) Actual Salary paid	(14,000)
	Outstanding salary	2,000
(ix)	Outstanding Audit fees ₹ 800	

—— Space to write important points for revision ——

2012 - June [4] (b) Oxford Library Society showed the following position on 31st March, 2011:

Balance Sheet as on 31st March, 2011

Liabilities	Amount ₹	Assets	Amount ₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investments in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The Receipts and Payment Account for the year ended on 31st March, 2012 is given below:

Receipts		₹	Payments	₹
To Balance b/d			By Electric charges	7,200
Cash at bank	25,000		By Postage and stationery	5,000
Cash in hand	25,000	50,000		
To Entrance fees		30,000	By Telephone charges	5,000
To Membership subscription		2,00,000	By Books purchased (April, 2011)	60,000
To Sale proceeds of old papers		1,500	By Outstanding expenses paid	7,000
To Hire of Lecture Hall		20,000	By Rent	88,000
To Interest on securities		8,000	By Investment in securities	40,000
			By Salaries	66,000
			By Balance c/d	
			Cash at bank	20,000
			Cash in hand	11,300
		3,09,500		3,09,500

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2012 and a Balance Sheet as at 31st March, 2012 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ ₹ 5% p.a. including purchases made on 01.10.2011 for ₹ 40,000. **(10 marks)**

Answer:

Income & Expenditure A/c of Oxford Library Society for the year ended 31-3-12

Particulars		Amount ₹	Particulars		Amount ₹
To Electricity charges		7,200	By Entrance fees (30,000 × 25%)		7,500
To Postage & Stationery		5,000			
To Telephone Charges		5,000	By Membership Subscription	2,00,000	
To Rent	88,000		*Less:* Advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale of old papers		1,500
Add: Outstanding	3,000	69,000	By Hire of Lecture hall		20,000
To Depreciation on:			By Intt. on securities	8,000	
Books (10% on 4,60,000)		46,000	Add. Accrued Intt.	500	8,500
Electrical fittings (10% on 1,50,000)		15,000	[5% on 1,50,000 + (5% on 40,000) × $\frac{1}{2}$ – 8,000]		
Furniture (10% on 50,000)		5,000	By Deficiency		16,700
		2,44,200			2,44,200

Balance Sheet of Oxford Library as on 31-3-12

Liabilities		Amount	Assets	Amount
Capital Fund	7,93,000		Electrical fitting (1,50,000 – 15,000)	1,35,000
Add: Entrance fees	22,500		Furniture (50,000 – 5,000)	45,000
	8,15,500		Books (4,60,000 – 46,000)	4,14,000
Less: Excess of Expenditure over income	16,700	7,98,800	Investment in securities (1,50,000 + 40,000)	1,90,000
			Accrued Intt.	500
Outstanding expenses:			Cash at bank	20,000
Rent	4,000		Cash in hand	11,300
Salaries	3,000	7,000		
Membership Subscription in advance		10,000		
		8,15,800		8,15,800

Space to write important points for revision

2012 - Dec [3] (a) Income and Expenditure Account and the Balance Sheet of Nav Bharat Club are as under:

Income and Expenditure Account for the year ending 31st March, 2012

Expenditures		Amount (₹)	Incomes	Amount (₹)
To Upkeep of Ground		21,000	By Subscription	56,640
To Printing & Stationery		2,800	By Sale of old newspapers	530
To Salaries		28,000	By Lectures	8,000
To Depreciation:			By Entrance Fee	2,900
Ground &			By Misc. Incomes	1,200
Building	9,000			
Furniture	1,000	10,000		
To Repairs		3,500		
To Surplus		3,970		
		69,270		69,270

Balance Sheet as at 31st March, 2012

Liabilities	(₹)	Amount (₹)	Assets	(₹)	Amount (₹)
Capital Fund:			Ground & Building		1,43,200
Opening Balance	1,56,430		Furniture		9,000
Add: Entrance Fee	2,900		Sports Prize Fund:		
Add: Surplus	3,970	1,63,300	Investment	43,000	
Sports Prize Fund:			Subscription	2,600	
Opening Balance	51,000		Cash and Bank	19,400	65,000
Add: Interest	4,500				
	55,500				
Less: Prizes	6,500	49,000			
Outstanding Salary		4,200			
Subscription in Advance		700			
		2,17,200			2,17,200

The following adjustments have been made in the above accounts:

(i) Upkeep of ground ₹ 1,500 and printing and stationery ₹ 510 relating to 2010-2011 were paid in 2011-12.

(ii) One-half of entrance fee has been capitalised.

(iii) Subscription outstanding in 2010-11 was ₹ 3,100 and for 2011-12 ₹ 2,600.

(iv) Subscription received in advance in 2010-11 was ₹ 1,100 and in 2011-12 for 2012-13 ₹ 700.

(v) Outstanding salary on 31.3.2011 was ₹ 3,600.

Prepare Receipts and Payments Account for the year ended on 31st March, 2012. **(8 marks)**

Answer:

Receipts & Payments A/c of Nav Bharat Club for the year ended on 31.3.2012

Receipts			Amount (₹)	Payments			Amount (₹)
To	Balance b/d (B/F)		5,840	By	Upkeep of ground	21,000	
To	Subscriptions		56,740		+ opening o/s	1,500	22,500
			(W.N.1)	By	Printing &	2,800	
To	Sale of old newspaper		530		Stationery		
To	Lectures		8,000		+ Opening o/s	510	3,310
To	Entrance Fees	2,900		By	Salaries	28,000	
	+ Capitalized	2,900	5,800		+ Opening o/s	3600	
To	Misc. Incomes		1,200		- Closing o/s	4,200	27,400
To	Instalments on sports prize fund		4,500	By	Repairs		3,500
				By	Sports prizes		6,500
				By	Balance c/d		19,400
			82,610				82,610

Working Note :

1. Amount of subscription received during the year 2011-2012:

Subscription debited in Income & Exp. A/c	56,640
Add: Outstanding in 2010-11	3,100
Add: Advance received in 2011-12 for 12-13	700
	60,440
Less: Received to advance (2010-11)	1,100
Less: Outstanding in 2011-12	2,600
Amount Received during 2011-12	56,740

Space to write important points for revision

2013 - June [5] (a) Jodhpur Club furnishes you the Receipts and Payments Account for the year ended 31.03.2013:

Receipts	₹	Payments	₹
Cash in hand (1.4.2012)	40,000	Salary	20,000
Cash at Bank (1.4.2012)	1,00,000	Repair expenses	5,000
Donations	50,000	Furnitures	60,000
Subscriptions	1,20,000	Investments	60,000
Entrance fee	10,000	Misc. expenses	5,000
Interest on investments	1,000	Insurance premium	2,000
Interest from banks	4,000	Billiards table and other	
Sale of old newspaper	1,500	sports items	80,000
Sale of drama tickets	10,500	Stationery expenses	1,500
		Drama expenses	5,000
		Cash in hand (31.03.2013)	26,500
		Cash at Bank (31.03.2013)	72,000
	3,37,000		3,37,000

Additional information:

(i) Subscriptions in arrear for 2012 - 13 ₹ 9,000 and subscription in advance for the year 2013-14 ₹ 3,500.

(ii) ₹ 400 was the insurance premium outstanding as on 31.03.2013.

(iii) Miscellaneous expenses prepaid ₹ 900.

(iv) 50% of donation is to be capitalized.

(v) Entrance fees to be treated as revenue income.

(vi) 8% interest has accrued on investments for five months.

(vii) Billiards table and other sports equipments costing ₹ 3,00,000 were purchased in the financial year 2011-12 and of which ₹ 80,000 was not paid 31.03.2012. There is no charge for Depreciation to be considered.

You are required to prepare Income and Expenditure Account for the year ended 31.03.2013 and Balance sheet of the Club as at 31.03.2013.

(10 marks)

Answer:

Jodhpur Club

Income and Expenditure Account for the year ended 31.03.2013

Expenditure	₹	Income	₹
To Salary	20,000	By Subscription	1,25,500
To Repair expenses	5,000	(₹ 1,20,000 + 9,000 - 3,500)	
To Misc. expenses (5,000–900)(less prepaid)	4,100	By Donation @ 50%	25,000
To Insurance premium (Incl. Outstanding)	2,400	By Entrance fee	10,000
		By Sale of old newspaper	1,500
To Stationery expenses	1,500	By Bank Interest	4,000
To Drama Expenses	5,000	By Interest on Investments (60,000 × 8% × 5/12)+1,000	3,000
To Excess of Income over Expenditure	1,41,500		
		By Sale of Drama tickets	10,500
	1,79,500		**1,79,500**

Balance Sheet as at 01.04.2012

Liabilities	Amount ₹	Assets	Amount ₹
Capital fund (bal. fig)	3,60,000	Cash in hand	40,000
Billiards table outstanding	80,000	Cash at Bank	1,00,000
		Billiards table and other Sports equipments	3,00,000
	4,40,000		**4,40,000**

Balance Sheet as at 31.03.2013

Liabilities		Amount ₹	Assets		Amount ₹
Capital fund	3,60,000		Cash in hand		26,500
Add: Donations	25,000		Cash at Bank		72,000
Excess of income over			Investments	60,000	
Expenditure	1,41,500	5,26,500	Accrued interest	2,000	62,000
Subscriber in advance		3,500	Furniture		60,000

Insurance premium outstanding	400	Prepaid Misc. Exp.	900
		Subscription arrear	9,000
		Billiards table and other sports equipments	3,00,000
	5,30,400		**5,30,400**

—— Space to write important points for revision ——

2013 - Dec [4] (a) The Income and Expenditure Account of Shooters Club for the year ended 31st March, 2013 is given below:

Expenditure	₹	Income	₹
To Salaries	35,000	By Subscription	40,000
To General expenses	5,000	By Donation	10,500
To Depreciation	3,000		
To Excess of Income Over Expenditure	7,500		
	50,500		50,500

Adjustments are made in respect of the following:

(i) Subscription for 2012 unpaid at 31.03.2012 ₹ 2,000 of which ₹ 1,800 was received in December 2012.

(ii) Subscription received in advance as on 01.04.2012 was ₹ 500.

(iii) Subscription received in advance as on 31.03.2013 is ₹ 400.

(iv) Subscription for 2012-13 unpaid as on 31.03.2013 is ₹ 700.

(v) Sundry asset as on 01.04.2012 ₹ 26,000. Sundry asset as on 31.03.2013 after depreciation ₹ 27,000.

(vi) Cash balance as on 01.04.2012 ₹ 1,600.

(vii) Capital fund as on 01.04.2012 ₹ 29,100.

Prepare:

(i) Receipts and Payments A/c for the year 2012-13.

(ii) Balance sheet as at 31.03.2013. **(10 marks)**

Answer:

Shooters Club

Receipts & Payments Account for the year ended 31st March, 2013

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	1,600	By Salaries	35,000
To Donations	10,500	By General expenses	5,000
To Subscription (cash received)	41,000	By Sundry Assets	4,000
		By Balance c/d	9,100
	53,100		**53,100**

Subscription Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.12	To Subscription Receivable A/c (Opening balance of receivable, i.e. outstanding as on 31.3.2012)	2,000	1.4.12	By Subscription Received in Advance A/c (Opening balance of received in advance as on 1.4.12)	500
31.3.13	To Income & Exp. A/c (figure taken from I & E A/c)	40,000	31.3.13	By Receipts & Payments A/c (cash received during the year) (balancing figure)	41,000
31.3.13	To Subscription Received in Advance A/c (closing balance of received in advance, as on 31.3.2013)	400	31.3.13	By Subscription Receivable A/c (clos-ing balance of receivable as on 31.3.2013) [2011 - 12 = 200 2012 - 13 = 700]	900
		42,400			42,400

Sundry Assets Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	26,000	By Depreciation	3,000
To Purchase (bal. fig.)	4,000	By Balance c/d	27,000
	30,000		30,000

Balance Sheet as at 31.03.2013

Liabilities		Amount ₹	Assets	Amount ₹
Capital fund	29,100		Sundry assets	27,000
Add: Excess of income			Cash on hand	9,100
over expenditure	7,500	36,600	Subscription due	
Subscription in advance 13-14		400	2011-12	200
			2012-13	700
		37,000		37,000

Space to write important points for revision

2014 - June [1] {C} Answer the following questions (give workings):

(iii) Following informations are obtained from the books of a club:

(a) Subscription received during the year ending 31st March, 2014 ₹ 2,56,000, out of which ₹ 8,000 was for the year 2014-15 and ₹ 11,000 for the year 2012-13.

(b) Subscription was outstanding on 01.04.2013 ₹ 18,000 and on 31.03.2014 for 2013-14 ₹ 21,000. Calculate the amount of subscription to be credited to Income and Expenditure Account for the year ending 31.03.2014. **(2 marks)**

Answer:

Computation of the amount creditable to Income & Expenditure Account:

	₹
Subscription received during the year	2,56,000
Less: Subscription received in advance for 2014-15	8,000
Less: Subscription for 2012-13	11,000
Add: O/s Subscription for 2013-14	21,000
Subscription to be credited to Income & exp. A/c	2,58,000

Space to write important points for revision

2014 - June [5] (a) A Town Club provides you information relating to assets and liabilities as on 01.01.14. Calculate (i) Receipts and Payment Account, (ii) Income and Expenditure Account for the year ended 31.12.2013 and (iii) a Balance Sheet as on date.

Cash in hand ₹ 4,000, subscription receivable ₹ 400, furniture ₹ 2,000, sport material ₹ 1,200, investments ₹ 5,000, buildings ₹ 10,000 and outstanding creditors for supplies ₹ 600. During the year 2013, the club did the following business.

(i) Subscription received including the arrears ₹ 6,000, (ii) subscription due ₹ 600, (iii) paid the outstanding creditors for supplies ₹ 600, (iv) subscriptions to newspapers ₹ 1,000, (v) sports materials purchased ₹ 2,000, (vi) sale of old newspapers ₹ 100, (vii) meeting expenses ₹ 900, (viii) lighting charges ₹ 800, (ix) Establishment salaries ₹ 2,000, (x) stock of sport materials at the end ₹ 1,000, (xi) Interest received on investments ₹ 150 (outstanding ₹ 50), (xii) borrowings ₹ 4,000, (xiii) purchased furniture (31-12-2013) ₹ 800, (xiv) expenditure on annual function ₹ 750 and (xv) donations received ₹ 3,600 (half to be capitalised). Provide depreciation at 5% on furniture and buildings. **(4+4+2= 10 marks)**

Answer:

Town Club
Receipts & Payments A/c for the year ending 31.12.2013

Receipts	Amt. ₹	Payments	Amt. ₹
To Balance b/d	4,000	By Creditors for supplies	600
To Subscriptions	6,000	By Newspapers subscription	1,000
To Sale of old news papers	100	By Sports material	2,000
To Interest on investments	150	By Meeting expenses	900
To Borrowings	4,000	By Lighting charges	800
To Donations	3,600	By Establishment Salaries	2,000
		By Furniture	800
		By Expenses on Annual Function	750
		By Balance c/d	9,000
	17,850		17,850

Income of Expenditure A/c

Expenditure		₹	Income		₹
To Subscriptions to Newspapers		1,000	By Subscriptions Received	6,000	
To Sports Material Consumed			+ o/s (C.Y)	600	
			-o/s (P.y)	400	6,200
Opening	1,200		By Sale of old newspapers		100
+ Purchases	2,000		By Intt.(Regd. + Accrued)		200
- Closing	1,000	2,200	By Donations		1,800
To Meeting expenses		900			
To Lighting charges		800			
To Establishment Salaries		2,000			
To Expenses on Annual function		750			
To Depreciation					
Furniture	100				
Buildings	500	600			
To Surplus		50			
		8,300			8,300

Opening B/S

Liabilities	Amount	Assets	Amount
Capital fund (B/f)	22,000	Cash in hand	4,000
Sundry Creditors for supplies	600	Arrear Subscription	400
		Furniture	2,000
		Sports Material	1,200
		Investments	5,000
		Buildings	10,000
	22,600		22,600

B/S as at 31.12.2013

Capital fund 22,000		Cash in hand		9,000
+ surplus 50	22,050	O/s Subscription		600
Donation	1,800	Furniture	2,000	
Borrowings	4,000	+ Add	800	
		- Dep	100	2,700
		Sports Material		1,000
		Investment	5,000	
		+ Accrued Intt.	50	5,050
		Buildings	10,000	
		- Dep	500	9,500
	27,850			27,850

—— Space to write important points for revision ——

2015 - June [1] Answer the question:

(d) Compute the income from subscription for the year 2014 from the following particulars relating to TARUN CLUB:

	01.01.2014	31.12.2014	
	₹	₹	
Outstanding subscription	9,500	7,000	
Advanced subscription	2,800	5,200	
Subscription received during the year 2014			₹ 1,45,000

(2 marks)

Answer:

Subscription received during 2014	=	1,45,000
Add: O/s subscription as on 31.12.2014	=	7,000
Add: Advance subscription as on 01.01.2014	=	2,800
Less: O/s subscription as on 01.01.2014	=	9,500
Less: Advance subscription as on 31.12.2014	=	5,200
Income from subscription	=	1,40,100

—— Space to write important points for revision ——

2015 - Dec [3] Answer the question.

(a) The following is the Income and Expenditure Account of GREEN CITY CLUB for the year ended March 31, 2015. (Amount in ₹)

To Salaries	4,80,000	By Subscriptions	13,00,000
To Rent	1,20,000	By Entrance Fees	2,00,000
To Printing & Stationery	30,000	By Contribution for Annual Dinner	1,60,000
To Travelling Expenses	60,000		
To Annual Dinner Expenses	1,40,000	By Profit on Annual Sports	20,000
To Secretary's Honorarium	1,20,000		
To General Expenses	60,000		
To Interest and Bank Charges	18,000		
To Audit Fees	20,000		
To Books & Periodicals	30,000		
To Depreciation	25,000		
To Excess of Income over Expenditure	5,77,000		
	16,80,000		16,80,000

The Income and Expenditure Account has been prepared after the following adjustments:

	₹
Subscription Outstanding on 31.03.2014.	1,20,000
Subscription received in Advance on 31.03.2014.	90,000
Subscription Outstanding on 31.03.2015.	80,000
Subscription received in Advance on 31.03.2015.	1,40,000

Salaries Outstanding at the beginning of the year and at the end of the year were ₹ 40,000 and ₹ 30,000 respectively.

Audit fees for the year (2014-15) has not been paid. Previous year's audit fee ₹ 15,000 was paid during the year.

The club's Assets on 31st March, 2014 were as follows:

	₹
Freehold Land	10,00,000
Sport Equipments	2,60,000

At the end of the year, after depreciation the equipments amounted to ₹ 2,70,000. Bank Loan of ₹ 1,00,000 as on 31st March, 2014 was still due at the end of the current year. On 31st March, 2015, Cash at Bank amounted to ₹ 6,97,000.

You are required to prepare:
(i) The Receipts and Payments Account for the year ended 31st March, 2015 and
(ii) Balance Sheet as on 31.03.2015 **(5+4+1+2=12 marks)**

Answer:

Green City Club
Receipts & Payments A/c for the year ended 31.3.2015

Receipts	₹	Payments		₹
To Bal. b/d (balancing figure)	45,000	By Salaries	4,80,000	
		+ O/S at Beg.	40,000	
To Subscription (W. N. - 2)	13,90,000	- O/S at End	30,000	4,90,000
		By Rent		1,20,000
To Entrance fees	2,00,000	By Printing & Stationery		30,000
To Contribution for annual dinner	1,60,000	By Travelling exp.		60,000
		By Annual dinner exp.		1,40,000
		By Secretary's honorarium		1,20,000
To Profit an annual sports	20,000	By General expenses		60,000
		By Interest & bank charges		18,000
		By Audit fees		15,000
		By Sports equipment		35,000
		By Books & periodicals		30,000
		By Bal. c/d		6,97,000
	18,15,000			**18,15,000**

Balance Sheet as on 31.3.2015

Liabilities		₹	Assets	₹
Capital	11,80,000		Freehold Land	10,00,000
+ Surplus	5,77,000	17,57,000	Sport Equipment	2,70,000
O/S Salary		30,000	Cash at Bank	6,97,000
O/S Audit Fees		20,000	O/S Subscription	80,000
Bank Loan		1,00,000		
Subscription received in Adv.		140,000		
		20,47,000		**20,47,000**

Working Notes:

(1) **Balance Sheet as on 31.3.2014**

Liabilities	₹	Assets	₹
Capital(b/f)	11,80,000	Freehold Land	10,00,000
Bank loan	1,00,000	Sports Equipment	2,60,000
Salaries outstanding	40,000	O/S Subscription	1,20,000
O/S Audit fees	15,000	Cash at Bank	45,000
Subs. received in advance	90,000		
	14,25,000		**14,25,000**

(2) **Calculation of Subscription received:**

Subscription as per Income & Expenditure A/c	13,00,000
Add: Subscription received in adv. 31.3.2015	1,40,000
Add: O/S subscription as on 31.3.2014	1,20,000
Less: Subscription received in adv. 31.3.2014	90,000
Less: O/S subscription as on 31.3.2015	80,000
	13,90,000

Sports Equipment

To Bal. b/d	2,60,000	By Depreciation	25,000
To Bank (b/f)	35,000	By Bal. c/d	2,70,000
	2,95,000		**2,95,000**

—— Space to write important points for revision ——

2017 - Dec [2] The following is the Income and Expenditure Account of Gama Club for the year ended 31st March. 2017:

Income and Expenditure Account for the year ended 31st March, 2017

Expenditure	₹	Income	₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		

To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of Furniture	2,500		
To Depreciation :			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		**73,000**

Additional information:

	31-03-2016	31-03-2017
	₹	₹
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	–	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2016 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2017 cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2017. **(15 marks)**

Answer:

Receipts and Payments Account
for the year ended 31.3.2017

Dr. **Cr.**

Receipt	₹	Payments	₹	₹
To Subscription A/c (W.N.1)	67,050	By Balance b/d (Bank overdraft)		15,000
To Donation A/c	5,000	By Salary	19,500	
To Entrance Fees A/c	4,000	*Add:* Outstanding of last year	1,200	
To Furniture A/c		*Less:* Outstanding of this year	(350)	20,350
(Sale of furniture)		By Rent	4,500	
(7,000 – 2,500)	4,500	*Add:* Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games and Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased) (W.N.2)		5,000
		By Furniture (Purchased) (W.N.3)		8,000

		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			**80,550**

Working Notes:

1. Calculation of subscription received during the year 2016-2017

Particulars	₹	₹
Subscription as per Income and Expenditure A/c		68,000
Less: Arrears of 2016-2017	3,700	
Advance in 2015-2016	1,000	(4,700)
		63,300
Add: Arrears of 2015-2016	2,600	
Advance for 2017-2018	1,500	4,100
		67,400
Less: Written off during 2016-2017		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2016-2017

Sports Equipment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	25,000	By Income & Expenditure A/c (Depreciation)	6,000
To Receipts & Payments A/c (Purchases) (bal. fig.)	5,000	By Balance c/d	24,000
	30,000		**30,000**

3. Calculation of Furniture purchased during 2016-2017

Furniture Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts and Payments A/c (Purchases) (bal. fig.)	8,000	By Income and Expenditure A/c (Loss on sale)	2,500
		By Income and Expenditure A/c (Depreciation)	3,100
		By Balance c/d	27,900
	38,000		**38,000**

Space to write important points for revision

2018 - June [3] Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

	₹
Opening Cash Balance	56,000
Donation Received (including ₹ 50,000 for Building Fund.)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @ 9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical Camp Expenses	10,500
Miscellaneous Expenses	7,000

Additional Information:

Sl. No.		01.04.2016 ₹	31.03.2017 ₹
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	3,15,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017. **(15 marks)**

Answer:

Receipts and Payments Account of Radix Clinic for the year ended 31.03.2017

Dr. **Cr.**

Receipts	₹	Payments	₹
To Cash in Hand (Opening)	56,000	By Medical Supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on Investment	63,000	By Misc. expenses	7,000
To Medical Camp collections	87,500	By Purchase of equipment	1,05,000
		By Telephone expenses	6,000
		By Medical camp expenses	10,500
		By Cash in Hand (Closing)	1,13,000
	7,11,500		**7,11,500**

Income and Expenditure Account of Radix Clinic
for the year ended 31.03.2017

Dr. **Cr.**

Expenditure	₹	Income	₹
To Medicine consumed	2,03,000	By Subscription	3,58,400
To Honorarium to doctors	1,90,000	By Donation	1,05,000
To Salaries	70,000	By Interest on investments	63,000
To Telephone expenses	6,000	By Profit on Medical camp:	
To Misc. expenses	7,000	Collections 87,500	
To Depreciation on:		*Less:* Expenses (10,500)	77,000
Medical equipment 37,800			
Building			
(3,50,000 – 3,15,000) 35,000	72,800		
To Surplus-excess of Income over expenditure	54,600		
	6,03,400		**6,03,400**

Balance Sheet of Radix Clinic as on 31st March, 2017

Liability	₹	₹	Assets	₹	₹
Capital Fund:			Building	3,50,000	
Opening Balance	12,62,100		*Less:* Depreciation	(35,000)	3,15,000
Add: Surplus	54,600	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	*Add:* Purchase	1,05,000	
Subscription received in advance		4,900		2,52,000	
Creditors for medicine supply		91,000	*Less:* Depreciation	(37,800)	2,14,200
			Stock of Medicine		1,05,000
			Investments		7,00,000
			Subscription receivable		15,400
			Cash in hand		1,13,000
		14,62,600			**14,62,600**

Working Notes:

		₹	₹
1.	**Subscription for the year ended 31.03.2017**		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 01.04.2016	10,500	
	Less: Subscription received in advance on 31.03.2017	4,900	(15,400)
			3,34,600
	Add: Subscription receivable on 31.03.2017	15,400	
	Add: Subscription received in advance on 01.04.2016	8,400	23,800
			3,58,400
2.	**Purchase of medicine**		
	Payment of medicine supply		2,10,000
	Less: Amount due for medicine supply 01.04.2016		(63,000)
			1,47,000
	Add: Amounts due for medicine supply on 31.03.2017		91,000
			2,38,000
3.	**Medicine Consumed**		
	Stock of medicine on 01.04.2016		70,000
	Add: Purchase of medicine during the year		2,38,000
			3,08,000
	Less: Stock of medicine on 31.03.2017		(1,05,000)
			2,03,000
4.	**Depreciation on equipment**		
	Value of equipment on 01.04.2016		1,47,000
	Add: Purchase of equipment during the year		1,05,000
			2,52,000
	Less: Value of equipment on 31.03.2017		(2,14,200)
	Depreciation on equipment for the year		37,800

Balance Sheet of Radix Clinic as on 31st March, 2016

Liability	₹	Assets	₹
Capital Fund: (balancing Figure)	12,62,100	Building Medical Equipment	3,50,000 1,47,000
Subscription received in advance	8,400	Stock of Medicine Investments	70,000 7,00,000
Creditors for medicine supply	63,000	Subscription receivable Cash in hand	10,500 56,000
	13,33,500		**13,33,500**

Space to write important points for revision

2018 - Dec [3] The following information provided by the Nav Yuvak Mandal, Delhi for the first year ended 31st March, 2018:

(i) Donations received for building ₹ 25 Lakh.

(ii) Other incomes and receipts were:

(₹ in '000)

Particulars	Capital Income (₹)	Revenue Income (₹)	Actual Receipt (₹)
Entrance fees	–	251	251
Life Membership fees	105	–	105
Subscription	–	1,160	1,151
Play Ground rent	–	120	110
Refreshment account	–	115	115
Sundry incomes	–	62	49

(iii) Expenditures and actual payments were: (₹ in '000)

Particulars	Capital Expenditure (₹)	Revenue Expenditure (₹)	Actual Payment (₹)
Land	800	–	800
Books	236	–	202
Furniture	345	–	315
Honorarium and salaries	–	165	131
Maintenance of play ground	–	52	50
Refreshment account	–	79	79
Insurance Premium	–	12	15
Sundry expenses	–	70	65

Others: Donation were utilized to the extent of ₹ 13 Lakh in construction of building, balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2017 for ₹ 10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2018. During the year 2017-18, Subscription received in advance ₹ 52,000 for the year 2018-19.

Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2018. **(15 marks)**

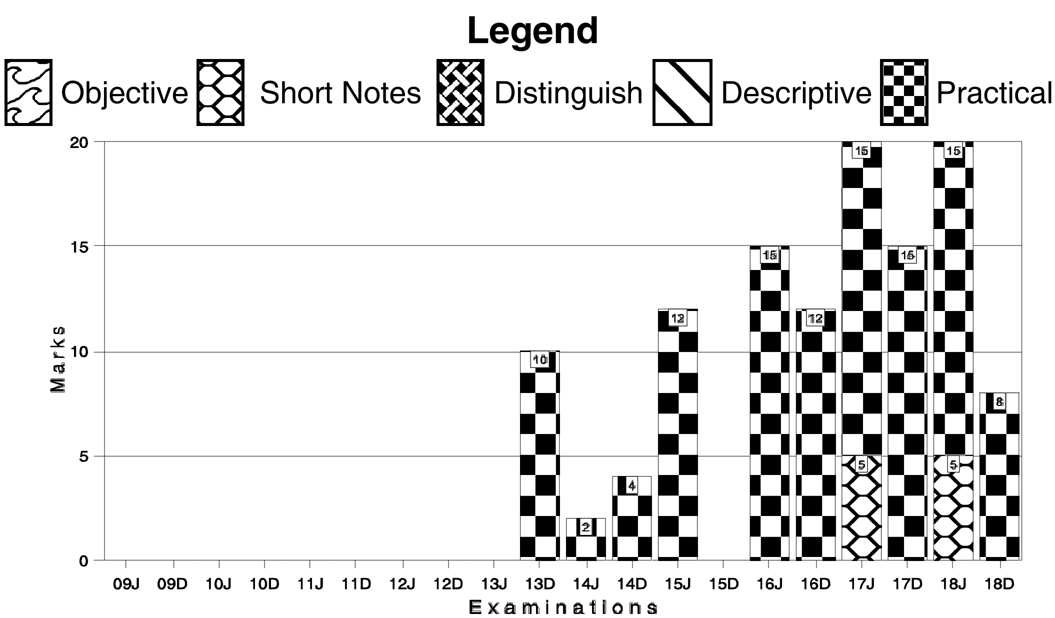
Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	2									
Total	2									

5 PREPARATION OF FINANCIAL STATEMENTS FROM INCOMPLETE RECORDS

THIS CHAPTER INCLUDES

- Preparation of Accounts Under Single Entry System
- Difference between Single Entry and Double Entry System
- Conversion of Single Entry System into Double Entry System

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Preparation of Financial Statements From Incomplete Records	Many times small business organizations do not maintain a comprehensive accounting system which is based on the double entry principle. The businessman is usually happy with the minimum information like the balances of cash and bank accounts and whether he has made a profit or loss. These people maintain rough or sketchy records that serve a limited purpose. Because, the principle of double entry is not followed, it is often referred to as a 'single entry system'.
Features of Single Entry System	(a) Maintenance of books by a sole trader or partnership firm (b) Maintenance of cash book (c) Only personal accounts are kept (d) Collection of information from original documents (e) Lack of uniformity (f) Difficulty in preparation of final accounts

SHORT NOTES

2017 - June [8] Write short note on the following:

(b) Weaknesses of Single Entry System **(5 marks)**

Answer:

Weaknesses of single entry system:

(a) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.

(b) Profit or loss can be found out only by estimates as Nominal Accounts are not maintained.

(c) It is not possible to make a balance sheet in absence of Real Accounts.

(d) It is very difficult to detect frauds or errors.
(e) Valuation of assets and liabilities is not proper.
(f) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
(g) It is quite likely that the business and personal transactions of the proprietor get mixed.

—— Space to write important points for revision ——

2018 - June [8] Write short note on the following:
(c) Features of Single Entry System. **(5 marks)**

Answer:

Single Entry System has the following features:

(a) **Maintenance of books by a sole trader or partnership firm:** The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.
(b) **Maintenance of cash book:** In this system, it is very often to keep one cash book which mixes up business as well as private transactions.
(c) **Only personal accounts are kept:** In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.
(d) **Collection of information from original documents:** For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the end of the year the total of the invoices gives an idea of total credit sales of the business.
(e) **Lack of uniformity:** It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.
(f) **Difficulty in preparation of final accounts:** It is much difficult to prepare trading, profit and loss account and balance sheet due to the absence of nominal and real accounts in the ledger.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2013 - Dec [8] (a) Mr. Dipankar a retail trader needs financial statements for the year ended 31.03.2013 for availing a bank loan. He gives you the following information regarding receipts and payments.

(i) Cash deposited into the bank account ₹ 1,05,000.
(ii) Dividend from companies deposited in bank account ₹ 5,000.
(iii) Tuition fees of doctor paid by cheque ₹ 15,000.
(iv) Rent for the year paid by cash ₹ 24,000.
(v) Cash collections from debtors ₹ 5,50,000.
(vi) Amounts paid to creditor ₹ 4,00,000 in cash and ₹ 1,00,000 by cheque.
(vii) Salary and wages paid in cash ₹ 36,000.
(viii) Office electricity paid by cheque ₹ 12,000.
(ix) General expenses incurred in cash ₹ 18,000.
(x) Drawings every month ₹ 6,000 by cash.
(xi)

Particulars	31.03.2012	31.03.2013
Stock	3,20,000	4,40,000
Bank	55,000	38,000
Cash	10,000	12,000
Debtors	75,000	86,000
Creditors	48,000	70,000

Prepare his Trading & Profit and Loss Account for the year ended 31st March, 2013 and Balance Sheet as at 31.03.2013. **(10 marks)**

Answer:

Cash and Bank A/c

	Cash	Bank		Cash	Bank
To Balance b/d	10,000	55,000	By Bank	1,05,000	
To Cash		1,05,000	By Drawings	72,000	
To Dividend		5,000	By Drawing (Tuition Fee)		15,000
To Debtors	5,50,000				
To Sales (Cash Sales)	1,07,000		By Rent	24,000	
			By Creditors	4,00,000	1,00,000

			By Salary & Wages	36,000	
			By Electricity		12,000
			By General Exp.	18,000	
			By Balance c/d	12,000	38,000
	6,67,000	1,65,000		6,67,000	1,65,000

Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	75,000	By Cash A/c	5,50,000
To Sales (Credit)	5,61,000	By Balance c/d	86,000
	6,36,000		6,36,000

Creditor A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c	4,00,000	By Balance b/d	48,000
To Bank A/c	1,00,000	By Purchase A/c	5,22,000
To Balance c/d	70,000	(Credit)[2] Balancing figure	
	5,70,000		5,70,000

Trading & Profit and Loss Account for the year ended 31st March, 2013

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	3,20,000	By Sales: Cash	1,07,000
To Purchases	5,22,000	Credit	5,61,000
To Gross Profit	2,66,000	By Closing Stock	4,40,000
	11,08,000		11,08,000
To Rent	24,000	By Gross Profit	2,66,000
To Salaries & Wages	36,000	By Dividend	5,000
To Office electricity	12,000		
To General expenses	18,000		
To Net Profit	1,81,000		
	2,71,000		2,71,000

Balance Sheet as at 31.03.2012

Liabilities	Amount ₹	Assets	Amount ₹
Capital	4,12,000	Stock	3,20,000
Creditors	48,000	Debtors	75,000
		Bank	55,000
		Cash	10,000
	4,60,000		4,60,000

Balance Sheet as at 31.03.2013

Liabilities	₹	Assets	₹
Creditors	70,000	Stock	4,40,000
Capital	5,06,000*	Debtors	86,000
		Bank	38,000
		Cash	12,000
	5,76,000		5,76,000

* ₹ 4,12,000 + ₹ 1,81,000 – ₹ 72,000 – ₹ 15,000
[Opening Capital + Net Profit – Drawings – Doctor Fees]

—— Space to write important points for revision ——

2014 - June [1] {C} Answer the following question (give working):

(viii) Calculate the average collection period from the following details by adopting 360 days an year.

Average Inventory	– ₹ 10,80,000	Gross Profit Ratio	– 10%
Debtors	– ₹ 6,90,000	Credit sales to total sales	– 20%
Inventory Turnover ratio	– 6 Times	1 year	– 360 days

(2 marks)

Answer:

Inventory turnover ratio $= \dfrac{\text{Cost of goods sold}}{\text{Average Inventory}}$

$$6 = \frac{\text{COGS}}{10{,}80{,}000}$$

$$\text{COGS} = 64{,}80{,}000$$

$$\text{GP ratio} = 10\%$$

$$\text{Hence, Sales} = \text{COGS} \times \frac{100}{90}$$

$$= 64{,}80{,}000 \times \frac{100}{90} = 72{,}00{,}000$$

Credit sales $= 72{,}00{,}000 \times 20\% = 14{,}40{,}000$

Average collection Period $= \dfrac{\text{Average Debtors}}{\text{Credit Sales}} \times 360$

$$= \frac{6{,}90{,}000}{14{,}40{,}000} \times 360 = 172.5 \text{ days}$$

—— Space to write important points for revision ——

2014 - Dec [4] Answer the question:

(b) Prepare Total Creditors Account for the year ended on 31.03.2013 from the data given below:

	₹
Creditors Balance on 01.04.2012	38,000
Credit Purchases during the year	2,67,000
Bills payable accepted	62,000
Cash paid to Creditors	1,37,000
B/R endorsed to creditors	16,000
Endorsed B/R dishonoured	3,000
B/P dishonoured	2,000
Purchase returns	11,000
Discount received	6,000
Transfer from Debtors ledger	7,000

(4 marks)

Answer:

Total Creditors A/c

Particulars	Amount	Particulars	Amount
To B/P	62,000	By Balance b/d	38,000
To Cash	1,37,000	By Purchases	2,67,000
To B/R (endorsed)	16,000	By Total debtors A/c (endorsed B/R dishonoured)	3,000
To Purchase return	11,000		
To Discount	6,000	By B/P	2,000
To Total debtors A/c	7,000		
To Balance c/d	71,000		
	3,10,000		3,10,000

Space to write important points for revision

2015 - June [3] (c) ANSHU keeps his books under single entry system. On 31st March, 2014 his Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital	4,50,000	Fixed Assets	2,25,000
Creditors	8,70,000	Stock	9,15,000
Bills Payable	1,87,500	Debtors	2,22,000
Expenses Outstanding	67,500	Bills Receivable	90,000
		Prepaid Insurance	3,000
		Cash/Bank Balance	1,20,000
	15,75,000		15,75,000

(i) Following is the summary of cash and bank transaction for the year ended 31st March, 2015:
Cash Sales ₹ 1,10,70,000; Collection from Debtors ₹ 22,65,000; Payments to Creditors ₹ 1,12,60,500; Paid for Bills Payable ₹ 12,22,500; Sundry Expenses Paid ₹ 9,31,050; Drawings for Domestic expenses by Mr. Anshu ₹ 3,60,000; Cash and Bank Balance as on 31-03-2015 ₹ 1,90,950.

(ii) Following further details are furnished:
Gross Profit on Sales @ 10%; Bills Receivable from Debtors during the year ₹ 6,52,500; Discount Allowed to Debtors ₹ 54,000; Discount Received from Creditors ₹ 42,000; Bills Receivable Endorsed to Creditors ₹ 22,500; Annual Fire Insurance Premium paid (This is paid on 1st August every year) ₹ 9,000; Depreciation on Fixed Assets @ 10%.

(iii) Balance as on 31-03-2015 are given below:
Stock in hand ₹ 9,75,000; Debtors ₹ 2,28,000; Bills Receivable ₹ 2,10,000; Outstanding Expenses ₹ 7,500; Bills payable ₹ 2,10,000.

You are required to prepare:

(1) Trading and Profit and Loss Account for the year ended March 31, 2015; and

(2) Balance Sheet as on 31.03.2015. **(4 + 3 + 5 = 12 marks)**

Answer:

Trading & Profit and Loss A/c of MR. ANSHU
for the year ended 31.03.2015

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock	9,15,000	By Sales:		
To Purchases (W.N.5)	1,27,02,750	Cash	1,10,70,000	
To Gross Profit	14,04,750	Credit (W.N. 2)	29,77,500	1,40,47,500
		By Closing Stock		9,75,000
	1,50,22,500			1,50,22,500
To Expenses (W.N.6)	8,71,050	By Gross Profit		14,04,750
To Discount Allowed	54,000	By Discount received		42,000
To Depreciation	22,500			
To Net Profit	4,99,200			
	14,46,750			**14,46,750**

Balance Sheet of MR. ANSHU
as on 31st March, 2015

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital	4,50,000		Fixed Assets	2,25,000	
Add: Net Profit	4,99,200		*Less:* Depreciation	22,500	2,02,500
	9,49,200		Stock		9,75,000
Less: Drawings	3,60,000	5,89,200	Debtors		2,28,000
Bills payable		2,10,000	Bills receivable		2,10,000
Creditors		10,02,750	Prepaid insurance		3,000
Outstanding expenses		7,500	Cash at hand/bank		1,90,950
		18,09,450			**18,09,450**

Working Notes:

(1) Bills Receivable Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	90,000	By Cash (Balancing Figure)	5,10,000
To Debtors	6,52,500	By Creditors (Bills Endorsed)	22,500
		By Balance c/d	2,10,000
	7,42,500		**7,42,500**

(2) Debtors Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,22,000	By Cash/Bank	22,65,000
To Credit sales (Balancing Figure)	29,77,500	By Discount allowed	54,000

		By Bills Receivable	6,52,500
		By Balance c/d	2,28,000
	31,99,500		**31,99,500**

(3) Bills Payable Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Bank	12,22,500	By Balance b/d	1,87,500
To Balance c/d	2,10,000	By Creditors (Balance in figure)	12,45,000
	14,32,500		**14,32,500**

(4) Creditors Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Cash/Bank	1,12,60,500	By Balance b/d	8,70,000
To Discount	42,000	By Purchases	1,27,02,750
To B/R Endorsed	22,500		
To B/P	12,45,000		
To Balance c/d (Bal. Fig.)	10,02,750		
	1,35,72,750		**1,35,72,750**

(5) Stock Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	9,15,000	By Cost of Goods sold (₹1,40,47,500 x 90%)	1,26,42,750
To Purchases (Bal. Fig.)	1,27,02,750		
		By Balance c/d	9,75,000
	1,36,17,750		**1,36,17,750**

(6) Expenses for the year ended 31st March, 2015

Particulars	**Amount ₹**
Expenses paid during the year	9,31,050
Add: Outstanding expenses as on 31.03.2015	7,500
	9,38,550
Less: Outstanding expenses as on 01.04.2014	67,500
	8,71,050
Add: Period Insurance as on 01.04.2014	3,000
	8,74,050
Less: Prepaid Insurance as on 31.03.2015 (₹ 9,000 x 4/12)	3,000
Expenses shown in the P & L Account for the year ended 31.03.2015	8,71,050

—— Space to write important points for revision ——

2016 - June [6] The following is the Balance Sheet of MR. SILGARDO as on March 31, 2015.

Liabilities	₹	Assets	₹
Capital Account	4,80,000	Buildings	3,25,000
Loan	1,50,000	Furniture	50,000
Trade Creditors	3,10,000	Motor car	90,000
		Stock	2,00,000
		Trade Debtors	1,70,000
		Cash in hand	20,000
		Cash at bank	85,000
	9,40,000		9,40,000

A fire occurred on the night of 31st March, 2016, in which all books and records were lost. The cashier had absconded with the available cash. MR. SILGARDO gives you the following information:

(a) His sales for the year ended March 31, 2016 were 20% higher than the previous years. He always sells his goods at cost plus 25%. 20% of the total sales for the year ended March 31, 2016 was for cash.
There were no cash purchases.

(b) On April 1, 2015 the stock level was raised to ₹ 3,00,000 and the stock was maintained at this level throughout the year.

(c) Collection from Debtors amounted to ₹ 14 lakh of which ₹ 3.50 lakh was received in cash. Business expenses amounted to ₹ 2,00,000 of which ₹ 50,000 was outstanding on March 31, 2016 and ₹ 60,000 was paid by cheques.

(d) Analysis of the pass books revealed on the following:
Payment to creditors ₹ 13.75 lakh, Personal drawings ₹ 75,000. Cash deposited in bank ₹ 7.15 lakh.
Cash withdrawn from bank ₹ 1,20,000.

(e) Gross profit as per last year's audited accounts was ₹ 3,00,000.

(f) Provide depreciation on building and furniture at 5% and on motor car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

Required:

(i) Prepare Trading and Profit and Loss Account for the year ended March 31, 2016.

(ii) Prepare Balance Sheet as on 31.03.2016.

(5+5+(2+1+1+1) = 15 marks)

Answer :

(i) **MR. SILGARDO**

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

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock A/c	2,00,000	By Sales A/c (Note 4):	
To Purchase (Balancing figure) A/c	15,40,000	Credit (80%) 14,40,000 Cash (20%) 3,60,000	18,00,000
To Gross Profit c/d (20% of ₹ 18,00,000)	3,60,000	By Closing Stock	3,00,000
	21,00,000		21,00,000

To Business Expenses	2,00,000	By Gross Profit b/d	3,60,000
To Depreciation on:			
Building 16,250			
Furniture 2,500			
Motor car 18,000	36,750		
To Net Profit (transferred to capital)	1,23,250		
	3,60,000		**3,60,000**

(ii) **MR. SILGARDO**

Balance Sheet as at March 31, 2016

Liabilities		₹	Assets		₹
Capital: Opening Balance	4,80,000		Buildings	3,25,000	
Add: Net Profit	1,23,250		*Less:* Depreciation	16,250	3,08,750
	6,03,250		Furniture	50,000	
Less: Drawings	75,000	5,28,250	*Less:* Depreciation	2,500	47,500
Loan		1,50,000	Motor Car	90,000	
Trade Payables		4,75,000	*Less:* Depreciation	18,000	72,000
Outstanding business expenses		50,000	Stock-in-trade		3,00,000
			Trade Receivables		2,10,000
			Cash at Bank		2,20,000
			Amount due from employee (for deduction)		45,000
		12,03,250			**12,03,250**

Working notes:

(1) Cash Book

Dr. **Cr.**

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	20,000	85,000	By Business Expenses	90,000	60,000
To Sales (Note 4)	3,60,000	-			
To Trade Receivables	3,50,000	10,50,000	By Drawings	-	75,000

To	Cash (C)	-	7,15,000	By	Trade payables	-	13,75,000
To	Bank (C)	1,20,000	-	By	Bank (C)	7,15,000	-
				By	Cash (C)	-	1,20,000
				By	Balance c/d	*45,000	2,20,000
		8,50,000	**18,50,000**			**8,50,000**	**18,50,000**

***Recoverable from Cashier**

(2) Trade Receivables Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Balance c/d	1,70,000	By Bank (14,00,000-3,50,000)	10,50,000
To Sales (Note 4)	14,40,000	By Cash	3,50,000
		By Balance c/d	2,10,000
	16,10,000		**16,10,000**

(3) Trade Payables Account

Dr. **Cr.**

Particulars	₹	**Particulars**	₹
To Bank A/c	13,75,000	By Balance c/d	3,10,000
To Balance c/d	4,75,000	By Purchase A/c (Note 5)	15,40,000
	18,50,000		**18,50,000**

(4) Computation of Total Sales

	₹
Last year's gross profit @20% on sales (cost + 25%)	3,00,000
Last year's sales (3,00,000 x 5)	15,00,000
Current year's sales (₹15,00,000 + 20%)	18,00,000
Gross Profit: 20% of Sales	3,60,000
Cash Sales: 20% of Total Sales	3,60,000
Credit Sales: 80% of Total Sales	14,40,000

5. **Calculation of Purchase:**
(Sales + Closing Stock) – (Opening Stock + Gross Profit)
= (18,00,000 + 3,00,000) – (2,00,000 + 20% of 18,00,000)
= (21,00,000 – 5,60,000) = ₹ 15,40,000.

—— Space to write important points for revision ——

2016 - Dec [5] (a) M/S SHOANI a trader who maintained books under Single Entry System, approaches you with the following details:

	01.04.2015	31.03.2016
Assets and Liabilities:	₹	₹
Trade Creditors	1,57,700	1,24,000
Sundry Expenses Outstanding	6,000	3,300
Sundry Assets (Net)	1,16,100	96,000
Stock-in-Trade	80,400	1,11,200
Cash in hand	29,600	12,000
Cash at Bank	40,000	69,200
Trade Debtors	1,65,300	1,78,700

(1) Details relating to transactions during the year ended March 31, 2016.

	₹		₹
Discount Credited to Trade Debtors	15,000	Cash purchases	10,300
Sales return	14,500	Cash expenses	95,700
Bad debts	4,200	Paid by cheque for machinery purchased	3,900
Discount allowed by trade creditors	7,000	Household expenses drawn from bank	31,800
Purchases returns	4,000		

Additional capital paid into bank	85,000	Cash paid into bank Cash drawn from bank	50,000 92,400
Realisation from Trade Debtors – paid into bank	6,25,000	Cheque issued to Trade Creditors	6,02,700

(2) Depreciation was provided 20% of WDV on Sundry Assets for the year.
You are requested to prepare:
(i) Trading and Profit & Loss Account for the year ended March 31, 2016 and
(ii) Balance Sheet as on that date. **(5+3+1+1+1+1=12 marks)**

Answer:

M/S SHOANI
Trading and Profit and Loss Account
for the year ended 31st March, 2016

Dr. **Cr.**

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Opening Stock in trade		80,400	By Cash Sales	46,000	
To Purchase (Note 1)	5,90,300		By Credit Sales	6,72,100	
Less: Returns	4,000	5,86,300	*Less:* Return	7,18,100	
To Gross profit c/d		1,48,100	By Closing Stock	14,500	7,03,600
			By Closing Stock in trade		1,11,200
		8,14,800			8,14,800
To Sundry expenses (Note -2) To Discount allowed		93,000 15,000	By Gross profit b/d		1,48,100
To Bad Debts To Depreciation		4,200 24,000	By Discount received		7,000
To Net profit		18,900			
		1,55,100			1,55,100

Balance Sheet as at 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital:			Sundry Assets		96,000
Opening balance	2,67,700		Stock in trade		1,11,200
New capital	85,000		Trade Debtors		1,78,700
Profit	18,900		Cash in hand		12,000
	3,71,600		Cash at bank		69,200
Less: Drawings	31,800	3,39,800			
Trade creditors		1,24,000			
Outstanding expenses		3,300			
		4,67,100			4,67,100

Working Notes:

(1) Purchase = Credit 5,80,000+ Cash 10,300 = ₹ 5,90,300.

(2) Sundry expenses = paid in cash ₹ 95,700 plus outstanding on 31.03.2016, ₹ 3,300 outstanding on 01.04.2015 ₹ 6,000 = ₹ 93,000.

(3)

Balance Sheet as on April 1st, 2015

Liabilities	₹	Assets	₹
Trade Creditors	1,57,700	Sundry Assets	1,16,100
Outstanding expenses	6,000	Trade debtors	80,400
Capital (balancing figure)	2,67,700	Trade debtors	1,65,300
		Cash in hand and at Bank	69,600
	4,31,400		4,31,400

(4)

Trade Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,65,300	By Bank	6,25,000
To Sales (balancing figure)	6,72,100	By Return inward	14,500
		By Discount allowed	15,000
		By Bad debts	4,200
		By Balance c/d	1,78,700
	8,37,400		8,37,400

(5) **Trade Creditors Account**

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c	6,02,700	By Balance b/d	1,57,700
To Discount Received A/c	7,000	By Purchases (balancing figure) A/c	5,80,000
To Returns Outward A/c	4,000		
To Balance c/d	1,24,000		
	7,37,700		7,37,700

(6) **Cash Account**

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	29,600	By Purchases A/c	10,300
To Bank (Cash withdrawn) A/c	92,400	By Sundry Expenses A/c	95,700
To Sales (Cash sales) [balancing figure]	46,000	By Bank (Cash deposited) A/c	50,000
		By Balance c/d	12,000
	1,68,000		1,68,000

Space to write important points for revision

2017 - June [4] The statement of Affairs of Mr. M on Saturday, the 31st December 2015 was as follows:

	₹		₹
Capital	50,000	Fixed Assets	30,000
Sundry Creditors	10,000	Stock	10,000
Liability for Expenses	1,000	Debtors	15,000
		Bank	5,000
		Cash	1,000
	61,000		61,000

Mr. M did not maintain has books on the Double Entry System. But he carefully follows the following system:

(a) Every week he draws ₹ 200.

(b) After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.

(c) No cash purchase is made and creditors are paid by cheques.

(d) Sales are at fixed price which include 20% profit on sales.

(e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.

(f) Expenses other than sundries and other special drawings are made in cheques.

(g) All unpaid bills are kept in a file carefully.

The following are his bank transactions for 13 weeks :

	₹		₹
Balance on Jan. 1	5,000	Creditors paid	40,000
Cheques deposited	2,000	Rent paid	600
Cash deposited	42,000	Expenses (other than Sundry Expenses)	3,000
		Balance on April 1	5,400
	49,000		49,000

After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

(a) Stock on that day was valued at ₹ 4,000;
(b) Sundry Debtors amounted to ₹ 20,000 as per diary;
(c) Sundry Creditors were ₹ 8,000 as per unpaid bills file. Find out the amount of cash missing. **(15 marks)**

Answer:

Dr. Sundry Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/f	15,000	By Bank	2,000
To Credit Sales (balancing figure)	7,000	By Balance c/f	20,000
	22,000		22,000

Dr. Sundry Creditors Account Cr.

Particulars	₹	Particulars	₹
To Bank	40,000	By Balance b/f	10,000
To Balance c/f	8,000	By Credit Purchases (balancing figure)	38,000
	48,000		48,000

Dr. Cash Account Cr.

Particulars	₹	Particulars	₹
To Balance b/f	1,000	By Drawing: (13 × ₹ 200)	2,600
To Cash Sales	48,000	By Sundry Expenses: (13 × ₹ 100)	1,300
		By Bank	42,000
		By Balance being cash missing	3,100
	49,000		49,000

Note: Calculation of Cash Sales:

	₹
Opening Stock	10,000
Add: Purchases	38,000
	48,000
Less: Closing Stock Cost of goods sold	4,000
	44,000
Add : Gross Profit @ 20% on Sales i.e., 25% on cost	11,000
Total Sales	55,000
Less: Credit Sales	7,000
Cash Sales	48,000

—— Space to write important points for revision ——

2017 - Dec [3] The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	₹	**Assets**	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor Car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at Bank	8,500
	94,000		**94,000**

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.

(b) On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.

(e) Gross Profit as per last year's audited accounts was ₹ 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

(15 marks)

Answer:

Trading and Profit and Loss Account
For the year ending on 31st March, 2016

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹
To Opening Stock		20,000	By Sales	1,80,000
To Purchase (bal. fig.)		1,54,000	By Closing stock	30,000
To Gross Profit c/d (@ 20% on sales)		36,000		
		2,10,000		2,10,000
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net Profit transferred to Capital A/c		12,325		
		36,000		**36,000**

Balance Sheet as at 31st March, 2016

Liability	₹	₹	Assets	₹	₹
Capital Account:			Building	32,500	
Opening Balance	48,000		*Less:* Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		*Less:* Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	*Less:* Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors		21,000
			Cash at bank		22,000
			Sundry Advances (Amount recoverable from cashier)		4,500
		1,20,325			**1,20,325**

Working Notes:

(i) Total Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹ 1,40,000 – ₹ 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
To Gross Profit c/d (@ 20% on sales)		By Balance c/d	21,000
	1,61,000		**1,61,000**

(ii) Total Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		**1,85,000**

(iii) **Cash Book**

Dr. **Cr.**

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	—	By Drawings	—	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	—	1,37,500
To Cash (Contra)	—	71,500	By Bank (Contra)	71,500	—
To Bank (Contra)	12,000	—	By Cash (Contra)	—	12,000
			By Defalcation(Bal. Fig.)	4,500	—
			By Balance c/d(Bal. Fig.)	—	22,000
	85,000	**1,85,000**		**85,000**	**1,85,000**

(iv) Last year's Total Sales = Gross Profit × 100/20 = ₹ 30,000 × 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000 + 20% of ₹ 1,50,000 = ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 × 80% = ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹ 1,80,000 – ₹ 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= ₹ 1,44,000 + ₹ 30,000 – ₹ 20,000
= ₹ 1,54,000.

—— Space to write important points for revision ——

2018 - June [4] The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date:

(a) Assets and Liabilities as on :

	01.04.2016 ₹	31.03.2017 ₹
Furniture	60,000	63,500
Stock	80,000	70,000

Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October, 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipts of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonored.

(d) Goods costing ₹ 9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtor. **(15 marks)**

Answer:

Trading and Profit and Loss Account of ABC Enterprise for the year ended 31st March, 2017

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight Inwards		30,000		
To Gross Profit c/d		1,21,750		
		6,78,750		**6,78,750**
To Sundry expenses		92,000	By Gross Profit b/d	1,21,750
To Advertisement		9,000	By Interest on Investment	600
To Discount Allowed -			(20,000 × 6/100 × ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net Profit		10,145		
		1,35,350		**1,35,350**

Balance Sheet as on 31st March, 2017

Liability	₹	₹	Assets	₹	₹
Capital as on 01.04.16	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
	97,000		*Less:* Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing Inventory		70,000
			Sundry debtors	72,750	

			Less: Provision for doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at Bank		26,250
			Prepaid expenses		7,000
		2,75,145			**2,75,145**

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liability	₹	Assets	₹
Capital (Bal. Fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at Bank	12,000
		Prepaid expenses	6,000
	3,18,000		**3,18,000**

(2) Purchases made during the year

Particulars	₹	Particulars	₹
To Cash & bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount Received A/c	8,000	By Sundry Debtors	4,000
To Bills Receivable A/c	20,000	By Purchases A/c (Balancing figure)	4,56,000
To Balance c/d	1,50,000		
	5,70,000		**5,70,000**

(3) Sales made during the year

Particulars	₹	₹
Opening Inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight Inwards		30,000
		5,57,000
Less: Closing Inventory		(70,000)
Cost of Goods Sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,60,000	By Cash and Bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount Allowed A/c	15,000
To Sundry Creditors A/c		By Bills Receivable A/c	1,00,000
(Bill Dishonoured)	4,000	By Balance c/d (Bal. Fig.)	72,750
	7,72,750		**7,72,750**

(5) Additional drawings by proprietors of ABC Enterprises

Cash and Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance A/c	12,000	By Freight Inwards A/c	30,000
To Sundry Debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000

To Miscellaneous Income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings [₹ 70,000+₹ 21,000] [Additional Drawings]	91,000
		By Balance c/d	26,250
	6,63,250		**6,63,250**

(6) Amount of expenses debited to Profit and Loss Account

Sundry Expenses Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Prepaid Expenses A/c (on 01.04.16)	6,000	By Outstanding Expenses A/c (on 01.04.16)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Bal. Figure)	92,000
To Outstanding Expenses/c (on 31.03.17)	18,000	By Prepaid Expenses A/c (on 31.03.17)	7,000
	1,19,000		**1,19,000**

(7) **Bills Receivable on 31st March, 2017**

Bills Receivable Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on Bills Receivable A/c	1,250
		By Balance c/d (Balancing Figure)	17,500
	1,00,000		**1,00,000**

Note: All sales and purchases are assumed to be on credit basis.

Space to write important points for revision

2018 - Dec [2] (b) Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date:

Particulars	31st March, 2017 (₹)	31st March, 2018 (₹)
Furniture	1,00,000	1,20,000
Stock of Goods-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	—	4,000
Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and Payments during the year were as follows:

Particulars	₹
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchased	20,000

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors. **(8 marks)**

Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	2									
Total	2									

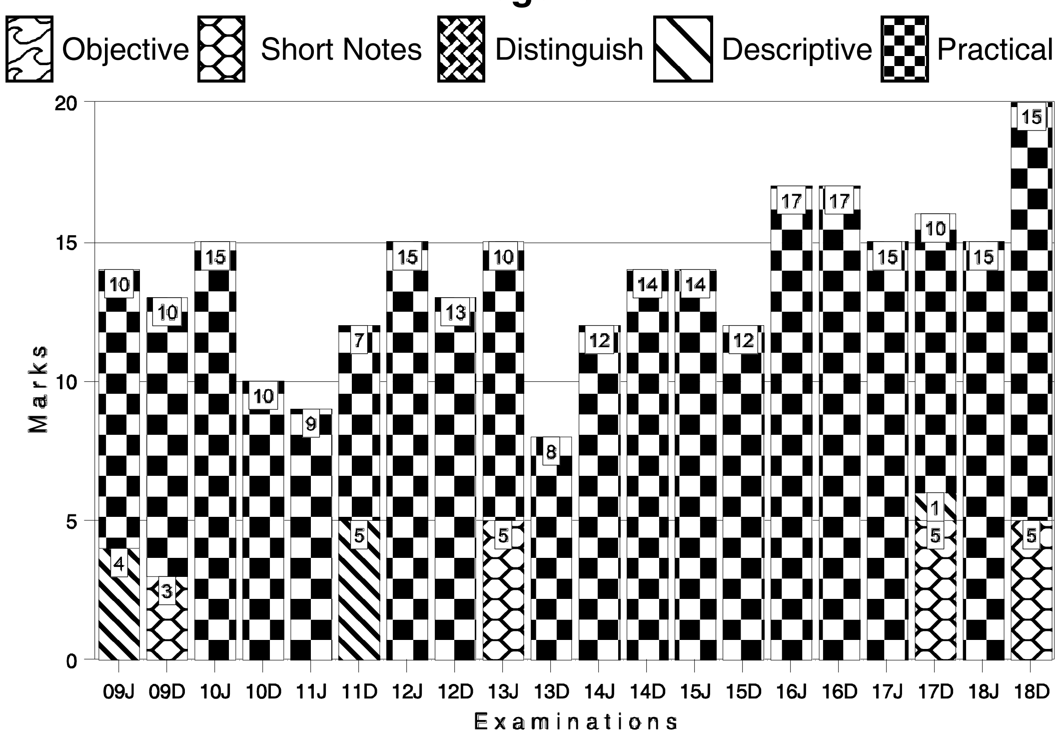
6 PARTNERSHIP

THIS CHAPTER INCLUDES

- Appropriation of Profits
- Admission
- Retirement
- Death
- Insolvency of a Partner
- Dissolution
- Amalgamation
- Conversion and Sale of a Partnership Firm

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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CHAPTER AT A GLANCE

Admission of Partner	Partners of a continuing business may, by common consent, decide to admit a new partner for additional capital, technical skill or managerial efficiency.
Valuation of Inherent or Non-Purchased Goodwill	1. Average Profits Methods 2. Super Profits Method 3. Capitalization of Profits Methods 4. Annuity Method
Retirement of Partner	A Partner may leave the firm by taking retirement. Normally the retirement takes place by consent of all the partners and/ or by other mode of communication by the intended partner to all other partners.
Death of Partner	If a partner dies, the partnership is usually dissolved. But if the surviving partners desire so, they may purchase the share of the deceased partner and carry on the business. In that case they have to decide (1) the total amount payable to the legal representative or executor of the deceased partner and (2) the mode of such payment.
Dissolution of a Partnership Firm	Whenever a reconstitution takes place within a Partnership in the form of admission, retirement or death of a Partner, the existing partnership is dissolved. The Partnership firm, may however, continue, if the remaining partners desire so. But if the partnership firm is discontinued for any reason, that is called Dissolution of the firm.

Insolvency of a Partner	If a partner becomes insolvent and fails to pay his debit balance of Capital A/c either wholly or in part, the unrecoverable portion is a loss to be borne by the solvent partners.
Decision in Garner vs. Murray Case	Unless otherwise agreed, the decision in Garner vs. Murray requires: (i) That the solvent partners should bring in cash equal to their respective shares of the loss on realization; (ii) That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.

SHORT NOTES

2009 - Dec [8] Write note on :

(b) Memorandum revaluation account; **(3 marks)**

Answer :

When Assets and Liabilities are revalued at new figures and balances of Assets and Liabilities to be shown at old figure only, then instead of making Revaluation A/c, then firm makes Memorandum Revaluation A/c.

Space to write important points for revision

2013 - June [8] Write short note:

(e) Guaranteed Partnership. **(5 marks)**

Answer:

In a partnership, there may be special agreement by virtue of which partner may get the guarantee of earning a minimum amount of profit. The guarantee may be given by one partner in particular or by the firm. It is given generally to encourage a junior partner or any sincere clerk of the business inducted to the benefits of partnership.

Guarantee given by the partner:

(i) The appropriation of profit should be made in the general course by applying the existing profit sharing ratio.

(ii) The minimum amount guaranteed is to be decided.

(iii) In case the guaranteed amount (ii) is more, the excess should be deducted from the share of profit of the partner giving guarantee and calculated under (i) above.

The same amount should be added with the original share of profit of the partner to whom the guarantee has been given.

—— Space to write important points for revision ——

2017 - Dec [8] Write short notes on the following:

(d) Criticism of the decision of Garner vs. Murray. **(5 marks)**

Answer:

Criticism of the decision of Garner vs. Murray

The following criticism may be advocated against the decisions laid down in Garner vs. Murray principle:

(i) If any solvent partner has a debit balance in capital account, he must not bear the deficiency of the insolvent partner;

(ii) This principle does not apply if there are only two partners;

(iii) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on realisation which is immaterial and useless; and

(iv) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per *Garner vs. Murray* decision, bear less amount of deficiency of the insolvent partner than the other solvent partner who possess less private assets but contributes more capital to the firm. This is not justified.

—— Space to write important points for revision ——

2018 - Dec [8] Write short note on the following:

(i) Applicability and Non-Applicability of Garner vs. Murray Rule **(5 marks)**

DESCRIPTIVE QUESTIONS

2009 - June [1] {C} (f) State briefly the Rule of Garner vs. Murray.

(4 marks)

Answer :

As per Garner vs Murray Rule:

(i) The solvent partners bring in cash equal to their share of realization loss.

(ii) Deficiency of assets due to insolvency of a partner is shared in the ratio of the capital by the solvent partners. The ratio of capital should be as per capital just before the dissolution. Thus solvent partners insolvency loss in the ratio of capital contribution and the court passes decree in the favour of solvent partners against the insolvent partners for less amount borne by solvent partners. Thus insolvency loss is treated as a debt due to the solvent partners individually and not to the firm.

—— Space to write important points for revision ——

2011 - Dec [2] (d) What do you understand by gradual realisation assets and piecemeal distribution? State the priority that should be followed in piece meal distribution. **(5 marks)**

Answer :

Gradual Realisation of Assets : In dissolution of a partnership firm, it is assumed that all assets are sold and money is realized on the date of dissolution and at the same time expenses of realization and all external liabilities are paid off.

Piecemeal Distribution : In actual practice all assets cannot be sold collectively. It takes many days and even months to sell the assets and all the assets are not sold in one lot but are sold separately. So, the money is received gradually. Therefore, as money is received by the sale of assets, it is distributed in order of payment. On gradual or part sale of assets and after realization of money, cash is distributed, is called piecemeal distribution.

For the distribution of amount received from gradual realization of assets the following two methods are used :

(i) Highest relative capital method
(ii) Maximum loss method

Priority of distribution will be as under :

(a) Payment of expenses on realization and external liabilities.
(b) Payment of internal debts.
(c) Payment of Partners loan.
(d) Payment of partner's capital.

—— Space to write important points for revision ——

2017 - Dec [4] (c) (i) Why is goodwill considered to be an intangible asset and not a fictitious asset? **(1 mark)**

Answer:

Goodwill is not a fictitious asset because it has a realisable value. It is an intangible asset because it cannot be seen and touched.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2008 - Dec [4] (a) Suchandra, Ashmita and Kasturi were running partnership business sharing Profit and Losses in 2:2:1 ratio. Their Balance Sheet as on 31.03.2008 stood as following:

(₹ in 000's)

Liabilities	₹	₹	***Assets***	₹	₹
Fixed Capital :			Fixed Assets		920.00
Suchandra	690.00		Investment		115.00
Ashmita	460.00		Current Assets :		
Kasturi	230.00	1,380.00	Stock	230.00	
Current Account :			Debtors	632.50	
Suchandra	138.00		Cash at Bank	287.50	1,150.00
Kasturi	92.00	230.00			

Unsecured Loan	230.00	
Current Liabilities	345.00	
	2,185.00	2,185.00

On 1.4.2008, they agreed to form new company Tata (P) Ltd. with Ashmita and Kasturi each taking up 460 eq. share of ₹ 10 each, which shall take over the firm as going concern including Goodwill, but excluding cash and bank balance.

The following are also agreed upon:

(a) Goodwill will be valued at 3 years purchase of super profit.

(b) The actual profit for the purpose of Goodwill valuation will be ₹ 4,60,000.

(c) The normal rate of return will be 18% p.a. on Fixed Capital.

(d) All other assets and liabilities will be taken at Book value.

(e) Ashmita and Kasturi are to acquire interest in the new company at the ratio 3:2.

(f) The purchase consideration will be payable partly in shares of ₹ 10 each and partly in cash. Payment in cash being to meet the requirement to discharge Suchandra, who has agreed to retire.

(g) Realisation expenses amounted to ₹ 1,17,300.

You are required to close the books of the firm by passing necessary journal entries. **(10 marks)**

Answer :

(a)	Realization A/c	Dr.	26,49,600	
	To Fixed Assets A/c			9,20,000
	To Investment A/c			1,15,000
	To Stock A/c			2,30,000
	To Sundry Debtors A/c			6,32,500
	To Goodwill A/c			6,34,800
	To Bank A/c (Realization Expenses)			1,17,300
	(Being transfer of Assets to Realization A/c)			
(b)	Unsecured loan A/c	Dr.	2,30,000	
	Current liabilities A/c	Dr.	3,45,000	
	To Realisation A/c			5,75,000
	(Being transfer of liabilities to Realization A/c)			

(c)	Suchandra's Capital A/c	Dr.	46,920	
	Ashmita's Capital A/c	Dr.	46,920	
	Kasturi's Capital A/c	Dr.	23,460	
	To Realisation A/c			1,17,300
	(Being transfer of realization losses to partner's Capital A/c)			
(d)	Tata (P) Ltd. A/c	Dr. w.n.(3)	19,57,300	
	To Realisation A/c			19,57,300
	(Being purchase consideration due)			
(e)	Goodwill A/c	Dr. w.n. (2)	6,34,800	
	To Suchandra's Capital A/c			2,53,920
	To Ashmita's Capital A/c			2,53,920
	To Kasturi's Capital A/c			1,26,960
	(Being transfer of goodwill to parties Capital A/c)			
(f)	Suchandra's Current A/c	Dr.	1,38,000	
	Kasturi's Current A/c	Dr.	92,000	
	To Suchandra's Capital A/c			1,38,000
	To Kasturi's Capital A/c			92,000
	(Being transfer of Current A/c balances to Capital A/c)			
(g)	Suchandra's Capital A/c	Dr.	10,35,000	
	To Bank A/c			10,35,000
	(Being amount of Capital paid to Suchandra)			
(h)	Ashmita's Capital A/c	Dr.	11,500	
	To Kasturi's Capital A/c			11,500
	(Being amount payable by Kasturi to Ashmita in order to make their claim in new company as 3 : 2)			
(i)	Bank A/c	Dr.	8,64,800	
	Shares in Tata (P) Ltd. A/c	Dr.	10,92,500	
	To Tata (P) Ltd. A/c			19,57,300
	(Being amount received, amount shares in Tata (P) Ltd. distributed for Purchase consideration)			

Working Note:

1. Ashmita's Capital A/c

Particulars	Amount	Particulars	Amount
To Realization A/c	46,920	By Balance c/d	4,60,000
To Kasturi's Capital	11,500	By Goodwill A/c	2,53,920
To Shares in Tata (P) Ltd.	6,55,500		
	7,13,920		7,13,920

Kasturi's Capital A/c

Particulars	Amount	Particulars	Amount
To Realization A/c	23,460	By Balance c/d	2,30,000
To Shares in Tata (P) Ltd.	4,37,000	By Goodwill A/c	1,26,960
		By Current A/c	92,000
		By Ashmita's Capital A/c	11,500
	4,60,460		4,60,460

2. Calculation of goodwill

Normal Ratio of return = 18% p.a. or fixed capital

= 13,80,000× 18% = ₹ 2,48,400

Actual Profit =	₹ 4,60,000
(−) Normal Profit =	₹ 2,48,400
Super Profit =	₹ 2,11,600

Goodwill = 2,11,600 ×3 years of purchase of S.P.

= 6,34,800

Suchandra's Share = 6,34,800× 2/5 = 2,53,920

Ashmita's Share = 6,34,800 × 2/5 = 2,53,920

Kasturi's Share = 6,34,800 × 1/5 = 1,26,960

3. Computation of Purchases Consideration

Investments	1,15,000
Fixed Assets	9,20,000
Stock	2,30,000
Debtors	6,32,500
Goodwill	6,34,800
	25,32,300

Less: Unsecured loan	2,30,000	
Current liabilities	3,45,000	
	19,57,300	

4. Calculation of cash required from Tata (P) Ltd.

Cash required to pay to Suchandra	10,35,000
Less: Cash available after expenses (2,87,500 – 1,17,300)	1,70,200
Cash received for purchase Consideration	8,64,800

5. Shares of ₹ 10,92,500 are to be issued to Ashmita and Kasturi in the ratio of 3 : 2

Ashmita 10,92,500 x $\frac{3}{5}$ = 6,55,500

Kasturi 10,92,500 x $\frac{2}{5}$ = 4,37,000

—— Space to write important points for revision ——

2009 - June [5] (a) A and B carry on independent business in provisions and their position as at 31.3.09 are reflected in the Balance Sheets given below:

	A	B
	₹	₹
Stock in Trade	1,70,000	98,000
Sundry Debtors	89,000	37,000
Cash at Bank	13,000	7,500
Cash in hand	987	234
Furniture and fixtures	2,750	1,766
Investments	513	—
	2,76,250	1,44,500
Represented by Sundry Creditors for		
Purchases	1,10,000	47,000
Expenses	13,250	2,000
Capital Account	1,53,000	95,500
	2,76,250	1,44,500

Both of them want to form a partnership firm from 1st April, 2009 on the following understanding :

(a) The capital of the partnership would be ₹ 3 lakhs which would be contributed by them in the ratio of 2 :1.

(b) The assets of the individual business would be evaluated by C at which values, the firm will take them over and the value would be adjusted against the contribution due by A and B.

(c) C gave his valuation report as follows :

Business of A: Stock in Trade to be written down by 15% and a portion of Sundry Debtors amounting to ₹ 9,000 estimated unrealisable not to be assumed by the firm; furniture and fixtures to be valued at ₹ 2,000 and investments to be taken of market value of ₹ 1,000.

Assets of B: Stocks to be increased by 10%, and Sundry Debtors to be admitted at 85% of their value; rest of the assets to be assumed at their book value.

(d) The firm is not to assume any Creditors other than the dues on account of purchases made.

Prepare the opening Balance Sheet of the firm. **(10 marks)**

Answer :

Calculation Net Assets taken over

	A	B
Investments	1,000	–
Sundry debtors	80,000	31,450
Furniture & fixtures	2,000	1,766
Stock in trade	1,44,500	1,07,800
Cash in hand	987	234
Cash at bank	13,000	7,500
	2,41,487	1,48,750
Less: Sundry Trade Creditors	1,10,000	47,000
	1,31,487	1,01,750
Additional Cash bought is by A	68,513	—
Excess Amount transferred to Current A/c	—	1,750
	2,00,000	1,00,000

Opening Balance Sheet M/S A & B

Liabilities		Amt.	Assets	Amt.
Capital			Furniture and Fixtures	3,766
A	2,00,000		Investments	1,000
B	1,00,000	3,00,000	Sundry Debtors	1,11,450
Sundry Creditors		1,57,000	Stock in Trade	2,52,300
B's Current A/c		1,750	Cash in hand	1,221
			Cash at Bank	89,013
		4,58,750		4,58,750

—— Space to write important points for revision ——

2009 - Dec [5] (a) The balance sheet of a firm as on 31.3.2007 was

Liabilities	₹	*Assets*	₹
Capital: Sun	50,000	Property	35,000
Moon	41,000	Motor car	7,500
Loan (Sun)	5,000	Furniture	1,000
General Reserve	5,000	Debtors	25,000
Sundry Creditors	15,000	Stock	45,000
Outstanding Expenses	1,500	Cash	4,000
	1,17,500		1,17,500

The profit sharing ratio between Sun & Moon was 3 : 2. They decided to admit Pluto as a new partner from 1st April, 2007 on the following terms & conditions :

(1) Property & Motor Car to be revalued at ₹ 45,000 & ₹ 6,500 respectively and 5% provision to be created on debtors.

(2) Pluto should pay premium for goodwill to be valued at 2 years' purchase of last three years average profits. Such amount of premium was to be credited to old partners loan accounts.

(3) Pluto should pay ₹ 37,500 as capital.

(4) The new profit sharing ratio should be 2 : 1: 1.

(5) Last three years' profit were ₹ 5,000, ₹ 6,000 and ₹ 7,500.

The last three years' books of accounts, on verification, disclosed the following discrepancies :

2004-05—Bad debts previously written of recovered ₹ 400, credited to Debtors Account, Closing Stock under valued by ₹ 1,250.

2005-06 – Furniture purchased ₹ 300 debited to Purchases Account, Depreciation was provided @ 10% on reducing balance method but Closing Stock was over valued by ₹ 2,000.

2006-07 – A purchase invoice of ₹ 1,000 was omitted from the books and Closing Stock was under valued by ₹ 1,000.

Pass the journal entries at the time of admission of Pluto and prepare the balance sheet just after his admission. **(10 marks)**

Answer :

Revaluation A/c

Particulars		Amount	Particulars	Amount
To Motor Car		1,000	By Property	10,000
" Provision for bad debts		1,250		
" Profit on Revaluation				
Sun	4,650			
Moon	3,100	7,750		
		10,000		10,000

Partner's Capital A/c

Particulars	Sun	Moon	Pluto	Particulars	Sun	Moon	Pluto
To Balance c/d	57,650	46,100	37,500	By Balance b/d	50,000	41,000	--
				" Cash A/c	--	--	37,500
				" Profit on Revaluation	4,650	3,100	--
				" General Reserve	3,000	2,000	
	57,650	46,100	37,500		57,650	46,100	37,500

Calculation of sacrificing / gaining ratio of sun & moon because of admission of Pluto.

Old Ratio Sun : Moon : Pluto

3 : 2

New Ratio 2 : 1 : 1

Sacrificing ratio = $\frac{3}{5} - \frac{2}{4} = \frac{12 - 10}{20} = \frac{2}{20}$

Moon's Sacrificing ratio= $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$

Or 2 : 3

Rectification of Profits of Last 3 years

Revaluation A/c

Particulars	2004-05	2005-06	2006-07
Profits	5,000	6,000	7,500
Bad debts recovered	+ 400	—	—
Closing stock undervalued	+ 1,250	- 1,250	
Furniture purchased debited to purchases A/c		+ 300	—
Depreciation			
Closing stock overvalued		- 30	+ 2,000
Purchased not recorded		- 2,000	- 1,000
Closing stock undervalued			+ 1,000
	6,650	3,020	9,500

Calculation of premium to be paid by Pluto = Average profit of 3 year's :

$\frac{6,650 + 3,020 + 9,500}{3} = 6,390$

Goodwill = 6,390 × 2 = 12,780

Pluto's share of goodwill = 12,780 × $\frac{1}{4}$ = 3,195

Journal entries in the books of the firm

1.	Property A/c Dr. To Revaluation A/c (Being Revaluation of property done at the time of admission of Pluto)	10,000	 10,000
2.	Revaluation A/c Dr. To Motor Car A/c To Provision for bad debts A/c (Being Revaluation done of motor car & Provision calculated on debtors @ 5%)	2,250	 1,000 1,250

3.	Revaluation A/c Dr. To Sun's Capital A/c To Moon's Capital A/c (Being profit on Revaluation distributed to partner's capital A/c)	7,750	 4,650 3,100
4.	Cash A/c Dr. To Pluto's Capital A/c (Being Cash brought in by Pluto as his share of capital)	37,500	 37,500
5.	Cash A/c Dr. To Pluto's Capital A/c (Being cash brought by Pluto for his share of goodwill)	3,195	 3,195
6.	Pluto's Capital A/c Dr. To Sun's Loan A/c To Moon's Loan A/c (Being pluto's share of premium for goodwill credited to old partner's capital a/c in their sacrificing ratio)	3,195	 1,278 1,917

Balance Sheet
(After Admission)

Liabilities	Amount	Assets	Amount
Capital : Sun	57,650	Property	
Moon	46,100	(35,000 + 10,000)	45,000
Pluto	37,500	Motor Car	
Loan (Sun)		(7,500 – 1,000)	6,500
(5,000 + 1,278)	6,278	Furniture	1,000
(Moon)	1,917	Debtors (25,000 – 1,250)	23,750
Sundry creditors	15,000	Stock	45,000
Outstanding Expenses	1,500	Cash	
		(4,000 + 37,500 + 3,195)	44,695
	1,65,945		1,65,945

2010 - June [4] X & Y share profit & loss in the ratio of 5 : 3. They admit Z with 1/5th share of profits. He pays ₹ 80,000 as capital but does not contribute anything towards goodwill which is valued at ₹ 60,000. The capitals of the Partners are fixed. All adjustments are to be made through partners' current accounts. Their balance sheet as on March 31, 2010 is as follows:

Balance Sheet
as on 31-03-10

Liabilities		Amount ₹	Assets	Amount ₹
Capital:			Plant and Machinery	50,000
X—	80,000		Investments	31,000
Y—	60,000	1,40,000	Sundry Debtors	60,000
Current account:			Stock and Trade	90,000
X—	5,000		Bank	30,000
Y—	6,000	11,000		
General Reserve		60,000		
Sundry Creditors		50,000		
		2,61,000		**2,61,000**

Additional Information:
(i) Plant and Machinery is valued at ₹ 46,000 and stock at ₹ 96,000.
(ii) One Creditor for ₹ 6,000 is dead and nothing is likely to be paid on this account.
(iii) The Capital accounts are to be proportionately adjusted on the basis of Z's capital and his share of profit, through Current accounts
(iv) Partners decide to maintain the General Reserve in the books of the firm.

Prepare Revaluation account, Bank account, Capital and Current accounts and Balance sheet of the new firm. **(15 marks)**

Answer :

Revaluation A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Plant & Machinery	4,000	By Stock	6,000
To Partner's Current A/c		By Creditors	6,000
X 5,000			
Y 3,000	8,000		
	12,000		12,000

Partner's Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Bal. c/d	80,000	60,000	80,000	By Bal. b/d	80,000	60,000	-
				By Cash A/c	-	-	80,000
	80,000	60,000	80,000		80,000	60,000	80,000

Partners Current A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To General Reserve	30,000	18,000	12,000	By Bal. b/d	5,000	6,000	-
To X's Current A/c	-	-	7,500	By Revaluation A/c	5,000	3,000	-
To Y's Current A/c	-	-	4,500	By Z's Current A/c	7,500	4,500	-
To Bal. c/d	1,20,000	60,000	-	By General Reserve	37,500	22,500	
				By Cash A/c (B/F)(W.N. 2)	95,000	42,000	24,000
	1,50,000	78,000	24,000		1,50,000	78,000	24,000

W.N (2) Cash brought by partner's

x = 2,00,000 – 80,000 – 5,000 – 5,000 – 7,500 – 37,500 + 30,000
= 95,000

y = 1,20,000 – 60,000 – 6,000 – 3,000 – 4,500 – 22,500 + 18,000
= 42,000

z = 80,000 – (80,000 – 7,500 – 4,500 – 12,000) = 24,000

General Reserve is to be maintained in the books of the firm hence is credited to old partners capital A/c & debited to all partner's capital A/c.

Z's share of Goodwill = 60,000 × $\frac{1}{5}$ = 12,000

X's share in Goodwill of Z = 1,20,000 × $\frac{10}{16}$ = 7,500 in Sacrificing Ratio.

Y's share in Goodwill of Z in S.R. = 1,20,000 × $\frac{6}{16}$ = 4,500

Through Z's capital A/c & his share of profit the in current A/c.
Sacrificing Ratio = X : Y
Old Ratio = 5 : 3

Share of Z = $\frac{1}{5}$ th

Share of X & Y in the firm = 1 - $\frac{1}{5}$ = $\frac{4}{5}$

X's share = $\frac{4}{5} \times \frac{5}{8} = \frac{5}{10}$

Y's share = $\frac{4}{5} \times \frac{3}{8} = \frac{3}{10}$

$\frac{5}{10} : \frac{3}{10} : \frac{2}{10}$ = New Ratio

Sacrificing Ratio = Old Ratio – New Ratio.

$$X = \frac{5}{8} - \frac{5}{10} = \frac{50-40}{80} = \frac{10}{80}$$

$$Y = \frac{3}{8} - \frac{3}{10} = \frac{30-24}{80} = \frac{6}{80}$$

10 : 6

Total Capital of the firm according to capital contribution of Z.
= 80,000 × 5 = 4,00,000.

X's Capital balance = 4,00,000 × $\frac{5}{10}$ = 2,00,000

Y's Capital balance = 4,00,000 × $\frac{3}{10}$ = 1,20,000

Z's Capital balance = 4,00,000 × $\frac{2}{10}$ = 80,000

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	30,000	By Balance c/d	2,90,000
To Z's Capital A/c	80,000		
To X's Capital A/c	1,20,000		
To Y's Capital A/c	60,000		
	2,90,000		2,90,000

Balance Sheet as on 31-3-10

Particulars	Amount	Particulars	Amount
Capital:		Bank	2,90,000
X	2,00,000	Debtors	60,000
Y	1,20,000	Stock	96,000
Z	80,000	Machine	46,000
Current A/c:		Investment	31,000
X	25,000	Z' Current Account	24,000
Y	18,000		
General Reserve	60,000		
Sundry Creditors	44,000		
	5,47,000		5,04,000

Space to write important points for revision

2010 - Dec [5] (a) Asha, Bipasa and Chitra are partners in a partnership firm sharing profits and losses as 8:7:5. From 1.4.09 the partners decided to change their profit sharing ratio as 5:4:1 and for that purpose the following adjustments were agreed upon.

Balance Sheet of the firm as on 31.3.2009 was as under.

(Fig. in ₹)

Liabilities			Assets	
Capital A/cs:			Plant & Machinery	80,000
Asha -	50,000		Furniture	10,000
Bipasa -	40,000		Stock	40,000
Chitra -	30,000	1,20,000		

		Trade Debtors	52,000	
Reserves	30,000	Less Provision	(-) 2,000	50,000
B's loan	20,000	Bank		30,000
Trade creditors	40,000			
	2,10,000			2,10,000

(i) Furniture and Machinery were to be depreciated and appreciated by 5% and 10% respectively.

(ii) Provision for bad debts was to be increased by ₹ 3,000.

(iii) P & L A/ c of the firm for the year ended 31.3.10 showed a net profit of ₹ 68,700.

(iv) A contingent liability of ₹ 10,000 was to be treated as actual liability. The partners decided not to alter the book values of the assets, liabilities and reserves but recorded the change by passing one single journal entry.

You are required -

(a) to show a single journal entry adjusting the capitals of the partners as on 1-4-09, and

(b) to show the P&L A/c for the year ended 31.3.10 after considering the following adjustments :

(i) Interest on capital at 5%

(ii) Interest on B's loan and

(iii) Transfer 20% of the divisible profit to the reserves after charging such reserve. **(10 marks)**

Answer :

Memorandum Revaluation A/c

Particulars			Amount	Particulars	Amount
To Furniture			500	By Machinery	8,000
To Provision for Debtors			3,000	By Reserves	30,000
To Contingent Liability			10,000		
To Partners Capital A/c					
Asha	8/20	9,800			
Bipasa	7/20	8,575			
Chitra	5/20	6,125	24,500		
			38,000		38,000

To Reversal of Items	8,000	By Reversal of items	13,500
To Reserves	30,000	By Partners capital A/c	
		Asha 5/10 12,250	
		Bipasa 4/10 9,800	
		Chitra 1/10 2,450	24,500
	38,000		38,000

Net effect :	Cr.	Dr.	
Asha	9,800	12,250	2,450 Dr.
Bipasa	8,575	9,800	1,225 Dr.
Chitra	6,125	2,450	3,675 Cr.

Adjustment Entry.

Asha's Capital A/c	Dr. 2,450	
Bipasa's Capital A/c	Dr. 1,225	
To Chitra's Capital A/c		3,675

Profit and loss A/c for the year ended 31.3.2010

Particulars		Amount	Particulars	Amount
To Interest on capital @ 5%			By Balance b/d	68,700
A (50,000 – 2,450)	2,378	2,378		
B (40,000 – 1,225)	1,938	1,938		
C (30,000 + 3,675)	1,684	1,684		
To Interest on B's Loan @ 6%		1,200		
To Reserve 61,500 x $\frac{20}{120}$		10,250		
To Partner's Capital A/c				
Asha 5/10	25,625			
Bipasa 4/10	20,500			
Chitra 1/10	5,125	51,250		
		68,700		68,700

Space to write important points for revision

2011 - June [4] (a) X and Y are partners sharing profit/loss in the ratio of 5:4. They admit Z into partnership for $\frac{1}{5^{th}}$ the share in the profits which is given $\frac{2}{15^{th}}$ by X and $\frac{1}{15^{th}}$ by Y. Z brings ₹ 1,50,000 as his capital and ₹ 60,000 as premium. Goodwill account appears in the books at ₹ 1,65,000. Give necessary journal entries in the books of the firm at the time of Z's admission and find out the new profit sharing ratio. **(4 marks)**

(b) P and Q are partners sharing profits and losses in the ratio of 5 :4. On 1st April, 2010 they admitted their Manager R into partnership for $\frac{1}{5^{th}}$ the share of the profits. As Manager, R was receiving a salary of ₹ 60,000 per year and a commission of 5 percent on the net profit after charging such salary and commission. It is, however, agreed that any excess over his former remuneration to which R becomes entitled as a partner is to be borne by Q.

The profits of the firm for the year ended 31st March, 2011 amounted to ₹ 4,27,500. You are required to show the division of profits among the partners. **(5 marks)**

Answer :

(a)

Journal

Particulars		**₹**	**₹**
(i) Bank A/c	Dr.	2,10,000	
To Z's Capital A/c			1,50,000
To Premium for Goodwill A/c			60,000
(Being amount brought in as capital and premium for goodwill by Z)			
(ii) X's Capital A/c	Dr.	91,667	
Y's Capital A/c	Dr.	73,333	
To Goodwill A/c			1,65,000
(Being existing Goodwill account written off)			

(iii) Premium for goodwill A/c Dr.	60,000	
To X's Capital A/c		40,000
To Y's Capital A/c		20,000
(Being transfer of premium brought by Z to X & Y's A/c)		

New profit sharing ratio will be:

X's new share = $\frac{5}{9} - \left(\frac{1}{5} \times \frac{2}{3}\right) = \frac{5}{9} - \frac{2}{15} = \frac{25-6}{45} = \frac{19}{45}$

Y's new share $\frac{4}{9} - \frac{1}{15} = \frac{20-3}{45} = \frac{17}{45}$

Z's new share $\frac{1}{5}$ or $\frac{9}{45}$

Hence new ratio = 19 : 17 : 9

Answer:

(b) (i) R's remuneration as Manager

Salary ₹ 60,000 & Commission ₹ 4,27,500 – 60,000 = 3,67,500 × $\frac{5}{105}$

= 17,500

Or ₹ 60,000 + ₹ 17,500 = ₹ 77,500

(ii) R's share in profit = 4,27,500 × $\frac{1}{5}$ = ₹ 85,500; it excess over above (i)

= 85,500 – 77,500 = ₹ 8,000 which to be borne by Q

(iii) Share in profits of P & Q

P = 4,27,500 – 77,500 = 3,50,000 × $\frac{5}{9}$ = 1,94,444

Q = 3,50,000 × $\frac{4}{9}$ = 1,55,556 – 8,000 = 1,47,556

Profit and Loss A/c

Particulars		Amount ₹	Particulars	Amount ₹
To P's Capital A/c:		1,94,444	By Profit for the year	4,27,500
To Q's Capital A/c:	1,55,556			
Less: transferred to R:	8,000	1,47,556		
To R's Capital A/c				

As Manager: 77,500 *Add:* Transferred from Q 8,000	85,500		
	4,27,500		4,27,500

—— Space to write important points for revision ——

2011 - Dec [2] (c) A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit sharing ratio between A, B and C becomes 5 : 3 : 2. What will be the sacrifice ratio of A and B after admission of C ? **(2 marks)**

Answer :

Calculation of Sacrificing Ratio of A & B after C's admission

	A	:	B	:	C
Old Ratio	4	:	3		
New Ratio	5	:	3	:	2

$$A = \frac{4}{7} - \frac{5}{10} = \frac{40-35}{70} = \frac{5}{70}$$

$$B = \frac{3}{7} - \frac{3}{10} = \frac{30-21}{70} = \frac{9}{70}$$

Sacrificing Ratio is 5 : 9

—— Space to write important points for revision ——

2011 - Dec [3] (b) A and B are Partners sharing profits in the ratio of 5 :3. Following is the Balance Sheet of the Firm on 31-3-2011:

Balance Sheet as at 31-3-2011

	₹		₹
Capital :		Drawings	
A	80,000	A	5,000
B	20,000	B	3,000
		Other Assets	92,000
	1,00,000		1,00,000

Profit for the year 2010-11 was ₹ 16,000 and was divided between the Partners as per agreed ratio, but interest on capital @ 5% p.a. and on drawings @ 6% was inadvertently omitted. Interest on drawing may be calculated on an average basis for 6 months.

You are required to pass Journal Entry (ies) to make the adjustments in the Capital accounts of A and B. **(5 marks)**

Answer :

Profit already distributed

$$A = 16{,}000 \times \frac{5}{8} = ₹\ 10{,}000$$

$$B = 16{,}000 \times \frac{3}{8} = ₹\ 6{,}000$$

Adjustment :

Profit		16,000
(-)	Interest on capital	
	A : 4,000	
	B : 1,000	5,000
		11,000
(+)	Interest on drawing	
	A : 150	
	B : 90	240
	Profit to be distributed	11,240

A's share = 11,240 × 5/8 = ₹ 7,025

B's share = 11,240 × 3/8 = ₹ 4,215

		A	B
Profit already distributed (a)		10,000	6,000
Profit to be distributed			
Share of profit		7,025	4,215
Interest on capital		4,000	1,000
Interest on drawings		(150)	(90)
	(b)	10,875	5,125
Difference	(a) - (b)	875 Cr.	875 Dr.

Journal Entries

B's Capital A/c	Dr.	875	
To A's Capital A/c			875

—— Space to write important points for revision ——

2012 - June [4] (a) X and Y are partners in a firm sharing profit/loss in the ratio 5 :3. They admit their Manager Z in the firm for ¼th share in profit, which would be not less than the remuneration received by him as Manager. As Manager, Z is entitled for a salary of ₹ 32,000 per quarter and a commission of 10% on the net profit after charging such salary and commission. If the profit of the firm for the year ended 31st March, 2012 amounted to ₹ 4,80,000, show the distribution of firm's profit among the partners. **(5 marks)**

Answer:

Calculation of new P.S.R

Z's ratio in P.S.R = $= \frac{1}{4}$ or $\frac{8}{32}$

X's ratio $= \left(\frac{1-1}{4}\right) \times \frac{5}{8} = \frac{3}{4} \times \frac{5}{8} = \frac{15}{32}$

Y's ratio $= \left(\frac{1-1}{4}\right) \times \frac{3}{8} = \frac{3}{4} \times \frac{3}{8} = \frac{9}{32}$

X, Y, Z; New P.S.R = 15:9:8

Profit for the year ended 31st March 12 = 4,80,000

X's Share in profit 4,80,000 $\times \frac{15}{32}$ = 2,25,000

Y's share in profit 4,80,000 × $\frac{9}{32}$ = 1,35,000

Z's share in profit 4,80,000 × $\frac{8}{32}$ = 1,20,000

Check the Z's shares in profit whether it is less than the remuneration received or not as manager.

Z receive salary as mgr. in a year = 32,000 × 4 = 1,28,000

Commission = (4,80,000 – 1,28,000) × $\frac{10}{110}$ = 32,000

Z should get in profit not less than 1,60,000

Therefore new share in profit

X $(4,80,000 - 1,60,000) \times \frac{5}{8} = 2,00,000$

Y $(4,80,000 - 1,60,000) \times \frac{3}{8} = 1,20,000$

Z $= 1,60,000$

—— Space to write important points for revision ——

2012 - June [5] (a) Ram, Rahim and Robert are partners of the firm ABC & Co-sharing profits and losses in the ratio of 5 : 3 : 2.
The Balance Sheet of the firm as on 01.4.2012 is given below:

Liabilities	Amount ₹	Assets	Amount ₹
Partners Capital :		Goodwill	50,000
Ram	3,00,000	Machinery	4,55,000
Rahim	2,50,000	Furniture	10,000
Robert	2,00,000	Stock	2,00,000
General Reserve	1,05,000	Debtors	3,00,000
Loan	95,000	Cash & Bank	35,000
Sundry Creditors	1,00,000		
	10,50,000		10,50,000

Partners of firm decided to dissolve the firm. The firm decided to settle the loan creditors directly. Ram took over goodwill for ₹ 75,000. Rahim took over machinery and furniture at 90% of book value and sundry creditors at book value.

Robert took over stock at 95% of book value and debtors at 90% of the book value. Partners have to pay cash if the assets taken over had exceeded the amounts due to them.

Prepare

(i) Realisation Account;
(ii) Partners Capital Account; and
(iii) Cash Account of the firm to show the dissolution proceedings.

(10 marks)

Answer :

Realisation A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Goodwill	50,000	By Loan	95,000
To Machinery	4,55,000	By Sundry creditors	1,00,000
To Furniture	10,000	By Ram's Capital A/c	75,000
To Stock	2,00,000	By Rahim's Capital A/c	4,18,500
To Debtors	3,00,000	By Robert's Capital A/c	
To Cash (loan)	95,000	95% of 2,00,000	
To Rahim's Capital A/c	1,00,000	90% of 3,00,000	4,60,000
		By Ram's Capital	30,750
		By Rahim's Capital	18,450
		By Robert's Capital	12,300
	12,10,000		12,10,000

Partner's Capital A/c

Particulars	Ram	Rahim	Robert	Particulars	Ram	Rahim	Robert
To Realisation A/c	75,000	4,18,500	4,60,000	By Balance b/d	3,00,000	2,50,000	2,00,000
To Realisation A/c	30,750	18,450	12,300	By General Reserve	52,500	31,500	21,000
To Cash (b/f)	2,46,750			By Realisation A/c		1,00,000	2,51,300
				By Cash A/c (b/f)		55,450	
	3,52,500	4,36,950	4,72,300		3,52,500	4,36,950	4,72,300

Cash A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	35,000	By Loans A/c	95,000
To Rahim capital A/c	55,450	By Ram Capital A/c	2,46,750
To Robert capital A/c	2,51,300		
	3,41,750		3,41,750

2012 - Dec [4] (a) Ashok & Bala who where in partnership sharing 7/12 and 5/12 respectively admitted Chand as a partner giving him 1/5th share from 01.04.2011. The new profit sharing ratio is 7 : 5 : 3. Chand brought ₹ 96,000 towards goodwill to be shared by Ashok & Bala in their sacrificing ratio. The amount so brought was however credited to Chand's capital account by mistake:

The Trial Balance of the firm as on 31st March, 2012 is given below:

	Dr. (₹)	Cr. (₹)
Ashok's capital		3,36,000
Bala's capital		2,40,000
Chand's capital		2,24,000
Sundry Creditors		48,000
Current year profit		2,20,000
Other Assets	7,70,000	
Ashok's drawing	1,45,600	
Bala's drawing	1,04,000	
Chand's drawing	20,400	
Cash in hand	28,000	
Total:	10,68,000	10,68,000

Interest on drawings is to be ignored but interest on capital is to be charged at 5% per annum which was not made so far. Prepare new Balance Sheet as at 31.03.2012 giving effect to above adjustments/omissions. **(8 marks)**

Answer :

W.N. (1) **Calculation of sacrificing ratio**

Particulars	Old ratio–New ratio
Ashok	$\frac{7}{12} - \frac{7}{15} = \frac{105-84}{180} = \frac{21}{180}$
Bala	$\frac{5}{12} - \frac{5}{15} = \frac{75-60}{180} = \frac{15}{180}$
	∴ Sacrificing ratio is 21:15 or 7:5

W.N. (2) Calculation of Partners closing capital

Particulars	Ashok ₹	Bala ₹	Chand ₹
Capital as per Trial Balance	3,36,000	2,40,000	2,24,000
Goodwill adjustment (7:5)	56,000	40,000	(96,000)
W.N. (1)	3,92,000	2,80,000	1,28,000
Interest on Capital @ 5%	19,600	14,000	6,400
	4,11,600	2,94,000	1,34,400
Share of Profit			
Profit 2,20,000			
Less: Instt. on capital 40,000			
1,80,000 (7:5:3)	84,000	60,000	36,000
	4,95,600	3,54,000	1,70,,400
Less: Drawings as given in T/B	1,45,600	1,04,000	20,400
	3,50,000	2,50,000	1,50,000

Balance Sheet of Reconstituted firm as on 31.03.2012

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Other Assets	7,70,000
Ashok	3,50,000	Cash in hand	28,000
Bala	2,50,000		
Chand	1,50,000		
Sundry creditors	48,000		
	7,98,000		7,98,000

—— Space to write important points for revision ——

2012 - Dec [4] (b) Sachin & Ganguly are partners of a firm SG & Co. From the following information calculate the value of goodwill by super profit method and capitalization method:

(i) Average capital employed in the business ₹ 5,00,000.

(ii) Net trading profit of the firm for the last three years ₹ 1,50,000; ₹ 1,70,000 and ₹ 1,90,000.

(iii) Rate of return expected from capital having regard to risk involved @ 15 % per annum.

(iv) Goodwill to be valued at 2 years' purchase. **(5 marks)**

Answer:

Calculation of Goodwill

(i) **Super Profit Method**

Goodwill = Super Profit × No. of years of purchase

= 95,000/- × 2 = 1,90,000/-

Super Profit = Average Profit – Normal Profit

= 1,70,000 –(5,00,000 × 15%) = 95,000

$$\text{Average Profit} = \frac{1,50,000 + 1,70,000 + 1,90,000}{3} = 1,70,000$$

(ii) **Capitalization Method**

Goodwill = Value of Business – Avg. Capital Employed

$$= \left(\frac{1,70,000}{15\%}\right) - 5,00,000$$

= 11,33,333 – 5,00,000 = 6,33,333/-

—— Space to write important points for revision ——

2013 - June [2] (c) Ram, Rahim and Robert are partners in a firm sharing profits and losses in the proportion of 3 : 3 : 2. Their Balance Sheet as on 31.03.2013 was as follows:

Liabilities		₹	Assets	₹
Partners Capital Accounts:			Bank	55,000
			Stock	69,000
Ram	75,000		Investments	6,000
Rahim	75,000		Debtors	70,000
Robert	1,00,000	2,50,000	Land and Building	1,25,000
			Goodwill	25,000

Partners Current Account:				
Ram	15,000			
Rahim	25,000			
Robert	12,500	52,500		
Sundry creditors		47,500		
		3,50,000		3,50,000

They decided to dissolve the firm on 01.04.2013. They report the result of realization as follows:

Land and Buildings	90,000	— realized in cash
Debtors	60,000	— realized in cash
Investments	5,500	— taken over by Ram
Stock	75,500	— taken over by Rahim
Goodwill	18,000	— taken over by Robert

The realization expenses amounted to ₹ 2,000. Close the Accounts of the firm. **(5 marks)**

Answer:

Realisation Accounts

Particulars	Amount ₹	Particulars		Amount ₹
To Stock	69,000	By Sundry Creditors		47,500
To Investments	6,000	By Bank (assets realized)		1,50,000
To Debtors	70,000	By Ram's Capital A/c (investments)		5,500
To Land & Buildings	1,25,000			
To Goodwill	25,000	By Rahim's Capital A/c (Stock)		75,500
To Bank (Expenses)	2,000	By Robert's Capital A/c (Goodwill)		18,000
To Bank (Creditors)	47,500	By Loss transferred to current A/c:		
		Ram	18,000	
		Rahim	18,000	
		Robert	12,000	48,000
	3,44,500			3,44,500

Current Accounts

	Ram	Rahim	Robert		Ram	Rahim	Robert
To Realisation A/c	5,500	75,500	18,000	By Balance b/d	15,000	25,000	12,500
To Realisation A/c	18,000	18,000	12,000	By Capital A/c	8,500	68,500	17,500
	23,500	93,500	30,000		23,500	93,500	30,000

Capital Accounts

	Ram	Rahim	Robert		Ram	Rahim	Robert
To Current A/c	8,500	68,500	17,500	By Balance c/d	75,000	75,000	1,00,000
To Bank A/c (bal. Fig.)	66,500	6,500	82,500				
	75,000	75,000	1,00,000		75,000	75,000	1,00,000

Bank Accounts

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	55,000	By Realisation A/c (expenses)	2,000
To Realisation (Assets realized)	1,50,000	By Realisation A/c (Creditors)	47,500
		By Ram's Capital A/c	66,500
		By Rahim's Capital A/c	6,500
		By Robert's Capital A/c	82,500
	2,05,000		2,05,000

Space to write important points for revision

2013 - June [4] (b) A, B and C started a partnership firm on 1.1.2012. A introduced ₹ 10,000 on 1.1.2012 and further introduced ₹ 4,000 on 1.7.2012. B introduced ₹ 25,000 at first on 1.1.2012 but withdraw ₹ 5,000 from the business on 31.9.2012. C introduced ₹ 15,000 at the beginning on 1.1.2012, increased it by ₹ 5,000 on 1.4.2012 and reduced it to ₹ 10,000 on 1.11.2012. During the year 2012 they made a net profit of ₹ 75,500. The partners decided to provide interest on their capitals at 10% p.a. and to divide the balance of profit in their effective capital contribution ratio.
Prepare the Profit and Loss Appropriation Account for the year ended 31.12.2012. **(5 marks)**

Answer:

Calculation of effective capital contribution: (fig in ₹)

A - 10,000 for 6 months	=	60,000
14,000 for 6 months	=	84,000
		1,44,000
B - 25,000 for 9 months	=	2,25,000
20,000 for 3 months	=	60,000
		2,85,000
C - 15,000 for 3 months	=	45,000
20,000 for 7 months	=	1,40,000
10,000 for 2 months	=	20,000
		2,05,000

Profit sharing ratio = Effective Capital Ratio – 144:285:205

Interest on Capital

A – 1,44,000 x 10/100 x 1/12 = 1,200

B – 2,85,000 x 10/100 x 1/12 = 2,375

C – 2,05,000 x 10/100 x 1/12 = 1,708

Profit and Loss Appropriation Account for the year ended 31.12.2012

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital		By Profit & Loss A/c	75,500
A – 1,200		(Net Profit)	
B – 2,375			
C - 1,708	5,283		
To Share of Profits:			
A – 70,217 x 144 / 634 =	15,948		
B – 70,217 x 285 / 634 =	31,565		
C – 70,217 x 205 / 634 =	22,704		
	75,500		**75,500**

2013 - Dec [1] {C} Answer the following question (give workings wherever required):

(viii) P, Q and R are three partners sharing profit and loss equally. Their respective capitals as on 01.04.2012 were P—₹ 80,000, Q—₹ 60,000 and R—₹ 50,000.

They mutually agreed on the following points as per the partnership deed:

- Interest on capital to be allowed @ 5%.
- P to receive a salary of ₹ 500 per month.
- Q to receive a commission @ 4% on net profit after charging such commission.
- After charging all other items, 10% of the net profit to be transferred to General Reserve.

The firm made profit of ₹ 66,720 during the financial year 2012-13. What will be the Net Divisible Profit available to each partner?

(2 marks)

Answer:

Calculation of Net Divisible Profit available to each of the partners

Profit and Loss Account (given)			₹ 66,720
Less: Interest on Capital			
P	₹ 4,000		
Q	₹ 3,000		
R	₹ 2,500	₹ 9,500	
Less: Salaries P (₹ 500 x 12)		₹ 6,000	
Less: Commission payable to Q			
4 / 104 x (66,720 – 15,500)		₹ 1,970	
General Reserve transfer			
(₹ 51,220 – ₹ 1,970) x 10%		₹ 4,925	₹ 22,395
Net Divisible Profit available to all the partners equally			₹ 44,325

Net Divisible profit available to each of the partner will amount to = ₹ 44,325/3 = ₹ 14,775

Space to write important points for revision

2013 - Dec [4] (b) Kapil, Manoj and Chetan are partners sharing profits and losses in the ratio of 2 : 2 : 1. On 1st January, 2010, they took out a joint life policy of ₹ 2,00,000. Annual premium of ₹ 10,000 was payable on 1st January each year. Last premium was paid on 1st January, 2013. Manoj died on 1st March, 2013, and policy money was received on 31st March, 2013. The surrender value of policy as on 31st March each year were as follows:

2010 : Nil
2011 : ₹ 2,000
2012 : ₹ 5,000

Show Joint Life Policy accounts as on 31st March each year assuming that:

(i) The premium is charged to profit and loss account every year.

(ii) The premium is debited to joint life policy account and the balance of the joint life policy account is adjusted every year to its surrender value. **(6 marks)**

Answer:

(i) In this case, premium paid is charged to Profit & Loss account every year. So nothing will appear in the joint life policy account of 2010, 2011 and 2012. However in 2013, the joint life policy account will appear as follows.

Joint Life Policy A/c

Date	Particulars	₹	Date	Particulars	₹
31.03.13	To Partner's Capital A/c (Kapil ₹ 80,000 Manoj ₹ 80,000 Chetan ₹ 40,000)	2,00,000	31.03.13	By Bank (Policy money received)	2,00,000
		2,00,000			2,00,000

(ii) **Joint Life Policy A/c**

01.1.10	To Bank A/c Premium	10,000	31.03.10	By P&L A/c	10,000
		10,000			10,000
01.01.11	To Bank A/c Premium	10,000	31.03.11	By P&L A/c	8,000
		10,000	31.03.11	By Balance c/d	2,000
					10,000

01.04.11	To Balance b/d	2,000	31.03.11	By P&L A/c	7,000
01.01.12	To Bank A/c Premium	10,000	31.03.12	By Balance c/d	5,000
		12,000			12,000
01.04.12	To Balance b/d	5,000			
01.01.13	To Bank A/c Premium	10,000	31.03.13	By Bank A/c (policy money received)	2,00,000
31.03.13	To Partner's Capital A/c (Kapil 74,000 Manoj 74,000 Chetan 37,000)	1,85,000			
		2,00,000			**2,00,000**

Space to write important points for revision

2014 - June [1] {C} Answer the following question (give workings):

(i) Babbu and Dabbu are partners, sharing profit or loss in the ratio 3:2. They admit Kachari for $\frac{1}{6}$th share of profits in the firms of which she takes $\frac{2}{3}$rd from Babbu and $\frac{1}{3}$rd from Dabbu. Find the new profit sharing ratio. **(2 marks)**

Answer:

Share surrendered by Babbu = $\frac{1}{6} \times \frac{2}{3} = \frac{2}{18}$

Share surrendered by Dabbu = $\frac{1}{6} \times \frac{1}{3} = \frac{1}{18}$

New Ratio:

Babbu = $\frac{3}{5} - \frac{2}{18} = \frac{44}{90}$

Dabbu = $\frac{2}{5} - \frac{1}{18} = \frac{31}{90}$

Kachari $= \frac{1}{6} \times \frac{15}{15} = \frac{15}{90}$

NPSR = 44:31:15

—— Space to write important points for revision ——

2014 - June [4] (a) The Balance Sheet of A, B and C who are sharing profits in proportion to their capital stood as follows on March 31st, 2012:

Liabilities		₹	Assets		₹
Capital Accounts:			Land and Buildings		50,000
A	40,000		Plant and Machinery		17,000
B	30,000		Stock		16,000
C	20,000	90,000	Debtors	10,000	
Creditors		13,800	*Less:* Provision	200	9,800
			Cash at Bank		11,000
		1,03,800			1,03,800

B retired on the above date and the following was agreed upon:

(i) The stock be depreciated by 6%.

(ii) That the provision for doubtful debts be brought up to 5% on Debtors.

(iii) That the Land and Buildings be appreciated by 20%.

(iv) That a provision for ₹ 1,540 be made in respect of outstanding legal charges.

(v) That the Goodwill of the entire firm be fixed at ₹ 21,600 and B's share of it be adjusted into the accounts of A and C who are going to share future profits in the ratio of 5 : 3.

(vi) That the assets and liabilities (except Cash at Bank) were to appear in the Balance Sheet at their old figures.

(vii) That the entire capital of the firm as newly constituted by fixed at ₹ 56,000 between A and C in the proportion of 5 : 3 (actual cash to be brought in as paid off, as the case may be).

Show the Balance Sheet after B's retirement. **(10 marks)**

Answer:

In the books of the firm

Balance Sheet as on 31st March, 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account:		Land and Building	50,000
A 35,000		Plant and Machinery	17,000
C 21,000	56,000	Stock	16,000
B's Loan A/c	39,600	Debtors 10,000	
Creditors	13,800	Less: Provision for Bad Debt 200	9,800
		Cash at Bank (₹ 11,000 + ₹ 5,600)	16,600
	1,09,400		1,09,400

Note: *Since assets and liabilities will appear in the Balance Sheet at their old figure Memorandum Revaluation Account should be opened.*

Working Note:

Gaining Ratio

$$A = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$C = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

Hence, gaining ratio = 13 : 11

Memorandum Revaluation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Under valuation of Stock	960	By Overvaluation of Land and Building	10,000
To Provision for Bad Debts (₹ 500 - ₹ 200)	300		
To Provision for legal changes	1,540		
To Profit on Rev:			
A 3,200			
B 2,400			
C 1,600	7,200		
	10,000		10,000

To Reversal of items		By Reversal of items:	
To Over valuation of Land and Building	10,000	By Undervaluation of Stock	960
		By Provision for Bad Debts	300
		By Provision for legal changes	1,540
		By Capital A/c Profit to be written-back A-5/8 = 4,500 C-3/8 = 2,700	7,200
	10,000		10,000

∴ B's share of goodwill = ₹ 21,600 x 3/9
= ₹ 7,200

The entry being:

Particulars		Debit (₹)	Credit (₹)
A's Capital A/c	Dr.	3,900	
C's Capital A/c	Dr.	3,300	
To B's Capital A/c			7,200
(Being gaining ratio)			

Capital Account

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Memo. Reval. A/c	4,500	—	2,700	By Balance b/d	40,000	30,000	20,000
To B's Capital A/c	3,900	—	3,300	By Revaluation A/c – Profit	3,200	2,400	1,600
To B's Loan A/c	—	39,600	—	By A's Capital A/c By B's Capital A/c	— —	3,900 3,300	— —
To Balance c/d	35,000*	—	21,000	By Bank A/c (Balance Fig.)	200	—	5,400
	43,400	39,600	27,000		43,400	39,600	27,000

* Total Capital = ₹ 56,000 in 5 : 3, i.e., A ₹ 35,000; C ₹ 21,000.

2014 - Dec [1] Answer the following question (Give workings):

(c) Gunnu and Chinu are partners. They are entitled for 9% interest on their capital contributions. The firm allowed ₹ 54,000 towards interest on capital to partners. Calculate the capital contribution of each partner if interest on Gannu's capital is ₹ 13,500 more than the interest on Chinu's capital. **(2 marks)**

Answer:

Let Chinu's capital be x.

∴ Interest on Chinu's capital	=	0.09x
And interest on Gunnu's capital	=	0.09x + 13,500
⇒ 0.09x + 0.09x + 13,500	=	54,000
0.18x	=	40,500
x	=	2,25,000
Interest on Gunnu's capital	=	(0.09 × 2,25,000) + 13,500
	=	33,750
∴ Gunnu's capital	=	3,75,000
And Chinu's capital (x)	=	2,25,000

Space to write important points for revision

2014 - Dec [3] Answer the question:

(b) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for the total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2011 is given below:

Receipts	₹	Payments	₹
Cash in hand	10,800	Salaries	22,000
Receipts from Customers	2,70,000	Rent	4,400
Cash Sales	32,000	Advertising	1,800
		Printing	1,600
		General Expenses	19,100

		Payment to Trade Creditors	2,24,000
		Doll's Drawings	4,000
		Cash in hand	35,900
	3,12,800		3,12,800

Following balances are available from their books as on 30th June, 2010 and 30th June, 2011.

	As on 30-6-2010	As on 30-6-2011
	₹	₹
Stock in Trade	44,000	50,000
Sundry Debtors	?	70,000
Sundry Creditors	46,800	37,000
Furniture	6,000	?

Other Information:

(i) Discount allowed, ₹ 2,800.

(ii) Discount earned, ₹ 2,400.

(iii) Outstanding Printing, ₹ 500.

(iv) Capital of Doll as on 30th June, 2010 was ₹ 4,000 more than Capital of Dolly.

(v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll and Dolly:

(i) The Trading and Profit and Loss Account for the year ended 30th June, 2011 and

(ii) The Balance Sheet as on the date. **(12 marks)**

Answer:

In the books of Doll and Dolly
Trading & Profit & Loss A/c for the year ended 30.6.2011

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Stock	44,000	By Sales		
To Purchases	2,16,600	Cash	32,000	

To Gross Profit		70,200		Credit	2,48,800	2,80,800
			By	Closing Stock		50,000
		3,30,800				3,30,800
To Salaries		22,000	By	Gross Profit		70,200
To Rent		4,400	By	Discount earned		2,400
To Advertising		1,800				
To Printing	1,600					
+ O/S	500	2,100				
To General expenses		19,100				
To Depreciation		600				
To Discount allowed		2,800				
To Net profit		19,800				
		72,600				72,600

Balance Sheet as on 30.6.11

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital			Furniture	6,000	
Doll	56,000		- Depreciation	600	5,400
+ Net Profit	9,900		Debtors		70,000
- Drawings	4,000	61,900	Closing Stock		50,000
Dolly	52,000		Cash in hand		35,900
+ Net Profit	9,900	61,900			
Creditors		37,000			
O/s Printing		500			
		1,61,300			1,61,300

Balance Sheet as on 30.6.2010

W.N.

Liabilities		Amount ₹	Assets	Amount ₹
Capital			Furniture	6,000
Doll	56,000		Closing stock	44,000
Dolly	52,000	1,08,000	Debtors	94,000
Creditors		46,800	Cash in hand	10,800
		1,54,800		1,54,800

Debtors A/c

To Balance b/d (b/f)	94,000	By Discount allowed	2,800
To Sales	2,48,800	By Cash	2,70,000
		By Balance c/d	70,000
	3,42,800		3,42,800

Creditors A/c

To Discount earned	2,400	By Balance b/d	46,800
To Cash	2,24,000	By Purchase (b/f)	2,16,600
To Balance c/d	37,000		
	2,63,400		2,63,400

G.P. on sales = 25%

∴ G.P. on cost = 33.33%

Cost = Opening stock + Purchase - Closing stock

= 2,10,600

G.P. = 70,200

—— Space to write important points for revision ——

2015 - June [1] Answer the question:

(e) X, Y and Z are partners in the ratio of 3 : 2 : 1. W is admitted with 1/6th share in future profits. Z would retains his original shares. Find out the new profit sharing ratios of the partners. **(2 marks)**

Answer:

X's New share = 3/6 – (1/6× 3/5) = 12/30

Y's New share = 2/6 – (1/6× 2/5) 1= 8/30

Z's share = 1/6

W's share = 1/6

Therefore, NPSR = X:Y:Z:W = 12:8:5:5

—— Space to write important points for revision ——

2015 - June [3] (b) A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2015 was as follows:

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹
A's Capital	1,60,000	Building	4,00,000
C's Capital	1,00,000	Machinery	4,00,000
A's Loan	2,00,000	Furniture and Fixtures	1,60,000
Creditors	10,00,000	Stock	1,60,000
		Book Debts	2,00,000
		Cash at Bank	10,000
		B's Capital (Overdrawn)	1,30,000
	14,60,000		14,60,000

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:

Book debts: 45% less; Building: ₹ 1,60,000; Stock : ₹ 1,00,000; Machinery: ₹ 2,00,000; and Furnitures and fixtures; ₹ 40,000. Realization expenses were ₹ 10,000.

Partner	**Private Assets** ₹	**Private Liabilities** ₹
A	2,50,000	2,50,000
B	2,00,000	1,80,000
C	2,30,000	2,50,000

You are required to prepare:

(i) Realisation Account,
(ii) Bank Account,
(iii) Creditors Account,
(iv) Partner's Capital Account, and
(v) Deficiency Account. **([4 + 2 + 1 + 3 + 2] = 12 marks)**

Answer:

Dissolution

Dr. Realisation A/c Cr.

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Building	4,00,000	By Bank		
To Machinery	4,00,000	Book debts	1,10,000	
To Furniture	1,60,000	Building	1,60,000	
To Stock	1,60,000	Stock	1,00,000	
To Book debts	2,00,000	Machinery	2,00,000	
To Bank - realisation exp.	10,000	Furniture	40,000	6,10,000
		By Realisation loss		7,20,000
	13,30,000			13,30,000

Bank A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	10,000	By Realisation	10,000
To Realisation A/c	6,10,000	By Creditors A/c (B.F)	6,30,000
To B's Cap A/c (Excess of b's estate only his liability)	20,000		
	6,40,000		6,40,000

Creditors A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank	6,30,000	By Bal. b/d	10,00,000
To Deficiency A/c (B.F.)	3,70,000		
	10,00,000		10,00,000

Partners Capital A/c

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Bal. b/d		1,30,000		By Bal. b/d	1,60,000		1,00,000
To Realisation				By A's Loan A/c	2,00,000		
loss (7,20,000 in 1 : 1 : 1)	2,40,000	2,40,000	2,40,000	By Bank A/c By Deficiency A/c		20,000 3,50,000	 1,40,000
To Deficiency	1,20,000						
	3,60,000	3,70,000	2,40,000		3,60,000	3,70,000	2,40,000

Deficiency A/c

Particulars	Amount ₹	Particulars	Amount ₹
To B's Cap A/c	3,50,000	By Creditor	3,70,000
To C's Cap A/c	1,40,000	By A's Cap A/c	1,20,000
	4,90,000		4,90,000

Space to write important points for revision

2015 - Dec [3] (c) A, B and C have been in business partnership for some years, Sharing Profit in the proportions of 4:3:3.
The balances in the books of the firm as on 31st March, 2015 subject to final Adjustment, were as under:

(Amount in ₹)

	Dr.	Cr.
Capital Account - A		3,00,000
Capital Account - B		1,50,000
Capital Account - C		1,80,000
Profit for the year before charging interest		3,12,000

Land and Buildings	2,40,000	
Furniture and Fixtures	45,000	
Stock	3,75,000	
Debtors	60,000	
Bank	1,20,000	
Creditors		90,000
Partner's Drawings - A	48,000	
Partner's Drawings - B	72,000	
Partner's Drawings - C	72,000	
Total	10,32,000	10,32,000

C died on 30.09.2014. The Partnership deed provided that:

(1) Interest was to be credited on Capital accounts of partners at 10% P.A. on the balance at the beginning of the year.

(2) On the death of a Partner:

- (i) Goodwill was to be valued at three years' purchase of average Annual Profits of three years up to the date of death, after deducting interest on Capital Employed at 8% P.A. and a fair remuneration for each of the partners;
- (ii) Fixed Assets were to be valued by an independent valuer and all other assets and liabilities to be taken at Book Value.

(3) Wherever necessary, profit or loss should be apportioned on a time basis.

(4) The amount due to the deceased partner's Sole Heir was to receive interest @ 12% P.A. from the date of death until paid.

It was ascertained that:

(a) Profits for three years, before charging partners' interest were: 2011-12– ₹ 3,36,000, 2012-13 – ₹ 3,78,000 and 2013-14 – ₹ 3,60,000 respectively.

(b) The independent valuation at the date of death revealed : Land and Buildings – ₹ 3,00,000 and Furniture and Fixtures – ₹ 30,000.

(c) A fair remuneration for each of the Partners would be ₹ 75,000 P.A. and that the Capital employed in business to be taken as ₹ 7,80,000 throughout.

It was agreed among the Partners that:

(i) Goodwill was not to be shown as an asset of the firm as on 31.03.2015. Therefore, adjustment for goodwill was to be made in Capital Accounts.

(ii) A and B would share equally from the date of death of C.

(iii) Depreciation on revised value of assets would be ignored.

You are required to prepare:

(i) Revaluation Account

(ii) Partners' Capital Accounts

(iii) Partners' Current Accounts

(iv) C's Heir Account

(v) Balance Sheet as on 31.03.2015 **(1+2+1+1+4+3=12 marks)**

Answer:

(i) In the Books of ABC firm

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Furniture and Fixture A/c	15,000	By Land and Building A/c	60,000
To Partners' Capital A/cs (A- ₹ 18,000, B- ₹ 13,500, C-₹ 13,500)	45,000		
	60,000		**60,000**

(ii) Partners' Capital Accounts

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To C's Capital A/c – Goodwill	19,980	39,960	--	By Balance b/d	3,00,000	1,50,000	1,80,000
To C's Current A/c – Transfer	--	--	25,650	By Revaluation A/c	18,000	13,500	13,500
To C's Heir A/c	--	--	2,27,790	By A's Capital A/c Goodwill	--	--	19,980
To Balance c/d	2,98,020	1,23,540	--	By A's Capital A/c Goodwill	--	--	39,960
	3,18,000	**1,63,500**	**2,53,440**		**3,18,000**	**1,63,500**	**2,53,440**

(iii) Partners' Current Accounts

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance b/d	48,000	72,000	72,000	By P/L Appropriation A/c (Interest on Capital A/c)	30,000	15,000	9,000
To Balance c/d	91,716	40,266		By P/L Appropriation A/c	1,09,716	97,266	37,350
				By Capital A/c – (Transfer)	--	--	25,650
	1,39,716	**1,12,266**	**72,000**		**1,39,716**	**1,12,266**	**72,000**

(iv)

C's Heir Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance c/d	2,41,458	By C's Capital A/c	2,27,790
		By Profit & Loss Appropriation	13,668
	2,41,458		**2,41,458**

(v)

Balance Sheet as on 31st March, 2015

Liabilities	₹	Assets	₹
Capital Account - A	2,98,020	Land and Buildings	3,00,000
Capital Account - B	1,23,540	Furniture and Fixtures	30,000
Current Account - A	91,716	Stock	3,75,000
Current Account - B	40,266	Debtors	60,000
C's Heir Account	2,41,458	Bank	1,20,000
Creditors	90,000		
	8,85,000		**8,85,000**

Working Note:

(1) Adjustment in Regard to Goodwill

Particulars	₹
Aggregate profits for three years upto date of death (30.09.2014) are as follows:	
Profit for the year ended 30th Sept. 2012: (½ of ₹ 3,36,000 + ½ of ₹ 3,78,000)	3,57,000
Profit for the year ended 30th Sept. 13: (½ of ₹ 3,78,000 + ½ of ₹ 3,60,000)	3,69,000
Profit for the year ended 30th Sept. 14: (½ of ₹ 3,60,000 + ½ of ₹ 3,12,000)	3,36,000
Total profits for three years	10,62,000

Average profits (₹10,62,000 ÷ 3)		3,54,000
Less: Interest on capital employed (8% on ₹ 7,80,000)	62,400	
Fair remuneration to partners	2,25,000	2,87,400
Adjusted average profit for goodwill		66,600
Goodwill is the purchase of 3 year's profit = 3 × ₹ 66,600		1,99,800

Partners	**A** (₹)	**B** (₹)	**C** (₹)
Right of goodwill before death (4:3:3)	79,920	59,940	59,940
Right of goodwill after death (1:1)	99,900	99,900	--
Gain (+)/Sacrifice(-)	(+) 19,980	(+) 39,960	(-) 59,940

(2) Profit & Loss Appropriation Account

Dr. **Cr.**

Particulars	**01.04.14 to 30.09.14**	**01.10.14 to 31.03.15**	**Particulars**	**01.04.14 to 30.09.14**	**01.10.14 to 31.03.15**
To Partners' Current A/c			By Profit & LossA/c (Apportioned on time basis)	1,56,000	1,56,000
Interest on Capital A/c - A	15,000	15,000			
Interest on Capital A/c - B	7,500	7,500			
Interest on Capital A/c - C	9,000	--			
To Interest on hire C's A/c (-12%)	--	13,668			
Partners' Current A/cs - A	49,800	59,916			
Partners' Current A/cs - B	37,350	59,916			
Partners' Current A/cs - C	37,350	--			
	1,56,000	**1,56,000**		**1,56,000**	**1,56,000**

2016 - June [1] {C} (d) Answer the following question.

(i) S and N are partners sharing Profit /(Loss) in the ratio of 5:3. They admit J into partnership for $\frac{3}{10}$th in the Profit /(Loss) in which J acquired $\frac{1}{5}$th share from S and $\frac{1}{10}$th share from N respectively.

Calculate the new Profit/Loss sharing ratios of the partners. **(2 marks)**

Answer :

S's new share = $\left(\frac{5}{8}-\frac{1}{5}\right) = \frac{25-8}{40} = \frac{17}{40}$

N's new share = $\left(\frac{3}{8}-\frac{1}{10}\right) = \frac{15-4}{40} = \frac{11}{40}$

J's share = $\frac{3}{10} = \frac{12}{40}$

Hence New profit/loss sharing ratios of the partners = 17:11:12

—— Space to write important points for revision ——

2016 - June [2] A, B and C are in partnership sharing Profits and Losses in the ratio 3:2:1 respectively. The Balance Sheet of the Partnership firm as on 31st March, 2016 is as under:

Capital & Liabilities		₹	Assets	₹
Capital Accounts			Premises	1,80,000
A	1,70,000		Plant	74,000
B	1,30,000		Vehicles	30,000
C	70,000	3,70,000	Fixtures	4,000
Current Accounts			Current Accounts	
A	7,428		B	5,018
C	9,356	16,784		
Loan-C		56,000	Stock	1,24,758
Creditors		38,072	Debtors	69,960
Bank Overdraft		8,400	Cash in hand	1,520
		4,89,256		4,89,256

C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters agreed:

(i) Assets revalued as : Premises- ₹ 2,40,000, Plant- ₹ 70,000 Stock - ₹ 1,08,358.

(ii) A provision of ₹ 6,000 is created against debtors.

(iii) Goodwill is to be recorded in the books on the day C retires at ₹ 84,000.
The partners in the new firm do not wish to maintain a Goodwill Account so that amount is to be written-off against the New Partners' Capital Accounts.

(iv) A and B are to share profit in the same ratio as before, and D is to have the same share of profits as B.

(v) C is to take a car at its book value of ₹ 7,800 in part payment, and the balance of all he is owed by the firm in cash except ₹ 40,000 which he is willing to leave as a Loan Account.

(vi) The partners in the new firm are to start on an equal footing so far as Capital and Current Accounts are concerned. D is to contribute cash to bring his Capital and Current Accounts to the same amount as the original partner from the old firm who has the lower investment in the business. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.

(vii) Revaluation profit or loss is to be adjusted in the Partners' Current Account.
You are required to prepare:
(a) Revaluation Account
(b) Partners' Capital Accounts
(c) Partners' Current Accounts
(d) C's Loan Account
(e) Bank Account
(f) Balance Sheet of the New Firm as at 01.04.2016.

(3+2+2+1+2+5=15 marks)

Answer :

(a) **In the books of the firm (ABC)**

Revaluation Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.16	To Plant A/c	4,000	31.03.16	By Premises A/c	60,000
	To Stock A/c	16,400			
	To Provision for doubtful debts A/c	6,000			
	To Partner's Current A/c s A- ₹ 16,800 B- ₹ 11,200 C- ₹ 5,600	33,600			
		60,000			**60,000**

(b) **Partner's Capital Accounts**

Dr. **(Amount in ₹)Cr.**

Particulars	A	B	C	D	Particulars	A	B	C	D
To Goodwill A/c	36,000	24,000	—	24,000	By Balance b/d	1,70,000	1,30,000	70,000	—
To C. Loan A/c	—	—	84,000	—	By Goodwill A/c	42,000	28,000	14,000	—
To Bank A/c	42,000	—	—	—	By Bank A/c	—	—	—	1,58,000
To Balance c/d	1,34,000	1,34,000	—	1,34,000					
	2,12,000	**1,58,000**	**84,000**	**1,58,000**		**2,12,000**	**1,58,000**	**84,000**	**1,58,000**

(c) **Partners' Current Accounts**

Dr. **(Amount in ₹)Cr.**

Particulars	A	B	C	D	Particulars	A	B	C	D
To Balance b/d	—	5,018	—	—	By Balance b/d	7,428	—	9,356	—
To C. Loan A/c	—	—	14,956	—	By Revaluation A/c	16,800	11,200	5,600	—
To Bank A/c	18,046	—	—	—	By Bank A/c	—	—	—	6,182
To Balance c/d	6,182	6,182	—	6,182					
	24,228	**11,200**	**14,956**	**6,182**		**24,228**	**11,200**	**14,956**	**6,182**

(d) **C's-Loan Account**

Dr. **(Amount in ₹) Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.16	To Vehicles A/c	7,800	31.03.16	By Balance b/d	56,000
	To Bank A/c (balancing figure)	1,07,156		By C-Capital A/c By C-Current A/c	84,000 14,956
	To Balance c/d	40,000			
		1,54,956			**1,54,956**

(e) **Bank Account**

Dr. **(Amount in ₹) Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.16	To D Capital A/c	1,58,000	31.03.16	By Balance b/d	8,400
	To D Current A/c	6,182		By C's-Loan A/c	1,07,156
	To Balance c/d	11,420		By A-Capital A/c	42,000
				By C-Current A/c	18,046
		1,75,602			**1,75,602**

(f) **Balance Sheet of the new firm as on 01.04.2016**

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts:		Premises		2,40,000
A-₹ 1,34,000		Plant		70,000
B-₹ 1,34,000		Vehicles		22,200
D-₹ 1,34,000	4,02,000	Fixtures		4,000
Current Accounts:		Stock		1,08,358
A-₹ 6,182		Debtors	69,960	
B-₹ 6,182 D-₹ 6,182	18,546	*Less:* Provision for bad debts	6,000	63,960
		Cash		1,520

C- Loan Account:	40,000		
Creditors	38,072		
Bank Overdraft	11,420		
	5,10,038		**5,10,038**

—— Space to write important points for revision ——

2016 - Dec [1] {C} (d) Answer the following question (Give workings):

(iv) P and R are currently partners in a firm sharing Profit/Loss in the ratio of 4:3. A new partner D is admitted and after his admission new Profit/Loss sharing ratio between P, R and D becomes 5:3:2.
What will be the sacrifice ratio of P and R after admission of D?

(2 marks)

Answer:

Calculation of sacrificing ratio of P&R after D's admission:

Partners	P	R	D
Old Ratio	4:	3:	–
New Ratio	5:	3:	2

$$P = \frac{4}{7} - \frac{5}{10} = \frac{(40-35)}{70} = \frac{5}{70}$$

$$R = \frac{3}{7} - \frac{3}{10} = \frac{(30-21)}{70} = \frac{9}{70}$$

Sacrificing ratio or P&R= 5:9.

—— Space to write important points for revision ——

2016 - Dec [4] P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4 : 1 : 2 : 3.

The following is their Balance Sheet as on 31st March, 2016:

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital Accounts:			Premises		2,80,000
P	7,00,000		Furnitures		30,000
T	3,00,000	10,00,000	Stock-in-Trade		2,00,000
Trade Creditors		3,00,000	Trade Debtors	3,50,000	

			Less: Provision for Bad Debts	50,000	3,00,000
			Cash at Bank		1,40,000
			Capital Accounts:		
			Q	2,00,000	
			R	1,50,000	3,50,000
		13,00,000			13,00,000

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:

(i) P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
(ii) T is to take over the stock in Trade at 95% of the value; and
(iii) R is to discharge Trade Creditors.
(iv) The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
(v) The expenses of realisation come to ₹ 30,000.
(vi) Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:

(a) Realisation Account
(b) Bank/Cash Account
(c) Capital Accounts of the Partners. **(5+4+5+1=15 marks)**

Answer:

In the books of P, Q, R & T
Realisation Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016	To Trade debtors A/c	3,50,000	2016	By Provision for Bad debts A/c	50,000
April 1	To Stock in Trade A/c	2,00,000	April 1	By Trade Creditor A/c	3,00,000
	To Premises A/c	2,80,000			

	To Furniture A/c	30,000		By P's Capital A/c (Trade Debtors taken over)	2,80,000
	To R's Capital A/c (Trade credit discharged)	3,00,000			
	To Bank/Cash (Expenses)	30,000		By T's Capital A/c (Stock-in-trade taken over)	1,90,000
				By Bank A/c (Assets realised)	3,00,000
				By Partners Capital A/cs (P: ₹ 28,000: Q: ₹ 7,000 R: ₹ 14,000: T: ₹ 21,000)	70,000
		11,90,000			11,90,000

Bank/Cash Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d	1,40,000	2016	By Realisation A/c (expenses)	30,000
April 1	To Realization A/c	3,00,000	April 1	By Partners Capital A/cs	
	To Partner's Capital A/cs:			P:	2,90,430
	P:	28,000		R:	1,50,000
	Q:	21,900		T:	54,470
	R:	14,000			
	T:	21,000			
		5,24,900			5,24,900

Partners' Capital Accounts (Amount in ₹)

Dr. **Cr.**

Particulars	P	Q	R	T	Particulars	P	Q	R	T
To Balance b/d	—	2,00,000	1,50,000	—	By Balance b/d	7,00,000		—	3,00,000
To Realisation A/c	2,80,000	—	—	1,90,000	By Realisation A/c	—	—	3,00,000	—
To Realisation A/c (Loss)	28,000	7,000	14,000	21,000	By Bank/Cash A/c	28,000	—	14,000	21,000
To Capital A/c (WN-2)	1,29,570	—	—	55,530	By Bank/Cash (W-I)	—	21,900	—	—
To Bank/ Cash A/c	2,90,430	—	1,50,000	54,470	By P's Capital A/c	—	1,29,570	—	—
					By T's Capital A/c	—	55,530	—	—
	7,28,000	2,07,000	3,14,000	3,21,000		7,28,000	2,07,000	3,14,000	3,21,000

Working Notes:

(1) Solvent partners should bring in cash to make good the loss on realization.

(2) Q's deficiency of ₹ 1,85,100 (₹ 2,07,000 – ₹ 21,900) should be shared by P and T in the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.

(3) The amount realised from the estate of Q is ₹ 21,900.

Space to write important points for revision

2017 - June [6] P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2017 on which date Balance Sheet of the firm is as follows.

		₹		₹
Capital accounts:	P	1,20,000	Cash	36,000
	Q	85,000	Debtors	74,000
	R	75,000	Stock	60,000
Creditors		85,000	Plant and Machinery	1,20,000
			Land and Building	75,000
		3,65,000		3,65,000

Value of goodwill was agreed as ₹ 93,000. Land and building increased in value, it being agreed at ₹ 1,05,600, plant and machinery was revalued at ₹ 1,00,500 and it was agreed to provide 6% in respect of debtors. Prepare revaluation account, capital accounts and balance sheet.

(5+5+5 = 15 marks)

Answer:

Revaluation A/c

Particulars		Amount (₹)	Particulars	Amount (₹)
To Plant & Machinery A/c		19,500	By Land & Building A/c	30,600
To Provision for bad debts A/c		4,440		
To Capital A/c (Profit)				
P	2,220			
Q	2,220			
R	2,220	6,660		
		30,600		30,600

Capital A/c

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To bad c/d	1,53,220	1,18,220	—	By bal b/d	1,20,000	85,000	75,000
To Loan A/c	—	—	1,08,220	By Revaluation A/c	2,220	2,220	2,220
				By Goodwill A/c	31,000	31,000	31,000
	1,53,220	1,18,220	1,08,220		1,53,220	1,18,220	1,08,220

Balance Sheet

Liabilities	**Amount (₹)**	**Assets**		**Amount (₹)**
Capital Accounts:		Cash		36,000
P	1,53,220	Debtors		
			74,000	
Q	1,18,220	*Less:* Provision	4,440	69,560
Loan Account : R	1,08,220	Stock		60,000
Creditors	85,000	Plant & Machinery		1,00,500
		Land & Building		1,05,600
		Goodwill		93,000
	4,64,660			4,64,660

Space to write important points for revision

2017 - Dec [4] (c) (ii) The Balance Sheet of a Partnership Firm had an Investment Fluctuation Reserve of ₹ 10,000. A new partner is admitted. Value of Investment is ₹ 60,000 against its book value of ₹ 70,000. What amount of the Investment Fluctuation Reserve will be distributed among partners?

(iii) When does the Capital Account of a partner not show a debit balance in spite of regular losses incurred by the firm?

(iv) At the time of dissolution of Partnership Firm realisation expenses amounted to ₹ 3,000 paid by Nisha, a partner who was to bear these expenses. What entry is required in the Books of the firm?

(1 mark each)

Answer:

(ii) Nil. There is no excess amount in the Investment Fluctuation Reserve Account as the fall in the value of the investment is equal to the reserve.

(iii) When partners maintain Fixed Capital Account, all adjustments including share of profit or loss is shown in their Current Account. Hence, the Capital Account of the partners will not be disturbed and this will not show a debit balance in spite of regular losses.

(iv) No entry is required as the expenses are to be borne by the partners.

Space to write important points for revision

2017 - Dec [5] (a) Snehal, Suchita and Sindhu were partners sharing profits and losses in the ratio of 3:2:1. The firm was dissolved on 31.03.2015. After transfer of assets and liabilities to Realisation A/c, the following transactions took place.

Give journal entries in the books on dissolution of the firm.

(i) Suchita's Loan to the firm ₹ 30,000 was settled at ₹ 28,500.

(ii) A creditor for ₹ 50,000, took over Machinery of Book value ₹ 40,000 at ₹ 35,000. The balance was settled in Cash.

(iii) Workmen Compensation Reserve - ₹ 40,000. A liability equal to 60% of the Reserve was settled.

(iv) Sindhu was to receive 5% of the value of assets realised as remuneration for completing the dissolution work and was to bear realization expenses. Realisation expenses were ₹ 5,500 that was paid by Sindhu. Assets realised ₹ 60,000.

(v) The Balance Sheet disclosed a footnote, contingent liability for ₹ 5,000 in respect of a bill discounted. The bill was received from Megha. On the date of dissolution Megha was declared insolvent and was not able to pay the amount due. The bill had to be met by the firm.

(vi) Loss on realization amounted to ₹ 24,000. **(7 marks)**

Answer:

In the books of Snehal, Suchita and Sindhu Journal

Date	**Particulars**	**L.F.**	**Dr.** (₹)	**Cr.** (₹)
(a)	Suchita's Loan A/c Dr.		30,000	
	To Bank A/c			28,500
	To Realisation A/c			1,500
	(Being settlement of partner's loan)			

(b)	Realisation A/c Dr. To Bank A/c (Being settlement of creditor's liability)		15,000	 15,000
(c)	Workmen Compensation Reserve A/c Dr. To Realisation A/c To Snehal's Capital A/c To Suchita's Capital A/c To Sindhu's Capital A/c (Being WCR transferred)		40,000	 24,000 8,000 5,333 2,667
	Realisation A/c Dr. To Bank A/c (Being liability against Workmen Compensation paid)		24,000	 24,000
(d)	Realisation A/c Dr. To Sindhu's Capital A/c (Being remuneration payable to Sindhu)		3,000	 3,000
(e)	Realisation A/c Dr. To Bank A/c (Being amount paid for the bill)		5,000	 5,000
(f)	Snehal's Capital A/c Dr. Suchita's Capital A/c Dr. Sindhu's Capital A/c Dr. To Realisation A/c (Being loss on realisation transferred)		12,000 8,000 4,000	 24,000

Space to write important points for revision

2018 - June [6] A and B were partners of a firm sharing profits and losses in the ratio 2 : 1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		—
	21,00,000		21,00,000

They agreed to admit P and Q into the partnership on the following terms:

(i) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits' of the last 3 years. The relevant figures are:

Year ended 31.03.2014 - Profit ₹ 37,000

Year ended 31.03.2015 - Profit ₹ 40,000

Year ended 31.03.2016 - Profit ₹ 45,000

(ii) The value of the stock and Plant & Machinery were to be reduced by 10%.

(iii) Building was to be valued at ₹ 10,11,000.

(iv) There was an unrecorded liability of ₹ 10,000.

(v) A,B,P & Q agreed to share profits and losses in the ratio 3 : 2 : 1 : 1.

(vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.

(vii) P and Q were to bring capitals equal to their shares of Profit considering B's capital as base after all adjustments.

You are required to prepare:

(1) Memorandum Revaluation Account,

(2) Partner's Capital Accounts and

(3) The Balance Sheet of the newly constructed firm.

(15 marks)

Answer:

Memorandum Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Stock	30,000	By Building	1,11,000
To Plant & machinery	50,000		
To Unrecorded liability	10,000		
To Profit transferred to Partners' Capital A/c (in old ratio) A = 14,000 B = 7,000	21,000		
	1,11,000		**1,11,000**
To Building	1,11,000	By Stock	30,000
		By Plant & Machinery	50,000
		By Unrecorded liability	10,000
		By Loss transferred to Partners' Capital A/cs (in new ratio) A = 9,000 B = 6,000 P = 3,000 Q = 3,000	21,000
	1,11,000		**1,11,000**

Partner's Capital Accounts

Dr. **Cr.**

Particulars	A	B	P	Q	Particulars	A	B	P	Q
To Memorandum Revaluation A/c	9,000	6,000	3,000	3,000	By Balance b/d	8,00,000	4,00,000	—	—
To Reserves A/c	2,25,000	1,50,000	75,000	75,000	By Memorandum Revaluation A/c	14,000	7,000	—	—
To A & B (W.N.2)	—	—	12,000	12,000	By Reserves A/c	3,50,000	1,75,000	—	—
To Balance c/d (Refer W.N.3)	9,50,000	4,30,000	2,15,000	2,15,000	By P & Q (W.N.2)	20,000	4,000	—	—-
					By Cash (Bal. Fig.)	—	—	3,05,000	3,05,000
	11,84,000	**5,86,000**	**3,05,000**	**3,05,000**		**11,84,000**	**5,86,000**	**3,05,000**	**3,05,000**

Balance Sheet of newly reconstituted firm as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Plant and Machinery	5,00,000
A – 9,50,000		Building	9,00,000
B – 4,30,000		Sundry Debtors	2,50,000
P – 2,15,000		Stock	3,00,000
Q – 2,15,000	18,10,000	Cash (1,50,000+3,05,000 + 3,05,000)	7,60,000
Reserves	5,25,000		
Sundry Creditors	2,75,000		
Bills Payable	1,00,000		
	27,10,000		**27,10,000**

Working Notes:

1. **Calculation of Goodwill**

   Weighted Average Profit:

Year	Profit (₹)	Weight	Weighted Profit (₹)
2014	37,000	1	37,000
2015	40,000	2	80,000
2016	45,000	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

2. (a) Profit sacrificing Ratio

Particulars	Old Shares	New Shares	Share Sacrificed	Share Gained
A	2/3	3/7	5/21	—
B	1/3	2/7	1/21	—
P	—	1/7	—	1/7
Q	—	1/7	—	1/7

(b) Adjustment for Goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
A	56,000	36,000	+ 20,000	—
B	28,000	24,000	+ 4,000	—
P	—	12,000	—	12,000
Q	—	12,000	—	12,000
	84,000	**84,000**	**24,000**	**24,000**

Journal Entry

Particulars		Amount (₹)	Amount (₹)
P's Capital A/c	Dr.	12,000	
Q's Capital A/c	Dr.	12,000	
To A's Capital A/c			20,000
To B's Capital A/c			4,000

3. Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is ₹ 4,30,000. Total capital of firm will be = 4,30,000 × 7/2 = 15,05,000 Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 x 1/7) each i.e. at par with B (as per new profit and loss sharing ratio)

Space to write important points for revision

2018 - Dec [4] A, B and C are partners in a firm sharing profits and losses as 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 was as follows:

(₹ in Lakh)

Liabilities	Amount (₹)	Assets	Amount (₹)
Partners' Capital A/c		Land and Building	210
A	145	Plant and Machinery	255
B	110	Stock	125
C	75	Debtors	95
General Reserve	165	Bills Receivable	25
Partners' Loan :		Cash in Hand	3
A	30	Cash at Bank	37
B	20		
Sundry Creditors	205		
	750		750

B died on 1st August, 2018. His account is to be settled under the following terms:

(i) Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were : 2014-15 ₹ 135 Lakh, 2015-16 ₹ 145 Lakh, 2016-17 ₹ 131 Lakh and 2017-18 ₹ 165 Lakh.

(ii) Land and Building will be valued at ₹ 250 Lakh and Plant and Machinery will be valued at ₹ 240 Lakh.

(iii) For the purpose of calculating B's share in the profits of 01.04.2018 to 31.07.2018, the profits for the year 2017-18 will be taken as base.

(iv) Interest on Partners' Loan will be calculated @ 6% per annum.

(v) A sum of ₹ 50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1st December, 2018 together with interest @ 10% per annum.

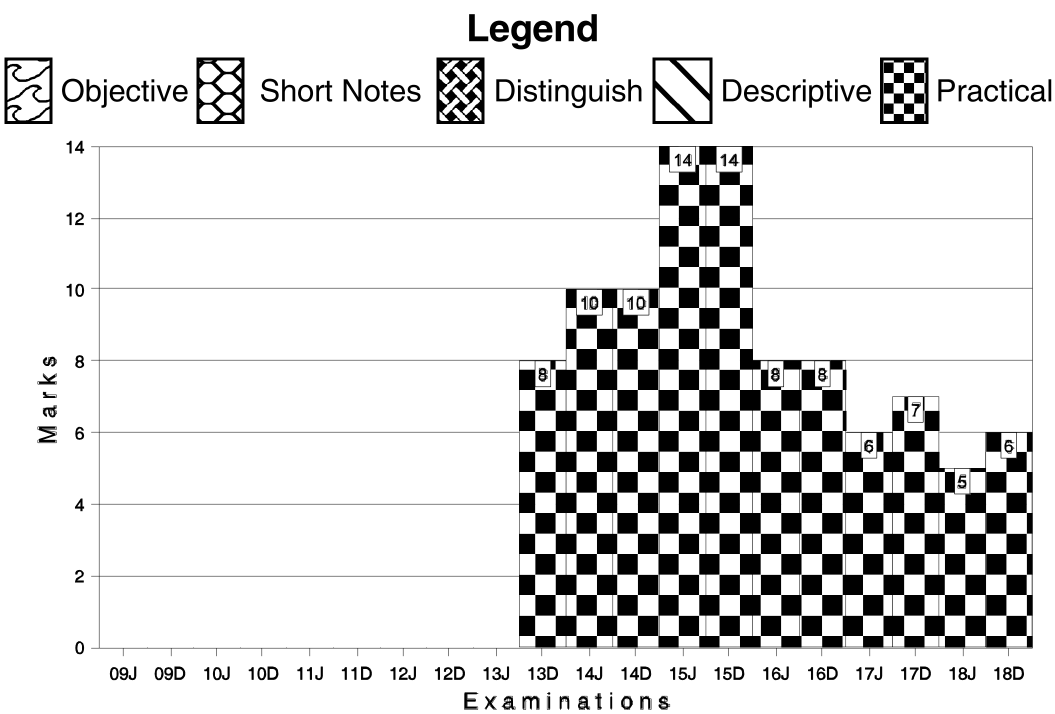
You are required to pass necessary journal entries to record the above transactions and amount payable to B's Executor's Account. **(15 marks)**

Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	2				2	2				
Total	2				2	2				

7 SELF- BALANCING LEDGER

THIS CHAPTER INCLUDES	
• Types of Ledgers • Transfer Entries • Entries in Sales or Debtors Ledger	• Entries in Purchase or Creditors Ledger

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Self Balancing Ledger	Under Self Balancing Ledger system each ledger is prepared under double entry system and a complete trial balance can also be prepared by taking up the balances of ledger accounts.
Debtors Ledger	It is also known as Sold Ledger or Sales Ledger which is maintained for recording personal accounts of trade debtors.
Creditors Ledger	It is also known as Bought Ledger or Purchase Ledger which is prepared for recording personal accounts of trade creditors.
General or Nominal Ledger	In this ledger all real accounts, nominal accounts and remaining personal accounts are opened.
Preparation of Trial Balance	By taking up the balances from all the three ledgers a trial balance can be prepared.

DISTINGUISH BETWEEN

2009 - May [6] Answer the following:

(f) What is the difference between the Sectional and Self-balancing system? **(4 marks)** ***[PE - II G - I]***

Answer :

	Sectional Balancing	**Self Balancing**
1	Only one trial balance is prepared.	Separate trial balance is prepared in each ledger.
2	Total Debtors account and Total Creditors account are memorandum accounts.	Adjustment accounts are the parts of double entry system.

3	Arithmetical accuracy can be checked by preparing Total Debtors account and Total Creditors account.	Arithmetical accuracy can be checked by preparing trial balance of each ledger.
4	Accounts are opened in General Ledger.	Accounts are opened in General Ledger, Sales Ledger and bought ledger.

(i) Under Sectional balancing system only one trial balance is prepared in General Ledger while under self balancing system, separate trial balance is prepared in each ledger.

(ii) Under sectional balancing system, Total Debtors account and Total Creditors account are memorandum accounts and not the part of double entry system but under self balancing system adjustment accounts are the parts of double entry system.

(iii) Under sectional balancing system, arithmetical accuracy of Sales Ledger and Bought Ledger can be checked by preparing Total Debtors account and Total Creditors account while under self balancing arithmetical accuracy of each ledger can be checked by preparing trial balance of each ledger.

(iv) Under sectional balancing system, Total Debtors account and Total Creditors account are opened in General Ledger while under Self Balancing System, adjustment accounts are opened in General Ledger, Sales Ledger and bought ledger.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2010 - Nov [5] (b) Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment Account in the General Ledger:

(i) Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.

(iii) Bills receivables drawn during the period totaled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent, his estate realized 50 paise in a rupee.

(iv) A sum of ₹ 3,000 was written off as bad debts, ₹ 7,000 was realized against bad debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts. **(4 marks)** ***[PE - II G - I]***

Answer :

In the book of Ujju Enterprise

Debtors Ledger Adjustment Account in the General Ledger

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2009 Oct.1	To Balance b/d	40,000	2009 Oct. 1 to Dec 31	By General Ledger Adj. A/c : Collection from debtors-bank [60% of (40,000 +1,35,000)]	1,05,000
Oct.1 to Dec31	To General Ledger Adj. A/c :			Discount allowed	10,000
	Sales (Refer W.N.)	1,35,000		Bills receivables	20,000
	Bills Receivables dishonoured	5,000		Bad debts (₹ 2,500 + ₹ 3,000)	5,500
				By Balance c/d	39,500
		1,80,000		Total	1,80,000

Note : *No entries are required :*

(a) For ₹ 7,000 realised against bad debts written off in earlier years, and

(b) For provision of ₹ 6,000 made for doubtful debts.

Working Note:

Calculation of credit sales :

	(₹)
Total trade sales = 2,20,000 – 10,000	= 2,10,000
Less: Cash sales = 2,10,000 × $\frac{100}{180+100}$	= (75,000)
Credit sales	= 1,35,000

Space to write important points for revision

2011 - May [7] Answer the following :

(e) On 1st October, 2010, the debit balances of debtors account is ₹ 77,500 in the books of M/s Zee Limited. Transactions during the 6 months ended on 31st March, 2011 were as follows :

	₹
Total sales (including cash sales ₹ 14,000)	84,000
Payment received from debtors in cash	38,000
Bills receivable received	26,000
Discount allowed to customers for prompt payment	1,000
Goods rejected and returned back by the customer	2,550
Bad debts recovered (written off in 2009)	900
Interest debited for delay in payment	1,250

Out of the bills received, bills of ₹ 8,500 were dishonoured on due dates and noting charges paid ₹ 250. Bills of ₹ 5,000 were endorsed to the suppliers.

You are required to prepare a Debtors Account for the period ending 31st March, 2011 in the General Ledger of M/s Zee Ltd.

(4 marks) ***[PE - II G - I]***

Answer :

Total Debtors account in the General Ledger of M/s Zee Ltd.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.10.10 1.10.10 to	To Balance c/d To General Ledger Adjustment A/c:	77,500	1.10.10 to 31.3.11	By General Ledger Adjustment A/c: Cash collected	 38,000

31.3.11	Sales (84,000-14,000) Bills receivable (Bill dishonored) Bank (Noting charges) Interest	70,000 8,500 250 1,250	 31.3.11	Bills Receivable A/c Discount allowed Sales return By Balance c/d	26,000 1,000 2,550 89,950
		1,57,500			1,57,500

Working Note:

1. *Bad debts of the year 2008-09 recovered in 2010-11 will not appear in the 'Total Debtors account, It will be credited to profit & loss account.*
2. *Bills receivables of ₹ 5,000 endorsed to the supplier will not be shown in the 'Total Debtors account because at the time of endorsement Supplier's account will be debited and Bills receivable account will be credited.*

—— Space to write important points for revision ——

2012 - Nov [1] {C} (a) A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2012:

	₹
Debit balances in Debtors Ledger on 01-04-2012	3,58,200
Credit balances in Debtors Ledger on 01-04-2012	9,400
Transactions during the month of April, 2012 are:	
Total Sales (including Cash Sales, ₹ 1,00,000)	20,95,400
Sales Returns	33,100
Cash received from credit customers	17,25,700
Bills Receivable received from customers	95,000
Bills Receivable dishonoured	7,500
Cash paid to customers for returns	6,000
Transfers to Creditors Ledger	16,000
Credit balances in Debtors Ledger on 30-04-2012	9,800

(5 marks) ***[PE - II G - I]***

Answer:

General Ledger Adjustment Account in Debtors Ledger

Date	Particulars	₹	Date	Particulars	₹
1.4.2012	To Balance b/d	9,400	1.4.2012	By Balance b/d	3,58,200
1.4.2012 to 30.4.2012	To Debtors ledger adjustment A/c:		1.4.2012 to 30.4.2012	By Debtors ledger adjustment A/c:	
	Cash received	17,25,700		Credit sales	19,95,400
	Sales Returns	33,100		Cash paid for returns	6,000
	Bills receivable received	95,000		Bills receivable dishonoured	7,500
	Transfer to creditors ledger	16,000		By Balance c/d	9,800
30.4.2012	To Balance c/d (bal. fig.)	4,97,700			
		23,76,900			23,76,900

—— Space to write important points for revision ——

2013 - Dec [2] (a) The Ledger of Paurush showed that the balance of debtors and creditors as on 1st April, 2012 was as follows:
Total Debtors ₹ 2,70,000 and Total Creditors ₹ 3,20,000.
The following transactions took place during the year ended 31st March, 2013:

	₹
Credit sales	5,50,000
Cash sales	1,70,000
Credit purchases	3,80,000
Cash purchases	1,25,000
Cash received from Debtors	2,20,000
Cash paid to Creditors	1,80,000
Bills receivable received	2,70,000
Bills payable accepted	2,85,000
Discount allowed	20,000
Discount received	15,000
Bad debts	25,000
Bills receivable dishonoured	45,000
Bad debts recovered	7,000

Bills receivable—old cancelled & renewed	80,000
Interest on bills receivable renewed	4,000
Provision for discount on Debtors	16,000
Provision for discount on Creditors	12,000
Bills receivable endorsed to Creditors	20,000

You are required to prepare the Total Debtors Account and Total Creditors Account in the General Ledger of Paurush on 31st March, 2013.

(8 marks)

Answer:

General Ledger of Paurush

Total Debtors Account

Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Balance b/d	2,70,000	31.3.13	By Cash A/c	2,20,000
31.3.13	To Sales (Credit) A/c	5,50,000	31.3.13	By Bills Receivables A/c	2,70,000
31.3.13	To B/R (Dishonoured) A/c	45,000	31.3.13	By Discount allowed	20,000
31.3.13	To B/R A/c (Cancelled)	80,000	31.3.13	By Bad-Debts A/c	25,000
31.3.13	To Interest A/c	4,000	31.3.13	By B/R A/c (Renewed with interest) (80,000 + 4,000)	84,000
			31.3.13	By Balance c/d	3,30,000
		9,49,000			**9,49,000**
1.4.13	To Balance b/d (Opn. Balance)	**3,30,000**			

Total Creditors Account

Date	Particulars	₹	Date	Particulars	₹
31.3.13	To Cash A/c	1,80,000	1.4.12	By Balance c/d	3,20,000
31.3.13	To B/P A/c	2,85,000	31.3.13	By Purchases (credit)	3,80,000

31.3.13	To Discount Received A/c	15,000			
31.3.13	To B/R A/c (Endorsed)	20,000			
31.3.13	To Balance c/d	2,00,000			
		7,00,000			7,00,000
			1.4.13	By Balance b/d (Opn. Balance)	2,00,000

Bad-debts recovered, Provision for discount on debtors, Provision for discount on creditors, cash sales & cash purchases are not shown in total debtors A/c total creditors A/c.

—— Space to write important points for revision ——

2014 - June [1] {C} Answer the following question (give workings):

(iv) Shiva's debtors ledger include ₹ 18,000 due from Mayank & Co. whereas creditors ledger include ₹ 13,000 due to Mayank & Co. Give the transfer entry to set-off the suitable amount in the books of Shiva. **(2 marks)**

Answer:

Creditors Ledger Adjustment A/c Dr.	13,000	
To Debtors Ledger Adjustment A/c		13,000
(Being the amount set off)		

—— Space to write important points for revision ——

2014 - June [6] (a) The following details are obtained from the books of Dafali Enterprise relating to the debtors :

(i) Total debtors at the beginning for the year was ₹ 42,500.

(ii) Transactions during the years were as follows :

Debtors	Goods sold	Goods returned	Cash and Cheques received	Discount Allowed	Bad debts	Bill of Exchange Received
	₹	₹	₹	₹	₹	₹
A	25,000	3,000	15,000	2,000	-	-
B	20,000	1,500	14,000	-	4,500	-
C	45,000	-	28,000	1,800	-	5,000
D	30,000	4,000	20,000	1,000	-	-
E	60,000	6,000	30,000	4,500	-	10,000
F	50,000	2,000	35,000	4,000	-	-
G	55,000	5,000	32,000	2,500	-	8,000

(iii) One bill for ₹ 3,000 out of bills received from 'C' was endorsed to 'P' during the year and out of E's bills, a bill for ₹ 4,000 was dishonored, noting charges amounting to ₹ 200. Prepare Debtors Ledger Adjustment Account in General Ledger and General Ledger Adjustment Account in Debtors Ledger. **(8 marks)**

Answer:

General Ledger

Debtors Ledger Adjustment A/c

	Amount ₹		**Amount** ₹
To Balance b/d	42,500	By G. L. Adj.	
To G. L. Adj.		Sales return	21,500
Sales	2,85,000	Cash	1,74,000
(B/R Dishonoured)	4,200	Discount	15,800
		Bad debts	4,500
		B/R	23,000
		By bal. c/d	92,900
	3,31,700		3,31,700

Debtors Ledger
General Ledger Adjustment A/c

	₹		₹
To Debtors ledger Adjustment A/c:		By Balance b/d	42,500
Cash	1,74,000	By Debtors ledger Adjustment A/c	
Discount	15,800	Sales	2,85,000
Sales return	21,500	B/R Dishonoured	4,200
Bad debts	4,500		
B/R	23,000		
To Balance c/d	92,900		
	3,31,700		3,31,700

—— Space to write important points for revision ——

2014 - Dec [1] Answer the following question (Give workings):(d) State whether following transactions appear in Sales/Purchases Ledger Adjustment Account or not, when books are kept on self balancing ledger system:

(i) B/R discounted with bank for ₹ 15,000;
(ii) Old bad debts recovered ₹ 1,500;
(iii) Cash refunds to customers ₹ 4,500;
(iv) Provision made for bad debts ₹ 5,000. **(2 marks)**

Answer:

Items will appear in S.L. Adj. A/c	Items will appear in P.L. Adj. A/c	Items will not appear
(iii) Cash refunds to customers ₹ 4,500		(i) B/R discounted with bank for ₹ 15,000 (ii) Old bad debts recovered ₹ 1,500 (iv) Provision made for bad debts ₹ 5,000

—— Space to write important points for revision ——

2014 - Dec [4] Answer the question:

(a) Following information is available from the books of a trader from January 1 to March 31,2011.

(i) Total Sales amounted to ₹ 60,000 including the sale of old furniture for ₹ 1,200 (Book Value ₹ 3,500). The total Cash Sales were 80% less than the total Credit Sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for ₹ 2,600.

(iii) Bills Receivable drawn during the three months totalled ₹ 6,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed B/R, a B/R for ₹ 600 was dishonoured for non-payment as the party became insolvent, his estate realizing nothing.

(iv) Cheques received from Sundry Customers for ₹ 6,000 were dishonoured; a sum of ₹ 500 is irrecoverable, Bad Debts written off in the earlier years realized ₹ 2,500.

(v) Sundry Debtors, as on 1st January 2011, stood at ₹ 40,000.

You are required to show the Debtors Ledger Adjustments Accounts in the General Ledger. **(4 marks)**

(c) PCT Ltd. maintains self-balancing ledgers. On 31st March,2014 the accountant of the company located the following errors in the books of account :

(i) An amount of ₹ 8,700 received from customer Meena was credited to Meenu, another customer.

(ii) The sales book for December, 2013 was under cast by ₹ 1,000.

(iii) Goods invoiced at ₹ 15,600 were returned to supplier, M/s BPO Ltd., but no entry was made in the books for this return made on 28th December, 2013.

Pass the necessary Journal entries to rectify the above mentioned errors.

(4 marks)

Answer:

(a)

In General Ledger

Debtors Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d To General Ledger Adjustment A/c. (In Sales Ledger) - Sales (W.N.1)	40,000 49,000	By General Ledger Adjustment A/c: (In Sales Ledger) - Cash (W. N. 2) - Discount	 53,400 2,600
To Creditors A/c (B.R. dishonoured)	600	By Bad Debts (₹ 500 + ₹ 600)	1,100
To Bank (Cheques dishonoured)	6,000	By B/R By Balance c/d	6,000 32,500
	95,600		95,600

Workings Notes:

1. **Computation of Credit Sales:**
   As per question Cash Sales were 80% less than credit sales. So, if credit sales are ₹ 100, cash sales will be ₹ 20.
   So, Total sales (cash + credit) will be ₹ 120. Total Sales ₹ (60,000 - 1,200) = ₹ 58,800
   So, Amount of credit sales will be (58,800 × 100)/120 = ₹ 49,000
2. **Cash Received**
   Cash Received is 60% of opening Debtors + Credit Sales i.e.
   ₹ (40,000 + 49,000) = ₹ 89,000
   So, Cash received = ₹ 89,000 × 60/100 = ₹ 53,400

Answer:

(c) **Journal Entries**

Date	Particulars	L.F.	(₹)	(₹)
(i)	Meena (In Sales/Debtors Ledger) Dr. To Meenu (In Sales/ Debtors Ledger) (Being amount received from Meenu was wrongly credited to Meena, now rectified)		8,700	8,700
(ii)	(a) Suspense A/c (In Sales/Debtors Ledger) Dr. To Sales A/c (In General Ledger)		1,000	1,000
	(b) Sales/Debtors Ledger Adjustment A/c Dr. (In General Ledger) To General Ledger Adjustment A/c (In Sales/Debtors Ledger) (Being rectification of the error resulting from under casting of the Sales Book)		1,000	1,000
(iii)	(a) M/s. BPO Ltd. A/c (In Creditors/ Bought Ledger) Dr. To Purchase Returns A/c (In General Ledger)		15,600	15,600
	(b) Creditors/Bought Ledger Adjustment A/c Dr. (In General Ledger) To General Ledger Adjustment A/c (In Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)		15,600	15,600

—— Space to write important points for revision ——

2015 - June [1] Answer the question:

(f) ANKIT LTD. provided the following particulars:
Debtor's ledger includes ₹ 5,000 due from Kumar & Co.
Creditor's ledger includes ₹ 3,000 due to Kumar & Co.
Give Journal Entry to record the above under Self-Balancing System.

(2 marks)

Answer:

Creditors Ledger Adjustment A/c To Debtors Ledger Adjustment A/c (Being transfer entry made)	Dr.	3,000	3,000

—— Space to write important points for revision ——

2015 - June [4] Answer the questions:

(a) The summarized analysis of the accounts of the outstanding debtors of GANAPATHI LTD. at the date of 31.03.2015 (Annual Closing) of amount as under:

Debtors	Goods Sold during the year ₹	Goods returned during the year ₹	Cash and Cheques received during the year ₹	Discount allowed during the year ₹	Bill of Exchange received during the year ₹
A	6,000	—	4,000	1,000	—
B	4,000	1,000	2,000	—	—
C	10,000	—	6,000	—	—
D	20,000	2,000	12,000	1,000	2,000
E	24,000	3,000	16,000	2,000	2,000

Debtors' balance at the beginning of the year was ₹ 9,000. Out of the above receipts of a bill for ₹ 1,400 given by D was dishonoured, noting charges amounting to ₹ 40.

Required:

Prepare General Ledger Adjustment Account in Debtors Ledger.

(b) MR. ANUBHAV GOYAL keeps his ledger on Self Balancing System. The following particulars are extracted from his Books:

Date	Particulars
March, 2015	
1	Purchased from Mr. Akash ₹ 7,500.
3	Paid ₹ 3,000 after adjusting the initial advance in full to Mr. Akash.
10	Paid ₹ 2,500 to Mr. Dev towards the purchases made in February in full.
12	Paid advance to Mr. Giridhar ₹ 6,000.
14	Purchased goods from Mr. Akash ₹ 6,200.
20	Returned goods worth ₹ 1,000 to Mr. Akash.
24	Settled the balance due to Mr. Akash at a discount of 5%.
26	Goods purchased from Mr. Giridhar against the advance paid already.
29	Purchased from Mr. Nathan ₹ 3,500.

Goods return to Mr. Prem ₹ 1,200. The goods were originally purchased for cash in the month of February, 2015.

You are required to prepare the Creditors Ledger Adjustment Account as would appear in General Ledger for the month of March, 2015.

(c) M/s JAGGU & Co. maintains Ledger on Self-Balancing System on 31st March, 2015, the General Ledger discloses the following Balances:

Debtors Ledger Adjustment Account	₹ 5,63,360 (Dr.)
Creditors Ledger Adjustment Account	₹ 2,31,615 (Cr.)

On scrutiny of ledgers the following errors were detected:

(i) An overcast of Bills Receivable Book by ₹ 5,000.

(ii) An undercast of Sales Book by ₹ 6,000.

(iii) Goods returned by Pankaj ₹ 4,600 have been entered in Sales Returns Book but not posted to Pankaj's Account in Debtors Ledger.

(iv) Cash discount allowed to customers amounting to ₹ 2,580 has not been taken into consideration while preparing Adjustment Accounts.

(v) An overcast of Purchases Book by ₹ 10,000.

(vi) Goods for ₹ 6,300 purchased on credit correctly entered in Purchases Book but wrongly posted as ₹ 3,600 in the Creditor's Personal Account in Purchases Ledger.

Required:

Pass necessary journal entries to rectify the Adjustment Accounts in different ledgers. **(4 marks each)**

Answer:

(a) In Debtors Ledger

General Ledger Adjustment Account

Date	Particulars	Amount	Date	Particulars	Amount
	To Debtors Ledger Adjustment A/c			By Balance b/d	9,000
	Cash & Cheque Received	40,000		Debtors' Ledger Adjustment A/c	
	Returns Inwards	6,000		Sales	64,000
	Discount Allowed	4,000		B/R Dishonoured	1,400
	B/R To Balance c/d	4,000 20,440		Noting charges	40
		74,440			74,440

Working Note:

Sales = 6,000 + 4,000 + 10,000 + 20,000 + 24,000 = 64,000

Returns Inward = 1,000 + 2,000 + 3,000 = 6,000

Discount Allowed = 1,000 + 1,000 + 2,000 = 4,000

B/R = 2,000 + 2,000 = 4,000

Cash & Cheque Received = 4,000+2,000+6,000+12,000+16,000 = 40,000

Answer:

(b) In General Ledger

Creditors Ledger Adjustment A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.3.15	To Bal. b/d	4,500	1.3.15	By Bal. b/d	2,500
	To General Ledger Adjustment A/c		31.3.15	To General Ledger Adjustment A/c	

	Cash paid (3,000 + 2,500 + 6,000 + 4,940)	16,440		Credit purchases (7,500 + 6,200 + 6,000 + 3,500)	23,200
	Returns Outwards	1,000			
	Discount Received	260			
31.3.15	To Bal. c/d	3,500			
		25,700			25,700

Answer:

(c)

M/s Jaggu & Co.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Debtors Ledger Adjustment A/c (in general ledger) Dr.		5,000	
	To General Ledger Adjustment A/c (in Debtors ledger)			5,000
	(Total of B/R book overcast by ₹ 5,000 posted to Adjustment Accounts now rectified)			
(ii)	Debtors Ledger Adjustment A/c (in General Ledger) Dr.		6,000	
	To General Ledger Adjustment A/c (in Debtor Ledger)			6,000
	(Total of Sales book undercast by ₹ 6,000 posted to Adjustment Accounts now rectified)			
(iii)	No Entry			
(iv)	General Ledger Adjustment A/c (in Debtors Ledger) Dr.		2,580	
	To Debtors Ledger Adjustment A/c (in General Ledger)			2,580

	(Cash discount allowed to customers not taken into consideration while preparing adjustment accounts, now rectified)			
(v)	Creditors Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in creditors ledger) (Total of purchases book overcast by ₹ 10,000 posted to Adjustment Accounts, now rectified)		10,000	10,000
(vi)	No Entry			

Space to write important points for revision

2015 - Dec [1] Answer the following question (Give workings):

(e) LIBRA LTD. has two Debtors Ledgers (A-M and N-Z) in use on the Self-Balancing System. MS Chatterjee, a customer whose Account-shows a Debit Balance of ₹ 5,300 in the (A-M) Debtors Ledger, marries MR SINGH and her account is, therefore required to be transferred to the (N-Z) Debtors Ledger.

Required:

Pass the Transfer Entries. **(2 marks)**

Answer:

In the books of LIBRA LTD.
Journal Entries

Particulars	Dr. (₹)	Cr. (₹)
Mrs. Singh A/c (in the N-Z Debtors' Ledger) Dr.	5,300	
To MS Chartterjee (in the A-M Debtors' Ledger)		5,300
(Being the balance transferred from A-M Debtors' Ledger to N-Z Debtors' ledger)		

N-Z Debtors' Ledger Adjustment A/c (in the General Ledger) Dr.	5,300	
To A-M Debtors' Ledger Adjustment A/c		5,300
(in the General Ledger)		
(Being correcting entry of Adjustment A/c pursuant to the transfer)		

Space to write important points for revision

2015 - Dec [4] Answer the question.

(a) The following information is extracted from a set of Books of MR. PARDIWALA, a Trader for the period ended June 30, 2015.

	(Amount in ₹)
1st April 2015 : Sales Ledger Balances June 30, 2015:	12,400
Sales (including Cash Sales - 4000)	23,000
Cash Received from Customers	18,500
Bills Receivable received	4,000
Returns Inward	400
Bills endorsed to suppliers	500
Bills dishonoured	300
Bills Receivable discounted	500
Bad Debts written off	50
Transferred from Bought Ledger	150
Sundry charges debited to customers	20

Required:

Prepare Sales Ledger Adjustment Account in the General ledger from the foregoing information.

(4 marks)

Answer:

In the books of Mr. PARDIWALA
Sales Ledger adjustment A/c in the General Ledger

Particulars	₹	Particulars	₹
To Balance b/d	12,400	By General ledger	
To General ledger		adj A/c (in sales leger)	
adj A/c (in sales Ledger)		- Cash received	18,500
-sales (23,000 - 4,000)	19,000	- B/R received	4,000
- B/R dishonoured	300	- Returns inward	400
- Sundry charges	20	- Bad debts	50
		- Transfer from bought ledger	150
		By Balance c/d	8,620
	31,720		**31,720**

Space to write important points for revision

2015 - Dec [4] Answer the question.

(b) The following details were extracted from the books of M/S VIVAIN & CO. for 6 months ended March 31, 2015.

Particulars	₹
Creditors Balance on 01.10.2014	38,000
Credit Purchases during the period	2,67,000
Bills payable accepted	62,000
Cash paid to Creditors	1,37,000
B/R endorsed to creditors	16,000
Endorsed B/R dishonoured	3,000
B/P dishonoured	2,000
Purchase returns	11,000
Discount received	6,000
Transfer from Debtors ledger	7,000

Required:

Prepare Total CREDITORS Account as appearing in the General Ledger. **(4 marks)**

Answer:

In the books of M/s VIVAIN & CO.
Total creditors A/c is General ledger

Particulars	₹	**Particulars**	₹
To General ledger adj A/c		By Balance b/d	38,000
		By General ledger adj A/c	
- B/P accepted	62,000	-Purchases	2,000
- Cash paid	1,37,000	-B/P dishonoured	2,67,000
- Purchase returns	11,000	-Endorsed B/R dishonoured	3,000
- Discount received	6,000		
- Transfer from debtors ledger	7,000		
- B/R endorsed	16,000		
To Bal. c/d	71,000		
	3,10,000		**3,10,000**

Space to write important points for revision

2015 - Dec [4] Answer the question.

(c) KAVYA LTD. maintains self-balancing ledgers. On 31st March, 2015 the accountant of the company located the following errors in the books of account:

(i) An amount of 8,700 received from customer Meena was credited to Meenu, another customer.

(ii) The sales book for December, 2014 was undercast ₹ 1,000.

(iii) Goods invoiced at 15,600 were returned to supplier, M/s BPO Ltd., but no entry was made in the books for this return made on 28th December, 2014.

Pass the necessary Journal entries to rectify the above mentioned errors.

(4 marks)

Answer:

Kavya Ltd.
Journal Entries

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
2015 March, 31 (i)	Meena (In Sales/Debtors Ledger) Dr. To Meenu (in Sales/Debtors Ledger) (Being amount received from Meena was wrongly credited to Meenu, now rectified)		8,700	8,700
(ii) (a)	Suspense A/c (in Sales/Debtors Ledger) Dr. To Sales A/c (in General Ledger)		1,000	1,000
(ii) (b)	Sales/Debtors Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in Sales/Debtors Ledger) (Being rectification of the errors resulting from under casting of the Sales Book)		1,000	1,000
(iii) (a)	M/s BPO Ltd. A/c (In Creditors/Bought Ledger) Dr. To Purchase Returns A/c (in General ledger)		15,600	15,600
(iii) (b)	Creditors/Bought Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)		15,600	15,600

Space to write important points for revision

2016 - June [3] (b) The following information is extracted from a book of MR. ANUBHAV MS GOYAL, a trader for the month of MARCH 2016:

Date. March 2016	Particulars
1.	Purchased from Mr. Akash ₹ 7,500.

3.	Paid ₹ 3,000 after adjusting the initial advance in full to Mr. Akash.
10.	Paid ₹ 2,500 to Mr. Dev towards the purchases made in February in full.
12.	Paid advance to Mr. Giridhar ₹ 6,000.
14.	Purchased goods from Mr. Akash ₹ 6,200.
20.	Returned goods worth ₹ 1,000 to Mr. Akash.
24.	Settled the balance due to Mr. Akash at a discount of 5%.
26.	Goods purchased from Mr. Giridhar against the advance paid already.
29.	Purchased from Mr. Nathan ₹ 3,500.
30.	Goods returned to Mr. Prem ₹ 1,200. The goods were originally purchased for cash in the month of February 2016.

You are required to prepare the CREDITORS' Ledger Adjustment Account which would appear in the General Ledger for the month of MARCH, 2016.

(4 + 4 = 8 marks)

Answer :

In the General Ledger of ANUBHAV MS GOYAL
Creditors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.03.16	To Balance b/d	4,500	01.03.2016	By Balance b/d	2,500
31.03.16	To General Ledger Adjustment A/c: Cash paid	16,440	31.03.2016	By General Ledger Adjustment A/c: Purchase	
	(3,000 + 2,500 + 6,000 + 4,940)			(7,500 + 6,200 + 6,000 + 3,500)	23,200
	(5,200 – 5% of 5,200)		31.03.2016	By Balance c/d	–
	Returns	1,000			

	Discount (5,200 × 5%)	260			
	To Balance c/d	3,500			
		25,700			**25,700**

—— Space to write important points for revision ——

2016 - Dec [2] (a) The following details are extracted from the records of M/S BANDHAN & CO., a trader for the year ended March 31, 2016.

(i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.

(ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.

(iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.

(iv) Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable. Bad Debt written off in the earlier years was realised ₹ 11,000.

(v) Sundry Debtors as on 01.04.2015 stood of ₹ 50,000.

You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger. **(3 + 5 = 8 marks)**

Answer:

In The General Ledger of M/S BANDHAN & CO.
Debtors Ledger Adjustment Account
for the year ended 31st March, 2016

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.4.15	To Balance b/d	50,000	2015-16	By General Ledger Adj. A/c	
2015-16	To General Ledger Adj. A/c			Cash & Bank [70% of (50,000 + 1,46,000)]	1,37,200

	Credit Sales	1,46,000		Discount Allowed	20,000
	Dishonoured of Endorsed B/R	6,000		B/R Drawn	30,000
	Dishonoured of Cheques	8,000		Bad Debts (Drawee of endorsed B/R)	6,000
				Bad Debts (Drawer of dishonoured Cheque)	2,000
				By Balance c/d	14,800
		2,10,000			2,10,000

Working Note: Credit Sales= (1/1.20)× (1,80,000 – 4,800) = ₹ 1,46,000.

Note: Cash Sales, bad debts recovered and provision for doubtful debts do not appear in the total debtors account.

—— Space to write important points for revision ——

2017 - June [7] (b) The following information is available in the books of N.R. & Sons. for the year ending 31st March 2017:

(i) Total Sales amounted to ₹ 24,43,000 including the sale of old machinery for ₹ 25,000 (book value is ₹ 43,000). The total cash sales were 70% less than total credit sales.

(ii) Cash collection from Debtors amounted to 70% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹ 15,700.

(iii) Bills receivable drawn during the period totaled ₹ 84,000 of which bills amounting to ₹ 45,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹ 17,600 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

(iv) Cheques received from customers ₹ 50,000 were dishonoured; a sum of ₹ 4,500 is irrecoverable.

(v) Bad Debts written-off in the earlier year realized ₹ 2,500.

(vi) Interest charged to customers ₹ 9,800.

(vii) Sundry debtors on 1st April, 2016 stood at ₹ 2,45,000.

You are required to show the General Ledger Adjustment Account in the Debtors Ledger. **(6 marks)**

Answer:

In the Debtors Ledger
General Ledger Adjustment A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Debtor Ledger Adj. A/c:		By bal b/d	2,45,000
		By Debtor Ledger Adj. A/c	
Cash	14,73,500	Sales	18,60,000
Discount Allowed	15,700	B/R Dishonoured	17,600
B/R	84,000	Cheque Dishonoured	50,000
Bad Debts	22,100	Interest charged	9,800
Total Balance c/d	5,87,100		
	21,82,400		21,82,400

W.N.

Total Sales = 24,43,000 – 25,000 = 24,18,000

If Credit Sales = 100, Cash Sales = 100 – 70 = 30

Then, Total Sales = 100 + 30 = 130

Credit Sales = $\frac{24,18,000 \times 100}{130}$ = 18,60,000

Cash received = 70% (Op. Debtors + Credit Sales)
= 70% (2,45,000 + 18,60,000)
= 70% (21,05,000)
= 14,73,500

—— Space to write important points for revision ——

2017 - Dec [6] (b) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger?

	₹
Opening Balance of Debtors' Ledger	40,000
Opening Balance of Creditors' Ledger	20,000
Credit Sales	92,000

Credit Purchases	59,600
Transfer from Debtors' Ledger to Creditors' Ledger	6,000
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered ₹ 600)	4,400
Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400
Discount allowed to Debtors ₹ 1,000 was recorded as discount received from Creditors	
Closing Debtors Balance (As per General Ledger Adjustment Account)	1,20,000(Cr.)
Closing Creditors Balance (As per General Ledger Adjustment Account)	60,000(Dr.)

(7 marks)

Answer:

In Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Debtors Ledger Adjustment A/c:		By Balance b/d	40,000
Discount Allowed (₹ 3,000 + ₹ 1,000)	4,000	By Debtors Ledger	

		Adjustment A/c:	
Bad Debts (4,400 + 600)	5,000	Sales	92,000
Transfer to creditor ledger	6,000	Endorsed Bills receivable dishonoured	2,000
To Balance c/d (1,20,000 – 1,000)	1,19,000		
	1,34,000		**1,34,000**

In Creditors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Creditors Ledger Adjustment A/c	
To Creditors Ledger Adjustment A/c		Transfer from Debtors' ledger	6,000
Purchases	59,600	Bills Receivable endorsed to creditors	8,000
Endorsed Bills receivable dishonoured	2,000	Discount received (₹ 1,200 - ₹ 1,000)	200
		Allowances	6,400
		By Balance c/d (60,000 + 1,000)	61,000
	81,600		**81,600**

(i) The following items do not appear in GLA Account in Debtors' Ledger:

(1) Cash sales
(2) Provision for Doubtful Debts
(3) Provision for Discount on Debtors
(4) Bad Debts Recovered
(5) Bills Receivable matured/collected on maturity
(6) Bills Receivable discounted

(ii) The following items do not appear in GLA Account in Creditors' Ledger:

(1) Cash Purchases
(2) Reserve for Discount on Creditors
(3) Bills Payable Matured

Space to write important points for revision

2018 - June [5] (a) (ii) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.

On 3rd January, 2018 the accountant of the company located the following errors in the books of account:

(A) An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.

(B) The sales book for December, 2017 was undercast by ₹ 1,000.

(C) Goods invoiced at ₹ 15,600 were returned to supplier, M/s Mega Ltd. but no entry was made in the books for this return made on 28th December, 2017.

Pass the necessary Journal Entries to rectify the above mentioned errors.

(5 marks)

Answer:

Journal Entries
In the books of M/s Big Systematic Ltd.

	Particulars	Dr. (₹)	Cr. (₹)
(i)	Mehta (In Sales/Debtors Ledger) A/c Dr.	8,700	
	To Mehra (In Sales/Debtors Ledger) A/c		8,700
	(Being amount received from Mehta was wrongly credited to Mehta, now rectified)		
(ii)	(a) Suspense Account (In Sales/Debtors Ledger) Dr.	1,000	
	To Sales A/c (In General Ledger)		1,000
	(b) Sales/Debtors Ledger Adjustment A/c (In General Ledger) Dr.	1,000	
	To General Ledger Adjustment A/c (In Sales/Debtors Ledger)		1,000
	(Being rectification of the error resulting from under casting of the Sales Books)		

(iii)	(a) M/s. Mega Ltd. Account (In Creditors/Bought Ledger) Dr.	15,600	
	To Purchase Returns A/c (In General Ledger)		15,600
	(b) Creditors/Bought Ledger Adjustment A/c (In General Ledger) Dr.	15,600	
	To General Ledger Adjustment A/c (In Creditors/Bought Ledger)		15,600
	(Being goods returned to supplier not recorded earlier, now recorded)		

Space to write important points for revision

2018 - Dec [5] (b) Following information is available from the books of Simu & Co. for the year ended 31st March, 2018:

(i) Total Sales amounted to ₹ 560 Lakh including the sale of old Machinery for ₹ 8 Lakh (Book Value ₹ 15 Lakh). The total Cash Sales were 80% less than the total Credit Sales.

(ii) Cash collection from debtors amounted to 75% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for ₹ 15.60 Lakh.

(iii) Bills Receivable drawn during the year totaled ₹ 45 Lakh of which bills amounting to ₹ 28 Lakh were endorsed in favour of Creditors, Out of these endorsed B/R, some bills for ₹ 4.60 Lakh were dishonoured for non-payment as the parties became insolvent, their estate realizing nothing.

(iv) Cheques received from Sundry Customers for ₹ 41 Lakh were dishonoured; a sum of ₹ 5 Lakh is irrecoverable.

(v) Bad Debts written off in the earlier years was recovered of ₹ 7.50 Lakh.

(vi) Transfers from Creditors Ledger to Debtors Ledger were of ₹ 38 Lakh.

(vii) Sundry Debtors, as on 1st April, 2017, stood at ₹ 128 Lakh.

You are required to show the General Ledger Adjustments Accounts in the Debtors Ledger. **(6 marks)**

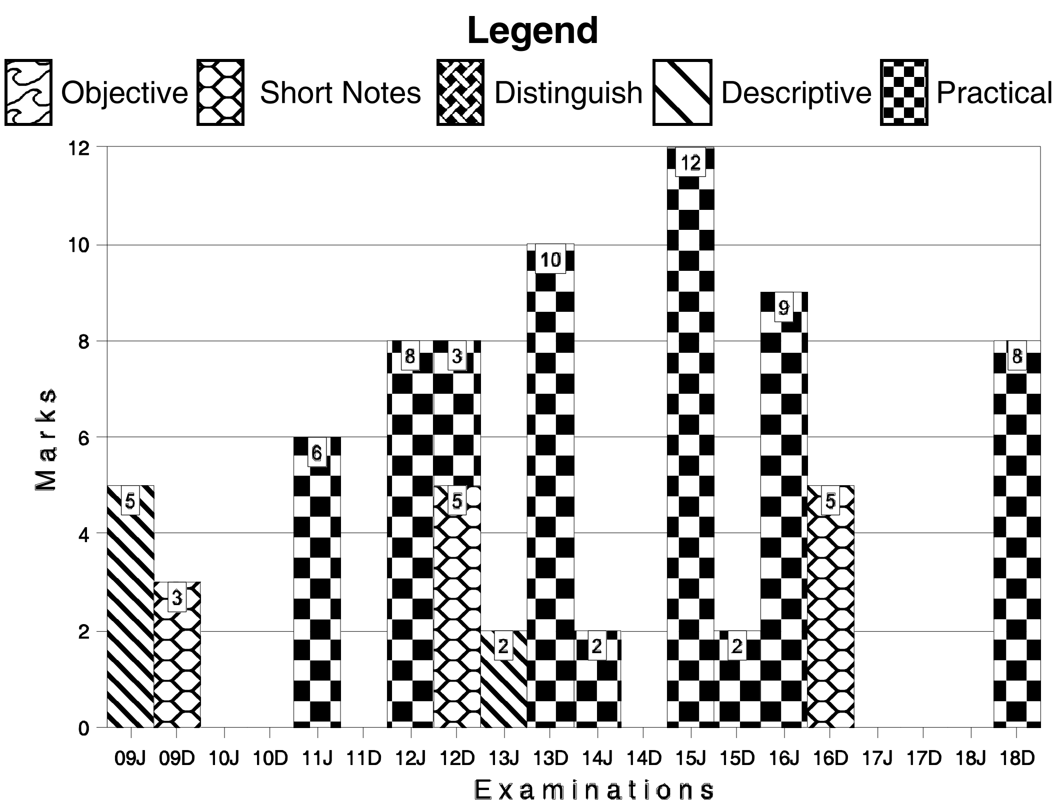
Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	2									
Total	2									

8 ROYALTIES

THIS CHAPTER INCLUDES

- Royalty
- Short workings
- Strike and Lockout
- Sub-Lease
- Minimum Rent
- Recoupment of short workings

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Royalty	The owner of an asset (e.g. mines, quarries, patent, copyright, etc), as a business arrangement, may allow other party (lessee, licencee, publisher, etc) the right to use that asset against some consideration. Such consideration is calculated with reference to the quantity produced or sold. This payment to the owner by the user of the asset is termed as Royalty.
Minimum Rent / Dead Rent	The landlord and the lessee agreed upon a minimum periodical amount that the landlord will receive from the lessee, even if the actual royalty as calculated on the basis of actual production or sale is less than such minimum amount. This assured and mutually agreed periodical minimum amount is known as "Minimum Rent".
Short workings	Dead Rent Short workings is the amount by which the minimum rent exceeds the actual royalty. It is the difference between Actual Rent and Minimum Rent.
Excess working	It refers to the amount by which the actual royalty exceeds the minimum rent.
Ground Rent/Surface Rent	It refers to the fixed yearly or half-yearly rent payable by the lessee to the landlord in addition to the minimum rent.
Recoupment of Short workings	Generally the royalty agreement contains a provision for carrying forward of short workings with a view to adjust it in the future. In the subsequent years, such short working is adjusted against the surplus royalty. This process of adjustment is called recoupment of short workings.

Strike and Lockout	If agreement so provides, the minimum rent may be proportionately reduced in the event of strike and/ or lockout. So special entry is required for the same except the adjustment of minimum rent for that particular year.

SHORT NOTES

2009 - Dec [8] Write note on :
(e) Recoupment of short workings in Royalty Account. **(3 marks)**

Answer :

Recoupment of short workings in Royalty Account:-

It is normally seen that in the first few years the work doesn't gather the required momentum because of the absorption of time in the preparation for starting the production e.g. construction of houses, advertising for the engineer, collecting necessary equipments and machines. The short working thus arising, cannot be attributed to the lapses on the part of lessee. The lessor thus promises to return the excess so charged in the first few years out of excess earned in the later years. This right of getting back the excess payment made in the earlier year is called the right of recoupment of short working. This right can be fixed or floating; when the lessor promises to compensate the loss in the first few years, the right is said to be fixed. Any short workings falling beyond this period cannot be reimbursed. But when the lessor promises to compensate the loss of any year then the right is said to be floating because this can be analyzed of in any year when short working arises.

—— Space to write important points for revision ——

2012 - Dec [8] Write short note on:
(b) Short workings and recoupment of shortworkings **(5 marks)**

Answer :

Short working and recoupment of short working:

Short working is the amount by which the minimum rent exceeds the actual royalty. It is the difference between actual rent and minimum rent.

Generally the royalty agreement contains a provision for carrying forward of short workings with a view to adjust it in the future. In the subsequent years, such short working is adjusted against the surplus royalty. This process of adjustment is called recoupment of short workings.

The right of recoupment of short workings enables the lessee to recover the excess payment, made in the earlier years to meet the condition of payment of minimum rent. A time is usually agreed upon the number of years for which such short workings can be recouped. This time limit for recoupment of short workings may be fixed or fluctuating. If the short workings cannot be recouped within the specified time, they lapse and are charged to Profit and Loss Account in the year when that specified time limit for recoupment ends.

—— Space to write important points for revision ——

2016 - Dec [9] Write short note on the following:

(d) Minimum Rent/Dead Rent **(5 marks)**

Answer:

Please refer 2009 - June [3] (b) on page no. 302

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

2009 - June [3] (b) Define the Concept of Minimum/Dead Rent. **(5 marks)**

Answer :

There is a stipulation that in case of low output or low sales, a certain sum of money will be payable in any case- even if the royalties based on output or sales are lower. It means that the sum payable is the minimum amount or actual royalties whichever is higher. Thus is A, the patentee, allows B to use his patent on a royalty of ₹ 2 per unit produced subject to a minimum of

₹ 10,000, then, in case the output is 4,000 units, the amount payable will be ₹ 10,000 and in case the output is 7,000 units, it will be ₹ 14,000. The minimum sum is known as minimum rent or dead rent. The excess of minimum rent over actual royalties is termed as "short working."

—— Space to write important points for revision ——

2013 - June [3] (a) Explain what is meant by fixed rights and fluctuating rights in recoupment of short working. **(2 marks)**

Answer:

Fixed Right: When the lessee can recoup short workings within a certain period from the date of lease it is known as fixed right. For example, shortworkings can be recouped within four years from the date of lease. So after 4 years from the date of lease, the shortworkings cannot be recouped.

Fluctuating Right: In this type of agreement, lessee can recoup shortworkings of any year during the next following year(s) for example, short workings can be recouped in the year subsequent to the year of shortworkings.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2011 - June [3] (a) Ritu acquired a mine on lease from Richa for a period of 8 years at a royalty of ₹ 60 per tonne of coal produced subject to minimum rent of ₹ 1,00,000 for the first year, increasing by ₹ 30,000 every year till ₹ 2,80,000 per annum is reached. Short workings of any one year may be recouped out of excess workings of the following two years only. The output during the first five years was as follows :

Year ending 31st March	2006-07	2007-08	2008-09	2009-10	2010-11
Output in tonnes	600	900	2,500	3,800	5,000

While preparing the accounts of first year, Ritu decided not to carry forward as an asset any short workings. In the second year ₹ 95,000 were carried forward and in the third year ₹ 55,000.

Prepare necessary accounts in the books of Ritu. **(6 marks)**

Answer :

Year	Minimum Rent	Actual Royalty	Short Working (-)or Ex: W(+)	Short-workings Recouped P/L			Actual Payment	Closing short Working
					Dr.	Cr.		
₹	₹	₹	₹	₹	₹	₹	₹	₹
2006-07	1,00,000	36,000	(-)64,000	-	64,000	-	1,00,000	NIL
2007-08	1,30,000	54,000	(-)76,000	-	-	19,000	1,30,000	95,000
2008-09	1,60,000	1,50,000	(-)10,000	-	50,000	-	1,60,000	55,000
2009-10	1,90,000	2,28,000	+38,000	38,000	7,000	-	1,90,000	10,000
2010-11	2,20,000	3,00,000	+80,000	10,000	-	-	2,90,000	-

Ledger of Ritu
Royalty A/c

31.03.07	To Richa	36,000	31.03.07	By Profit & Loss	36,000
31.03.08	To Richa	54,000	31.03.08	A/c	54,000
31.03.09	To Richa	1,50,000	31.03.09	-	1,50,000
31.03.10	To Richa	2,28,000	31.03.10	-	2,28,000
31.03.11	To Richa	3,00,000	31.03.11	-	3,00,000

Richa's A/c

31.03.07	To Bank A/c	1,00,000	31.03.07	By Royalty A/c	36,000
				By Short working A/c	64,000
		1,00,000			1,00,000
31.03.08	To Bank A/c	1,30,000	31.03.08	By Royalty A/c	54,000
				By Short Working A/c	76,000
		1,30,000			1,30,000
31.03.09	To Bank A/c	1,60,000	31.03.09	By Royalty A/c	1,50,000
				By Short Working A/c	10,000
		1,60,000			1,60,000
31.03.10	To S.W. A/c	38,000	31.03.10	By Royalty A/c	2,28,000
31.03.11	To Bank A/c	1,90,000			
		2,28,000			2,28,000

31.03.11	To S.W. A/c	10,000	31.03.11	By Royalty A/c	3,00,000
31.03.11	To Bank A/c	2,90,000			
		3,00,000			3,00,000

Short Workings A/c

31.03.07	To Richa	64,000	31.03.07	By Profit & Loss A/c	64,000
31.03.08	To Richa	76,000	31.03.08	By Balance c/d	95,000
31.03.08	To P/L	19,000	31.03.09	By P/L A/c	50,000
1.04.08	To Balance b/d	95,000		By Balance c/d	55,000
31.03.09	To Richa	10,000			
		1,05,000			1,05,000
1.04.09	To Balance b/d	55,000		By Richa	38,000
			31.03.10	By P/L	7,000
				By Balance c/d	10,000
		55,000			55,000
01.04.10	To Balance b/d	10,000		By P/L A/c	10,000
			31.03.11		

Space to write important points for revision

2012 - June [3] (a) Kailash took a mine on lease from Jagdish for five years at a royalty of ₹ 20 per tonne subject to a minimum rent of ₹ 80,000 per annum. Minimum rent paid in excess of actual royalties is recoverable throughout during the next three years succeeding the year in respect of which excess was paid. In the event of a strike, the minimum rent will be reduced proportionately in relation to time lost. The first year in respect of which the minimum rent was payable expired on 31st March, 2008. The excess paid in respect of the first year was ₹ 80,000 and in respect of the second year ₹ 50,000. In the third year the actual royalties amounted to ₹ 1,15,000, in the fourth year ₹ 50,000 (in consequence of strike which lasted for 146 days) and in the fifth year ₹ 1,60,000 only.
Prepare the Royalty Account, Shortworkings Account and Jagdish's Account in the Ledger of Kailash.

(8 marks)

Answer:

Analytical table

Year	Minimum Rent	Actual Royalty	Short workings (-) or Excess workings (+)	Short workings Recouped	Transferred to P&L A/c	Actual Payment	Closing Balance of S.W.
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
2007-08	80,000	-	(-) 80,000	-	-	80,000	80,000
2008-09	80,000	30,000	(-) 50,000	-	-	80,000	1,30,000
2009-10	80,000	1,15,000	+ 35,000	35,000	-	80,000	95,000
2010-11	48,000	50,000	+ 2,000	2,000	43,000	48,000	50,000
2011-12	80,000	1,60,000	+ 80,000	50,000	-	1,10,000	-

In the books of Kailash

Royalty A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.03.2008	To Jagdish A/c	Nil	31.03.2008	By P/L	Nil
		Nil			Nil
31.03.2009	To Jagdish A/c	30,000	31.03.2009	By P/L	30,000
		30,000			30,000
31.03.2010	To Jagdish A/c	1,15,000	31.03.2010	By P/L	1,15,000
		1,15,000			1,15,000
31.03.2011	To Jagdish A/c	50,000	31.03.2011	By P/L	50,000
		50,000			50,000
31.03.2012	To Jagdish A/c	1,60,000	31.03.2012	By P/L	1,60,000
		1,60,000			1,60,000

Short working A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.03.2008	To Jagdish	80,000	31.03.2008	By Bal. c/d	80,000
		80,000			80,000
01.04.2008	To Balance b/d	80,000	31.03.2009	By Bal. c/d	1,30,000
	To Jagdish	50,000			
		1,30,000			1,30,000

01.04.2009	To Balance b/d	1,30,000	31.03.2010	By Jagdish	35,000
			31.03.2010	By Balance c/d	95,000
		1,30,000			1,30,000
01.04.2010	To Balance c/d	95,000	4th Year	By Jagdish	2,000
				By P/L	43,000
				By Balance c/d	50,000
		95,000			95,000
01.04.2011	To Balance b/d	50,000	31.03.2012	By Jagdish	50,000
		50,000			50,000

Jagdish A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.03.2008	To Bank A/c	80,000	31.03.2008	By Royalty	Nil
			31.03.2008	By S/W	80,000
		80,000			80,000
31.03.2009	To Bank A/c	80,000	31.03.2009	By Royalty	30,000
			31.03.2009	By S/W	50,000
		80,000			80,000
31.03.2010	To Bank A/c	80,000	31.03.2010	By Royalty	1,15,000
31.03.2010	To Short working A/c	35,000			
		1,15,000			1,15,000
31.03.2011	To Bank A/c	48,000	31.03.2011	By Royalty	50,000
31.03.2011	To Short working A/c	2,000			
		50,000			50,000
31.03.2012	To Bank A/c	1,10,000	31.03.2012	By Royalty	1,60,000
31.03.2012	To Short working A/c	50,000			
		1,60,000			1,60,000

Space to write important points for revision

2012 - Dec [3] (c) Cochin Coals Ltd. holds a lease of coal mine for 20 years. It sub-leased a part of the coal mine to Dhanbad Coals Ltd. The details of output in tons are given below:

Year	Cochin Coals (Tons)	Dhanbad Coals (Tons)
2009-10	10,000	4,000
2010-11	12,000	7,000
2011-12	14,000	8,000

As per lease, Cochin Coals has to pay ₹ 100 per ton and a minimum rent being ₹ 15,00,000. Dhanbad Coals had to pay ₹ 120 per ton to Cochin Coals by way of royalty.

Show Royalty Account in the books of Cochin Coals Ltd. for the said 3 years reflecting both Royalty receivable from Dhanbad Coals and Royalty payable to the Landlord. **(3 marks)**

Answer :

In the books of Cochin Coals Ltd.
Royalty Payable A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.3.10	To Landlord A/c (Minimum rent)	15,00,000	31.3.10	By Royalty receivable A/c (4,000 tone × 120/-)	4,80,000
			31.3.10	By P & L a/c	10,20,000
		15,00,000			15,00,000
31.3.11	To Landlord A/c (19,000 tone × 100/-)	19,00,000	31.3.11	By Royalty receivable A/c (7,000 × 120/-)	8,40,000
			31.3.11	By P and L A/c	10,60,000
		19,00,000			19,00,000
31.3.12	To Landlord A/c (22,000 tone × 100/-)	22,00,000	31.3.12	By Royalty receivable A/c (8,000 tone × 120/-)	9,60,000
				By P & L A/c	12,40,000
		22,00,000			22,00,000

2013 - Dec [7] (a) Mining Development Corporation Ltd. obtained a lease of coal field for 99 years from Mr. Landlord on the following terms from 1st January, 2008:

- Mining Development Corporation will develop the land and will bear the cost of development.
- Royalties will be ₹ 2 per tonne of coal raised during the period.

- Minimum Rent will be ₹ 10,000 for the first year with an annual increase of ₹ 1,000 till it reaches ₹ 15,000.
- Short workings, if any, are recoverable within first three years only. Mining Development Corporation Ltd. developed the land at the cost of ₹ 2 crores and estimated the coal deposit of 20 lakh tonnes. It was decided to depreciate this expenditure on Depletion method of depreciation.
- The coal used by Mining Development Corporation Ltd. is as under:

Year	Production in tonnes
2008	1,000
2009	2,000
2010	10,000
2011	15,000

You are required to prepare the following accounts in the books of Mining Development Corporation:

Royalties Account, Short working Account, Landlord Account and Provision against Short working Account. **(10 marks)**

Answer:

Analytical Table

Year	Production (Tonnes)	Rate of Royalty	Royalty	Min Rent	Short workings occurred	Short working recouped	Short working lapsed	Short working carried forward	Actual Payment
2008	1,000	2	2,000	10,000	8,000	-	-	8,000	10,000
2009	2,000	2	4,000	11,000	7,000	-	-	15,000	11,000
2010	10,000	2	20,000	12,000	-	8,000	7,000	-	12,000
2011	15,000	2	30,000	13,000	-	-	-	-	30,000

In the books of Mining Development Corporation

Royalty Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.08	To Land Lord A/c	2,000	31.12.08	By Production A/c	2,000
31.12.09	To Land Lord A/c	4,000	31.12.09	By Production A/c	4,000

31.12.10	To Land Lord A/c	20,000	31.12.10	By Production A/c	20,000
31.12.11	To Land Lord A/c	30,000	31.12.11	By Production A/c	30,000

Dr. Short Working Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.08	To Land Lord A/c	8,000	31.12.08	By Balance c/d	8,000
31.12.09	To Balance b/d	8,000	31.12.09	By Balance c/d	15,000
31.12.09	To Land Lord A/c	7,000			
		15,000			15,000
31.12.10	To Balance b/d	15,000	31.12.10	By Landlord A/c	8,000
			31.12.10	By Profit and Loss A/c (lapsed)	7,000
		15,000			15,000

Dr. Landlord Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.08	To Bank A/c	10,000	31.12.08	By Royalty A/c	2,000
			31.12.08	By Short working A/c	8,000
		10,000			10,000
31.12.09	To Bank A/c	11,000	31.12.09	By Royalty A/c	4,000
			31.12.09	By Short working A/c	7,000
		11,000			11,000
31.12.10	To Short working A/c	8,000	31.12.10	By Royalty A/c	20,000
31.12.10	To Bank A/c	12,000			
		20,000			20,000
31.12.11	To Bank A/c	30,000	31.12.11	By Royalty A/c	30,000

Note: *Considered as it is a capital expenditure. It has nothing to do with royalty accounts. Cost of ₹2 crores will be recovered from production by way of depreciation by the following depletion method of depreciation as given below.*

$$\textit{Depreciation per Tonne} = \frac{\text{Cost of Development of the land}}{\text{Quantity of Estimated Coal Deposit}}$$

= ₹ 2 Crores / 20 lakh tonnes = ₹ 10.00

Every year production account will be charged depreciation @ ₹ 10 per tonne of output production.

—— Space to write important points for revision ——

2014 - June [1] {C} Answer the following question (give workings):

(v) Prabhu, lessee of a coal mine with rent of ₹ 15,000 a year and with a rate of royalty at ₹ 5 per ton of coal extracted. If the production in the first year is 2,000 tons, find rent payable. **(2 marks)**

Answer:

₹ 15,000 (being assured Rent).

Here,

(a) Royalty payable = ₹ 5 × 2,000 = ₹ 10,000

(b) Minimum Rent = ₹ 15,000 (as per question).

Rent payable is the higher of (a) and (b) i.e. ₹ 15,000.

—— Space to write important points for revision ——

2015 - June [3] Answer the question:

(a) BAIDHNATH LTD. obtain a lease of marble mines for a period of 10 years, commencing from 1st April, 2009. According to the lease terms being a royalty of ₹ 300 per tonne of marble blocks raised subject to a minimum rent of ₹ 15,00,000 per annum with a right of recoupment of shortworkings within the next two years following the year in which shortworkings arises. For the year of a Strike the minimum rent is to be reduced to 60%. The Sales and Closing Stock for the first 6 years are as follows:

Year	Sales (Tonnes)	Closing Stock (Tonnes)
2009-10	2000	500
2010-11	3600	1100
2011-12	5900	800
2012-13	6400	900
2013-14 (Strike)	3200	400
2014-15	7000	500

You are required to prepare:

(i) Royalty Account

(ii) Land Lord Account

(iii) Short workings Account ________ in the Book of Baidhnath LTD.

((1 + 2) + (2 + 4 + 3) = 12 marks)

Answer:

Statement Showing Royalty Payable

					Short working				
Year	**o/p**	**Actual royalty**	**Min. rent**	**Excess short workings**	**Occurred**	**Recouped**	**Written off or lapsed**	**c/f**	**Amount Payable**
09-10	2,500	7,50,000	15,00,000	0	7,50,000	0	0	7,50,000	15,00,000
10-11	4,200	12,60,000	15,00,000	0	2,40,000	0	0	9,90,000	15,00,000
11-12	5,600	16,80,000	15,00,000	1,80,000	0	1,80,000	5,70,000	2,40,000	15,00,000
12-13	6,500	19,50,000	15,00,000	4,50,000	0	2,40,000	0	0	17,10,000
13-14	2,700	8,10,000	9,00,000	0	90,000	0	0	90,000	9,00,000
14-15	7,100	21,30,000	15,00,000	6,30,000	0	90,000	0	0	20,40,000

Royalties A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.3.10	To Landlord A/c	7,50,000	31.3.10	By P/L A/c	7,50,000
31.3.11	To Landlord A/c	12,60,000	31.3.11	By P/L A/c	12,60,000
31.3.12	To Landlord A/c	16,80,000	31.3.12	By P/L A/c	16,80,000
31.3.13	To Landlord A/c	19,50,000	31.3.13	By P/L A/c	19,50,000
31.3.14	To Landlord A/c	8,10,000	31.3.14	By P/L A/c	8,10,000
31.3.15	To Landlord A/c	21,30,000	31.3.15	By P/L A/c	21,30,000

Landlord A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.3.10	To Bank A/c	15,00,000	31.3.10	By Royalties A/c	7,50,000
			31.3.10	By Short Workings A/c	7,50,000
		15,00,000			15,00,000
31.3.11	To Bank A/c	15,00,000	31.3.11	By Royalties A/c	12,60,000
			31.3.11	By Short Workings A/c	2,40,000
		15,00,000			15,00,000
31.3.12	To Bank A/c	15,00,000	31.3.12	By Royalties A/c	16,80,000
31.3.12	To Short Workings A/c	1,80,000			
		16,80,000			16,80,000
31.3.13	To Bank A/c	17,10,000	31.3.13	By Royalties A/c	19,50,000
	To Short Workings A/c	2,40,000			
		19,50,000			19,50,000
31.3.14	To Bank A/c	9,00,000	31.3.14	By Royalties A/c	8,10,000
			31.3.14	By Short Workings A/c	90,000
		9,00,000			9,00,000
31.3.15	To Bank A/c	20,40,000	31.3.15	By Royalties A/c	21,30,000
31.3.15	To Short Workings A/c	90,000	31.3.15		
		21,30,000			21,30,000

Short Working Account

Date	Particulars	Amount	Date	Particulars	Amount
31.3.10	To Landlord A/c	7,50,000	31.3.10	By Balance c/d	7,50,000
		7,50,000			7,50,000
1.4.10	To Balance b/d	7,50,000	31.3.11	By Balance c/d	9,90,000
31.3.11	To Landlord A/c	2,40,000			
		9,90,000			9,90,000
1.4.11	To Bal. b/d	9,90,000	31.3.12	By Landlord A/c	1,80,000
				By P/L A/c	5,70,000
				By Bal. c/d	2,40,000
		9,90,000			9,90,000
1.4.12	To Bal. b/d	2,40,000	31.3.13	By Landlord A/c	2,40,000
		2,40,000			2,40,000
31.3.14	To Landlord A/c	90,000	31.3.14	By Bal. c/d	90,000
		90,000			90,000
1.4.14	To Bal. b/d	90,000	31.3.15	By Landlord A/c	90,000
		90,000			90,000

Space to write important points for revision

2015 - Dec [1] Answer the following question (Give workings):

(d) KARYA LTD. took on lease a mine of 5 years on 1st April, 2014. The royalty is payable at a rate of 10% on sales subject to a Minimum rent of ₹ 2,00,000 over the term of lease. The sales during the year 2014-15 amounted to ₹ 3,00,000.

What will be the amount of Royalty payable by Karya Ltd. for the year 2014-15? **(2 marks)**

Answer:

Minimum rent per annum = ₹ 2,00,000 ÷ 5 = ₹ 40,000

Royalty based on Sales =10% of ₹ 3,00,000 = ₹ 30,000

Amount of Royalty payable is ₹ 40,000

(Since minimum rent is more than royalty on the basis of sales).

—— Space to write important points for revision ——

2016 - June [5] (a) BANSAL COAL LTD., leased land from Mr. BUTCHER M at a royalty of ₹ 2.50 per tonne of coal raised. Minimum rent was ₹ 2,40,000. Short workings was to be recouped during the first 4 years. The coal raised in the first 4 years was as follows:

Year ended March, 31	Tonnes	
2013	80000	
2014	90000	
2015	60000	(Strike for 3 months)
2016	120000	

There was a provision for proportionate reduction in minimum rent in case of stoppage of work by strike, lock out, accident etc.

You are required to prepare:

(i) Royalty Account

(ii) Shortworking Account

(iii) Butcher M Account-in the book of BANSAL COAL LTD.

((3+1)+3+2=9 marks)

Answer :

Statement Showing Calculation of Short Workings and its Recoupment

Sl.	Year ended March 31	Production (Tonnes)	Royalty @ ₹ 2.50 per tonne ₹	Minimum Rent ₹	Short workings		
					Caused ₹	Recouped	Transferred to P & L Account
1	2013	80,000	2,00,000	2,40,000	40,000	—	—

2	2014	90,000	2,25,000	2,40,000	15,000	—	—
3	2015	60,000	1,50,000	1,80,000*	30,000	—	—
4	2016	1,20,000	3,00,000	2,40,000	—	60,000	25,000

* Minimum rent proportionately reduced in view of strike for 3 months in the year ended March 31, 2015 (₹ 2,40,000 x 3/4) = ₹ 1,80,000.

(i) **BANSAL COAL LTD.**

Royalty Account

Dr. **Cr.**

Year ended 31st March	**Particulars**	₹	**Particulars**	₹
2013	To Butcher M A/c	2,00,000	By Profit & Loss A/c	2,00,000
2014	To Butcher M A/c	2,25,000	By Profit & Loss A/c	2,25,000
2015	To Butcher M A/c	1,50,000	By Profit & Loss A/c	1,50,000
2016	To Butcher M A/c	3,00,000	By Profit & Loss A/c	3,00,000

(ii) **Short Workings Account**

Dr. **Cr.**

Year ended March 31	**Particulars**	₹	**Year ended March 31**	**Particulars**	₹
2013	To Butcher M	40,000	2013	By Balance c/d	40,000
		40,000			40,000
2014	To Balance b/d To Butcher M	40,000 15,000	2014	By Balance c/d	55,000
		55,000			55,000
2015	To Balance b/d To Butcher M	55,000 30,000	2015	By Balance c/d	85,000
		85,000			85,000
2016	To Balance c/d	85,000	2016	By Butcher M By Profit & Loss A/c	60,000 25,000
		85,000			**85,000**

(iii) **Butcher M Account**

Dr. **Cr.**

Year ended March 31	**Particulars**	₹	**Year ended March 31**	**Particulars**	₹
2013	To Bank A/c	2,40,000	2013	By Royalty A/c By Short Working A/c	2,00,000 40,000
		2,40,000			2,40,000
2014	To Bank A/c	2,40,000	2014	By Royalty A/c By Short Working A/c	2,25,000 15,000
		2,40,000			2,40,000
2015	To Bank	1,80,000	2015	By Royalty A/c By Short Working A/c	1,50,000 30,000
		1,80,000			1,80,000
2016	To Short Working A/c To Bank A/c	60,000 2,40,000	2016	By Royalty A/c	3,00,000
		3,00,000			**3,00,000**

Space to write important points for revision

2018 - Dec [6] (b) Mansi Ltd. acquires the lease of a mine from Nanu Ltd. on the following terms:

(i) Minimum Rent of ₹ 40 Lakh per annum merging into a royalty of ₹ 50 per tonne.

(ii) Shortworkings are recoverable out of future earnings subject to:

  (I) Only half of the excess earnings over minimum rent may be used for this purpose.

  (II) No Shortworkings may be carried forward for recoupment if output falls below 40000 Tonnes, in any year.

Output for the first four years was : 32000 Tonnes; 48000 Tonnes; 64000 Tonnes and 112000 Tonnes respectively.

Prepare the necessary accounts for above four years in the books of the Lessee. **(8 marks)**

Repeatedly Asked Questions		
No.	**Question**	**Frequency**
1	Short note on the following: Minimum Rent/Dead Rent 09 - June [3] (b), 16 - Dec [9] (d)	**2 Times**

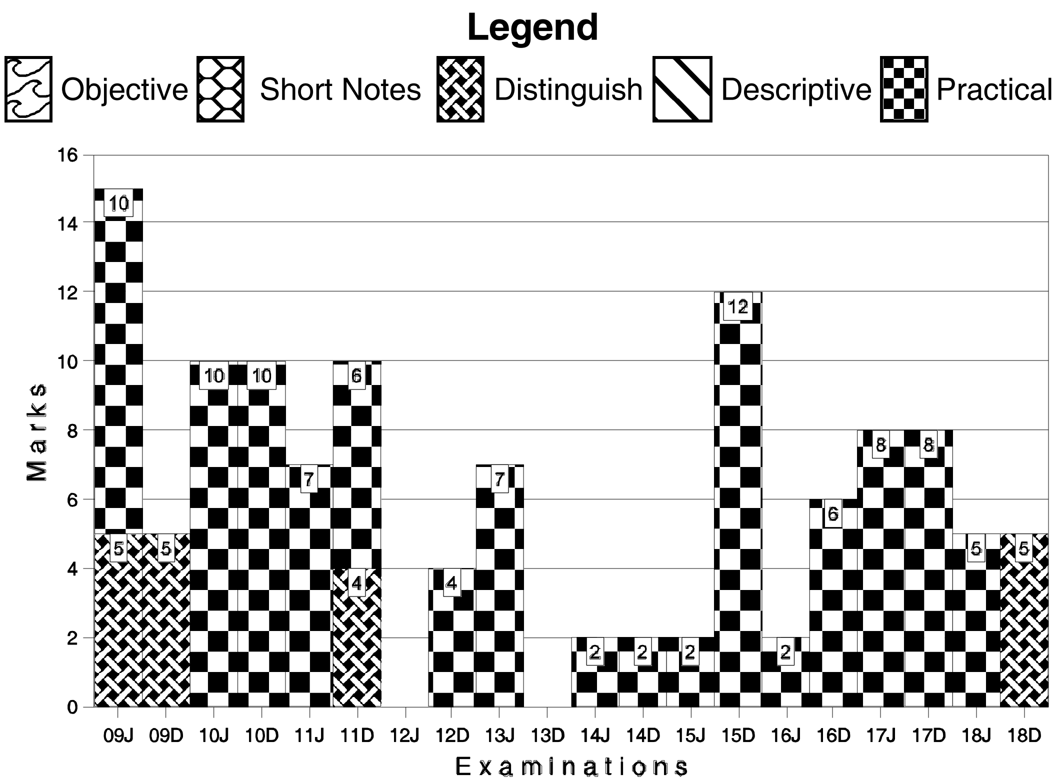
Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	2									
Total	2									

9 HIRE PURCHASE AND INSTALLMENT SYSTEM

THIS CHAPTER INCLUDES

- Hire Purchase System
- Methods
- Default and Repossession
- Installment Purchase System

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Hire-purchase System	Under this system the purchaser (Hirer) pays the entire amount in staggered way viz. monthly, quarterly or yearly with some interest. Possession of goods is delivered to a hirer but the title to the goods (Ownership) are transferred only when the agreed sum (Hire Purchase price) is paid by the hirer. Such hirer has a right to terminate the agreement at any time before the property so passes.
Default and Repossession	If a hire purchaser fails to pay any instalment on the stipulated date, the hire purchaser is said to be at default. In case of default by the hire purchaser, the hire vendor may repossess the goods. Repossession means taking back the possession of goods by the hire vendor. Subject to agreement, the repossession may be either complete or partial.
Meaning of Complete or Full Repossession	In case of complete or full repossession the hire vendor takes back the possession of all the goods.
Partial Repossession	In case of partial repossession, the hire vendor takes back the possession of a part of the goods.

DISTINGUISH BETWEEN

2009 - June [4] (b) Distinguish between Hire Purchase System and Installment System. **(5 marks)**

Answer :

Basis of difference	Hire Purchase System	Installment System
1. Nature of contract	It is like a contract of hire later on it becomes sales.	It is sales from the very beginning.
2. Transfer of ownership	Here ownership is transferred after the payment of the last installment.	Here ownership is transferred in the beginning at the time of sale.
3. Return of goods	On the default of installment, seller has a right to take back the goods.	On the default of payment of installment, seller has no right to take back the goods from the buyer.
4. Bailer	Here buyer is like a bailer.	Here buyer is not like a bailee.
5. Risk	Upto the payment of last installment risk is on the seller.	Risk is not on the seller.

—— Space to write important points for revision ——

2009 - Dec [2] (b) Distinguish between hire purchase system & instalment system. **(5 marks)**

Answer :

Please refer 2009 - June [4] (b) on page no. 321

—— Space to write important points for revision ——

2011 - Dec [6] (b) Distinguish between Hire Purchase System and Instalment Payment System. **(4 marks)**

Answer :

Difference between Hire Purchase System and Installment Purchase System:

Hire Purchase System	Installment Purchase System
(i) It is an agreement of hiring of goods.	It is an agreement of sale of goods.
(ii) The title of the Goods is transferred to the buyer after payment of last installment.	The title of goods is passed on to the buyer at the signing of agreement.
(iii) If the buyer fails to pay any of the installment the goods can be repossessed by the seller.	The seller can not repossess the goods.
(iv) The buyer can not hire out, sell, transfer, destroy, pledge the goods.	The buyer can hire out, sell, transfer, destroy and pledge the goods.
(v) The buyer may return the **goods** without further payment, except for the installment **overdue**.	Except seller's default, goods can not be returned.
(vi) In case of default, the total amount of installment paid is forfeited and treated as hire charge.	In case of default, the total of amount of installments paid by the buyer can not be forfeited.

Space to write important points for revision

2018 - Dec [8] (iii) Distinction between Hire Purchase Agreement and Instalment Purchase Agreement **(5 marks)**

PRACTICAL QUESTIONS

2009 - June [4] (a) Sunshine Agencies sells goods for cash and on hire purchase and latter being the cash retail price plus 12.5% thereon. Following are the particulars for the year ended 31st December, 2007.

			₹
Stock with hire purchase (at hire purchase price) with customers on 1.1.2007			29,700
Purchase during the year			1,58,400
Stock at shop :	On 1.1.2007	22,000	
	On 31.12.2007	26,400	48,400
Cash Sales during the year			79,200
Cash received during the year (Hire purchase instalments)			1,01,750
Instalments due but not received :			
On 1.1.2007			4,400
On 31.12.2007			6,600
Hire purchase sales during the year			1,18,800

Prepare the following :

(a) General Trading Account.

(b) Hire Purchase Trading Account.

(c) Hire Purchase Sales Account, for the year ended 31st December, 2007.

(10 marks)

Answer :

Working Note 1

Hire purchase Sales:- 1,18,800

H.P. Sales – Profit = H.P. Sales at cost

$= 1,18,800 - 1,18,800 \times \frac{12.5}{112.5}$

= 1,18,800 – 13,200

Cash retail price = 1,05,600

Cost of goods sold = Opening stock + Purchases − Closing Stock

= 22,000 + 1,58,400 − 26,400

= 1,54,000

Total Sales at cash retail price = 79,200 + 1,05,600 = 1,84,800

If cost price is ₹ 1,54,000

120% of 1,54,000 = ₹ 1,84,800

And Hire purchase price = 112.5% of 120% of 100

= 112.5% × 120

= ₹ 135 per unit

Working Note 2

Cost of goods consumed = 1,54,000

Cost of goods sold on Hire Purchase = $1,18,800 \times \frac{100}{135}$ = 88,000.

Cost price of retail = 1,54,000 – 88,000.
= 66,000

Working Note 3

Closing Stock with Customer at cost = $44,550 \times \frac{100}{135}$ = ₹ 33,000

Working Note 4

H.P. Stock A/c

Particulars	Amount	Particulars	Amount
To Bal. b/d	29,700	By H.P. Debtors A/c	1,03,950
To Goods Sold on H.P. Stock A/c	1,18,800	By Bal. c/d	44,550
	1,48,500		1,48,500

H.P. Debtor A/c

Particulars	Amount	Particulars	Amount
To Bal. b/d	4,400	By Cash A/c	1,01,750
To H.P. Stock A/c	1,03,950	By Bal. c/d	6,600
	1,08,350		1,08,350

Goods Sold on H.P. A/c

Particulars	Amount	Particulars	Amount
To Shop Stock A/c	88,000	By H.P. Stock A/c	1,18,800
To H.P. adjust A/c	30,800		
	1,18,800		1,18,800

Shop Stock A/c

Particulars	Amount	Particulars	Amount
To Bal. b/d	22,000	By Cash Sales	66,000
To Purchases	1,58,400	(79,200× 100/120)	
		By Goods sold on H.P.	88,000
		By Bal. c/d	26,400
	1,80,400		1,80,400

H.P. Adjustment A/c

Particulars	Amount	Particulars	Amount
To Stock Reserve	11,550	By Stock Reserve	7,700
$\left(44,550 \times \frac{35}{135}\right)$		$\left(29,700 \times \frac{35}{135}\right)$	
To P/L A/c	26,950	By Goods sold on H.P. A/c	30,800
	38,500		38,500

Sunshine Agencies
General Trading A/c
(for the year ended 31.12.2007)

Particulars	Amount	Particulars	Amount
To Opening Stock	22,000	By Sales	79,200
To Purchases	1,58,400	By Goods sold on H.P.	88,000
To P/L A/c	13,200	By Closing Stock	26,400
	1,93,600		1,93,600

H.P. Trading A/c

Particulars	Amount	Particulars	Amount
To Bal. b/d		By Stock Reserve	7,700
Installment not due	29,700	By Cash A/c	1,01,750
Installment due	4,400	By Bal. c/d	

To Cost of goods sold on H.P.	88,000	Installment not due (w.n.4)	44,550
To Stock Reserve	11,550	Installment due	6,600
To P/L A/c	26,950		
	1,60,600		1,60,600

Hire Purchase Sales A/c

Particulars	Amt.	Particulars	Amt.
To H.P. debtors A/c (b/f)	1,03,950	By Bal. c/d	29,700
To Bal. c/d	44,550	By H.P. Debtors A/c	1,18,800
	1,48,500		1,48,500

—— Space to write important points for revision ——

2010 - June [3] (a) Varun sells goods on hire purchase basis also. He fixes hire purchase price by adding 50% to the cost of goods sold. The following are the figures relating to his hire purchase business for the year 2009-2010.

	₹
Balance of Hire Purchase Stock Account as on 1st April, 2009	84,000
Balance of Hire Purchase Debtors Account as on 1st April, 2009	2,100
Selling Price of goods sold on hire purchase basis during the year	6,34,200
Cash received from customers during the year	6,46,800
Total amount of installments that fell due during the year	6,48,900

One customer to whom goods had been sold for ₹ 8,400 paid only 5 instalments of ₹ 700 each. On his failure to pay the monthly instalment of ₹ 700 due on 4th March, 2010 the goods were repossessed on 27th March, 2010 after due legal notice.

Prepare ledger accounts on Stock and Debtors Systems for the year ended 31st March, 2000. **(10 marks)**

Answer :

In the books of Varun

Date	Particulars	Amount	Date	Particulars	Amount
1.4.09	To Bal. b/d	84,000	31.3.10	By H.P. Debtors A/c (instalment falling due)	6,48,900

31.3.10	To Goods Sold on H.P. A/c	6,34,200	31.3.10	By Goods Reposed A/c (instalment not due on goods repossessed)	4,200
			31.3.10	By Bal. c/d (b/f)	65,100
		7,18,200			7,18,200

Hire Purchase debtors A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.09	To Bal. b/d	2,100	31.3.10	By Bank A/c (instalments received)	6,46,800
31.3.10	To Hire purchase stock A/c (instalments falling due)	6,48,900	31.3.10	By Goods Reposed A/c (instalment due but not received)	700
			31.3.10	By Bal. c/d	3,500
		6,51,000			6,51,000

Hire Purchase Adjustment A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.3.10	To H.P. Stock Reserve A/c (1/3 of clo. Stock)	21,700	1.4.09 31.3.10	By H.P. Stock Reserve A/c (1/3rd of Op. Stock)	28,000
31.3.10	To P/L A/c (Trans of profit)	2,17,700	31.3.10	By Goods Sold H.P A/c (1/3 of S.P.)	2,11,400
		2,39,400			2,39,400

Notes :- (1) Cost + Reserve Price = H. P Price.
100 + 50 = 150

H. P. Stock Reserve A/c

To H. P Adjust A/c	28,000	By Balance c/d	28,000
To Balance b/d	21,700	By H. P Adjust A/c	21,700
	49,700		49,700

Working Note :

(i) Opening Balance of the Hire purchase stock reserve

$= \frac{50}{150} \times 84{,}000 = 28{,}000$

(ii) Loading on goods sold on Hire Purchase

$= \frac{50}{150} \times$ ₹ 6,34,200 = 2,11,400

(iii) Closing balance of Hire Purchase Stock Reserve

$= \frac{50}{150} \times$ 65,100 = 21,700

Goods Sold on Hire Purchase A/c

To Hire Purchase Adjustment A/c: Loading	2,11,400	By Hire Purchase Stock A/c	6,34,200
To Trading A/c	4,22,800		
	6,34,200		6,34,200

Space to write important points for revision

2010 - Dec [2] (a) Ravi purchased a machine on hire purchase system from Moon & Sons. He paid ₹ 1,00,000 at the time of agreement and the remaining amount including interest was payable in four annual instalments of ₹ 1,00,000 each at the end of each year commencing from the date of agreement. Interest is charged @ 10% per annum.

You are required to prepare the Machinery Account and Moon & Sons account in the books of Ravi for four years if he provides depreciation on machinery @ 20 percent per annum on written down value basis. **(10 marks)**

Answer :

Particulars of Cash Price Interest

Particulars	Instalment ₹	Interest ₹	Principal ₹
4th Instalment	1,00,000		
Less:- Interest 1,00,000 x $\frac{10}{110}$	9,091	9,091	90,909
	90,909		
Add: 3rd Instalment	1,00,000		
	1,90,909		
Less:- Interest 1,90,909 x $\frac{10}{110}$	17,355	17,355	1,73,554
	1,73,554		
Add: 2nd Instalment	1,00,000		
	2,73,554		

Less: Interest 2,73,554 x $\frac{10}{110}$	24,869	24,869	2,48,685
	2,48,685		
Add: 1st Instalment	1,00,000		
	3,48,685		
Less: Interest 3,48,685 x $\frac{10}{110}$	31,699	31,699	3,16,986
	3,16,986		
Add: Cash down payment	1,00,000		
Cash Price	4,16,986	83,014	

Total Interest = 83,014

Cash Price of Machine = 4,16,986

Hire Purchase Price = 4,16,986 + 83,014 = 5,00,000

In the Books of Ravi Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
1st Year	To Moons & Sons	4,16,986	1st Year	By Depreciation A/c (4,16,986 x 20%)	83,397
				By Balance c/d	3,33,589
		4,16,986			4,16,986
2nd Year	To Balance b/d	3,33,589	2nd Year	By Depreciation A/c (3,33,589 x 20%)	66,718
				By Balance c/d	2,66,871
		3,33,589			3,33,589
3rd Year	To Balance b/d	2,66,871	3rd Year	By Depreciation A/c (2,66,871 x 20%)	53,374
				By Balance c/d	2,13,497
		2,66,871			2,66,871
4th Year	To Balance b/d	2,13,497	4th Year	By Depreciation A/c (2,13,497 x 20%)	42,699
				By Balance c/d	1,70,798
		2,13,497			2,13,497

Moon & Sons A/c

Date	Particulars	₹	Date	Particulars	₹
1st Year	To Bank	1,00,000	1st Year	By Machinery A/c	4,16,986
	To Bank (Instalment)	1,00,000		By Interest A/c 3,16,986 x 10%	31,699
	To Balance c/d	2,48,685			
		4,48,685			4,48,685
2nd Year	To Bank	1,00,000	2nd Year	By Balance b/d	2,48,685
	To Balance c/d	1,73,554		By Interest (2,48,685 ×10%)	24,869
		2,73,554			2,73,554
3rd Year	To Bank	1,00,000		By Balance b/d	1,73,554
	To Balance c/d	90,909	3rd Year	By Interest (1,73,554 x 10%)	17,355
		1,90,909			1,90,909
4th Year	To Bank	1,00,000	4th Year	By Balance b/d	90,909
				By Interest A/c (90,909 x 10%)	9,091
		1,00,000			1,00,000

—— Space to write important points for revision ——

2011 - June [3] (b) NR and Sons sells goods on hire purchases at cost plus 33 $\frac{1}{3}$ percent. Prepare hire purchase Trading Account from the following information :

		₹
April 1, 2010	Stock with customers on hire purchase price	97,200
,,	Stock in hand at shop	1,94,400
,,	Instalments overdue	81,000
March 31, 2011	Purchase during the year	6,48,000
,,	Goods repossessed (Instalment not due ₹ 21,600)	5,400
,,	Stock at shop (excluding repossessed)	2,16,000
,,	Cash received during the year	6,21,000
,,	Instalment overdue	97,200

(5 marks)

Answer :

Hire Purchase Trading A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	72,900	By Cash	6,21,000
Instalment not due $\left(97{,}200 \times \frac{100}{133.33}\right)$		By Repossessed Stock A/c [Valuation]	5,400
Instalment due but not recd.	81,000	By Balance c/d	
To COGS on H.P.	6,26,400	Instalment not due $\left(2{,}73{,}600 \times \frac{100}{133.33}\right)$	2,05,200
To P/L A/c (B/f)	1,48,500	Instalment due but not received	97,200
	9,28,800		9,28,800

W.N. (1)

Shop Stock A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,94,400	By H.P. Stock A/c (B/f)	6,26,400
To Purchases	6,48,000	By Balance c/d	2,16,000
	8,42,400		8,42,400

W.N. (2)

H.P. Stock A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	97,200	By Goods Repossessed A/c	21,600
To Goods Sold on HP	8,35,200	By H.P. Debtors A/c	6,37,200
		By Balance c/d	2,73,600
	9,32,400		9,32,400

H.P. Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	81,000	By Cash A/c	6,21,000
To H.P. Stock A/c (b/f)	6,37,200	By Balance c/d	97,200
	7,18,200		7,18,200

2011 - June [4] (c) A motor car is sold on instalment payment system, the payment for which is made thus: ₹ 50,000 as immediate deposit and the balance to be paid on five equal annual instalments of ₹ 40,000 each. The interest is charged at 12% on unpaid cash price. If the present value of annuity of ₹ 1 for five years at 12% is ₹ 3.605, calculate the cash price of motor car. **(2 marks)**

Answer :

Immediate Payment or deposit is ₹ 50,000

Instalment amount for each year is ₹ 40,000

Present value of annuity of ₹ 1 for five years at 12% is ₹ 3.605

Therefore, Present value of annuity of ₹ 40,000 for five years at 12% is 40,000 x 3.605 = 1,44,200

Cash price of motor car = 50,000 + 1,44,200 = 1,94,200

—— Space to write important points for revision ——

2011 - Dec [6] (a) On April 1, 2008 Chandra Transport Agencies purchased a mini truck from S. K. Motors on hire purchase system. The terms were that they would pay ₹ 1,00,000 down on same date and the balance was payable in three annual instalments. First instalment amounted to ₹ 74,000 was payable on 31-3-2009, second ₹ 93,000 on 31-3-2010 and third ₹ 84,000 on 31-3-2011. Interest is charged @ 12% per annum. Rate of depreciation is 20% on written down value.

You are required to calculate the total cash price and prepare, (i) S. K. Motors Account; and (ii) Mini-Truck Account in the Books of Chandra Transport Company. **(6 marks)**

Answer :

Calculation of Cash Price

Date	Particulars	Instalment	Interest	Cash Price
31.03.11	3rd Instalment	84,000	9,000	75,000
	(-) Interest (12/112 x 84,000)	9,000		
	Balance of Cash Price	75,000		
31.03.10	+ 2nd Instalment	93,000	18,000	75,000
		1,68,000		

	(-) Interest (12/112 x 1,68,000)	18,000		
	Balance of Cash Price	1,50,000		
31.03.09	+1st Instalment	74,000	24,000	50,000
		2,24,000		
	(-) Interest (12/112x2,24,000)	24,000		
	Balance of Cash Price	2,00,000		
	+ Down Payment	1,00,000		1,00,000
	Total	3,00,000		3,00,000

Total Cash Price = ₹ 3,00,000

In the books of Chandra Transport Agency

S.K. Motors Account

Date	Particulars	Amount	Date	Particulars	Amount
1.04.08	To Bank A/c	1,00,000	1.4.08	By Mini Truck A/c	3,00,000
31.3.09	To Bank A/c	74,000	31.3.09	By Interest A/c	24,000
	To Balance c/d	1,50,000			
		3,24,000			3,24,000
31.3.10	To Bank A/c	93,000	1.04.09	By Balance b/d	1,50,000
	To Balance c/d	75,000	31.3.10	By Interest A/c	18,000
		1,68,000			1,68,000
31.3.11	To Bank A/c	84,000	1.04.10	By Balance b/d	75,000
			31.03.11	By Interest A/c	9,000
		84,000			84,000

Mini Truck Account

Date	Particulars	Amount	Date	Particulars	Amount
1.4.08	To S.K. Motors A/c	3,00,000	31.3.09	By Depreciation A/c	60,000
				By Balance c/d	2,40,000
		3,00,000			3,00,000
1.4.09	To Balance b/d	2,40,000	31.3.10	By Depreciation A/c	48,000
				By Balance c/d	1,92,000
		2,40,000			2,40,000
1.4.10	To Balance b/d	1,92,000	31.3.11	By Depreciation A/c	38,400
				By Balance c/d	1,53,600
		1,92,000			1,92,000

2012 - Dec [3] (b) Chinu sells goods on hire purchase at cost plus 60 percent. Prepare Hire Purchase Trading Account from the following information for the year ending 31st March, 2012:

		₹
1.4.2011	Stock with customers at hire purchase price	96,000
31.3.2012	Sale of hire purchase goods during the year at hire purchase price	5,68,000
31.3.2012	Cash received from hire purchase customers	2,65,000
31.3.2012	Stock with customers' at hire purchase price	3,64,000

(4 marks)

Answer :

H.P. Trading A/c of Chinu
for the year ending on 31.3.2012

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.11	To Balance b/d Opening Intt. not due at cost $\left(96{,}000 \times \frac{100}{160}\right)$	60,000	31.3.12	By Cash A/c	2,65,000
	Opening Intt. due but not received	NIL	31.3.12	By Balance c/d (Stock with customer) Closing Intt. not due at cost $\left(3{,}64{,}000 \times \frac{100}{160}\right)$	2,27,500
31.3.12	To Cost of goods sold on H.P. $\left(5{,}68{,}000 \times \frac{100}{160}\right)$	3,55,000	31.3.12	By Closing Intt. due but not received	35,000
31.3.12	To Profit & Loss A/c (B/F)	1,12,500			
		5,27,500			5,27,500

W.N.1 Mem. H.P. Debtors A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	NIL	By Cash A/c	2,65,000
To H.P. Stock W.N. (2)	3,00,000	By Balance c/d	35,000 (b/f)
	3,00,000		3,00,000

W.N. (2) Mem. H.P. Stock A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	96,000	By H.P. Debtors A/c	3,00,000
To Goods Sold on H.P.	5,68,000	By Balance c/d	3,64,000
	6,64,000		6,64,000

—— Space to write important points for revision ——

2013 - June [3] (b) On 1st April, 2010 Guru purchased a machinery for cash price of ₹ 5,06,872 on hire purchase system from Machinery Mart. Payment to be made ₹ 1,50,000 down and the balance by four equal annual instalments. Interest is charged @ 15% per annum. Guru depreciates machinery at 20% per annum on written down value method. Guru paid down payment and first two instalments but could not pay the remaining instalments. On 31st March, 2013 the Machinery Mart took possession of machinery.

You are required to prepare Machinery Account and Machinery Mart Account in the books of Guru. **(7 marks)**

Answer:

Since the problem is silent regarding the amount of equal instalment, it is assumed that the balance of cash price will be paid equally along with the interest on the amount outstanding.

Calculation of Interest

Opening Cash Price	Installment	Interest	Payment of Principle	Closing Cash Price
5,06,872	1,50,000	—	1,50,000	3,56,872
3,56,872	1,42,749	3,56,872 × 15% = 53,531	89,218	2,67,654
2,67,654	1,29,366	2,67,654 × 15% = 40,148	89,218	1,78,436
1,78,436	1,15,972	1,78,436 × 15% = 26,754	89,218	89,218
89,218	1,02,601	89,218 × 15% = 13,383	89,218	—

In the Book of Guru

Machinery Account

Dr. **Cr.**

Date	Particulars	Amt.(₹)	Date	Particulars	Amt.(₹)
01.04.2010	To Machinery Mart A/c	5,06,872	31.03.2011	By Depreciation A/c (5,06,872 x 20%)	1,01,374
				By Balance c/d	4,05,498
		5,06,872			**5,06,872**
01.04.2011	To Balance b/d	4,05,498	31.03.2011	By Depreciation A/c (4,05,498 x 20%)	81,100
				By Balance c/d	3,24,398
		4,05,498			**4,05,498**
01.04.2012	To Balance b/d	3,24,398	31.03.2011	By Depreciation A/c (3,24,398 x 20%)	64,880
				By Machinery Mart A/c (Machinery Re-Possess)	89,218
				By Balance c/d	1,70,300
		3,24,398			**3,24,398**

Machinery Mart Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.2010	To Bank A/c	1,50,000	01.04.2010	By Machinery A/c	5,06,872
31.03.2011	To Bank A/c	1,42,749	31.03.2011	By Interest A/c	53,531
31.03.2011	To Balance c/d	2,67,654			
		5,60,403			**5,60,403**

31.03.2012	To Bank A/c	1,29,366	01.04.2011	By Balance b/d	2,67,654
31.03.2012	To Balance c/d	1,78,436	31.03.2012	By Interest A/c	40,148
		3,07,802			**3,07,802**
31.03.2013	To Machinery A/c	89,218	01.04.2012	By Balance b/d	1,78,436
31.03.2013	To Balance c/d (Installment Overdue)	1,15,972	31.03.2013	By Interest A/c	26,754
		2,05,190			**2,05,190**

—— Space to write important points for revision ——

2014 - June [1] {C} Answer the following question (give workings):

(x) ₹ 30,000 is the annual instalment to be paid for three years (given present value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the cash price in cash of Hire Purchase. **(2 marks)**

Answer:

Cost price = 30,000 × PVAF (5%, 3 years)
= 30,000× 2.7232
= 81,696

—— Space to write important points for revision ——

2014 - Dec [1] Answer the following question (Give workings):

(b) Madhu purchased a machinery on hire purchase basis on 1st April, 2014. ₹ 75,000 was paid immediately and the remaining amount was to be paid in three annual instalments of ₹ 1,00,000 each. Interest rate is 15% per annum. Calculate the cash price. **(2 marks)**

Answer:

Calculation of cash price of Machine

Balance of cash price at the time of III installment

= 1,00,000 - [1,00,000 × (15/115)] = 1,00,000 - 13,043 = 86,957

Balance of cash price at the time of II installment

= (1,00,000 + 86,957) - [1,86,957 × (15/115)]

= 1,86,957 - 24,386 = 1,62,571

Balance of cash price at the time of I installment
= (1,00,000 + 1,62,571) - [2,62,571 × (15/115)]
= 2,62,571 - 34,248 = 2,28,323
Hence, Total cash price = 2,28,323 + down payment 75,000 = ₹ 3,03,323

—— Space to write important points for revision ——

2015 - June [1] Answer the question:

(c) GOPI purchased a plant on hire purchase system from GOPAL on 01.04.2015. The hire purchase rate was settled at ₹ 72,000, payable at ₹ 22,000 on 01.04.2015 and ₹ 25,000 at the end of two successive years. Interest was charged @ 5% P.A. [Given PVI FA (at 5%, 2 years) = 1.8594]
Ascertain the cash price of the plant. **(2 marks)**

Answer:

Amount of Interest	Present value
₹ 1	₹ 1.8594
₹ 25,000	₹ 25,000 × 1.8594/1 = ₹ 46,485

Cash Price = ₹ 46,485 + ₹ 22,000 (down) = ₹ 68,485.

—— Space to write important points for revision ——

2015 - Dec [3] (b) The hire purchase department of RAVERA ELECTRO sells LCD TV Sets and Refrigerators.

This department was newly started on 1st April, 2014. The relevant information is as follows:

(Amount in ₹)

Particulars	LCD TV	Refrigerator
Cost	48,600	20,000
Cash Price	56,700	24,000
Cash down Payment	8,100	4,000
Monthly Instalments	5,400	2,000
Number of Instalments	10	12

During the year ended March 31, 2015, 100 LCD TV Sets and 120 Refrigerators were sold on hire purchase (HP) basis. Two LCD TV Sets on which 3 instalments only could be collected and 4 Refrigerators on which 5 instalments had been collected were repossessed. These were valued at ₹ 95,000 and after reconditioning at a cost of ₹ 10,000 were sold outright for ₹ 1,30,000. Other instalments collected and those due (customer still paying) were respectively as follows:

LCD TV Sets	270 and 20
Refrigerators	400 and 30.

Required:

Prepare necessary Ledger Accounts on 'Stocks and Debtors System' to record the above transactions and to reveal the profit of RAVERA ELECTRO. **(2+1+2+1+2+4=12 marks)**

Answer:

RAVERA ELECTRO

Hire Purchase Stock Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Goods sold on H.P.	95,70,000	By H.P. Debtors A/c	37,88,400
		By Goods repossessed A/c (Installments not due on repossessed goods)	1,31,600
		By Balance c/d (Installment not yet due)	56,50,000
	95,70,000		**95,70,000**

Hire Purchase Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	37,88,400	By Bank A/c	36,20,400
		By Balance c/d	1,68,000
	37,88,400		**37,88,400**

Goods Repossessed Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	1,31,600	By Hire Purchase Adjustment A/c	36,600
		By Balance c/d	95,000
	1,31,600		**1,31,600**
To Balance b/d	95,000	By Bank (Sales)	1,30,000
To Bank (Expenses)	10,000		
To Hire Purchase Adjustment A/c (Profit)	25,000		
	1,30,000		**1,30,000**

Goods Sold on Hire Purchase Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Hire Purchase Adj. A/c (Loading)	23,10,000	By Hire Purchase Stock A/c	95,70,000
To Purchases A/c	72,60,000		
	95,70,000		**95,70,000**

Hire Purchase Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Goods Repossessed A/c (Loss)	36,600	By Goods sold on Hire Purchase A/c (Loading)	23,10,000
To Stock Reserve A/c	13,59,714	By Goods Repossessed A/c (Profit on sale)	25,000
To Profit	9,38,686		
	23,35,000		**23,35,000**

Working Note:

(i) Hire Purchase price is ₹ 62,100 for each LCD TV set and ₹ 28,000 for each refrigerator:

Total cost and sales on this basis are as follows:

	H.P. Price (₹)	Cost (₹)
LCD TV Sets (100)	62,10,000	48,60,000
Refrigerators (120)	33,60,000	24,00,000
	95,70,000	**72,60,000**

(ii) Total Collection:

Particulars	LCD TV Sets (₹)	Refrigerators (₹)
Cash collected on down payment	(8100 × 100) 8,10,000	(4,000 × 120) 4,80,000
Installments collected	(5,400 × 270) 14,58,000	(2,000 × 400) 8,00,000
Amount collected on repossessed goods	(3×2×5,400) 32,400	(2,000×5×4) 40,000
Total collection	23,00,400	13,20,000
Installments dues not collected	(20×5,400) 1,08,000	(30×2,000) 60,000
H.P. Debtors A/c	24,08,400	13,80,000
Total (24,08,400 + 13,80,000)		**37,88,400**

(iii) Installments not yet due:

LCD TV sets: Total installments on 98 set (98 × 10)	980
Installments collected and due (270 + 20)	(290)
	690

(A) Amount of 690 installments @ ₹ 5,400 each ₹ 37,26,000

Refrigerators:

Total installments on 116 refrigerators [116 × 12]	1,392
Less: Installments collected and due (400 + 30)	430
	962

(B)

Particulars	₹
Amount of 962 installments @ ₹ 2,000 each	**19,24,000**

Total amount (A+B)56,50,000

(iv) Stock Reserve:

$$\text{Stock Reserve} = \frac{\text{H.P. Price} - \text{Cost Price}}{\text{H.P. Price}} \times \text{Amount of Instalments not yet due}$$

$$\text{LCD TV sets} = \frac{13,500}{62,100} \times 37,26,000 = ₹\,8,10,000$$

$$\text{Refrigerators} = \frac{8,000}{28,000} \times ₹19,24,000 = ₹\,5,49,714$$

Total = **13,59,714**

(v) Installment not due on repossessed goods:

Particulars	₹
2 LCD TV sets 7 installments on each @ ₹ 5,400	75,600
4 Refrigerators 7 installments on each @ ₹ 2,000	56,000
	1,31,600

(vi) Installments due but not collected:

Particulars	₹
LCD TV sets (20 × ₹ 5,400)	1,08,000
Refrigerators (30 × ₹ 2,000)	60,000
	1,68,000

—— Space to write important points for revision ——

2016 - June [1] {C} (d) Answer the following question.

(iv) MS SOHALI purchased a LCD TV on hire purchase system from MENZ ENTERPRISE on 01.03.2016. The hire purchase rate was settled at ₹ 1,20,000, payable at ₹ 45,000 on 01.03.2016 and ₹ 25,000 at the end of three successive years. Interest was charged @ 6% P.A. [Given PVIFA(at 6%, 3 years) = 2.6730.]
Compute the Cash Price of LCD-TV. **(2 marks)**

Answer :

Cash Price = ₹ 45,000 (down payment) + (₹ 25,000 x 2.6730)

= ₹ 45,000 + ₹ 66,825 = ₹ 1,11,825

—— Space to write important points for revision ——

2016 - Dec [6] (b) POORVI STORES LTD., sells goods on hire purchase at Cost plus 25%.

The following information is provided for the year ended March 31,2016.

2015		₹
April 1	Stock with hire purchase customers at hire purchase price	5,00,000
April 1	Stock at shop	1,12,500
April 1	Instalments overdue	30,000
2016		
March 31	Cash received from HP customers during the year	14,75,000
March 31	Purchases for the year	12,50,000
March 31	Instalments overdue	55,000
March 31	Stock at shop	62,500
March 31	Stock with hire purchase customers at hire purchase price	6,25,000

You are required to prepare Hire Purchase Trading Account for the year ended March 31, 2016. **(5+1=6 marks)**

Answer:

POORVI STORES LTD.

Hire Purchase Trading Account for the year end March 31, 2016

Dr. **Cr.**

2016	Particulars	₹	2016	Particulars	₹
April 1	To Balance b/d (Stock with HP customers of cost price) (5,00,000)× (100/125)	4,00,000	Mar 31	By Cash Received from H.P. Customers	14,75,000

April 1	To Installment overdue (HP Debtors A/c)	30,000	Mar 31	By Installment overdue (H.P. Debtors A/c)	55,000
2016 Mar 31	To Cost of Goods sold on hire purchase [see note (i)]	13,00,000	Mar 31	By Balance c/d [(Stock with H.P. customers at cost price (6,25,000×100/125)]	5,00,000
Mar 31	To Profit & Loss A/c (profit)	3,00,000			
		20,30,000			**20,30,000**

Working Notes:

(1) **Calculation the cost price of goods sold on hire:**

Stock at Shop Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,12,500	By Cost of Goods sold on hire purchase (Balancing figure)	13,00,000
To Purchases	12,50,000	By Balance c/d	62,500
	13,62500		**13,62,500**

HP Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
Ti Balance b/d	30,000	By Cash A/c	14,75,000
To HP Stock A/c (B.F.)	15,00,000	By Balance c/d	55,000
	15,30,000		**15,30,000**

Space to write important points for revision

2017 - June [5] (a) Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year. **(8 marks)**

Answer:

Cash Price	= 15,00,000
Hire Purchase Price	= (15,00,000 × 20%) + 4,20,000 + 3,90,000 + 3,60,000 + 3,30,000 = 18,00,000
Total Interest	= 18,00,000 – 15,00,000
	= 3,00,000

Hire Purchase Price	18,00,000
Less: Down Payment	3,00,000
(a) Hire Purchase Price O/s at start of year one	15,00,000
Less: 1st Instalment	4,20,000
(b) Hire Purchase Price O/s at start of year two	10,80,000
Less: 2nd Instalment	3,90,000
(c) Hire Purchase Price O/s at start of year three	6,90,000
Less: 3rd Instalment	3,60,000
(d) Hire Purchase Price O/s at start of year four	3,30,000
Less: 4th Instalment	3,30,000
	Nil

Ratio of (a) : (b) : (c) : (d) = 1500 : 1080 : 690 : 330
= 50 : 36 : 23 : 11

Interest included in instalment of :

1. 1^{st} year = $3,00,000 \times \frac{50}{120}$ = 1,25,000
2. 2^{nd} year = $3,00,000 \times \frac{36}{120}$ = 90,000
3. 3^{rd} year = $3,00,000 \times \frac{23}{120}$ = 57,500
4. 4^{th} year = $3,00,000 \times \frac{11}{120}$ = 27,500

Space to write important points for revision

2017 - Dec [6] (a) On 1st April, 2012, X Ltd. sells a Truck on hire purchase basis to X Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual installments of ₹ 4,40,000 each payable on 31st March, 2013, 2014 and 2015. The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for X Transporters & Co.

Calculations may be made to the nearest rupee. **(8 marks)**

Answer:

Ratio of interest and amount due = $\frac{\text{Rate of Interest}}{100 + \text{Rate of Interest}} = \frac{10}{100} = \frac{1}{11}$

There is no interest element in the down payment as it is paid on the date of the transaction. Installments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last installment to first installment as follows:

Calculation of Interest and Cash Price:

No. of installments	Amount due at the time of installment ₹	Interest	Cumulative cash price ₹
[1]	**[2]**	**[3]**	**[2 - 3] = [4]**
3rd	4,40,000	1/11 of ₹ 4,40,000 = ₹ 40,000	4,00,000
2nd	8,40,000	1/11 of ₹ 8,40,000 = ₹ 76,364	7,63,636
1st	12,03,636	1/11of ₹12,03,636 = ₹ 1,09,421	10,94,215

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) = ₹ 15,74,215.

2018 - June [5] (a) (i) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), Prepare Hire-Purchase Trading Account for the year ending, March 31, 2017:

	₹
April 01, 2016 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000

(5 marks)

Answer:

Hire-purchase Trading Account
(On the basis of Hire-Purchase Price)
for the year ending 31st March, 2017

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d H.P. Stock as on 01.04.2016	80,000	By Bank A/c By Goods sold on hire purchase A/c (Loading)(1/5th of 4,00,000)	3,00,000 80,000
To Goods sold on hire purchase A/c	4,00,000	By Stock Reserve (Opening) (1/5th of 80,000)	16,000
To Stock reserve (Closing) (1/5th of 1,70,000)	34,000	By Balance c/d: H.P. Debtors (Installment due)	10,000
To Profit & Loss A/c	62,000	H.P. Stock as on 31.03.2017 (Working Note)	1,70,000
	5,76,000		5,76,000

Working Note:

H.P. Stock on 31.03.2017

Particulars	₹	₹
Stock with customers (Installment not due) on 01.04.2016		80,000
Goods sold on hire purchase during the year		4,00,000
		4,80,000

Less: Cash received during the year	3,00,000	
Installments due but not received	10,000	(3,10,000)
H.P. Stock on 31.03.2017		1,70,000

Space to write important points for revision

Repeatedly Asked Questions

No.	Question	Frequency
1	Distinguish between hire purchase system & instalment system. 09 - June [4] (b), 09 - Dec [2] (b), 11 - Dec [6] (b), 18 - Dec [8] (iii)	**4 Times**

Table Showing Marks of Compulsory Questions

Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	2				2					
Total	2				2					

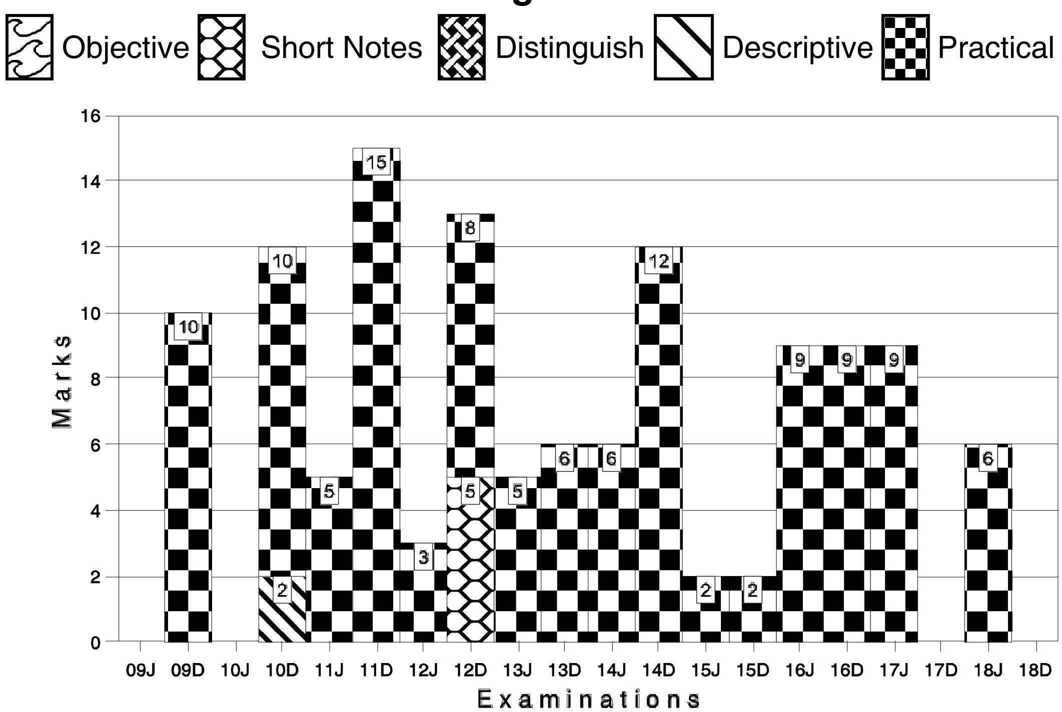
10A BRANCH ACCOUNTS

This Chapter Includes

- Branch Accounts
- Methods
- Dependent and Independent Branches
- Foreign Branches

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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CHAPTER AT A GLANCE

Branch	A Branch is a subordinate division of an office. Section 2(14) of the Companies Act, 2013 defines a Branch Office as- • Any establishment described as a Branch by the Company.
Dependent Branches	Dependent branches are branches in respect of which the whole of the accounting records are kept at Head Office only.
Independent Branches	Independent branches are branches which maintain independent accounting records.
Foreign Branches	Foreign branches are located in a foreign country (i.e. in a country other than in which the company is incorporated and registered).
Debtors Method	This method is usually adopted when the branch is of small size. Under this method, the head office maintains separate Branch Account for each branch. Its purpose is to ascertain profit or loss made by each branch.
Stock and Debtors Method	When there are large number of transactions, this method is particularly adopted by the H.O. to make efficient control over the branches.

SHORT NOTES

2008 - Dec [4] (b) Write short note on treatment of abnormal losses in Branch Account. **(5 marks)**

Answer :

Abnormal losses generally arise due to loss of goods in transit or theft or pilferage at branch. Branch stock A/c is credited with abnormal losses. This is necessary to find out of stock discrepancies for other reason profit loading of abnormal losses is debited to Branch Adjustment A/c and Cost of goods sold used to Profit and Loss A/c.

Branch Adjustment A/c Dr.
To Branch Stock A/c
Or
Branch P/L A/c Dr.
To Branch Adjustment A/c

—— Space to write important points for revision ——

2012 - Dec [8] Write short note on:

(e) Classification of Branches for Branch accounting purpose. **(5 marks)**

Answer :

Branches are classified as two way, (i) Inland Branch, (ii) Foreign Branch

(i) **Inland Branches:**
 (a) **Dependent Branches:** Branches in respect of which the whole of the accounting records are kept at head office.
 (b) **Independent Branches:** As the name indicates such branches maintain independent accounting records.

(ii) **Foreign Branches:** Branches which are located in a foreign country other then in which the company is incorporated they maintain independent and complete record of business.

Methods of accounting are:

(i) Final Accounts method
 (a) At wholesale price
 (b) At Cost Price/At Invoice Price
(ii) Debtors method;
(iii) Stock and Debtors method; and
(iv) Cash Basis System.

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DESCRIPTIVE QUESTIONS

2010 - Dec [1] {C} (e) What reconciliation entry will be required to be passed in the books of Head Office when cash sent by the Branch to Head Office at the end of accounting year has not reached the Head Office? **(2 marks)**

Answer :

Journal Entry in the Books of Head Office

Reconciliation Entry

Cash in Transit A/c Dr.

To Branch A/c

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2009 - Dec [6] (a) From the following particulars, prepare a Memorandum Trading and Profit & Loss A/c of Branch and also show the Branch Account as it would appear in the Head Office Books at the end of the year.

Branch Cash Account

Dr.				Cr.
2008			2009	
April 1			March 31	
	To Balance	10,500.00	By Bank	59,000.00
2009			" Petty Expenses	1,500.00
March 31	" Sundry Debtors	37,000.00	" Balance	9,500.00
	" Cash Sales	22,500.00		
		70,000.00		70,000.00

Branch Debtors Account

Dr.				Cr.
2008			2009	
April, 1			March, 31	
	To Balance	4,000.00	By Cash	37,000.00
			" Bills Receivable	2,000.00

			" Discount	1,000.00
			" Bad debts	500.00
2009			" Balance	23,500.00
March, 31				
" Sales		60,000.00		
		64,000.00		64,000.00

Branch Account

Dr.				Cr.
2008			2008	
April, 1			April, 1	
To Balance b/d			By Balance b/d	
" Stock	5,000.00		" Expenses outstanding	1,000.00
" Cash	10,500.00		2009	
" Sundry Debtors	4,000.00		March, 31	
" Prepaid Expenses	500.00	20,000.00	" Bank	59,000.00
			" Balance	28,000.00
2009				
March 31				
" Goods Transferred		60,000.00		
" Sundry Expenses		8,000.00		
		88,000.00		88,000.00

Closing Stock at Branch was ₹ 6,000 and Expenses outstanding were ₹ 2,000. **(10 marks)**

Answer :

Memorandum Trading and Profit Account of the Branch
For the year ended 31st March 2009

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	5,000	By Sales Cash 22,500	
To Goods transferred from Head office	60,000	Credit 60,000	82,500
		By Closing Stock	6,000
To Gross Profit	23,500		
	88,500		88,500

To Expenses	1,500	By Gross Profit	23,500
Petty Expenses			
Other Expenses 8,000			
Add: O/S at the end of the current year 2,000			
Less: O/S at the end, of the previous year 1,000			
Add: Opening prepaid Expenses 500	9,500		
To Discounts	1,000		
To Bad Debts	500		
To Net Profit	11,000		
	23,500		23,500

Branch Account

Date	Particulars	₹	Date	Particulars	₹
2009 31st March	To Balance b/d	28,000	2009 31st March	By Bal b/d	
				Cash 9,500	
	To Net Profit	11,000		Debtors 23,500	
	To Bal c/d (o/s Expenses)	2,000		Stock 6,000	
				B/R 2,000	41,000
		41,000			41,000

—— Space to write important points for revision ——

2010 - Dec [7] (a) Calcutta Head Office has its branch at Kanpur. Goods are invoiced to Branch at cost plus 33 $\frac{1}{3}$%. All expenses of the Branch are paid by the H.O. From the following particulars you are required to show Branch Stock A/c, Branch Adjustments A/c, Loss in Transit A/c, Pilferage A/c and Branch P& L A/c in the books of H.O.

	₹
Opening stock at branch at cost to branch	60,000
Goods sent to branch at invoice price	1,30,000
Loss in transit at invoice price	20,000
Goods pilfered at Branch - (at invoice price)	6,000
Normal loss at invoice price	3,000
Sales (Credit)	2,20,000
Expenses of branch	35,000
Recovered from Insurance Co. against loss in transit	12,000
Closing stock at Branch at invoice price	80,500

(10 marks)

Answer :

In the Books of Head Office
Branch Stock A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	60,000	By Branch Debtors A/c	2,20,000
To Goods Sent to Br. A/c	1,30,000	By Loss in transit (Cost) A/c	15,000
To Branch Adjustment A/c (B/f)	1,39,500	By Branch Adjustment (Profit) A/c	5,000
		By Pilferage (Cost) A/c	4,500
		By Branch Adj. A/c (Profit)	1,500
		By Branch Adj. A/c(N. Loss)	3,000
		By Balance c/d	80,500
	3,29,500		3,29,500

Branch Adjustment A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch A/c (20,000 x 25%)	5,000	By Balance b/d (60,000 x 33.33/133.33)	15,000
To Branch Stock A/c (N. Loss)	3,000	By Goods Sent to Branch (1,30,000 x 25%)	32,500
To Branch Stock A/c (6,000 x 25%)	1,500	By Branch Stock A/c	1,39,500

To Gross Profit (B/f)	1,57,375		
To Balance c/d	20,125		
	1,87,000		1,87,000

Loss in transit A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Stock A/c	20,000	By Branch Adj. A/c	5,000
		By Bank (Ins. claim)	12,000
		By Branch P & L A/c	3,000
	20,000		20,000

Pilferage A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch Stock A/c	6,000	By Branch Adj. A/c	1,500
		By P & L A/c	4,500
	6,000		6,000

Branch Profit and Loss A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Expenses	35,000	By Branch Adj. A/c	1,57,375
To Loss in transit	3,000		
To Pilferage A/c	4,500		
To General P & L A/c	1,14,875		
	1,57,375		1,57,375

Space to write important points for revision

2011 - June [5] (b) Give journal entries in the books of Head Office to record the following transactions on the closing date 31st March, 2011:

(i) Depreciation amounting to ₹ 11,000 on Kolkata Branch fixed assets when such accounts are opened in books of Head Office.

(ii) Goods amounting to ₹ 7,500 transferred from Kolkata Branch to Delhi Branch under the instruction from Head Office.

(iii) The Delhi Branch paid ₹ 2,10,000 for machinery purchased by Head Office in Delhi.

(iv) The Kolkata Branch collected ₹ 8,000 from a Kolkata customer of the Head Office.

(v) Goods of ₹ 20,000 sent by the Head Office to Delhi Branch on 28th March and received by the later on 10th April, 2011. **(5 marks)**

Answer :

Journal Entries in the Books of Head Office

(i)	Kolkata Branch A/c	Dr.	11,000	
	To Kolkata Branch Fixed Assets A/c			11,000
	(Being amount of depreciation is written off against Kolkata Branch's Fixed assets. Where records are kept by H.O.)			
(ii)	Delhi Branch A/c	Dr.	7,500	
	To Kolkata Branch A/c			7,500
	(Being goods of ₹ 7,500 transfer to Delhi branch)			
(iii)	Machinery A/c	Dr.	2,10,000	
	To Delhi Branch A/c			2,10,000
	(Being Machinery Purchased by H.O. and amount paid by Delhi Branch)			
(iv)	Kolkata Branch A/c	Dr.	8,000	
	To Debtor A/c			8,000
	(Being amount collected by Kolkata Branch from a customer of H.O.)			
(v)	Goods in Transit A/c	Dr.	20,000	
	To Delhi Branch A/c			20,000
	(Being goods sent by H.O. to Delhi in transit)			

—— Space to write important points for revision ——

2011 - Dec [4] (a) Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2010. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 125% of the cost price of Head Office. The following are the particulars relating to the transactions of the Kanpur Branch :

	₹	₹
Goods sent to Branch (at cost to H.O.)		4,50,000
Sales—Cash		2,10,000
—Credit		3,20,000
Cash collected from Debtors		2,85,000
Return from Debtors		10,000
Discount Allowed		8,500
Cash sent to Branch for Freight	30,000	
for Salaries	8,000	
for other expenses	12,000	50,000
Spoiled clothes written off at invoice price		10,000
Normal loss estimated at		15,000

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch. **(10 marks)**

Answer :

Branch Stock A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Goods supplied to Branch A/c	5,62,500*	By Cash A/c	2,10,000
To Branch Debtors A/c	10,000	By Branch Debtors A/c	3,20,000
		By Branch Adjustment A/c (profit)	2,000
		By Profit & Loss A/c (cost)	8,000
		By Branch Adjustment A/c (normal loss)	15,000
		By Stock Shortage A/c	17,500
	5,72,500		5,72,500

* 4,50,000 + 4,50,000 × 25% = ₹ 5,62,500

Branch Debtors A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Stock A/c	3,20,000	By Cash A/c	2,85,000
		By Branch Expenses A/c (Discount)	8,500
		By Branch Stock A/c	10,000
		By Balance c/d	16,500
	3,20,000		3,20,000

Branch Adjustment A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Stock A/c (spoilage)	2,000	By 25% Markup on goods sent	1,12,500
Stock shortage $\left(\frac{25}{125} \text{ of } 17{,}500\right)$	3,500		
Normal Loss	15,000		
Gross Profit c/d	92,000		
	1,12,500		1,12,500

Branch Profit A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Freight	30,000	By Gross Profit b/d	92,000
Salaries	8,000		
Other expenses	12,000		
Spoilage	8,000		
Stock Shortage	14,000		
Net Profit	20,000		
	92,000		92,000

2011 - Dec [6] (c) Give the journal entries to rectify or adjust the following in the books of the Head Office :

(i) Goods purchased by branch ₹ 7,500 but payment made by Head Office. The Head Office has wrongly debited this amount to its own purchases account.

(ii) Branch paid ₹ 6,500 as salary to a visiting Head Office official. The Branch has debited the amount to salaries account.

(iii) Depreciation ₹ 11,250 in respect of Branch Shop whose account is kept in Head Office Books.

(iv) Expenses ₹ 5,600 to be charged to the Branch for work done on its behalf by the Head Office.

(v) Goods sent by the Head Office to Branch ₹ 25,000 not yet received by the Branch. **(5 marks)**

Answer :

(i)	Branch account	Dr.	7,500	
	To Purchases Account			7,500
	(Being purchases by branch wrongly debited by H.O. now rectified)			
(ii)	Salary Account	Dr.	6,500	
	To Branch Account			6,500
	(Being salary paid by branch now recorded)			
(iii)	Branch Account	Dr.	11,250	
	To Branch Shop Account			11,250
	(Being depreciation on branch shop provided)			
(iv)	Branch Account	Dr.	5,600	
	To Expenses Account			5,600
	(Being expenses charged to branch)			
(v)	No entry by the head office.			

Space to write important points for revision

2012 - June [6] (b) Show what journal entries would be passed by the Jaipur Head Office to record the following transactions in their Books on 31st March, 2012, the closing date:

(i) A remittance of ₹ 35,000 made by Sikar Branch to Head Office on 29th March, 2012 and received by the Head Office on 5th April, 2012.

(ii) Goods of ₹ 63,000 sent by the Head Office to the Bikaner Branch on 28th March, 2012 and received by the later on 4th April, 2012.

(iii) Sikar Branch paid ₹ 30,000 as salary to a visiting Head Office Official.

(3 marks)

Answer :

Journal Entries in the books of Jaipur head office on 31-3-2012

(i)	Cash in transit A/c	Dr.	35,000	
	To Sikar Branch A/c			35,000
	(Being cash sent by Sikar branch in transit)			
(ii)	Goods in Transit A/c	Dr.	63,000	
	To Bikaner Branch A/c			63,000
	(Being goods sent to Bikaner Branch but yet to be received by branch as on date)			
(iii)	Salary A/c	Dr.	30,000	
	To Sikar Branch			30,000
	(Being salary paid by Sikar branch for head office official)			

—— Space to write important points for revision ——

2012 - Dec [2] (a) Priya Sales Corporation of Jaipur has a Branch at Kota to which goods are sent @ $33\frac{1}{3}\%$ above cost. The Branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the Branch has to remit all cash received into the Head Office Bank Account at Kota.

Following further details are given for the year ended 31st March, 2012:

	(₹)
Goods sent to Branch at invoice price	18,00,000
Goods returned by Branch at invoice price	20,000
Stock at Branch on 1.4.2011 (at invoice price)	2,40,000
Branch Debtors on 1.4.2011	2,15,000
Sales during the year: Cash	5,80,000
Credit	11,40,000

Cash received from Branch debtors	10,45,000
Discount allowed to by Branch to debtors	14,800
Bad debts	9,200
Sales return at Kota Branch	25,000
Salaries and wages at Branch	1,80,000
Rent, Rates and Taxes at Branch	42,000
Sundry expenses at Branch	15,000
Stock at Branch on 31.3.2012 at invoice price	3,60,000

You are required to show Branch Stock Account, Branch Adjustment Account, Branch Expenses Account, Branch Debtors Account, Branch Goods sent to Branch Account and Branch Profit & Loss Account in the books of the Head Office. **(8 marks)**

Answer:

In the books of Priya Sales Corporation, Jaipur

Branch Stock A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,40,000	By Goods sent to	
To Goods sent to branch A/c	18,00,000	branch A/c (Return)	20,000
To Branch Debtors A/c (Returns)	25,000	By Cash A/c (Cash Sales)	5,80,000
To Branch Adjustment A/c (Excess of sales over invoice price)	35,000	By Branch Debtors A/c (Credit Sale)	11,40,000
		By Balance c/d	3,60,000
	21,00,000		21,00,000

Branch Debtors A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,15,000	By Cash A/c	10,45,000
To Branch Stock A/c	11,40,000	By Branch P/L A/c (14,800 + 9,200)	24,000
		By Branch Stock A/c	25,000
		By Balance c/d	2,61,000
	13,55,000		13,55,000

Branch Adjustment A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch P/ L A/c	4,50,000	By Stock Reserve A/c $\left(2,40,000 \times \frac{33.333}{133.333}\right)$	60,000
To Stock Reserve (Closing Stock - 25% on 3,60,000)	90,000	By Goods sent to branch (18,00,000 – 20,000) x 25%	4,45,000
		By Branch Stock A/c	35,000
	5,40,000		5,40,000

Branch Expenses A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Cash A/c:		By Branch P/ L A/c (Transfer)	2,37,000
Salary and wages	1,80,000		
Rent, Rates and Taxes	42,000		
Sundry expenses	15,000		
	2,37,000		2,37,000

Branch P and L A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Expenses A/c	2,37,000	By Branch Adjustment A/c [Gross Profit]	4,50,000
To Branch Debtors A/c (Discount & Bad debts)	24,000		
To P and L A/c [Net Profit]	1,89,000		
	4,50,000		4,50,000

Goods Sent to Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Branch Stock A/c (Return)	20,000	By Branch Stock A/c	18,00,000
To Branch Adj. A/c	4,45,000		
To Trading A/c (B/F)	13,35,000		
	18,00,000		18,00,000

Space to write important points for revision

2013 - June [2] (b) A Company with its Head Office at Kolkata has a Branch at Chennai. The Branch receives all goods from Head Office who remits cash for all expenses. Total Sales by Branch for year ended 31.03.2012 amounted to ₹ 6,50,000 out of which 75% on Credit. Other details for Chennai Branch were as under:

	01.04.2011	31.03.2012
Stock	4,000	30,000
Debtor	45,000	30,000
Petty Cash	250	—

Petty Cash sent by Head Office ₹ 3,000 but ₹ 2,500 is spent for Petty Expenses. The Expenses of ₹ 45,000 are actually spent by Branch. All sales are made by the Branch at Cost plus 25%.

You are required to prepare the Chennai Branch A/c in the Books of Head Office for the year ended 31.03.2012. **(5 marks)**

Answer:

In the Books of Head Office
Chennai Branch Account

Particulars		Amount ₹	Particulars		Amount ₹
To Balance b/d			By Bank A/c		
Stock –	4,000		Cash Sales –	1,62,500	
Debtors –	45,000		Collection from Debtors –		
Petty Cash -	250	49,250		5,02,500	6,65,000
To Goods Sent to Branch		5,46,000			

To Bank A/c Expenses – 45,000 Petty Cash sent – 3,000	48,000	By Balance c/d Stock – 30,000 Debtors – 30,000	
To General P/L A/c	82,500	Petty Cash - 750	60,750
	7,25,750		7,25,750

Working Notes:

1. Petty Cash Account

To Balance b/d	250	By Petty Expenses	2,500
To Bank – Cash sent by H.O.	3,000	By Balance c/d	750
	3,250		3,250

2. Memorandum Debtors Account

To Balance b/d	45,000	By Bank A/c (Collection)	5,02,500
To Credit Sales (6,50,000) × 75%	4,87,500	By Balance c/d	30,000
	5,32,500		5,32,500

3. Calculation of Cost of Goods Sent:

(a) Cost of Goods Sold = 6,50,000 × 100/125 = 5,20,000

(b) Cost of Goods Sold = Opening Stock + Cost of Goods Sent – Closing Stock

5,20,000 = 4,000 + Cost of Goods sent – 30,000

Hence, Cost of Goods sent = 5,46,000

Space to write important points for revision

2013 - Dec [5] (b) Prepare a Branch Account in the books of Head Office from the following particulars for the year ended 31st March, 2013, assuming that H.O. sold goods at cost plus 25%.

Particulars	₹	Particulars	₹
Stock on 01.04.2012*	2,72,500	Bad debts	2,000
Debtors on 01.04.2012	15,000	Allowances to customers	1,000
Petty cash on 01.04.2012	1,000	Return inward	1,000
Goods sent to Branch	3,60,000	Rates & Taxes	5,000
Goods returned to H.O.	25,000	Salaries	18,000
Cash sales	54,000	Misc. Expenses	4,000
Cash received from debtors	2,30,000	Stock on 31.03.2013*	3,15,000
		Debtors on 31.03.2013	74,000
		Petty cash (31.03.2013)	5,000

*Both opening and closing stock at invoice price. **(6 marks)**

Answer:

In the books of H.O.
Branch Account

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Balance b/d			By Stock reserve		54,500
Stock	2,72,500		By Bank A/c		
Debtors	15,000		Cash Sales	54,000	
Petty cash	1,000	2,88,500	By Cash received		
To Goods sent to branch		3,60,000	from debtors	2,30,000	2,84,000
To Bank A/c:			By Goods sent to		
Rates & Taxes	5,000		Branch (Return		
Salaries	18,000		To. H.O.)		25,000
Misc. Expenses	4,000	27,000	By Goods sent to		
To Goods sent to branch		5,000	Branch (loading)		72,000
(loading on returns)			By Balance c/d		
To Closing stock reserve		63,000	Stock	3,15,000	
(3,15,000 x 1/5)			Debtors	74,000	
To General P&L A/c		86,000	Petty cash	5,000	3,94,000
		8,29,500			8,29,500

2014 - June [5] (b) Prepare Branch account in the books of the Head Office and also debtors account from the following information given below: for the year 2013

The Unique Shoe Stores has an old branch at Kanpur. Goods are invoiced at the branch at 25% profit on cost price. The branch has been instructed to send all cash daily to the Head Office. All expenses are paid by the Head Office except petty expenses which are met by the Branch Manager.

		₹
Stock on 01.01.2013 (invoice price)		15,000
Sundry debtors on 01.01.2013		9,000
Cash in hand on 01.01.2013		400
Office furniture on 01.01.2013		1,200
Goods supplied by the Head Office (invoice price) for year		80,000
Goods returned to Head Office for year		1,000
Goods returned by debtors at the end of year		480
Debtors at the end of year		8,220
Cash sales for year		50,000
Credit sales for year		30,000
Discount allowed for year		300
Expenses paid by Head Office: for year	₹	
Rent	1,200	
Salary	2,400	
Stationery	300	3,900
Petty expenses paid by Branch Manager during year		280
Stock on 31.12.2013		14,000
Provide depreciation on furniture at 10% per year		

(4+2=6 marks)

Answer:

In the Books of Unique Shoe Stores
Branch Account

Dr. **Cr.**

Particulars		Amount (₹)	Particulars		Amount (₹)
To Branch Stock A/c		15,000	By Cash (remittances)		
To Branch debtors		9,000	Cash sales	50,000	
To Branch Cash in hand		400	Cash from debtors	30,000	80,000
To Branch office furniture		1,200	By Branch Stock		14,000
To Goods sent to branch A/c	80,000		By Branch debtors		8,220
Less: Return to H.O.	1,000	79,000	By Branch furniture		1,080
To Bank :			By Stock reserve		3,000
Rent	1,200		By Goods sent to branch A/c		15,800
Salary	2,400		By Branch cash in hand (400 - 280)		120
Stationery	300	3,900			
To Stock reserve		2,800			
To General P& L A/c		10,920			
		1,22,220			1,22,220

Debtor Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	9,000	By Sales return A/c	480
To Credit sales A/c	30,000	By Cash A/c (b.f.)	30,000
		By Discount A/c	300
		By Balance c/d	8,220
	39,000		39,000

Space to write important points for revision

2014 - Dec [3] Answer the question:

(c) TUSHAR Ltd. with its Head Office in Delhi invoices goods to its Branches at Mumbai and Kolkata at 20% less than the catalogue price which is cost plus 50% with instructions that cash sales are to be made at invoice price and credit sales at catalogue price less discount at 15%

on prompt payments. Provision is to be made for discount to be allowed to debtors, at year end on the basis of year's trend of prompt payments. All branch expenses are paid by the Head Office and all branch collections are remitted daily to Head Office.

1. Opening Stock at Branch at its cost ₹ 12,000.
2. Opening Branch Debtors ₹ 10,000.
3. Goods Sent to branch (at cost to H.O.) ₹ 1,10,000.
4. Goods received by Branch till close of the year ₹ 1,27,000.
5. Transfer from Kolkata branch to Mumbai branch at catalogue price ₹ 75,000.
6. Transfer to Kolkata branch from Mumbai branch at catalogue price ₹ 30,000.
7. Goods purchased by Mumbai branch from local suppliers (cost) ₹ 30,000
   Closing stock in hand at branch out of local purchases (cost) ₹ 6,000.
8. Cash Sales ₹ 74,800.
9. Credit Sales ₹ 1,45,000.
10. Goods returned by Credit Customers to branch ₹ 30,000.
11. Goods returned by Credit Customers directly to H.O. ₹ 15,000.
12. Goods returned by Branch to H.O. ₹ 24,000.
13. Cash remitted by Credit Customers directly to Branch ₹ 45,635.
14. Cash remitted by Credit Customers directly to H.O. ₹ 40,000.
15. Discount Allowed to Debtors ₹ 13,365.
16. Loss of Goods by fire (at invoice price) ₹ 3,000 against which 80% of cost was recovered from the insurance Company.
17. Loss of goods at Branch through normal pilferage (at catalogue price) ₹ 3,000.
18. Branch Expenses : Paid ₹ 9,000, Outstanding ₹ 741.
19. Branch Manager is entitled to a commission @ 6% of net profits after charging such commission.

Required: Prepare Mumbai Branch Stock Account, Mumbai Branch adjustment A/c, Mumbai Branch Expenses A/c and Mumbai Branch Profit & Loss A/c and Mumbai Branch Debtors A/c under Stock & Debtors Method.

(12 marks)

Answer:

Dr. **Mumbai Branch Stock A/c** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	12,000	By Goods sent to Branch A/c [₹ 30,000 × 120/150]	24,000
To Goods sent to Branch A/c [₹ 1,10,000 + 20%]	1,32,000	By Branch Cash A/c (Cash Sales)	74,800
To Goods sent to Branch A/c [₹ 75,000 × 120/150]	60,000	By Branch Debtors A/c (Credit Sales)	1,45,000
To Branch Debtors A/c (Returns)	30,000	By Goods sent to Branch A/c (Returns)	24,000
To Branch Debtors A/c (Returns)	15,000	By Goods sent to Branch A/c (Returns) [₹ 15,000 × 120/150]	12,000
To Branch Cash A/c [local purchases]	30,000		
To Branch Adjustment A/c [Load on local purchases]	6,000	By Branch Adjustment A/c (Load)	500
To Branch Adjustment A/c [(Excess of catalogue price of Net Credit Sales over invoice price) (₹ 1,45,000 - ₹ 30,000 - 15,000) × 30/150]	20,000	By Branch Profit and Loss A/c (Stock destroyed by fire)	2,500
		By Branch Adjustment A/c [Invoice Price of Normal Loss] [₹ 3,000 × 120/150]	2,400
		By Balance c/d:	
		Stock out of local purchases	7,200
		Stock in transit from H.O. [₹ 1,32,000 - ₹ 1,27,000]	5,000
		Stock in hand from H.O. (B.f.)	7,600
	3,05,000		**3,05,000**

Dr. **Mumbai Branch Debtors A/c** **Cr.**

To Balance b/d	10,000	By Branch stock	30,000
To Branch Stock (Sale)	1,45,000	By Branch stock	15,000
		By Branch cash	45,635
		By Branch cash	40,000
		By Discount	13,365
		By Balance c/d (b.f.)	11,000
	1,55,000		1,55,000

Dr. Mumbai Branch Adjustment A/c Cr.

To Stock reserve (19,800 × 20/120)	3,300	By Stock reserve (12,000 × 20/120)	2,000
To Branch stock (Load on abnormal loss)	500	By Branch stock (Load on local purchase)	6,000
To Branch stock (Normal loss)	2,400	By Branch stock (Apparent surplus)	20,000
To Branch P/L (Gross profit)	43,800	By Goods sent to branch (load on net goods sent) (1,32,000 + 60,000 - 24,000 - 24,000 - 12,000) × 20/120	22,000
	50,000		50,000

Dr. Mumbai Branch Expenses A/c Cr.

To Discount	13,365	By Branch P/L	23,106
To Branch cash	9,741		
	23,106		23,106

Dr. Mumbai Branch Profit & Loss A/c Cr.

To Branch expenses	23,106	By Branch adjustment	43,800
To Branch stock (abnormal loss)	2,500	By Insurance claim	2,000
To Provision for discount (W.N.)	1,485		
To Manager's Commission	1,059		
To General P/L	17,650		
	45,800		45,800

Calculation of provision for discount

Prompt paying debtors during year	$= \frac{13,365}{15\%}$
	= 89,100
Total debtors who made payment during the year	= 45,635 + 40,000 + 13,365
	= 99,000
Proportion of prompt payers	$= \frac{89,100}{99,000} \times 100$
	= 90%
Likely prompt paying debtors in closing debtors	= 11,000 × 90%
	= 9,900
Provision for discount	= 9,900 × 15%
	= 1,485

—— Space to write important points for revision ——

2015 - June [1] Answer the question:

(g) From the information of AMBA LTD. received from its branch - AB, calculate the invoice price of goods sent to branch and Profit included thereon.

Goods received from H.O. (AMBA LTD.) — ₹ 1,00,000

Goods in transit from H.O. — ₹ 50,000

Goods are invoiced to branch at cost plus 25%. **(2 marks)**

Answer:

Branch Accounts

Goods "received" from HO	1,00,000
+ Goods in transit	50,000
Invoice Price of Goods Sent to Branch	1,50,000

Profit = Cost + 25 %

∴ 1/5 on Invoice Price

Profit $= \frac{1,50,000}{5} = 30,000$

—— Space to write important points for revision ——

2015 - Dec [1] Answer the following question (Give workings):

(c) TULSIAN LTD. with its Head Office in Delhi invoices goods to its Branch at Mumbai at 20% less than the catalogue price which is cost plus 50% with instructions that cash sales are to be made at invoice price and credit sales at catalogue price.

Opening Stock at Branch at its cost	₹ 12,000
Goods sent to Branch (at cost to H.O.)	₹ 1,40,000
Goods received by Branch till close of the year	₹ 1,38,000
Cash Sales	₹ 46,000
Credit Sales	₹ 1,00,000
Stock lost by fire (at cost)	₹ 2,500

Required:

Calculate the amount of Closing Stock at Branch-Mumbai. **(2 marks)**

Answer:

Opening stock (IP)		12,000
+ Goods received by branch		1,38,000
Less: sales - cash sales		(46,000)
credit sales (1,00,000 - 20%)		(80,000)
Less: stock lost by fire $\frac{(2500 \times 150)}{100}$ - 20%		(3,000)
Closing Stock at Branch in hand		21,000
Closing stock in Transit		30,000
Total Branch Stock (at in voice price)		51,000

Space to write important points for revision

2016 - June [8] (a) LINKEN LTD., with a Head Office in Kolkata, sends goods to its Madras branch at cost plus 25 per cent. The following particulars are available in respect of the Branch for the year ended 31st March, 2016.

	₹
Opening Stock at Branch at cost to Branch	4,00,000
Goods sent to Branch at invoice price	60,00,000
Loss-in-transit at invoice price	75,000

Pilferage at invoice price	30,000
Sales	60,95,000
Expenses	3,00,000
Closing Stock at Branch at cost to Branch	2,00,000
Recovered from Insurance company against lost-in-transit	50,000

You are required to prepare:

(i) Branch Stock Account

(ii) Branch Adjustment Account

(iii) Branch Profit & Loss Account in the book of Linken Ltd.

(5 + 2 + 2 = 9 marks)

Answer :

(i) **Linken Ltd.**

Branch Stock Account for the year ended March 31, 2016

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	4,00,000	By Branch Cash/Debtors (Sales)	60,95,000
To Goods sent to Branch A/c	60,00,000	By Branch Adjustment A/c (loading – loss in transit)	15,000
		By Branch Adj. A/c (Pilferage loading)	6,000
		By P&L Account (Loss in transit)	60,000
		By P & L Account (Pilferage)	24,000
		By Balance c/d	2,00,000
	64,00,000		**64,00,000**

(ii) **Branch Stock Adjustment Account for the year ended March 31, 2016**

Dr. Cr.

Particulars	₹	Particulars	₹
To Branch Stock A/c (Loss in transit)	15,000	By Balance b/d	80,000
To Branch Stock A/c (Pilferage)	6,000	By Goods sent to Branch A/c (Loading on @ 20% on ₹ 60,00,000)	12,00,000
To Branch P&L A/c	12,19,000		
To Balance c/d (loading on closing Stock)	40,000		
	12,80,000		**12,80,000**

(iii) **Branch Profit & Loss Account for the year ended 31st March, 2016**

Dr. Cr.

Particulars	₹	Particulars	₹
To Expenses A/c	3,00,000	By Branch Adj. A/c (Gross Profit)	12,19,000
To Branch Stock A/c (Loss in transit)	60,000	By Branch Cash A/c (Insurance claim)	50,000
To Branch Stock A/c (Pilferage)	24,000		
To General P&L A/c (Profit Transferred)	8,85,000		
	12,69,000		**12,69,000**

Working Notes:

		₹
1.	Loss in transit (at invoice price)	75,000
	Less: Loading adjusted in Branch adjustment A/c	15,000
	Cost of loss in transit	60,000
	Less: Amount received from insurance co.	50,000
	Net Loss in transit	10,000

2. Loss on Account of pilferage:

Invoice price of pilferage	30,000
Less: Loading adjusted in Br. Adj. A/c	6,000
Cost of Loss due to pilferage charged to P&L	24,000

—— Space to write important points for revision ——

2016 - Dec [6] (a) M/S YAYATI LTD. having its principal place of business at BENGALURU has a branch at New Delhi. The company sends goods to its branch at cost plus $33\frac{1}{3}\%$ which is the selling price. The following information is given in respect of the branch for the year ended 31st March, 2016.

	₹
Goods sent to Branch (invoice value)	24,00,000
Stock at Branch (01.04.2015) at selling price	1,20,000
Cash Sales	9,00,000
Returns from Customers	30,000
Branch Expenses paid for cash	2,67,500
Branch Debtors' Balance (01.04.2015)	1,50,000
Discounts allowed	5,000
Bad Debts	7,500
Stock at Branch (31.03.2016) at selling price	2,40,000
Branch Debtor's Balance (31.03.2016)	1,82,500
Collections from Debtors	13,50,000
Branch Debtors' Cheques returned dishonoured	25,000

You are required to prepare:

(i) Branch Stock Account

(ii) Branch Debtors Account and

(iii) Branch Adjustment Account to reveal the profit of the Branch for the year ended March 31, 2016. **(3+2+4=9 marks)**

Answer:

Book of YAYATI LTD. (H.O.)
Branch Stock Account

Dr. **Cr.**

Particulars	₹	Particulars		₹
To Balance b/d (Opening stock)	1,20,000	By (Cash Sales) A/c		9,00,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)		14,00,000
To Branch Debtors A/c (Returns inward)	30,000	By Branch Adjustment A/c		
		Spoilage: Loss	7,500	
		Loading	2,500	10,000
		(Balancing figure)		
		By Balance c/d (Closing stock)		2,40,000
	25,50,000			**25,50,000**

Branch Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars		₹
To Balance (Opening b/d)	1,50,000	By Branch Stock A/c		30,000
To Bank (Dishonour of Cheque)	25,000	By Bank-Collections from Debtors		13,50,000
To Branch Stock A/c (balancing figure-credit sales)	14,00,000	By Branch Expenses:		
		Bad debts	7,500	
		Discount Allowed	5,000	12,500
		By Balance (Closing) c/d		1,82,500
	15,75,000			**15,75,000**

Branch Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Stock Reserve A/c (on closing stock)	60,000	By Stock Reserve A/c (On opening stock)	30,000
To Branch Stock A/c (Spoilage-loading)	2,500	By Goods sent to branch A/c (Loading)	6,00,000
To Gross Profit c/d	5,67,500		
	6,30,000		**6,30,000**
To Branch Expenses:		By Gross Profit b/d	5,67,500
Discount & Bad Debts	12,500		
Cash Expenses	2,67,500		
To Branch Stock A/c *Loss:* Spoilage	7,500		
To Net profit	2,80,000		
	5,67,500		**5,67,500**

Space to write important points for revision

2017 - June [7] (a) Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2017 assuming that H.O. supplied goods at cost plus 25%.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Stock on 1.4.2016 (I.P.)	12,500	Bad Debts	2,000
Debtors	5,000	Allowances to customers	1,000
Petty Cash	1,000	Returns Inwards	1,000
Goods sent to branch (I.P.)	40,000	Cheques sent to Branch for expenses:	
Goods return to H.O. (I. P.)	5,000	Rates & Taxes	3,000

Cash Sales	12,000	Salaries	8,000
Cash received from debtors	30,000	Misc. Exps.	1,000
		Stock on 31.03.2017 (I.P.)	15,000
		Debtors	4,000
		Petty Cash	1,000

(9 marks)

Answer:

In the books of H.O.
Branch Account

Particulars	Amt. (₹)	Amt. (₹)	Particulars	Amt. (₹)	Amt. (₹)
To Balance b/d			By Stock Reserve (Loading)		2,500
Stock	12,500				
Debtors	5,000		,, Bank A/c:		
Petty Cash	1,000	18,500	Cash Sales	12,000	
,, Goods sent to branch		40,000	,, Cash Received from Debtors	30,000	42,000
,, Bank A/c:					
Rates & Taxes	3,000		,, Goods sent to branch		5,000
Salaries	8,000				
Misc. Expenses	1,000	12,000	(Return to H.O.)		
,, Goods sent to branch (Loading on returns)		1,000	,, Goods sent to branch (Loading)		8,000
,, Closing Stock Reserve (₹ 15,000 × $\frac{1}{5}$)		3,000	By Balance c/d		
			Stock	15,000	
			Debtors	4,000	
,, General Profit & Loss A/c		3,000	Petty Cash	1,000	20,000
		77,500			77,500

Note: Here loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ₹ 15,000 × $\frac{1}{5}$ = ₹ 2,500 and so on.

—— Space to write important points for revision ——

2018 - June [7] (b) X Ltd. has its H.O. in Delhi and a branch in Mumbai. H.O. supplied goods to its branch at cost plus $33\frac{1}{3}\%$. From the particulars given below prepare a Branch Trading Account for the year ended 31st March 2018 in the books of H.O.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock (I.P)	40,000	Sales:	
Goods sent to Branch (I.P.)	2,50,000	Cash	1,00,000
Return to H.O. (I.P.)	10,000	Credit	3,00,000
		Discount allowed to customers	10,000
		Closing Stock (I.P.)	60,000

It is estimated that 2% of the goods received are lost through natural wastage. **(6 marks)**

Answer:

In the books of H.O.
Trading Account
for the year ended 31st March, 2018

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock	40,000		By Sales:		
Less: Loading	10,000	30,000	Cash	1,00,000	
To Goods Sent to Branch	2,50,000		Credit	3,00,000	4,00,000
Less: Returns to H.O.	10,000		By Closing Stock	60,000	
	2,40,000		*Less:* Loading	15,000	45,000

Less: Loading $\left(\frac{1}{4} \times 2{,}40{,}000\right)$ $\left[\frac{1}{3} \text{ On CP} = \frac{1}{4} \text{ On SP}\right]$	60,000	1,80,000	$\left(\frac{1}{4} \times 60{,}000\right)$		
To Gross Profit c/d		2,35,000			
		4,45,000			4,45,000

Note:

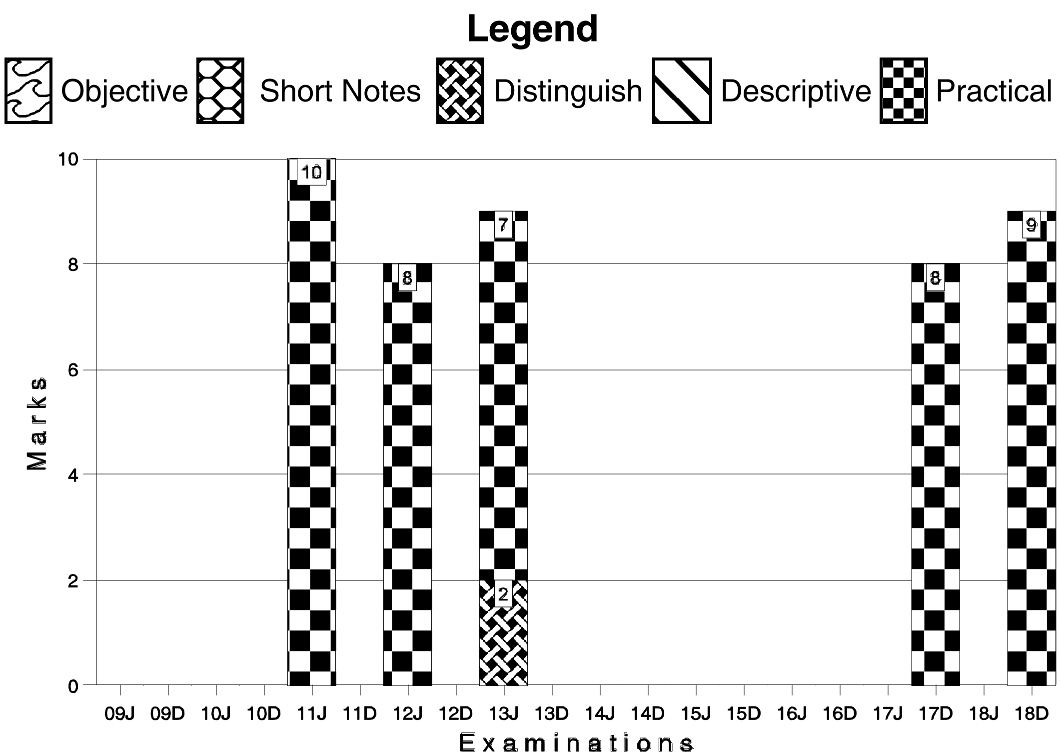
1. Discount allowed to customer will appear in Branch Profit & Loss Account.
2. Loss through natural wastage is a normal loss and as such, the same should be charged against branch gross profit. So, no adjustment is required.

Space to write important points for revision

10B DEPARTMENTAL ACCOUNTS

THIS CHAPTER INCLUDES	
• Apportionment of Expenses • Inter-Departmental Transfer	• Departmental Trading A/c • Departmental P/L A/c

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Departmental Accounts	Departmental Accounts helps in identifying the performance of each department. Each department is considered to be an Activity Centre. It is a tool which helps management in decision-making.
Advantage	Departmentation offers the following advantages: a. Proper Allocation b. Control c. Proper absorption
Inter Departmental Transfer	Transfer made by one department to another may be recorded either: • At Cost Price; and • At Invoice Price i.e., Market Based Price.

DISTINGUISH BETWEEN

2013 - June [6] (a) Distinguish between Branch and Departmental Accounting. **(2 marks)**

Answer:

The difference between Branch and Departmental are listed below:-

Departmental	Branch
1. Departmental always in Inland	1. It is either Inland or Foreign.
2. All departments of a Business remain generally under one roof.	2. Branch of a concern is established at different place in the same town or at different town.
3. Departments are made to increase the efficiency of the Business.	3. Branch is opened to increase the Sale.

PRACTICAL QUESTIONS

2011 - June [5] (a) Deepa Ltd. had 3 departments D1, D2, D3. Informations relating to the departments are as follows :

	D1(₹)	D2 (₹)	D3 (₹)
Opening Stock	30,000	40,000	60,000
Direct Materials consumed	80,000	1,20,000	—
Wages	50,000	1,00,000	—
Closing Stock	40,000	1,40,000	80,000
Sales	—	—	3,40,000

Stocks of each department are valued at cost of the department concerned. Stocks of D1 are transferred to D2 at a margin of 50% above departmental cost. Stocks of D2 are transferred to D3 department at a margin of 10% above departmental cost.

Other relevant expenses were :

	₹
Salaries	20,000
Printing and Stationery	10,000
Rent	60,000
Interest paid	40,000
Depreciation	30,000

Allocate expenses in the ratio of departmental gross profits. Opening figures of reserves for unrealised profits on departmental stock were :

D2 — ₹ 10,000

D3 — ₹ 20,000

Prepare Departmental Trading and Profit & Loss A/c. **(10 marks)**

Answer :

Departmental trading & Profit and Loss A/c

Particulars	D1	D2	D3	Total	Particulars	D1	D2	D3	Total
To Opening Stock	30,000	40,000	60,000	1,30,000	By Internal transfer	1,80,000	3,30,000		5,10,000
To Material consumed	80,000	1,20,000	—	2,00,000	By Sales	-	-	3,40,000	3,40,000
To Wages	50,000	1,00,000	—	1,50,000	By Closing Stock	40,000	1,40,000	80,000	2,60,000
To Internal transfer	—	1,80,000	3,30,000	5,10,000		2,20,000	4,70,000	4,20,000	11,10,000
To Gross Profit	60,000	30,000	30,000	1,20,000					
	2,20,000	4,70,000	4,20,000	11,10,000	By Gross Profit	60,000	30,000	30,000	1,20,000
To Salaries	10,000	5,000	5,000	20,000	By Net Loss	20,000	10,000	10,000	40,000
To Printing & Stationery	5,000	2,500	2,500	10,000		80,000	40,000	40,000	1,60,000
To Rent	30,000	15,000	15,000	60,000					
To Depreciation	15,000	7,500	7,500	30,000					
To Interest paid	20,000	10,000	10,000	40,000					
	80,000	40,000	40,000	1,60,000					
To Net Loss	-	-	-	40,000	By Reserve for un-realised profit on Opening stock				30,000
To Reserve for unrealised profit on closing stock	-	-	-	39,182	By Balance transferred to P/L A/c				49,182
				79,182					79,182

Working :

Calculating of unrealised Profit on Closing Stock

Dept. D2 : Closing Stock ₹ 1,40,000

Cost element transferred from Dept. D1: ₹ 1,40,000 × $\frac{1,80,000}{4,00,000}$ = ₹ 63,000

Profit added by Dept. D1: ₹ 63,000 × $\frac{50}{150}$ = ₹ 21,000

Clarification : Cost increased during the current period by period by dept. D2 are direct material ₹ 1,20,000, wages ₹ 1,00,000 and transfer received from Dept. D1 ₹ 1,80,000.

So cost element of Dept. D1 ₹ 1,80,000 in closing stock is = $\frac{1,80,000}{4,00,000}$

(FIFO formula for stock issue is assumed)

Dept. D3 : Closing Stock ₹ 80,000

Project added by Dept. D2: 80,000 × $\frac{10}{110}$ = ₹ 7,273

Cost element from Dept. D1

(80,000 – 7,273) × $\frac{1,80,000}{4,00,000}$ = 32,727

Profit added by Dept. D1 32,727 × $\frac{50}{150}$ = ₹ 10,909

Total unrealised profit : 7,273 + 10,909 = ₹ 18,182

—— Space to write important points for revision ——

2012 - June [6] (a) Purchases made by a business concern having three departments were: P-1,500 units; Q-3,000 units and R-3,600 units at a total cost of ₹ 6,00,000. The sales made were P- 1,500 units at the rate of ₹ 160 per unit; Q-2,880 units at the rate of ₹ 180 per unit and R-3,744 units at the rate of ₹ 200 per unit. The closing stocks were: P-150 units; Q-240 units and R-9 units.

Prepare Departmental Trading Account assuming that the rate of gross profit on sales is the same in each case. **(8 marks)**

Answer :

Calculation of Gross Profit Ratio on Sales of each department.

If we Sale all Purchases then:

Sales = 1,500 × 160 + 3,000 × 180 + 3,600 × 200

= 15,00,000

Less Purchase Cost = 6,00,000

Gross Profit = 9,00,000

G.P. ratio on sales = $\frac{9,00,000}{15,00,000} \times 100$ = 60%

Calculation of cost of purchases per unit for each department

Particulars	P	Q	R
Sales Price Gross Profit per unit 60% of sale price	160 96	180 108	200 120
Purchase Price	64	72	80

Departmental Trading A/c

Particulars	P	Q	R	Particulars	P	Q	R
To O/p Stock (W.N.1)	11,520	8,640	12,240	By Sales (₹)	2,44,800	5,18,400	7,48,800
To purchases @ 64, 72 & 80	96,000	2,16,000	2,88,000	By Closing Stock @ 64, 72 & 80	9,600	17,280	720
To Gross Profit	1,46,880	3,11,040	4,49,280				
	2,54,400	5,35,680	7,49,520		2,54,400	5,35,680	7,49,520

W.N. 1 **Calculation of Opening Stock**

Particulars	P	Q	R
Closing stock (Units) *Add:* Sales (Units) *Less:* Purchases (Units)	150 1,530 1,500	240 2,880 3,000	9 3,744 3,600
O/p Stock (units)	180	120	153
O/p stock (amount)	11,520	8,640	12,240
	(180 × 64)	(120 × 72)	(153 × 80)

Space to write important points for revision

2013 - June [6] (c) Surya Co. Ltd. has three departments.
It made purchases during the financial year 2012-13 as below

$$\left.\begin{array}{ll}\text{Dept. A} & = 2{,}000 \text{ units}\\ \text{Dept. B} & = 4{,}000 \text{ units}\\ \text{Dept. C} & = 4{,}800 \text{ units}\end{array}\right\}\text{ at a total cost of ₹ } 2{,}00{,}000$$

Stock as on 01.04.2012

Dept. A = 240 units
Dept. B = 160 units
Dept. C = 304 units

Sales made were

Dept. A 2040 units at ₹ 20 each
Dept. B 3840 units at ₹ 22.50 each
Dept. C 4992 units at ₹ 25 each

The rate of gross profit is uniform for all the departments. Assume the unit price of opening stock and purchase unit cost are uniform.
Prepare Departmental Trading Account. **(7 marks)**

Answer:

Surya Co. Ltd.
Departmental Trading Account for the year ended 31.03.2013

Particulars	Dept. A ₹	Dept. B ₹	Dept. C ₹	Particulars	Dept. A ₹	Dept. B ₹	Dept. C ₹
To Op. Stock @ 80% of cost	3,840	2,880	6,080	By Sales	40,800	86,400	1,24,800
				By Closing Stock	3,200	5,760	2,240
To Purchases	32,000	72,000	96,000				
To Gross profit @ 20%	8,160	17,280	24,960				
	44,000	92,160	1,27,040		44,000	92,160	1,27,040

Working Notes:

1. Cost of each unit of the different departments. Since, the rate of G.P. is uniform for all products. Assuming if all goods purchased was sold then the gross profit would be :

Total sales

A = 2,000 x ₹ 20	=	40,000	
B = 4,000 x ₹ 22.50	=	90,000	
C = 4,800 x ₹ 25	=	1,20,000	2,50,000
Less: Total Cost Price of purchases			2,00,000
Expected Gross Profit			50,000

Ratio of G.P. = 50,000/2,50,000 × 100 = 20%

Cost Price Per Unit
A = 20 – 20 x 20% = 16
B = 22.50 – 22.50 x 20% = 18
C = 25 – 25 x 20% = 20
Purchase Price Per Unit
A = 2,000 x 16 = 32,000
B = 4,000 x 18 = 72,000
C = 4,800 x 20 = 96,000

2. Opening Stock
A = 240 x 16 = 3,840
B = 160 x 18 = 2,880
C = 304 x 20 = 6,080

3. Closing Stock

Particulars	A	B	C
Opening Stock (Units)	240	160	304
Add: Purchase (Units)	2,000	4,000	4,800
	2,240	4,160	5,104
Less: Sales (Units)	2,040	3,840	4,992
Closing Stock	200	320	112
Value of Closing Stock	200×16=3,200	320×18=5,760	112×20=2,240

4. Sales:
A: 2,040 x ₹ 20 = 40,800
B: 3,840 x ₹ 22.50 = 86,400
C: 4,992 x ₹ 25 = 1,24,800

—— Space to write important points for revision ——

2017 - Dec [5] (b) The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ₹ 20.00 each
Y	80 units	2,000 units	1,920 units at ₹ 22.50 each
Z	152 units	2,400 units	2,496 units at ₹ 25.00 each

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year. **(8 marks)**

Answer:

1. Computation of Closing Stock Quantity **(in units)**

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchase	1,000	2,000	2,400
Less: Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	100	160	56

2. Computation of Gross Profit Ratio:

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under.

Assuming all purchases are sold, the sale proceeds would be

Department X	1,000 Units @ ₹ 20.00	20,000
Department Y	2,000 Units @ ₹ 22.50	45,000
Department Z	2,400 Units @ ₹ 25.00	60,000
Total Sale Value of Purchase Quantity	125,000	
Less : Cost of Purchase	1,00,000	
Gross Profit Amount	25,000	
Gross profit Ratio	25,000 ÷ 1,25,000	20% of Selling Price

3. Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales – Profit
Department X	₹ 20.00	1/5 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹ 18.00
Department Z	₹ 25.00	1/5 of ₹ 25.00 = 5.00	₹ 20.00

4. Departmental Trading Account for the year ended………

Dr. **Cr.**

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3,040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	1,00,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
	22,000	**46,080**	**63,520**	**1,31,600**		**22,000**	**46,080**	**63,520**	**1,31,600**

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

Space to write important points for revision

2018 - Dec [5] (a) The following information provided by the Shobha Departmental Store for the year ended 31st March, 2018:

Department	Purchase (units)	Sales	Closing Stock (units)
X	2500	2550 units @ ₹ 160 per unit	250
Y	5000	4800 units @ ₹ 180 per unit	400
Z	6000	6240 units @ ₹ 200 per unit	140

The total value of purchases is ₹ 15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31st March, 2018. **(9 marks)**

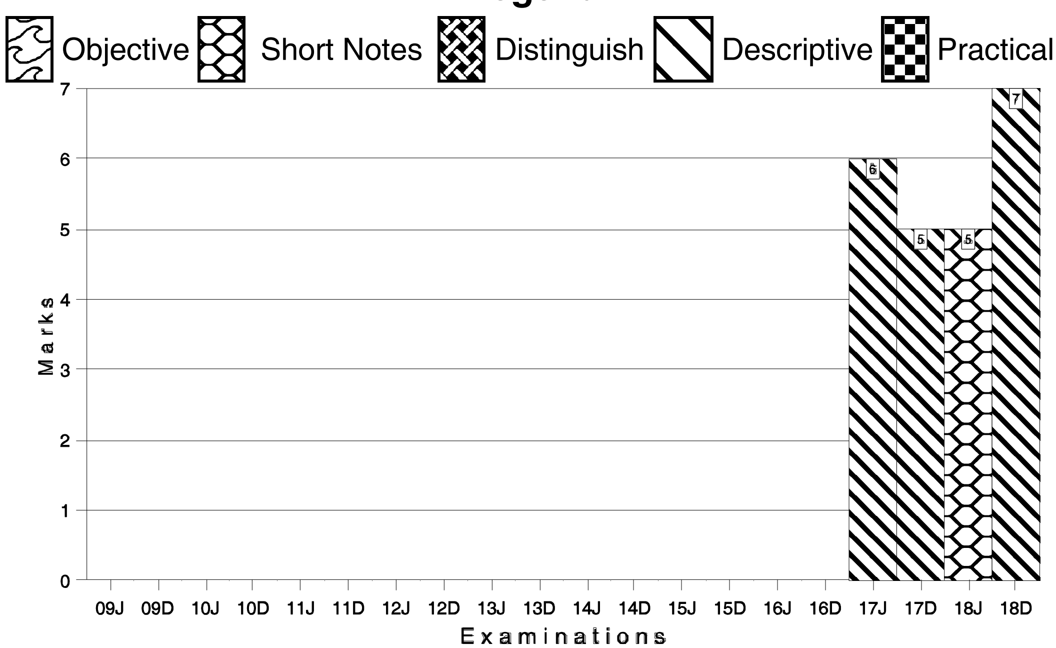
11 COMPUTERISED ACCOUNTING SYSTEM

THIS CHAPTER INCLUDES

- Introduction
- Features & Significance of Computerised Accounting System
- Classification and Codification of Account
- Pre- packaged Accounting Software
- Customised Accounting Software

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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CHAPTER AT A GLANCE

Computerised Accounting System	Computer information system environment exists when one or more computer(s) of any type or size is (are) involved in the processing of any information, whether those computers are operated by the entity or by a third party.
Advantages of Pre-packaged Accounting Software	1. Easy to Install 2. Relatively Inexpensive 3. Easy to Use 4. Simple Backup Procedure 5. Certain Flexibility of Report Formats Provided by some of the Softwares 6. Very Effective for Small and Medium size Businesses
Disadvantages of Pre-packaged Accounting Software	1. Does not cover Peculiarities of Specific Business 2. Does not cover all Functional Areas 3. Customisation may not be Possible, is not Sufficient or Serve the Purpose 4. Reports Generated 5. Lack of Security 6. Bugs in the software
Considerations for Selection of Pre-packaged Accounting Software	1. Fulfilment of Business Requirements 2. Completeness of Reports 3. Ease of Use 4. Cost 5. Reputation of the vendor 6. Regular updates

SHORT NOTES

2018 - June [8] Write short note on the following:
(b) Disadvantages of a Computerized Accounting Package. **(5 marks)**

Answer:

Disadvantages of a Computerized Accounting Package:

1. A standard package may not be able to take care of complexities of a specific business.
2. The reports required for existing management control may not be available in such package.
3. Lack of security.
4. Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.
5. Bugs may remain in the software because of inadequate testing.
6. Documentation may not be completed.
7. Frequent changes made to the system with inadequate change management procedure may result in system compromise.
8. Vendor may not be unwilling to give support of the software due to other commitments.
9. Vendor may not be willing to part with the source code or enter into an escrow agreement.
10. Control measures may be inadequate.
11. There may be delay in completion of the software due to problems with the vendor or inadequate project management.

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

2008 - Nov [6] Answer the following :
(d) What are the advantages of customised accounting packages?
(4 marks) ***[IPCCG - I]***

Answer :

A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation.

The advantages of customised accounting package are the following:

1. The functional areas that would otherwise have not been covered get computerised.
2. The input screens can be tailor made to match the input documents for case of data entry.
3. The reports can be made as per the specifications of the organisation.
4. The system can suitably match with the organisational structure of the company.
5. Bar-code scanner can be used as input device suitable for the specific needs of an individual organization.

—— Space to write important points for revision ——

2009 - May [6] Answer the following :

(c) Mention, four advantages and four disadvantages of pre-packaged accounting software. **(4 marks)** ***[IPCCG - I]***

Answer :

Advantages of Pre-Packaged Accounting Software:		
1.	**Easy to install**	The CD or floppy disk is to be inserted and the setup file should be run to complete the installation. Certain old DOS based accounting softwares require some settings to be added in the system configuration file and the system batch file. These instructions are generally provided in the user manuals.
2.	**Easy to use**	These softwares are mostly menu driven with help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.

3.	**Very effective for small and medium size businesses**	Most of their functional areas are covered by these standardised packages.
4.	**Relatively inexpensive**	These packages are sold at very cheap prices nowadays.
5.	**Backup procedure is simple**	Housekeeping section provides a menu for backup. The backup can be taken on floppy disk or CD or hard disk.
6.	**Flexibility**	There is certain flexibility in formatting of report as provided by some of the softwares. This allows the users to make the invoice, challan, GRNs look the way they want.
Disadvantages of Pre-packaged Accounting Software		
1.	**Lesser flexibility**	Business today is becoming more and more complex. A standard package may not be able to take care of these complexities i.e. it does not cover peculiarities of specific business. Therefore, customization may not be possible in such softwares.
2.	**Covers only few functional areas and only main reports are covered**	Many prepackaged accounting softwares do not cover all functional areas. For example, production process may not be covered by most pre-packaged accounting softwares. The demands for modern day business may take the management desire for several other reports for exercising management control. These reports may not be available in a standard package.
3.	**Lack of security**	Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.

4.	**Bugs in the software**	Certain bugs may remain in the software which takes long time to be rectified by the vendor and is common in the initial years of the software.

—— Space to write important points for revision ——

2009 - Nov [6] Answer the following :

(iii) What do you mean by Customised Accounting Software?

(4 marks) ***[IPCCG - I]***

Answer:

When the software is developed on the basis of customer's needs and requirements or specifications provided by the client software is known as Customised Accounting Software.

Such softwares are generally required by those organisations whose business are of typical nature or such requirements are not fulfilled by the Pre - Packaged Softwares.

The choice of such packages is made on the basis of vendor's proposals. Such proposals are evaluated properly after that vendor is to be selected for developing the software.

—— Space to write important points for revision ——

2011 - May [7] Answer the following :

(d) "In business today, the accounts which were earlier maintained in a manual form, are replaced with computerized accounts." Explain the significance of computerized accounting system in modern time.

(4 marks) ***[IPCCG - I]***

Answer :

In modern time, computerized accounting systems are used in various areas. The significance of the computerized accounting system is as follows:		
1.	**Increase speed, accuracy and security**	In computerised accounting system, the speed with which accounts can be maintained is several fold higher. Besides speed, level of accuracy is also high in computerized accounting system.

2.	**Reduce errors**	In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.
3.	**Immediate information**	In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.
4.	**Avoid duplication of work**	Computerized accounting systems also remove the duplication of the work.

Space to write important points for revision

2011 - Nov [5] (b) Explain the factors to be considered before selecting the pre-packaged accounting software. **(6 marks)** ***[IPCCG - I]***

Answer :

Some of the factors to be considered before selecting the pre-packaged accounting software are:		
1.	**Fulfilment of business needs**	Buyers try to match their own requirement with the available softwares.
2.	**Easy to use**	Such software which is easily operative should be selected.
3.	**Provides maximum reports**	Some software packages are available in the market which might provide extra reports or such report as they want.
4.	**Goodwill of the Vendor**	A stable vendor with good past records will always be preferred because his continuous support is essential for any software.
5.	**Cost comparison**	First analyse various software and then select most economic software.

6.	**Regular update**	Vendor normally provides regular updates to take care of the changes of law as well as adds new features to the existing software. So, select the vendor whose past record in this context is good.

Space to write important points for revision

2017 - June [3] (c) State briefly the factors which should be considered while selecting pre-packaged accounting software. **(6 marks)**

Answer:

According to the Accounting Standard 26 (on Intangible Assets), following are the factors which should be accounted in order to acquire software for internal use:

- The cost of a software acquired for internal use must be recognised as an asset if it fulfills the recognition criteria prescribed in paragraph 20 and 21 of this statement.
- The cost of a software purchased for internal use must comprise of purchase price including any import duties and other taxes and any directly attributable expenditure on making the software ready for its use.

While arriving at cost, trade discount and rebates are deducted. In the determination of cost matters stated in paragraph 24 to 34 of the statement must be considered. This statement deals with the method of accounting for 'Separate Acquisitions'; Acquisition as a part of amalgamation, Acquisition by way of Government Grant; and Exchange of Assets Recognition criteria as per para 20 & 21 of the standard.

General criteria for selection of pre-packed accounting software are :

1. **Cost :** The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
2. **Fulfillment of business requirements :** Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
3. **Ease of Use:** Some packages could be very detailed and cumbersome compared to the others.

4. **Reputation of vendor :** Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
5. **Completeness of reports :** Some packages might provide extra reports or the reports match the requirements more than the others.
6. **Regular Updates:** Software which is constantly updated should be preferred against those software where vendors do not update their software regularly.

—— Space to write important points for revision ——

2017 - Dec [7] (b) List the significances of computerised accounting system. **(5 marks)**

Answer:

Significance of computerised accounting system:

- The speed with which accounts can be maintained is several fold higher;
- Automatic Correct Balancing of Ledger Accounts;
- Automatic Tallied Trial balance unless some mistake is made while recording the opening balance;
- Automatic Income Statement;
- Automatic Balance Sheet.

—— Space to write important points for revision ——

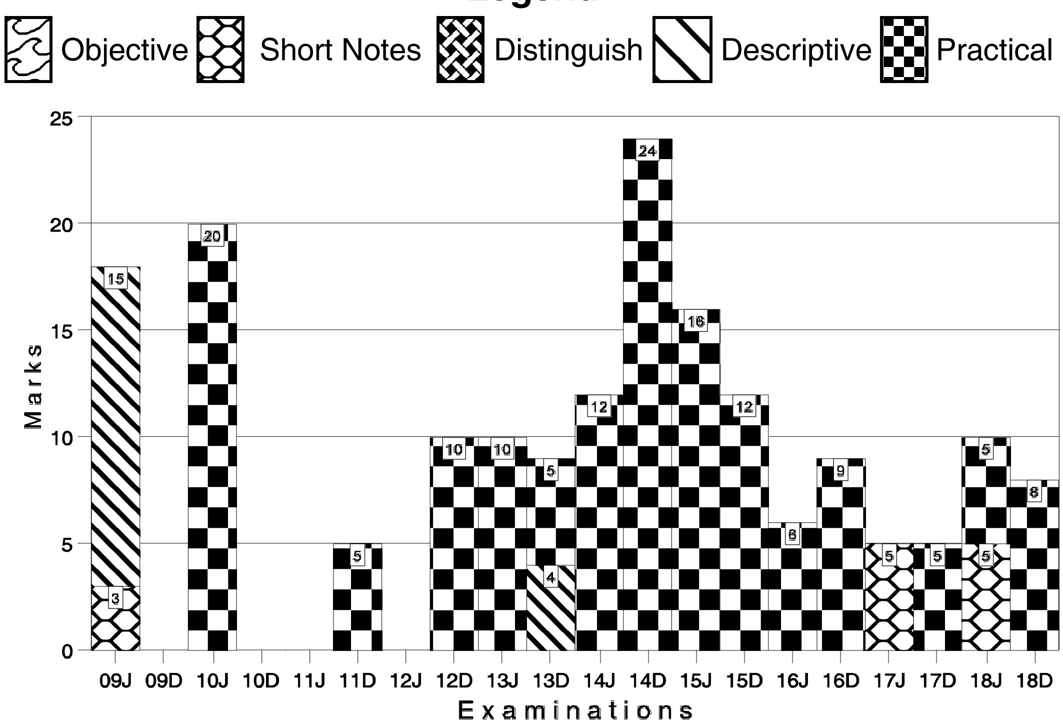
2018 - Dec [7] (b) Enumerate the advantages of computerized Accounting. **(7 marks)**

Repeatedly Asked Questions		
No.	**Question**	**Frequency**
1	Enumerate the advantages of computerized Accounting. 17 - Dec [7] (b), 18 - Dec [7] (b)	**2 Times**

12 ACCOUNTING STANDARDS

THIS CHAPTER INCLUDES	
• AS - 1, 2, 7, 9, 10	

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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SHORT NOTES

2009 - June [8] Write short note on:

(d) Disclosure requirement in a case where the companies do not comply with Accounting standard; **(3 marks)**

Answer :

If any Company does not comply with the Accounting Standards it must make a disclosure of the following:-

1. Deviations from Accounting Standards.
2. Reasons for such Deviations.
3. The financial effect, if any arising from such deviations.

—— Space to write important points for revision ——

2017 - June [8] Write short note on the following:

(c) Advantages of Accounting Standard **(5 marks)**

Answer:

Following are the Advantages of setting up Accounting Standards:

1. Standards reduce to a reasonable extent or eliminate altogether confusing variation in the Accounting Treatment used to prepare the Financial Statements.
2. There are certain areas where important information is not required by law to be disclosed. Standard may call for Disclosure that is beyond that is required by law.
3. It facilitates comparison of Financial Statement of different Companies at different places.

—— Space to write important points for revision ——

2018 - June [8] Write short note on the following:

(d) Bearer Plant. **(5 marks)**

Answer:

Bearer plant is a plant that:

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than a period of twelve months; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:

(i) plants cultivated to be harvested as agricultural produce;

(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales;

(iii) annual crops.

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

2008 - Dec [3] (b) Mention any five areas in which different accounting policies may be adopted by different enterprises. **(5 marks)**

Answer :

Five areas in which different Accounting Policies may be adopted by different enterprises are :

1. Treatment of Contingent liabilities
2. Treatment of retirement benefits
3. Valuation of investments
4. Treatment of Intangible Assets
5. Methods of Depreciation depletion and amortization
6. Valuation of fixed assets
7. Valuation of Inventory

—— Space to write important points for revision ——

2009 - June [2] (b) What are the objects of charging depreciation and problems of measurement of depreciation? Explain.

(5 marks)

Answer :

Prime objectives for providing Depreciation are:

1. **Correct income measurement:** Depreciation should be charged for proper estimation of periodic profit or loss.
2. **True position statement:** Value of the fixed assets should be adjusted for depreciation charged in order to depict the actual financial position.
3. **Funds for replacement:** Generation of adequate funds in the hands of the business for replacement of the asset at the end of its useful life.
4. **Ascertainment of true cost of production:** For ascertaining the cost of the production, it is necessary to charge depreciation as on item of cost of production.

   Problems of measurement of depreciation are:-
   1. Estimated useful life may be incorrect and misleading.
   2. Certain uncertain factors affect predetermined quantum of depreciation.

—— Space to write important points for revision ——

2009 - June [5] (b) State the advantages and disadvantages of Weighted Average method of valuation of inventory. **(5 marks)**

Answer :

Weighted Average method uses the weighted average value for all issues. This is done by dividing the total cost of materials by their quantities. A new issue price is calculated each time new material is received.

Advantages:

- Smoothen out fluctuations in purchase price.
- Compared to FIFO or LIFO, this method is less cumbersome.
- Seems a logical method as it assumes the values of identical items will be equal.

Disadvantages:

- Issues may not be at current economic value.
- As it based on average method, the issue price may run to a number of decimal places.

—— Space to write important points for revision ——

2009 - June [6] (b) State clearly the provisions contained in the Accounting Standard in respect of Revaluation of Property, Plant and Equipment.

(5 marks)

Answer :

As per AS - 10,

An increase in the carrying amount of a Property, Plant and Equipment arising on revaluation should be credited directly to owners' interests under the heading of revaluation surplus. However, the increase should be recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss.

A decrease in the carrying amount of a Property, Plant and Equipment arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

—— Space to write important points for revision ——

2013 - Dec [2] (c) When can revenue be recognized as per AS-9, in the case of transaction of sale of goods? **(4 marks)**

Answer:

The basic principle of revenue recognition is "Right to Receive", which may be analysed under the prescribed parameters. As per AS - 9 that are:

- Seller has transferred the ownership of goods to buyer for a price.
  Or,
- All significant risks and rewards of ownership have been transferred to buyer.
- Seller does not retain any effective control of ownership on the transferred goods.
- There is no significant uncertainty in collection of the amount of consideration.

Revenue from sale of goods is recognised when all the above conditions are fulfilled. If delivery is delayed at buyer's request and buyer takes title and accepts billing, then the revenue should be recognised immediately, but goods must be in the hands of seller, identified and ready for delivery at the time of recognition of revenue.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2010 - June [3] (b) From the following information prepare
(i) Fixed Assets Account and
(ii) Accumulated Depreciation Account:

	Opening Balance (₹)	**Closing Balance** (₹)
Fixed Assets	4,00,000	5,50,000
Accumulated Depreciation	80,000	1,35,000

Additional information:
A part of a machine costing ₹ 60,000 has been sold for ₹ 30,000, on which accumulated depreciation was ₹ 15,000. **(5 marks)**

Answer:

(i) **Fixed Assets A/c**

Particulars	Amount	Particulars	Amount
To Bal. b/d	4,00,000	By Accumulated depreciation	15,000
To Bank A/c (B/F)	2,10,000	By Bank	30,000
		By P/L A/c	15,000
		By Bal. c/d	5,50,000
	6,10,000		6,10,000

(ii)

Accumulated Depreciation A/c

Particulars	Amount	Particulars	Amount
To Fixed Assets A/c	15,000	By Bal. b/d	80,000
To Bal. c/d	1,35,000	By P/L A/c (b/f) (Depreciation)	70,000
	1,50,000		1,50,000

—— Space to write important points for revision ——

2010 - June [7] A contractor whose books are closed on 31st December undertook a contract for construction of building on 1.4.2009. His books of accounts reveal the following information on 31.12.2009:

Materials sent to site ₹ 2,92,000, labour engaged ₹ 7,08,000, Foreman's salary ₹ 87,500. During the year plant costing ₹ 3,50,000 was installed at site for 150 days, scarp value being ₹ 20,000. (estimated life 5 years)

Supervisor's salary ₹ 5,000 per month (he devotes approximately 2/3rd of his time to this work). Administration expenses amounted to ₹ 1,60,000. Materials at site on 31.12.2009 was valued at ₹ 30,200. Unsuitable materials costing ₹ 7,200 was sold for ₹ 6,000. A part of the plant costing ₹ 8,400 found unsuitable to the contract was sold at a profit of ₹ 1,600 without being put to use.

The contract price was ₹ 25,00,000. On 31.12.2009 2/3rd of the contract was complete. Architect's certificate covered 50% of the contract value. Amount received on account by the contractor is ₹ 8,75,000. Depreciation is charged on time basis.

Prepare the Contract Account and state how much profit should be credited to the Profit and Loss Account. **(15 marks)**

Answer :

Contract A/c

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Materials	2,92,000	By Bank (Sale of materials)	6,000
To Labour	7,08,000	By P&L	1,200

To Foreman's salary	87,500	(Loss on sale of materials)	10,000
To Plant	3,50,000	By Bank (sale of Plant)	3,15,167
To Supervision	30,000	By Plant at site	30,200
To Administration Expenses	1,60,000	By Material at site	12,66,533
To P&L	1,600	By Total Cost c/d	
(Profit on sale of Plant)			
	16,29,100		**16,29,100**
To Total cost b/d	12,66,533	**By WIP:**	
To Balance c/d	3,00,100	Work Certified 12,50,000	
		Work Uncertified 3,16,633	15,66,633
	15,66,633		**15,66,633**
To P&L A/c	1,40,047	By Balance b/d	3,00,000
To WIP	1,60,053		
	3,00,100		**3,00,100**

Working Note:

1. Plant at site:

   Dep. on Plant (₹) $= \dfrac{(3,50,000 - 20,000 - 8400) = 3,21,600}{5} \times \dfrac{150}{365} = 26,433$

   Plant at site (₹) = 3,50,000 – 26,433 – 8,400 = ₹ 3,15,167

2. Cost incurred on the contract = Total of debit side – total of credit side

   (2,92,000 + 7,08,000 + 87,500 + 3,50,000 + 30,000 + 1,60,000 + 1,600) = 16,29,100

   – (6,000 + 1,200 + 10,000 + 3,15,167 + 30,200) 3,62,567

   12,66,533

3. Work completed = 25,00,000 × 2/3 = 16,66,667

   Less: Work Certified = 25,00,000/2 = 12,50,000

   Work uncertified + profit = 4,16,667

4. Cost of work uncertified $= \dfrac{12,66,533}{16,66,667} \times 4,16,667 = 3,16,633$

5. Profit to be taken credit of = 3,00,100 × 2/3 × 8.75/12.5

   = ₹ 1,40,047.

Space to write important points for revision

2011 - Dec [2] (b) On 1st April, 2009, Nath Ltd. purchased a second-hand Machine for ₹ 1,20,000 and spent ₹ 30,000 on its renewal. On 1st October, 2010, ₹ 3,000 was spent on repairs. On 30th September, 2011 the Machine was sold for ₹ 75,000. Depreciation is to be provided @ 20 percent per annum according to written down value method.
Prepare Machinery Account reflecting all these transactions assuming Books are closed on 31st March each year. **(5 marks)**

Answer:

In the books of Nath Ltd.
Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1st April 2009	To Bank A/c	1,20,000	31st March 2010	By Dep. A/c@ 20%	30,000
	To Bank A/c	30,000		By Balance c/d	1,20,000
		1,50,000			1,50,000
1st April 2010	To Balance b/d	1,20,000	31st March 2011	By Dep. A/c @20%	24,000
				By Bal. c/d	96,000
		1,20,000			1,20,000
1st April 2011	To Balance b/d	96,000	30th Sep 2011	By Dep. A/c @20% for 6 months	9,600
				By Bank A/c	75,000
				By P/L A/c	11,400
		96,000			96,000

Space to write important points for revision

2012 - Dec [5] (a) Khelaram commenced a contract on 01.07.2011. The price agreed for the contract was ₹ 8,00,000. At the end of the year on 30.06.2012, the contract was in advance stage of completion and it was decided to arrive at the notional profit on the basis of the total contract. The contract is expected to be completed by the end of December, 2012. Actual expenditure for the years 2011-12 and 2012-13 till December, 12 are as under:

Expenditure	Actual till 30.06.2012 (₹)	Estimated for 2012-13 (upto Dec.,2012) (₹)
Materials	2,00,000	70,000
Labour	90,000	25,000
Plant purchased (at original cost)	60,000	—
Miscellaneous expenses	30,000	6,000
Plant returned to store on 30.06.2012 (original cost)	12,000	—
Plant returned to store on 31.12.2012 (original cost)	—	24,000
Materials at site	8,000	Nil
Work certified	6,00,000	8,00,000
Work uncertified	20,000	Nil
Cash received	5,80,000	8,00,000

Charge depreciation at 20% p.a. on plant on straight line basis.

You are asked to prepare the Contract Account for the year ended 30.06.2012. **(10 marks)**

Answer:

In the books of Khelaram

Contract A/c for the year ended on 30.6.2012

Particulars	Amount	Particulars	Amount
To Material	2,00,000	By Balance c/d	
To Labour	90,000	Material at site	8,000
To Depreciation on Plant	12,000	Closing WIP	
(60,000 × 20%)		Work certified	6,00,000
To Misc. Expenses	30,000	Work uncertified	20,000
To Notional Profit	2,96,000		
	6,28,000		6,28,000
To P and L A/c W.N. (3)	2,62,595	By Notional Profit	2,96,000
To Work in Progress A/c	33,405		
	2,96,000		2,96,000

W.N. (1) Calculation of % of completion

$$= \frac{\text{Work Certified}}{\text{Contract Price}} \times 100 = \frac{6,00,000}{8,00,000} \times 100 = 75\%$$

W.N. (2) Since all the estimates for 2012-2013 is given in the question, we will calculate estimated profit to know the amount of profit to be transferred to P and L A/c.

Estimated Profit = Contract Price	8,00,000
Less: Expenses incurred till date	3,24,000
Less: Expenses to be incurred	1,13,800
	3,62,200

Calculation of Expenses incurred & to be incurred

Particulars	**2011-2012**	**2012-2013**
Material consumed	1,92,000 (2,00,000 − 8,000)	78,000 (8,000 + 70,000)
Labour	90,000	25,000
Depreciation on Plant	12,000	$\left(48,000 \times 20\% \times \frac{6}{12}\right)$ 4,800
Misc. Expenses	30,000	6,000
	3,24,000	1,13,800

W.N.(3) Amount of Profit to be transferred to P and L A/c

$$= \text{Estimated Profit} \times \frac{\text{Cash received}}{\text{Contract Price}}$$

$$= \frac{3,62,200 \times 5,80,000}{8,00,000} = ₹\ 2,62,595/-$$

—— Space to write important points for revision ——

2013 - June [4] (c) On 31st December, 2011 two machines which were purchased on 1.10.2008 costing ₹ 50,000 and ₹ 20,000 respectively had to be discarded and replaced by two new machines costing ₹ 50,000 and ₹ 25,000 respectively.

One of the discarded Machine was sold for ₹ 20,000 and other for ₹ 10,000. The balance of Machinery Account on April 1, 2011 was ₹ 3,00,000 against which the depreciation provision stood at ₹ 1,50,000. Depreciation was provided @ 10% on Reducing Balance Method.

Prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account. **(5 marks)**

Answer:

Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-4-2011	To Balance b/d	3,00,000	31-12-2011	By Machine Disposal A/c	50,000
	To Bank A/c	75,000	31-03-2012	By Balance c/d	3,25,000
		3,75,000			3,75,000

Provision for Depreciation Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-4-2011	To Machine Disposal A/c (16,135 + 4,040)	20,175	1-4-2011	By Balance b/d	1,50,000
31-3-2012	To Balance c/d	1,41,314	31-3-2013	By P/L A/c	11,489
		1,61,489			1,61,489

Machine Disposal Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-4-2011	To Machine A/c	70,000	31-12-2011	By Provision for Depreciation A/c	16,135
				By Provision for Depreciation (on two Machine for 9 months)	4,040

				By Bank A/c	30,000
				By P/L A/c (balancing figure)	19,825
		70,000			70,000

Working Note:

1 Calculation of Depreciation of Two Discarded Machine till 1.4.2012

	Machine 1	Machine 2	Total
Value of Machine as on 1-10-2008	50,000	20,000	70,000
Less: Depreciation for 08-09 @ 10% (from 01.10.2008 to 31.03.2009)	2,500	1,000	3,500
	47,500	19,000	66,500
Less: Depreciation for 09-10 @ 10%	4,750	1,900	6,650
	42,750	17,100	59,850
Less: Depreciation for 10-11 @ 10%	4,275	1,710	5,985
	38,475	15,390	53,865

Hence, Provision for Depreciation on Machine Disposal = 3,500 + 6,650 + 5,985 = 16,135

Working Note: 2 Depreciation on Discarded Machine:

Book value of Machine as on 01.04.2011	53,865
Less: Depreciation @ 10 % for 9 months (till 31.12.2011) (53,865 x 10% x 9/12)	4,040
Value of Discarded Machine as on selling date	49,825

Working Note: 3 Depreciation of Machine in Use:

Value of Machine on 01.04.2011		3,00,000
Less: Cost of Discarded Machine		70,000
		2,30,000
Less: Provision for Depreciation on 1.4.2011	1,50,000	
Less: Depreciation on Discarded Machine 1.4.11	16,135	1,33,865
		96,135

Depreciation @ 10 % on ₹ 96,135	9,614
Add: Depreciation for 3 months on 75,000 @ 10%	1,875
Total Depreciation	11,489

—— Space to write important points for revision ——

2013 - June [5] (b) The cost of production of Product X is ₹ 450 which includes per unit cost of Material, Labour and overheads of ₹ 250, ₹ 110 and ₹ 90 respectively. At the end of the accounting year on 31.03.2013 the replacement cost of Raw Material is ₹ 210 per unit.
There are 500 units of raw material in stock on 31.03.2013.
Calculate as per AS-2 the value of closing stock or Raw Material when:
(i) Finished Product is sold at ₹ 420 per unit,
(ii) Finished Product sold at ₹ 490 per unit. **(5 marks)**

Answer:

(i) In this situation net realizable value of the product is less than its total cost and cost of raw material is more than the replacement cost. Hence, raw material should be valued at replacement cost and the value of raw material stock will be – 500 units x ₹ 210 = ₹ 1,05,000.
(ii) In this situation the next realizable value of the product is more than its total cost, then the raw material should be valued at actual cost and value of raw material stock will be – 500 units x ₹ 250 = ₹ 1,25,000.

—— Space to write important points for revision ——

2013 - Dec [1] {C} Answer the following question (give workings wherever required):
(vii) On 01.01.2010, M/s. Johnson and Co. Ltd. purchased machinery for ₹ 1,00,000. Subsequently, ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2012. **(2 marks)**

Answer:

Year	₹	Rate	Depreciation	₹
2010	1,50,000	10%	15,000	1,35,000

2011	1,35,000	10%	13,500	1,21,500
2012	1,21,500	10%	12,150	1,09,350

₹ 1,09,350

—— Space to write important points for revision ——

2013 - Dec [3] (c) Imran Co. Ltd. deals in manufacture of certain products. It gives you the following information for the year ended 31st March, 2013, with respect to the closing stock of these items:

Items	Historical cost (₹)	Net realizable value (₹)
X	25,00,000	19,00,000
Y	62,00,000	60,00,000
Z	15,00,000	21,00,000

Compute the value of closing stock. **(3 marks)**

Answer:

According to AS- 2 Valuation of Inventories inventories should be valued as per cost or net realizable value, whichever is lower. Thus inventories should be valued as per item-wise as given below:

Items	**Historical cost**	**Net realizable value**	**Valuation of closing stock**
X	25,00,000	19,00,000	19,00,000
Y	62,00,000	60,00,000	60,00,000
Z	15,00,000	21,00,000	15,00,000
	1,02,00,000	1,00,00,000	94,00,000

—— Space to write important points for revision ——

2014 - June [1] {C} Answer the following question (give workings):

(ii) How will you deal with the following as per AS-2?

On 31st March, 2014, the closing stock of X Ltd. includes 13,000 units costing ₹ 14 per unit. But the current market price as on that date was ₹ 12 per unit. **(2 marks)**

Answer:

According to AS-2,

Closing stock is valued at cost as net realisable value whichever is lower.

Hence,

Closing Stock of X Ltd. as on 31st March 2014

= 13000 units @ 12 per unit

= ₹ 1,56,000.

—— Space to write important points for revision ——

2014 - June [1] {C} Answer the following question (give workings):

(ix)

Cost of Machine	₹ 1,30,000
Residual value	Nil
Useful life	10 years
Method of Depreciation in use	Straight Line Method
After 8 years, the machine was revalued to	₹ 80,000

Compute Depreciation as per AS-10. **(2 marks)**

Answer:

Computation of Depreciation as per AS- 10

	Particulars	**Amount (₹)**
A	Original Cost	1,30,000
B	*Less:* Aggregate Depreciation up to 8 years (₹ 1,30,000 - Nil) x 8/10	1,04,000
C	Existing unamortized Depreciation Amount (A - B)	26,000
D	*Add:* Profit on Revaluation (80,000 - 26,000)	54,000
E	Revised unamortized depreciable amount (C + D)	80,000
F	Depreciation for 9th year (₹ 80,000/ 2)	40,000

—— Space to write important points for revision ——

2014 - June [6] (b) Shiv Buildcom Ltd. obtained a contract to construct a bridge for ₹ 50,00,000. The contract will be completed within 4 years. The details are as follows :

Particulars	Years			(₹ in 000)
	I	II	III	IV
Total Cost incurred	800	2,100	3,000	4,200
Estimated Cost to be incurred for completion	2,200	1,400	800	-
Progress payment to be received	560	1,800	2,400	3,600

The company seeks your advice in presentation of accounts keeping in view the requirement of AS-7. **(8 marks)**

Answer:

Calculation of Estimated Profit on Completion

Particulars	Year -I		Year -II		Year -III		Year -IV	
	₹	₹	₹	₹	₹	₹	₹	₹
Total Contract price		5,000		5,000		5,000		5,000
Less: Cost of contract:								
- Incurred	800		2,100		3,000		4,200	
- Will be incurring	2,200	3,000	1,400	3,500	800	3,800	---	4,200
Estimated Profit		2,000		1,500		1,200		800
% of Completion of work	$\frac{800}{3,000} \times 100 = 26.67\%$		$\frac{2,100}{3,500} \times 100 = 60\%$		$\frac{3,000}{3,800} \times 100 = 78.95\%$		$\frac{4,200}{4,200} \times 100 = 100\%$	

Recognition of Revenue and Expenses to be calculated as:

Year	Particulars	At the end of the year ₹	Recognized in earlier years ₹	Recognized in Current years ₹
(i)	Revenue (₹ 50,00,000 × 26.67%)	13,33,500	----	13,33,500
	Less: Expenses incurred	8,00,000	----	8,00,000
	Profit / (Loss)	5,33,500	----	5,33,500

(ii)	Revenue (₹ 50,00,000 × 60%)	30,00,000	13,33,500	16,66,500
	Less: Expenses incurred	21,00,000	8,00,000	13,00,000
	Profit / (Loss)	9,00,000	5,33,500	3,66,500
(iii)	Revenue (₹ 50,00,000 × 78.95%)	39,47,500	30,00,000	9,47,500
	Less: Expenses incurred	30,00,000	21,00,000	9,00,000
	Profit / (Loss)	9,47,500	9,00,000	47,500
(iv)	Revenue (₹ 50,00,000 × 100%)	50,00,000	39,47,500	10,52,500
	Less: Expenses incurred	42,00,000	30,00,000	12,00,000
	Profit / (Loss)	8,00,000	9,47,500	(1,47,500)

—— Space to write important points for revision ——

2014 - Dec [1] Answer the following questions (Give workings):

(a) A machine costing ₹ 13,75,000 is depreciated on straight line basis assuming 8 years working life and zero residual value. After third year machine's remaining useful life was reassessed at 7 years. Calculate the amount of depreciation charged for 4th year. **(2 marks)**

(g) An IT enabled company supplied a software to a client at a fee of ₹ 50 lakhs during the year ended 30-09-2014 and also transferred the ownership. In November 2014, the Management of the company raised a supplementary bill on it's client for ₹ 10 lakhs, stating about additional features of the software supplied. While finalising the Accounts for the year ended 30-09-2014 in December 2014, how would the amount of ₹ 10 lakhs dealt? **(2 marks)**

Answer:

(a) WDV of Machinery at the end of 3rd year

$$= 13,75,000 - 3\left(\frac{13,75,000 - 0}{8}\right)$$

$$= 8,59,375$$

Depreciation for 4th year

$$= \left(\frac{8,59,375 - 0}{7}\right)$$

$$= 1,22,768$$

(g) As per AS -9 revenue should be recognised only when there is no uncertainty about its ultimate collection. Revenue from software to be recognised on delivery. In this case delivery and transfer has been made by 30-9-2014 and the Revenue realised was ₹ 50 lakhs. About the additional bill of ₹ 10 lakhs, it cannot be concluded with certainty that the same will be realised in full or part or not at all. Hence the same cannot be considered as Revenue at this stage.

—— Space to write important points for revision ——

2014 - Dec [3] Answer the question:

(a) A company writes off depreciation at 10% p.a. on the diminishing balance. On 1st January, 2011 the machinery account showed a balance of ₹ 1,49,000. It was discovered in 2011 that:

(i) A heavy repairs effected to plant and machinery account (completed on 30th June, 2009), were debited to the machinery. The amount was ₹ 15,000; and

(ii) A machine cost ₹ 6,000 was entered in the purchases on 1st October 2009. The expenses on installation, ₹ 400 were debited to General Expenses Account. Necessary corrections were to be made in 2011. On 30th June 2011, a machine which had cost ₹ 20,000 on 1st January, 2009 was disposed of for ₹ 15,000 and a machine costing ₹ 30,000 was installed on the same date, the expenses on installing the same being ₹ 500.

Show Machinery Account for the year ended 31st December, 2011. Please show your working in detail. **(12 marks)**

Answer:

Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
2011			2011		
Jan 1	To Balance b/d	1,49,000	Jan 1	By Profit & Loss A/c (Machinery Repairs)(2)	12,825
Jan 1	To Profit & Loss A/c (Machinery purchase on 1-10-2009) (1)	5,616	June 30	By Bank	15,000
		30,500	June 30	By Depreciation for ½ year on the machine sold (3)	810

Jan 30	To Bank		June 30	By Profit & Loss A/c (Loss on sale of Machinery) (4)	390
			Dec 31	By Depreciation A/c (5)	14,084
				By Balance c/d	1,42,007
		1,85,116			1,85,116

Working Note:

		₹
1.	Machinery purchased on 1-10-2009	
	(₹ 6,000 + ₹ 400 Installation Expenses)	6,400
	Less: Depreciation for 3 months	160
		6,240
	Less: Depreciation for 2010	624
	Amount debited to Machinery A/c and Credited to P&L A/c	**5,616**
2.	Machine Account wrongly debited for repairs on 30-6-2009	15,000
	Less: Depreciation for 6 months	750
		14,250
	Less: Depreciation for 2010	1,425
	Amount credited to Machinery A/c and debited to P&L A/c	**12,825**
3.	Book value of Machinery on 1-1-2009	20,000
	Less: Depreciation for 2009	2,000
		18,000
	Less: Depreciation for 2010	1,800
	Value on 1-1-2011	16,200
	Depreciation for 6 months	810
4.	Book value of machine on 30-6-2011	15,390
	Less: Sale price	15,000
	Loss on sale of machinery	**390**
5.	Depreciation:	
	10% on ₹ 1,25,591	12,559
	(i.e., ₹ 1,49,000 + ₹ 5,616 - ₹ 12,825 - ₹ 16,200)	
	10% on ₹ 30,500 for ½ year	1,525
		14,084

If any student takes heavy repairs as capital, the alternative answer will be:

Dr. Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2011 Jan 1	To Balance b/d	1,49,000	2011 June 30	By Bank A/c	30,000
Jan 1	To Profit & Loss A/c (machinery purchased)	5,616	June 30	By Depreciation for ½ year on the machine sold	810
Jan 30	To Bank	30,500	June 30	By Profit & Loss A/c (Loss on sale of machinery)	390
			Dec 31	By Depreciation A/c	15,367
				By Balance c/d	1,38,549
		1,85,116			**1,85,116**

Calculation of Depreciation:

₹ (1,49,000 + 5,616 - 16,200) × 10% = 13,842
₹ 10% on 30,500 for ½ year = 1,525
15,367

Note: *As per AS - 10 an item of property, plant and equipment should be recognised as an asset if and only if it is probable that future economic benefits associated with the item will flow to the enterprise and cost of the item can be measured reliably.*

Space to write important points for revision

2014 - Dec [5] Answer the questions:

(a) On 25th September, 2013, PRARTHNA Advertising Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Nov./Dec., 2013 for ₹ 520 lakhs.

They furnish the following information:

(i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2013.

(ii) For the balance time they got bookings in October, 2013 for ₹ 240 lakhs.

(iii) All the advertisers paid the full amount at the time of booking the advertisements.

(iv) 40% of the advertisements appeared before the public in Nov. 2013 and balance 60% appeared in the month of December, 2013.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2013 as per Accounting Standard-9. **(4 marks)**

(b) Priyanshu Constructions obtained a contract for completion of a big factory building. The following details are available in the records kept the year ended 31st March, 2014 :

Particulars	₹ in crores
Total Contract Price	45
Works Certified	23
Works not Certified	6
Estimated further cost	21
Progress payment received	20
Progress payment to be received	6

The company seeks your advice and assistance in presentation of accounts keeping in view the requirements of AS-7 "Accounting for Construction Contract". **(4 marks)**

Answer:

(a) As per AS 9 in a transaction involving the rendering of services, performances should be measured either under the completed service contract method or under proportionate completion method, whichever relates the revenue to work accomplished.

Further, AS 9 states that revenue from advertising should be recognised when the service is completed.

In the current case, service regarding advertisement is considered completed when such advertisement appeared before public.

40% of advertisements appeared in November & 60% of advertisement appeared in December. Therefore, the profit of (700 + 240 - 520) ₹ 420 lakhs should be apportioned in 40% and 60% ratio which will be ₹ 168 lakhs in November 2013 & ₹ 252 lakhs in December, 2013.

Answer:

(b)

I **Amount of foreseeable loss**

Total Cost of construction (23 + 21 + 6)	50
Less: Total contract price	45
Total foreseeable loss to be recognised as expenses	5

As per AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

II Contract work-in-progress

Work certified	23
Work not certified	6
	29

III Proportion of total contract value recognised as revenue

% of work completed $= \frac{29}{50} \times 100 = 58\%$

Proportion of total contract value recognised as revenue

$45 \times 58\%$

$= 26.1$

IV Amount due from customers

= contract costs + recognised profits - recognised losses
- progress payments received + progress payments to be received

= 29 + 0 - 5 - 20 + 6

= 10

The amount of ₹ 10 lakh will be shown in Balance Sheet as liability.

V Relevant disclosures under AS 7 are :

	(₹ in lakhs)
Contract revenue	26.1
Contract exp.	29
Recognised profits less loss	-5
Retentions (billed but not received)	6
Gross amount due from customers	10

2015 - June [1] Answer the questions:

(a) MENZ LTD. purchased goods at the cost of ₹ 20 Lakh in Oct 2014. Till March 31, 2015, 75% of the Stocks were sold. The company wants to disclose stock at ₹ 5 Lakh. The expected Sales Value is ₹ 5.5 Lakh and a Commission at 10% on sale is payable to the agent.
What is the correct Closing Stock to be disclosed as at 31.03.2015 as per AS-2? **(2 marks)**

(h) NUPUR CONSTRUCTION LTD. obtained a contract for construction of a Fly-Over. Following information is available for the year ended March 31, 2015:

	₹ in Lakh
Total Contract Price	500
Work certified	300
Work not certified	50
Estimated further cost to completion	190
Progress payment received	200

What will be the foreseeable loss to be shown in the accounts of 2014-15 as per AS-7. **(2 marks)**

Answer:

(a) The stand of the company to disclose the closing stock at 5 lakhs is not in line with AS - 2. As per AS - 2 Valuation of Inventories, para 5, inventory should be valued as per cost price or net realisable value, whichever is lower. In the problem, cost price is 5 lakhs, but the net realisable value is 5,50,000 x 90% = 4,95,000. So, the value of closing stock as on 31.3.2015 should be taken as 4,95,000 being the lower.

(h) As per AS 7, 'Construction Contract', when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract, (b) the stage of completion of contract activity as per AS 7. We are to compute the anticipated loss and current loss which are computed as:

Particulars	₹ in lakhs
Cost of Total Contract:	
Work Certified	300
Add: Work not certified	50
Add: Estimated further cost to completion	190
	540
Less: Contract Price	500
Anticipated / Foreseeable loss	40

Space to write important points for revision

2015 - June [2] Answer the question:

(c) JIMIRA LTD. bought a Machine on 30.09.2014 at a price of ₹ 248 Lakh after charging 6% Sales Tax and giving a trade discount of 1.3% on the quoted price. Transport charges and installation charges were 0.30% and 0.75% respectively on the quoted price. To meet machine purchase a loan of ₹ 240 Lakh was taken from the bank on which interest at 12% P.A. was to be paid. Expenditure incurred on trial run was materials, wages and overheads ₹ 24,000, ₹ 18,000 and ₹ 11,000 respectively. Machine was ready for use on 01-12-2014. However, it was actually put to use only on 01-05-2015. Entire loan amount remain unpaid on 01-05-2015.

Required:

Find the cost of machine as per AS-10 **(4 marks)**

Answer:

Calculation of Cost of Machine (As per AS - 10)

Particulars	(₹)
Machine cost price (2,48,00,000 × 100/106 × 100/98.70) (Given price related after charging sales tax and trade discount)	2,37,04,383
Less: Trade discount (2,37,04,383 × 1.3/100)	3,08,157
	2,33,96,226
Add: Sales Tax (2,33,96,226 × 6/100)	14,03,774
	2,48,00,000

Transport Charges (0.30% on ₹ 2,37,04,383)			71,113
			2,48,71,113
Installation Charges (0.75% on 2,37,04,383)			1,77,783
			2,50,48,896
Add: Incurred Expenses for trial run			
Materials	24,000		
Wages	18,000		
Overheads	11,000	53,000	
Borrowings costs (Interest) (240 lakh × 0.12 × 2/12)		4,80,000	5,33,000
Total Cost			2,55,81,896

Space to write important points for revision

2015 - June [5] Answer the question:

(a) DAFALI BUILDCOM LTD. undertook a contract to construct a bridge across river Pennar for ₹ 1,500 Lakh on 1st July, 2014. The following details are available in the records kept for the year ended 31st March, 2015:

	(₹ in Lakh)
Works Certified	750
Works not Certified	207
Estimated further cost	638
Progress payment received	600
Progress payment to be received	210

Required:

What is the additional provision for Foreseeable Loss which must be made in the final Accounts for the year ended 31st March, 2015 as per provisions AS-7 on 'Accounting for Construction contract'? **(4 marks)**

(c) PRARTHANA & PIYUSH Publication publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2015 issue was made in February 2015. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.03.2015 and ₹ 60,000 on 10.04.2015 for the March, 2015 issue.

Discuss in the context of AS-9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.03.2015. **(4 marks)**

Answer:

(a) As per AS – 7,Construction contract, when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expenses. The amount of such a loss is determined irrespective of (a) whether or not work has commenced on the contract, (b) the stage of completion of contract activity as per AS – 7, the amount of profit expected to arise on other contracts which are not treated as a single contract.

In this case the anticipated losses are calculated as follows:-

Anticipated or Foreseeable Loss:

Particulars	**(₹ in lakh)**
Works Certified	750
Works not certified	207
Add: Further cost of contract to completion	638
	1,595
Less: Contract price	1,500
Anticipated/Foreseeable loss	95

Stage of completion = work certified + works not certified = 750 + 207 = 957 lakh

Degree of Completion = $\frac{957}{1,595} \times 100 = 60\%$

Recognition of contract revenue:

Total contract price × 0.60 = 1,500 × 0.60 = ₹ 900 lakh

Current year's loss = 957 – 900 = ₹ 57 lakh

Provision to be made for anticipated loss = ₹ 95 – 57 = ₹ 38 lakh

—— Space to write important points for revision ——

Answer:

(c) As per Accounting Standard – 9 (Revenue Recognition) Revenue from sale or rendering of services should be recognized at the time of the sale or rendering of services. If at the time of rendering of services or sales there is significant uncertainty in ultimate collection of the revenue, then the revenue recognition is postponed and in such cases the revenue should be recognized only when it becomes reasonably certain that ultimate collection will be made.

In the present question 80% of the sale price of advertising space in the magazine is paid in advance and the balance of 20% is paid within 30 days of the release of publication, to the advertiser.

Here on 10.03.2015 the advertiser received ₹ 2,40,000 i.e. 80% (80% of ₹ 2,40,000 + ₹ 60,000 i.e. ₹ 3,00,000) of the sale price in advance and balance of 20% i.e. ₹ 60,000 is paid on 10.04.2015 but the total amount of revenue will be recognized as on 31.03.2015 as there was no significant uncertainty regarding the recognition of revenue as on that date.

—— Space to write important points for revision ——

2015 - Dec [1] Answer the following questions (Give workings):

(b) On April 1, 2014 ZOOM LTD. purchased a Machine for ₹ 5,50,000 and spent ₹ 30,000 on its installation, ₹ 5,000 for freight and cartage and ₹ 10,000 for Insurance Charges.

The expected life of the Machine is 5 years, at the end of which the estimated scrap value will be ₹ 46,000.

Calculate the amount of Annual Depreciation under Straight Line Method (SLM). **(2 marks)**

(f) SEA LTD. has recognised ₹ 12 lakh on accrual basis from dividends on units of a Mutual Fund of the face value of ₹ 65 lakh held by it at the end of financial year 31.03.2015. Dividends on funds were proposed on 10.04.2015 and declared at 12% on 10.08.2015.

Please state with reference to relevant Accounting Standard, whether the treatment accorded by SEA LTD. is in order. **(2 marks)**

Answer:

(b) Cost of Machinery.

Purchase price	5,50,000
+ Installation charges	30,000
+ Freight & cartage	5,000
	5,85,000

$$\text{Depreciation} = \frac{\text{cost} - \text{scrap value}}{\text{useful life}}$$

$$= \frac{5,85,000 - 46,000}{5}$$

$$= 1,07,800.$$

—— Space to write important points for revision ——

(f) As per AS-9, dividend from investment in shares is not recognised in P/L until a right to receive payment is established.
In the Present case, the dividend proposed on 10.4.2015, but the scheme was declared on 10.8.2015, thus it is quite clear that right to receive payment is established on 10.8.2015. So income be recognised for the year ended 31.3.2015. Hence, the treatment accorded by Sea Ltd. is incorrect.

—— Space to write important points for revision ——

2015 - Dec [2] Answer the question.

(c) LUXOR LTD. deals in three products A, B and P which are neither similar nor interchangeable. At the time of closing of its Financial Account for the year ended March 31, 2015, Valuation of Closing Stock of the said products is to be determined.
The details of Closing Stock of the three products extracted from the records of the company are as under:

Type of Product	Cost of Materials	Production Expenses incurred	Selling and Distribution expenses to be incurred	Estimated Selling Value
	₹	₹	₹	₹
A	1,00,000	20,000	10,000	1,50,000
B	50,000	5,000	5,000	50,000
P	1,20,000	30,000	20,000	1,80,000
	2,70,000	55,000	35,000	3,80,000

You are required to compute the value of stock as per AS-2 for inclusion in the financial statement as on 31.03.2015. **(4 marks)**

Answer:

Items	**Cost**	**NRV**	**Value per AS - 2**
A	1,00,000 + 20,000 = 1,20,000	1,50,000 - 10,000 = 1,40,000	1,20,000
B	50,000 + 5,000 = 55,000	50,000 - 5,000 = 45,000	45,000
C	1,20,000 + 30,000 = 1,50,000	1,80,000 - 20,000 = 1,60,000	1,50,000
			3,15,000

Value of stock as per AS-2 is ₹ 3,15,000

Space to write important points for revision

2015 - Dec [5] Answer the question.

(b) PRIMA CONSTRUCT LTD. obtained a contract for construction of a bridge across river Hindan. The following details are available in the records kept for the year ended 31st March, 2015:

Particulars	(Amount in ₹ Lakh)
Total Contract Price	2,000
Work Certified	1,400
Work Not Certified	400
Estimated Further Cost to Completion	700
Progress Payments Received	1,000
Progress Payments in pipe line	200

Required:

Prima Construct Ltd. seeks your advice and assistance in presentation of accounts keeping in view the requirements of AS-7 "Accounting for Construction Contract".

(4 marks)

Answer:

Amount of foreseeable loss:

Total cost of construction (1400 + 400 +700) =	2,500
Less: Total contract price	2,000
Total foreseeable loss to be recognised as expenses	500

As per AS- 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Contract work-in-progress:

Work certified	1,400
Work not certified	400
	1,800

Proportion of total contract value recognised as revenue.

% of work $= \frac{1,800}{2,500} \times 100$

$= 72\%$

$= 2,000 \times 72\%$

$= 1,440$

Amount due from customers.

Contract cash + recognised profits – recognised losses – progress payments received + progress payments to be received.

= 1,800 + 0 - 500 - 1,000 + 200

= 500 lakhs.

This will be shown as liability in B/s.

Relevant disclosures

	(₹ in lakhs)
Contract revenue	1,440
Contract expenses	1,800
Recognised profits less loss	(500)
Retentions	200
Gross amount due from customers	500

Space to write important points for revision

2016 - June [5] (b) AGGARWAL INFRASTRUCTURE (P) LTD., undertook a contract to construct a Housing Complex.

The following details are available in the records kept for the year ended March 31, 2016.

Particulars	(Amount in ₹ lakh)
Total Contract Price	300
Cost incurred to date	180
Estimated Further Cost of Complete	140

Required:

What amount should be charged to Revenue in the Final Accounts for the year ended March 31, 2016 keeping in the requirement of AS-7 " Accounting for construction contract"? **(6 marks)**

Answer :

(Amount in ₹ Lakh)

Cost incurred to date	180
Estimated costs to completion	140
Estimate total costs in completing the contract	320

Percentage of Completion = $\frac{\text{Cost incurred till date}}{\text{Estimated total costs}} = \left(\frac{180}{320}\right)$ = 56.25%

Total expected loss to be provided for:

Contract price – Estimated total costs = 300 – 320 = ₹ 20 lakhs

(A) Contract Revenue (56.25% of ₹ 300)	₹ 168.75 lakhs
(B) Contract cost to date	₹ 180.00 lakhs
Loss on contract (B-A)	₹ 11.25 lakhs
Less: Further provision required in respect of expected loss	₹ 8.75 lakhs
Expected loss to be recognized as per para 3 of AS-7	₹ 20 lakhs

Disclosure as per AS-7 **(₹ In lakhs)**

Contract Revenue	168.75
Contract Expenses charged	180.00
Provision for further loss to be charged	8.75

Space to write important points for revision

2016 - Dec [1] {C} (d) Answer the following questions (Give workings):

(i) NATARAJ LTD. deals in manufacture of Products P, Q, R and S respectively. It provides the following information with respect to the Closing Stock of these items for the year ended March 31, 2016.

Category of stock	Historical Cost (₹)	Net Realisable value (₹)
P	80,000	59,200
Q	1,03,200	1,02,400
R	60,000	71,000
S	90,000	93,200

Calculate the value of inventories to be shown in the Balance Sheet as on March 31, 2016 as per requirements of AS-2. **(2 marks)**

(ii) BHARAT TUSHAR LTD. which depreciates its machinery at 10% p.a. on diminishing balance method, had on 1st April, 2015, ₹ 29,160, to the debit of Machinery Account. On 31st March, 2016, the company decided to change the method of depreciation to straight line method, the rate of depreciation remaining the same.

Pass the necessary Journal entry for Depreciation on 31st March 2016. **(Modified) (2 marks)**

Answer:

(i) According to AS-2: Inventories should be valued at lower of cost and net realizable value. Thus, inventories should be valued as given below:

Items	Historical cost (₹)	Net realisable value (₹)	Valuation of closing stock (₹)
P	80,000	59,200	59,200
Q	1,03,200	1,02,400	1,02,400
R	60,000	71,000	60,000
S	90,000	93,200	90,000
			3,11,600

(ii) Depreciation for 2015-16 under SLM
₹ 29,160 × 10% = ₹ 2,916
Journal Entry:

Depreciation A/c	Dr.	₹ 2,916	
To Machinery A/c			₹ 2,916

(Being Depreciation provided under SLM)

Space to write important points for revision

2016 - Dec [7] (a) MADHAVI BUILDCOM LTD. undertook a contract to construct a bridges across river Revathi for ₹ 260 crores on 1st July, 2015. The following details are available in the records kept for the year ended 31st March, 2016.

(Amount in ₹ crores)

Work certified	120
Work to be certified	42
Prudent estimates of additional cost for completion	108

Required:
What is the additional provision for Foreseeable loss which must be made in the Financial Accounts for the year ended 31st March, 2016 as per provisions of AS-7? **(1+4 = 5 marks)**

Answer:
As per **AS-7** 'Construction Contract' when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract, (b) the stage of completion of contract activity as per **AS-7**, (c) the amount of profit expected to arise on other contracts which are not treated as a single contract.
We are to compute the anticipated/foreseeable loss and Additional provision required which are as follows:

Particulars	₹ in crores
1. Contract price (given)	260
2. Cost incurred till date (Work certified + Work to be certified)	162
3. Further costs to be incurred to complete the contract	108
4. Total contract costs (2) + (3)	270
5. Expected loss on contract (1) – (4)	(10)
6. Percentage of completion based on Costs (2) ÷ (4)	60%
7. Contract revenue recognized (1) × (6)	156
8. Contract costs recognized (as per 2)	162
9. Contract profit/ (Loss) (7) – (8)	(6)
10. Expected Loss to be recognized (as per 5)	(10)
11. Additional provision required (9) – (10)	4

Space to write important points for revision

2017 - Dec [4] (a) (i) A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March, 2017 documentation and legal formalities are pending. The Company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer given in its financial statements? **(3 marks)**

(ii) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock? **(2 marks)**

Answer:

(i) Although legal title has not been transferred, the economic reality and substance is that the rights and beneficial interest in the immovable property have been transferred. Therefore, recording of acquisition/disposal (by the transferee transferor respectively) would, in substance, represent the purchase/sale. In view of this A Ltd., should record the sales and recognize the profit of ₹ 15 lakhs in its Profit and Loss Account. It should eliminate building from its balance sheet. In notes to accounts, it should disclose that building has been sold, full consideration has been received, possession has been handed over to the buyer and documentation and legal formalities are pending.

The buyer should recognize the building as an asset in his balance sheet and charge depreciation on it. The buyer should disclose in his notes to account that possession has been received however documentation and legal formalities are pending.

Space to write important points for revision

Answer:

(ii) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

Space to write important points for revision

2018 - June [7] (a) (ii) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premises of Heena Ltd. Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9. **(5 marks)**

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 × 6) and no part of the same is to be treated as Advance Received against Sales.

—— Space to write important points for revision ——

2018 - Dec [7] (a) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹ 1,900. The entire quantity of waste is on stock at the year end. State with reference to Accounting standard, the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss, if any and the value of closing inventories. **(8 marks)**

Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Practical	4					4				
Total	4					4				

13 OBJECTIVE QUESTIONS

2008 - Dec [1] {C} (c) Choose the correct answer :

The amortization of amount of software commences from the date when it is

(i) available for use

(ii) put to use

(iii) developed upto 75 % **(3 marks)**

(f) A non-profit organisation has furnished the following data in connection with finalisation of accounts for the year ended 31st March 2008 :

	₹
Membership subscriptions received as per books.	57,000
Subscription in arrear for 2007-08	1,400
Contribution to indoor games section included in item no. one above	2,000
Advance receipt of subscriptions (for 2008-09)	480
Subscription outstanding for 2006-07 now received	3,000

The amount of subscription to be taken as income for 2007-08 is

A : ₹ 57,000. B : ₹ 51,520. C : ₹ 55,000 D : ₹ 52,920.

Select the correct one. **(3 marks)**

(g) A & B are two partners of a firm sharing the profits & losses in the ratio of 7/12 and 5/12 respectively. On 1st April 2008 they, take C as a partner giving him 1/6 share. A & B agreed further to share the future profits in the ratio of 13/24 and 7/24 respectively. C, in addition to his capital, brings in ₹ 96,000 as his goodwill for 1/6 share. This goodwill amount is to be shared between A & B.

The share of goodwill amount of A & B respectively will be:

A: ₹ 24,000 and ₹ 72,000

B: ₹ 72,000 and ₹ 24,000

C: ₹ 56,000 and ₹ 40,000

D: ₹ 52,000 and ₹ 44,000

Choose the correct one. **(3 marks)**

(h) Choose the correct answer:
Under the hire-purchase system the buyer becomes the owner of goods:
(i) Immediately after the delivery of goods.
(ii) Immediately after the down payments.
(iii) Immediately after the first instalment is paid.
(iv) Immediately after the payment of last instalment. **(3 marks)**

Answer:

(c) (i) available for use

Answer:

(f) The amount of Subscription to be taken as income for 2007-08 is **D. 52,920**

Working note:	₹
Subscription as per books	57,000
Add: Subscription receivable for 2007-08	1,400
Less: Contribution to indoors games	2,000
Less: Subscription outstanding for 2006-07	3,000
Less: Advance subscription for 2008-09	480
Subscription for 2007-08	52,920

Answer:

(g) The share of goodwill amount of A &B respectively will be:-
A → ₹ 24,000 and ₹ 72,000

Working note:-
Old Ratio→ A : B
= 7 : 5.
New Ratio = >A : B : C

$$= \frac{13}{24} - \frac{7}{24} : \frac{1}{6}$$

Sacrificing Ratio = Old Ratio−New Ratio

$$A = \frac{7}{12} - \frac{13}{24} = \frac{14-13}{24} = \frac{1}{24}$$

$$B = \frac{5}{12} - \frac{7}{24} = \frac{10-7}{24} = \frac{3}{24}$$

Sacrificing Ratio= 1 : 3

A : B

Good will be shared in ratio of 1 : 3

A = 96,000 $\times \frac{1}{4}$ = ₹ 24,000

B = 96,000 $\times \frac{3}{4}$ = ₹ 72,000

Answer:

(h)(iv) Immediately after the payment of last installment

—— Space to write important points for revision ——

2009 - June [1] {C} (b) Choose the correct answer :

The excess amount received over the face value of shares, should be credited to:

(i) Current Liabilities;

(ii) Current Assets;

(iii) Reserves & Surplus;

(iv) Securities Premium Account. **(3 marks)**

(d) State whether following is true or false :

(ii) Land is a depreciable asset. **(1.5 marks)**

(g) State whether the following statement is true or false:

(ii) Cost incurred in salaries/wages in internally generated software are included in the cost computation. **(1.5 marks)**

Answer :

(b)(iv) Securities Premium Account.

Answer:

(d) (ii) **False:** [Land is not a depreciable Asset].

Answer:

(g) (ii) **False:** if the words "cost computation" relate to the cost of the products using the software.

True, if the words "cost computation" relate to the cost of generating the software.

—— Space to write important points for revision ——

2009 - Dec [1] {C} (b) Indicate the correct answer :

(i) Sec. 37 of the Partnership Act provides interest on the amount left by the retiring partner at (1) 5%, (2) 6%, (3) bank rate.

(ii) Under Hire purchase system the last instalment paid comprises— (1) Cash price only, (2) Interest only, (3) Cash price and Interest.

(2 marks)

(c) Fill in the blanks :

(i) Increase in one equity with no change in the asset will result in ________ of another equity.

(ii) Final Accounts of a company are prepared according to _________ of the Companies Act, 2013.

(iii) A debit balance in the Income and Expenditure A/c denotes excess of ____________ over ____________ . **(3 marks)**

(f) X and Y divide profit in the ration 5:3 as partners. Z is admitted for $1/5^{th}$ share in the business. The new profit sharing ratio is

(i) 15 : 9 : 8, (ii) 5 : 3 : 2, (iii) 6 : 4, (iv) 5 : 4 : 2. **(3 marks)**

Answer:

(b) (i) (2) 6%

(ii) (3) Cash price and Interest.

Answer:

(c) (i) Decrease

(ii) Schedule III

(iii) Expenditure over income

Answer:

(f) X:Y = Old Ratio = 5:3

New Partner's share = 1/5th

New Profit sharing Ratio = X:Y 1- 1/5 =4/5

X's New Ratio = 4/5 * 5/8 = 20/40

Y's New Ratio = 4/5 * 3/8 = 12/40

Z's New Ratio = 1/5 * 8/8 = 8/40

Or 20:12:8 or, 5:3:2

(ii) 5:3:2

Space to write important points for revision

2010 - June [1] {C} (a) Answer the following:

(i) A profit on sale of furniture of a club will be taken to
 (A) Cash account
 (B) Receipt & Payment Account
 (C) Income & Expenditure Account
 (D) Profit & Loss Account

(ii) When interest on own debentures becomes due it will be credited to
 (A) Profit & Loss Account
 (B) Own Debentures Account
 (C) Debentures Interest Account
 (D) Interest on own Debentures Account

(iii) Profit prior to incorporation is transferred to
 (A) General Reserve
 (B) Capital Reserve
 (C) Profit & Loss Account
 (D) Development Reserve

(iv) Under instalment system of purchase, interest suspense account is debited with
 (A) The difference between instalment price and cash price
 (B) Amount of interest included in each instalment
 (C) Instalment price and discounted cash price
 (D) Difference between Cash Price and Depreciated Value

(1 × 4 = 4 marks)

(c) Indicate the Correct Answer:
Saturn & Neptune are partners sharing profits in the ratio 5 : 3, they admit Jupiter giving him 3/10th share of profit. If Jupiter acquires 1/5th share from Saturn 1/10th share from Neptune, new profit sharing ratio will be:
 (i) 5 : 6 : 3
 (ii) 2 : 4 : 6
 (iii) 18 : 24 : 38
 (iv) 17 : 11 : 12 **(1 mark)**

(d) Fill in the blanks:

(i) A company cannot redeem preference shares unless they are _______ paid up.

(iv) Selling Commission is apportioned among departments in the ratio of __________ of each department.

(v) By products should be valued as lower of cost and net __________ value.

(vi) When minimum rent is more than Royalty the amount payable to landlord is the ______.

(vii) Where hire vendor reckons the profit on the basis of instalments received, the method is known as _______.

(1 × 5 = 5 marks)

Answer :

(a) (i) (C) Income & Expenditure A/c

(ii) (B) Own Debentures A/c

(iii) (B) Capital Reserve

(iv) (A) The difference between instalment price and cash price

Answer:

(c) (iv) Saturn & Neptune: P.S.R = 5:3.

New Partner Jupiter = $\frac{3}{10}$ th share

Jupiter acquires $\frac{1}{5}$ th share from Saturn

$\frac{1}{10}$ th share from Neptune

New Profit Sharing Ratio.

Saturn's Share = $\frac{5}{8} - \frac{1}{5} = \frac{25-8}{40} = \frac{17}{40}$

Neptune's Share= $\frac{3}{8} - \frac{1}{10} = \frac{30-8}{80} = \frac{22}{80}$

Jupiter's Share $= \frac{1}{5} + \frac{1}{10} = \frac{10+5}{50} = \frac{15}{50}$ = 17 : 11 : 12

Answer:

(d) (i) fully paid up

(iv) Sales

(v) Net Realizable value

(vi) Short Working

(vii) Received basis profit

Space to write important points for revision

2010 - June [5] (a) Fill up the Blanks:

(i) As per AS-10 when there is a change in the method of providing depreciation, the differential amount of depreciation would have ___________ effect.

(ii) As per AS-10 when there is a change in the estimated useful life of the asset the, differential would be calculated ___________.

(iii) Profit on revaluation of assets on the admission of a new partner is to be credited to the old partners in their __________ profit sharing ratio.

(v) When a new partner enters in the partnership firm and the partners decide to maintain the General Reserve in the books of the firm at its original value, the amount of general reserve is ___________ to the old partners and ___________ to all partner. **(4 marks)**

(b) State whether the following statements are "True" or "False".

(i) A change in the accounting policy should be made when the statute so requires.

(ii) In consignment sales, revenue should be recognised only the goods are sold to third party.

(iv) Outstanding rent, if shown in the Trial Balance, it would appear in the debit side of the trial balance. **(3 marks)**

(c) Correct the following Statements:

(i) Under **section 37 of the Partnership Act,** the executers of the deceased partner would be entitled at their choice to interest at 6% p.a. on the amount due from the date of death to the date of payment or to his share of profit before death.

(iii) Depreciation Accounting is the process of valuation of the asset and not the process of allocation. **(2 marks)**

Answer :

(a) (i) Prospective

(ii) Prospectively

(iii) Old

(v) Credited to old partners and debited to all partner.

Answer:

(b) (i) True

(ii) True

(iv) False

Answer:

(c) (i) Under **section 37 of the Partnership Act,** the executers of the deceased partner would be entitled at their choice to interest @ 6% p.a. on the amount due from the date of death to the date of payment or to his share of profit after death.

(iii) Depreciation is a process of allocation of asset and not the process of valuation.

—— Space to write important points for revision ——

2010 - Dec [1] {C} (a) State whether the following statements are True (T) or False (F):

(ii) Life membership fee may be capitalized and shown in Balance Sheet in liabilities side

(iii) R and S divided profit in the ratio of 3:2. T is admitted for 1/5 th share in the business. The new profit sharing ratio will be 3:2:1.

(iv) As per AS-2 inventory is valued at the lower of net realizable value and current replacement cost. **(1× 3 = 3 marks)**

(b) Fill in the blanks

(i) Excess of hire purchase price over _______ is treated as hire purchase charges.

(ii) Excess of minimum rent over royalties is termed as _______

(iv) The "Average Clause" is applicable when the actual loss is _____ than the sum assured.

(v) Turnover ratios are also known as ________ratios.

(1 × 4 = 4 marks)

(c) Explain the following in single sentences

(i) Stock Turnover ratio

(ii) Net Realisable value

(iii) Personal Accounts **(1 × 3 = 3 marks)**

(f) From the four alternatives given against each statement, choose the correct alternative :

(i) In the absence of an agreement amongst the partners, loan given by a partner to the firm will be at an interest at the rate of

(A) 5%

(B) 6%

(C) 8%

(D) 10 %

(ii) Depreciation accounting is a process of

(A) Apportionment

(B) Valuation

(C) Allocation

(D) Appropriation

(iii) Which of the following is a Capital Expenditure

(A) Freight and cartage on purchase of new machine

(B) Legal expenses in connection with defending a title to firm's property

(C) Expenditure on painting of factory shed.

(D) Wages paid to machine operator

(iv) AS- 10 is related to :

(A) Valuation of inventories

(B) Accounting for Construction Contracts

(C) Cash Flow Statements

(D) Property, Plant and Equipment **(1 × 4 = 4 marks)**

Answer :

(a) (ii) True

(iii) False

(iv) False

Answer:

(b) (i) cash price

(ii) short working

(iv) more

(v) velocity

Answer:

(c) (i) **Stock turnover ratio:** Stock turnover ratio establishes the relationship between the cost of goods sold during the year and average inventory held during the year.

(ii) **Net realizable value:** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary.

(iii) **Personal Accounts:** Personal accounts related to persons, debtors or creditor. Example would be: the account of Ram & Co., a credit customer or the account of Jhaveri & Co., a supplier of goods.

Answer:

(f) (i) (B) 6%

(ii) (C) Allocation

(iii) (A) Freight and cartage on purchase of new machine

(iv) (D) Property, Plant and Equipment

—— Space to write important points for revision ——

2011 - June [1] {C} (a) State whether the following statement is 'TRUE' (T) or 'FALSE' (F):

(ii) At the end of the accounting period the balance of "Goods sent to Branch account" is transferred to trading account **(1 mark)**

(b) From the four alternative answers given against each statement indicate the correct alternative:

(i) Transfer to Capital Redemption Reserve is not allowed from

(a) General Reserve

(b) Profit prior to incorporation

(c) Reserve Fund

(d) None of the above **(1 mark)**

(ii) Goodwill in case of joint stock company is shown under asset side under the heading
(a) Fixed Assets
(b) Investments
(c) Current Assets
(d) None of the above **(1 mark)**

(v) An amount spent for inauguration of new factory building is
(a) Revenue Expenditure
(b) Capital Expenditure
(c) Prepaid Expenditure
(d) None of the above **(1 mark)**

(d) Choose the appropriate answer in each case from the given alternative answers (= 1 mark) and also give reason for your choice (= 1 mark):

(i) If the current ratio is 2.4:1 and net working capital is ₹ 3,50,000, the amount of current assets will be
(a) ₹ 4,90,000
(b) ₹ 8,40,000
(c) ₹ 6,00,000
(d) None of these **(2 marks)**

(ii) Purchase price of a machine is ₹ 4,45,000; Installation charges ₹ 10,000; Freight and Cartage ₹ 4,000; Insurance charges ₹ 10,000; Residual Value ₹ 14,000; Estimated useful life 5 years. The annual amount of depreciation under Straight line method would be
(a) ₹ 90,000
(b) ₹ 88,000
(c) ₹ 87,000
(d) None of these **(2 marks)**

(iii) The net tangible assets of a business is worth ₹ 1,50,000. The average expected profit to be earned in future is ₹ 30,000 p.a. If the market rate of return is 15%, the value of goodwill is
(a) ₹ 2,00,000
(b) ₹ 2,25,000
(c) ₹ 50,000
(d) None of these **(2 marks)**

Answer :

(a) (ii) True

Answer:

(b) (i) (b) Profit prior to incorporation

(ii) (a) Fixed Assets

(v) (a) Revenue Expenditure

Answer:

(d)(i) Current ratio = $\frac{\text{Current Asset}}{\text{Current Liabilitiy}} = \frac{2.4}{1}$

$\therefore$Current Asset = 2.4 C.L.

Working Capital = CA – CL

2.4 CL – CL = 3,50,000

1.4CL = 3,50,000

CL = $\frac{3,50,000}{1.4}$ = 2,50,000

CA – CL = 3,50,000

CA –2,50,000 = 3,50,000

CA = 3,50,000 + 2,50,000 = 6,00,000

(ii) Cost of Machine –

Purchase Price	4,45,000
Installation Charge	10,000
Freight & Cartage	4,000
	4,59,000

Amount of Depreciation under Straight Line Method

$= \frac{\text{Cost} - \text{Residual Value}}{\text{Life of Asset}} = \frac{4,59,000 - 14,000}{5} = 89,000$

(iii) Calculation of Goodwill

Average Expected Profit = 30,000

Market rate of return = 15%

Value of business = $\frac{30,000}{15\%}$ = 2,00,000

Value of net tangible asset = 1,50,000

Value of Goodwill = 2,00,000 – 1,50,000 = 50,000

2011 - Dec [1] {C} (a) From the four alternative answers given against each indicate the correct answer:

(i) Which of the following inventory system is based on actual physical verification ?
(a) Periodic inventory system
(b) Perpetual inventory system
(c) Both of (A) and (B)
(d) None of (A) and (B)

(ii) The cost of a Fixed Assets of a business has to be written off over its
(a) Natural Life
(b) Accounting Life
(c) Physical Life
(d) Estimated Economic Life

(iii) Shortworkings can be recouped out of
(a) Minimum rent
(b) Excess of actual Royalty over minimum rent
(c) Excess of minimum rent over actual Royalty
(d) Profit and Loss Account

(iv) In Hire Purchase system cash price plus interest is known as
(a) Capital value of asset
(b) Book value of asset
(c) Hire purchase price of asset
(d) Hire purchase charges

(v) In partnership when a new Partner brings his share of Goodwill in cash, then the amount of such Goodwill will be credited to Partners' capitals as per the following ratio:
(a) Old Profit sharing ratio
(b) Sacrifice ratio
(c) Gain ratio
(d) None of the above

(vi) The Receipts and Payments Account generally begins with
(a) Credit Balance
(b) Debit Balance
(c) Both Debit and Credit Balance
(d) None of the above

(vii) Which of the following is a category of Share Capital of a company?
(a) Authorised Capital
(b) Issued Capital
(c) Called up Capital
(d) All of the above

(ix) When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of Gross Profit is 20% on cost, the Closing Stock would be
(a) ₹ 50,000
(b) ₹ 44,000
(c) ₹ 46,000
(d) None of the above

(x) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then the amount of stock reserve on closing stock will be
(a) ₹ 6,000
(b) ₹ 4,500
(c) ₹ 9,000
(d) None of the above **(1 × 9 = 9 marks)**

(b) State whether the following statements are TRUE (T) or FALSE (F):
(i) Original cost minus scrap value is the depreciable value of an asset.
(ii) Royalty is a Revenue Expenditure to Lessor.
(iii) According to AS-2 Inventories are held for sale in normal course of business.
(iv) Income and Expenditure Account is prepared by adopting accrual principle of accounting.
(v) Advance payment of Tax is shown in the Liabilities side of Balance Sheet. **(1 × 5 = 5 marks)**

(c) Fill in the blanks in the following sentences using the appropriate word from the alternatives indicated:
(i) Depreciation is an item of_________. (gross profit/expenditure)
(ii) Compensation paid to employees who are retrenched is________expenditure (Capital/Revenue)

(iii) Receipts and Payment Account is a__________Account in nature. (Real/Nominal)

(iv) Unclaimed Dividend appears under the head of_________in the Balance Sheet of a Company. (Deferred Expenditure/Liabilities)

(1 × 4 = 4 marks)

Answer :

(a) (i) (a) Periodic Inventory System

(ii) (d) Estimated Economic Life

(iii) (b) Excess of actual Royalty over minimum rent

(iv) (c) Hire Purchase price of asset

(v) (b) Sacrifice Ratio

(vi) (b) Debit Balance

(vii) (d) All of the above

(ix) (b) ₹ 44,000

(x) (b) ₹ 4,500

Answer:

(b) (i) **True:** Depreciable value is Original cost – scrap value.

(ii) **False:** Royalty is treated as revenue income to lessor.

(iii) **True:** As per AS 2 definition of inventory is as follows - Inventories are assets -

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(iv) **True:** It means that financial statement is prepared on mercantile system only.

(v) **False:** Advance tax is a current assets. It is shown in the assets side of balance sheet.

Answer:

(c) (i) Depreciation is an item of expenditure.

(ii) Compensation paid to employees who are retrenched is Revenue expenditure.

(iii) Receipts and payment account is a Real account in nature.
(iv) Unclaimed dividend appears under the head of Liabilities in the balance sheet of a company.

—— Space to write important points for revision ——

2012 - June [1] {C} (a) From the four alternative answers given against each of the following cases, indicate the correct answer:

(i) Which of the following items is shown in the Income and Expenditure Account?
- (A) Only items of capital nature
- (B) Only items of revenue nature which are received during the year
- (C) Only items of revenue nature pertaining to the period of accounts
- (D) Both the items of capital and revenue nature

(ii) A heavy revenue expenditure, which helps to generate revenue over more than one accounting year is termed as
- (A) Preliminary Expenditure
- (B) Revenue Expenditure
- (C) Prepaid Expenditure
- (D) Deferred Revenue Expenditure

(iii) During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were ₹ 12,000 and ₹ 15,000 respectively. The amount of salary paid shown in Receipt and Payments Account would be
- (A) ₹ 84,000
- (B) ₹ 81,000
- (C) ₹ 93,000
- (D) None of the above

(v) A firm employs ₹ 2,00,000 as Capital and the normal rate of return is 10%. If the firm makes an average profit of ₹ 30,000 per year, the value of Goodwill by considering it as the purchase of 3 years super profit will be:

(A) ₹ 25,000
(B) ₹ 20,000
(C) ₹ 30,000
(D) None of the above

(vii) Goods are sent to the Branch at cost plus 25%. The loading on invoice price is
(A) 20%
(B) 25%
(C) 30%
(D) None of the above

(viii) Dual concept in accounting results in the following equation:
(A) Capital + Liability = Assets
(B) Revenue = Expenses
(C) Capital + Profit = Assets
(D) Total Assets = Total Liability

(ix) Under which of the following heads is claims against a Company not acknowledged as debts shown?
(A) Unsecured Loan
(B) Current Liability
(C) Current Assets
(D) Contingent Liability

(x) Which of the following will be the highest amount?
(A) Paid-up Capital
(B) Authorised Capital
(C) Subscribed Capital
(D) Reserve Capital **(1 × 8 = 8 marks)**

(b) State whether the following statements are TRUE (T) or FALSE (F):

(i) Excess of hire-purchase price over cash price is known as penalty imposed on hire purchaser by the vendor.

(iii) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.

(iv) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.

(v) Wages incurred by departmental workers of a factory in installing a new machinery is a revenue expenditure. **(1 × 4 = 4 marks)**

(c) Fill in the blanks in the following sentences by using the more appropriate word(s) from the alternatives shown in bracket:

(i) When there is no agreement among the partners, the profit or loss of the firm will be shared in their ______ (capital ratio/equally).

(ii) In Hire Purchase transaction the right to sell or transfer of the goods remains with ______ (Seller/Hirer).

(iii) As per the going concern concept, the enterprise should continue to exist _____ (in the foreseeable future/for limited period of time).

(iv) Inauguration expenses on opening of a new Branch of an existing business will be ______ (capital/revenue) expenditure.

(v) Trial Balance would not disclose _____ (error of omission/ommission of posting). **(1 × 5 = 5 marks)**

Answer :

(a) (i) Option C. Only items of revenue nature pertaining to the period of accounts. As per Matching Concept, only items of revenue nature i.e. income & expenses which relates to the accounting period are shown in the Income & expenditure account. Items which are of capital nature are transferred to Balance Sheet.

(ii) Option D. Deferred Revenue Expenditure. Deferred expenses may be defined as those expenses for which payments have been made or liabilities incurred but which are carried forward on the presumption that these will be of benefit over a subsequent period or periods.

(iii) Option C. ₹ 93,000

Salary Debited =	96,000
Add: Opening outstanding	12,000
Less: Closing outstanding	15,000
	93,000

(v) Option C. ₹. 30,000

Calculation of Goodwill

Average pft.	= 30,000
Less : Normal Pft. 2,00,000 × 10%	= 20,000
Super Profit	10,000

Goodwill = 10,000 × 3 = 30,000

(vii) Option A. 20% Loading on invoice price = $\frac{25}{125} \times 100 = 20\%$

(viii) Option A. Capital + Liability = Assets

The entire system of recording business transaction is based on accounting equation. Each transaction has a dual aspect, known as 'duality concept' in accounting. Accordingly, each transaction will have simultaneously two-fold effect on the financial position of a business. Therefore Accounting Equation arises.

(ix) Option D. Contingent Liability.

The term 'Contingent liability' can be defined as

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:

   (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

   (ii) A reliable estimate of the amount of the obligation cannot be made.

An enterprise should not recognise a contingent liability. A Contingent liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.

(x) Option B. Authorized Capital.

In the Capital clause of MOA, authorized capital of the company should be mentioned. As per MOA, it is the maximum capital that a company can issue.

Answer:

(b) (i) **False:** Excess of HP Price over Cash Price is known as Interest.

(iii) **True:**

There are four purposes for which depreciation can be provided :

(a) **True Financial Position:** The assets are shown at proper (reduced) value at every balance sheet.

(b) **Correct Income Measurement :** The profit & Loss account shows true/proper profit or loss because some portion of fixed asset (in the form of dep.) which are used for earning the income are debited to P&L A/c

(c) **Funds for Replacement :** The depreciation reduces the profit, hence to that extent amount (funds) gets retained in the business, which can be used for replacement of this asset.

(d) **Ascertainment of true cost of production:** For ascertaining the cost of the production, it is necessary to charge depreciation as an item of cost of production.

Therefore it is true that for replacement purpose depreciation is being provided.

(iv) **True:**

Conservatism states that the accountant should not anticipate income and should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value. The Realization Concept also states that no change should be counted unless it has materialized. The Conservatism Concept puts a further brake on it. It is not prudent to count unrealized gain but it is desirable to guard against all possible losses.

(v) **False:** Expenditure incurred to bring the assets into its present location & condition is a capital expenditure.

Answer:

(c) (i) Equally

(ii) Seller

(iii) In the foreseeable future

(iv) Capital

(v) Error of omission

Space to write important points for revision

2012 - Dec [1] {C} (a) From the four alternative answers given against each of the following cases, indicate the correct answer:

(ii) Realisation account is opened at the time of
- (A) Admission of a new partner
- (B) Retirement of a partner
- (C) Dissolution of the Firm
- (D) In all the above situations

(iii) In the hire purchase system interest charged by vendor is calculated on the basis of
- (A) Outstanding Cash Price
- (B) Hire Purchase Price
- (C) Instalment amount
- (D) None of the above

(iv) Bad debts are apportioned among departments in the proportion of
- (A) Sales of each department
- (B) Number of units sold by each department
- (C) Cost of sales of each department
- (D) None of the above

(v) The following account has a credit balance
- (A) Plant and Equipment A/c
- (B) Purchase Returns A/c
- (C) Purchase A/c
- (D) None of the above

(vii) The amortisation of amount of software commences from the date when it is
- (A) Available for use
- (B) Put to use
- (C) Developed upto 75%
- (D) None of the above

(ix) When prior period expenditure is paid subsequently and for which no provision was made earlier, the accounting entry would be
- (A) Debit expenditure
- (B) Debit prior period expenditure
- (C) Debit deferred revenue expenditure
- (D) None of the above

(x) In the case of non-profit organisation donations received by the organisation are reflected in
(A) Income and Expenditure Account
(B) Capital Account
(C) Receipts and Payments Account
(D) None of the above **(1 × 7 = 7 marks)**

(b) State whether the following statement is TRUE (T) or FALSE (F):
(v) Liquid assets plus stock in trade is called current assets.
(1 mark)

(c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated:
(i) Net worth ratio means share holders funds divided by total assets excluding _________ (fictitious assets/prepaid expenses).
(iii) Errors in principle _________ affect tallying Balance Sheet (does/does not).
(iv) In case of instalment sale ownership passes at the time of _________ (sale/payment of last instalment).
(v) Solvency ratio means total liabilities divided by _________ (total assets /shareholders funds). **(1 × 4 = 4 marks)**

Answer :

(a)(ii) (C) **Dissolution of the firm:** At the time of Admission/ Retirement of a partner, revaluation account is opened but at the time of dissolution of a firm, realisation a/c is opened.

(iii) (A) **Outstanding cash price:** In the hire purchase system H.P. price = Cash Price + Interest. In this system, interest will be calculated every time on outstanding principle amount i.e. cash price. Therefore option (B) is not correct. Option (C) is also not correct because instalment amount includes both Principle and Interest.

(iv) (A) **Sales of each department:** Bad debt is treated as selling and distribution expenses, therefore it will be apportioned on the basis of sales of each department. It is related to value only therefore option (B) and (C) is not correct.

(v) (B) **Purchase returns A/c:** At the time of purchase return, following journal entry is passed- creditors A/c _______ Dr.
To purchase return A/c
Therefore option (B) is Correct. Options (A) and (C) are incorrect since these accounts will be debited not credited.

(vii) (A) **Available for use:** As per AS 26 "Intangible Assets" amortisation of softwares should start when the asset is available for use and not put to use.

(ix) (B) **Debit prior period expenditure:** Example Rent paid in April 2013 ₹ 1,00,000 includes 60,000 for the month of March 2013. The Journal entry will be:-

Rent A/c	Dr.	40,000	
Prior period expenses A/c (Rent)	Dr.	60,000	
To cash/ Bank A/c			1,00,000

Therefore option (B) is correct

(x) (C) **Receipts and Payments A/c:** In case of receipt of donation, the following entry will be passed
Cash/Bank A/c Dr.
To capital fund A/c
Therefore option (C) is correct.

Answer:

(b) (v) **True:** Current assets = Liquid assets + stock in trade
Liquid assets = Cash in hand + Bank balance + Debtors + B/R.

Answer:

(c) (i) Fictitious assets
(iii) Does not
(iv) Sale
(v) Total assets

2013 - June [1] {C} (a) From the four alternatives given against each of the following cases, indicate the correct answer: (just state a, b, c or d)

(i) At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of
(a) Realisation
(b) Accrual
(c) Conservatism
(d) None of the above

(ii) Contingent Liability would appear
(a) On the liability side
(b) On the asset side
(c) As a note in Balance Sheet
(d) None of the above

(iii) The effect of timing difference is called as
(a) Current Tax
(b) Deferred Tax
(c) Minimum Tax
(d) None of the above

(v) Interest and Dividends received in the case of a manufacturing concern should be classified as cash flow from
(a) Operating activities
(b) Financing activities
(c) Investing activities
(d) None of the above **(1 x 4 = 4 marks)**

(b) State whether the following statements are TRUE (T) or FALSE (F):

(i) Sinking fund method of depreciation takes into account the cost of an asset as well as interest also thereon at given rate .

(ii) Purchase of a technical know-how is revenue expenditure.

(iii) Transactions are recorded on accrual basis in the 'Income and Expenditure Account'.

(iv) When the goods are returned by Branch, goods sent to Branch account will be debited in the books of Head Office.

(1 x 4 = 4 marks)

(c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated:

(i) Royalty account is a __________ account in nature (nominal/real).

(iii) Revenue nature receipts and payments which relates to a particular accounting period are shown in the ____________ account (Receipts and Payments/ Income and Expenditure).

(1 x 2 = 2 marks)

(e) In the following cases, one out of four answers is correct. Indicate the correct answer (=1 mark) and give brief workings in support of your answer (=1 mark):

(i) Working capital of a company is ₹ 21,28,000 and total debts are ₹ 42,50,000. If the company's long term debts are ₹ 27,30,000 then current ratio will be

(a) 0.78 :1 (b) 1.4 : 1 (c) 1.14 : 1 (d) 2.4 : 1

(ii) A and B are partners sharing profit/loss in the ratio of 3 : 2. They admit C into partnership for 1/6 share in the profit which he acquired equally from the old partners. The new profit sharing ratio will be

(a) 3 : 2 : 1 (b) 1 : 1 : 1 (c) 31 : 19 : 10 (d) 14 : 6 : 4

([1 + 1] x 2 = 4 marks)

Answer:

(a)

(i)	b	When business procures goods or services with the agreement that the payment will be made at a future date. An obligation to pay for goods or services is created upon the procurement thereof.
(ii)	c	
(iii)	b	Current tax is the amount of income tax determined to be payable or recoverable in respect of the taxable income (tax loss) for a period. According to **Section 115JB of Income Tax Act, 1961,** the payable on the total income as computed under the Income Tax Act in respect of any previous year cannot be less than 18.5% of the Book Profit. Deferred tax is the timing difference between accounting income & taxable income.
(v)	c	

Answer:

(b)

(i)	True	
(ii)	False	If technical knowhow is one time investment then it is assets. On the other hand, pay for technical knowhow in the nature of payment for consultancy it is purely an expense.
(iii)	True	
(iv)	True	

Answer:

(c)

(i) Nominal

(iii) Income & Expenditure

Answer:

(e)

(i) (d) 2.4:1; Current Liabilities = Total debts - Long Term debts

= 42,50,000 - 27,30,000

= ₹ 15,20,000

Current Assets = W.C. + C.L.

= 21,28,000 + 15,20,000

= 36,48,000

Current Ratio $= \frac{C.A.}{C.L.} = \frac{36,48,000}{15,20,000}$

(ii) (c) 31:19:10; A's new share $= \frac{3}{5} - \frac{1}{6} \times \frac{1}{2} = \frac{3}{5} - \frac{1}{2} = \frac{36-5}{60} = \frac{31}{60}$

B's new share $= \frac{2}{5} - \frac{1}{6} \times \frac{1}{2} = \frac{2}{5} - \frac{1}{2} = \frac{24-5}{60} = \frac{19}{60}$

C's new share $= \frac{1}{6}$ or $\frac{10}{60}$

Hence, new ratio = 31:19:10

Space to write important points for revision

2016 - June [1] {C} Answer the following questions:

(a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.)

(i) Expenditures in respect of certain types of assets whose usefulness does not expires in the year of their occurance but generally expires in the near future are called

(A) Revenue Expenditure
(B) Capital Expenditure
(C) Deferred Revenue Expenditure
(D) None of the above

(ii) The main objective of average clause contained in a fire insurance policy is to

(A) Encourage full Insurance
(B) Discourage full Insurance
(C) Encourage under Insurance
(D) Encourage full Insurance and Discourage under Insurance

(iii) Short working can be recouped out of

(A) Minimum Rent
(B) Excess of Actual Royalty over Minimum Rent
(C) Excess of Minimum Rent over Actual Royalty
(D) Profit and Loss Account

(iv) AS-10 is applicable to which one of the following assets?

(A) Goodwill
(B) Live Stock
(C) Plantation
(D) Property, Plant and Equipment **(1×4 = 4 marks)**

(b) Match Column -I with Column -II

Column - I		**Column - II**	
(i)	Assets are equal to liabilities Plus capital	A	AS-9
(ii)	Intangible Fixed Asset	B	AS-2
(iii)	Property, Plant and Equipment	C	Duel aspect concept

(iv)	Revenue recognition	D	AS-10
(v)	Valuation of inventories	E	Goodwill
		F	Borrowing Cost

(1×5 = 5 marks)

(c) State whether the following statements given below are TRUE or FALSE:

(i) Income and Expenditure Account is prepared by adopting accrual principle of Accounting.

(ii) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.

(iii) The cost of developing software for a company engaged in software business is revenue expenditure.

(v) According to AS-2 Inventories are held for sale in normal course of business. **(1×5 = 5 marks)**

Answer :

(a) (i) (C)
(ii) (D)
(iii) (B)
(iv) (D)

(b) (i) (c)
(ii) (E)
(iii) (D)
(iv) (A)
(v) (B)

(c) (i) True
(ii) True
(iii) False
(v) True

2016 - Dec [1] {C} Answer the following questions:

(a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.):

(i) Any change in the accounting policy relating to inventories which has a material effect in the current or later periods should be disclosed. This is in accordance with the accounting principle of:
(A) Going Concern
(B) Conservatism
(C) Consistency
(D) Disclosure

(ii) Depreciation is a process of
(A) Apportionment
(B) Valuation
(C) Allocation
(D) None of the above

(iii) AS-9 is related to
(A) Revenue Recognition
(B) Cash Flow Statement
(C) Accounting for Fixed Assets
(D) Disclosure of Accounting policies

(iv) An amount spent in connection with obtaining a License for starting the factory is
(A) Revenue Expenditure
(B) Capital Expenditure
(C) Pre-paid Expenditure
(D) None of the above **(1 × 4 = 4 marks)**

(c) State whether the following statements given below are TRUE or FALSE:

(i) In the case of consignment sales, revenue is to be recognised on sale of goods to a third party.

(ii) The amount by which the minimum rent exceeds the actual Royalty is known as Excess Workings.

(iv) As per AS-2 Inventory is valued at the lower of net realisable value and current replacement cost.

(v) Retiring a bill under rebate means payment of the bill before due date. **(1 × 4 = 4 marks)**

Answer :

(a) (i) (C)

(ii) (C)

(iii) (A)

(iv) (B)

Answer :

(c) (i) True

(ii) False

(iv) False

(v) True

—— Space to write important points for revision ——

2017 - June [1] Answer the following questions:

(a) Choose the most appropriate one from given four alternatives:

(i) Creditors ledger adjustment account is opened in
- (a) General Ledger
- (b) Debtors Ledger
- (c) Creditors Ledger
- (d) Either (b) or (c)

(ii) Receipts and Payments account is a
- (a) Nominal Account
- (b) Real Account
- (c) Personal Account
- (d) Artificial Personal Account

(iii) A resource owned by the business with purpose of using it for generating future profit, is known as
- (a) Capital
- (b) Asset
- (c) Liability
- (d) Surplus

(iv) Outward Invoice issued is a source document of
- (a) Purchase Book
- (b) Sales Book
- (c) Return Inward Book
- (d) Return Outward Book

(v) Which of the following is of capital nature?
   (a) Commission on purchases
   (b) Cost of repairs
   (c) Rent of factory
   (d) Wages paid for installation of machinery

(vi) If any stock is taken by a co-venturer, it will be treated as
   (a) an income of the joint venture.
   (b) an expense of the joint venture.
   (c) to be ignored from joint venture.
   (d) it will be treated in the personal books of the co-venturer.

(vii) Contingent liability would appear
   (a) on the liability side of the Balance Sheet.
   (b) on the assets side of the Balance Sheet.
   (c) do not shown in the books of accounts.
   (d) as a note in Balance Sheet.

(viii) Income statement of a Charitable Institution is known as
   (a) Statement of profit and loss
   (b) Receipts and Payments Account
   (c) Income and Expenditure Account
   (d) Profit and Loss Account

(ix) Which of the following account is mainly prepared at the time of dissolution of the firm
   (a) Revaluation A/c
   (b) Goodwill A/c
   (c) Realization A/c
   (d) Memorandum Revaluation A/c

(x) Advertisement expenses are apportioned among departments in the proportion of
   (a) sales of each department
   (b) purchases of each department
   (c) no. of units sold by each department
   (d) cost of sales of each department **(1 × 10 = 10 marks)**

(b) Match the following in Column-I with the appropriate in Column-II:

Column-I		Column-II	
(i)	Garner Vs. Murray case	(A)	AS-10
(ii)	Repossession of goods	(B)	Computerized Accounting System
(iii)	Provision for unrealized profit	(C)	Insolvency of a partner
(iv)	Property, Plant and Equipment	(D)	Royalty Accounts
(v)	Automatic Financial Statements	(E)	Hire Vendor
		(F)	Inter-departmental transfer at invoice price
		(G)	Retirement of a Partner

(1×5 = 5 marks)

(c) State whether the following statements given below are true or false:

(i) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.

(ii) Royalty account is a real account in nature.

(iii) As per AS-7 expenses recognized in the period in which the work to which expenses relate is performed.

(iv) Expenses incurred by branch out of petty cash balance are debited to branch account by the head office.

(v) In absence of partnership deed the profit or loss should be distributed among partners in their capital ratio. **(1×5 = 5 marks)**

(d) Fill in the blanks:

(i) The ________ discount is never entered in the books of accounts.

(ii) A bill of exchange drown on 12th April, 2017 for four months, the date of maturity will be ________.

(iii) The parties of joint venture is called ________.

(iv) Outstanding subscription is shown in the ________ side of Balance Sheet.

(v) According to AS-2 inventories should be valued at lower of cost and ________ value. **(1×5 = 5 marks)**

Answer:

(a) (i) (a)
(ii) (b)
(iii) (b)
(iv) (b)
(v) (d)
(vi) (a)
(vii) (d)
(viii) (c)
(ix) (c)
(x) (a)

Answer:

(b) (i) (c)
(ii) (e)
(iii) (f)
(iv) (a)
(v) (b)

Answer:

(c) (i) True
(ii) False
(iii) True
(iv) False
(v) False.

Answer:

(d) (i) trade
(ii) 14.08.2017
(iii) co-venturers
(iv) assets
(v) net realisable

Space to write important points for revision

2017 - Dec [1] Answer the Following Questions:

(a) Choose the most appropriate one from given four alternatives:

(i) If an employee of the business files a legal suit on business, it is considered in the books as a

(a) Legal Expense
(b) Liability
(c) Contingent Asset
(d) Contingent Liability

(ii) At the end of the accounting year the capital expenditures are shown in the
(a) assets side of the Balance Sheet.
(b) liabilities side of the Balance Sheet.
(c) debit side of the Profit and Loss A/c.
(d) credit side of the Profit and Loss A/c.

(iii) Which of the following is not a method of charging depreciation?
(a) Sinking Fund Method
(b) Sum of years Digit Method
(c) Working hours Method
(d) Asset's Life-cycle Method

(iv) If average inventory is ₹ 1,25,000 and closing inventory is ₹ 10,000 less than opening inventory then the value of closing inventory will be
(a) ₹ 1,35,000
(b) ₹ 1,15,000
(c) ₹ 1,30,000
(d) ₹ 1,20,000

(v) The Accommodation bill is drawn
(a) to finance actual purchase or sale of goods.
(b) to facilitate trade transmission.
(c) when both parties are in need of funds.
(d) None of the above

(vi) Balance of X's account in creditors ledger is transferred to X's account in debtors ledger, in this case
(a) X's account in debtors ledger will be debited.
(b) X's account in creditors ledger will be debited.
(c) Suspense account will be debited.
(d) None of the above

(vii) Ground rent or surface rent means
(a) Minimum rent
(b) Maximum royalty payable
(c) Minimum royalty payable
(d) Fixed rent payable in addition to minimum rent

(viii) Accounting standard in India are issued by
(a) Government of India
(b) Reserve Bank of India
(c) The Institute of Chartered Accountants of India
(d) The Institute of Accounting Standard of India

(ix) As on 31st March, 2017 debtors; and additional bad debts are ₹ 8,00,000 and ₹ 10,000 respectively. If the provision for bad debts is made at 5% on debtors then amount of such provision will be
(a) ₹ 40,000
(b) ₹ 50,000
(c) ₹ 39,500
(d) ₹ 40,500

(x) Income and Expenditure Account is a
(a) Nominal Account
(b) Real Account
(c) Personal Account
(d) Artificial Personal Account **(1 × 10 = 10 marks)**

(b) Match the following in **Column-I** with the appropriate in **Column-II:**

	Column-I		**Column-II**
(i)	Noting Charges	(A)	Branch Accounts
(ii)	Stock and debtors Method	(B)	Piecemeal Distribution
(iii)	Work certified	(C)	Not-for Profit Organization
(iv)	Average clause	(D)	Royalty Accounts
(v)	Maximum Loss Method	(E)	Bill of Exchange
		(F)	Construction Contract
		(G)	Insurance Claims

(1 × 5 = 5 marks)

(c) State whether the following statements given below are 'True' or 'False':

(i) Memorandum joint venture account is prepared to find out amount due from co-venture.

(ii) Receipts and Payments Account is prepared by adopting cash principle of accounting.

(iii) As per AS-9 revenue from interest should be recognized on the time proportion basis.

(iv) Bad debts recovered is credited to debtor's personal account.

(v) New-partner pays premium for goodwill, which will be shared by old partners in their new profit sharing ratio. **(1 × 5 = marks)**

(d) Fill in the blanks:

(i) The _____discount is not recorded in the books of accounts.

(ii) Profit or Loss on revaluation is shared among the partners in ____Ratio.

(iii) At the time of goods sent to consignee, the proforma invoice is prepared by _______.

(iv) Memorandum revaluation account is prepared when the _____of assets and liabilities are not altered.

(v) Realisation account is opened at the time of ______of firm.

(1 × 5 = 5 marks)

Answer:

(a) (i) (D)

(ii) (A)

(iii) (D)

(iv) (D)

(v) (C)

(vi) (B)

(vii) (D)

(viii) (C)

(ix) (C)

(x) (A)

Answer:

(b) (i) (E)
(ii) (A)
(iii) (F)
(iv) (G)
(v) (B)

Answer:

(c) (i) False
(ii) True
(iii) True
(iv) False
(v) False

Answer:

(d) (i) Trade
(ii) Old profit sharing
(iii) Consignor
(iv) Book value
(v) Dissolution of the firm

Space to write important points for revision

2018 - June [1] Answer the Following Questions:

(a) Choose the most appropriate one from the given following alternatives:

(i) Which of the following is not a Qualitative Characteristics of Financial Statement?
(a) Cost Principle
(b) Understandability
(c) Relevance
(d) Reliability

(ii) Name the book in which, entries are recorded on the basis of credit notes issued.
(a) Sales Book
(b) Purchase Book
(c) Sales Return Book
(d) Purchase Return Book

(iii) Exception to consistency principle is
(a) Cost Principle
(b) Going Concern Principle
(c) Matching Principle
(d) Prudence Principle

(iv) Interest charged by vendor in Hire Purchase System, is calculated on the basis of
(a) Outstanding hire purchase price
(b) Outstanding cash price
(c) Instalment amount
(d) Cost price of the asset

(v) The balance in consignment account shows
(a) Amount receivable from consignee
(b) Amount payable to consignee
(c) Profit/loss on consignment
(d) Closing stock with consignee

(vi) Provision for bad debts is
(a) Real Account
(b) Nominal account
(c) Personal account
(d) None of the above

(vii) The business is treated as distinct and separate from its owners on the basis of the
(a) Going concern concept
(b) Conservatism concept
(c) Matching concept
(d) Business entity concept

(viii) Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is
(a) Prior- period item
(b) Extra - ordinary item
(c) Ordinary item requiring separate disclosure
(d) Contingent item

(ix) Discount given in the Sales - Invoice itself is
   (a) Cash discount
   (b) Trade discount
   (c) Rebate
   (d) Allowance

(x) Canteen expenses are apportioned among departments in the proportion of
   (a) Departmental floor space
   (b) Departmental direct wages
   (c) Departmental sales
   (d) Departmental No. of employees **(1× 10 = 10 marks)**

(b) Match the following in Column-I with the appropriate Column - II :

	Column - I		**Column - II**
(i)	Receipt & Payment A/c	(a)	AS- 10
(ii)	Revaluation model of Asset	(b)	Consignment
(iii)	Proforma Invoice	(c)	Not-for-Profit Organization
(iv)	Stage of Completion Method	(d)	Hire Purchase
(v)	Partial Repossession	(e)	AS - 7
		(f)	AS - 6

(1× 5 = 5 marks)

(c) State whether the following statements given below are True or False:
   (i) Receipt & Payment Account only records the revenue nature of receipts and expenses.
   (ii) Sales Book records both cash and credit sales.
   (iii) Normal loss of goods sent on consignment is shown in Consignment Account.
   (iv) In case of trading concern, cost of good sold and cost of sales are same.
   (v) In Proprietorship business, Income-tax payable is shown as a liability in Balance Sheet. **(1× 5 = 5 marks)**

(d) Fill in the blanks:

(i) The Bank A/c is a __________ Account.

(ii) Assets are classified as non-current asset and current assets as per __________ Principle.

(iii) __________ Amount is the higher of asset's net selling price and its value in use.

(iv) The _________ Loss is included in the valuation of inventories.

(v) _____________ is the amount by which minimum rent exceeds the actual royalty. **(1× 5 = 5 marks)**

Answer:

(a) (i) (a)
(ii) (c)
(iii) (d)
(iv) (b)
(v) (c)
(vi) (c)
(vii) (d)
(viii) (c)
(ix) (b)
(x) (d)

Answer:

(b) (i) (c)
(ii) (a)
(iii) (b)
(iv) (e)
(v) (d)

Answer:

(c) (i) False
(ii) False
(iii) False
(iv) False
(v) False

Answer:

(d) (i) Personal
(ii) Going – Concern
(iii) Recoverable / Fair Value
(iv) Normal
(v) Short-workings

Space to write important points for revision

2018 - Dec [1] Answer the following questions:

(a) Choose the most appropriate one from the given following alternatives:

(i) Both cash and credit transactions are recorded, on the basis of
(a) Accounting Period Concept
(b) Going Concern Concept
(c) Business Entity Concept
(d) Accrual Concept

(ii) Which of the following book is both a journal and a ledger?
(a) Cash Book
(b) Sales Day Book
(c) Bills Receivable Book
(d) Journal Proper

(iii) Interest received in advance account is a
(a) Nominal Account
(b) Real Account
(c) Artificial Personal Account
(d) Representative Personal Account

(iv) Shiva draws a bill on Sanat on 25th October, 2018 for 90 days, the maturity date of the bill will be
(a) 27th January, 2019
(b) 26th January, 2019
(c) 25th January, 2019
(d) 28th January, 2019

(v) Peeru and Simu are entered in the business of buy and sale of food grain for a period of one year and sharing the profit in the ratio of 3:2, this agreement is a

(a) Partnership
(b) Consignment
(c) Joint-venture
(d) Lease

(vi) At the end of the year 2017-18, Prepaid Insurance Premium ₹ 7,500 was appeared in the Trial Balance, it will be shown
(a) only in Profit & Loss Account.
(b) only in Balance Sheet.
(c) both in Profit & Loss Account and in Balance Sheet.
(d) not in both in Profit & Loss Account and in Balance Sheet.

(vii) Contingent Liability would appear
(a) on the liabilities side of the Balance Sheet.
(b) on the assets side of the Balance Sheet.
(c) as a note in the Balance Sheet.
(d) None of the above

(viii) Debtors Ledger Adjustment Account is opened in the
(a) Debtors Ledger
(b) Creditors Ledger
(c) General Ledger
(d) Both Creditors Ledger and General Ledger

(ix) Generally sacrifice ratio is concerned with the situation of
(a) Admission of a new partner
(b) Retirement of a partner
(c) Dissolution of firm
(d) Conversion of firm into company

(x) KCS purchased a machine from JPS on hire purchase system, whose cash price was ₹ 8,64,000. ₹ 2,16,000 being paid on delivery and balance in three annual instalments of ₹ 2,88,000 each. The amount of interest included in first instalment would be
(a) ₹ 72,000
(b) ₹ 57,600
(c) ₹ 1,08,000
(d) ₹ 36,000 **(1 × 10 = 10 marks)**

(b) Match the following:

Column - I		Column - II	
(1)	Dead Rent	(A)	Bills Receivable
(2)	Marshalling	(B)	Consignment
(3)	Protesting	(C)	Liquidity Order
(4)	Account Sales	(D)	Accounting Policies
(5)	Substance over form	(E)	Royalty

(1 × 5 = 5 marks)

(c) Fill in the blanks:

(i) While posting an opening entry in the ledger, in case of an Account having debit balance, in 'Particulars' column the words ____ are written on debit side.

(ii) Depreciation Accounting is the process of ____ and not ____.

(iii) Finished goods are normally valued at cost or _____ whichever is lower.

(iv) The relation between Consignee and Consignor is that of ____.

(v) The relationship between Co-venturers is that of _____.

(1 × 5 = 5 marks)

(d) State with reason whether the following statements are true or false (No marks shall be awarded without valid reason):

(i) Bank reconciliation statement is prepared to arrive at the bank balance.

(ii) Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years.

(iii) Reducing balance method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(iv) Reserve for Discount on Creditors has a credit balance.

(v) A promissory note can be made payable to the bearer.

(1 × 5 = 5 marks)

Table Showing Marks of Compulsory Questions										
Year	**14 J**	**14 D**	**15 J**	**15 D**	**16 J**	**16 D**	**17 J**	**17 D**	**18 J**	**18 D**
Objective					14	8				
Total					14	8				

June - 2018
CMA Inter Gr. I Paper - 5
Financial Accounting

1. Answer the following questions:
   (a) Choose the most appropriate one from the given following alternatives:
      (i) Which of the following is not a Qualitative Characteristics of Financial Statement?
         (a) Cost Principle
         (b) Understandability
         (c) Relevance
         (d) Reliability
      (ii) Name the book in which, entries are recorded on the basis of credit notes issued.
         (a) Sales Book
         (b) Purchase Book
         (c) Sales Return Book
         (d) Purchase Return Book
      (iii) Exception to consistency principle is
         (a) Cost Principle
         (b) Going Concern Principle
         (c) Matching Principle
         (d) Prudence Principle
      (iv) Interest charged by vendor in Hire Purchase System, is calculated on the basis of
         (a) Outstanding hire purchase price
         (b) Outstanding cash price
         (c) Instalment amount
         (d) Cost price of the asset
      (v) The balance in consignment account shows
         (a) Amount receivable from consignee
         (b) Amount payable to consignee
         (c) Profit/loss on consignment
         (d) Closing stock with consignee

(vi) Provision for bad debts is
- (a) Real Account
- (b) Nominal account
- (c) Personal account
- (d) None of the above

(vii) The business is treated as distinct and separate from its owners on the basis of the
- (a) Going concern concept
- (b) Conservatism concept
- (c) Matching concept
- (d) Business entity concept

(viii) Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is
- (a) Prior- period item
- (b) Extra - ordinary item
- (c) Ordinary item requiring separate disclosure
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(ix) Discount given in the Sales - Invoice itself is
- (a) Cash discount
- (b) Trade discount
- (c) Rebate
- (d) Allowance

(x) Canteen expenses are apportioned among departments in the proportion of
- (a) Departmental floor space
- (b) Departmental direct wages
- (c) Departmental sales
- (d) Departmental No. of employees (1× 10 = 10 marks)

(b) Match the following in Column-I with the appropriate Column - II :

	Column - I		**Column - II**
(i)	Receipt & Payment A/c	(a)	AS- 10
(ii)	Revaluation model of Asset	(b)	Consignment

(iii)	Proforma Invoice	(c)	Not-for-Profit Organization
(iv)	Stage of Completion Method	(d)	Hire Purchase
(v)	Partial Repossession	(e)	AS - 7
		(f)	AS - 6

(1× 5 = 5 marks)

(c) State whether the following statements given below are True or False:

(i) Receipt & Payment Account only records the revenue nature of receipts and expenses.

(ii) Sales Book records both cash and credit sales.

(iii) Normal loss of goods sent on consignment is shown in Consignment Account.

(iv) In case of trading concern, cost of good sold and cost of sales are same.

(v) In Proprietorship business, Income-tax payable is shown as a liability in Balance Sheet. (1× 5 = 5 marks)

(d) Fill in the blanks:

(i) The Bank A/c is a __________ Account.

(ii) Assets are classified as non-current asset and current assets as per __________ Principle.

(iii) __________ Amount is the higher of asset's net selling price and its value in use.

(iv) The _________ Loss is included in the valuation of inventories.

(v) _____________ is the amount by which minimum rent exceeds the actual royalty. (1× 5 = 5 marks)

Section-B

Answer any five from the following.

Each Question carries 15 marks.

2. (a) The Trial Balance of S Ltd. as on 31/03/2018 showed the credit in excess by ₹ 415 which was been carried to Suspense Account. On a closed scrutiny of the books, the following errors were revealed:

(i) A cheque of ₹ 3,456 received from AB Ltd. after allowing it a discount of ₹ 46 was endorsed to CD Ltd. in full settlement for ₹ 3,500. The cheque was finally dishonoured but no entries are passed in the books of account.

(ii) Goods of the value of ₹ 230 returned by PQ Ltd. were entered in Purchase Day book and posted therefrom to MN Ltd. as ₹ 320.

(iii) Bad debts aggregating ₹ 505 written off during the year in Sales Ledger but were not recorded in General Ledger.

(iv) Bill for ₹ 750 received from Z Ltd. for repairs to Machinery was entered in the Inward Invoice Book as ₹ 650.

(v) Goods worth ₹ 1,234 purchased from Y Ltd. on 28/03/2018 had not been entered in Day book and credited to Y Ltd. but Goods were not delivered till 5th April, 2018. The title of Goods was however passed on 28/03/2018 and was taken into stock on 31-03-2018.

(vi) ₹ 79 paid for Freight on Machinery was debited to Freight account as ₹ 97.

Pass the necessary Journal Entries to rectify the above mentioned errors. (8 marks)

(b) A company maintains its reserve for bad debts @ 5% and a reserve for discount on debtors @ 2%. You are given the following details:

Particulars	2016	2017
Bad debts	800	1,500
Discount allowed	1,200	500
Sundry debtors (before providing all bad debts and discounts)	60,000	42,000

On 01/01/2016, Reserve for bad debts and Reserve of discount on debtors had balance of ₹ 4,550 and ₹ 800 respectively.

Show Reserve for Bad Debts and Reserve for Discount on Debtors Account for the year 2016 and 2017. (7 marks)

3. Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

	₹
Opening Cash Balance	56,000
Donation Received (including ₹ 50,000 for Building Fund.)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @ 9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical Camp Expenses	10,500
Miscellaneous Expenses	7,000

Additional Information:

Sl. No.		01.04.2016 ₹	31.03.2017 ₹
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	3,15,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017. (15 marks)

4. The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date:

(a) Assets and Liabilities as on :

	01.04.2016 ₹	31.03.2017 ₹
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October, 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipts of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonored.

(d) Goods costing ₹ 9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtor. (15 marks)

5. (a) (i) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), Prepare Hire-Purchase Trading Account for the year ending, March 31, 2017:

	₹
April 01, 2016 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000

(5 marks)

(ii) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month. On 3rd January, 2018 the accountant of the company located the following errors in the books of account:

(A) An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.

(B) The sales book for December, 2017 was undercast by ₹ 1,000.

(C) Goods invoiced at ₹ 15,600 were returned to supplier, M/s Mega Ltd. but no entry was made in the books for this return made on 28th December, 2017.

Pass the necessary Journal Entries to rectify the above mentioned errors. (5 marks)

(b) On 15th December, 2017, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of Stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available:

(i) Stock at the close of account on 31st March, 2017 was valued at ₹ 9,40,000.

(ii) Purchases from 01.04.2017 to 15-12-2017 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000. (5 marks)

6. A and B were partners of a firm sharing profits and losses in the ratio 2 : 1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		—
	21,00,000		21,00,000

They agreed to admit P and Q into the partnership on the following terms:

(i) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits' of the last 3 years. The relevant figures are:

Year ended 31.03.2014 - Profit ₹ 37,000
Year ended 31.03.2015 - Profit ₹ 40,000
Year ended 31.03.2016 - Profit ₹ 45,000

(ii) The value of the stock and Plant & Machinery were to be reduced by 10%.

(iii) Building was to be valued at ₹ 10,11,000.

(iv) There was an unrecorded liability of ₹ 10,000.

(v) A,B,P & Q agreed to share profits and losses in the ratio 3 : 2 : 1 : 1.

(vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.

(vii) P and Q were to bring capitals equal to their shares of Profit considering B's capital as base after all adjustments.

You are required to prepare:

(1) Memorandum Revaluation Account,

(2) Partner's Capital Accounts and

(3) The Balance Sheet of the newly constructed firm. (15 marks)

(a) (i) (A) X sells goods to Y for ₹ 2,00,000. Instead of one bill of ₹ 2,00,000, X draws three bills of exchange on Y for ₹ 40,000; ₹ 60,000 and ₹ 1,00,000. What is the value involved in drawing three bills instead of one?

(B) Sunny draws a bill on Vivek for three months. On the due date, Vivek finds himself in financial difficulties and requests Sunny to renew the bill for a further period of one month. Sunny agrees to his request. What is the virtue involved in renewing the bill?

(C) What is the value involved in accepting an accommodation bill?

(D) What is the reason that a drawer cannot file a suit against drawee in case of dishonour of an accommodation bill?

(1 × 4 = 4 marks)

(ii) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premises of Heena Ltd. Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9. (5 marks)

(b) X Ltd. has its H.O. in Delhi and a branch in Mumbai. H.O. supplied goods to its branch at cost plus $33\frac{1}{3}\%$. From the particulars given below prepare a Branch Trading Account for the year ended 31st March 2018 in the books of H.O.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock (I.P)	40,000	Sales:	
Goods sent to Branch (I.P.)	2,50,000	Cash	1,00,000
Return to H.O. (I.P.)	10,000	Credit	3,00,000
		Discount allowed to customers	10,000
		Closing Stock (I.P.)	60,000

It is estimated that 2% of the goods received are lost through natural wastage. (6 marks)

8. Write short notes on any three of the following:
   (a) Operating cycle of Consignment Arrangement.
   (b) Disadvantages of a Computerized Accounting Package.
   (c) Features of Single Entry System.
   (d) Bearer Plant. (5 × 3 = 15 marks)

December - 2018
CMA Inter Gr. I Paper - 5
Financial Accounting

Section – A

1. Answer the following questions:
   (a) Choose the most appropriate one from the given following alternatives:
      (i) Both cash and credit transactions are recorded, on the basis of
         (a) Accounting Period Concept
         (b) Going Concern Concept
         (c) Business Entity Concept
         (d) Accrual Concept
      (ii) Which of the following book is both a journal and a ledger?
         (a) Cash Book
         (b) Sales Day Book
         (c) Bills Receivable Book
         (d) Journal Proper
      (iii) Interest received in advance account is a
         (a) Nominal Account
         (b) Real Account
         (c) Artificial Personal Account
         (d) Representative Personal Account
      (iv) Shiva draws a bill on Sanat on 25th October, 2018 for 90 days, the maturity date of the bill will be
         (a) 27th January, 2019
         (b) 26th January, 2019
         (c) 25th January, 2019
         (d) 28th January, 2019

(v) Peeru and Simu are entered in the business of buy and sale of food grain for a period of one year and sharing the profit in the ratio of 3:2, this agreement is a
(a) Partnership
(b) Consignment
(c) Joint-venture
(d) Lease

(vi) At the end of the year 2017-18, Prepaid Insurance Premium ₹ 7,500 was appeared in the Trial Balance, it will be shown
(a) only in Profit & Loss Account.
(b) only in Balance Sheet.
(c) both in Profit & Loss Account and in Balance Sheet.
(d) not in both in Profit & Loss Account and in Balance Sheet.

(vii) Contingent Liability would appear
(a) on the liabilities side of the Balance Sheet.
(b) on the assets side of the Balance Sheet.
(c) as a note in the Balance Sheet.
(d) None of the above

(viii) Debtors Ledger Adjustment Account is opened in the
(a) Debtors Ledger
(b) Creditors Ledger
(c) General Ledger
(d) Both Creditors Ledger and General Ledger

(ix) Generally sacrifice ratio is concerned with the situation of
(a) Admission of a new partner
(b) Retirement of a partner
(c) Dissolution of firm
(d) Conversion of firm into company

(x) KCS purchased a machine from JPS on hire purchase system, whose cash price was ₹ 8,64,000. ₹ 2,16,000 being paid on delivery and balance in three annual instalments of ₹ 2,88,000 each. The amount of interest included in first instalment would be

(a) ₹ 72,000
(b) ₹ 57,600
(c) ₹ 1,08,000
(d) ₹ 36,000 (1 × 10 = 10 marks)

(b) Match the following:

Column - I		Column - II	
(1)	Dead Rent	(A)	Bills Receivable
(2)	Marshalling	(B)	Consignment
(3)	Protesting	(C)	Liquidity Order
(4)	Account Sales	(D)	Accounting Policies
(5)	Substance over form	(E)	Royalty

(1 × 5 = 5 marks)

(c) Fill in the blanks:
(i) While posting an opening entry in the ledger, in case of an Account having debit balance, in 'Particulars' column the words ____ are written on debit side.
(ii) Depreciation Accounting is the process of ____ and not ____.
(iii) Finished goods are normally valued at cost or _____ whichever is lower.
(iv) The relation between Consignee and Consignor is that of ____.
(v) The relationship between Co-venturers is that of _____.
(1 × 5 = 5 marks)

(d) State with reason whether the following statements are true or false (No marks shall be awarded without valid reason):
(i) Bank reconciliation statement is prepared to arrive at the bank balance.
(ii) Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years.

(iii) Reducing balance method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(iv) Reserve for Discount on Creditors has a credit balance.

(v) A promissory note can be made payable to the bearer.

(1 × 5 = 5 marks)

Section - B

Answer any five from the following.
Each Question carries 15 marks.

2. (a) A bookkeeper extracted the following Trial Balance as on 31st March, 2018:

Heads of Accounts	Dr. Balance (₹)	Cr. Balance (₹)
Furniture	20,000	—
Capital	—	2,00,000
Debtors	2,00,000	—
Stock (1st April, 2017)	1,04,000	—
Creditors	—	80,000
Trade Expenses	50,000	—
Sales	—	8,58,000
Wages	30,000	—
Stock (31st March, 2018)	98,000	—
Machinery	—	50,000
Purchases	6,25,000	—

Wife's loan to the business	50,000	—
Discount Allowed	—	4,000
Drawings made by the Proprietor	—	45,000
Motor Van	60,000	—
Total	12,37,000	12,37,000

You are required to:

(i) State the errors giving reasons,

(ii) Redraft the Trial Balance correctly. (7 marks)

(b) Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date:

Particulars	**31st March, 2017 (₹)**	**31st March, 2018 (₹)**
Furniture	1,00,000	1,20,000
Stock of Goods-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	—	4,000
Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and Payments during the year were as follows:

Particulars	**₹**
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000

Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchased	20,000

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors.

(8 marks)

3. The following information provided by the Nav Yuvak Mandal, Delhi for the first year ended 31st March, 2018:
   (i) Donations received for building ₹ 25 Lakh.
   (ii) Other incomes and receipts were:

(₹ in '000)

Particulars	Capital Income (₹)	Revenue Income (₹)	Actual Receipt (₹)
Entrance fees	–	251	251
Life Membership fees	105	–	105
Subscription	–	1,160	1,151
Play Ground rent	–	120	110
Refreshment account	–	115	115
Sundry incomes	–	62	49

   (iii) Expenditures and actual payments were: (₹ in '000)

Particulars	Capital Expenditure (₹)	Revenue Expenditure (₹)	Actual Payment (₹)
Land	800	–	800
Books	236	–	202
Furniture	345	–	315
Honorarium and salaries	–	165	131

Maintenance of play ground	–	52	50
Refreshment account	–	79	79
Insurance Premium	–	12	15
Sundry expenses	–	70	65

Others: Donation were utilized to the extent of ₹ 13 Lakh in construction of building, balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2017 for ₹ 10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2018. During the year 2017-18, Subscription received in advance ₹ 52,000 for the year 2018-19.

Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2018. (15 marks)

4. A, B and C are partners in a firm sharing profits and losses as 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 was as follows:

(₹ in Lakh)

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Partners' Capital A/c		Land and Building	210
A	145	Plant and Machinery	255
B	110	Stock	125
C	75	Debtors	95
General Reserve	165	Bills Receivable	25
Partners' Loan :		Cash in Hand	3
A	30	Cash at Bank	37
B	20		
Sundry Creditors	205		
	750		750

B died on 1st August, 2018. His account is to be settled under the following terms:

(i) Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were : 2014-15 ₹ 135 Lakh, 2015-16 ₹ 145 Lakh, 2016-17 ₹ 131 Lakh and 2017-18 ₹ 165 Lakh.

(ii) Land and Building will be valued at ₹ 250 Lakh and Plant and Machinery will be valued at ₹ 240 Lakh.

(iii) For the purpose of calculating B's share in the profits of 01.04.2018 to 31.07.2018, the profits for the year 2017-18 will be taken as base.

(iv) Interest on Partners' Loan will be calculated @ 6% per annum.

(v) A sum of ₹ 50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1st December, 2018 together with interest @ 10% per annum.

You are required to pass necessary journal entries to record the above transactions and amount payable to B's Executor's Account. (15 marks)

5. (a) The following information provided by the Shobha Departmental Store for the year ended 31st March, 2018:

Department	Purchase (units)	Sales	Closing Stock (units)
X	2500	2550 units @ ₹ 160 per unit	250
Y	5000	4800 units @ ₹ 180 per unit	400
Z	6000	6240 units @ ₹ 200 per unit	140

The total value of purchases is ₹ 15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31st March, 2018. (9 marks)

(b) Following information is available from the books of Simu & Co. for the year ended 31st March, 2018:

(i) Total Sales amounted to ₹ 560 Lakh including the sale of old Machinery for ₹ 8 Lakh (Book Value ₹ 15 Lakh). The total Cash Sales were 80% less than the total Credit Sales.

(ii) Cash collection from debtors amounted to 75% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for ₹ 15.60 Lakh.

(iii) Bills Receivable drawn during the year totaled ₹ 45 Lakh of which bills amounting to ₹ 28 Lakh were endorsed in favour of Creditors, Out of these endorsed B/R, some bills for ₹ 4.60 Lakh were dishonoured for non-payment as the parties became insolvent, their estate realizing nothing.

(iv) Cheques received from Sundry Customers for ₹ 41 Lakh were dishonoured; a sum of ₹ 5 Lakh is irrecoverable.

(v) Bad Debts written off in the earlier years was recovered of ₹ 7.50 Lakh.

(vi) Transfers from Creditors Ledger to Debtors Ledger were of ₹ 38 Lakh.

(vii) Sundry Debtors, as on 1st April, 2017, stood at ₹ 128 Lakh.

You are required to show the General Ledger Adjustments Accounts in the Debtors Ledger. (6 marks)

6. (a) CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around ₹ 3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

	₹
Total variable expenses	24,00,000
Fixed expenses:	
Salaries	3,30,000
Rent, Rates and Taxes	30,000
Travelling expenses	50,000
Postage, Telegram, Telephone	60,000
Director's fees	10,000
Audit fees	20,000
Miscellaneous income	70,000
Net Profit	4,20,000

Determine the amount of policy to be taken for the current year. (7 marks)

(b) Mansi Ltd. acquires the lease of a mine from Nanu Ltd. on the following terms:
  (i) Minimum Rent of ₹ 40 Lakh per annum merging into a royalty of ₹ 50 per tonne.
  (ii) Shortworkings are recoverable out of future earnings subject to:
    (I) Only half of the excess earnings over minimum rent may be used for this purpose.
    (II) No Shortworkings may be carried forward for recoupment if output falls below 40000 Tonnes, in any year.

Output for the first four years was : 32000 Tonnes; 48000 Tonnes; 64000 Tonnes and 112000 Tonnes respectively.

Prepare the necessary accounts for above four years in the books of the Lessee. (8 marks)

7. (a) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹ 1,900. The entire quantity of waste is on stock at the year end. State with reference to Accounting standard, the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss, if any and the value of closing inventories. (8 marks)

(b) Enumerate the advantages of computerized Accounting. (7 marks)

8. Write short notes on *any three* of the following:
  (i) Applicability and Non-Applicability of Garner vs. Murray Rule
  (ii) Consequential Loss Policy
  (iii) Distinction between Hire Purchase Agreement and Instalment Purchase Agreement
  (iv) Distinction between Fundamental accounting assumptions and Accounting policies (5 × 3 = 15 marks)

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FOR NOTES

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