RR ACADEMY

CMA INTERMEDIATE
GROUP 1 – Paper 6

FINANCIAL ACCOUNTING

Prof. **Dr. O S SARAVANAN**
M.Com., Ph.D., M.B.A., M.Sc (Psy.)., M.A. (PM & IR)., UGC NET (Com)., SLET (Com)., UGC NET (Mgt.)., SLET (Mgt.), HDCA.,

RR Academy Admin Office:
No 2, NOOR VEERASAMY STREET,
BEHIND NUNGAMBAKKAM POLICE STATION,
NUNGAMBAKKAM, CHENNAI – 600034.
CONTACT: 9941298973 / 9841109332
Email: therracademy@gmail.com

Web: www.rracademy.in **Fb: RR Academy Institute**

FINANCIAL ACCOUNTING
CHAPTER OUTLINE OR DESIGN

QUESTION PAPER PATTERN

Q.NO. 1 = COMPULSORY (25 Marks) – 1 Mark Questions

- **(a)** Choose the best Answer **(10 Marks)**
- **(b)** Match the following **(5 Marks)**
- **(c)** Fill in the Blanks **(5 Marks)**
- **(d)** True or False **(5 Marks)**

Q.NO. 2 TO 8 = DESCRIPTIVE QUESTION
(ANY FIVE OUT OF 7 QUESTIONS) 15 Marks

2. Bills/ Consignment/ JV or Depreciation/Rectification/ BRS/ Basics
3. Partnership
4. NPO or Single Entry or Final Accounts
5. Branch or Departmental or Theory
6. Insurance Claim or Hire Purchase or Theory
7. Accounting Standards
8. Short Notes (theory)

CHAPTERIZATION

NOTE:

Previous Year ICMAI Exam Question Papers included

- **December 2023**
- **June 2024**
- **December 2024**
- **June 2025**

CHAPTER 1: ACCOUNTING FOR DEPRECIATION

THEORY

1. **Concept of Depreciation**
   - It is the Systematic allocation of Asset value to Profit & Loss A/c. over theperiod of useful life.
   - Gradual and systematic decrease in the value of Asset over a period of time
2. **Reasons for Depreciation**
   1. Wear and Tear
   2. Passage of Time
   3. Decrease of Market Value
   4. Technological Obsolescence
   5. Environmental Influences
3. **Objectives for providing Depreciation**
   1. To Know Correct Profit or Revenue for our business
   2. To Present your Financial statements in true and Fair View
   3. To ascertain replacement fund for new asset
   4. To Know the correct cost of Production
4. **Methods of Depreciation**
   1. SLM – Straight Line Method or Original Cost Method
      Depreciation = Original cost – Scrap Value / Estimated Life (Years)
   2. WDV – Written down Value Method or Diminishing Value Method
      WDV = $C(1-d)^n$
      C = Original Cost of the Asset
      d = Depreciation rate
      n = No. of Years
   3. Annuity Method
   4. Sum of the years digits method
   5. Machine hour rate method
   6. Production Units Method
   7. Depletion Method
   8. Sinking Fund Method
   9. Insurance Policy Method
   10. Revaluation Method
   11. Provision for Depreciation Method
5. **Accounting Treatment**
   Type 1 – Without Asset Disposal A/c. (Normal)
   Type 2 – With Asset Disposal A/c. (Provision Method)

PROBLEMS FOR PRACTICE:

1. A second-hand machinery was purchased on 1-1-90 for ₹ 30,000 and repair charge amounted to ₹ 6,000. It was installed at a cost of ₹ 4,000. On 1st July 1991 another machine was purchased for ₹ 26,000. On 1st July 1992 the first purchased machine was sold for ₹ 30,000. On the same day one more machine was bought for ₹ 25,000. On 31-12-92 the machine bought on 1st July 1991 was sold for ₹ 23,000. Accounts are closed every year on 31st December. Depreciation is written off at 15% per annum.

   Prepare Machinery A/c for 3 years ending 31-12-1992.

2. On 1-4-1989. Machinery was purchased for ₹ 80,000. On 1-4-1990 additions were made to the tune of ₹ 40,000. On 31-3-1991 a machinery purchased on 1-4-1989 costing ₹ 12,000 was sold for ₹ 11,000 and on 30-6-1991 a machinery purchased on 1-4-1990 costing ₹ 32,000 was sold for₹ 26,000. On 1-10-1991 additions were to the tune of ₹ 20,000.

   Depreciation was charged at 10% per annum under
   (a) The original cost method and
   (b) Diminishing balance method.

   Show the Machinery Account for the year ended 31st March 1990, 1991, and 1992.

3. M/s Akash& Co. purchased a machine for ₹ 10,00,000. Estimated useful life and scrap value were 10 years and ₹ 1,20,000 respectively. The machine was put to use on 1.1.2014.

   Required: Show Machinery Account and Depreciation Account in their books for2019 by using sum of years digits method.

4. M/s Akash & Co. purchased a machine for ₹ 50,00,000. Estimated useful life and scrap value were 5 years and ₹ 5,00,000 respectively. The machine was put to use on 1.1.2014.

   Required: Depreciation by using sum of year's digits method.

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

Year	
1 – 3	3,000 hours per year
4 - 6	2,600 hours per year
7 - 10	1,800 hours per year

   Required: Determine Annual Depreciation under Machine Hour Rate Method.

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

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

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

7. M/s Surya& Co. took lease of a quarry on 1-1-2017 for ₹ 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2017	2,000tonnes
2018	10,000 tonnes
2019	15,000 tonnes

Required: Show the Quarry Lease Account and Depreciation Account for each year from 2017 to 2019.

8. M/s. Anshul& Co. commenced business on 1st January 2015, when they purchased plant and equipment for ₹ 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and over the years, their purchases of plant have been:

1-1-2016	1,50,000
1-1-2019	2,00,000

On 1-1-2019 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2019 with no scrap value and 10 years for the asset purchased on 1.1.2019.

Required: Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31stDecember 2019.

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

Required: Calculate depreciation for the fourth year.

10. Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹ 35,00,000 on 31stDecember 2019. The balance in Revaluation Surplus on that date was ₹ 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31stDecember 2019.

Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on31st December 2019 was

(a) ₹ 37,00,000
(b) ₹ 33,00,000 and
(c) ₹ 31,00,000.

Also, give the journal entries.

11. On 31st December2011 two machines which were purchased on 01.10.2008 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 machines was sold for ₹ 20,000 and other for ₹ 10,000. The balance of Machinery Account on April1,2011, was ₹ 3,00,000 against which the depreciation provision stood at ₹ 1,50,000. Depreciation was provided @ 10% on Reducing Balance Method.

12. 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—

A heavy repair effected to plant and machinery account (completed on 30th June 2009), were debited to the machinery. The amount was ₹ 15,000; and A machine cost ₹ 6,000 was entered in the purchases on1st 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.

CHAPTER 2: BILLS OF EXCHANGE

MODELS

1. Bills are drawn and Settled at Maturity
   a. Normal or Retained Till Maturity
   b. Discounting the Bill
   c. Endorsed to the Creditors
   d. Bills sent for collection
2. Dishonor of Bills
3. Noting Charges
4. Renewal of the Bills
5. Retirement of the Bills
6. Insolvency
7. Accommodation Bill
8. Bills for Collection

PROBLEMS FOR PRACTICE

1. Mohan sold goods to Sohan for ₹ 50,000. On 1st Jan 2013, Mohan drew a bill for three months on Sohan who accepted the same. Pass necessary journal entries in the books of Mohan and Sohan in following situations:

   a) The bill is retained by Mohan till 31st March and Sohan paid it on that day upon presentation.
   b) Bill is discounted with the bank and the bank pays ₹ 49,000 to Mohan. Sohan paid the bill on due date.
   c) Mohan endorsed the bill to Rohan (his creditor) in settlement of his claim for ₹ 51,000. The bill is settled on the due date.
   d) Mohan sent the bill to the bank for collection on due date. The bank collected bill amount and after deducting collection charges of ₹ 100 paid the balance to Mohan.

2. Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April 2013. Sunil accepts it and returns it to Anil. On 15th April 2013, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonored, the bank paid noting charges of ₹ 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 2013. Before the new bill became due, Sunil retires the bill with a rebate of ₹ 500.

   Show journal entries in the books of Anil.

3. Sanjay purchased goods worth ₹ 1,00,000 from Rahul for which the latter drew a bill on the former, payable after one month. Sanjay accepted it and returned it to Rahul. Rahul endorsed it to Kavitha and Kavitha to Arun. Arun discounted the bill with Canara Bank at 9% p.a.

On maturity, the bill was dishonored, noting charges being ₹ 1.000. **Show the Journal entries in the books of all the parties including the books of Canara Bank.**

4. Short owes Slow ₹ 6,000 for which the former accepts a three months bill drawn by the latter. Slow immediately discounts the bill with his banker Strong Bank, at 12%. On the due date the bill is dishonored, and Strong Bank pays ₹ 20 as noting charge.

Short pays ₹ 1,180 including interest of ₹ 200 and gives another bill at three months for the balance. Slow endorses the bill to his creditor Slim in full settlement of his debts for ₹ 5,100. Slim discounts the bill with his banker Strong Bank who charges ₹ 40 as discount. Before maturity Short becomes bankrupt and a first and final dividend of 20 paise in a rupee is realized from his estate.

Show the journal entries in the books of Slim and Strong Bank and ledger account of Short in the book of Slow.

5. On 1.1.2013, Pandit, for mutual accommodation of himself and Thakur, drew upon the latter a 3 months' bill for 12,000 which was duly accepted. Pandit discounted the bill at 6% p.a. on 4.1.2013 and remitted half of the proceeds to Thakur.

On 1.2.2013, Thakur drew and Pandit accepted a bill at 3 months' for ₹ 4,800. On 4.2.2013, Thakur discounted the bill at 6% p.a. and remitted half of the proceeds to Pandit.

At maturity Pandit met his acceptance but Thakur failed to meet his and Pandit had to take it up. Pandit drew and Thakur accepted a new bill at 2 months on 4.5.2013 for the amount due to Pandit plus 100 as interest. On 1.7.2013, Thakur became insolvent and first and final dividend of 50 paise in the rupee was received from his estate on 30.09.2013.

Pass necessary journal Entries in the books of Pandit.

6. Mr. David draws two bills of exchange on 1-1-2006 for ₹ 6,000 and ₹ 10,000. The bills of exchange for ₹ 6,000 is for two months while the bill of exchange for ₹ 10,000 is for three months. These bills are accepted by Mr. Thomas. On 4-3-2006 Mr. Thomas requests Mr. David to renew the first bill with Interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20-03-2006 Mr. Thomas retires the acceptance for ₹ 10,000, the interest rebate i.e., discount being 100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

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

7. Journalize the following transactions in the books of J. Jaggi:
   - **a.** Our acceptance to M. Madan for ₹ 5,000/- retired before due date, rebate allowed ₹ 10/-
   - **b.** K. Kaku's acceptance for ₹ 400/- renewed for a further period of 3 months, interest charged at 15 per cent.
   - **c.** Our acceptance to P. Swamy for ₹ 800/- renewed for 3 months on the condition that ₹ 200/- is paid in cash immediately and the remaining balance to carry interest at 12 per cent.
   - **d.** D. Dutt's promissory note for ₹ 700/- which we had endorsed in favor of P. Mukherjee dishonored. P. Mukherjee paid ₹ 10/- as noting charges. We pay P. Mukherjee by cheque and accept from D. Dutt another bill for the amount due plus interest ₹ 15/-
   - **e.** Our promissory note for ₹ 500/- in favor of A. Alam returned unpaid due to lack of instructions to the bank. A. Alam claim ₹ 510/- which we pay by cheque.

8. X draws a bill for ₹ 30,000 and Y accepts the same for the mutual accommodation of both of them to the extent of X 2/3 and Y1/3. X discounts the same for ₹ 28,200 and remits 1/3 of the proceeds to Y. Before the due date, Y draws another bill for ₹ 42,000 on X in order to provide funds to meet the first bill. The second bill is discounted for ₹ 40,800 with the help of which the first bill is met and ₹ 7,200 are remitted to X. Before the due date of the second bill. X becomes bankrupt and Y receives a dividend of 50 paise in the rupee in full satisfaction.

   Pass journal entries in the books of X and Y.

CHAPTER 3: JOINT VENTURE ACCOUNTS

1. Meaning – Joint Venture is a temporary partnership
2. Suitability of Joint Venture
   a. Construction
   b. Short Term Project
   c. Underwriting of Shares and Debentures
   d. Temporary Trading Activities
3. Accounting Treatment
   a. When Separate Books are maintained
   b. When No Separate Books are maintained
   c. Memorandum Joint Venture
   d. Conversion of Consignment into Joint Venture

MODEL 1 – WHEN SEPARATE BOOKS ARE MAINTAINED

1. Sagar and Pankaj entered into Joint venture and undertook building construction of Patil & Co. Ltd. Mumbai for ₹ 5,00,000.
   a. Sagar supplied materials of ₹ 35,000 and Pankaj paid ₹ 20,000 his Architect Fees.
   b. Sagar contributed ₹ 1,25,000 and Pankaj contributed ₹ 75,000 and deposited the same amount in the Joint Bank Account.
   c. They paid from Joint Bank Account for materials ₹ 2,80,000 and Wages ₹ 1,20,000.
   d. On completion of the venture, they received contract price as per the terms.
   e. Pankaj took over the unused materials for ₹ 15,000.

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

2. Prabir and Mihir doing business separately as building contractors undertake jointly to build a skyscraper for a newly started public limited company for a contract price of ₹ 1,00,00,000 payable as ₹ 80,00,000 in cash and the balance by way of fully paid equity shares of the new company. A Bank A/c was opened for this purpose in which Prabir paid ₹ 25,00,000 and Mihir ₹ 15,00,000. The profit-sharing ratio was agreed as 2:1 between Prabir and Mihir. The transactions were:
   a. Advance received from the company ₹ 50,00,000
   b. Wages to contractors ₹ 10,00,000
   c. Bought materials ₹ 60,00,000
   d. Material supplied by Prabir ₹ 10,00,000
   e. Material supplied by Mihir ₹ 15,00,000
   f. Architect's fees paid from Joint Bank account ₹ 21,00,000

The contract was completed, and the price was duly paid. The joint venture was duly closed by Prabir taking all the shares at ₹ 18,00,000 and Mihir taking over the balance material for ₹ 3,00,000.

Prepare the Joint Venture A/c, Joint Bank A/c. Co-venturer's A/cs and Shares A/c.

3. P and Q entered into a joint venture for underwriting the subscription at par of 25,000 shares of ₹ 10 each of a Joint Stock Company. They agreed to share profits or losses in the ratio of 3/5 and 2/5, respectively. The consideration for guaranteeing the subscription was 250 other shares of ₹ 10 each fully paid to be issued to them.

The public took up 24,000 of the shares and the remaining shares of the guaranteed issue were taken up by P and Q who provide cash equally. The entire shareholding of the venture was then sold through other brokers, 60% at a price of ₹ 9.50 less brokerage 50 paisa per share, 20% at a price of ₹ 9.75 less brokerage 50 paisa per share and the balance were taken over by P and Q equally at ₹ 9.00 per share.

Prepare a Joint Venture Account, the Joint Bank Account, and Capital Accounts of P and Q.

4. Wadekar and Pataudi enter into a joint venture to develop some building sites and sell them on the understanding that the result of the venture would be shares in the ratio of 4:5 between them. It is also agreed that any cash investment they make in the venture would be entitled to interest @10% p.a.

They chose a five-acre agricultural plot and purchased it for ₹ 60,000. They approached a nationalized bank which agreed to finance them to the extent of 80% of the cost at 16% interest p.a. The buying arrangements were finalized on1st July 1997 and the vendors paid off on the same day. Balance of purchase consideration and also the registration expenses which came to 8% were met by Wadekar from out of his own resources.

Pataudi met the costs of preparation of the layout, advertisement etc. which were as under:

- **a.** Leveling and engineering costs paid to architects and town planners on 1-8-1997 at ₹ 250 per ground.
- **b.** Municipal fee on 1-9-1997 at ₹ 400 per ground.
- **c.** Advertisement expenses met on 1-10-1997 at ₹ 17,500
- **d.** Entertainment expenses on 31-12-1997 ₹ 1,120.

Plots were advertised for sale in newspapers on **15-9-1997** and on the basis of response, the entire was dealt with as under:

- **i.** 15% of the total area was to be left for roads, market place, police station and a Park.
- **ii.** 10 Plots each of 3, 2 ½ and 1 ½ grounds were made.
- **iii.** The balance area was taken equally by Wadekar and Pataudi at cost.
- **iv.** 1 ½ ground plots carried a premium of 50%,2½ ground plots at premium of 40% and 3 ground plots a premium of 25% over cost.
- **v.** Pataudi to receive 8% of the sale proceeds as management fee for his efforts.

The entire transactions were put through by 31st December 1997. **Show the Joint Venture Account and the statement of account settlement between the venturers** (1 acre is equal to 18 grounds of 2,400 sq. feet each.)

MODEL–II–WHEN NO SEPARATE BOOKS OF ACCOUNTS ARE MAINTAINED

5. John and Smith entered into a joint venture business to buy and sale garments to share profits or losses in the ratio of 5:3. John supplied 400 bales of shirting at ₹ 500 each and also paid ₹ 18,000 as carriage & insurance. Smith supplied 500 bales of suiting at ₹ 480 each and paid ₹ 22,000 as advertisement & carriage. John paid ₹ 50,000 as advance to Smith.

John sold 500 bales of suiting at ₹ 600 each for cash and also all 400 bales of shirting at ₹ 650 each for cash. John is entitling for commission of 2.5% on total sales plus an allowance of ₹ 2,000 for looking after business. The joint venture was closed, and the claims were settled.

Prepare Joint Venture A/c and Smith's A/c in the books of John and John's A/c in the books of Smith.

MODEL – III – MEMORANDUM JOINT VENTURE ACCOUNT

6. Ravi and Suresh entered into a Joint Venture for purchase and sale of electronic goods, sharing profit & loss in this ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records.

- **July 1, 2013:** Ravi purchased goods worth ₹ 1,90,000 financed to the extent of 90% out of his funds and balance by loan from his uncle Shyam.
- **Aug. 1, 2013:** Ravi sent goods costing ₹ 1,70,000 to Suresh and paid ₹ 1,410 as freight. Suresh paid ₹ 13,410 to Ravi.
- **Oct. 1, 2013:** Suresh sold all the goods sent to him. Ravi paid the loan takes from his uncle including interest of ₹ 350.

All sales by either party were made at as uniform profit of 40% after cost. On Nov. 30, 2013, they decided to close the venture by transforming the balance of goods unsold lying with Ravi at a cost of ₹ 9,000 to a wholesale dealer.

You are required to prepare the Memorandum Joint Venture Account, Joint Venture with Ravi in the books of Suresh and Joint Venture with Suresh in the books of Ravi. They further disclosed that goods worth ₹ 4,000 were taken personally by Ravi at an agreed price of ₹ 5,000.

7. Thread of Tata Nagar and Needle 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. Thread undertook to make the purchases and Needle to effect sales.

Needle remitted ₹ 75,000 to Thread towards the Joint Venture. Thread purchased machinery worth ₹ 60,000 and paid ₹ 28,500 for repairs, 2 ½% as buying commission and ₹ 2,700 for other sundry expenses. He then sent all the machines purchased and repaired to Needle at Nagpur.

While taking delivery of the machinery at Nagpur, Needle incurred ₹ 4,500 towards Railway Freight and ₹ 2,100 towards Octroi. He sold part of the machinery for ₹ 1,05,000 and kept the remaining for himself at an agreed value of ₹ 22,500. Other expenses of Needle were:

- **i.** Godown rent ₹ 1,350
- **ii.** Insurance ₹ 1,680
- **iii.** Brokerage ₹ 2,490
- **iv.** Miscellaneous ₹ 1,920

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

You are required to prepare accounts for the joint venture to show how matters stood in each party's ledger and prepare a statement showing the result of the venture.

CHAPTER 4: CONSIGNMENT ACCOUNTS

MODEL 1 - NORMAL CONSIGNMENT

PROBLEMS FOR PRACTICE:

1. Exe senton 1st July2019 to Wye goods costing ₹50,000 and spent ₹ 1,000 on packing etc. On3rd July 2019, Wye received the goods and sent his acceptance to Exe for ₹30,000 payables at 3months. Wye spent ₹2,000 on freight and cartage, ₹ 500 on Godown rent and ₹ 300 on insurance. On 31st December 2019 he sent his Account Sales (along with the amount due to Exe) showing that 4/5 of the goods had been sold for ₹ 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay ₹ 600 due from him.

   Show the necessary Ledger Accounts in the books of consignor.

2. From the following particulars ascertain the value of unsold stock on Consignment.
   Goods sent (1,000 kgs.) ₹ 20,000
   Consignor's expenses ₹ 4,000
   Consignees non-recurring expenses ₹ 3,000
   Sold (800 kgs.) ₹ 40,000
   Loss due to natural wastage (100 kgs.)

3. 5,000 shirts were consigned by Raizada & Co. of Delhi to Zing of Tokyo at cost of ₹ 375 each. Raizada & Co. paid freight ₹ 50,000 and Insurance ₹ 7,500. During the transit 500 shirts were totally damaged by fire. Zing took delivery of the remaining shirts and paid ₹ 72,000 on custom duty. Zing had sent a bank draft to Raizada & Co. for ₹ 2,50,000 as advance payment. 4,000 shirts were sold by him at ₹ 500 each. Expenses incurred by Zing on Godown rent and advertisement etc. amounted to ₹ 10,000. He is entitled to a commission of 5%. One of the customers to whom the goods were sold on credit could not pay the cost of 25 shirts.

   Prepare the Consignment Account and the Account of Zing in the books of Raizada & Co. Zing settled his account immediately. Nothing was recovered from the insurer for the damaged goods.

4. S. Oil Mills, Mumbai, consigned 10,000 kg. of castor oil to D of Kolkata on 1st January 2003. The cost of the Oil was ₹ 23 per kg. S. Oil Mills paid ₹ 20,000 for packing, freight and insurance. During transit, 250 kg were accidentally destroyed for which the insurers paid, directly to the consignors, ₹ 4,500 in full settlement of the claim. D took delivery of the consignment on the 10th January. On 31stMarch 2003, D reported that 7,500 kg. were sold @ ₹ 30, the expenses being on Godown rent ₹ 3000. On advertisement ₹ 4,000 and on salesmen's salaries ₹ 6,400. D is entitled to a commission of 3% plus 1 ½% del credere.

A party which had bought 1,000 kg was able to pay only 80% of the amount due from it. D reported a loss of 100kg. due to leakage. Assuming that D paid the amount due by Bank draft, show the accounts in the books of the consignor. S. Oil Mills closes its books on 31st March.

<u>Consignment Accounts with Losses and Loading:</u>

5. Mr. X, the consignor, consigned goods to Mr. Y 100 Radio sets valued ₹ 50,000. This was made by adding 25% on cost. Mr. X paid ₹ 5,000 for freight and insurance. 20 sets are lost – in- transit for which Mr. X recorded ₹ 5,000 from the Insurance company. Mr. Y received remaining goods in good condition. He incurred ₹ 4,000 for freight and miscellaneous expenses and ₹ 3,000 for Godown rent. He sold 60 sets for ₹ 50,000. Show the necessary ledger account in the books of Mr. X assuming that Mr. Y was entitled to an ordinary Commission of 10% on sales and 5% Del Credere Commission on sales. He also reported that ₹ 1,000 were provide bad.

6. On 1st September goods of the value of ₹ 2,64,000 were consigned by shyamlal of Bangalore to his agent Mahesh of cochin at proforma invoice price of 20% profit on cost price. Shyamlal paid insurance and other forwarding charges on consignment amounting to ₹ 10,000. Mahesh was allowed ₹ 2,000 per annum towards establishment cost. He was entitled to 5% commission on gross sales and an additional 3% del credere commission on credit sales only. Mahesh made an expense of ₹ 2,040 as landing charges. Three-fourth of the goods were sold at $33\frac{1}{3}$% profit on cost, half of which were credit sales. One-half of the balance of goods were destroyed by fire and a claim lodged for ₹ 28,000 was settled at a discount of 10%. The balance of goods was in stock.

Show the consignment Account and stock Loss on Consignment Account as on 31st December in the books of shyamlal.

7. The account sales received from an agent disclosed that the sales made at 10% above the price was 44% of the sales made at invoice price which is cost plus 25%. All the sales are made on credit basis. He incurred expenses to the tune of ₹ 5,000 out of which a sum of ₹ 1,800 is recurring in nature. Forwarding expenses of the consignor ₹ 2,400. The agent had remitted the balance due from him through bank draft of ₹ 4,11,650 after deducting the expense, 5% commission on gross sales, bad debts ₹ 850 and a bill payable accepted by him for ₹ 10,000. The value of unsold stock at original cost lying with the agent amounted to ₹ 50,000. You are required to prepare Consignment Account and Agent's Account in the books of the consignor.

CHAPTER 5: INSURANCE CLAIMS

PROBLEMS FOR PRACTICE

MODEL – 1 (LOSS OF STOCK WITHOUT ABNORMAL ITEM OR STOCK)

Average Clause

Insurance Claim = (Policy Value / Stock at the date of fire) * Actual Loss

Where Policy Value = Sum Assured
Stock at the date of fire = Closing Stock
Actual Loss = Stock at the date of fire – stock salvaged

Step 1 – Closing stock / Stock at the date of fire
Step 2 – Actual Loss
Step 3 – Application of Average Clause (Policy Value is given)

PROBLEMS FOR PRACTICE:

1. 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.

Stock at the date of fire is missing and GP Ratio is given.

2. X Ltd. has taken out a fire policy of ₹ 1,60,000 covering its stock. A fire occurred on 31 March 2013. The following particulars are available:

	₹
Stock as on 31.12.2012	60,000
Purchases to the date of fire	2,60,000
Sales to the date of fire	1,80,000
Carriage Inwards	1,600
Commission on purchase to be paid	@2%
Gross Profit Ratio	@ 50% on cost

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 41,360.

3. A fire occurred in the premises of Sri. G. Venkatesh on 1.4.2013 and a considerable part of the stock was destroyed. The stock salvaged was ₹ 28,000. Sri Venkatesh had taken a fire insurance policy for ₹ 1,71,000 to cover the loss of stock by fire.

You are required to ascertain the insurance claim which the company should claim from the insurance company for the loss of stock by fire. The following particulars are available

	₹		₹
Purchases for the year 2012	9,38,000	Stock on 1.1.12	1,44,000
Sales for the year 2012	11,60,000	Stock on 31.12.2012	2,42,000
Purchases from 1.1.13 to 1.4.13	1,82,000	Wages paid during 2012	1,00,000
Sales from 1.1.13-1.4.13	2,40,000	Wages paid 1.1.13-1.4.13	18,000

Sri Venkatesh had in June 2012 consigned goods worth ₹ 50,000, which unfortunately were lost in an accident. Since there was no insurance cover taken, the loss had to be borne by him full.

Stocks at the end of each year for and till the end of calendar year 2011 had been valued at cost less 10%. From 2012, however there was a change in the valuation of closing stock which was ascertained by adding 10% to its costs.

4. The factory premises of Toy company were engulfed in fire on 31 March 2013, as a result of which a major part of stock burnt to ashes. The stock was covered by policy for ₹ 1,00,000, subject to Average Clause. The records at the office revealed the following information:

1) **(a)**The Company sold goods to dealers on one month credit at dealer's price which is catalogue price less 15%. A cash discount is allowed @ 5% for immediate payment.
(b) The goods are also sold to agents at catalogue price less 10% against cash payment.
(c) Goods are sent to branches at catalogue price.
(d) Catalogue price is cost + 100%.

2) The sale/dispatch during the period up to date of fire is –
(a) Sale to Dealer ₹ 3,40,000 (without Cash Discount)
(b) Sale to Dealer ₹ 3,23,000 (Net of Cash Discount)
(c) Sale to Agent ₹ 90,000
(d) Dispatch to branches ₹ 3,00,000.

3) Stock on 1.1.2013 was ₹ 2,50,000 at catalogue price. Purchases at cost from 1.1.2013 to 31 March 2013 ₹ 6,25,000.

4) Salvaged Stock valued at ₹ 45,000. Compute the amount of claim to be lodged.

5. A fire occurred on 15 September 2013 in the premises of Sen& Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

	₹
Stock at cost on 1.1.2012	40,000
Stock at cost on 1.1.2013	60,000
Purchases in 2012	80,000
Purchase from 1.1.2013 to 15.9.2013	1,76,000
Sales in 2012	1,20,000
Sales from 1.1.2013 to 15.9.2013	2,10,000

During the current year cost of purchase has risen by 10% above last years' level. Selling prices have gone up by 5%. Salvage value of stock after fire was ₹ 4,000.

6. On 2nd June 2015, the stock of ShriDaga was destroyed by fire but sufficient records were saved from which the following particulars were ascertained:

	(₹)
Stock at Cost – 1st April 2014	90,000
Stock at cost – 31st March 2015 (at 10% lower than cost)	1.08,000
Purchases – year ended 31st March 2015	4,30,000
Sales – year ended 31st March 2015	6,00,000
Purchases – 01-04-2015 to 02.06.2015	1,50,000
Sales - 01-04-2015 to 02.06.2015	3,20,000

Sales up to 2nd June 2015 included ₹ 50,000 for which goods had not been dispatched.

Purchases up to 2nd June 2015 included machinery purchased ₹ 10,000and did not include ₹ 20,000 for which purchase invoices had not been received from suppliers though goods have been received at the Godown.

The value of stock salvaged from the accident were worth ₹ 15,000 and these were handed over to the insured. Ascertain the amount of claim for loss of stock.

7. Mr. X's Godown was destroyed by fire on 1.6.2013 when the goods in stock were insured for ₹ 60,000. The following particulars are given:

Balance Sheet (Extract)as at 31 December 2012

Liabilities	**Amount ₹**
Creditor for goods	20,000
Asset	**Amount ₹**
Stock (including goods held by agent ₹ **2,000**)	36,000
Debtors	70,000

Transactions up to 31 May 2013 include:

Particulars	**Amount₹**
Cash Received from Debtors	3,40,000
Bad Debt written off	3,500
Balance on 31.5.2013:	
Debtors	70,000
Creditors	30,000
Cash paid to Creditors	2,20,000
Discount Received	1,000

Additional information

(i) Debtors on 31.5.2013, included an amount owing from the agent from sales to date ₹ 4,000 less 10% commission and his expenses amounting to ₹ 100. On 31.5.2013 – the agent still held the said goods valued at ₹ 3,600 (at selling price).

(ii) Sales (total) for the periods include ₹ 1,600 for goods which have the selling price reduced by 50% and also ₹ 6,000 reduced by 25%.

(iii) The normal markup is 50% on cost and except the above, all sales can be assumed to be at the full selling price.

(iv) All the goods were destroyed and there was no salvage value of the goods.

Calculate the amount of claim.

8. A fire occurred in the premises of a timber merchant on the night on 31st December. 2012. Goods worth ₹ 25,000 only could be salvaged. The following further information is available:

- **i.** The accounting year ends on 31 March every year.
- **ii.** The closing stock on 31 March 2012 was valued at ₹ 1,10,000. This was 10% above the cost.
- **iii.** The purchases during the period from 1st April 2012 to 31st December 2012 accounted to ₹ 5,50,000 as per the purchase register. However, goods worth ₹ 30,000 were received on 3rd January 2013.
- **iv.** The sales during the period from 1st April 2012 to 31st December. 2012 amounted to ₹ 6,45,000 and included goods sold on approval basis for which the period of approval was not yet over on 31stDecember 2012. The goods so sold on approval basis had been invoiced at₹ 30,000, which was 50% above the cost.
- **v.** On 30thDecember 2012, goods worth ₹ 60,000 had been sent to a commission agent on consignment basis.
- **vi.** The wages paid during the period 1st April 2012 to 31December, 2012 amounted to ₹ 40,000 and included ₹ 10,000 paid to workers engaged in construction work.
- **vii.** The amount spent on carriage inward during the period from 1stApril 2012 to 31stDecember 2012 was ₹ 25,000.
- **viii.** It was agreed to take the gross profit ratio as the weighted average of the gross profit ratios of the preceding four years. For this purpose, greater weight was to be given to later years, also, an item purchased in July 2012 for ₹ 20,000 and sold in August 2012 at a loss of ₹ 5,000 was not considered separately.
- **ix.** The gross profit and sales of the preceding four years were:

Year	Gross Profit ₹	Sales ₹
2008-09	1,04,000	4,00,000
2009-10	90,000	4,50,000
2010-11	1,15,200	4,80,000
2011-12	1,42,800	5,10,000

- **x.** The merchant had obtained a policy of ₹ 1,00,000 to cover the loss of stock by fire and the policy contained the average clause.

You are required to determine the amount of claim to be lodged with the insurance company for the stock destroyed by fire.

MODEL – 2 (LOSS OF STOCK WITH ABNORMAL ITEM)

9. On 1-4-2015 the Godown of Hindustan Ltd was destroyed by fire. From the following particulars, calculate the value of goods destroyed by fire and the claim to be lodged with insurers.

	Amount ₹
Stock at cost on 1-1-2014	27,570
Stock at cost on 31-12-2014	51,120
Purchases during 2014	2,71,350
Sales during 2014	3,51,000
Purchases from 1-1-2015 to 31-3-2015	75,000
Sales from 1-1-2015 to 31-3-2015	91,500
Value of goods salvaged	6,300

Goods whose was ₹ 3,600 has been valued at ₹ 1,500 on 31-12-2014. These were sold in March 2015 for ₹ 2,700. Except this transaction the rate of Gross Profit remained constant. On 31-3-2015 goods worth ₹ 15,000 had been received by the Godown keeper not been recorded in Purchase account.

10. On 30.09.2013 the stock of Harshvardhan was lost in a fire accident. From the available records the following information is made available to you to enable you to prepare a statement of claim of the insurer:

Particulars	**Amount ₹**
Stock at cost on 1.4.2012	75,000
Stock at cost on 31.3.2013	1,04,000
Purchases less returns for the year ended 31.3.2013	5,07,500
Sales less returns for the year ended 31.3.2013	6,30,000
Purchase less returns up to 30.09.2013	2,90,000
Sales less returns up to 30.09.2013	3,68,100

In valuing the stock on 31.03.2013 due to obsolescence 50% of the value of the stock which originally cost ₹ 12,000 had been written-off. In May 2013, ¾th of these stocks had been sold at 90% of original cost and it is now expected that the balance of the obsolete stock would also realize the same price, subject to the above, G.P had remained uniform throughout stock to the value of ₹ 14,400 was salvaged.

11. X & Co. suffered a loss of stock due to fire on 31-3-2023. From the following information prepare a statement showing the claim for the loss to be submitted.

Particulars	Amount (₹)
Purchases for the year 2022	3,20,000
Sales for the year 2022	4,05,200
Purchases from 1-1-2023 to 31-3-2023	1,08,000
Sales from 1-1-2023 to 31-3-2023	1,22,800
Stock on 1-1-2022	76,800
Stock on 1-1-2023	63,600

An item of goods purchased in 2021 at a cost of ₹ 20,000 was valued at ₹ 12,000 on 31-12-2021. Half of these goods were sold during 2022 for ₹ 5,200 and the remaining stock was valued at ₹ 4,800 on 31-12-2022. $1/4^{th}$ of the original stock was sold for

₹ 2,800 in February 2023 and the remaining stock was valued at 60% of the original cost. With the exception of this item, the rate of gross profit remaining fixed. The stock salvaged was estimated at ₹ 24,000. The insurance policy value was for ₹ 3,00,000.

12. A fire occurred in the premises of M/s Fireprone& Co. on 30 May 2013. From the following particulars, relating to the period from 1.1.2013, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stock.

Sl. No.	Particulars	Amount ₹
1.	Stock as per Balance Sheet as at 31 December 2012	**99,000**
2.	Purchases (including purchase of Machinery costing ₹ 30,000)	**1,70,000**
3.	Wages (including wages for the installation of Machinery **₹ 3,000**)	**50,000**
4.	Sales (including goods sold on approval basis amounting to ₹ 49,500. No confirmation has been received in respect 2/3 of such goods sold on approval basis.)	**2,75,000**
5.	Sales value of goods drawn by partners	**15,000**
6.	Cost of goods sent to consignee on 15 May 2013, lying unsold with them	**16,500**
7.	Sales value of goods distributed as free samples	**1,500**

The average rate of gross profit had been 20% in the past. The selling price had been increased by 20% with effect from 1.1.2013.

For valuing the stocks for the Balance Sheet as at 31st Dec. 2012, ₹ 1,000 had been written-off in respect of a slow-moving item, the cost of which was ₹ 5,000. A portion of those goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock was now estimated to be worth the original cost.

Subject to the above exceptions, the gross profit had remained at a uniform rate throughout. The value of goods salvaged was estimated at ₹ 25,000. The concern had taken an insurance policy for ₹ 60,000 which was subject to the average clause.

MODEL 3 - LOSS OF PROFIT
COMPUTATION OF CLAIMS FOR LOSS OF PROFIT

Basic Concepts that everyone must know

1. **Loss of Profit**
2. **Indemnity Period**
3. **Standard Turnover (Preceding year turnover of Indemnity Period)**
4. **Actual Turnover (Indemnity Period Turnover)**
5. **Annual Turnover (Turnover relevant for Profit given)**
6. **Adjusted Turnover (One Year turnover ended on date of fire)**
7. **Additional Turnover**
8. **Short Sales or Reduction in Turnover**
9. **Cost of Workings**
10. **Trend impact**
11. **Standing Charges**
12. **GP Ratio**
13. **Firefighting Expenses**
14. **Savings in Cost of Workings**

STEP 1 – G P on Reduction on Turnover

Standard Turnover (Preceding Year)	XXX
Add/Less: Increase or Decrease in Sales	XXX

	XXX
Less: Actual Turnover	XXX

= Short Sales	XXX

G P on Reduction on Turnover = Short Sales and G P Ratio

Note:
G P Ratio = (Net Profit + Insured Standing Charges) / Annual Turnover X 100

STEP 2 – Additional Cost of Working

Least of the Following

(a) Actual Amount Spent

(b) Actual Amount X (Net Profit + Insured Standing charges) / (Net Profit + All Standing Charges)

Or

Actual Amount X G P on Adjusted Annual Turnover / (G P on Adjusted Annual Turnover + Uninsured Standing Charges)

(c) G P on Additional Sales

STEP 3 – Insurance Claim

Gross Claim = Step 1 + Step 2 – Savings in any insured standing charges
Average Clause

Policy Value / G P on Adjusted Turnover X Gross Claim.

PROBLEMS FOR PRACTICE

1. From the following particulars prepare a claim for loss of profits under the Consequential Loss Policy.

Date of Fire: June 30, 2013
Period of indemnity: Six Months

Particulars	**Amount (₹)**
Sum Insured	25,000
Turnover for the year ended June 30, 2013.	1,00,000
Net Profit for the accounting year ending March 31, 2013.	6,250
Standing charges for the accounting year ending March 31, 2013.	14,250
Turn Over for the year ending March 31, 2013.	99,000
Turn Over for the indemnity period from 1.7.13 – 31.12.13	28,000
Turn Over for the period from 1.7.12 – 31.12.12	55,000

The turnover of the year 12-13 had shown a tendency of increase of 10% over the turnover of the preceding year.

2. There was a serious fire in the premises of M/s ABC on 1.9.2013. Their business activities were interrupted December 2013, when normal trading conditions were re-established. M/s. ABC are insured under the loss or 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 **<u>ended 31 December 2012</u>** 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 charges under the policy.
- **iii.** The additional cost of working in order to investigate the damage caused by fire amounted to **₹ 600** and **<u>but for the expenditure the business would have had to shut down.</u>**
- **iv.** The savings in insured standing charges in consequence of the fire amounted to ₹ 1,500.
- **v.** The turnover for the period for four months ended April 30, August 31 and December 31, in each of the years 2012 and 2013 was as follows:

Year	**Amount ₹**	**Amount ₹**	**Amount ₹**
2012	65,000	80,000	95,000
2013	70,000	80,000	15,000

You are required to compute the relevant claim under the terms of the loss of profit policy.

GP on Adjusted Turnover = 20% of ₹ 2,45,000 = ₹ 49,000

3. A fire occurred on 1st July 2013 in the premises of A. Ltd. and business was practically disorganized up to 30th November 2013. From the books of account, the following information was extracted:

Sl. No.	Particulars	Amount (₹)
1.	Actual turnover from 1 July 2013 to November 2013	1,20,000
2.	Turnover from 1st July to 30th November 2012	4,00,000
3.	Net Profit for the last financial year	1,80,000
4.	Insured Standing Charges for the last financial year	1,20,000
5.	Turnover for the last financial year	10,00,000
6.	Turnover for the year ending 30th June 2013	11,00,000
7.	Total Standing Charges for the year	1,44,000

The company incurred additional expenses amounting to ₹ 18,000 which reduced the loss in turnover. There was also a savings during the indemnity period of ₹ 4,971.

The company holds a 'Loss of Profit' policy for ₹ 3,30,000 having an indemnity period for 6 months. There has been a considerable increase in trade, and it has been agreed that an adjustment of 20% be made in respect of upward trend in turnover.

Compute claim under 'Loss of Profit Insurance'.

4. A Loss of Profit Policy was taken for ₹ 80,000. Fire occurred on 15 March 2012. Indemnity period was for three months. Net profit for 2011 year ending on 31st December was ₹ 56,000 and standing charges (all insured) amounted to ₹ 49,600. Determine insurance claims from the following details available from quarterly sales tax returns:

Particulars	2009 ₹	2010 ₹	2011 ₹	2012 ₹
From 1st January to 31st March	1,20,000	1,30,000	1,42,000	1,30,000
From 1st April to 30th June	80,000	90,000	1,00,000	40,000
From 1st July to 30th September	1,00,000	1,10,000	1,20,000	1,00,000
From 1st October to 31st Dec.	1,36,000	1,50,000	1,66,000	1,60,000

Sales from 16.03.2011 to 31.03.2011 were ₹ 28,000
16.03.2012 ,, 31.03.2012 ,, ₹ Nil
16.06.2011 ,, 31.06.2011 ,, ₹ 24,000 and
16.06.2012 ,, 31.06.2012 ,, ₹ 6,000

5. Ramda & Sons had taken out policies (without average clause) both against loss of stock and loss of profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July 2011 and as a result of which sales were seriously affected for a period of 3 months.

Trading and Profit & Loss Account of Ramda& Sons for the year ended on 31st March 2011 is given below (2010-11).

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	96,000	By Sales	12,00,000
To Purchases	7,56,000	By Closing stock	1,85,000
To Wages	1,58,000		
To Manufacturing Expenses	75,000		
To Gross Profit	3,00,000		
Total	13,85,000	Total	13,85,000
To Administrative Expenses	83,600	By Gross Profit	3,00,000
To Selling Expenses (Fixed)	72,400		
To Commission on Sales	34,200		
To Carriage Outward	49,800		
To Net Profit	60,000		
Total	**3,00,000**	**Total**	**3,00,000**

Further detail provided is as below:

a) Sales, Purchases, Wages and Manufacturing Expenses for the period 01-04-2011 to 30-06-2011 were ₹ 3,36,000, ₹ 2,14,000, ₹ 51,000 and ₹ 12,000 respectively.

b) Other sales figures were as follows: -

1. From 01-04-2010 to 30-06-2010 ₹ 3,00,000
2. From 01-07-2010 to 30-09-2010 ₹ 3,20,000
3. From 01-07-2011 to 30-09-2011 ₹ 48,000

c) Due to decrease in the material cost, Gross profit during 2011-12 was expected to increase by 5% on sales.

d) ₹ 1,98,000 were additionally incurred during the period after fire. The amount of policy included ₹ 1,56,000 for expenses leaving ₹ 42,000 uncovered.

Compute in the claim for stock, loss of profit and additional expenses.

CHAPTER 6: PREPARATION OF FINANCIAL STATEMENTS OF PROFIT-MAKING ORGANIZATIONS (FINAL ACCOUNTS OF TRADING CONCERN)

1. **The Balance in Profit & Loss Account** as per Balance Sheet as at31st March 2004 is ₹ 32,600, whereas the Balance on Balance Sheet as at 31st March 2005 is ₹ 38,100. The following facts are ascertained:
    a) ₹ 7,500 depreciations have been charged
    b) Provision for dividend ₹ 10,000 has been made
    c) ₹ 9,500 has been transferred to General Reserve
    d) ₹ 1,000 Dividend (Gross) has been credited
    e) ₹ 3,300 Loss on sale of Fixed Assets has been debited;
    f) Indirect expenses debited amount to ₹ 30,200 in total

    Find out Gross Profit, Trading Profit and Net Profit.

2. 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.
    a. **Pass necessary adjustment entries for bad debts and its provision on 31st March 2014.**
    b. **Prepare necessary ledger accounts.**
    c. **Show the relevant items in the profit and loss account and Balance Sheet.**

3. Mahindra Traders operates in an industry that has a high rate of bad debts. On 31st March 2013, the Accounts Receivables showed a balance of ₹ 7,50,000 before any year end adjustment and the balance in the Reserve of doubtful debts was ₹ 37,500. The year-end balance in the Reserve for Doubtful Debts A/c will be based on the following ageing schedule.

Days outstanding	Amount (₹)	Probability of collection
Less than 16	4,50,000	0.99
16 – 30	1,50,000	0.94
31 – 45	75,000	0.80
46 – 60	45,000	0.65
61 – 75	15,000	0.50
Over 75	15,000	0.00

Find out the appropriate balance in the Reserve for Doubtful Debts Account as on 31stMarch 2013. Show how Debtors balance be shown in the Balance Sheet.

Calculate the effect of year end adjustment on Account of Reserve for Doubtful Debts.

4. A property dealer owned many properties which it had acquired by taking bank loans. There were separate loan agreements for different properties. In some cases, interest was paid in advance and in other cases it was payable in arrears.

These properties were let out to different tenants on various agreements. Some agreements provided for rentals in advance while the others provided for rent payable in arrears The dealer has given the following balances:

	31-03-2012		**31-03-2013**
Interest payable	12,000		14,500
Interest prepaid	8,000	6,400	
Rentals due from tenants	15,000		19,000
Rentals received in advance	3,000	2,500	

During the year 2012-13, the amount of interest payable transferred to P & L A/c was ₹ 56,000 and cash collected from tenants for rentals was ₹ 1,16,000.

You are required to prepare Interest Payable A/c and Rental Income A/c for the year ended 2012-13.

5. Sengupta Co. employs a team of 8 workers who were paid ₹ 30,000 per month each in the year ending 31st March 2023. At the start of financial year 2023-2024, the company raised salaries by 10% to ₹ 33,000 per month each.

On October 1, 2023 the company hired two trainees at salary of ₹ 21,000 per month each. The work force is paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate

- **(i)** Amount of salaries which would be charged to the P & L A/c. for the year ended 31st March 2024.
- **(ii)** Amount actually paid as salaries during 2023-24.
- **(iii)** Outstanding Salaries as on 31st March 2024.

6. The stock was physically verified on 24th March and was valued at ₹ 2,00,000. Goods are normally sold by the trader at a profit of 25% on cost. After stock taking the following transactions have taken place till 31st March. Sales of ₹ 2,21,600 which includes

- **a.** Sales of ₹ 10,800 at 20% more than the normal selling price
- **b.** Sales of ₹ 10,800 at 10% less than the normal selling price.

Required: Determine the value of stock to be taken to the Balance Sheet of PCT Ltd. as at 31st march.

7. Singh has extracted the following Trial Balance from his books on 31st March, 2013 (12-13):

	Dr. ₹	Cr. ₹
Drawing	16,000	
Cash	6,760	
Petty Cash	1,000	
Leasehold Land	20,000	
Opening Stock (at market value)	50,000	
Salary	12,000	
Sundry Debtors	50,000	
Wages	40,000	
Bank	21,000	
Capital		34,000
Rent	9,000	
Electricity	6,000	
Motor Car	10,240	
Advertising	9,000	
Sundry Creditors		35,000
Purchases	4,00,000	
Postage & Telephone	3,000	
Sales		6,00,000
Discounts	11,400	
General Charges	4,000	
Petty Cash Expenses	9,600	
Suspense		10,000
	6,79,000	**6,79,000**

You are required to prepare a Trading and Profit & Loss Account and Balance Sheet using the following additional information:

1) Closing Stock at market value as on 31st March 2013, was ₹ 80,000 (Cost ₹ 75,000). Stock is being valued on a consistent basis of cost or net realizable (market) price whichever is lower.
2) The petty cash balance represents the month-end imprest account. As on the closing date the petty cashier had vouchers totaling to ₹ 400 for which he had received reimbursement from the main cashier.
3) Discount allowed amounting to ₹ 1,000 had been posted to the debit of Sundry Debtors.
4) Cash withdrawn from Bank ₹ 4,000 had not been entered in the Bank Column of the Cash Book.
5) Sales Account had been under cast by ₹ 4,000.
6) The motor car which had been purchased in 2009-2010 was being depreciated at 20% on the Reducing Balance Method. It is now decided to change depreciation at 6% on the Straight-Line Method and to make this change effective from the year of purchase of the car.
7) The leasehold land was purchased during the year. On the date of purchase the unexpired period of the lease was five years.
8) No entry had been passed in the books for stock withdrawn from the business by the proprietor valued at ₹ 10,000.

9) Advertising includes cost of a campaign run during the year ₹ 6,000. It is expected that the effect of this campaign will be felt for at least three years.

10) Telephone bills amounting to ₹ 1,000 remain unpaid.

8. The following Trial Balance extracted from the books of Mr. Oberoi as on 31st March 2013:

	₹		₹
Purchases	6,88,000	Sales	8,46,200
Drawings	36,000	Capital Account	1,97,000
Sundry Debtors	96,000	Sundry Creditors	1,14,000
Bad Debts	2,000	Outstanding Salary	4,000
Furniture & Fixtures	81,000	Bank Overdraft (U.B.I.)	60,000
Office Equipment's	54,000		
Salaries	24,000		
Advance Salary	1,500		
Carriage Inward	6,500		
Misc. Expenses	6,000		
Carriage Outward	6,000		
Travelling Expenses	8,000		
Rent	18,000		
Electricity & Telephone	6,800		
Cash in hand 5,900			
Cash at Bank (S.B.I.)	53,000		
Stock (1.4.12)	50,000		
Repairs	7,500		
Motor Car	56,000		
Depreciation:			
Furniture 9,000			
Office Equipment 6,000	15,000		
	12,21,200		**12,21,200**

Additional information:

i. Sales include ₹ 60,000 towards goods sold each on account of a joint venture with Mr. Ajmani who incurred ₹ 8,000 as forwarding expenses. The joint venture earned a profit of ₹ 15,000 to which Mr. Ajmani is entitled to 60%.

ii. The motor car account represents an old motor car which was replaced on 1.4.12 by a new one, costing ₹ 1,20,000 with an additional cash payment of ₹ 40,000 lying debited to purchases account.

iii. UBI has allowed an overdraft limit against hypothecation of stock keeping a margin of 20%. The present balance is 80% of the overdraft limit as permitted by the bank.

iv. Sundry Debtors include ₹ 4,000 as due from Mr. Jha and Sundry Creditors include ₹ 7,000 as payable to him.

v. On 31.3.13 outstanding rent amounted to ₹ 6,000 and you are informed that 50% of the total rent is attributable to Oberoi's residence.

vi. Depreciation to be provided on motor car @ 20% (excluding sold item).

vii. Credit sales of ₹ 14,000 wrongly recorded as credit purchases.

Mr. Oberoi requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March 2013 and a Balance Sheet as on that date.

9. From the following balances extracted from the books of Mr. s on December 31, 2023, prepare a Trading and Profit and Loss Account for the year ended on that date and also a Balance Sheet as on the same date

Trial Balance as on 31-12-2023

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Salaries	18,000	Sales	2,43,000
Debtors	1,26,000	8% Loan from Mr. Kumar (taken on 1-7-2022)	60,000
Stock on 1-1-2022	30,000	Provision for Bad Debts	8,000
Furniture	85,000	Bills Payable	11,000
Bad debts	4,000	Outstanding Salaries	3,000
Purchases	1,50,000	Creditors	90,000
Printing and Stationery	5,300		
Postage and Telephone	3,200		
Rent	4,500		
Cash in Hand	2,500		
Bank Balance	72,500		
Insurance	4,800		
Bills Receivables	15,000		
General Expenses	9,200		
Drawings	10,000		
Interest on Loan	2,000		
Wages	3,000		
Total	**7,45,000**	**Total**	**7,45,000**

Additional Information:

1. Closing stock as on 31-12-2023: CP ₹ 50,000 and MV ₹ 40,000
2. An old furniture which stood at ₹ 12,000 in the books on Jan 1, 2023 was disposed of at ₹ 5,800 on June 30, 2023 in part exchange of a new furniture costing ₹ 10,400. A net invoice of ₹ 4,600 was passed through the Purchases Day Book.
3. Sales include ₹ 36,000 hire purchase sales. Hire purchase sales prices are determined after adding 25% on HP Price. 30% of the instalments have not fallen due yet. Profit or loss on hire purchase sales is to be shown in the Profit and Loss A/c.
4. Debtors include ₹ 7,500 due from Mr. M and Creditors include ₹ 6,000 due to him.
5. Annual Insurance Premium upto 31-3-2023
6. Depreciate the fixed assets as follows: Machinery @15% p.a. and Furniture @10% p.a.
7. Provide 5% for bad debts on debtors excluding HP Debtors

8. During the year goods worth ₹ 1,00,000 were invoiced on 'sale on approval basis at cost plus 25%. Out of these, goods worth ₹ 20,000 accepted by the customers, ₹ 40,000 worth of goods were rejected and properly accounted for but no intimation has been obtained for the balance of the goods and its period is yet to expire.
9. Stock valued ₹ 10,000 were destroyed by fire and insurance company admitted the claim to the extent of ₹ 6,000.
10. Rent paid for 10 Months
11. GM is to be given commission @ 10% after charging the commission of Finance Manager and his own on net profits.
12. Finance Manager is to be given commission @5% after charging commission of GM and his own on net profits. Such commission shall be calculated to the nearest rupee.

10. R retired from a company and started a business in Chennai. On retirement he got ₹ 1,00,000 from his employer which he invested in his business on **1.4.13**. He got from Life Insurance Corporation ₹ 20,000 on the maturity of his policy which he also invested in his business. He draws ₹ 1,000 for his personal expenses every month from 30th April 2013.

The following figures are extracted from his books on **31st December 2013**:

	₹		₹
Purchases	3,10,000	Bad Debts	2,000
Cartage	5,000	Sundry Debtors	45,000
Salaries & Wages	24,000	Bills Receivable	30,000
Electricity Charges	4,500	Cash in hand	8,997
Travelling	8,900	Sales	3,00,000
Telephone	4,300	Income from Personal Investments	20,000
Advertisement	10,000	Creditors	85,000
Repairs & Renewal	3,303	Bank Overdraft	80,000
Plant & Machinery	1,50,000	Buildings (Cr.)	10,000

You are requested to prepare a Trading and Profit & Loss Account of the business for the period ended 31st December 2013 and also the Balance Sheet as on that date after taking into consideration the following further information:

- **i.** Purchases include ₹ 10,000 representing the value of Furniture purchased.
- **ii.** ₹ 4,000 representing erection wages on Plant & Machinery are debited to Salaries & Wages.
- **iii.** Electricity charges include ₹ 2,500 paid as deposits to Electric Supply Company. There are bills outstanding to the extent of ₹ 500.
- **iv.** Advertisement includes ₹ 4,000 representing the cost of a Neon Sign.
- **v.** A dishonored bill of ₹ 5,000 stands debited to the debtor. 50% thereof considered doubtful and has to be provided accordingly.
- **vi.** A debtor of ₹ 1,000 was declared insolvent on 30.12.13 and it is expected that nothing would be recovered from his estate.

vii. Provide 5% discount on net realizable debtors.

viii. R received ₹ 25,000 in respect of a business with B. The sum received stood credited to Sundry Creditors. It is noted that a sum of ₹ 5,000 was due to R as his share of profit from that business.

ix. During the period there was a fire damaging stock costing ₹ 50,000. The damaged goods were sold for ₹ 20,000. This sum of ₹ 20,000 is included in Sales. The Insurance Company paid ₹ 25,000 towards the loss of stock. The Godown containing the stock was also damaged to the extent of ₹ 15,000, which has also been paid by the Insurance Company. The total amount received from the Insurance Company was credited to Building Account.

x. Bank overdraft represents 80% of the drawing power, which is fixed after a margin of 20% on the value of stock.

xi. The bank overdraft was given on the hypothecation of stock-in-trade. You are informed that the bank had a margin of 33 1/3 % and the overdraft balance on 31.12.13 was the maximum which could have been drawn on the basis of this margin.

xii. The manager of the business is entitled to a commission of 5% on the gross profit.

xiii. Provide 10% depreciation on Plant &Machinery and on Furniture & Fittings and 5% on Building. Depreciation to be provided on closing balance for full year.

11. A Company manufacturing chiclet distributes them through vending machines installed at cinema theatres, hotels etc. The vending machines are also sold outright to buyers who them are supplied with chiclets at ₹ 80 per dozen; whereas a ten-rupee coin is to be inserted in the machine for having one chiclet by the customer.

The accounting year of the company ended on 30th June 2021. The collection from the machines was made on 24th June 2021 and amounted to ₹ 50,40,000. On that date, the stock of chiclets in the machine was 2,000 dozen. Cash collection shown by the machine and not drawn on 30th June 2021 were ₹ 73,800.

In addition to a fixed rental of ₹ 70,000 per annum for all the places where the machine is installed, the cinema hotels and theatres are further entitled to 2.5% of the collections (to be rounded off to the nearest10 rupees.)

The company purchased in the year 100 machines at ₹ 20,000 per unit; 20 Machines were sold outright at ₹ 30,000 each. As on 30thJune 2021, 10 Machines were in the Godown and the stock of chicklets in the Godown were 2,000 dozen. Depreciation for the year to be provided on the machines is ₹ 30,000.

50,000 dozen of chiclets were manufactured at a cost of ₹ 60 per dozen.1,000 dozen was sold along with the 20 machines. Some chiclets were spoilt on the machines.

Other expenses incurred by the company during the year were

Cost of Installation (to be written off)	₹ 1,20,000
Wages	₹ 1,60,000
Maintenance Expenses	₹ 1,48,000
Supervisor's Salary	₹ 2,80,000

Prepare the profit and loss account of the company for the year ended 30th June 2021.

CHAPTER 7: NON-PROFIT/TRADING ORGANIZATION (NPO)

Financial Statement Preparation

1. Income and Expenditure Account
2. Balance Sheet

Source Documents

1. Receipts and Payments Account
2. Adjustments

Key Terms

1. Capital Fund
2. Surplus/Deficit
3. Subscriptions
4. Donation
5. Legacy
6. Life Membership Fees
7. Entrance Fees or Admission Fees
8. Sale of Newspapers
9. Honorarium to Secretary

PROBLEMS FOR PRACTICE:

1. The following information of M/s. TT Club are related for the year ended31st March 2015 **(₹):**

Balances	**As on 01-04-2014**	**As on 31-3-2015**
Stock of Sports Material	75,000	1,12,500
Amount due to Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

a) Subscriptions received during the year – **₹** 3,75,000
b) Payments for Sports Material during the year – **₹** 2,25,000

You are required to

A. Ascertain the amount of Subscription and Sports Material that will appear in Income and Expenditure Account for the year ended 31-03-2015
B. Also show how these items would appear in the Balance Sheet as on 31-03-2015.

2. The amount of Subscription appears in the Income and Expenditure Account of South Indian Club is ₹ 3,000.

Adjustments were made in respect of the following:
Subscription for 2012 unpaid at 1st Jan. 2013, ₹ 400; ₹ 200 of which was received in 2013.
Subscription paid in advance at 1.1.2013 ₹ 100.
Subscription paid in advance at 31.12.2013 ₹ 80.
Subscription for 2013 unpaid at 31.12.2013 ₹ 140.

Prepare Subscription Account.

Model 1 – Receipt and Payment A/c. is not given separately
Model 2 – Receipt and Payment A/c. is given
Model 3 – Income and Expenditure A/c. is given
Model 4 – NPO Financial Statement Preparation with Rectification of errors
Model 5 – NPO Financial Statement Preparation with BRS
Model 6 – Amortization and other advanced provisions

Model 1 – Receipt and Payment A/c. is not given separately

3. Summary of Receipts and Payments of Bombay Medical Aid Society for the year ended 31.12.2013 are as follows:

Opening Cash Balance in hand ₹ 8,000, Subscription ₹ 50,000, Donation ₹ 15,000, Interest on investments at 9% p.a. is ₹ 9,000, Payments for Medicine supply ₹ 30,000, Honorarium to Doctors₹ 10,000, Salaries ₹ 28,000, Sundry expenses ₹ 1,000, Equipment purchase ₹ 15,000, Charity show expenses ₹ 1,500, Charity show collections ₹ 12,500.

Additional Information

Particulars	1-1-2013	31-12-2013
Subscriptions due	1,500	2,200
Subscriptions received in advance	1,200	700
Stock of Medicine	10,000	15,000
Amount due to Medicine Supply	9,000	13,000
Value of Equipment	21,000	30,000
Value of Building	50,000	48,000

Prepare for the year ending 31-12-2013 –

- **(a)** Receipts & Payments A/c.
- **(b)** Income & Expenditure A/c and
- **(c)** Balance Sheet.

4. Jodhpur Club furnishes you the Receipts and Payments Account for the year ended 31-03-2013 (12-13)

Receipts	**Amount in ₹**	**Payments**	**Amount in ₹**
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	Furniture	60,000
Subscriptions	1,20,000	Investments	60,000
Entrance fees	10,000	Misc. Expenses	5,000
Interest on Investments	1,000	Insurance Premium	2,000
Interest from Banks	4,000	Billiards table and other sport items	80,000
Sale of old newspaper	1,500	Stationery expenses	1,500
Sale of drama tickets	10,500	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 on31-03-2013
- **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 equipment's costing ₹ 3,00,000 were purchased in the financial year 2011-12 and of which ₹ 80,000 was not paid 31-3-2012.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.

5. 'Citizen Club' was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended Dec. 31, 2013, and showed a deficit of ₹ 14,520:

Receipts:	Subscriptions	62,130
	Fair Receipts	7,200
	Variety Show Receipts (net)	12,810
	Interest	690
	Bar Collection	22,350
	Cash spent more	1000
		1,06,180

Payments:	Premises	30,000
	Honorarium to Secretary	12,000
	Rent	2,400
	Rates and Taxes	3,780
	Printing and Stationery	1,410
	Sundry Expenses	5,350
	Wages	2,520
	Fair Expenses	7,170
	Bar Purchase- payments	17,310
	Repairs	960
	New Car (less proceeds of old car ₹ 9,000)	37,800
		1,20,700
	Deficit	14,520

The additional information should be obtained:

	1.1.2013 (₹)	**1.12.2013 (₹)**
Cash in hand	450	–
Bank balance as per Pass Book	24,690	10,440
Cheques issued not presented for Sundry Expenses	270	90
Subscriptions due	3,600	2,940
Premises at Cost	87,000	1,17,000
Accumulated dep. on Premises	56,400	–
Car at Cost	36,570	46,800
Accumulated dep. on Car	30,870	–
Bar Stock	2,130	2,610
Creditors for Bar Purchases	1,770	1,290

Cash overspent represents honorarium to secretary not withdrawn due to Cash deficit. His annual honorarium is ₹ 12,000. Depreciation on premises and car is to be provided at 5% and 20% on written-down value.

You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet as at Dec 31st 2013.

6. The following is the Receipts and Payment Account of Sodepore Recreation Club for the year ended 31-12-2008.

Receipts	**Amount in (₹)**	**Payments**	**Amount in (₹)**
Cash in hand	1,000	*Rent of Club house	2,600
Cash at Bank	12,000	Painting of Club house	1,400
*Membership Subscription		Wages of Ground Maintenance	3,000
*2007- ₹ 200		General Expenses	2,600
2008- ₹ 3,600		Electricity Expenses	3,600
*2009- ₹ 400	4,200	Investment	20,000
*Life Membership Subscription	4,000	Secretary's Honorarium	1,200
Sale of Ticket of annual	20,000	Annual Meeting Expenses	800

exhibition			
Sale of refreshment	24,000	Sports Equipment	3,600
*Interest on Investment	2,600	*Purchase of refreshment	11,000
*Sale of furniture (original cost on 1-1-2007 ₹ 1,000)	200	Printing & Stationery	1,000
		*Insurance	600
		Cash in Hand	4,000
		Cash at Bank	12,600
	68,000		**68,000**

The following information are available to you:

- **i.** On 31-12-2007 outstanding subscription for 2007 was ₹ 300
- **ii.** On 31-12-2007 advance subscription for 2008 received was ₹ 100
- **iii.** On 31-12-2008 outstanding subscription for 2008 was ₹ 600
- **iv.** 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.
- **v.** On 1-1-2008 investment was ₹ 40,000 and accrued interest on such date was ₹ 2,400.
- **vi.** 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.
- **vii.** In 2007, a plot of land was purchased for ₹ 20,000 to construct Club house.
- **viii.** Other assets and liabilities of club were (all figures in ₹) 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

7. The Income and Expenditure Account of Shooters Club for the year ended 31st March 2013 is given below (12-13).

Expenditure	**Amount in ₹**	**Income**	**Amount in ₹**
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 1-4-2012 was ₹ 500

iii. Subscription received in advance as on 31-3-2013 is ₹ 400
iv. Subscription for 2012-13 unpaid as on 31-3-2013 is ₹ 700
v. Sundry assets as on 1-4-2012 ₹ 26,000. Sundry asset as on 31-03-2013 after depreciation ₹ 27,000
vi. Cash balance as on 1-4-2012 ₹ 1,600
vii. Capital Fund as on 1-4-2012 ₹ 29,100.

Prepare:

A. Receipts and Payments Account for the year 2012-13

B. Balance sheet as at 31-03-2013.

8. A Town Club provides you information relating to assets and liabilities as on 1-1-13. Calculate **(i)** Receipts and Payments 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, Sports 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. Subscriptions received including the arrears ₹ 6,000,
ii. Subscriptions due ₹ 600
iii. Paid the outstanding creditors for supplies ₹ 600
iv. Subscriptions to newspapers ₹ 1,000
v. Sports material 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 sports 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
xv. Donation received ₹ 3,600 (half to be capitalized)
xvi. Provide depreciation at 5% on furniture and buildings.

9. The following information provided by the Town Club, Cochin, for the first year ended 31st March 2023

a. Donations received for Building ₹ 25,00,000

b. Other Incomes and Receipts were (₹ '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	-	115	115
Sundry Incomes	-	62	49

c. Expenditure and actual payments were (₹ '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	-	79	79
Insurance Premium	-	12	15
Sundry Expenses	-	70	65

Others:

Donations were utilized to the extent of ₹ 13 Lakhs in construction of building; remaining balance were unutilized. In order to keep in safe 8% Government Securities were purchased on 31st December 2022 for ₹ 10.50 Lakhs. Remaining Amount was put in bank as term deposit on 31st March 2023. During the year 2022-23, Subscription received in advance ₹ 52,000 for the year 2023-24.

Depreciation to be charged on Building and Furniture @10% and on Books @15%.

You are required to prepare the Receipts and Payments Account, Income and Expenditure Account and Balance Sheet as on 31st March 2023.

10. Following is the summary of bank transactions of a club during the year 2013:

Dr. Receipts and Payments Accounts Cr.

Particulars	₹	Particulars	₹
To Petty Cash in hand	1,500	*By Rent	6,000
To Balance as per Pass Book	20,000	By Entertainment	8,000
*To Subscriptions	25,000	*By Advertisement (for 2012 ₹ 500)	2,000
To Entertainment	19,000	By Capital Expenditure	20,000
To Legacy	8,000	By Upkeep of Grounds	3,000
To Donation for Books	5,000	By Salary	15,000
To General Donation	5,000	By Bank Charges	300
		By Petty Expenses	800
		By Balance as per Pass Book	27,700
		By Petty Cash in hand	700
	83,500		**83,500**

Additional Information:

	On 1.1.2013 (₹)	On 31.12.2013 (₹)
L(i) Unrepresented cheques, being payment of Rent (o/s)	1,000	500
A(ii) Interest on fixed deposit of ₹ 1,00,000 not entered in the Pass Book	---	6,000
A(iii) Entry in respect of bank charges was not passed through the Cash Book	---	300
L(iv) A member deposited subscription for 2014 direct into bank, not passed through the cash book	---	200
A(v) Cheques deposited for subscription but not cleared by the bank (o/s)	8,000	6,000

You are required to prepare Income and Expenditure account for the year ended 31st December 2013 and a Balance Sheet as on that date.

CHAPTER 8: SINGLE ENTRY SYSTEM

Methods of Single Entry

1. Statement of affairs or Net Worth Method

Opening Capital + Additional Capital + Profit – Drawings = Closing Capital
Profit = Closing Capital – Opening Capital – Additional Capital + Drawings
Opening Capital = Closing Capital –Additional Capital – Profit + Drawings

(a) From the following information, calculate profit during the year

Capital as on 1-4-2020	₹ 50,00,000
Additional Capital introduced during the year	₹ 10,00,000
Drawings made during the year	₹ 7,00,000
Capital as on 31-3-2021	₹ 75,00,000

(b) From the following information, calculate the External liabilities as on 1-4-2020

Total Assets as on 1-4-2021	₹ 10,00,000
Total Liabilities (External) as on 1-4-2021	₹ 3,00,000
Total Assets as on 1-4-2020	₹ 8,00,000
Profit for the year 20-21	₹ 4,00,000
Additional Capital during the year	₹ 1,00,000
Drawings during the year	₹ 80,000

2. Sohan is a small trader and does not maintain his books on double entry system. The details of his business are available as follows:

Particulars	**01-04-2022 (₹)**	**31-03-2023 (₹)**
Cash in hand	-	1,000
Cash at Bank	₹ 74,000 (Cr)	40,000 (Dr.)
Sundry debtors	5,30,000	8,80,000
Sundry creditors	1,50,000	1,95,000
Stock	1,70,000	1,90,000
Investment	1,20,000	1,35,000
Plant	2,00,000	2,00,000
Furniture	14,000	14,000

Sohan had withdrawn ₹ 3 Lakhs during the year, and he introduced fresh capital of ₹ 65,000 on 1st October 2022. A provision of 5% on sundry debtors as necessary. Write off depreciation on plant at the rate of 15% p.a. and furniture at the rate of 10% per annum. Interest on opening capital to be allowed at the rate of 10% per annum. The manager is entitled for a commission at the rate of 10% on the net profit after charging such commission.

You are required to ascertain sohan's profit or loss for the year ended 31st March 2023.

Conversion Method

PROBLEMS FOR PRACTICE

3. The following is the balance sheet of Mr. Rama Sankar as on 30th June 1994 :

Liabilities	Amount₹	Assets	Amount₹
Rama Sankar's Capital A/c	96,000	Building	60,000
General Reserve	30,500	Furniture	12,000
Sundry Creditors	62,000	Motor Car	18,000
		Stock	40,000
		Sundry Debtors	34,000
		Cash in hand	7,500
		Cash at Bank	17,000
	1,88,500		**1,88,500**

A fire occurred on the evening of 30th June 1995 in the premises of the trader, destroying all books and records. The cashier absconded with the available cash in the box. Mr. Rama Sankar gives you the following information's:

a) His sales for the year were 20% higher than the previous year's. he sells his goods at cost plus 25%. 20% of the total sales were made for cash. There were no cash purchase.

b) From 1st July 1994, stock level was raised to ₹ 50,000 and maintained at that level all throughout the year.

c) Collection from debtors amounted to ₹ 2,60,000 of which ₹ 60,000 was received in cash. Business expenses amounted to ₹ 42,000 of which ₹ 10,000 was outstanding on 30th June 1995 and ₹ 12,000 was paid by cheque. Creditors were paid by cheque only.

d) Analysis of the pass book revealed the following:

	(₹)
Payment to creditors	2,75,000
Personal drawings	15,000
Cash deposited with bank	1,33,000
Cash withdrawn from bank for office use	24,000

e) Gross profit as per last year's audited accounts was ₹ 60,000. Provided depreciation on building and furniture at 5% and on motor car at 20%.

You are required to ascertain the cash defalcated by the cashier and prepare a trading and profit & loss account for the year ended 30th June 1995 and a balance sheet as on that date.

Working notes must from of your answer.

4. The following balances are available from the books of a trader as on 31st March 1996:

	As on 31st March 1995 (₹)	As on 31st March 1996 (₹)
Debtors	?	24,000
Creditors	16,000	?
Stock	?	17,000
Building	30,000	30,000
Machineries	60,000	67,000
Furniture	5,000	5,000
Bank Loan	10,000	8,000
Cash and Bank Balance	14,000	11,000

Cash transactions during the year ended 31st March,1996 (excluding certain other items) :

	(₹)		(₹)
Collection from Debtors	93,000	Business Expenses	10,000
Drawings	10,000	Payment to Creditors	61,000
Sale of Machinery		Cash Purchase	16,000
(Book Value ₹ 5,000)	3,000		

Other information:

i. The trader sells his goods at cost plus 33⅓%
ii. Discount allowed by Creditors ₹ 1,000.
iii. Credit purchases during the year were 80% of the total purchase and Cash sales amounted to 10% of the total sales. Credit sales amounted to ₹ 90,000.
iv. Depreciate Machinery and furniture by 10% and building by 2% (ignore Taxation).
v. From the above you are required to prepare the trading and profit and loss account for the year ended 31st March 1996 and a balance sheet as on that date. (Working Notes shall form part of your answers.)

5. Thomas does not maintain his books in the Double Entry System and Bank Accounts. From the following information, prepare Profit and Loss Account and Balance sheet as at June 30, 2004:

a) Assets and Liabilities	**30.6.2003 (₹)**	**30.6.2004 (₹)**
Stock	19,800	1,13,200
Creditors	31,000	14,500
Debtors	1,18,000	1,25,000
Premises	90,000	90,000
Furniture	11,000	11,500
Air Conditioner	15,000	15,000

b) Creditors as at 30.6.2003 includes ₹ 15,000 for purchase of Air conditioners

c) Cash Transactions:

Cash as at July 1,2003	15,000
Collections from customers	1,60,800
Payments to Creditors (Trade)	1,44,000
Rent, Rates and Taxes	11,500
Salaries	1,12,000
Sundry Expenses	18,000
Sundry Income	16,500
Drawings by Thomas	30,000
Loan from M₹ Fernanders	23,000
Capital Introduced	12,000
Cash Sales	11,500
Cash Purchase	15,000
Paid to creditor for air-conditioner	15,000

Bad debt written off 1,200

6. Mr. George started a business as cloth merchant on 1stJanuary 2004, with a Capital of ₹ 10,000. On the same day, he purchased furniture for cash ₹ 3,000. From the following information obtained from the books kept by single entry, prepare a Trading and Profit and Loss Account for the year ending 31st December 2004 and Balance Sheet as on that date:

	₹
Sales (inclusive of cash sales ₹ 7,000)	17,000
Purchase (inclusive of cash purchase ₹ 4,000)	15,000
Mr George's Drawings	1,200
Salaries to staff	2,000
Bad debt written off.	500
Business Expenses	700

Mr. George took cloth worth ₹ 500 from the shop for private use, and paid ₹ 200 to his books. On 31st December 2004, his Sundry Debtors were ₹ 5,200 and Sundry Creditors ₹ 3,600. Stock in hand valued on 31st December 2004 was ₹ 6,500.

7. The following is the balance sheet of the retail business of Mr.Padamsi as at **31stDecember 1993:**

Liabilities	₹	Assets	₹
Mr.Padamsi,s Capital	1,25,000	Furniture & Fittings	25,000
Creditors for goods	30,000	Stocks	75,000
Outstanding Expenses(rent)	1,000	Sundry Debtors	20,000
		Cash at Bank	35,000
		Cash in hand	1,000
	1,56,000		**1,56,000**

You are furnished with the following information:

- **i.** Mr. Padamsi always sells his goods at a profit of 25% on sales.
- **ii.** Goods are sold for cash and credit. Credit customers pay by cheque only.
- **iii.** Payments for purchase are always made by cheque.

iv. It is the practice of Mr. Padamsi to send to the bank every weekend the takings of the week after paying every week salaries of ₹ 250 to the clerk, sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the bank pass book for the period ending 31st March 1994 disclosed the following:

	₹
Payment to creditors	75,000
Payment of rent	4,000
Amount remitted to the bank	1,35,000

including cheques for ₹ 10,000 received from customers to whom the goods were sold on credit.

The following are the balances on 31st March1994:

	₹
Stocks	32,500
Creditors for goods	32,500
Sundry Debtors	30,000

On the evening of 31st March 1994, the cashier absconded with the available cash in the cash box.

You are required to prepare a statement showing the amount of cash defalcated by the cashier and also a profit and Loss Account for the period ended 31st March 1994 and a balance sheet as on that date.

8. Mr. Reddy does not maintain complete records of his business but gives you the following information:

	31st March 1999 (₹)	**31st March 1998 (₹)**
Machineries	2,00,000	1,50,000
Sundry Creditors	86,000	?
Sundry Debtors	?	93,000
Stock –in-trade	70,000	50,000
Cash in hand	2,600	1,500
Furniture	27,000	30,000
Cash at bank	15,600	18,700

His cash transactions for the year ended 31st March 1999 include the following (besides certain other items):

	(₹)
Payment to creditors	4,10,000
Cash Sales (25% of total Sales)	1,70,000
Business Expenses	82,000
Cash purchase	1,30,000
Collection from debtors	5,27,000
He withdrawn for household expenses	30,000

He maintains a uniform rate of gross profit of 25% on turnover. Outstanding business expenses on 31[st]March 1999 amounted to ₹ 5,000. **Addition of new machinery was made on October 1,1998**. Some value of furniture (book value Rs, 6,000) was sold during the year and the proceeds stands credited to Furniture Account.

Provide depreciation on Machineries @ 15% p.a. and on Furniture @ 10% p.a. (excluding sold item)

Mr. Reddy request you to prepare a Trading and Profit and Loss Account for the year ended 31[st]March 1999 and a Balance Sheet as on that date.

9. Ms. Mythily who maintained books under single entry method approaches you with the following details. You are requested to prepare Statement of affairs as on 31.03.2006 and Profit and Loss A/c for the year ended 31:03.2006.

Details furnished by Ms. Mythily:

1	**List of Balances**		
	Particulars	**31.03.2005**	**31.03.2006**
		(₹)	**(₹)**
	Cash	1500	8500
	Saving Bank, A/c with ICICI	2000	10000
	Debtors	42000	85000
	Advance Received	___	15000
	Creditors	89.000	2,500
	Advance Paid		50,000
	Building (Depreciate @ 5%)	4,00,000	?
	Car (Depreciate .@ 20%)	3,58,000	?
	Computer (Depreciate @ 60%)	70,000	?
2	Credit sale during the year		10,95,000
3	Cash sale during the year		12,50,000
4	Credit purchases during the year		8,20,000
5	Amount received from debtors was deposited in Bank		?
6	Details of cash expenses		
	Salary		48,000
	Vehicle expenses		18,000
	Repairs and Maintenance		3,000
7	Details of expenses through cheque payment		
	Godown rent		60,000
	Telephone		15,000
	Electricity		9,000
8	Drawing		
	In cash		40000
	From Bank		?
9	Discount allowed		250
10	Discount received		550

11	Creditors were paid by cheque			?
12	Advance was paid by cheque and amount received towards advance as deposited in Bank			
13	Cash purchases during the year		?	

10. 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 30thJune 2010 and 30th June 2011.

	As on 30-6-2010	**As on 30-6-2011**
	₹	₹
Stock in Trade	44,000	50,000
Sundry Debtors	?	70000
Sundry Creditors	46800	37000
Furniture	6,000	?

Other Information:

- **(iv)** Discount allowed, ₹ 2,800
- **(v)** Discount earned, ₹ 2,400
- **(vi)** Outstanding printing, ₹ 500
- **(vii)** Capital of Doll as on **30thJune 2010** was ₹ 4,000 more than capital of Dolly's
- **(viii)** Provide Depreciation of furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll & Dolly:

- **(i)** The trading and Profit and Loss account for the year ended 30thJune 2011 and
- **(ii)** The balance sheet as on the date

ADVANCED PROBLEMS IN SINGLE ENTRY:

11. Following is a bridged Balance Sheet of Mr. Mohanas at the beginning of a financial year:

Liabilities	(₹)	Assets		(₹)
Capital	5,00,000	Freehold Property		4,00,000
Accumulated Profit and Loss A/c	85,000	Plant and Machinery	2,50,000	
Current Liabilities	2,00,000	Less: Depreciation	(75,000)	1,75,000
		Stocks		1,05,000
		Debtors		1,00,000
		Bank		5,000
	7,85,000			**7,85,000**

From the following information, you are required to prepare Profit and LossA/c and Balance Sheet of Mr. Mohan as at the end of the financial year.

1. The composition of the total of the "Liabilities" Side of the Mr. Mohan's Balance Sheet as at the end of the year (the Capital remaining the same as at the beginning) was–Capital 50%; Accumulated P & L A/c 15%; Loan10% and Creditors 25%.
2. The Loan Were obtained on 1st April, interest (7% P.A) being paid on 30th September and 31st March.
3. During the year, additional Plant and Machinery had been bought and a further ₹ 25,000 depreciations written off. Freehold Property remained unchanged.
4. The Current Ratio was 1.6:1. The Quick Assets Ratio was 1:1.
5. The Debtors (Four Fifths of the Quick Assets) to Sales Ratio revealed a credit period of two months.
6. Gross Profit was at the rate of 15% of Selling Price and Return on Net Worth as at the year-end was 10%.

12. K. Azad, who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.2011. From the files, you pick up his Balance Sheet as at 31.3.2010 reading as below:

BalanceSheetasat31.3.2010 (Opening)

Liabilities	(₹)	(₹)
K. Azad's Capital		1,50,000
Creditors for Oil Purchases		2,00,000
12% Security Deposit from Customers		50,000
Creditors for Expenses:		
Rent		6,000
Salaries		4,000
Commission		20,000
		4,30,000

Assets		
Cash and Bank Balances		75,000
Debtors		1,60,000
Stock of Oil (125tins)		1,25,000
Furniture	30,000	
Less: Depreciation	(3,000)	27,000
Rent Advance		12,000
Electricity Deposit		1,000
3–Wheeler Tempo Van	40,000	
Less: Depreciation	(10,000)	30,000
		4,30,000

A summary of the rough cash book of K Azad for the year ended 31-3-2011 is as below	
Receipts: Cash Sales	5,26,500
Collections from Debtors	26,73,500
Payments:	
To Landlord	79,000
Salaries	48,000
Miscellaneous Office Expenses	12,000
Commission	20,000
Personal Income–tax	50,000
Transferon1.10.2010to12%FixedDeposit	6,00,000
To Creditors for Oil Supplies	24,00,000

A scrutiny of the other records gives you the following information:

a. During the year oil was purchased at 250 tons per month basis at a unit cost of ₹ 1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for ₹ 1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was3,000ataunitpriceof ₹ 1,750.

b. Rent until 30.9.2010 was ₹ 6,000 per month and was increased thereafter by ₹ 1,000 per month. Additional advance rent of ₹ 2,000 was paid and this is included in the figure of payments to landlord.

c. Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.

d. It is further noticed that a customer has paid ₹ 10,000 on 31.3.2011 as security deposit by cash. One of the staff has defalcated. The claim against the Insurance Company is pending.

You are requested to prepare final accounts for the year ended 31.3.2011.

CHAPTER 9: PARTNERSHIP ACCOUNTS - FUNDAMENTALS

PROBLEMS FOR PRACTICE

Model 1 – Profit and Loss Appropriation Account
– Capital Accounts
Fixed Capital Accounts
Fluctuating Capital Accounts
Model 2 – Interest on Capital
Model 3 – Interest on Drawings
Model 4 – Past Adjustments
Model 5 – Guarantee of Earnings

MODEL 1 - PROFIT AND LOSS APPROPRIATION ACCOUNT AND CAPITAL ACCOUNTS

1. A, B and C are partners sharing profits and loss as 2 : 2 : 1. They get interest on their Capitals at 5% p.a and are charged @ 6% p.a. on their Drawings. A and B are paid salary @ ₹ 250 & ₹ 150 per month respectively. A would be paid 6% interest on his loan. A paid ₹ 25,000 as loan on 1st July 2013. A, B and C withdrew ₹ 10,000, ₹ 8,000 and ₹ 6,000 respectively during 2013. C is entitled to a commission at 2% on total sales which amounted to ₹ 3,46,000 during the year. On 1st January 2013 the capital balances of A, B and C were ₹ 1,00,000, ₹ 80,000 and ₹ 60,000 respectively. The net profit for the year is ₹ 1,00,000. Prepare the Profit & Loss Appropriation Account and the Capital Accounts of partner.

2. P,Q and R are three partners sharing profits 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

- **a.** Interest on capital to be allowed @5%.
- **b.** P to receive a salary of ₹ 500 per month
- **c.** Q to receive a commission on 4% on **net profits after charging such commission**
- **d.** 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.

MODEL 2 - INTEREST ON CAPITALFIVE TREATMENTS

1. **When deed is silent**
   Treatment = No Interest on Capital
2. **When firm is in Loss**
   Treatment = No Interest on Capital
3. **When the firm is having adequate profit**
   Treatment = Interest on Capital will be given fully.
4. **When the firm is having inadequate profit**
   Treatment = Interest on Capital will be given in Capital Ratio
5. **When the deed is specifically mentioned that interest will be given even if it is in loss**
   Treatment = Interest on Capital will be given fully.

3. X and Y are partners sharing the profits and losses in the ratio of 2:3 with capitals of ₹ 20,000 and ₹ 10,000 respectively. Show the distribution of profit/loss for the year 2012 -13 by preparing the relevant account in each of the following alternative cases-
   - **a.** If the partnership deed is silent as to the Interest on Capital and the trading profits for the year are ₹ 1,500.
   - **b.** If the partnership deed provides for Interest on Capital @ 6% p.a. and the trading losses for the year are ₹ 1,500.
   - **c.** If the partnership deed provides for Interest on Capital @ 6% p.a and the trading profits for the year are ₹ 2,100.
   - **d.** If the partnership deed provides for Interest on Capital @ 6% p.a. and the trading profits for the year are ₹ 1,500.
   - **e.** If the partnership deed provides for Interest on Capital @ 6% p.a. even if it involves the firm in loss and the trading profits for the year are ₹ 1,500

4. **Sharing of profit on Effective Capital Ratio.**

Sachin, Sanat and Sohali Started a partnership firm on 1.1.2013. Sachin introduced ₹ 10,000 on 1.1.2013 and further introduced ₹ 5,000 on 1.7.13 Sanat introduced ₹ 20,000 at first on 1.1.13 but withdrew ₹ 8,000 from the business on 31.7.13. Sohali introduced ₹ 12,000 at the beginning on 1.1.13, increased it by ₹ 4,000 on 1.6.13 and reduced it to ₹ 10,000 on 1.11.13. During the year 2013 they made a net profit of ₹ 56,100. The partners decided to provide interest on their capitals at 12% p.a. and to divide the balance of profit in their effective capital contribution ratio.

Prepare the Profit & Loss Appropriation Account for the year ended 31.12.13.

<u>MODEL 3 – INTEREST ON DRAWINGS</u>

Under Product Method
Interest on Drawings = Total Product X Rate of Interest * 1/12
Interest on Drawings
1. Drawings are made at the beginning of each month = Total * Rate * 13/24 = 6.5/12
2. Drawings are made at the middle of each month = Total * Rate * 12/24 = 6/12
3. Drawings are made at the end of each month = Total * Rate * 11/24 = 5.5/12

Interest on Drawings without having detailed information (only drawings and rate of interest are given)
Interest on Drawings = Total * Rate * 1/2
Derivation of the above formulae

5. Calculation of Interest on Drawings made uniformly at the end of each quarter. On January 1, 2013, Amethyst and Emerald commenced business as partners introducing capitals of ₹ 20,000 and ₹ 30,000 to their respective accounts. The partnership deed, provided inter alia that:
   - **i.** Profit/Losses shall be shared in the ratio of 2 : 3 as between Amethyst and Emerald.
   - **ii.** Partners shall be entitled to interest on Capital at the commencement of each year at 6 % p.a.; and

iii. Interest on Drawings shall be charged at 8 % p.a.

During the year ended 31.12.2013 the firm made a profit of ₹ 19,280 before adjustment of interest on Capital and drawings. The Partners withdrew during the year ₹ 3,000 each at the **end of every quarter** commencing from 31.3.2013.

You are required to prepare a Profit Loss Appropriation Account and show the entries therein for distribution of Profit. Also, show the Capital Account of the partners for the year.

6. Accounting Period: January – December. Interest @ 12% p.a

Month 1st of	**Amount Drawn (₹)**
February	10,000
May	5,000
September	15,000
November	10,000
December	20,000

Calculate the Interest on Drawings.

<u>MODEL – 4 - PAST ADJUSTMENTS</u>

7. Ram and Rahim agreed to share profits as follows:

First ₹ 8,000 to Ram and the balance in 2:1. The profits for the year are ₹ 11,600; the capitals being Ram ₹ 40,000 and Rahim ₹ 36,000. Interest on capital had been omitted from the books and is to be allowed @5% p.a. Adjust.

8. The Capital Accounts of Adhar and Bhudhar stood at ₹ 40,000 and ₹ 30,000 respectively after the necessary adjustment in respect of the drawings and the net profit for the year ended 31st December 2013. It was subsequently ascertained that 5% p.a. interest on Capitals and drawings was not taken into account in arriving at the net profit. The drawings of the partners had been Adhar ₹ 1,200 at the end of each quarter and Bhudhar ₹ 1,800 at the end of each half year. The profit for the year as adjusted amounted to ₹ 20,000. The partners share profit in the proportion of Adhar 3/5 and Bhudhar 2/5.

You are required to pass journal entries and show the adjusted capital accounts of the partners.

<u>MODEL – 5 - GUARANTEE OF EARNINGS</u>

Individual Guarantee

9. X and Y are Partners sharing profit as 5:3. Z is the clerk of their business getting a salary of ₹ 500 p.m. and a commission of 5% of the net profit after deducting his salary and commission. Now, **X guarantee that Z be made a Partners** with 1/10th share of profit and nothing else. If the annual profits are ₹ 1,32,000. Show the appropriation.

Firm Guarantee

10. The profit-sharing ratio among X, Y and Z is 3: 2: 1. Z is guaranteed a minimum profit of ₹ 84,000 p.a. Annual profit are ₹ 4,20,000. Show the distribution. Distribution of Profit

Cross Guarantee or Reciprocal Guarantee

11. Susmita and Aishwarya were partners of a Beauty Parlor sharing profit and Losses as 3 : 2 Manpereet who had been running a similar business as a beauty consultant requested Susmita and Aishwarya to form a new partnership to which all of them agreed on the conditions that:

1. They would share the profits and losses 3 : 2 : 1.
2. Susmita and Aishwarya guaranteed to the effect that Manpreet's share of profit would not be lower than ₹ 22,500 per annum.
3. Manpreet guaranteed that gross fees earned by her for partnership business shall be at least equal to her average gross fees of the preceding three years when she was doing business on her own. Her average gross fees were ₹ 37,500.

The profit of the new partnership for the first accounting year ended on 31st March 2013 was ₹ 1,12,500 and the gross fees earned by Manpreet for the firm were ₹ 24,000.

Show the distribution of the above profit in a Profit & Loss Appropriation Account for the year ended 31 March 2013.

12. Agni and Bani started a partnership on **April 1, 2010,** with respective capital contributions of ₹ 60,000 and ₹ 20,000. **On 31.03.2012** they prepared the following Trial Balance for their business:

Particulars	**Dr. (₹)**	**Cr. (₹)**
Stock	46,000	
Machinery	46,500	
Debtors and Creditors	58,000	12,000
Provision for Depreciation		9,500
Cash and Bank	21,000	
Capitals:		
Agni		1,04,750
Bani		45,250
	1,71,500	**1,71,500**

The transactions recorded in the Capital Accounts during these two years were interest on capital at 10% p.a. on initial investments and allocation of incomes. On 31.03.12 it was further discovered that total drawings of ₹ 21,000 by Agni and ₹ 15,000 by Bani had been wrongly treated as business expenses. The Partnership Accounts were to be correctly adjusted. On **1.4.2012** Agni and Bani offered partnership to Clara and Dela on the following terms:

1) The new partners should introduce capitals as Clara ₹ 50,000 and Dela ₹ 40,000.

2) All partners would be entitled to interest on opening balance of the new partnership @ 10% p.a.

3) Agni and Bani are to receive salaries for their special services @ ₹ 10,000 p.a. and ₹ 6,000 p.a.

4) The minimum dues of Clara and Dela would be ₹ 10,000 p.a. and 12,000 p.a. respectively (inclusive of their interest on capital)

5) Profits after charging Partners' salaries and interests on capitals would be shared as 3 : 3 : 2 : 2 among Agni, Bani, Clara and Dela.

You are required to show:

1. Correct Capital balance of Agni and Bani on 31.03.12
2. The net income that must be earned by the new firm during the year ended 31st March 2013 so that Agni and Bani receive equal shares of Profit and Agni receives an aggregate of ₹ 30,000 inclusive of interest on Capital, Salary and Share of Profit.

CHAPTER 10: PARTNERSHIP ACCOUNTS - ADMISSION OF PARTNER

Model 1 – New Profit-Sharing Ratio
Model 2 – Valuation and Treatment of Goodwill
Model 3 – Revaluation of Assets and Liabilities
Model 4 – Treatment of Accumulated Profits and Reserves
Model 5 – Adjustment of Capital

MODEL 1 – NEW PROFIT-SHARING RATIO

1. X and Y were partners sharing profit/losses as 3 : 2. They admit Z as a new partner giving him $1/5^{th}$share of future profits. What should be the new profit-sharing ratio.

2. P and Q were partners sharing profits/losses as 4 : 3. R is admitted as a new partner for $1/5^{th}$share. P and Q decide to share the balance of profits equally.

3. A, B and C are partners sharing profit in the ratio of ½,1/3, 1/6. D is admitted in the firm for 1/6 share. C's share will remain unchanged, calculate New Ratio.

4. A, B & C were partners sharing profits/loses as 3 : 2: 1. They admitted D as a new partner giving him 1/6th share of future profits. D acquired $3/24^{th}$share from A and 1/24 share from B. Calculate the new Profit-Sharing Ratio.

5. Sandeep and Navdeep are partners in a firm sharing profit in the ratio 5:3. They admit C into the firm and the new profit-sharing ratio was agreed at4:2:1. Calculate the sacrificing ratio.

MODEL 2- VALUATION AND TREATMENT OF GOODWILL

Valuation of Goodwill – Methods of Valuation

1. **Simple Average Profit Method**
   Goodwill = Average Profit X No. of Years Purchase
   Average Profit = Total Profit / No. of Years

2. **Weighted Average Profit Method**
   Goodwill = Weighted Profit X No. of Years Purchase
   Weighted Profit = ∑wp / ∑w
   Where
   w = Weights
   p = Profit

3. **Super Profit Method**
   Goodwill = Super Profit X No. of Years Purchase
   Super Profit =Average Profit – Normal Profit
   Normal Profit = Capital Employed * ROI
   Capital Employed = Total Assets – External Liabilities

4. **Annuity Method**
Goodwill = Super Profit * Annuity Factor

5. **Capitalization Method**
Goodwill =(Average Profit / ROI) – Capital Employed

6. **Capitalization of Super Profit Method**
Goodwill = Super Profit / ROI

7. **Hidden Goodwill Method**
Goodwill = Difference between required and available Capital

PROBLEMS OF GOODWILL:

6. Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. M/s. Lee and Lawson earned profits during 2009-2012 as follows:

Year	Profit in ₹
2009	1.20.000
2010	1,25,000
2011	1,30,000
2012	1,50,000

On 31-12-2012 capital employed by M/s. Lee and Lawson was ₹ 5,00,000. Rate of normal profit is 20%.

Find out the value of goodwill following various methods assumed that **goodwill is valued at 3 years purchase** and Interest rate is equivalent to Normal profit rate i.e., 20% p.a. (Annuity Factor = 2.1065).

7. X and Y are partners having Capitals of ₹ 80,000 and ₹ 20,000 respectively and a profit-sharing ratio of 4 : 1. Z is admitted for $1/5^{th}$share in the profits of the firm, and he pays ₹ 30,000 as Capital. Find out the value of the Goodwill.

8. From the following information, calculate the value of goodwill by super profit method.

- **i.** Average Capital employed in the business ₹ 7,00,000.
- **ii.** Net trading profit of the firm for the past three years ₹ 1,47,600; ₹ 1,48,100 and ₹ 1,52,500.
- **iii.** Rate of Interest expected from capital having regard to the risk involved -18%.
- **iv.** Fair remuneration to the partners for their services 12,000 per annum.
- **v.** Sundry Assets (excluding goodwill) of the firm ₹ 7,54,762.
- **vi.** Sundry Liabilities ₹ 31,329.
- **vii.** Goodwill valued at 2 years' purchase.

Accounting Treatment of Goodwill

Step 1 = Calculation of Firm's Goodwill by any one of the seven (additional) methods of Valuation
Step 2 = Calculation of Gaining partner's Share of Goodwill.
Step 3 = Distribution of Goodwill to Sacrificing Partner(s) – Journal Entries

Treatment -1 = New Partner (Gaining Partner) brings extra Cash as Goodwill (No Goodwill in Old B/S)

1. Cash received from New
   Cash A/c. Dr
   To New Partner's Capital A/c. (Gainer)
2. Distribution to Sacrificer (SR)
   New Partner's Capital A/c. Dr
   To Sacrificing Partner's Capital A/c.
   (Sacrificing Ratio)

Treatment - 2= New Partner (Gaining Partner) is unable to bring extra cash as Goodwill. (No Goodwill in Old B/S)

1. Distribution to Sacrificer (SR) from New Partner's Capital
   New Partner's Capital A/c. Dr
   To Sacrificing Partner's Capital A/c.
   (Sacrificing Ratio)

Treatment - 3= New Partner (Gaining Partner) brings extra Cash as Goodwill Provided Goodwill A/c. is already appeared in the Old Balance Sheet

1. Old GW should be written off (Old Ratio)
   Partner's Capital A/c. (old) Dr
   To Goodwill A/c.
2. Cash received from New
3. Distribution to Sacrificer (SR)

Treatment - 4 = New Partner (Gaining Partner) brings extra Cash as Goodwill or unable to bring extra cash and old Goodwill is retained.

9. The new partner cannot pay premium, and a Goodwill Account is raised. A and B are partners sharing profits and losses as 3 : 2. They admit C as a partner who is unable to bring Goodwill premium in cash but pays ₹ 10,000 as capital. A Goodwill Account is raised in the books of the firm which is valued at two years' purchase of the last three years average profits. The profits for the last 3 years were ₹ 5,000; ₹ 4,000 and ₹ 4,500. The Profit-sharing ratio among the partners has been agreed to be 5 : 2 : 2. The partners decide to write-off Goodwill after C's admission.

10. New partner pays premium for Goodwill, but Goodwill Account is appearing at the Balance Sheet at full value. Gargi and Khana were partners sharing profits and losses as 5 : 3. They agreed to admit Lilabati as a new partner on payment of ₹ 9,000 as **premium** for Goodwill. The new profit-sharing ratio was agreed as 3 : 2 : 1. The Goodwill Account appearing in the books amounted to ₹ 54,000. Pass the necessary Journal Entries.

MODEL 3 TO 5 - REVALUATION, RESERVES AND ADJUSTMENT OF CAPITAL

11. A and B are partner in a firm sharing profit and losses in the ratio of 4 : 1. Their Balance Sheet as on 31st March 2013 stood as follows :

Liabilities		Assets	
Capital A/c		Furniture	20,000
A 25,000		Stock	40,000
B 65,000	90,000	Bills Receivable	10,000
Reserve	20,000	Debtors	30,000
Creditors	25,000	Cash at Bank	40,000
Bills Payable	5,000		
Total	**1,40,000**	**Total**	**1,40,000**

They agreed to take C as a partner with effect from 1st April 2013 on the following terms:

- **a.** A, B and C will share profit and losses in the ratio of 5 : 3 : 2.
- **b.** C will bring ₹ 20,000 as premium for goodwill and ₹ 30,000 as capital.
- **c.** Half of the Reserve is to be withdrawn by the partner
- **d.** The asset will be revalued as follows: Furniture ₹ 30,000; Stock ₹ 39,500; Debtors ₹ 28,500.
- **e.** A creditor of ₹ 12,000 has agreed to forgo his claim by ₹ 2,000.
- **f.** After making the above adjustments, the capital accounts of A and B should be **adjusted** on the **basis of C's capital,** by bringing cash or withdrawing cash as the case may be.

Show Revaluation Account, Partners' Capital Account and the Balance Sheet of the new firm.

12. Quick and Slow are partners in a firm sharing profits and losses in the ratio of 3 : 2. The Balance Sheet of the firm as on **31st March 2013** was as under :

Liabilities		Assets	
Capital A/c		Furniture & Fixtures	60,000
Quick	1,20,000	Office Equipments	30,000
Slow	77,000	Motor Car	75,000
General Reserve	30,000	Stock	50,000
Sundry Creditors	96,000	Sundry Debtors	90,000
		Cash at Bank	18,000
Total	**3,23,000**	Total	**3,23,000**

Smooth was admitted as a new with effect from **1st April 2013** and it was agreed that he would bring some private furniture worth ₹ 10,000 and private stock costing ₹ 8,000 and in addition contribute ₹ 50,000 cash towards capital.

He would also bring proportionate share of goodwill which is to be valued at two years' purchase of the average profits of the last three years.

The profits of the last three years were:

	₹
2012-13	52,000
2011-12	32,000
2010-11	28,000

However, on a checking of the past records, it was noticed that on 1.4.2011 a new furniture costing ₹ 8,000 was purchased but wrongly debited to revenue, and in 2012-13 a purchase invoice for ₹ 4,000 dated 25.3.2013 has been omitted in the books. The firm charges depreciation on Furniture @ 10% p.a. Your calculation of goodwill is to be made on the basis of correct profits.

On revaluation value of Stock is to be reduced by 5% and Motor car is worth ₹ 85,000. Smooth duly paid the required amount for goodwill and cash towards capital. It was decided that the future profits of the firm would be shared as Quick — 50%, Slow — 30% and Smooth — 20%.

Assuming the above — mentioned arrangements were duly carried out, show the Capital Accounts of the partners and the Balance Sheet of the firm after Smooth's admission. (SR 1:1)

13. A and B are partners in a firm sharing profits and losses in the ratio 3 : 2. Their Balance Sheet as on 31.12.2012 stood as follows :

Liabilities		Assets	
Sundry Creditors	20,000	*Goodwill	12,000
Capital Account		Cash in hand	15,000
A	12,000	*Sundry Debtors – ₹ 21,000	
B	30,000	***Less :*** Reserve for Bad Debts (1,000)	20,000
		*Stock-in-trade	10,750
		*Fixture & Fittings	250
		Profit and Loss Account	4,000
Total	**62,000**	**Total**	**62,000**

On 1.1.2013 they admit C as a partner on the following terms:

a) The new profit-sharing ratio of A, B and C becomes 5 :3 : 2.
b) Agreed value of Goodwill is ₹ 20,000 and C brings the necessary premium for Goodwill in cash, half of which is retained in the business. Book value of Goodwill should remain undisturbed.
c) The Reserve for bad debts is to be raised to 10% of Sundry Debtors.
d) Stock-in-trade is to be revalued at ₹ 12,000 but the effect is not shown in the books.
e) Fixture & Fittings are to be reduced to ₹ 150.
f) C should bring further sum in cash in order to make his capital equal to $1/5^{th}$ of the combined adjusted capital of A and B.

Show the necessary journal entries and the Capital Accounts of the partners and also prepare the Balance Sheet of the new firm as at 1.1.2013.

CHAPTER11: PARTNERSHIP ACCOUNTS - RETIREMENT AND DEATH

Retirement: 5 Critical Areas

1. **New Profit-sharing Ratio**
2. **Goodwill Treatment**
   Remaining Partner's Capital A/c. (Gainers) Dr
   To Retiring Partner's Capital A/c. (Sacrificer)
3. **Revaluation of Assets and Liabilities**
   Similar to Admission of Partners but revaluation profit and losses should be distributed to all partners including retiring partner in their OLD RATIO
4. Treatment of Accumulated Profits and Losses
   Similar to Admission of Partners but Accumulated profit and losses should be distributed to all partners including retiring partner in their OLD RATIO
5. Settlement Capital
   a. By Cash
   b. By Loan
   c. By Hybrid
   d. By Private Settlement

RETIREMENT

1. The Balance Sheet of Baichung, Tausif and Vijayan who shared profits and losses in the ratio 3:3:2 respectively was as follows on **31st December 2013**

Liabilities		Assets	
Capitals		Machinery	31,600
- Baichung	24,000	Furniture	6,400
- Tausif	10,000	Stock	8,500
- Vijayan	8,000	Debtors	4,300
Reserve	4,800	Cash at Bank	4,700
Creditors	8,700		
Total	**55,500**	**Total**	**55,500**

Baichung retired from the business on 1st January 2014. Revaluation of assets were made as: Machinery ₹ 34,000, Furniture ₹ 5,000, Stock ₹ 9,600, Debtors ₹ 4,000 and Goodwill ₹ 10,000.

Baichung was paid ₹ 4,225 immediately and the balance was transferred to a Loan Account for payment in 4 equal half-yearly installments together with interest @ 6% p.a.

Show the necessary accounts, the Balance Sheet of the firm immediately after Baichung's retirement and his Loan Account till finally paid off.

2. Sona, Mona and Dona were partners sharing profits in the proportions of 1/2, 1/3 and 1/6 respectively. Their Balance Sheet as on 31st March 2013 was as under:

Liabilities		Assets	
Sundry Creditors	24,000	Cash	2,500
Reserve	12,000	Debtors 16,000	
Capitals :		***Less* :** Provision 500	15,500
Sona 35,000		Stock	25,000
Mona 30,000		Motor Vans	8,000
Dona 30,000	95,000	Plant	35,000
		Buildings	45,000
Total	**1,31,000**		**1,31,000**

Mona retired on that date subject to the following adjustments:

i. The Goodwill of the firm be valued at ₹ 18,000;
ii. Plant and Motor Vans be depreciated by 10% and 15% respectively;
iii. Stock and Buildings be appreciated by 20% and 10% respectively; Provision for Doubtful Debts be fixed at ₹ 2,450;
iv. Liability for damages be provided at ₹ 450;
v. The new profit-sharing ratio between Sona and Dona be 3/5 and 2/5 respectively.

Pass the necessary Journal entries and prepare the Capital Accounts and the Balance Sheet assuming that <u>no alteration of book values of assets and liabilities is to be made.</u>

3. M, J and P were partners sharing profits/losses in the ratio of M 40%, J 35% and P 25%. The draft Balance Sheet of the partnership as on 31st December 2012 was as follows:

Liabilities		Assets	
Sundry Creditors	30,000	Cash in hand and at Bank	67,000
Bills payable	8,000	Stock	42,000
Loan from J	30,000	Sundry Debtors 34,000	
Current Accounts:		***Less*:** Provision 6,000	28,000
M 12,000		Plant & Machinery 80,000	
J 8,000		Less: Dep. 28,000	52,000
P6,000	26,000	Premises (at cost)	75,000
Capital Accounts:			
M 90,000			
J 50,000			
P 30,000	1,70,000		
Total	**2,64,000**		**2,64,000**

J retired on 31.12.12. M and P continued in partnership sharing profit/losses in the ratio of M 60% and P 40%. 50% of J's loan was repaid on 1.1.2013 and it was agreed that out of the amount then remaining due to him a sum of ₹ 80,000 should remain as loan to partnership and the balance to be carried forward as ordinary trading liability.

The following adjustments were agreed to be made to the above-mentioned Balance Sheet:

1. ₹ 10,000 should be written off from the premises, which was acquired two years back on lease for a term of 15 years
2. Plant & Machinery was revalued at ₹ 58,000;
3. Provision for Doubtful Debts to be increased by ₹ 1,200;
4. ₹ 4,000 to be written off stock;
5. ₹ 5,000 due to creditors for expenses had been omitted from the books of accounts;
6. Provide ₹ 1,200 for professional charges in connection with the revaluation.

As per the deed of partnership, in the event of retirement of a partner, goodwill was to be valued at an amount equal to one year's purchase of the average profits of the preceding 3 years on the date of retirement. Before determining the said average profits, a notional amount of ₹ 80,000 should be charged for remuneration of partners The necessary profits (before charging such remuneration) for the years ending on 31st December 2010, 2011, and 2012 were ₹ 1,44,000, ₹ 1,68,000 and ₹ 1,88,200 (as per draft accounts) respectively.

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2012 be recomputed after charging the loss on revaluation in respect of premises and stock, the unproved expenses (except professional expenses) and increase in the provision for doubtful debts. The continuing partners decided to eliminate goodwill account from their books.

Prepare the Revaluation Account; Capital Accounts (merging current accounts therein); J's Account showing balance due to him, and Balance Sheet of M and P as at 1st January 2013.

4. Shukla, Grewal, Jain and Narang were partners sharing profits and losses as 4 : 3 : 2 : 1. Their Balance Sheet as on 31.03.13 was as follows :

Liabilities		Assets	
Capital:		Goodwill	9,000
Shukla 7,000		Stock	2,000
Grewal 6,500		Debtors	11,000
Jain 5,000		Cash	5,000
Narang 4,000	22,500	Profit and Loss (Dr. Balance) A/c	3,000
Sundry Creditors	7,500		
Total	**30,000**	**Total**	**30,000**

On that date Grewal retired and the amount due to him was paid privately by the other partners in their profit-sharing ratio. Chakraborty was then admitted as a new partner. The latter paid ₹ 5,000 as capital and ₹ 3,200 as his share of goodwill, his share being 1/5th of the future profits. Shukla, Jain and Narang resolved to share the remaining profits as 3 : 3 : 2. It was also decided that the capitals of Shukla, Jain, Narang and Chakraborty should be made proportionate to their new profit-sharing ratio and for this they should bring in or withdraw cash, as necessary.

Show necessary Journal Entries to give effect the above transactions.

DEATH OF A PARTNER

Official Assignee or Executor or Official Liquidator or Official Receiver or Legal Heir In case of Death, the deceased partner's official assignee can claim from the firm.

1. **Capital Due**
2. **Current Account Balance**
3. **Loan due to him**
4. **Share of Goodwill = Treatment is same as retirement**
5. **Share of Revaluation Profit or Losses**
6. **Share of Accumulated Reserves or Profits**
7. **Share of Profit and Loss Adjustment**
8. **Share of Profit and Loss Suspense**
   Profit & Loss Suspense A/c. Dr
   To Deceased Partner's Capital A/c.
9. **Share of JLP (Joint Life Policy) – Two Treatments**

Treatment No. 1 – Premium will be treated as expenses
Compensation amount will be distributed fully (old Ratio)

Treatment No. 2 – Premium will be treated as asset
Compensation amount will be distributed after the adjustment of asset Balance (Old Ratio) – Only the difference (Profit) will be distributed

10. **Salary or Remuneration till death**
11. **Interest on Capital till death**
12. **Allowances or Commission till death**
13. **Miscellaneous Amount (When deed is specifically mentioned)**

5. The following was the Balance Sheet of A, B and C who shared profits in the ratio of 1 : 2 : 2 as on 31 December 2012.

Liabilities		**Assets**	
Sundry Creditors	10,000	Goodwill	15,000
Capital A/c :		Debtors	10,000
A 10,000		Machinery	20,000
B 20,000		Buildings	30,000
C 20,000	50,000	Stock	10,000
General Reserve	5,000	Cash at Bank	5,000
Investment Fluctuation Fund	3,000	Investments	10,000
Bad Debts Reserve	2,000		
Bank Loan	30,000		
Total	**1,00,000**	**Total**	**1,00,000**

C died on 31March 2013. His account is to be settled under the following terms:

Goodwill is to be calculated at the rate of 2 years purchase on the basis of the average of 5 years profit or loss. Profit for January to March' 13 is to be calculated proportionately on the average profit of 3 years. The profits were: 2008 ₹ 3,000, 2009 ₹ 7,000, 2010 ₹ 10,000, 2011 ₹ 14,000, 2012 loss ₹ 12,000. During 2012 a Moped costing ₹ 4,000 was purchased and debited to Travelling Expenses Account on which depreciation is to be calculated@ 25%. Other values agreed on assets are Stock ₹ 12,000,

Building ₹ 35,000, Machinery ₹ 25,000 and Investments ₹ 8,000. Debtors are considered good.

Prepare new Balance Sheet of the firm, necessary Journal entries and Ledger Accounts of the Partners.

6. A and B entered into partnership on **1.1.2010** agreeing to share profits and losses as 2 : 1. On that date they introduced capital: A ₹ 90,000 and B ₹ 30,000. They effected a policy of Insurance for ₹ 30,000 of their joint lives. The net profits **before** charging interests on capitals as at the beginning of each year at 6% per annum and on drawings averaged at 4% per annum were as follows:

Year	Net Profits	A's Drawings	B's Drawings
2010	34,800	10,000	5,000
2011	37,600	12,000	7,000
2012	38,000	14,000	7,500

The annual insurance premium ₹ 3,000 was being charged to Profit & Loss Account as a business expense.

A died-on 31st March 2013. According to the terms of the Partnership Deed, the deceased partner's executors became entitled to receive his share of capital as it stood on 31st December2012 plus his share of profits for the three months calculated upon the previous year's rate of profit and share of goodwill which was calculated as 2/3rds of the previous three years profits after adjusting for interest on capital and drawings but without deducting the premium paid on Joint Life Policy.

Show the amounts payable to the Executors of Mr. A.

7. Ravindra Singh, Sundaram and Telewani were partners sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. Telewani expired on **31st May 2013**.

Partnership agreement provided that:

- **a)** Interest on capital to be allowed at 12% p.a.
- **b)** Telewani to be credited with salary of ₹ 18,000 p.a.
- **c)** On the death of any of the partners, his heir will receive in addition to balance in the fixed, capital and current account:
  - **i.** Salary and interest on capital.
  - **ii.** Share of proportionate profit from last Balance Sheet to the date of death based on annual average profits of last 3 years (after interest on capital and salary to partner).
  - **iii.** Share of goodwill calculated at twice the average profits of last 3 years (before interest on capital and salary to partner).

iv. Share of profit on joint assurance policy.

Following further information is available:

A) Fixed capitals on **31.3.2013**:

	(₹)
Ravindra Singh	3,00,000
Sundaram	2,00,000
Telewani	1,00,000

B) Current Accounts (credit) on 31.3.2013:

	(₹)
Ravindra Singh	50,000
Sundaram	10,000
Telewani	20,000

C) Joint Life Policy 1,00,000

D) There is no change in capital and current accounts since 31.3.2013

E) Joint Life Policy realized ₹ 1,50,000 (on 15.6.2013 amount due to Telewani paid on receipt of policy amount).

F) Profits (before interest and salary) were:

	(₹)
2012-13	1,24,000
2011-12	1,20,000
2010-2011	80,000
2009-2010	1,30,000

G) The Firm closes its books on 31st March, Ravindra Singh and Sundaram decided to continue the firm and raise goodwill.

Show the following accounts in the books of the firm relating to the above transactions:

i. Current Accounts of Partners,
ii. Profit & Loss Adjustment A/c, and
iii. Heir of Telewani's Loan A/c.

CHAPTER 12: PARTNERSHIP ACCOUNTS – DISSOLUTION PART - 1

Model 1 – Normal Dissolution
Model 2 – Insolvency of All Partners
Model 3 – Insolvency of one or few Partners (Garner Vs. Murray Rule)
Model 4 – Absolute Surplus Method/Proportionate Capital Method
Model 5 – Maximum Loss Method
Model 6 – Amalgamation of Firms
Model 7 – Absorption of Firm
Model 8 – Sale of Firm to a Company
Model 9 – Conversion of Firm

PROBLEMS FOR PRACTICE

MODEL – 1 NORMAL DISSOLUTION

1. Anil, Balwant and Coomer were partners, carrying on business under the name and style of Anil& Co. sharing profits and losses in the proportion of 4:3:2. Their Balance Sheet as at 31st December 2015 was as under:

Liabilities	Amount in ₹	Assets	Amount in ₹
Capital		Land and Building	55,000
- Anil	40,000	Motor Car	15,000
- Balwant	20,000	Stock in Trade	20,000
- Coomer	10,000	Debtors	18,000
Creditors	40,000	Cash	2,000
Total	**1,10,000**	**Total**	**1,10,000**

They agreed to dissolve the partnership on that date. Anil agreed to take over Stock and Debtors at a discount of 10%. Balwant took over the Motor car for ₹ 16,000. Land and Building was sold for ₹ 75,000 and expenses of sale amounted to ₹ 1,600. Creditors were settled at a discount of 1.5%.

Show the relevant Ledger Accounts

2. A, B and C sharing profits in 3 : 1 : 1 agree upon dissolution. They each decide to take over certain assets and liabilities and continue business separately.

Liabilities	Amount in ₹	Assets	Amount in ₹
Creditors	6,000	Cash at Bank	3,200
Loan	1,500	Sundry Assets	17,000
Capital		Debtors	24,200
- A	27,500	Less: Provision	(1,200)
- B	10,000	Stock	7,800
- C	7,000	Furniture	1,000
Total	**52,000**	**Total**	**52,000**

It is agreed as follows:

- **a)** Goodwill is to be ignored.
- **b)** A is to take over all the Fixtures at ₹ 800; Debtors amounting to ₹ 20,000 at ₹ 17, 200. The creditors of ₹ 6,000 to be assumed by A at the figure.
- **c)** B is to take over all the stocks at ₹ 7,000 and certain of the sundry assets at ₹ 7,200 (being book value less 10%)
- **d)** C is taken over the remaining sundry assets at 90% of book values less ₹ 100 allowances and assume responsibility for the discharge of the loan, together with accruing interest of ₹ 30 which has not been recorded in the books of the firm.
- **e)** The expenses of dissolution were ₹ 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realization Account, partners' Capital Accounts and Bank Account.

3. X, Y and Z commenced business on 1st January 2018, with capitals of ₹ 1,00,000, ₹ 80,000 and ₹ 60,000 respectively. Profits and Losses were shared in the ratio 4:3:3. Capitals carried interest at 5% p.a. During 2018 and 2019 they made profits of ₹ 40,000 and ₹ 50,000 (before allowing interest on capitals). Drawings of each partner were ₹ 10,000 per year.

On 31st December 2019, the firm was dissolved. Creditors on that date were ₹ 24,000. The assets realized ₹ 2,60,000 net.

Give the necessary accounts to close the books of the firm.

MODEL 2- INSOLVENCY OF ALL PARTNERS

Conditions

1. **All partners are declared to be insolvent**
2. **Creditors or other liabilities are not fully settled**

Notable feature is Deficiency Account

Accounting Treatment for Dissolution

4. A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March 2015 was as follows: -

Liabilities	Amount in ₹	Assets	Amount in ₹
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	1,30,000
Total	**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 furniture and fixtures ₹ 40,000. Realization expenses were ₹ 10,000.

The Private assets and private liabilities of the partners were as follows

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.** Realization Account
- **ii.** Bank Account
- **iii.** Creditors Account
- **iv.** Partner's Capital Account
- **v.** Deficiency Account.

<u>MODEL 3 – GARNER VS. MURRAY RULE OR INSOLVENCY OF FEW PARTNERS</u>

<u>Accounting Treatment:</u>

<u>In addition to Normal Dissolution 7 Steps procedure</u>

I. In case of Realization Loss, the share of loss will be distributed to Partner's PSR, and the solvent partners required to bring cash equivalent to their share of loss.
(It is not applicable when the realization A/c comes with Profit)

II. In case of the insolvent partner capital account comes with negative figure(deficiency), their deficiency should be borne by solvent partner in CAPITAL ratio (provided the solvent partner should maintain capital Account in Credit Balance (Liabilities)

5. The following was the Balance sheet of M/s. Ideal works in which A, B and C were partners sharing profits and losses in the ratio of **6:3:5.**

Balance Sheet of M/s. Ideal Works as at 31-3-2016

Liabilities	Amount in ₹	Assets	Amount in ₹
A's capital	25,000	Land and Building	10,000
C's capital	15,000	Furniture	5,000
A's current	1,000	Stock in trade	23,100
C's current	500	Sundry debtors	30,000
Sundry creditors	30,000	Cash at bank	2,500
Loan on mortgage of land and building	4,000	B's current	4,900
Total	**75,500**	**Total**	**75,500**

It was decided to dissolve the partnership as on the date of the Balance Sheet. The assets of the firm realized as under:

Land and building ₹ 6,000; furniture ₹ 2,000; stock ₹ 15,000 and sundry debtors ₹ 20,000. The expenses of realization amounted to ₹ 2,000. The sundry creditors agreed to receive ₹ 0.75 in the rupee in full satisfaction of their claims. Loan on mortgage was paid. It was ascertained that B had become insolvent. B's estate had contributed only ₹ 0.50 in the rupee.

Write up the Realization Account, Bank Account, Capital Account and Current Account of the partners following the rule given in Garner Vs. Murray.

6. Kay, Ell, Emm and Enn are partners in a firm sharing profits and losses in the ratio 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March 2013.

Liabilities	Amount in ₹	Assets	Amount in ₹
Sundry creditors	30,000	Cash in hand	14,000
Capital accounts		Sundry debtors	35,000
- Kay	70,000	*Less* Provision	(5,000)
- Enn	30,000	Other assets	51,000
		Capital accounts	
		- Ell	20,000
		- Emm	15,000
Total	**1,30,000**	**Total**	**1,30,000**

On 31st March 2013, the firm was dissolved. The partnership agreement provides that the deficiency on an insolvent partner will be borne by the solvent partners in the ratio of capitals as they stand just before dissolution.

The following arrangements are agreed upon:

b) Kay is to **take over** 60% of book debts at 70% and Enn is to **take over** the balance at 75%. Further, they are to be allowed ₹ 2,100 and ₹ 1,100, respectively, to cover future losses.

c) Enn is to realized other assets and to pay-off the creditors He is to receive 5% gross commission on the amounts finally payable to other partners but to bear expenses of realization. He reports the result of realization as follows:

- Other assets realize a loss of 2% on net collection and pays off the creditors at a discount of 30%.
- Realization expenses amount to ₹ 3,000.
- Ell is declared insolvent and a dividend of 20% in a rupee is realized from his estate.

Prepare Bank Account, Realization Account, Capital Account and Deficiency Account.

PIECEMEAL DISTRIBUTION

Condition:

1. **Assets realized by Instalment**

2. **Capital Settlement**
    a. **Proportionate Capital Method**
    b. **Maximum Loss Method**

Settlement of Liabilities
Order

1. **Realization Expenses**
2. **Liquidator's Remuneration**
3. **Preferential Creditors**
4. **Bills Outstanding**
5. **Unsecured Creditors**
6. **Partner's Loans and Advances**
7. **Partner's Capital Balances – Piecemeal Distribution**
8. **Surplus (PSR)**

Example:

Partner	A	B	C	D
PSR	4	3	2	1
*Capital Due	1,00,000	4,00,000	2,00,000	5,00,000

Partner	A	B	C	D
PSR	4	3	2	1
*Capital Due	1,00,000	4,00,000	2,00,000	5,00,000

MODEL 4- PROPORTIONATE CAPITAL METHOD

Steps:

Step 1	Capital per Share (Capital due / PSR)
Step 2	Lowest Capital Per share
Step 3	Proportionate Capital
Step 4	Deduct Proportionate Capital from Capital due

7. A partnership firm was dissolved on 30th June 2015. Its Balance Sheet on that date of dissolution was as follows: -

Liabilities	Amount in ₹	Assets	Amount in ₹
Capitals		Cash	5,400
- Ram	38,000	Sundry assets	94,600
- Shyam	24,000		
- Mohan	18,000		
Loan – Shyam	5,000		
Sundry creditors	15,000		
Total	**1,00,000**	**Total**	**1,00,000**

The assets were realized in **instalments** and the payments were made on the proportionate capital basis. Creditors were paid ₹ 14,500 in full settlement of their account. Expenses of realization were estimated to be ₹ 2,700 but actual amount spent on this account was ₹ 2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of Cash, which was realized as follows:

On 5th July 2015	₹ 12,600
On 30th August 2015	₹ 30,000
On 15th September 2015	₹ 40,000

The partners shared profits and losses in the ratio of 2:2:1. Give working notes.

MODEL 5 – MAXIMUM LOSS METHOD

Steps:

Step 1	Calculate Max. Loss (Capital Due – Available Cash)
Step 2	Distribute the Max. Loss to all the partners in their PSR
Step 3	Deduct the share of Max. Loss from Original Capital Due
Step 4	If step 3 Answer is Positive, then the result in cash distribution
	If step 3 answer is Negative, then the negative value should be adjusted in their CAPITAL RATIO

8. The following is the Balance Sheet of X, Y and Z, who were sharing in the ratio 5 : 3 : 2, on 31st December 2012 when they decided to dissolve the partnership

Liabilities	Amount in ₹	Assets	Amount in ₹
X's Capital	55,000	Cash	20,000
Y's Capital	37,500	Other assets	13,04,000
Z's Capital	31,500		
Y's loan	2,00,000		
Creditors	10,00,000		
Total	**13,24,000**	**Total**	**13,24,000**

Note: There was a bill for ₹ 4,000 due on 1.4.2013 under discount.
Other assets realized as under:
1st January: ₹ 8,85,000, 1st February: ₹ 3,00,000; 1st March: ₹ 8,000; 1st April: ₹ 5,000; 1st May: ₹ 10,000.

The expenses of realization were expected to be ₹ 5,000, but ultimately amounted to ₹ 4,000 only and were paid on 1st May. On the due date the bill under discount were completely waived off by the creditor

Required: Prepare a statement showing the monthly distribution of cash according to Maximum Loss Method.

CHAPTER 13: PARTNERSHIP ACCOUNTS – DISSOLUTION PART - 2

Dissolution Part - 1
Model 1 – Normal Dissolution
Model 2 – Insolvency of All Partners
Model 3 – Insolvency of Few Partners (Apply Garner Vs. Murray Rule)
Model 4 – Piecemeal Distribution – Proportionate Capital Method
Model 5 – Piecemeal Distribution – Maximum Loss Method
Dissolution Part - 2
Model 6 – Amalgamation of Firms
Model 7 – Absorption of Firm
Model 8 – Sale of a Firm to a Company
Model 9 – Conversion of a Firm into a Company

PROBLEMS FOR PRACTICE

MODEL – 1 NORMAL DISSOLUTION

Dissolution Process

Step 1 – Sell off the Assets
Step 2 – Pay off the Liabilities (External)
Step 3 – Payment of Realization Expenses
Step 4 – Payment to Partners

Order of Settlement

9. Liquidation Expenses
10. Liquidator's Remuneration
11. Secured Creditors
12. Preferential Creditors
13. Unsecured Creditors
14. Partner's Loans and Advances
15. Partner's Current and Capital Balances
16. Surplus distributed to All the Partners in their PSR.

Ledger Accounts

1. Realization A/c. (Profit and Loss A/c.)
2. Partner's Capital A/c.
3. Cash A/c. (Tallied / Balanced)

AMALGAMATION AND SALE OF FIRM TO A COMPANY

6. X and Y were in partnership in XY & Co. sharing profits in the proportions 3:2. On 31st March 2013, they accepted an offer from P. Ltd. to acquire at that date their fixed assets and stock at an agreed price of ₹ 7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership firm.

The purchase consideration of₹ 7,20,000 consisted of cash₹ 3,60,000, debentures in P Ltd. (at par) ₹ 1,80,000 and 12,000 Equity Shares of ₹ 10 each in P. Ltd. X will be employed in P. Ltd. but, since Y was retiring X agreed to allow him ₹ 30,000 in compensation, to be adjusted through their Capital Accounts.

Y was to receive 1,800 shares in P. Ltd. and the balance due to him in cash. The Balance Sheet of the firm as on 31.03.2013 is in below:

Liabilities	Amount in ₹	Assets	Amount in ₹
X's Capital	1,20,000	Fixed Assets	4,80,000
Loan from X	2,10,000	Stock	45,000
Bank overdraft	1,50,000	Debtors	75,000
Creditors	1,80,000	Y's Capital	60,000
Total	**6,60,000**	**Total**	**6,60,000**

The sale of the assets to P. Ltd. took place as agreed; the debtors realised ₹ 60,000 and creditors were settled for ₹ 1,71,000. The firm then ceased business.

You are required to pass necessary Journal entries and show:(a) Realisation Account, (b)Bank Account, (c) Partners' Capital Accounts.

7. Two partnership firms, carrying on business under the style of R & Co. (Partners A& B) and W & Co. (Partners C & D) respectively, decided to amalgamate into RW & Co. with effect from 1st April 2013. The respective Balance Sheets of both the firms as on 31st March 2013 are in below:

Liabilities	R (₹)	W (₹)	Assets	R (₹)	W (₹)
Capital B	19,000		Goodwill	-	5,000
Capital C		10,000	Machinery	10,000	-
Capital D		2,000	Stock in trade	20,000	5,000
Bank Loan	15,000		Sundry debtors	10,000	10,000
Creditors	10,000	9,500	Cash in hand	-	1,500
			Capital A	4,000	
Total	**44,000**	**21,500**	**Total**	**44,000**	**21,500**

Profit sharing ratios: A & B = 1:2; C & D = 1:1. Agreed terms are:

1. All fixed assets are to be devalued by 20%.
2. All stock in trade is to be appreciated by 50%.
3. R& Co. owes ₹ 5,000 to W & Co. as on 31stMarch 2013. This is settled at ₹ 2,000.
4. Goodwill is to be ignored for the purpose of amalgamation.
5. The fixed capital accounts in the new firm (RW & Co.) are to be: Mr. A ₹ 2,000; Mr. B ₹ 3,000; Mr. C₹ 1,000and D ₹ 4,000.
6. Mr. B takes over bank overdraft of R & Co. and contributed to Mr. The amount of money to be brought in by Mr. A to make up his capital contribution.
7. Mr. C is paid off in cash from W & Co. and Mr. D brings in sufficient cash to make up his required capital contribution.

Pass necessary Journal entries to close the books of both the firms as on 31st March 2013.

8. Following is the Balance sheet of AB & Co. and CD & Co. as on 31.03.2013.

Liabilities	AB (₹)	CD (₹)	Assets	AB (₹)	CD (₹)
Bank Loan	10,000		Stock in Trade	32,000	24,000
Bills Payable	30,000	40,000	Sundry Debtors	18,000	30,000
Capital A	60,000		Machinery	60,000	20,000
Capital B	30,000		Cash in Hand	12,000	2,000
Capital C		36,000	Furniture	8,000	6,000
Capital D		24,000	Investments		18,000
	1,30,000	**1,00,000**		**1,30,000**	**1,00,000**

AB & Co. absorbed CD& Co. on 01.04.2013 on the following terms:

- **a)** that the value of the goodwill of CD& Co. would be ₹ 12,000;
- **b)** that the investments of CD & Co. to be sold out for ₹ 24,000and the realized cash will be introduced in the acquiring business;
- **c)** that the stock of CD& Co. to be reduced to ₹ 22,000;
- **d)** that the machinery of CD& Co. will be increased by 40%;
- **e)** that the Furniture of CD& Co. will be reduced by 10%.

It was further agreed that for AB & Co., following are the adjustments to be made:

- **a.** Assets are to be revalued as follows:
  Goodwill - ₹ 16,000; Stock - ₹ 40,000; Machinery - ₹ 84,000; Furniture - ₹ 7,200;
- **b.** Bank loan to be repaid

Show necessary Ledger Accounts to close the books of CD& Co. and to prepare necessary Journal entry and Balance Sheet of AB& Co. after absorption.

9. A.B and C were partners in business, sharing profits and losses in the ratio 2:1:1. Their balance sheet as at 31-3-2017 is as follows: (₹ '000)

Liabilities	₹	₹	Assets	₹	₹
Fixed Capital			Fixed Assets		300
A	200		Investments		50
B	100		Current Assets		
C	100	400	- stock	100	
Current Account			- debtors	60	
A	40		- cash and Bank	150	310
B	20	60			
Unsecured loans		200			
Total		**660**	**Total**		**660**

On 1-4-2017, it is agreed among the partners that BC (P) Ltd. a newly formed company with B and C having each taken up 100 shares at ₹ 10 each will take over the firm as a going concern including goodwill but excluding cash and bank balances.

The following points are also agreed upon:

- **a)** Goodwill will be valued at 3 years purchase of super profits.
- **b)** The actual profit for the purpose of goodwill valuation will be ₹ 1,00,000
- **c)** Normal rate of return will be 15% on fixed capital
- **d)** All other assets and liabilities will be taken over at book values.
- **e)** 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 Mr. A, who has agreed to retire.
- **f)** B and C are to acquire equal interest in the new company.
- **g)** Expenses of liquidation ₹ 40,000

You are required to prepare the necessary ledger accounts.

CHAPTER 14: HIRE PURCHASE AND INSTALMENT SYSTEM

Meaning

Basic Terms

1. **Hire Purchase**
2. **Instalment**
3. **Hire Purchase Contract/Agreement**
4. **Hire Purchaser or Hire Buyer**
5. **Hire Vendor or Hire Seller**
6. **Down Payment or Initial Payment**
7. **Cash Price**
8. **Hire Purchase Charges or Interest**
9. **Hire Purchase Price**
    a. **HP Price = Cash Price + Interest (10 + 2 = 12)**
    b. **HP Price = Down Payment + Instalment (4 + (8/5)**
10. **Default or Delinquency**
11. **Repossession**
    a. **Complete Repossession**
    b. **Partial Repossession**
12. **Penalty Charges or Termination Charges**
13. **Rebate**

Data Required

1. **Cash Price**
2. **HP Price**
3. **Interest**
4. **Down Payment**
5. **No. of Instalment**
6. **Instalment Amount**
7. **Rate of Interest**

MODELS

A. Interest Calculation

1. When Rate of Interest, Total Cash Price and Instalments are given
2. When Rate of Interest and Instalments are given but Total Cash price is not given
3. When Total Cash Price and Instalments are given but Rate of Interest is not given
4. When only Instalments are given, but cash price and Rate of Interest are not given

5. **When** reference to Annuity table rate of interest and instalments are given but Total cash price is not given
6. Concept of True Rate of Interest when nominal interest rate given
   True Rate of Interest = NR X 2 X NOI/NOI+1
7. Right of the hirer to purchase with rebate as per HPA 1972
   Rebate = 2/3 (HPC X NOI DUE/NOI TOTAL)
8. Termination of Agreement Penalty Charges as per HPA 1972

B. Accounting Treatment for lesser Number of Transactions

9. Cash price method
10. Interest Suspense Method
11. Default and Complete Repossession
12. Default and Partial Repossession

C. Accounting Treatment for higher Number of Transactions (Not relevant)

13. Debtors Method
14. Stock and Debtors Method

PROBLEMS FOR PRACTICE – INTEREST CALCULATION

1. Maheer purchases a car on hire purchase system. The total cash price of the car is ₹ 15,980, payable ₹ 4,000 down and three instalments of ₹ 6,000, ₹ 5,000 and ₹ 2,000 payable at the end of first, second and third year respectively. Interest is charged at 5% p.a. **You are required to calculate interest paid by the buyer to the seller each year.**

2. On 1st April 2014, Fast Track Motors Co. sells a Truck on Hire purchase basis to Teja Transport Co for a total Hire Purchase Price of ₹ 9,00,000 payable as to ₹ 2,40,000 as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 2015, 2016, and 2017. The Hire Vendor charges Interest at 10% per annum. Ascertain the Cash Price of the Truck for Teja Transport Co. **Calculations may be made to the nearest rupee.**

3. A acquired-on 1st January 2014 a Machine under a Hire Purchase agreement which provides for 5 half yearly instalments of ₹ 6,000 each, the first instalment being due on 1st July 2014. Assume that the applicable rate of interest is 10% per annum. **Calculate the Cash value of the Machine.**

4. Happy Valley Florists Ltd acquired a delivery van on hire purchase on 01-04-2010 from Ganesh Enterprises. The
    i. Hire purchase price – ₹ 1,80,000
    ii. Down Payment – ₹ 30,000
    iii. 1st Instalment payable after 1 year – ₹ 50,000
    iv. 2nd Instalment payable after 2 year – ₹ 50,000
    v. 3rd Instalment payable after 3 year – ₹ 30,000
    vi. 4th Instalment payable after 4 year - ₹ 20,000
    vii. Cash Price of Van is ₹ 1,50,000.

   Calculate total interest and interest included in each instalment.

   NOTE:
   IF RATE OF INTEREST IS MISSING, WE HAVE TO FOLLOW IRR METHOD

5. M/s. India Motors Ltd. Sells scooters on the hire purchase plan. The terms of payment for the sale of a scooter are ₹ 1,000 on delivery, ₹ 1,040 at the end of the first year, ₹ 960 at the end of the second year and ₹ 880 at the end of the third year, inclusive of equal amount of cash price in each instalment. **Calculate Interest.**

6. On 1-1-2010 X purchased a plant from Y on hire purchase system. The hire purchase rate was settled at ₹ 60,000, payable as to ₹ 15,000 on 1-1-2010 and ₹ 15,000 at the end of three successive year. Interest was charged @5% p.a. The asset was to be depreciated in the books of the purchaser at 10% p.a. on Reducing Balance Method. **Given the price value of an annuity of Re.1 p.a. @5% interest is 2.7232. Ascertain the cash price**.

7. On 1st April 2014, Fast Track Motors Co. sells a Truck on Hire purchase basis to Teja Transport Co for a total Hire Purchase Price of ₹ 9,00,000 payables as to ₹ 2,40,000 as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 2015, 2016, and 2017. The Hire Vendor charges Interest at 10% per annum. Ascertain the Cash Price of the Truck for Teja Transport Co. **Calculations may be made to the nearest rupee.**

8. A sells a T.V. the cash price of which is ₹ 3,000 and decides to charge 10% nominal interest. If the price is to be paid in 3 equal annual instalments, determine the instalment amount. **Calculate the true rate of interest and verify the arithmetic.**

9. Computer Point sells computers on Hire Purchase at Cost plus 25%. Terms of Sale are ₹ 10,000 down payment and eight monthly instalments of ₹ 5,000 for each computer. Two computers were repossessed for nonpayment of instalments and to be valued at 50% of Cost Price. **Compute the value of Repossessed Computers.**

ACCOUNTINGTREATMENT FOR LESSER NUMBER OF TRANSACTIONS:

Two Methods

1. Cash Price Method
2. Interest Suspense Method
3. Asset Accrual Method

Cash Price Method of Recording Hire purchase and Instalment Transactions

PROBLEM FOR PRACTICE:

10. Rohit Ltd. purchased motor lorries on hire purchase system, over a period of four year 12000 was payable on delivery on 1stJanuary 1990 and the balance by 4 annual instalments of 12000 each on 31stDecember. Motors Ltd. who sold the Lorries charged 5% p.a. interest on the yearly balances. The cash value of the Lorries on delivery was 54551. Depreciation at the rate of 25% on diminishing balances was written off in each year. **Give the necessary journal entries and ledger accounts in the books of purchasing company.**

11. On 1st April 2001, Deepak Co. purchased a machine from Vigal Industries on hire purchase basis. The cash price of the machine was ₹ 25000. The payment was to be made ₹ 5000 on the date of contract and the balance in 4 annual instalments of ₹ 5000 plus interest at 5% p.a. payable on 31stDecember each year, the first instalments being payable on 31.12.2001.

Show journal entries and ledger accounts in the books of Deepak Co assuming accounts are closed on 31st December and depreciation at 10% p.a. written off on the original cost.

12. On 1.1.2002 Mr. Kumar purchased machinery from Sunil on hire purchase system. Cash price of the machinery was ₹ 60000. ₹ 15,480 to be paid on the date of purchase and 5 annual instalments of ₹ 10000 payable on 31st December every year. Sunil charges interest @ 4 % p.a. on the yearly balances. Mr. Kumar failed to pay the instalments due on 31.12.2003. There upon sunil took possession of the machinery and valued the same in his books after charging 15% depreciation annually. In 2004 he incurred ₹ 1500 as reconditioning expenses and resold the machinery for ₹ 45000. **Show ledger accounts in the books of both of parties.**

13. Labor Transport Co. purchased three trucks costing ₹ 90000 each from Rayon Distributors on 1stJanuary 2002 on hire purchase system. Payment was to be made, for each truck, ₹ 30000 down and the remainder in 3 equal instalments together with interest at 15% p.a. payable on 31st December each year. Labor Co. writes off 20% depreciation each year on the diminishing balance method. It paid the first instalment at the end of the first year but could not pay the next. Rayon agrees to leave one truck with the purchaser adjusting the value of the other two trucks against the amount due. The re-possession was done on the basis of 30% depreciation on the written down value method. **Show the necessary; ledger accounts in the books of Labor Co.**

14. On 1.1.2019, Anand purchased 5 Machines from Balu. Payment was to be made - 20% down and the balance in four annual instalments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 commencing from 31.12.2019. The vendor charged interest @ 10% p.a.; Anand writes off depreciation @ 20% p.a. on the original cost.

On Anand's failure to pay the instalment due on 31.12.2020, after negotiations on 01.01.2021 Balu agreed to leave two machines with Anand adjusting the value of the other three machines against the amount due. The machines being valued at cost less 40% p.a. depreciation on W.D.V basis, Balu after spending ₹ 9000 on repairs of each of such machines sold @ ₹ 1,05,000 on 30th June 2021. Prepare the relevant accounts in the books of Anand and Balu.

CHAPTER 15: BRANCH ACCOUNTS – BASIC CONCEPTS

1. **Introduction**
2. **Evolution**
3. **Types Of Branches**
   a. Dependent Branch
      i. Features
      ii. Activities
      iii. Accounting Treatment
         1. Debtors System
         2. Stock And Debtors System
         3. Final Accounts System
         4. Wholesale Branch System
   b. Independent Branch
   c. Foreign Branch
4. **Debtors System**
   a. One Account for one Branch
   b. Branch account is a nominal Account
   c. Prepared by Head office
   d. Transactions
      i. Two Methods
         1. Goods sent at cost price
         2. Goods sent at invoice price
      ii. Branch Assets and Liabilities
      iii. Goods sent to Branch
      iv. Goods sold by Branch
      v. Cash remittances
      vi. Expenses Reimbursements
   e. Format
5. **Final Accounts System**
   a. Branch Trading Account
   b. Branch Profit and Loss Account
6. **Stock and Debtors System**
   a. Branch Stock Account (Invoice Price)
   b. Branch Debtors Account
   c. Branch Adjustment Account (Profit Portion of Stock)
   d. Branch Cash Account
   e. Branch Expenses Account
   f. Branch Profit and Loss Account
   g. Branch Creditors Account
   h. Branch Furniture Account
   i. Branch Asset Account
   j. Branch Liabilities Account

- **k.** Branch Petty Cash Account
- **l.** Goods sent to Branch Account
- **m.** Stock Reserve Account etc.

7. **Whole sale Branch System**
   - **a.** Cost Price
   - **b.** Invoice Price
   - **c.** Market or Selling Price
8. **Independent Branch**
   - **a.** Journal
   - **b.** Reconciliation
   - **c.** Branch Account
   - **d.** Branch Final Accounts
   - **e.** Combined Balance Sheet
9. **Foreign Branch**
   - **a.** Currency Conversion
   - **b.** Branch Final Accounts

MODEL – 1 - DEPENDENT BRANCH (DEBTORS SYSTEM)
FORMAT OF BRANCH ACCOUNT

IN THE BOOKS OF HEAD OFFICE

BRANCH ACCOUNT

Dr.		**Cr.**	
Particulars	**Amount in ₹**	**Particulars**	**Amount in ₹**
To Balance b/d (Op balance of Assets)	XXX	BY Balance b/d (Op balance of Liabilities)	XXX
1) To Goods sent to Branch	XXX	2) By Cash Remittances	
3) To Cash/Bank (Expenses paid by H.O.)	XXX	- Cash Sales	XXX
To Balance c/d (Cl. Balance of Liabilities)	XXX	- Cash from Debtors	XXX
To Profit	XXX	By Balance c/d (Cl. Balance of Assets)	XXX
Total	**XXX**	**Total**	**XXX**

It is important to note that under this system of preparing the branch account, items like credit sales, bad debts, discounts, depreciation, loss or gain on sale of assets do not figure at all.

PROBLEMS FOR PRACTICE

Cost Price Method

1. From the following information relating to a Bangalore Branch for the year ending 31-3-2016, prepare Branch Account in the books of Head Office Books

	(₹)
Opening Balances on 1-4-2015	
Stock	37,500
Debtors	75,000
Petty Cash	750
Goods sent to Branch	6,30,000
Cash Sales	1,50,000
Cash received from Debtors	5,25,000
Goods returned by Branch	5,000
Credit Sales	5,70,000
Cheques sent to Branch	
Salaries	22,500
Rent and Taxes	3,750
Petty Cash	2,750
Closing Balances on 31-3-2016	
Stock	62,500
Debtors	1,20,000
Petty Cash	500

2. Tip Top Co. New Delhi has a branch at Kolkata. It invoices goods to the branch at selling price which is cost plus 33 ⅓%. From the following particulars prepare Branch Account at **(i)** Cost Price and **(ii)** at Invoice Price. Show also Branch Debtors Account and Goods sent to Branch account in the Books of Tip Top Co. New Delhi.

		(₹)
Stock on 1st January 2015 (Invoice Price)		15,000
Debtors on 1st January 2015		11,400
Goods invoiced to Branch during the year at Invoice Price		67,000
Sales at Branch		
Cash Sales	31,000	
Credit Sales	37,400	68,400
Cash received from debtors		40,000
Discount allowed to customers		300
Bad debts written off		250
Cheques sent to branch		
- Salaries	5,000	
- Sundry Expenses	1,700	6,700
Stock on 31st December 2015 (Invoice Price)		13,400

3. The following information and particulars relate to New Delhi Branch for the year 2015-16.

	31-3-2015	31-3-2016
Stock	50,000	75,000
Debtors	70,000	95,000
Petty Cash	250	120

Goods costing ₹ 5,50,000 were sold by the branch @25% on cost. Cash sales amount to ₹ 1,50,000 and the rest credit sales.

Branch **spent** ₹ 30,000 for salaries, ₹ 12,000 for rent and ₹ 8,000 for petty expenses (all expenses were remitted by the Head office). Branch receives all goods from H.O.

You are required to show the New Delhi branch account in the books of H.O. for the year 2015-16 and verify your answer by preparing Branch Trading and Profit and Loss Account.

4. India Sales Ltd. have a head office and many retail branches which are supplied goods from the head office @20% profit on sales price. Accounts are kept at head office from where all expenses (except petty expenses) are paid.

Such petty expenses are paid by the branches which are allowed to maintain petty cash balance of ₹ 300 on **imprest system**. From the following balances, as shown by the books, prepare branch account.

Balances on 1st January 2015		Petty Expenses made by the Branch	180
Petty cash in hand at branch	300	Cash received from customers	40,000
Stock in hand at branch at sales price	20,000	Bad debts written off	200
Sundry debtors at branches	4,000	Cash purchases by the branch (on permission from head office)	10,500
Sundry creditors at branches	1,200	Cash paid to creditors	8,000
Furniture and Fixtures at branch	8,000	Creditors at the end	3,000
Rent prepaid (up to 31st March 2015)	300	Payments made by the head office	
Transactions for the year ended 31st December 2015 were as follows		Rent for one year. (Paid on 1st April 2015)	1,800
Goods sent to branch(Less: Returns)	1,04,000	Insurance paid for the year ending 31st March 2016	360
Cash sales at branch	80,000	Salaries	2,000
Credit sales at branch	45,000	Balance on 31st December 2015	
Allowances to debtors	500	Stock at cost	30,000

Write off 10% depreciation on furniture.

5. From the following information, prepare Mumbai Branch Account in the books of head office for the year ending on 31st March 2013:

Particulars	**(₹)**
Opening Stock (at cost)	3,56,000
Opening Debtors	28,000
Opening Petty Cash	500
Furniture (in the beginning)	12,000
Opening Creditors	12,000
Goods sent to Branch (at cost)	10,45,000
Goods returned by Branch to H.O. (at Cost)	17,200
Goods returned by Customers to Branch	13,800
Closing Stock (at cost)	3,76,800
Closing Debtors	1,93,000
Closing Petty Cash	240
Furniture at the end	?
Closing Creditors	12,000
Cheques sent to Branch for Expenses	99,740
Cash received from Debtors	12,78,000
Cash Sales	64,000
Depreciate the furniture @ 10% p.a.	

6. From the following information, prepare a Memorandum trading and profit and loss account of branches and **also show the branch account** as it would appear in the head office books at the end of the year.

Dr.		**Cr.**	
Branch Cash Account			
Particulars	**Amount in ₹**	**Particulars**	**Amount in ₹**
To Balance	7,500	By Petty cash	3,000
To Receipts from debtors	37,500	By Bank	62,000
To Cash Sales	25,000	By Balance	5,000
Total	**70,000**	**Total**	**70,000**

Dr.		**Cr.**	
Branch Debtors Account			
Particulars	**Amount in ₹**	**Particulars**	**Amount in ₹**
To Balance	3,000	By Cash	37,500
To Sales	45,000	By Discount Allowed	1,000
		By Bad debts	1,500
		By Balance	8,000
Total	**48,000**	**Total**	**48,000**
Dr.		**Cr.**	
Branch Account			
Particulars	**Amount in ₹**	**Particulars**	**Amount in ₹**
To Balance B/d		By Balance B/d	
- Cash	7,500	- Expenses Outstanding	1,000
- Debtors	3,000	By Bank	62,000
- Furniture	7,500	By Balance C/d	20,500

- Stock	10,000		
To Goods transferred	45,000		
ToFurniture Purchased	2,500		
To Sundry Expenses	8,000		
Total	**83,500**	**Total**	**83,500**

Closing stock at branches was ₹ 4,000 and expenses outstanding were ₹ 900. Depreciation at 10% of the book value has to be provided on furniture.

7. X Ltd. having its principal place of business at Chennai has branches at Lucknow, Delhi and Chandigarh. The principal office purchase goods and transfers them to the branches at selling prices. the following details available for the calendar year 2018 are furnished to you, to enable you to prepare a combined trading account in columnar form:

Balances at the end of the business of 2018				
	Principal Office	**Lucknow**	**Delhi**	**Chandigarh**
Stock on 1s January 2018	15,000	6,000	5,000	5,000
Purchases	1,40,200	-	-	-
Sales	-	64,000	60,000	36,000
Remittances received from branches	1,48,000	60,000	52,000	36,000
Lucknow Branch (Dr)	10,000			
Delhi Branch (Dr.)	13,000			
Chandigarh Branch (Dr.)	3,600			
Stock on 31st December 2018	24,000	8,000	6,000	6,000

The principal office invoices goods to the branches at fixed sales price but maintain branch account in its own books at cost price. show branch accounts in Chennai Office Books.

8. Adhiraj Ltd., Noida, started a branch in Surat on April 1, 2023 to which goods were sent at 20% above cost. The branch makes both credit and cash sales. It is the policy to meet branch expenses from branch cash, and remit the balance money to Head Office (H.O.). The branch does not maintain double entry books of accounts, and necessary accounts relating to the branch are maintained by the H.O.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Cost of goods sent to Noida Branch	50,000	Cash remitted to HO	43,000
Goods received by branch till March 31 (IP)	54,000	Cash in hand at Branch at the end of the year	2,000
Credit sales for the year	58,000	Cash remitted by HO to branch during the year	3,000
Closing debtors	20,800	Closing stock at Branch at IP	6,000
Bad debts	200	Expenses incurred at Branch	12,000

Show the Surat Branch Account in the books of the Noida H.O. to determine the profit and loss of the branch for the year ended March 31, 2024.

MODEL – 2-WHOLESALE BRANCH

9. Y Ltd. with its H.O. in Delhi invoiced goods to its branch at Patna at 20% less than the catalogue price which is cost plus 50%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payment.

From the following particulars, prepare the Branch Trading and Profit and Loss Account for the year ended 31st March 2013 in H.O. books so as to show the actual profit and loss for the branch for the year.

Particulars	**Amount ₹**
Stock on 1.4.2012 (Invoice Price)	12,000
Debtors (,,)	10,000
Goods received from H.O. (I.P.)	1,32,000
Cash sales	46,000
Credit Sales	1,00,000
Cash received from Debtors	85,635
Discount allowed to Debtors	13,365
Expense	6,000
Remittance to H.O.	1,20,000
Debtors (31.03.2013)	11,000
Cash in hand (31.03.2013)	5,635
Stock on 31.03.2013 (Invoice Price)	15,000

It was further reported that a part of stock at the branch was lost by fire (not covered by insurance during the year whose value is to be ascertained and provisions should be made for discount to be allowed to Debtors as on 31.03.2013 on the basis of years trend of prompt payment.

10. M/s. Nathai& Co. with their head office at Bangalore have a branch at Shrinagar. They supply goods to its branch at selling price less 20%. The company as well as branch sell goods to consumers at a profit of 100% on cost. Nathai& Co also sells goods to their approved stockists at the same price at which they are selling to their branch at Shrinagar.

From the following particulars prepare Trading account of the Head office and of the branch for the year of their business and show the provision for unrealized profits on stock at the branch supplied by the head office.

	Head Office (₹)	Branch (₹)
Stock in the beginning	30,000	1,600
Purchases during the year	2,56,000	
Goods sent to the branch	40,000	
Goods received from the head office		40,000
Goods sold to approved stockist	60,000	
Goods sold to customers	1,20,000	36,000

MODEL – 3- STOCK AND DEBTOR SYSTEM

Principles to be followed:

1. All the items in Branch Stock Account should be at **Invoice Price Only.**
2. Branch Stock Account is Matched (Tallied) when all the items are at Invoice Price.
3. If Branch Stock Account is not Tallied, then the difference will be Normal Loss, Abnormal Loss, and Abnormal Gain.
4. The Profit Portion of Branch Stock Account should be removed and shown in **Branch Adjustment Account.**
5. **Do Not remove Profit portion of three items** in Branch Stock Account
    - **a.** Cash Sales
    - **b.** Credit Sales
    - **c.** Sales Returns.
6. Two items in Branch Stock Account are **peculiar**
    - **a.** Normal Loss
    - **b.** Abnormal Gain

The above two items are entirely (100%) transferred to Branch Adjustment Account.

7. The Result of Branch Adjustment Account is Gross Profit.
8. Five Ledger Account are Common
    - **a.** Branch Stock Account (IP)
    - **b.** Branch Debtors Account
    - **c.** Branch Petty Cash Account
    - **d.** Branch Adjustment Account (To calculate GP)
    - **e.** Branch Profit and Loss Account (To Calculate NP)

11. ESSKAY Ltd. of Kolkata invoices goods to its Branch at Mumbai at cost plus 33 1/3 %. From the following particulars prepare the Branch Stock Account and the **Branch Stock Adjustment Account** as they would appear in the books of H.O.

Particulars	**Amount (₹)**
Stock at commencement at Branch (at invoice price)	75,000
Stock at close at branch (at invoice price)	60,000
Goods sent to Branch during the year at invoice price (Include goods invoiced at ₹ 10,000 to Branch on 31.03.2013 but not received by the branch before close of the year)	5,00,000
Return of goods to H.O. (invoice price)	25,000
Cash sales at Branch	4,50,000
Credit sales at Branch	25,000
Invoice value of goods pilfered	5,000
Normal loss at branch due to wastage and deterioration of Stock (invoice value)	7,500

ESSKAY Ltd. closes its books on 31.03.2013

Extra Problem by Stock and Debtors System = Profit 9,700

12. Tip Top Co. New Delhi has a branch at Kolkata. It invoices goods to the branch at selling price which is cost plus 33 ⅓%. From the following particulars prepare Branch Accounts under Stock and Debtors System in the Books of Tip Top Co. New Delhi.

		(₹)
Stock on 1st January 2015 (Invoice Price)		15,000
Debtors on 1st January 2015		11,400
Goods invoiced to Branch during the year at Invoice Price		67,000
Sales at Branch		
Cash Sales	31,000	
Credit Sales	37,400	68,400
Cash received from debtors		40,000
Discount allowed to customers		300
Bad debts written off		250
Cheques sent to branch		
- Salaries	5,000	
- Sundry Expenses	1,700	6,700
Stock on 31st December 2015 (Invoice Price)		13,400

13. Multi-chained Stores Ltd. Delhi has its branches at Lucknow and Chennai. It charges goods to its Branches at cost plus 25%. Following information is available of the transactions of the **Lucknow Branch** for the year ended on 31st March 2013:

Particulars	**Amount (₹)**
Balances on 01.04.2012	
Stock (at invoice price)	30,000
Debtors	10,000
Petty Cash	50
Transactions during 2012-13 (Lucknow Branch):	
Goods send to Lucknow Branch (at invoice price)	3,25,000
Goods returned to Head Office (at invoice price)	10,000
Cash Sales	1,00,000
Credit Sales	1,75,000
Goods pilfered (at invoice price)	2,000
Goods lost by fire (at invoice price)	5,000
Insurance Co. paid to H.O. for loss by fire at Lucknow	3,000
Cash sent for petty expenses	34,000
Bad debts at Branch	500
Goods transferred to Chennai Branch under H.O. advice	15,000
Insurance charges paid by H.O.	500
Goods returned by Debtors	500
Balance on 31.03.2013	
Petty Cash	230
Debtors	14,000

Goods worth ₹ 15,000 (including above) sent by Lucknow Branch to Chennai Branch was **in-transit** on 31.03.2013.

Show the following accounts in the books of Multi-chained Stores Ltd.:

- **(a)** Lucknow Branch Stock Account;
- **(b)** Lucknow Branch Debtors Account;
- **(c)**Lucknow Branch Adjustment Account;
- **(d)** Lucknow Branch Profit & Loss Account, and
- **(e)** Stock Reserve Account.

14. X Ltd. has two Branches in Cochin and Bangalore. During the year ended 31.03.2013, goods have been invoiced to the Cochin Branch at 20% above cost and to the Bangalore Branch at 25% above cost. The Branches do not maintain complete books of account, but the following figures are available for the year ended on 31.03.2013.

Particulars	**Cochin**	**Bangalore**
Opening Stock at invoice price	10,000	10,000
Goods Sent to Branch at cost	50,000	40,000
Amount remitted by Branch	80,000	80,000
Amount remitted by H.O.	15,000	15,000
Goods returned by Branch at invoice price	3,000	------
Cash as on 1.4.2012	2,000	1,000
Cash on 31.3.2013	1,000	500
Goods returned by customers at Branch at selling price	5,000	4,000
Expenses at Branch in cash	5,000	3,000

All sales at the Branches are for Cash. During the year Cochin Branch purchased Fixed Assets worth ₹ 4,000 and this amount is included in the figure of Branch expenses. Cochin Branch transferred to the Bangalore Branch Stock costing ₹ 5,000 during the year. The Bangalore Branch remitted ₹ 2,000 to Cochin Branch also during the year. There was a Closing Stock of ₹ 24,000 valued at invoice price at the Cochin Branch. There was no Closing Stock at the Bangalore Branch. The Branch Stock Adjustment Account in the Head Office books showed the following position as on 1st April 2012.

For Cochin	₹ 2,500 (Cr.)
For Bangalore	₹ 2,000 (Cr.)

Prepare Branch Stock Account, Branch Stock Adjustment Account, Branch Cash Account and Branch Profit and Loss Account in the Head Office books ignoring depreciation.

MODEL – 4-INDEPENDENT BRANCH

Model Entries

S.No.	Transactions	Head Office			Branch		
			Dr	Cr		Dr	Cr
1	Goods Sent	Branch A/c. Dr To Goods Sent A/c.			Goods from Ho A/c. Dr To HO A/c.		
2	Goods returned by Branch to HO	Goods Sent A/c. Dr To Branch A/c.			HO A/c. Dr To Goods from HO A/c.		
3	Cash sent by Branch to HO	Cash A/c. Dr To Branch A/c.			HO A/c. Dr To Branch Cash A/c.		
4	Goods sold by Branchtotheir Customers	No Entry			Branch Debtors A/c. Dr To Sales A/c.		
5	Goods sold by HO to their Customers	Debtors A/c. Dr To Sales A/c.			No Entry		
6	Branch Expenses Paid by HO	Branch A/c. Dr To Cash A/c.			Branch Expenses A/c. Dr To HO A/c.		
7	Branch Expenses Paid by Branch	No Entry			Branch Expenses A/c. Dr To Branch Cash A/c.		
8	Goods transferred from one Branch to Another Branch	Receiving Branch, A/c. Dr To Giving Branch A/c.			**Receiving Branch:** Goods A/c. Dr To HO A/c. **Giving Branch:** HO A/c. Dr To Goods A/c.		
9	Branch Purchases Goods from Supplier	No Entry			Purchases A/c. Dr To Creditors A/c.		
10	HO received cash from Branch Debtors	Cash A/c. Dr To Branch A/c.			HO A/c. Dr To Branch Debtors A/c.		
11	Branch received cash from Debtors	No Entry			Branch Cash A/c. Dr To Branch Debtors A/c.		
12	FA Purchased by HO in Cash	FA A/c. Dr To Cash A/c.			No Entry		
13	FA purchased by HO but paid by	FA A/c. Dr To Branch A/c.			HO A/c. Dr To Branch Cash		

	Branch				A/c.		
14	FA Purchased by Branch in Cash	No Entry			Branch FA A/c. Dr To Branch Cash A/c.		
15	Branch FA Purchased by Branch and Paid by HO	Branch A/c. Dr To Cash A/c.			Branch FA A/c. DR To HO A/c.		
16	Cash paid by HO to settle Branch Creditors	Branch A/c. Dr To Cash A/c.			Branch Creditors A/c. Dr To HO A/c.		

INTER BRANCH TRANSACTIONS

15. Journalize the following transactions in the books of Head Office. Delhi Branch and Agra Branch:

- **(a)** Goods worth ₹ 50,000 are supplied by Delhi Branch to Agra Branch under the instructions of Head Office.
- **(b)** Delhi Branch draws a bill receivable for ₹ 40,000 on Agra Branch which sends its acceptance.
- **(c)** Delhi Branch received ₹ 10,000 from Agra Branch.
- **(d)** Goods worth ₹ 20,000 were returned by a customer of Agra Branch to Delhi Branch.
- **(e)** Agra Branch collected ₹ 20,000 from a customer of Delhi Branch.

16. A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter- branch transactions during the month. From the following inter-branch transactions in March 2013, make the entries in the books of Delhi Head office.

(a) Kolkata Branch :

- **(i)** Received goods from Patna branch ₹ 9,000 and Ahmedabad branch ₹ 6,000.
- **(ii)** Sent goods to Ahmedabad branch ₹ 15,000and Patna branch ₹ 12,000.
- **(iii)** Sent acceptances to Patna branch ₹ 6,000 and Ahmedabad branch ₹ 3,000.

(b) Kanpur branch *[apart from (a) above]* :

- **(i)** Sent goods to Ahmedabad branch ₹ 9,000.
- **(ii)** Received B/R from Ahmedabad branch ₹ 9,000.
- **(iii)** Received cash from Ahmedabad branch ₹ 5,000.

17. Give Journal entries in the books of Head office to record the following transactions on the closing date **31st March 2016**

- **a.** Depreciation amounting to ₹ 11,000 on Kolkata Branch fixed assets when such accounts are opened in books of Head office
- **b.** Goods amounting to ₹ 7,500 transferred from Kolkata Branch to Delhi Branch under the instruction from Head office.
- **c.** The Delhi Branch paid ₹ 2,10,000 for machinery purchased by Head office in Delhi
- **d.** The Kolkata Branch collected ₹ 8,000 from a Kolkata customer of the Head office.
- **e.** Goods of ₹ 20,000 sent by the Head office to Delhi Branch on 28th March and received by the later on 10th April 2016.

18. Salt Lake Corporation presented the following trial balance on 31.03.2013 to the H.O. at New Delhi.

Particulars	**Debit Amount ₹**	**Particulars**	**Credit Amount ₹**
Delhi H.O.	6,480	Sales	76,000
Stock 1.4.2012	12,000	Goods supplied to H.O.	12,000
Purchase	35,600	Creditors	3,700
Goods Return From H.O.	18,000		
Salaries	3,000		
Debtors	7,400		
Rent	1,920		
Misc. Expense	940		
Furniture	2,800		
Cash and Bank	3,560		
Total	**91,700**	**Total**	**91,700**

Additional Information:

The branch account on H.O. books on 31.03.2013 stood at ₹ 920 (Debit).

On 31.03.2013, the, H.O. forwarded goods to the value of ₹ 5,000 to the branch which are received on 3rd July.

A cash remittance of ₹ 2,400 by branch on 29th March 2013, was received by the H.O. on 2nd April 2013.

Closing Stock was valued at ₹ 5,400

Show the incorporation entries in the books of H.O. showing separate Branch Trading and Branch Profit and Loss Account and Prepare Branch Account and Branch Balance Sheet also in H.O. books.

19. Puskar Enterprise has its H.O. in Ranchi and a branch in Imphal. The following Trial Balance has been extracted from the books of accounts as at 31st March 2013:

Particulars	Head office		Branch	
	Dr. ₹	**Cr. ₹**	**Dr. ₹**	**Cr. ₹**
Capital	---	16,50,000	---	---
Debtors	3,00,000	---	1,80,000	---
Creditors	--	1,50,000	---	---
Purchases	27,42,000	---	---	---
Sales	---	25,50,000	---	13,11,000
Goods sent to Branch at I.P.	---	11,40,000	11,25,000	---
Fixed Assets (Net)	10,50,000	---	2,00,000	---
Stock (1.4.2012)	24,000	---	60,000	---
StockAdjustment (Unrealized Profit)	- ---	- 12,000	---	---
H.O./Branch Current A/c	5,25,000	---	---	3,60,000
Administrative & Selling Expenses	8,41,500	---	74,500	---
Cash and Bank	46,500	---	39,000	---
Provision for Bad Debts	---	27,000	---	7,500
	55,29,000	**55,29,000**	**16,78,500**	**16,78,500**

Other relevant information:

1) All goods are purchased by the H.O. Goods are sent to branch at cost plus 25%.
2) Stock 31.3.2013 are valued at:
   i. H.O. ₹ 36,000
   ii. Branch ₹ 45,000 (Invoice Price)
3) Depreciation is to be provided on fixed assets at 10% on book value.
4) Bad debts provision is to be maintained at 5% on debtors as at the end of the year.
5) Cash-in-transit from branch to H.O. at 31st March 2013 was ₹ 1,50,000.
6) Goods-in-transit from H.O. to branch at 31st March 2013 at invoice price was ₹ 15,000.

Prepare in Columnar from, the branch and H.O. Trading and Profit and Loss Accounts for the year ended 31st March 2013 and a combined Balance Sheet of Puskar Enterprises as on that date.

MODEL - 5 -FOREIGN BRANCH

20. On 31st December 2015 the following balances appeared in the books of Chennai branch of English firm having its HO in New York.

Particulars	**Amount In ₹**	**Amount In ₹**
Stock on 1st Jan 2015	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivables and Payables	2,04,000	1,78,500
Salaries and Wages	1,00,000	
Rent, Rates and Taxes	1,06,250	
Furniture	91,000	
Bank Account	5,68,650	
New York Account		5,99,150
	36,31,400	**36,31,400**

Stock on 31stDecember 2015 was ₹ 6,37,500
Branch account in New York Account Books showed a debit balance of $13,400 on 31st December 2015 and furniture appeared in the Head office books at $1,750.

The rate of exchange for 1$ on 31st December 2014 was ₹ 52 and on 31st December 2015 was ₹ 51. The average rate for the year was ₹ 50.

Prepare in the Head office books the profit and loss account and the Balance sheet of the Branch.

CHAPTER 16: DEPARTMENTAL ACCOUNTS

Model – 1 : Departmental Accounts without inter departmental transfer
Model – 2 : Departmental Accounts with Inter departmental transfer (cost price)
Model – 3 : Departmental Accounts with Inter departmental transfer (Invoice Price)

PROBLEMS FOR PRACTICE

MODEL– 1 DEPARTMENTAL ACCOUNTS WITHOUT INTERDEPARTMENTAL TRANSFER

Key Points

1. **Columnar Trading and Profit and Loss A/c. and General Profit and Loss A/c.**
2. **Expenses Treatment**
   a. **Specific Expenses**
   b. **Common Expenses**
   c. **General Expenses**

1. From the following information given below prepare departmental trading account.

Particulars	A	B	C
Stock as on 1-1-2015	60,000	70,000	30,000
Purchases	70,000	65,000	47,000
Sales	1,20,000	1,00,000	60,000
Direct Expenses	20,200	14.500	7,100

Total indirect expenses for the period (including those relating to other departments were ₹ 42,000 on total sales of ₹ 8,40,000.) The rates of gross profit for the departments concerned are 40%, 30% and 20% on turnover respectively. Indirect expenses are charged in proportion to departmental transfer.

2. Yule, the proprietor of a departmental store, decided to calculate separate profits for his first two departments X and Y – for the month ending 31st January 2016. Stock on 31st January could not be valued for certain unavoidable reasons but his rate of gross profit (calculated without reference to direct expenses) on sales for the two departments are 40% and 30%.

The following figures are given:

	Dept. X	Dept. Y
Stock on 1st Jan 2016	9,000	8,400
Sales	42,000	36,000
Purchases	27,000	21,600
Direct Expenses	5,490	8,520

Indirect expenses for the whole business (containing five departments) are ₹ 10,800 which are to be charged in proportion to departmental sales, except as to one sixth, which is to be divided equally. Sales for remaining three departments were ₹ 1,02,000.

Prepare a statement showing profits for the two departments.

3. From the following Trial Balance, prepare Departmental Trading and Profit and Loss Account for the year ended **31.12.2013** and a Balance Sheet as at the date in the books of Sri S. Maity:

	Dr. ₹	**Cr. ₹**
Stock (1.1.2013):		
Dept. A	5,400	
Dept. B	4,900	
Purchases:		
Dept. A	9,800	
Dept. B	7,350	
Sales:		
Dept. A		16,900
Dept. B		13,520
Wages:		
Dept. A	1,340	
Dept. B	240	
Rent	1,870	
Salaries	1,320	
Lighting and Heating	420	
Discount Allowed	441	
Discount Received		133
Advertising	738	
Carriage Inward	469	
Furniture and Fittings	600	
Plant and Machinery	4,200	
Sundry Debtors	1,820	
Sundry Creditors		3,737
Capital		9,530
Drawings	900	
Cash in hand	32	
Cash at Bank	1,980	
Total	**43,820**	**43,820**

The following information is also provided:

Rent and Lighting and Heating are to be allocated between Factory and Office in the ratio of 3:2. Rent, Lighting and Heating, Salaries and Depreciation are to be apportioned to A and B Depts. as 2:1. Other expenses and incomes are to be apportioned to A and B Depts. on **suitable basis**. (Turnover)

The following adjustments are to be made:
Rent Prepaid ₹ 370; Lighting and Heating outstanding ₹ 180; Depreciation of Furniture and Fittings @ 10% p.a. and Plant and Machinery @ 10% p.a.

The Stock at 31.12.2013: Dept. A ₹ 2,748; Dept. B ₹ 2,401.

4. The following details are available in respect of a business for a year.

Department	Opening Stock	Purchases	Sales
X	120 units	1,000 units	1,020 units at ₹ 20 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 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.

MODEL– 2- DEPARTMENTAL ACCOUNTS WITH INTER DEPARTMENTAL TRANSFER (COST PRICE)

5. A hotel proprietor had two departments' viz. apartment and attendance department and meals department. Following is the trial balance of his business.

	Dr. (₹)	Cr. (₹)
Income from apartment and attendance		46,000
Income from meals department		32,000
Provisions	15,500	
Stock of provisions in the beginning	1,020	
Cash in hand and bank	10,000	
Capital		2,20,000
Customer's debit balance	800	
Suppliers accounts		9,800
Building (1/10th is used for meals dept)	2,10,000	
Provision for depreciation on buildings		24,000
Furniture and Equipments	60,000	
General expenses	27,410	
Interest		1,130
Interest accrued	200	
Income tax	400	
LIC	1,600	
Wages	6,000	
Total	**3,32,930**	**3,32,930**

Additional information:

i. The servants in the Apartment department had occupied a room worth ₹ 120 and took meals worth ₹ 60. Similarly servants in the meals department had occupied a room worth ₹ 150 and took meals worth ₹ 90.

ii. Wages are charged in the proportion of ½ to the Apartment department, 1/4th to the provision department and remaining to the general profit and loss account.

iii. Increase provision for depreciation on building to ₹ 30,000

iv. A sum of ₹ 800 representing accommodation ₹ 240 and meals ₹ 560 to be charged to proprietor of the hotel.

You are required to prepare final accounts for the year ending 31st March 2016.

MODEL– 3 DEPARTMENTAL ACCOUNTS WITH INTER DEPARTMENTAL TRANSFER (INVOICE PRICE)

6. Snow White Ltd has two departments — Cloth and Readymade Clothes. Ready Made Clothes are made by the Firm itself out of cloth supplied by the Cloth Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st March 2013 (2012-13).

Particulars	Cloth Department (CD) ₹	Readymade Department (RM) ₹
Opening Stock on 1st April 2012	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to Readymade Clothes Department	3,00,000	-
Expenses – Manufacturing	-	60,000
Expenses – Selling	20,000	6,000
Closing Stock on 31st March 2013	2,00,000	60,000

The Stock in the Readymade Clothes Department may be considered as consisting of 75% Cloth and 25% other expenses. The Cloth Department earned Gross Profit at the rate of 15% during the year 2011-12. General Expenses of the business as a whole came to ₹ 1, 10,000.

7. Department X sells goods to Department Y at a profit of 25% on cost & to Department Z at a profit of 10% on cost. Department Y sells goods to X & Z at a profit of 15% & 20% on sales, respectively. Department Z charges 20% & 25% profit on cost to Department X & Y, respectively.

Department Managers are entitled to 10% Commission on Net Profit subject to unrealized profits on Departmental sales being eliminated.

Departmental profits after charging manager's commission, but before adjustment of unrealized profits are X = ₹ 36,000; Y = ₹ 27,000; Z = ₹ 18,000

Stocks lying at different departments at the year-end are as under:

Particulars	X (₹)	Y (₹)	Z (₹)
Transfer from Department X	-	15,000	11,000
Transfer from Department Y	14,000	-	12,000
Transfer from Department Z	6,000	5,000	-

Find out the correct Departmental Profits after charging Managers' Commission.

8. X Ltd. has two departments A and B. From the following particulars prepare the consolidated Trading Account and Departmental Trading Accounts for the year ending 31-12-2015.

	A (₹)	**B (₹)**
Opening stock (at cost)	20,000	12,000
Purchases	92,000	68,000
Sales	1,40,000	1,12,000
Wages	12,000	8,000
Carriage	2,000	2,000
Closing Stock		
- Purchased goods	4,500	6,000
- Finished goods	24,000	14,000
Purchased goods transferred		
- By B to A	10,000	
- By A to B		8,000
Finished goods transferred		
- By A to B	35,000	
- By B to A		40,000
Return of finished goods		
- By A to B	10,000	
- By B to A		7,000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished goods (closing) at each department represented finished goods received from the other department.

9. Nandalal Ltd has three departments I, J and K. the following information is provided for the year ended 31st March.

Particulars	**I**	**J**	**K**
Opening stock	5,000	8,000	19,000
Opening stock for unrealized profit		2,000	3,000
Materials consumed	16,000	20,000	-
Direct labor	9,000	10,000	-
Closing stock	5,000	20,000	5,000
Sales	-	-	80,000
Area occupied (sq. meter.)	2,500	1,500	1,000
No. of employees	30	20	10

Stocks of each department are valued at costs to the department concerned. Stock of I are transferred to J at cost plus 20% and stock of J are transferred to K at a Gross Profit of 20% on Sales. Other common expenses are Salaries and Staff welfare ₹ 18,000, Rent ₹ 6,000.

Prepare Departmental Trading, Profit and Loss Account for the year ending 31st March.

10. Anand Ltd, has 3 departments X, Y and Z The following information is provided:

Particulars	X	Y	Z
Opening Stock	3,000	4,000	6,000
Consumption of direct materials	8,000	12,000	-
Wages	5,000	10,000	-
Closing Stock	4,000	14,000	8,000
Sales		-	34,000

Stocks of each Department are valued at cost to the Department concerned. Stocks of X are transferred to Y at a margin of 50% above Department cost. Stocks of Y are transferred to Z at a margin of 10% above departmental cost. Other Expenses are:

Expenses	Amount ₹
Salaries	2,000
Printing and Stationery	1,000
Rent	6,000
Interest paid	4,000
Depreciation	3,000

Allocate expenses in the ratio of Departmental Gross Profits. Opening figures of reserves for unrealized profits on departmental stocks were as Department Y- ₹ 1,000; Department Z- ₹ 2,000.

Prepare Departmental Trading and Profit and Loss Account for the year.

11. A Ltd. has three departments X, Y and Z. From the following particulars given by M/s. A Ltd. Compute:

1. The value of Stocks as on 31st March 2021, and
2. The departmental results

	X (₹)	Y (₹)	Z (₹)
Stock (1-4-2020)	12,000	18,000	6,000
Purchases	73,000	62,000	24,000
Actual Sales	86,250	79,700	37,300
GP as a % on Normal Selling Price	20	25	33 ⅓

During the year certain items were sold at a discount given below and these discounts were reflected in the values of sales stated above

	X (₹)	Y (₹)	Z (₹)
Sales at Normal Price	5,000	1,500	500
Sales at actual price	3,750	1,200	300
Discount	1,250	300	200

CHAPTER 17: LIMITED LIABILITY PARTNERSHIP

MEANING:

1. LimitedLiabilityPartnershipisaspecificformofbusinessorganizationconsistingofpartnerswhoseliabilityis limited to the capital contribution made by them.
2. Itis a combination of both partnership and company and has the characteristics of both these forms of organizations. Unlike a partnership, the partners of a limited liabilitypartnershiphavelimitedliability(similartothatinthecompany)whichimpliesthatpersonalassetsofthepartnerswillnot be used for paying off the debts of the organization.
3. In India, all limited liability partnerships are governed by the Limited Liability Partnership Act, 2008 which came into effect fromApril1, 2009.
4. The provisions of Indian PartnershipAct,1932 shall not apply toa limited liability partnership.

BOOKS OF ACCOUNTS:

1. As per Sec.34 of Limited Liability Partnership Act, 2008, a limited liability partnership shall maintain such proper books of accounts as may be prescribed relating to its affairs for each year of its existence on cash or accrual basis and according to double entry system of accounting and shall maintain the same at its registered office for such period as may be prescribed.
2. As per Rule 24(1) of the Limited Liability Partnership Rules, 2009 every limited liability partnership shall keep books of accounts which are sufficient to show and explain the limited liability partnership's transactions, and are such as to:
   - **(a)** Disclose with reasonable accuracy, at any time, the financial position of the limited liability partnership at that time; and
   - **(b)** Enable the designated partners to ensure that any Statement of Account and Solvency prepared under this rule complies with the requirements of the Act.
3. The books of account shall contain:
   - **(a)** particularsofallsumsofmoneyreceivedandexpendedbythelimitedliabilitypartnershipandthemattersinrespect of which the receipt and expenditure takes place;
   - **(b)** a record of the assets and liabilities of the limited liability partnership;
   - **(c)** statements of goods purchased, inventories, work-in-progress, finished goods and cost of goods sold; and
   - **(d)** any other particulars which the partners may decide.

4. Rule24(3) of the Limited Liability Partnership Rules, 2009 specifies that the books of accounts which a limited liability partnership is required to keep shall be preserved for eight years from the date on which they are made.

5. Every limited liability partnership shall, within a period of six months from the end of each financial year, prepare a Statement of Account and Solvency for the said financial year as at the last day of the said financial year in such form as may be prescribed, and such statement shall be signed by the designated partners of the limited liability partnership.

6. As per Sec. 36 of the said Act, such Statement of Account and Insolvency filed by a limited liability partnership with the Registrar shall be available for inspection by any person in such manner and on payment of such fees as may be prescribed.

7. Every limited liability partnership shall file within the prescribed time, the Statement of Account and Solvency with the Registrar every year in such form and manner and accompanied by such fees as may be prescribed.

8. Rule24(3) of the Limited Liability Partnership Rules, 2009 specifies that every limited liability partnership shall file the Statement of Account and Solvency in Form 8 with the Registrar, within a period of thirty days from the end of the six months of the financial year to which the Statement of Account and Solvency relates. Such Statement of Account and Solvency has to be signed on behalf of the limited liability partnership by its designated partners.

9. Every limited liability partnership has to prepare the following statement of account as prescribed in Part B of LLP Form 8 pursuant to Rule 24 of Limited Liability Partnership Rules,2009:

    1. Statement of Assets and Liabilities; and
    2. Statement of Income and Expenditure.

Statement of Assets and Liabilities

Particulars	Figures as at the end of the current reporting period (in ₹)	Figures as at the end of the previous reporting period (in ₹)
(I)CONTRIBUTIONANDLIABILITIES		
(1) Partner's funds		
Contribution received		
Reserves and surplus (including surplus being the profit/loss made during year)		
(2) Liabilities		
Secured loans		
Unsecured loans		
Short term borrowings		
Creditors/Trade payables-Advance from customers		
Amount of other liabilities		
Other liabilities (to specify)		
Provisions		
For taxation		
For contingencies		
For insurance		
Other provisions (if any)		
Total		
(II)ASSETS		
Gross Fixed assets (including intangible assets)		
Less: depreciation and amortization		
Net fixed assets		
Investments		
Loans and advances		
Inventories		
Debtors/trade receivables		
Cash and cash equivalents		
Amount of other assets		
Other assets (to specify)		
Total		

Statement of Income and Expenditure

Particulars	Figures for the period (Current reporting period) From (DD/MM/YYYY) To (DD/MM/YYYY (in₹)	Figures for the period (Previous reporting period) From (DD/MM/YYYY) To (DD/MM/YYYY (in₹)
Income		
Gross turnover		
Less: Excise duty or service tax		
Net Turnover Details		
(I) Domestic turnover		
(a) Sale of goods manufactured		
(b) Sale of goods traded		
(c) Sale or supply of services		
(II) Export turnover		
(a) Sale of goods manufactured		
(b) Sale of goods traded		
(c) Sale or supply of services		
Other income		
Increase/(decrease) in stocks including for raw materials, work in progress and finished goods		
Total Income		
Expenses		
Raw material consumed		
Purchasesmadeforre-sale		
Consumption of stores and spare parts		

PROBLEMS FOR PRACTICE

1. P and Q are the partners of a limited liability partnership M/s P&Q LLP dealing in electrical goods. The following is their trial balance as on March31, 2022:

Name of Accounts	Dr. (₹)	Cr. (₹)
Inventories on April 1,2021	4,50,000	
Equipment	5,50,000	
Premises	8,00,000	
Bank	9,46,500	
Sundry Debtors	3,60,000	
Sundry Creditors		1,65,000
Secured loan		1,80,000
Unsecured loan		1,35,000
Returns outward		67,500
Outstanding expenses		24,000
Sales revenue from goods traded		53,00,000
Revenue from services rendered		2,35,000
Indirect Tax on turnover	1,35,000	
Interest received on investment		67,500
Purchases	29,47,500	
Salaries	8,45,000	
Rent & Rates	3,12,000	
Stationery charges	13,200	
Communication charges	27,300	
Insurance	54,800	
Advertisement	44,200	
Delivery charges	48,000	
Interest on debt	95,500	
Furniture & Fixture	5,40,000	
Long-term investments	3,15,000	
Cash	2,10,000	
General Reserve		270,000
P's contribution		1,300,000
Q's contribution		950,000
	8,694,000	**8,694,000**

Additional information:

- **(a)** Unsold inventories on 31.03.2022 worth ₹ 5,62,500.
- **(b)** Outstanding rent amounts to ₹ 36,000.
- **(c)** Rate of depreciation on Furniture & Fixture @ 10%.
- **(d)** Depreciate equipment by ₹ 67,500
- **(e)** Provisions to be created: ₹ 22,500 for possible bad debts and₹ 180,000 for taxation.

Considering the additional information provided above, you are required to prepare:

- **(i)** Statement of Income and Expenditure for the year ended March 31st, 2022; and
- **(ii)** Statement of Assets and Liabilities as on that date.

CHAPTER 18: LEASE ACCOUNTING (AS – 19)

1. Lease Agreement
2. Types
3. Financial Lease
4. Operating Lease
5. Sale and Lease Back
6. Lease Term
7. Fair Value
8. MLP
9. GRV
10. UGRV
11. ERV
12. Implicit Interest Rate
13. Lessor
14. Lessee
15. Lease Liability
16. Gross Investment = MLP + GRV (in case of Lessee)
    = MLP + GRV + UGRV (In case of Lessor)
17. Net Investment= Gross Investment – Unearned Finance Charges

PROBLEMS FOR PRACTICE

1. Milind Softex Ltd. has taken the assets on lease from ABC Impex Ltd. The following information is given below: Lease Term = 4 years Fair value at inception of lease = ₹ 16,00,000, Lease Rent = ₹ 5,00,000 p. a. at the end of year, Guaranteed Residual Value = ₹ 1,00,000, Expected Residual Value = ₹ 2,00,000 and Implicit Interest Rate = 14.97%. How is the accounting done in the book of lessee and Lessor?

2. Vishnu Ltd. leased a printing machine from Garur Ltd. for a period of 3 years. The useful life of the printing machine is known to be of 5 years. It was agreed between the lessor and lessee that the amount will be paid in 3instalments and at the termination of the lessee, Garur Ltd. will take back the said machine. The following details are available in respect of the machine lessee:
   - Cost of the printing machine is ₹ 15,00,000;
   - Unguaranteed residual value at the end of the lease period is ₹ 2,00,000;
   - Fair value of the machine is ₹ 15,00,000;
   - The internal rate of return of the investment is 10%.

   You are required to:

   (a) State whether the lease is a finance lease or an operating lease?

   (b) Ascertain the amount of unearned finance income.
   Given: PVF10%,3=0.7513; PVAF10%,3=2.4868.

CHAPTER 19: HIRE PURCHASE LARGE TRANSACTIONS (SYNTHETIC AND ANALYTICAL METHOD)

1. Beta Ltd. sells its products only on hire purchase terms, the hire purchase price being 'cost lus 33.33%'. From the given information, you are required determine the operating results from the hire purchase transactions by drafting necessary accounts under each of the following methods:

[A] Debtors Method

[B] Stock-Debtors Method

[C] Final Accounts Method

Stock out on hire at H.P price	2,40,000	?
Stock in hand at shop	30,000	42,000
Installments due from customers	18,000	30,000

Further information:

1. Goods repossessed (installments not yet matured ₹ 12,000) valued at ₹ 4,800;
2. Purchases made during the year 2021-22 amounted to ₹ 4,08,000;
3. Cash collected from customers during 2021-22 was ₹ 4,80,000.

2. S Traders has a hire purchase department. Goods are sold on hire purchase at cost plus 50%.

The following information is provided for the year ending on 31st March 2013.

	01.04.2012	**31.03.2013**
Stock out with Hire Purchase Customers	**(₹)**9,000	?
Stock at shop	**(₹)**18,000	20,000
Instalment Due (Customers still Paying)	**(₹)**5,000	9,000

Required: Prepare Hire Purchase Trading Account in each of the following alternative cases:

Case (a):

If Cash received from hire purchasers amounted to ₹ 60,000 and Goods purchased during the year amounted to ₹ 60,000.

Case (b):

If Cash received from hire purchasers amounted to ₹ 60,000 and Goods purchased during the year amounted to ₹ 60,000. Goods repossessed (Instalments due ₹ 2000) valued at ₹ 500 which have not been included in the Stock at shop at the end.

Case (c):

If Cash received from hire purchasers amounted to ₹ 60,000 and Goods purchased during the year amounted to₹ 60,000. Goods repossessed (Instalments unpaid ₹ 2,000 of which ₹ 1,400 were overdue) valued at ₹ 500 which have not been included in the Stock at shop at the end.

ADVANCED PROBLEMS:

3. Uddhami Furniture House sells goods on hire purchase basis by adding 20% on hire sales. Following information extracted from its books, prepare Hire Purchase Trading Account.

2014	Particulars	Amount (₹)
April 1	Stock with hire purchase customers at HP Price	2,50,000
April 1	Stock at Shop	56,250
April 1	Instalment Overdue	15,000
2015		
March 31	Cash received from HP customers during the year	7,37,500
March 31	Purchases for the year	6,25,000
March 31	Instalments overdue	27,500
March 31	Stock at Shop	31,250
March 31	Stock with hire purchase customers at HP Price	3,12,500

4. The hire purchases department of Zapak Traders provides you the following information for the year ending on 30th September 2013 :

Purchase cost per unit ₹ 3,000
Cash sales price per unit ₹ ₹ 4,000
Cash down payment per unit ₹ ₹ 400
Monthly payment per unit ₹ ₹ 350
Number of instalments per unit 12
Number of units sold on hire purchase basis 120
Number of instalments collected 420
Number of instalments due but not yet collected 58

Required: Calculate the following:

i. Number of instalments fallen due during the year,
ii. Number of instalments not yet due on 30.9.2012,
iii. Amount of instalment not yet due,
iv. Amount of installment due but not yet collected,
v. Amount fallen due during the year,
vi. Cash collected during the year,
vii. Hire Purchase price per unit,
viii. Total hire purchase price of units sold,
ix. Total cost price of units sold on hire purchase,

x. % of profit margin on H.P. Sales,
xi. Profit included in total hire purchases price,
xii. Profit included in the amount of instalments not yet due,
xiii. Gross Profit.

Also Prepare Hire Purchase Stock Account, Hire Purchases Debtors Account and Hire Purchase Adjustment Account.

5. The Hire purchase department of Ravera Electro Ltd sells LCD TV sets and Refrigerators. This department was newly started on 1st April 2014. The relevant information is as follows:

Particulars	LCD TV	Refrigerators
Cost	48,600	20,000
Cash Price	56,700	24,000
Cash Down Payment	8,100	4,000
Monthly Instalment	5,400	2,000
No. of Instalments	10	12

During the year ended March 31, 2015, 100 LCD TV sets and 120 Refrigerators were sold on Hire Purchase 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 (customers still paying) were respectively as follows:

LCD TV sets: 270 and 20
Refrigerators: 400 and 30

Required: Prepare necessary Ledger accounts on Stock and Debtors system to record the above transactions and to reveal the profit of Ravera Electro Ltd.

RR ACADEMY

CMA INTERMEDIATE

GROUP 1 – Paper 6

FINANCIAL ACCOUNTING

Prof. Dr. K N RAMASAMY

M.Com., B.L., M.Phill., P.G.D.P.M., Ph.D.

RR Academy Admin Office:

No 2, NOOR VEERASAMY STREET,

BEHIND NUNGAMBAKKAM POLICE STATION,

NUNGAMBAKKAM, CHENNAI – 600034.

CONTACT: 9941298973 / 9841109332

Email: therracademy@gmail.com

Web: www.rracademy.in **Fb: RR Academy Institute**

BASICS OF ACCOUNTS

1. **Current Assets** - Current assets are those assets which are held: -

   - in the form of cash, or
   - for their conversion into cash, either within the Operating Cycle Pernod or within the 12 Months Period from the date of Balance Sheet, or
   - For their consumption is the production of goods or rendering of services in the normal course of business.

   For example: 1. Current Investments, 2. Inventories, 3. Trade Receivables, 4. Cash and Cash Equivalents, 5. Short-term Loans and Advances, 6. Other Current Assets

   Liquid Assets (or Quick Assets) - Liquid Assets represent the Current Assets other than Stock and Prepaid Expenses.

   Liquid Assets Current Assets - Inventories & Prepaid Expenses)

2. **Non-Current Assets:** Non-Current Assets refer to those assets which are held for the purposes of producing of providing goods or services and those that are not held for resale in the normal course of business.

   For example: 1. Fixed Assets, 2, Non-Current Investments 3 Long-Term Loans and Advances, 4. Other Non-Current Assets

   Fixed assets may be classified as follows:

   (i) **Tangible Fixed Assets**-Refer to those fixed assets which have physical existence.

   For example: Land and Building. Plant and Machinery and Furniture and Fixtures)

   (ii) **Intangible Fixed Assets** Refer to those fixed assets which do not have physical existence. **For example:** Goodwill, Patent, Trademarks. Copyrights and the like

3. **Fictitious Assets:** Fictitious Assets either represent Accumulated Losses or- Deterred Revenue Expenses not yet written off till the date of Balance Sheet.

1) LIABILITIES ON THE BASIS OF PERIOD

1. **Current Liabilities** - Current liabilities refer to those liabilities which are expected to be settled either within the Operating Cycle Period or within the 12 Months Period from the date of the Balance Sheet.

   For example, 1. Short-Term Borrowings, 2. Trade Payables, 3. Other Current Liabilities, 4. Short-Term Provisions

2. **Non-Current Liabilities** - Non-Current Liabilities refer to those liabilities which are expected to be settled after 12 months from the date of Balance Sheet or after Operating Cycle whichever is later.

   For example, 1. Long-term Borrowings, 2. Other Long term Liabilities, 3. Long-term Provis

2) TRADE RECEIVABLES

The term Trade Receivables include Trade Debtors and Bills Receivables.

1. TRADE DEBTORS

The term Trade Debtor refers to the person from whom the amounts are due for goods sold or services rendered on credit basis. For example, in case 60 units are sold to Mr X 15 per unit on credit, Mr X is a Trade Creditor of the business.

2. BILLS RECEIVABLES

A bill of exchange is an unconditional order in writing given by the creditor to the debtor to pay on demand or at a fixed or determinable future time, a certain sum of money to or to the order of a specified person or to the bearer. This bill of exchange is known as Bills Receivable for the creditor.

3) TRADE PAYABLES

The term 'Trade Payables include Trade Creditors and Bills Payables

DEFERRED REVENUE EXPENDITURE

1. **Meaning**: According to the Guidance note on Terms used in Financial Statements, issued by ICAI 'Deferred revenue expenditure is the expenditure for which payment has been made or a liability has been incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. In short, it refers to that expenditure which is, for the time being deferred from being charged to income. Such suspension of charging off operation may be due to the nature of expenses and the benefit expected therefrom.

2. **Example:** Heavy advertising to launch a new product is a deferred revenue expenditure since the benefit from it will be availed over the next 3 to 5 years.

4) VOUCHER

Voucher is documentary evidence in support of a business transaction. For example, in case of Cash Purchases, Cash memos and in case of Credit Purchases, Purchase Invoices are Vouchers.

The vouchers act as source documents on the basis of which transactions are recorded in the books of accounts.

5) ACCRUAL BASIS OF ACCOUNTING

Accrual Basis of Accounting is a method of recording transactions by which Revenue, Costs Assets and Liabilities are recognised during the accounting period in which they accrue

6) CASH BASIS OF ACCOUNTING

Cash Basis of Accounting is a method of recording transactions by which Revenues, Cost, Assets and Liabilities are recognised during the accounting period in which Actual Receipts and Actual Payments take place.

7) HYBRID BASIS OF ACCOUNTING

It is a combination of both Cash Basis of Accounting and Accrual Basis of Accounting. Under the hybrid basis of accounting. Incomes are recorded on Cash basis (Le during the accounting period in which they are received irrespective of when they accrue) and Expenses are recorded on Accrual Basis, (i.e., during the accounting period in which they arise irrespective of when they are paid).

DOUBLE ENTRY SYSTEM OF BOOK-KEEPING

MEANING OF DOUBLE ENTRY SYSTEM OF BOOK-KEEPING

1. Double Entry System of Book-keeping refers to a system of accounting under which both the aspects (Le. Debit or Credit) of every transaction are recorded in the accounts involved.
2. **Dual Aspect -** Two fold aspect of a transaction is called dual aspect or duality of a transaction. This duality is the basis of double entry records.
3. **As the name implies, the entry made for each transaction is composed of two parts** one for debit and another for credit. The double entry system may be compared with the Newton's law of motion, viz to every action there is always an equal and contrary reaction.
4. Every debit has equal amount of credit. So the total of all debits must be equal to the total of all credits
5. **The terms debit and credit used today have their origin from the terms**- Debito and Credito as used by Luca fra Pacioli in his book
6. Account-The individual record of a person or thing or an item of income or an expense is called an account.

MEANING OF ACCOUNTING EQUATION

1) An accounting equation is a statement of equality between the resources and the sources which finance the resources and is expressed as follows:

Resources = Sources of Finances

2) **Resources mean the Assets:** The Assets refer to the tangible objects (e.g. Land & Building. Plant & Machinery, Furniture, Investments, Stock, Debtors, Bank Balance. Cash Balance) or intangible rights. (e.g., Patents, Trademark Copyright) owned by an enterprise and carrying probable future benefits.
3) Sources of finance mean Equities and includes (Internal Equity) (i.e., Capital) and External Equity (i.e., Liabilities)

Total Assets = Total Equities

ILLUSTRATION 1:

Mr Water had the following transactions

i. Commenced business with cash ₹ 50,000
ii. Purchased goods for cash ₹ 20,000 and credit ₹ 30,000.
iii. Soid goods for cash ₹ 40,000, costing₹30,000.
iv. Rent paid ₹ 500.
v. Rent outstanding ₹ 100.
vi. Bought furniture ₹ 5,000 on credit
vii. Bought refrigerator for personal use ₹ 5,000
viii. Purchased building for cash ₹ 20,000.

Use accounting equation to show the effect of the above transactions on his assets, liabilities and capital and also show his balance sheet.

TRADITIONAL CLASSIFICATION OF ACCOUNTS

The classification of accounts according to the Traditional Approach is given below:

CLASSIFICATION OF ACCOUNTS AS PER TRADITIONAL APPROACH

Types of Accounts	Meaning	Examples
(a) Personal Accounts	These accounts relate to natural persons, artificial persons and representative persons.	Natural-Ram's A/c Artificial-Ram & Co's etc Representative - Outstanding Salary A/c, Prepaid Insurance
(b) Real Accounts	These accounts relate to the tangible or intangible real assets.	Tangible-Land A/c Intangible-Goodwill A/c
(c) Nominal Accounts	These accounts relate to losses. profit & gains.	**Expenses**-Purchase A/c **Loss**-Loss by fire A/c **Profits & Gains-**Sales A/c, Discount Received Ac

ACCOUNTING EQUATION BASED CLASSIFICATION OF ACCOUNTS

The classification of accounts according to Accounting Equation Approach is given below:

CLASSIFICATION OF ACCOUNTS AS PER ACCOUNTING EQUATION APPROACH

Types of Accounts	Meaning	Examples
(a) Assets Accounts	These accounts relate to Tangible or Intangible real assets	Land A/c, Building As, Cash A Goodwill, Patents
(b) Liabilities Accounts	These accounts relate to the financial obligations of an enterprise towards outsider	Trade Creditors, Bank overdraft, Short-term loans. Lang loans

(c) Capital Accounts	These accounts relate to owners of an enterprise	Capital Alc. Drawings At
(d) Revenue Accounts	These accounts relate of the amount charged for goods sold or services rendered or permitting others to use enterprise's resources yielding Interest Royalty or Dividend	Sales A/c Discount Received A/c. Dividend Received A/c Royalty Received A/c Interest Received A/c
(e) Expenses Accounts	These accounts relate to the amount incurred or lost in the process of earning revenue	Purchases A/c, Discount Allowed A/c, Salaries A/c, Interest Allowed A/c, Lass by Fire At

ILLUSTRATION 2:

Record the following transactions in the journal of the Delhi Furniture Marts:

2018	
Jan 1	Started business with Cash₹:10,000
2	Deposited into bank₹ 9.000
3	Purchased machinery for ₹ 5,000 from Jawahar and gave him a cheque for amount
5	Paid installation charges of machinery ₹100.
20	Purchased timber from Naveen of the list price of ₹2,000. He allowed 10% Trade Discount
23	Furniture costing ₹ 500 was used in furnishing the office.
25	Soid furniture to Naresh of the list price of ₹ 1,000 and allowed him 5% Trade Discount.
28	Received a crossed cheque from Naresh for ₹ 930 in full settlement and sent the cheque to bank.
29	Sent to Naveen in full settlement a cheque for ₹ 1,750.
31	Paid wages 350 and rent ₹ 200.

ILLUSTRATION 3:

Journalise the following transactions in the books of Tushar

i. Withdrawn goods for personal use (Sale Price ₹ 600, Cost ₹ 500).

ii. Goods costing ₹ 500 given as charity (Sale Price ₹600)

iii. Goods costing ₹ 1,000 distributed as free samples (Sale Price ₹ 1,200)

iv. Goods stolen in transit (Sale Price ₹ 1,000, Cost ₹ 800)

v. Goods destroyed by fire (Sale Price ₹ 1,000, Cost ₹ 800)

vi. Goods stolen by an employee (Sale Price ₹ 1,000, Cost ₹ 600)

vii. Goods used in making of Furniture (Sale Price ₹ 2000, Cost ₹ 1,500)

ILLUSTRATION 4:

Journalise the following transactions:

1. Paid into bank ₹ 11,000 for opening a current account
2. Withdrew for private expenses ₹ 1,000
3. Withdrew from bank ₹ 3,000
4. Withdrew from bank for private use ₹ 1,500
5. Placed on Fixed Deposit A/c at Bank by transfer from current account ₹ 5,000

MEANING OF LEDGER:

A Ledger is a principal book which contains all the accounts (Assets Accounts. Liabilities Accounts, Capital Accounts, Revenue Accounts, Expenses Accounts) to which the transactions recorded in the books of original entry are transferred.

1. As the ledger is the ultimate destination of all transactions, the ledger is called the **Book of Final Entry**
2. It is considered a permanent record and is more frequently referred to
3. It may be noted that an account is a formal record of all transactions relating to change in a particular item

DISTINCTION BETWEEN JOURNAL AND LEDGER:

Journal differs from the Ledger in the following respects:

Basis of Distinction	**Journal**	**Ledger**
1. Nature of Book	It is book of original or **prime entry**	it is book of final or secondary **entry.**
2. Basis for Preparation	It is prepared on the basis of **source documents** of transactions.	It is prepared on the basis of **journal**.

MEANING OF COMPOUND ENTRY:

When more than two accounts are involved in a transaction and the transaction is recorded by means of a single journal entry instead of passing several journal entries, such single journal entry is termed as 'Compound Journal Entry'

ILLUSTRATION 5:

Journalise the following transactions in the books of Bharat Tulsan.

1. Received ₹ 8,000 from Han Khan in full settlement of his account for ₹ 10,000.
2. Received ₹ 9,000 from Shyam on his account for ₹ 10,000.
3. Received a first and final dividend of 90 paise in the rupee from the Official Receiver of Mr Rajan who owed us ₹ 10,000
4. Paid ₹ 9,000 to Mohun in full settlement of his account for ₹ 10,000.
5. Paid 8,000 to Suhan on his account for 10,000.
6. Withdrawn for personal use Goods (Sate Price₹ 8,000, Cost ₹ 6,000), Cash ₹ 1,000.
7. Goods casting ₹ 9,000 given as charity (Sale Price ₹12,000).
8. Goods costing ₹13,000 distributed as free samples (Sale Price ₹ 4,000).
9. Goods stolen in transit (Sale Price ₹ 8,000. Cost ₹ 8,000).
10. Goods destroyed by fire (Sale Price ₹ 4,000, Cost ₹ 3,000).
11. Goods stolen by an employee (Sale Price ₹ 8,000. Cost ₹ 6,000), Cash embezzled by an employee ₹1,000.
12. Goods used in making of Furniture (Sale Price ₹12,000. Cost ₹ 9,000).
13. Paid Rent of building ₹ 50.000 half of the building is used by the proprietor for residential use.
14. Paid Fire Insurance of the above building in advance ₹ 20,000.
15. Paid Life Insurance Premium ₹ 20,000.
16. Paid Income tax ₹ 50,000.
17. Salary due to clerk ₹ 30,000.
18. Received commission ₹ 1,00,000 half of which is in advance.
19. Brokerage due to us ₹50,000.
20. Purchased Secondhand Machinery from Jawahar for ₹30,000 against a cheque.
21. Goods used in repairs of Machinery (Sale Price ₹ 12,000 Cost ₹ 9,000)
22. Paid Installation Charges of Machinery ₹ 1,000.
23. Provide Depreciation for one month on above Machinery @15% p.a.

TYPES OF SPECIAL JOURNALS (OR SUBSIDIARY BOOKS):

The proforma and number of special journals vary according to the requirements of each enterprise In any large business, the following special journals are generally used:

DISTINCTION BETWEEN TRADE DISCOUNT AND CASH DISCOUNT:

Trade Discount differs from Cash Discount in the following respects

Basis of Distinction	Trade Discount	Cash Discount
1. Meaning	It is a **reduction** granted by a supplier **from the List Price** of goods or services on business considerations (such as quantity bought, trade practices, etc.) other than for prompt payment.	A **reduction** granted by a supplier from **the Invoice Price** in consideration of immediate payment or payment within a credit period allowed.
2. Purpose	It is allowed to **promote the sales** or as a trade practices.	it is allowed **to encourage the prompt payment**
3. Time when allowed	It is allowed **on purchase** of goods	It is allowed **on immediate payment** or payment within a specified period.
4. Disclosure in the Invoice	It is **shown** by way of deduction in the invoice itself	it is **not shown** in the invoice
5. Ledger Account	Trade Discount Account is not **opened** in the ledger	Cash Discount Account is **opened** in the ledger.
6. Variation	It may **vary with the quantity** purchased	It may **vary with the period** within which the payment is made

ILLUSTRATION 6:

Prepare a Three Column Cash Book of Mis Tulsian & Co. from the following particulars

Date	Particulars
2018	
Jan 1	Cash in hand ₹ 50,000, Bank Overdraft ₹ 20,000
2	Paid into bank ₹ 10,000.
3	Bought goods from Hari for ₹ 200 for cash.
4	Bought goods for ₹ 2,000 paid cheque for them, discount allowed 1%
5	Sold goods to Mohan for cash ₹ 1,175
6	Received a crossed cheque from Shyam to whom goods were sold for ₹ 800. Discount allowed 12.5%
7	Shyam's cheque deposited into bank
8	Purchased an old typewriter for ₹ 200. Spent ₹ 50 on its repairs.
9	Bank notified that Shyam's cheque has been returned dishonoured and debited the account in respect of charges ₹ 10.
10	Received a money order for ₹ 25 from Hari. Shyam settled his account by means of a crossed cheque for ₹ 820,20 being for Interest charged.
11	Shyam settled his account by means of a crossed cheque for ₹ 820, ₹ 20 being for Interest charged.
12	Withdrew from bank₹ 10,000
18	Discounted a B/E for ₹ 1,000 at 1% through bank
20	Honoured our own acceptance by cheque ₹ 5,000

22	Withdrew for personal use ₹ 1,000.
24	Paid trade expenses₹ 2,000.
25	Withdrew from bank for private expenses ₹ 1,500.
26	Purchased machinery from Rajiv for 5,000 and paid him by means of a bank draft purchased for 5,005.
27	Issued cheque to Ram Saran for cash purchase of furniture ₹ 1,575
28	Received a crossed cheque for commission ₹ 500 from R. & Co. and deposited into bank
29	Ramesh who owed us ₹ 500 became bankrupt and paid us ₹ 50 paise in the rupee
30	Received payment of a loan of ₹ 5,000 and deposited ₹ 3,000 out of its into bank
31	Paid rent to landlord "Mohan' by a cheque of ₹ 220.
31	Interest allowed by bank₹ 30.
31	Half yearly bank charges ₹ 50.

SOURCE DOCUMENT USED FOR RECORDING:

The entries in the Purchases Returns Book are usually made on the basis **of Debit Notes issued to the Suppliers or Credit Notes received from the Suppliers.**

Note: A debit note is a document prepared by the purchaser to inform the supplier that his account has been debited with the amount mentioned and for the reasons stated therein. Debit Note contains the date of return, name of the supplier to whom the goods have been returned, details of the goods returned, reasons for returning the goods. Each debit note is serially numbered

MEANING OF JOURNAL PROPER:

Journal Proper is a one of the subsidiary books, which a used to record those transactions which cannot be recorded in any other subsidiary book such as:

a. Cash Book,
b. Purchases Book
c. Sales Book,
d. Purchases Returns Book,
e. Sales Returns Book
f. Bills Receivable Book, and
g. Bills Payable Book

EXAMPLES OF TRANSACTIONS RECORDED IN JOURNAL PROPER:

The various examples of transactions entered in a Journal Proper are given below.

1. **Opening Entry**-An Opening Entry is passed in the journal to bring the previous accounting period's balances of various assets, liabilities and capital in the books of current accounting period.

2. **Closing Entries**-Closing Entries are passed in the journal to close the nominal accounts by transferring them to the Trading and Profit and Loss Account. These are needed at the end of the accounting period, when the final accounts are prepared.

3. **Transfer Entries** Transfer Entries are passed in the journal to transfer an amount from one account to another account, ie, Transfer of Total Drawings from Drawings A/c to Capital A/c

4. **Adjusting Entries -** Adjusting Entries are passed in the journal to bring into the books of accounts certain unrecorded items like closing stock, depreciation on fixed assets, outstanding and prepaid items. These are needed at the time of preparing the final accounts.

5. **Rectifying Entries** - Rectifying Entries are passed in the journal to rectify the various errors committed while posting, totalling, balancing, etc.

6. **Miscellaneous Entries** - include the following

   a) **Capital brought in kind**-If the proprietor of the business brings in his capital contribution in kind and not in cash, such transaction can be recorded only in the Journal Proper and not in the Cash Book since this transaction does not involve any cash inflow.

   b) **Purchases of Assets (other than Stock-in-trade) on credit (e.g., land, building, plant and machinery, furniture and fixture)** Such transactions can neither be recorded in the Purchases Book (since no goods have been purchased) nor can be recorded in the Cash Book (since this transaction does not involve any cash outflow).

   c) **Sales of Assets (other than Stock-in-trade) which were sold on credit** - Such transaction can neither be recorded in the Sales Book (since no goods have been sold) nor can be recorded in the Cash Book (since this transaction does not involve any cash inflow)

   d) **Return of Assets (other than Stock-in-trade) which were sold on credit** - Such transactions cannot be recorded in the Returns Inward Book since no goods have been returned.

   e) **Return of Assets (other than Stock-in-trade) which were bought on credit**-Such transactions cannot be recorded in the Returns Outward book since no goods have been returned.

   f) **Endorsement of Bills Receivable to a creditor**.

   g) **Dishonour of Bills Receivables (not discounted with bank).**

   h) **Cancellation of Bills Payable.**

   i) **Abnormal Loss of Stock-in-trade/other assets by theft, accident, fire, etc.**

   j) **Writing-off Bad Debts.**

   k) **Goods withdrawn by the proprietor partner for personal use.**

   l) **Goods distributed as free samples for sales.**

m) **Cancellation of Discount Allowed or Discount Received at the time of dishonour of a cheque.**

TRIAL BALANCE OF X AND CO. AS AT 31.3.2018

S.N.	Name of Account	L.f.	Debit Bal	Credit Bal
1.	Cash Ac	C-I	75.000	
2.	Furniture A/c	F-I	30.000	
3.	Salaries A/c	S-3	25.000	
4.	Shyam's A/c	S-4		35.000
5.	Purchases A/c	P-I	2.60.000	
6.	Purchase Returns A/c	P-2		5,000
7.	Ram's A/c	R-I	49,000	
8.	Sales A/c	S-I		3.05.000
9.	Sales Returns A/c	S-2	1.000	
10.	Capital A/c	C-I		95.000
	Total		4,40,000	4,40,000

TRIAL BALANCE.... (NAME OF THE ENTERPRISE) ... AS AT... (DATE ON WHICH THE TRIAL BALANCE IS BEING PREPARED) ...

S. No	Name of Account	L.F	Debit Balance ₹	Credit Balance ₹
1.	Purchases A/c	P-1	xxx	-----
2	Sales A/c	S-1	-----	xxx
3	Purchases Returns A/c	P-2	-----	xxx
4	Sales Return A/c	S-2	xxx	----
5	Cash A/c	C-1	xxx	xxx
6	Bank A/c	B-1	xxx	xxx
7	Capital A/c	C-2	xxx	xxx
8	Salaries A/c	S-3	xxx	----
9	Furniture A/c	F-1	xxx	----
10	Ram's A/c	R-1	xxx	xxx
11	Shyam's A/c	S-A	xxx	xxx
	Total		xxx	xxx

Purchase & Sales Invoice, Debit Note and Credit Notes and Vouchers, (Cash & Non Cash Vouchers).

1) To Explain Accounting cycle

2) " " purchase Book & postings

Sales. Book

Cash. Book

1. Errors classes affect T.B - two sided Errors-Suspense of Account to be opened Error or Omission in Subsidiary. Book: - goods sold on Credit to John Sahayam, omitted to be entered in Sales Book M / art

   John Sahayam A/c Dr 1000

   To Sales Cr 1000

2. making a mistake In Sales Book- amount error- Commission Goods purchased in credit from Mari for ₹ 5000, was Wrongly entered in the purchase book as ₹ 5500.

   Mari (Dr) 500
   To purchase (Cr) 500

3. Goods Returned by Neela ₹ 220/- Wrongly entered in returns inward book as ₹ 120/-
   Sales Returned a/c (Dr) 100
   To Neela (Cr) 100

Eror or principle ---

A. Mac purchased ₹ 10,000/------------------ was entered in the purchase book
B. Computer purchased for the Proprietor's. Son ₹ 20,000/- was debited to office equipment a/c
C. Rent paid ₹ 4000/- to Mayathevar, the houseowner, was debited to his personal a/c
D. Furniture sold. For ₹1200/- was credited to Sales a/c

4. **<u>Error in names</u>**

   a) Goods sold to mani ₹: 1000/- was debited to Gani a/c.

5. <u>Entering in the wrong subsidiary book</u>

   <u>Purchase in sales</u>
   B/R in B/P
   (Bills Receivables in Bills Payable)

(a) Goods sold to Rangan ₹ 4500/- was Wrongly entered in Purchase Book

(b) A Bill Received drawn on soma ₹ 1200/- was entered in B/P book.
B/R (Dr) 1200
B/P (Dr) 1200
To soma (Cr) 2400

(c) A B/P by john, ₹ 4000/- wrongly entered in B/K
book John (Dr) 8000
To B/R 4000
To B/P 4000

RECTIFICATION OF ERRORS

RECTIFY THE FOLLOWING ERRORS (WITHOUT SUSPENSE A/C)

1. Pass rectification entries for the following transactions assuming that they are detected before preparing Trial balance.

a. A builder's bill for ₹ 4,600 for the erection of a small shed was debited to Repairs Account
b. Repairs to plant amounting to ₹ 900 had been charged to Plant and Machinery account.
c. Wages paid to the firm's workmen for making certain additions to Machinery amounting to ₹ 340 were debited to Wages Account
d. A cheque for ₹ 750 received from S. Desal was credited to the account of R. Ram.
e. Goods to the value of ₹ 700 returned by X were included in closing stock, but no entry was made in the books.
f. Goods costing ₹ 2,000 were purchased for various members of the staff and the cost was included in Purchases. A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries Account.
g. A bill of exchange (received from Hari) for ₹ 3,000 had been returned by the Bank, with whom It had been discounted, as dishonoured and had been credited to Bank Account and debited to Bills Receivable Account.
h. Goods sold to Z for ₹ 475 have been wrongly entered in the Sales Book as ₹ 745.

2. Rectify the following errors assuming that these were detected after preparing Trail Balance:

a) Interest received ₹ 300 was credited to Commission Account.
b) Purchased Plant for ₹ 4,000 wrongly debited to Purchase Account.
c) Sold old Furniture for ₹ 800, wrongly credited to Sales Account.
d) ₹ 2,000 Salary paid to Mr. B. Bose, stands debited to his Personal Account.
e) ₹ 1,000 paid to B. Bros against our acceptance were debited to B. Bros Account.
f) Purchase of goods for the consumption of the proprietor was debited to Purchase Account for Das ₹ 800.
g) A credit sale of ₹ 400 was posted from Sales Book to Sen & Co. instead of Das & Co.
h) Furniture worth ₹ 2,000 purchased for cash was debited to Repairs Account.

3. Rectify the following errors through suitable journal entries:

a. Purchased goods from Mathal Fis. 300, passed through Sales book.
b. Received one bill from A for ₹ 500, passed through balls payable book.
c. An item of ₹ 150 relating to prepaid rent account was omitted to be brought forward.
d. An item of ₹ 40 in respect of purchase returns instead of being debited to the Personal account from returns outward book, had been wrongly entered in the purchase book and posted there from to the debit of Personal account.
e. ₹ 500 paid to M/s Mehata Bros. against our acceptance were debited to M/s Malhotra Bros. Account.
f. Received final dividend of ₹ 20 from Ajit whose account had already been written off as bad debt, was credited to a newly opened account and was included in the list of creditors.
g. A bill received from J. Das for Repairs done to radio ₹ 150 and radio supplied for ₹ 950, was entered in the invoice book as ₹ 1000.

4. You are presented with a trial balance showing a difference which has been carried to Suspense Account and subsequently the following errors are revealed:

a. ₹ 3,500 paid in cash for a typewriter was charged to Office Expenses Account.

b. Goods amounting to ₹ 6,000 sold to Gajanand were correctly entered in the Sales book bur posted to Gajanand Account as ₹ 7,000. The total sales for the month were overcast by ₹ 1,000.

c. A cash sale of ₹ 1,500 to Shreyans, correctly entered in the Cash Book was posted to the credit of Shreyan's Personal account.

Errors affecting T.B – Open suspense a/c

(a) Over costing & under costing in subsiding Book

1) Purchase book was Over costed ₹ 1000/-.

2) Sales Book was under costed ₹2000/-

3) P.R Book has been totalled as ₹ 1200/-instead of ₹ 11000/-.

<u>Wrong side Posting</u>

Credit to
Debit
Debit to
Credit

1) Goods purchased from Siva ₹ 1800/- Though Correctly Entered in purchase book, was wrongly debited to Siva's a/c

Suspense a/c (Dr) 3600
To Siva (Cr) 3600.

2) Goods Returned by Nair ₹ 600/- correctly entered in the return in ward book (S.R. Book) posted to the debit of Nair a/c

Suspense a/c (Dr) 1200
To Nair (Cr) 1200

<u>Wrong amount posting</u>

goods sold to Naveen ₹ 1000/- was entered in s. book but wrongly posted to Naveen's a/c as ₹ 1100/-

Suspense a/c (Dr) 100
To Naveen (Cr) 100

<u>Wrong amount & wrong side</u>

good sold to Sekar ₹ 162/- correctly entered in s. book but credited to s' s a/c for ₹ 261/-

Sekar (Dr) 423
To Suspense a/c (Cr) 423

<u>Wrong amount & wrong account</u>

a 135 to khan was debited to Kannan's a/c as ₹ 153/-.

Khan a/c (Dr) 135

Suspense a/c (dr) 18
To Kannan (Cr) 153

<u>Wrong amount – wrong side – wrong a/c</u>

a credit sale of ₹ 176 to bosker was credited to Basheer as ₹ 167/-

Baskar (Dr) 176

Basheer (Dr) 176

To suspense a/c (Cr) 343

d. Good amounting to ₹ 1,300 returned by Saraswati, were entered in the Sales Book and posted there from to the credit of Saraswathi's Personal account.
e. Bills Receivable obtained from Navkar for ₹ 16,000, posted to the credit of Bills Payable Account and credited to Navkar's Account

<u>RECTIFY THE FOLLOWING ERRORS (WITH SUSPENSE A/C)</u>

5. On 31st March, 1992, while balancing the books of account of Sri. Ramdoss, they did not agree. The difference in Trail Balance amounting to ₹ 783 was debited to Suspense Account. Later the following errors were noticed. Give journal entries for rectification and prepare the Suspense Account.

a) The total of Purchase Book for March 1992 has been undercast by ₹300
b) ₹ 288 paid for repairing the Machinery has been debited to Machinery Account
c) The Sales Book has been overcast by ₹ 150.
d) A Sales of ₹ 1,200 to Mr. David has been passed through the Purchase Book.
e) Cash ₹ 117 received from Sri M. Das, though entered in the Cash Bock, has not been to Sri M. Das account.
f) Goods returned by Mr. N. Navin for ₹ 225 have been entered in the Returns Outward book. However, Mr. N. Navin's account is correctly posted.

6. You are presented with a Trial Balance showing a difference which has been carried to Suspense Account, and the following errors are revealed:

a) ₹ 1,700 paid in Cash for a typewriter was changed to Office Expense Account.
b) A cash sale of ₹ 5,000 to Black, correctly entered in the Cash Book, was posted to the credit of Black's Account in the Sales Ledger.
c) Goods amounting to ₹ 800 returned by Blue, were entered in the Sales Book and posted their form to the credit of Blue's Account.
d) Bill Receivables from Brown for ₹ 3,000 posted to the credit of B/P account and credited to Brown's Account.
e) Goods amounting to ₹ 10,000 sold to Red were correctly entered in the Sales Book but posted to Red's Account for ₹ 18,000.
f) Sales Returns Book was overcast by ₹ 100.

Journalise the necessary corrections and prepare the Suspense Account

7. The Trail Balance of S& Co., Chennai, did not tally as on 31.12.1985. The following errors were detected as a result of checking the books of accounts. Pass the Journal Entries to rectify the errors and find out the differences in the Trial Balance.

a. ₹ 60 received from M & Co. on 31.12.1985, was entered in the Cash Book on 2nd Jan. 1986.
b. The Returns Inward Book for December showed ₹200 less in totals.
c. The purchase of a typewriter for ₹800 was entered in the Purchase Journal.
d. Wages of workers engaged in construction of building amounting to ₹ 500 was debited to Wages Account.
e. A purchase of ₹671 has been posted to the debit of suppliers Mr. D. Das as ₹ 617.
f. Goods amounting to ₹ 100 has been returned by Mr. Shah and were taken into stock, but no entry was passed for the transaction.
g. ₹ 2,000 paid for purchase of a motor cycle for Mr. S (proprietor) had been charged to Miscellaneous Account.
h. A sale of ₹ 300 to Mr. A was credited to his account.
i. A sale of ₹ 1,000 has been passed through Purchase Journal. The customer's account has, however, been correctly debited.

8. Rectify the following errors found in the books of Mr. B. The Trial Balance had ₹ 930 excess credit. The difference has been posted to a Suspense Account.

a. The total of Returns Inward Book has been cast ₹1,000 short.
b. The purchase of an office table costing ₹ 3,000 has been passed through the Purchase Day Book.
c. ₹ 3,750 paid for wages to workmen for making show cases had been charged to Wages Account.
d. A purchase of ₹ 670 has been posted to the creditor's account as ₹ 600.

9. The undermentioned errors were discovered in the books of A and B after their profit and loss account had been prepared. The profit was found to be ₹ 50,000 but it was not distributed between the partners. The balance sheet also carried to Suspense Account showing ₹ 6000 as credit balance.

a. Sales Account was undercast by ₹ 5,000.
b. Purchase Account was overcast by ₹ 1,000.
c. The purchases of an office typewriter for ₹ 3,000 was passed through the purchase a/c.
d. Credit sales of ₹400 to C was passed through the sales Book as ₹ 900.

Rectify the above transaction through the journal and ascertain the correct figure of profit to be Distributed between the partners. Depreciation at 10% is to be charged on typewriter.

10.While closing his books of account, Om Prakash finds that the trial Balance on that date, i.e., 31st March 1992 is out by ₹ 907 excess debit He places the difference in a newly opened Suspense Account and prepare his final accounts which reveal a profit of ₹, 14,780 for the year ended 31st March, 1992.

In 1992-93, the following errors were detected in the accounts for 1991-92.

a. Purchases book was undercast by ₹ 1,000.
b. Cash received from Jamna Das ₹ 687 was posted to the debit of Janki Das as ₹ 678.
c. Discount received ₹ 7,630 and discount allowed ₹ 6873 were not posted to the ledger.
d. Schedule of debtor was totalled ₹ 16,380. Om Prakash maintains a provision for bad debts @5%.
e. Bank charges and interest, ₹ 115 remained unposted to the debit side of the nominal account.
f. Depreciation on furniture ₹ 970. was wrongly recorded as ₹ 790.

Pass journal entries to rectify the above-mentioned errors, prepare Suspense Account and Profit and loss A/c and ascertain the correct amount of profit for the year ending 31st March 1992.

BILLS OF EXCHANGE

Entries:

1. Bill is drawn & accepted

In the books of Drawer	**In the books of Acceptor**
Bills Receivable A/c … Dr. To Acceptor A/c	Drawer's A/c … Dr. To Bills Payable A/c

2. Bill Endorsed to a creditor

In the books of Drawer	**In the books of Acceptor**
Creditor A/c … Dr. To Bills Receivable	No Entry

3. Bill Discounted with the bank

In the books of Drawer	**In the books of Acceptor**
Bank A/c … Dr. Discount A/c … Dr. To Bills Receivable	No Entry

4. Bill sent to bank for collection

In the books of Drawer	**In the books of Acceptor**
Bank A/c for collection of bills … Dr. To Bills Receivable	No Entry

5. Bill Honoured on the due date

a. Presented by Drawer

In the books of Drawer	**In the books of Acceptor**
Cash A/c … Dr.	Bills Payable A/c … Dr.

In the books of Drawer	**In the books of Acceptor**
To Bills Receivable	To Cash

b. Presented by Endorsee

In the books of Drawer	**In the books of Acceptor**
No Entry	–do–

c. Presented by Bank (Discounted Bill)

In the books of Drawer	**In the books of Acceptor**
No Entry	–do–

d. Bill sent to Bank for collection – collected

In the books of Drawer	**In the books of Acceptor**
Bank A/c … Dr. To Bank A/c for collection of bills	–do–

6. Dishonour of Bill

a. Presented by Drawer

In the books of Drawer	**In the books of Acceptor**
Acceptor A/c … Dr. To Bills Receivable	Bills Payable A/c … Dr. To Drawer

b. Presented by Endorsee

In the books of Drawer	In the books of Acceptor
Acceptor A/c … Dr. To Endorsee	–do–

c. Presented by Bank (Discounted Bill)

In the books of Drawer	In the books of Acceptor
Acceptor A/c … Dr. To Bank A/c	–do–

d. Bill sent for collection – presented by Banker

In the books of Drawer	In the books of Acceptor
Acceptor A/c … Dr. To Bank A/c for collection of bills	–do–

7. Retiring a bill under Discount / Rebate

In the books of Drawer	In the books of Acceptor
Cash A/c … Dr. Discount / Rebate A/c … Dr. To Bills Receivable	Bills Payable A/c … Dr. To Cash A/c To Discount A/c

8. Noting charges

a. Paid by Drawer

In the books of Drawer	In the books of Acceptor
Acceptor A/c … Dr. To Bank	Noting Charges A/c … Dr . To Drawer

b. Paid by Endorsee

In the books of Drawer	In the books of Acceptor
Acceptor A/c … Dr. To Endorsee	–do–

c. Paid by Bank

In the books of Drawer	In the books of Acceptor
Acceptor a/c ... Dr To Bank	–do–

9. Renewal of a Bill

a. Cancelling of a Bill

In the books of Drawer	In the books of Acceptor
Acceptor a/c ...Dr To Bills Receivable (Same as Dishonour)	Bill Payable a/c ...Dr To Drawer a/c

b. Interest is included in the bill

In the books of Drawer	In the books of Acceptor
Acceptor a/c ...Dr To Interest	Interest a/c ...Dr To Drawer a/c

c. Interest is paid in cash (or) receiving a part of the amount

In the books of Drawer	In the books of Acceptor
Cash a/c ...Dr To Acceptor	Drawer a/c ...Dr To cash

d. New Bill is Drawn

In the books of Drawer	In the books of Acceptor
Bills Receivable a/c ...Dr To Acceptor (Due + Interest)	Drawer a/c ...Dr To Bills Payable

Insolvency of Acceptor (First Dishonour Entries to be passed in both the books)

In the books of Drawer	In the books of Acceptor
Cash a/c ...Dr Bad debts a/c...Dr To Acceptor	Drawer's a/c...Dr To cash a/c To Deficiency

----

Acceptance & Dishonour:

10. Ram drew a Bill on Shyam on 1st January, 1977 for 3 months for ₹ 1,000. Shyam accepted the same and returned it to Ram. Pass Journal entries in the books up to date assuming that on the due date:

(1) the bill is met (2) the bill is dishonoured.

Endorsement & Dishonour:

11. Ram drew a Bill on Shyam on 1st Jan. 1977 for 3 months for ₹ 1,000. Shyam accepted the same
and returned it to Ram who endorsed it to John on 15th Jan. 1977. Pass entries in the books of Ram & Shyam assuming that on the due date,

(a) The Bill is met on the due date;
(b) The Bill is dishonoured on the due date.

Discounted & Dishonour:

12. Ram drew a Bill on Shyam on 1st Jan. 1977 for ₹ 1,000 for 3 months. Shyam accepted the same and returned it to Ram who discounted the same with his bankers on 1st February, 1977 at 9% per annum. Pass entries in the books of both the parties assuming that on the due date

a. The Bill is met
b. The Bill is dishonoured

Dishonour & Noting Charges are paid

When a bill is dishonoured the holder can get such fact noted on the Bill by a Notary Public.

Such noting would constitute sufficient proof of the dishonour. The fact of the dishonour, the date of dishonour and the reasons for dishonour are noted. For this the Notary Public charges a fee called 'Noting Charges' which though paid by the holder, can be recovered from the Acceptor. A Notary Public is an official appointed by the Government.

---

13. A drew and B accepted a bill for ₹ 10,000 payable in 3 months. Show what entries would be made in the books of A when:

i. Bill is accepted and,
ii. A retains the bill till due date and realises the amount on maturity,
iii. A got the bill discounted with his banker for ₹ 9,800.,
iv. A endorsed the bill in favour of his creditor Mr. X in full settlement of his claim for ₹ 10,200.
v. A sent the bill to his banker for collection and on due date banker realised the bill.
vi. Bill is dishonoured & the party holding the bill pays ₹ 50 as noting charges.

Renewal of a bill:

An Acceptor who dishonours a Bill runs the risk of losing his prestige and credit worthiness Therefore an acceptor who is unable to pay the bills, due to temporary financial difficulties. may approach the drawer and request him to cancel the old bill and draw a new one for an extended period Sometimes he makes a part payment and accepts a new bill for the balance due. For extension the term payment the acceptor has to pay interest on the amount due to the drawer. The Interest may be pa. in cash or may be added to the amount of the new bill. The cancellation of the old bill by mutual agreement and drawing a new bill on the acceptor is called Renewal of a bill

14. On 1st August. 1970, X sold ₹ 500 worth of goods to Y, and drew a Bill on him for the amount for 3 months. Y accepted the same. On the due date Y being unable to pay the bill, approached X and requested him to renew the bill for a further period of 2 months, together with interest at 6% per Amman. X agreed to the proposal. On the due date the second bill is met. Pass the necessary journal entries.

15. On 1st January, 1992, Ram purchased from Shyam goods costing On the same date Shyam drew upon Rama bill for the amount at 2 months Ram accepted the same. On 4th January, 1992, Shyam discounted the bill with his bank at 12% p.a. On due date, Ram told Shyam that he was not in a position to pay the full amount and requested Shyam to accept R5.10,000 in cash and draw a fresh bill for the remaining amount for 2 months together with interest at 15% p.a., Shyam agreed the second bill was duly met. Give journal entries to record the above transactions in the books of Shyam.

Retiring a bill:

Retiring a bill means premature payment of the bill. Sometimes the drawee is in a position to make the payment of the bill before its due date In such a case, drawer allows some discount for the 'defied of early payment. This discount is call. 'Rebate. for retiring the bill before maturity. For the drawee, rebate will be a gain and for the holder a loss.

16. A drew a bill for ₹ 4,000 on B on 1st January, 1992 for three months in respect of the amount B owed A. B accepted the bill and returned it to A who discounted it with his bank for R5.3,900. On 1st April, 1992 B requested A to renew the bill. A agreed on condition that he be paid ₹ 1,000 forth with and B should accept another bill for three months for ₹ 3,100. Arrangements were carried through. All the same on 1st June, 1992, B retired his acceptance for ₹ 3050. Give necessary Journal entries in the book of A and B.

Insolvency of the Acceptor:

A person is said to be INSOLVENT when his liabilities exceed his assets. When the Acceptor becomes insolvent. the drawer cannot expect to receive the full amount of the bill. So he has to treat the bill as dishonoured and pass the dishonour entry. He will receive only a certain percentage of the amount due to him. The balance amount will be treated as a Bad Debt_ The Acceptor also passes an entry for the dishonour of the Bill. The payment made of a part of the amount due is recorded the unpaid amount being credit. to 'Deficiency Account'

17. On 1st January, 1977 David drew a three months Bill on Dilip for ₹ 1,000 in full settlement of account. Alter securing Dilip's Acceptance, David discounts the bill for ₹ 985. On the due date the bill is dishonoured. Dilip pays ₹ 400 to David and request him to draw a new bill for 2 months for the balance plus interest ₹ 20. David complies with the request. On 1st June, 1977 Dilip becomes insolvent and 75 paise in the rupee Is received from his estate on 10th June Journalise and prepare Dilip's A/c in David books.

COMPREHENSIVE PROBLEMS

18. A draws upon B Bills of exchange of ₹ 3,000. ₹ 2.000 and ₹ 1,000 respectively. A week later, his first bill was mutually cancelled. B agreeing to pay 50%, of the amount in cash immediately and for the balance plus interest ₹ 100, he accepted a fresh bill drawn by A.

This new bill was endorsed to C who discounted the same with his bankers for ₹ 1,500. The Second Bill was discounted by A at 5% p.a. This bill on maturity was returned dishonoured (noting charge being ₹ 30). The third bill was, retained till maturity when it was duly, met. Give the necessary journal entries recording the above transactions in the books of A and B.

19. On 1st January, 1992 Raghunath supplied goods to Acchyutta to the value of ₹ 9.000 and settled the account by means of three bills of exchange for ₹ 3.000 each due respectively after two, three and four months. A week later Raghunath discounted the first bill with his bank at a discount of ₹ 100. He had the other bills

The first two bills were paid at maturity. On the date of maturity of the third bill Acchyutta arranged to retire the bill paying ₹ 1000 in cash and giving Ragunath a fresh bill for four months to cover the balance with interest at the rate of 15% p.a. Raghunath discounted this bill tor ₹ 1950. Set out the entries recording the above in Raghunath's books.

20. Ramratan sold goods to Ahmed for ₹ 10,000 on 30th June, 1990, for which the latter accepted 4 bills of ₹ 2,500 each drawn on him payable after 2,4,6 and 8 months respectively. Ramratan retained the first bill. The second bill was sent by him for collection. The third bill was endorsed by him to C in part of payment of ₹ 4,000 owed to him. The fourth bill was discounted by him with his bankers at a discount of 15% p.a.

The first bill was met on the due date. As regards the second bill, Ahmed met Ramratan two days before the maturity date of the bill and paid him ₹ 1,000 and accepted a fresh bill for 30 days for the balance with Interest of 18% p.a. This bill as well as the thirds bill were met by the drawer.

Ahmed was declared insolvent on 31st December, 1990 and on the fourth bill becoming due, the bank debited Ramratan with the amount of the bill and charges of ₹ 250. It is ascertained by Ramratan that the estate of Ahmed will not be In position to meet liabilities to an extent Of more than 40%. What will be the journal entires to be made in the books of Ramratan to record the above transactions.

Mutual Accommodation:

Bills of Exchange are drawn and accepted to settle obligations arising from business transactions. Accommodation Bills on the other hand do not result from a business transaction but are employed to raise money on the strength of the credit standing an name of the parties. Temporary finance is raised by discounting these bills with the banker. The amount received by the Drawer helps him to tide over his temporary financial difficulties. Before the due date he pays the amount to the Acceptor to enable him to meet the Bill. Sometimes after discounting the Bill. the Drawer pays a part of the amount received to the Acceptor. in such a case the balance amount is paid before the due date to enable the Acceptor to Meet the bill. Thus an Accommodation bill may be drawn for the accommodation of one party or for the mutual accommodation of both the parties. Sometimes instead of one party drawing a Bill on the other, both may draw bills on one another ger them discounted and pay their respective Acceptances on the due date. Since these bills are accepted without consideration. the Acceptor has no liability to the drawer but since the banker (a third party) takes such a bills for value, the acceptor is liable to the third party. An accommodation bill is also called a 'Kite'.

The Book-Keeping entries for Accommodation Bills are similar to that of Trade Bills. However the treatment of 'Discount' should be noted_ lf the amount realised by discounting the Bill is used entirely by the Drawer, the full discount will be borne by him. if the amount realised is shared with the Acceptor, the discount also will be shared in the same proportion.

When one Bill is Drawn for the Accommodation of one of the parties:

21. On 1s1 January, 1996, B accepted a three months bill for ₹ 2000 drawn on him by A for the latter's benefit. A discounted the bill on 4th January @ 6% per Amman and at maturity sent B a cheque for ₹ 2,000 in order to enable him to honour the bill. B duly honored his acceptance. Pass journal entries in the books Of A and B.

When one Bill is drawn for Mutual Accommodation:

22. X, for the temporary and mutual accommodation of himself and Y, draws upon the la exchange at 3 months for ₹ 2,000 on 1st January, 1996 X discounts the bill at 6% p.a. over half the proceeds to Y At maturity, X remits the amount due to Y who meets the bill. 13fr9. entries in the books of both the parties.

When Bill Is drawn by each other for each other's accommodation.

23. On 1st January, 1906 X and Y drew on each other a bill for ₹ 2,000 payable at three months date for their mutual benefit. On 4th January they discounted with the bank each other's bill at 6% per Amman. At maturity, each met his acceptance Record transactions in the journal of X and Y.

ADVANCED PROBLEMS IN BILLS OF EXCHANGE

24. Journalise the following transactions In Karthik's books:

a. Karthik’s acceptance to Base for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

b. Gupta's acceptance for ₹ 5,000 which was endorsed by Karihik to Metha was Dishonoured. Metha paid ₹ 20 noting charges. Bill withdrawn against cheque.

c. Dalal retires a bill for ₹ 2,000 drawn on him by Kantik for ₹ 10 discount

d. Karthik’s acceptance to Patel for ₹ 5,000 discharged by Mody's acceptance to Karthik for a similar amount.

e. Karthik’s acceptance to Sen. for ₹ 4,000 was discharged by a cash payment of ₹ 2,020 and a new bill for ₹ 2,000.

25. R owed M ₹ 10,000 on 2. 1.1992 R accepted four bills of exchanges drawn by M to discharge the whole debt. first for ₹ 1,000 at one month, the second for ₹ 2,000 at two months the third for ₹ 3,000 at three months and the last ono for ₹ 4,000 at four months. On 15th January, M sent the first bill to the bank tor collection. On 17th Jan, he endorsed the second bill in favour of X. On 1st February he got the fourth bill discounted with the bank @ 8% per Amman. The first three bills were duly honoured but the fourth one (i.e. the discounted one) was dishonoured on the due date, noting charge being ₹ 5.

26. Journalise the following transactions in the book of Swamy.

a. Our acceptance to Panday for ₹ 15,00 reserved for 3 months on the condition that ₹ 500 is paid in cash immediately and the remaining balance to carry interest @12% p.a.

b. Patak's promissory note for ₹ 1,200 endorsed in favour of Gupta returned dishonoured. Gupta paid ₹ 30 as noting charges. Swamy paid Gupta by Cheque and accepts another bill for the amount due along with interest ₹ 80.

c. A Bills Payable accepted In favour of Modi for ₹ 4,000 returned unpaid due to lack of instructions to the bank. Mr.Modi claims ₹ 4,050 (₹ 50 as noting charges) which is paid by cheque.

27. Amer, Beenu and Chalam for mutual accommodation draw the following bills for three months Amer drew on Beenu for ₹ 15,000 and on Chalam ₹ 12,000 Beenu drew on Amar for ₹ 18,000 and on Chalam ₹ 30,000. Chalam drew on Amar for ₹ 24,000 and on Beenu ₹ 12,000. All the bills were discounted at 10% on the bills and were Shared equally. On the due date, Chalam became insolvent and only 40% of the amount due could be realised from his estate.

Show entries in the books of Amar and chalam assuming that Amar and Beenu had sent the money due and paid their obligations.

ADDITIONAL PROBLEMS IN BILLS OF EXCHANGE

1. On 1st January, 1998 Vinod drew and Pramod accepted a bill at three months for ₹ 2,000. On 4th January, 1998 Vinod discounted the bill at his bank at 15% p.a. and remitted half the proceeds to Pramod. On 1st February, 1998 Pramod drew and Vinod accepted a bill at four months for ₹ 1500. On 4th February, 1998 Pramod discounted the bill at 15% p.a. with his bank and remitted half the proceeds to Vinod. They both agreed to share the discount equally.

At maturity Vinod met his acceptance, but Pramod dishonoured his and Vinod had to pay the bill. Vinod drew and Pramod accepted a new bill at three months for the original bill plus interest at 18% p.a. On 1st July, 1998, Pramod became insolvent and only 50 paise in the rupee was received from him. Record the above transactions in Vinod's Journal.

2. Lal draws a bill of exchange at 3 months for ₹ 9,000 on Pal on 2nd January, 1997 which Pal accepted the same day. Lal gets the bill discounted with the bank for ₹ 8,820 and remits one-third of the amount to Pal. On the due date, Lal fails to remit the amount due to Pal. But accepts a bill drawn by Pal for ₹ 12,600 at 3 months. Pal gets the bill discounted with his bank for ₹ 12,330 and remits ₹ 2,220 to Lal. Before the maturity of the renewed bill, Lal becomes insolvent and only 60 paise a rupee of the amount due is received as the first and final dividend from his estate on 17th October, 1997. Pass Journal entries in the books of Pal. Also show Pal's account in Lal's ledger.

3. Deenu draws a bill for ₹ 4,500 on Peelu on 2nd January, 1998 for three months. Deenu discounted the bill with the bank for ₹ 4,410 and remits one-third of the amount to Peelu. On the due date Deenu fails to remit the amount due to Peelu but he accepts a bill for ₹ 6,300 at three months which Peelu discounts for ₹ 6,165 and remits ₹ 1,110 to Deenu. Before the maturity of the renewed bill, Deenu becomes insolvent and only 50% was realised from his estate on July 10th. Pass Journal entries in the books of Deenu.

4. Arun and Anand were friends and in need of funds. On 1.1.98, Arun drew a bill for ₹ 40,000 at 3 months on Anand. On 4.1.98, Arun got the bill discounted at 10% p.a. and remitted half the proceeds to Anand. On the due date, Anand could not meet the bill. Instead, Arun accepted Anand's bill of ₹ 1,20,000 on 4.4.98 for two month. This was discounted by Arun at 10% p.a. Out of this, ₹ 19,600 was paid to Arun after deducting ₹ 400 discounting charges. Being in financial crisis, Arun became insolvent and the bill drawn on him was dishonoured. His estate paid 50%. Days of grace for discount purposes may be ignored.

RR ACADEMY

CMA INTER GROUP -1

BANK RECONCILIATION STATEMENT

I. PROBLEMS:

1. **Bank column of a Cash Book showed a debit balance of ₹ 49,000 on 30th June. 2013. Entries in the Cash Book and Pass Book were compared an following differences were noticed:**

   not

   i. Cheques of Shyam ₹ 9,000 and of Mohan ₹ 15,000 were deposited but were collected up to 30th June, 2013.
   ii. Ramesh. a debtor, deposited a cheque of ₹ 8 000 directly into the bank,
   iii. Bank allowed an interest of ₹ 500.
   iv. Cheque for ₹ 10,000 issued to Radhey Shyam was not presented for payment.
   v. Bank debited the account by ₹ 6,000, being insurance premium.
   vi. Bank debited the account by ₹ 100, being bank charges.

   You are required to prepare a Bank Reconciliation Statement as on 30th June, 2013

   (balance as per pass book (cr.) 37,400)

2. **From the following, prepare Bank Reconciliation Statement on 31st March. 2013:**

   The cheques from Shri Morarji Dalai ₹ 2,500; Shri Dinkar Tapase ₹3,000 and Shri Bahrain Gidwani ₹ 2,400 were deposited into account in March, 2013 but were credited by the bank in April, 2013.

   The cheques issued to Shri M. Kher ₹3,000, Shri Natverlal Mehta ₹ 5,000 and Shri Davabhai Desai ₹ 3,000 in March, 2013 and were presented for payment in April, 2013.

   A cheque for ₹ 1,000 which was received from a customer was entered in the bank column of the Cash Book in March, 2013 but the same was paid into bank in April 2013.

   The Pass Book shows a credit of ₹ 2,500 for interest and a debit of ₹ 500 for bank charges. The balance (Dr.) as per the Cash Book was ₹ 1,80,000 whereas the Pass book showed a credit balance of ₹ 1,84,100.

   (balance as per pass book (cr.) 1,84,100)

3. From the following particulars, prepare Bank Reconciliation Statement as on 31st March, 2013:

i. Balance as per Cash Book as on 31st March, 2013 ₹ 12,000.

ii. Out of the total cheques amounting to ₹ 10,000 issued, cheques aggregating ₹ 3,000 were encashed in March, 2013, cheques aggregating ₹ 4,000 were encashed in April, 2013 and the rest have not been presented at all.

iii. Out of the total cheques amounting to ₹ 5,000 deposited, cheques aggregating ₹ 1,500 were credited in March, 2013, cheques aggregating ₹ 2,000 were credited in April, 2013 and the rest have not been collected at all.

iv. The hank has debited ₹ 100 as bank charges and has credited ₹ 200 on account of interest.

15,650

(balance as per pass book (cr.) ~~10,600~~)

4. State any six reasons when the Cash Book balance will be higher the Pass Book balance.

5. On 31st March, 2013 Pass Book of a trader showed a credit balance of ₹ 15,650 whereas the Cash Book showed a debit balance of ₹ 15,200. The reasons for the differences were:

i. Cheques issued to Roshan for ₹ 6,000 and to Daniel for ₹ 3,840 were not presented for payment.

ii. Bank charged ₹ 350 for bank charges.

iii. Nitesh directly deposited ₹ 8,160 into the Bank Account of the trader which was not entered in the Cash Book.

iv. Two cheques one from Shyam for ₹ 5,150 and another from Kailash for ₹ 12,500 were collected by bank in the first week of April, 2013 although they were banked on 25th March, 2013.

v. Interest allowed by bank ₹ 450.

Prepare a Bank Reconciliation Statement as on 31st March, 2013.

(balance as per cash book (dr.) 15,200)

6. Prepare a Bank Reconciliation Statement from the following particulars on 30th June, 2006:

Bank statement showed a favourable balance of ₹ 9,214.

(i) On 29th June, 2006 the bank credited the sum of ₹ 1,650 in error.

(ii) Certain cheques, valued at ₹ 4,500 issued before 29th June, 2006 were not cleared.

(iii) A hire purchase payment of ₹ 950, made by a standing order was not entered in the Cash Book.

(iv) A cheque of ₹ 600 received, deposited and credited by bank, was accounted as a receipt in the cash column of the Cash Book.

(v) Other cheques for ₹ 8,500 were deposited in June but cheques for ₹ 6,000 only were cleared by the bankers.

(balance as per cash book (dr.) 5,914)

7. **On 31st December, 2012, the Pass Book of a merchant shows a credit balance of ₹ 33,570 whereas the Cash Book showed a debit balance of ₹ 50,000.**

   It was observed that the differences were because of the following:

   The cheques and drafts sent to the bank but not collected and credited, amounted to ₹ 7,900 and three cheques drawn for ₹ 3,000; ₹ 1,500 and ₹ 2,000 respectively were not presented for payment till 31st January next year.

   The bank has paid a bill payable amounting to ₹ 10,000 but it has not been entered in the Cash Book and a bill receivable of ₹ 5,000 which was discounted with the bank was dishonoured by the drawer on the due date.

   The bank has charged ₹ 130 as its commission for collecting outstation cheques and has allowed an interest of ₹ 100 on the trader's balance.

   Prepare a Bank Reconciliation Statement as on 31st December, 2012.

   (balance as per cash book (dr.) 50,000)

8. **On 31st March, 2008 the Bank Pass Book of Radha showed a balance of ₹ 15,000 to her credit.**

   Before that date, she had issued cheques amounting to ₹ 8,000 out of which cheques amounting to ₹ 3,200 have so far been presented for payment.

   i. A cheque of ₹ 2,200 deposited by her into the bank on 26th March, 2008 is not yet credited in the Pass Book.
   ii. She had also received a cheque of ₹ 500 which although entered by her in the bank column of Cash Book, was omitted to be paid into the bank
   iii. On 30th March, 2008 a cheque of ₹ 1,570 received by her was paid into the bank but the same was omitted to be entered in the Cash Book.
   iv. There was a credit of ₹ 150 for interest on current account and a debit of ₹ 25 for bank charges.

   Draw up a Bank Reconciliation Statement.

   (balance as per cash book (dr.) 11,205)

9. **Prepare a Bank Reconciliation Statement of Shri Krishna as on 1st March, 2013 from the following information:**

   i. Balance as per the Pass Book is ₹ 10,000.
   ii. Bank collected a cheque of ₹ 500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's Account (another customer).
   iii. Bank recorded a cash deposit of ₹ 2,589 as ₹ 2,598.
   iv. Withdrawal column of the Pass Book undercast by ₹ 100.

12,25

v. The credit balance of ₹ 1,500 as on Page 10 of the Pass Book was recorded on Page 11 as a debit balance.

vi. The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.

vii. The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Kishan (another customer of the Bank).

viii. Dividend directly collected by bank ₹ 125.

(balance as per cash book (dr.) 12,616)

10. Prepare a Bank Reconciliation Statement from the following particulars:

		₹
i.	Overdraft as per the Cash Book.	1,80,000
ii.	Overdraft as per the Pass Book.	2,13,900
iii.	Cheque deposited into the bank but no entry passed in the Cash Book.	3,000
iv.	Cheque received and entered into the Cash Book but not sent to the bank.	10,000
v.	Credit side of the bank column casted short.	1,000
vi.	Insurance premium paid directly by the bank understanding order.	5,000
vii.	Bank charges entered in the Cash Book twice.	100
viii.	Cheque 'received' returned by the bank but no entry passed.	4,000
ix.	Cheque 'issued' returned on technical grounds.	3,000
x.	Bill discounted dishonoured.	40,000
xi.	Bills receivable directly collected by the bank.	20,000

(Overdraft as per pass book (dr.) 2,13,900)

11. From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st March, 2013:

i. The bank overdraft as per the Cash Book on 31st March, 2013 ₹ 63,400.

ii. Interest on overdraft for 6 months ended 31st March, 2013, ₹ 1,600 entered in the Pass Book.

iii. Bank charges of ₹ 300 for the above period are debited in the Pass Book.

iv. Cheques issued but not cashed prior to 31st March, 2013, amounted to ₹ 11,680.

v. Cheques paid into the bank but not cleared before 31st March, 2013 were for ₹ 21,700.

vi. Interest on investments collected by the bank and credited in the Pass Book ₹ 12,000.

Note: In this illustration the point to be noted is that the opening balance is an overdraft. Hence, items which increase the balance at bank will be deducted from the overdraft since money deposited will reduce the overdraft. Similarly, items which reduce the balance at bank will be added to the overdraft.

(Overdraft as per pass book (dr.) 63,320)

(Overdraft as per Cash Book).

12. **Prepare a Bank Reconciliation Statement as on 30th June, 2013 for Jyoti Sales Private Limited from the information given below:**

	₹
Bank overdraft as per the Cash Book on 30th June, 2013.	1,10,450
Cheques issued on 20th June, 2013 but not yet presented.	15,000
Cheques deposited but not yet credited by the bank.	22,750
Bills for collection not advised by the bank but credited to the account.	47,200
Interest debited by the bank on 27th June, 2013 but no advice received.	12,115
Subsidy received from the authorities by the bank on our behalf, credited to the account.	22,000
Amount wrongly debited by the bank.	2,400
Amount wrongly credited by the bank.	5,000

(Overdraft as per pass book (dr.) 58,515)

13. **On 31st December, 2012, the Cash Book of Rohan showed an overdraft of ₹ 5,600. From the following particulars make out a Bank Reconciliation Statement:**
    1) Cheques drawn but not cashed before 31st December 2012 amounted to ₹ 3,946.
    2) Cheques paid into the bank but not credited before 31st December, 2012 amounted to ₹ 4,891.
    3) A Bill Receivable for ₹ 520 previously discounted with the bank had been dishonoured and bank charges debited in the Pass Book amounted to ₹ 55.
    4) Debit is made in the Pass Book for ₹ 120 on account of interest on overdraft.
    5) The bank has collected interest on investment and credited ₹ 760 in the Pass Book.

(Overdraft as per pass book (dr.) 6,480)

14. **The following facts relate to the business of Roshan who requires you to reconciles Cash Book with the Pass Book balance:**

Balance as per the Cash Book (Cr.) ₹ 2,800

Unpresented cheques ₹ 3,440

Uncredited cheques ₹ 2,260

Additional Information:

a) The debit side of the Cash Book (bank column) has been undercast by ₹ 500.

b) A cheque of ₹ 200 paid to a creditor has been entered by mistake in the Cash Column.

c) Bank charges ₹ 80 have not been entered in the Cash Book.

(Balance as per pass book overdraft i.e.(dr.) 1,400)

15. Prepare a Bank Reconciliation Statement from the following particulars:

i. On 31st March. 2013, the Cash Book showed a credit bank balance (i.e., bank overdraft) of ₹ 2,000.

ii. Out of the total cheques amounting to ₹ 10,000 drawn, cheques aggregating ₹ 3,000 were encashed in March. cheques aggregating ₹ 4,000 were encashed in April and the rest have not been presented at all.

iii. Out of the total cheques amounting to ₹ 5,000 deposited. cheques aggregating ₹1,500 were credited in March, cheques aggregating ₹ 2,000 were credited in April, and the rest have not been collected at all.

iv. Bank has debited₹ 500 on account of interest on overdraft and ₹ 100 as bank charges.

v. Bank has credited 700 on account of interest collected on securities

vi. Bills Receivable ₹ 1,000 (discounted with bank in January) dishonoured on 31st March (but not yet recorded in the cash book)

(Balance as per pass book (cr.) 600)

16. Comparing Ram's Cash Book with the Bank Statement of his overdraft account for the month of November, 2012, find the following:

i. Cash Book showed an overdraft of ₹ 45,000.

ii. The payment side of the Cash Book had been undercast by ₹ 1,500.

iii. A cheque for ₹ 7,500 drawn on his Savings Account has been shown as drawn on his Current Account.

iv. Cheques amounting to ₹ 70,000 drawn and entered in the Cash Book have not been presented.

v. Cheques amounting to ₹ 60,000 sent to the bank for collection, which though entered in the Cash Book have not been credited by the bank.

vi. Bank charges of ₹ 750 as per Bank Statement have not been recorded in the Cash Book.

vii. Dividends amounting to ₹ 35,000 have been paid directly into the bank and not entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 30th November, 2012.

(Balance as per pass book (cr.) 5,250)

17. From the following particulars, prepare a Bank Reconciliation statement as on 31st March, 2013:

i. Balance as per the Pass Book on 31st March. 2013 overdrawn ₹ 8,000.

ii. Cheques drawn on 25th March, 2013 but not collected till April. 2013 ₹1,500 and ₹ 500 and ₹ 800 .

iii. Interest on bank overdraft not entered in the Cash Book ₹ 200.

iv. Outstation cheque ₹ 3,000 deposited into the bank but collected in April. 2013.

v. ₹ 1,000 Insurance premium paid by the bank as per the trader's standing order has not been entered in the Cash Book.

vi. Chamber of Commerce fee ₹ 300 paid by the bank for-traders but not recorded in the Cash Book.

vii. Collection charges of ₹ 100 charged by the bank but not entered in the Cash Book.

(Balance as per cash book (cr.) 6,200)

18. My bank Pass Book for Account No. 1 shows an overdraft of ₹ 6,500 on 31st March, 2013.

This does not agree with the Cash Book balance. From the following particulars, ascertain the Cash Book balance:

Cheques amounting to ₹ 15,000 were paid into the bank in March out of which, it appears, only cheques amounting to₹ 4,500 were credited by the bank. Cheques issued during March amounted in all to ₹ 11,000. Out of these cheques for ₹ 3,000 were unpaid on 31st March, 2013. The bank has wrongly debited Account No. 1 with ₹ 500 in respect of a cheque drawn on Account No. 2. The Account stands debited with ₹ 150 for interest and with ₹ 30 for bank charges. The bank has paid the annual subscription of ₹ 100 to my club according to my instructions. The entries for interest, bank charges and subscription have not yet been made in the Cash Book.

(Balance as per cash book (Dr.) 1,780)

19. Following information has been given by Rajendra. Prepare a Bank Reconciliation Statement as on 31st December, 2012, showing balance as per the Cash Book.

i. Debit balance shown by the Pass Book ₹ 17,800.

ii. Cheques of ₹ 21,600 were issued in the last week of December but only cheques of ₹ 14,800 were presented for payment.

iii. Cheques of ₹ 10,750 were presented to the banks Out of them, a cheque of ₹ 4,200 was credited in the first week of January, 2013.

iv. A cheque of ₹ 1,200 was debited in the Cash Book but was not presented in the bank.

v. Insurance premium paid by the bank ₹ 1,450.

vi. A Bill of Exchange of ₹ 6,200 which discounted with the bank was returned dishonoured but no entry was made in the Cash Book.

vii. Bank charges and interest charged by the bank are ₹ 350.

(Balance as per cash book (Cr.) overdraft 11,200)

20. Prepare a Bank Reconciliation Statement from the details given below and ascertain the balance as per Mr. Gami's Cash Book as on 31st December, 2012:

i. Bank overdraft balance as per the Pass Book ₹ 12,000.

ii. Cheques issued to creditors amounting to ₹ 20,000 in the month of December, 2012 of which cheques worth ₹ 3,000 were presented to the bank up to 31st December, 2012.

iii. A cheque of ₹ 6,000 received from Mr. Raj was deposited in the Bank Account on 26th December, 2012 but no entry was passed in the Cash Book. The same was collected and credited to Mr. Gami's Account on 29th December, 2012.

iv. A cheque of ₹ 2,000 received from Mr. Baria on 20th December, 2012 was recorded in the discount column of the Cash Book and was not banked.

v. The Pass Book showed that the bank had collected ₹ 4,000 as interest on Government Securities. The bank had charged interest ₹ 500 and bank charges ₹ 200.

There was no entry in the Cash Book for the same.

(overdraft as per the cash book (Cr.) 38,300)

21. On 31st March, 2013, Pass Book of Shri Rajendra shows a debit of ₹ 10,000. From the following, prepare a Bank Reconciliation Statement:

i. Cheques amounting to ₹ 8,000 drawn on 25th March, 2013 of which cheques of ₹ 5,000 were encashed on 2nd April, 2013.

ii. Cheques paid into the bank for collection ₹ 5,000 but cheques of ₹ 2,200 could only be collected in March, 2013.

iii. Bank charges ₹ 25 and dividend of ₹ 350 on investments collected by the bank could not be shown in the Cash Book.

iv. A bill of ₹ 10,000 was retired by the bank under rebate of ₹ 150 but the full amount was credited in the Cash Book.

(overdraft as per the cash book (Cr.) 12,675)

22. Prepare Bank Reconciliation Statement as on 31st December, 2012 from the owing transactions:

i. A's Overdraft as per Pass Book ₹ 12,000 as on 31st December.

ii. On 30th December, cheques had been issued for ₹ 70,000 of which cheques worth ₹ 3,000 only had been encashed up to 31st December.

iii. Cheques amounted to ₹ 3,500 had been paid into the bank for collection but out of these only ₹ 500 had been credited in the Pass Book.

iv. The bank has charged ₹ 500 as interest on overdraft and the intimation of which has been received on 2nd January, 2013.

v. Bank has collected ₹ 600 directly in respect of interest on A's investment. A has no knowledge of it.

vi. A cheque for ₹ 200 has been debited in bank column of Cash Book by A, but it was not sent to bank at all.

(overdraft as per the cash book (Cr.) 75,900)

23. From the following information supplied by Gokul, prepare his Bank Reconciliation Statement as on 31st March, 2013:

i. Bank overdraft as per the Pass Book.₹ 16,500

ii. Cheques issued but not presented for payment. ₹ 8,750

iii. Cheques deposited with the bank but not collected. ₹ 10,500

iv. Cheques recorded in the Cash Book but not sent to the bank for collection. ₹ 2,000

v. Payments received from customers directly by the bank. ₹ 3,500

vi. Bank charges debited in the Pass Book. ₹ 200

vii. Premium on life policy of Gokul paid by the bank on standing advice. ₹ 1,980

viii. A bill for ₹ 3,000 (discounted with the bank in February) dishonoured on 31st March, 2013 and noting charges paid by the bank ₹ 100

(overdraft as per the cash book (Cr.)10,870)

24. From the following particulars, make out a Bank Reconciliation Statement and ascertain the balance as per the Cash Book on 31st December. 2012 in the books of D.K.:

i. Pass Book showed an overdraft of ₹ 15,000 on 31st December, 2012.

ii. A cheque of ₹ 200 was deposited in the bank but not recorded in the Cash Book,

iii. Cheques of ₹ 17,000 were issued but cheques worth only ₹ 10,000 were presented for payment up to 31st December, 2012.

iv. Cheques of ₹ 10,000 were sent to the bank for collection. Out of these, cheques of ₹ 2,000 and of ₹ 1,000 were credited respectively on 7th January and 9th January. 2013 and remaining cheques were credited before 31st December, 2012.

v. Bank paid ₹ 300 as Chamber of Commerce fee on behalf of D.K. which was not recorded in the Cash Book.

vi. Bank charged interest on overdraft ₹ 800.

vii. ₹ 40 for bank charges were recorded two times in the Cash Book and bank expenses of ₹ 35 were not at all recorded in the Cash Book.

viii. Payment side of the Cash Book was ₹ 1,000 short.

ix. Bank received ₹ 200 as interest on debentures on behalf of D.K.

(Balance as per the cash book (overdraft i.e. (Cr.)17,305)

25. On 31st December, 2009, the Bank Pass Book of Taneja & Co. showed an overdraft of ₹ 7,700. On the basis of the following particulars prepare a Bank Reconciliation Statement:

i. Cheques issued before 31st December, 2009 but not yet presented for payment amounted to ₹ 3,500.

ii. Cheques paid into the Bank but a cheque amounting to ₹ 2,600, has not been collected yet.

iii. Interest on Loan amounting to ₹ 554, directly debited by the Bank did not appear in the Cash Book.

iv. ₹ 4,800 directly deposited by the customer entered in the Pass Book but not in the Cash Book.

(overdraft as per the cash book (Cr.)12,846)

26. On 31st January, 2010 the Pass Book of Shri. M.L. Gupta shows a debit balance of ₹ 41,000. Prepare a Bank Reconciliation Statement from the following particulars:

i. Cheques amounting to ₹ 15,600 were drawn on 27th January, 2010. Out of which cheques for ₹ 11,000 were encashed up to 31st January, 2010.

ii. A wrong debit of ₹ 800 has been given by the bank in the Pass Book.

iii. A cheque for ₹ 200 was credited in the Pass Book but was not recorded in the Cash Book.

iv. Cheques amounting to ₹ 21,000 were deposited for collection. But out of these cheques for ₹ 7,400 have been credited in the Pass Book on 5th February, 2010.

v. A cheque for ₹ 1,000 was returned dishonoured by the bank and was debited in the Pass Book only.

vi. Interest on overdraft and bank charges amounted to ₹ 100 were not entered in the Cash Book.

vii. A cheque of ₹ 500 debited in the Cash Book was omitted to be banked.

(Overdraft (Cr. Balance) as per the Cash Book 36,000)

27. You are given the following particulars:

i. Debit balance to the bank column as per the Cash Book on 31st March, 2013 was ₹ 50,000

ii. Cheques and drafts deposited into the bank but not collected ₹ 5,000

iii. Cheques of ₹ 10,000 were issued but not presented for payment

iv. Bank charges of ₹ 50 for expenses which were not yet entered in the cash book

v. Interest on investments ₹ 3,000 was collected by the bank but not entered in the cash book

Pass the necessary entries in the cash book and the prepare a Bank Reconciliation Statement on 31st March, 2013.

Balance as per the Pass Book (Cr.) 57,950

28. From the following particulars, ascertain the Bank balance as per the Pass Book as on 31st March, 2013 (a) without adjusting the Cash Book balance and (b) after adjusting the Cash Book balance:

i. Bank balance as per the Cash Book on 31st March, 2013 ₹ 80,000.

ii. Cheques issued but not encashed up to 31st March, 2013 amounted to ₹ 20,000.

iii. Cheques paid into the bank but not cleared up to 31st March, 2013 amounted to ₹ 30,000.

iv. Interest on investments collected by the bank but not entered in the Cash Book ₹ 1,000.

v. Cheques deposited in the bank but not entered in the Cash Book ₹ 25,000.

vi. Bank charges debited in the Pass Book but not entered in the Cash Book ₹ 200.

(Balance as per the Pass Book (Cr.) 95,800)

29. Jagdeep Singh's Cash Book on 31st March, 2013 showed an overdraft balance of ₹ 12,100 on his Account No. 1 at the bank.

On investigation it is found that:

i. Cheque drawn amounting to ₹ 4,200 had not been presented to the bank for payment.

ii. Cheque for ₹3,600 entered in the Cash Book and paid into the bank had not been credited by the bank.

iii. The receipts side of the Cash Book had been undercast by ₹1,000.

iv. Bank charges of ₹ 50 entered in the Bank. Statement had not been entered in the Cash Book.

v. A cheque for ₹5,200 drawn on the Account No. 1 had been charged by the bank erroneously to Account No. 2.

vi. A dividend of ₹ 300 paid directly to the bank had not been entered in the Cash Book.

vii. A cheque for ₹700 received from a debtor paid into the bank, dishonoured and shown as such by the bank but no entry of dishonour had been made in the Cash Book.

viii. A cheque for ₹420, drawn by another customer of the bank bearing the same name had been charged to Jagdeep Singh's Bank Account by error.

ix.

You are required to:

a) Show the necessary adjustments to be made in the Cash Book; and

b) Prepare a Bank Reconciliation Statement for Account No. 1 as on 31st March, 2013.

(Overdraft as per the Pass Book (Dr.) 6,170)

RR ACADEMY

CMA INTERMEDIATE
GROUP 1 – Paper 6

Previous Year ICMAI Exam Question Papers Syllabus 2022

- **December 2023**
- **June 2024**
- **December 2024**
- **June 2025**

Web: www.rracademy.in Fb: RR Academy Institute

FINANCIAL ACCOUNTING

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
Wherever necessary, candidates may make appropriate assumption(s) and state the same clearly in the answer.
Workings should form part of your answer.

Section – A (Compulsory)

1. You are required to answer all the questions. Each question is followed by 4 answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer. 2×15=30

(i) The construction of a factory building was completed on 1st April, 2023, at a cost of ₹ 56,50,000. A sum of ₹ 45,000 had been incurred for the construction of the temporary huts for storing building materials. Insurance premium of ₹ 56,500 paid on 5th April, 2023. The capital and revenue expenditure would be

(A) Capital Expenditure ₹ 57,51,500 and Revenue Expenditure ₹ nil

(B) Capital Expenditure ₹ 56,95,000 and Revenue Expenditure ₹ 56,500

(C) Capital Expenditure ₹ 56,50,000 and Revenue Expenditure ₹ 1,01,500

(D) Capital Expenditure ₹ 57,23,250 and Revenue Expenditure ₹ 28,250

(ii) If a receipt of ₹ 21,500 for interest has been recorded in the books as payment of ₹ 12,500 for interest, the profits would show—

(A) an increase of ₹ 9,000

(B) an increase of ₹ 34,000

(C) a decrease of ₹ 9,000

(D) a decrease of ₹ 34,000

(iii) Shiva received a bill for ₹ 58,550 from Vijay and endorsed it in favour of Makkhu. On the date of maturity, the bill was dishonoured and for it noting charges of ₹ 450 paid by holder. In this case Shiva will debit—

(A) Vijay by ₹ 58,550

(B) Vijay by ₹ 58,100

(C) Vijay by ₹ 59,000

(D) Noting charges account by ₹ 450

(iv) Joint Venture with XYZ Account, is opened

(A) when separate set of books is maintained for joint venture.

(B) when not maintaining separate set of books for joint venture but every Co-venturer keeps record his own transactions only.

(C) when not maintaining separate set of books for joint venture but every Co-venturer keeps complete record of all the transactions.

(D) In all the above situations, (A), (B) and (C).

(v) On 31st March, 2023, the debtors of a trader are ₹ 6,20,000 before writing off the bad debts of ₹ 15,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of provision for discount on debtors is

(A) ₹ 12,400

(B) ₹ 12,100

(C) ₹ 11,495

(D) ₹ 11,780

(vi) Salaries paid during the year 2022-23 were ₹ 4,70,000. Salaries outstanding on 01.04.2022 were ₹ 65,000 and it was also outstanding for three months on 31.03.2023. The amount of salaries shown in Income and Expenditure Account will be—

(A) ₹ 5,35,000

(B) ₹ 4,00,000

(C) ₹ 5,40,000

(D) ₹ 4,05,000

(vii) Profit before interest on loan and manager's commission were ₹ 4,25,250. Interest on loan is ₹ 42,000. If the manager is entitled a commission of 5% on net profit after charging such commission then manager's commission will be—

(A) ₹ 20,250

(B) ₹ 21,262.50

(C) ₹ 19,162.50

(D) ₹ 18,250

(viii) At the end of the accounting year, advances from customers are

(A) debited to Profit and Loss account.

(B) credited to Profit and Loss account.

(C) shown in the Balance Sheet as assets.

(D) shown in Balance Sheet as liabilities.

(ix) On 31.03.2023 the debtors of a trader are ₹ 7,50,000 before writing off the bad debts of ₹ 25,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of net debtors shown in the balance sheet as at 31.03.2023, will be—

(A) ₹ 6,74,250

(B) ₹ 6,74,975

(C) ₹ 6,98,250

(D) ₹ 6,97,500

(x) Following information is given for the year ending 31.03.2023:

Salaries outstanding and paid in advance on 01.04.2022 were ₹ 33000 and ₹ 22,000 respectively.

Salaries paid during the year 2022-2023 ₹ 3,30,000.

Salaries paid in advance and outstanding on 31.03.2023 were ₹ 16,500 and ₹ 44,000 respectively.

The amount of salaries to be shown in Income and Expenditure Account for the year ending 31.03.2023, will be—

(A) ₹ 3,46,500

(B) ₹ 2,91,500

(C) ₹ 3,13,500

(D) ₹ 3,68,500

(xi) Opening Stock, Closing Stock, Sales Return and Sales are ₹ 2,80,000; ₹ 3,20,000; ₹ 45,000 and ₹ 24,20,000 respectively. If rate of gross profit is 25% on cost, then gross profit will be—

(A) ₹ 6,05,000

(B) ₹ 4,75,000

(C) ₹ 4,84,000

(D) ₹ 5,93,750

(xii) Only items of revenue nature pertaining to the period of accounts are shown in the

(A) Receipts and Payments Account.

(B) Income and Expenditure Account.

(C) Both (A) and (B)

(D) Balance Sheet.

(xiii) Excess of Hire-purchase price over the cash price is known as

(A) Depreciation

(B) Penalty

(C) Interest

(D) Instalment

(xiv) AS-10 is applicable to which one of the following assets?

(A) Construction Contracts

(B) Live stock

(C) Plantation

(D) Property, Plant and Equipment

(xv) Goods costing ₹ 2,34,000 are sent to the Branch at a invoice price of ₹ 3,12,000. The loading on invoice price is

(A) 20%

(B) 25%

(C) 33.33%

(D) 28%

Section – B

Answer *any five* questions out of *seven* questions given. Each question carries 14 marks.

2. (a) On 30th September, 2023, Shri Sachin Chatterji's Cash Book shows that he had an overdraft of ₹ 400 on his current account at the bank. On checking the Cash Book with Bank Statement, you find the following :

(i) Cheques issued ₹ 1,500 had been entered in the Cash Book but had been presented into Bank ₹ 1,000.

(ii) Dividend amounting to ₹ 150 had been directly deposited into bank.

(iii) Bank had credited interest on Bank Deposit of ₹ 170 but the same had been debited in the Cash Book on 6th October, 2023.

(iv) Bank charge of ₹ 50 shown in the bank statement but the same had not been entered in the Cash Book.

(v) A cheque is issued to N.K. Chatterjee for ₹ 50 was replaced when out of date. It was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unpresented cheques shown above.

(vi) The receipt side of the Cash Book had been overcast by ₹ 20.

(vii) A cheque for ₹ 20 had been entered as a receipt in the Cash Book instead of as a payment.

(viii) A cheque drawn for ₹ 8 had been incorrectly entered in the Cash Book as ₹ 88.

You are required to prepare—

(I) Adjusted Cash Book; and

(II) Bank Reconciliation Statement as on 30.9.2023. 7

(b) From the following details, prepare an Adjusted Trial Balance as at 31-3-23. 7

	₹		₹
Purchase	65,000	Sundry Creditors	35,000
Carriage Inward	1,000	Plant and Machinery	10,000
Wages	6,000	Buildings	5,000
Salaries	10,000	Furniture	3,000
Rent, rates and taxes	1,800	Bills Receivable	10,000
Insurance	1,500	Sundry Debtors	40,000
Interest paid	1,000	Capital	66,000
Sales	95,000	Sundry Expenses	5,000
Cash and Bank	21,500	Opening Stock	21,000
Bills Payable	5,800		

Notes:

(i) Salaries and wages due to be paid ₹ 2,000 and ₹ 1,000 respectively.

(ii) Insurance was paid to the extent of ₹ 300 advance.

(iii) A sum of ₹ 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.

(iv) Sundry expenses include ₹ 2,000 spent for the personal purpose of the proprietor.

(v) Sales for the period include ₹ 500 worth of goods (cost price) taken by the proprietor for personal consumption. He has also taken goods worth ₹ 1,000 (cost price) for personal consumption which has not been recorded in the books.

(vi) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

(vii) Closing Stock ₹ 20,000

3. (a) On 1st July, 2023, G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September, 2023 J purchased goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H.

On 1st October, 2023 H purchased goods worth ₹ 1,00,000 from G. H paid the amount due to G by cheque. Give the necessary Journal entries in the books of H. 7

(b) Lease Ltd. has initiated a lease for four years in respect of a vehicle costing ₹ 20,00,000 with expected useful life of 5 years. The asset would revert to the company under the lease agreement. The other information available in respect of lease agreement is:

(i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹ 2,50,000.

(ii) The implicit rate of interest is 10%.

(iii) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hand of Lease Ltd.

(I) The annual lease payment.

(II) The unearned finance income.

Note: (i) PV of residual value for 4th year @ 10% is 0.683.

(ii) PV factor for 4 years @ 10% is 3.16987. 7

4. Rajesh does not maintain proper books of account. From the following particulars prepare the Trading and Profit and Loss Account for the year ended 31st March, 2023 and the Balance Sheet as on that date: 14

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)
Debtors	90,000	1,25,000
Stock	49,000	66,000
Furniture	5,000	7,500
Creditors	30,000	22,500

Summary of other transactions is as follows:

Particulars	₹
Cash collected from Debtors	3,04,000
Cash paid to Creditors	2,20,000
Salaries	60,000
Rent	7,500
Office Expenses	9,000
Drawings	15,000
Additional Capital introduced	10,000
Cash Sales	7,500
Cash Purchases	25,000
Discount Received	3,500
Discount Allowed	1,500
Returns Inward	5,000
Returns Outward	4,000
Bad Debt	1,000

He had ₹ 25,000 as Cash Balance in the beginning of the year.

5. A and B were carrying on business as equal partners. The firm's Balance Sheet as on 31st December, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets :	
A	1,38,000	Leasehold Building	80,000
B	1,52,000	Plant and Machinery	1,80,000
Bank Loan	40,000	Furniture	20,000
Current Liabilities :		Current Assets :	
Sundry Creditors	70,000	Stock	60,000
Bills Payable	10,000	Book Debts	68,000
		Cash at Bank	2,000
	4,10,000		4,10,000

The business was carried on till 30th June, 2023. The partners withdrew in equal amounts half the amount of profits made during the period of six months (from January to June, 2023) after charging depreciation on

Leasehold Building	—	10% per annum
Plant and Machinery	—	10% per annum
Furniture	—	10% per annum

Meanwhile Sundry Creditors were reduced by ₹ 15,000. Bills Payable by ₹ 2,500 and Bank Loan by ₹ 20,000. On 30th June stock was valued at ₹ 7,09,000, Book Debts were ₹ 75,000 and Cash at Bank was ₹ 2,500. On 30th June, 2023 the firm sold the business to a limited company for ₹ 4,00,000 payable in Equity Shares of ₹ 10 each.

The partners decided to take shares in the profit sharing ratio, any difference to be settled in cash.

You are required to prepare :

(I) Statement of Net Assets as on 30th June, 2023;

(II) Statement of Profit earned during the period six months ended on 30.6.2023;

(III) Realisation Account;

(IV) Capital Accounts of the partners. 14

6. (a) X Ltd. has a retail branch at Puri. Goods are sold at 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Delhi H.O. to branch at Puri at wholesale price. From the following particulars ascertain the profit made at H.O. and branch for the year ended 31st March, 2023. 7

Particulars	H.O. ₹	Branch ₹
Stock on 01.04.2022	7,00,000	—
Purchase	42,00,000	—
Goods sent to Branch (at invoice price)	15,12,000	—
Sales	42,84,000	14,40,000
Stock on 31.03.2023	16,80,000	2,52,000
Expenses	80,000	40,000

Sales at H.O. are made only on wholesale basis and that at branch only to customers at retail price.

Stock at H.O. is valued at invoice price.

(b) On 1st April, 2023 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at cost 1 Jan. 2022	1,47,000
Stock at cost 31 Dec. 2022	1,59,200
Purchases year ended 31 Dec. 2022	7,96,000
Sales year ended 31st Dec. 2022	9,74,000
Purchases 1.1.2023 to 31.3.2023	3,24,000
Sales 1.1.2023 to 31.3.2023	4,62,400

In valuing the stock for the Balance Sheet at 31st Dec. 2022 ₹ 4,600 had been written off on certain stock which was a poor selling line having the cost ₹ 13,800. A portion of these goods were sold in March, 2023 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception gross profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹ 11,600. The policy was for ₹ 1,00,000 and was subject to average clause.

Work out the amount of the claim of loss by fire. 7

7. (a) ABC Ltd. is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd.? 7

(b) ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

(i) ₹ 20 lakh received for immediate start-up of business without any condition.

(ii) ₹ 50 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:

(I) That drugs should be available to the public at 20% cheaper from current market price; and

(II) The drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].

(iii) Two acres of land received for set up of plant.

(iv) ₹ 2 lakh received for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts? 7

8. (a) 'A' and 'B' were partners in a firm and their capitals were ₹ 5,00,000 and ₹ 3,00,000 respectively on 1st April, 2022. Profit for the year ending 31st March, 2023 amounted to ₹ 2,10,000. Drawings of partners were ₹ 1,00,000 and ₹ 60,000 respectively. It was observed that following errors were committed while distributing the profit:

(i) Manager's commission @ 10% on the profits before charging such commission was omitted.

(ii) Closing Inventory was valued at ₹ 70,000 whereas its net realisable value (market value) was ₹ 50,000.

(iii) Outstanding salary of employees ₹ 40,000 were not recorded.

(iv) 'A' had given a loan of ₹ 1,50,000 to the firm on 1st December, 2022, interest was omitted to be recorded on this loan.

(v) Loan was given to 'B' on 1st July, 2022 amounting to ₹ 1,00,000 bearing interest @ 8% p.a. Interest was omitted to be charged by the firm.

(vi) Interest on Capital @ 6% p.a. was not allowed and interest on drawings was not charged @ 10% p.a.

On the basis of above information, answer the following questions :

(I) How much interest should be allowed on A's Loan to the firm? Is it a charge or appropriation of profit?

(II) What is the amount of net profit?

(III) What is the amount of divisible profit?

(IV) What is each partner's share of profit? 4

(b) Explain the following accounting conventions: 5

(i) Full Disclosure

(ii) Consistency

(iii) Materiality

(iv) Conservatism

(c) Explain the methods/criteria for the selection and application of Accounting Policies. 5

INTERMEDIATE EXAMINATION

June 2024

P–6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
Where necessary, candidate may make appropriate assumptions and clearly state them in the respective answer.
All working notes must form part of the answer.

Answer to Question No. 1 *in section A is compulsory, further answer* any five *from* Question No. 2 *to* Question No. 8 *in section B.*

Section-A

1. Choose the correct option from the four alternatives given: 2×15=30

(i) Select the correct equation:

(A) Owners Equity = Assets + Liabilities
(B) Owners Equity + Outside Liabilities = Total Assets
(C) Assets + Owner Equity = Outside Liabilities
(D) Outside Equity + Profit = Total Assets

(ii) Cash In Hand A/c may have.

(A) Only debit balance
(B) Only credit balance
(C) Debt or Credit balance
(D) All of the above

(iii) Fundamental accounting assumptions are

(A) going concern, consistency and accrual.
(B) going concern, money measurement and prudence.
(C) going concern, business entity and accounting period.
(D) going concern, matching and consistency.

(iv) Choose the correct statement:

(A) Errors of principle do not affect agreement of trial balance.
(B) Compensating errors affect trial balance.
(C) One side error does not affect trial balance.
(D) Error of casting is an error of principle.

(v) Calculate sales from the following details:

Opening Stock	₹ 4,000
Cost of Goods sold	₹ 30,000
Closing Stock	₹ 2,000
Direct Expenses	₹ 5,000
Gross Profit	₹ 1,500

(A) ₹ 28,000
(B) ₹ 31,500
(C) ₹ 32,000
(D) ₹ 33,000

(vi) Mr. P issued Cheques worth ₹ 15,000 in March, 2024, out of which ₹ 10,000 only were presented for payment by 31st March, 2024. While reconciling bank and cash book balance as on 31st March, 2024, how much would be added to balance as per Cash Book to arrive at balance as per Pass Book?
(A) ₹ 15,000
(B) ₹ 10,000
(C) ₹ 5,000
(D) ₹ 7,500

(vii) A second hand car purchased for ₹ 2,00,000 (excluding initial repair cost of ₹ 50,000) is sold for ₹ 1,00,000 after 2 years. If depreciation is charged at the rate 20% on WDV, profit or loss on sale of car is
(A) Profit ₹ 28,000
(B) Profit ₹ 60,000
(C) Loss ₹ 60,000
(D) Loss ₹ 28,000

(viii) X drew a bill of exchange on Y for ₹ 20,000 payable after 3 months. On the due date, Y could not make the payment and requested to renew a fresh bill for another 3 months at 12% interest. The amount of fresh bill would be
(A) ₹ 20,600
(B) ₹ 22,400
(C) ₹ 21,200
(D) ₹ 20,300

(ix) Choose the odd one:
(A) Premium method
(B) Revaluation method
(C) Without raising goodwill account
(D) Revaluation of unrecorded asset

(x) Operating lease is a____________.

(A) Revocable Contract

(B) Non-Revocable Contract

(C) Operating Contract

(D) None of the above

(xi) State which of the following statement is false:

(A) Salvage of stock means stock saved during accident.

(B) Unusual items and defective items are separate under insurance claim.

(C) Defective items means goods which cannot fetch the usual rate of gross profit.

(D) Average clause is applicable in case of under insurance.

(xii) A, B and C are three Partners sharing profits and losses in the ratio of 3 : 2 : 1. B retires from the firm .What is the gaining ratio of the remaining partner?

(A) 3 : 1

(B) 1 : 2

(C) 2 : 1

(D) 1 : 3

(xiii) 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 amount of stock reserve on closing stock will be

(A) ₹ 6,000

(B) ₹ 4,500

(C) ₹ 9,000

(D) None of the above

(xiv) Income statement of a Charitable Institution is known as

(A) Profit and Loss Account

(B) Receipts & Payments Account

(C) Income & Expenditure A/c

(D) Statements of Affairs

(xv) Contingent Liabilities would appear

(A) on the Liabilities Side.

(B) on the Assets Side.

(C) as a note to Balance Sheet.

(D) None of the above

SECTION-B

Answer any 5 out of 7 Questions.

Each question carries 14 marks. 14×5=70

2. (a) On 31st March, 2023 in the Trial Balance of Singhania Brothers, balance of the Machinery Account appears as ₹ 19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at ₹ 4,50,000 was disposed of on 30th November, 2022 in exchange of new machinery costing ₹ 3,50,000.

You are required to calculate:

(i) Total depreciation to be charged in the Profit and Loss Account

(ii) Profit or loss on exchange of machine

(iii) Book value of machinery in Balance Sheet as on 31.03.2023 7

(b) The Trial Balance of Rajesh Brothers on 31st March, 2023 did not agree. In order to close the books, the accountant placed the difference for ₹ 26,700 (Dr) to Suspense Account for necessary adjustment in the next period. On 25th April, 2023 the following errors, arising in 2022-23 were detected.

(i) ₹ 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.

(ii) Credit Sale of ₹ 6,550 was posted to the credit of the customer's account as ₹ 5,650.

(iii) Machine purchased on 1st October, 2022 for ₹ 50,000 in cash was posted to the Purchase Account in the ledger. Rate of Depreciation was applicable on machine 15% per annum.

(iv) Sales book was overcast by ₹ 10,000 in February 2023.

Give Journal entries to rectify the errors and prepare Suspense Account. 7

3. (a) Kush of Kanpur sent to Jatin of jaipur, a consignment of 400 electric sewing machine costing each ₹ 24,000 (invoice price ₹ 30,000). Kush paid freight and insurance of ₹ 96,000. Jatin spent ₹ 31,200 for clearance and the selling expenses were ₹ 1,500 per sewing machines as and when the sale was made by Jatin. In transit 10 sewing machines were stolen for which the insurance company paid ₹ 1,85,000 in full settlement to Kush. Jatin sold 210 sewing machines at ₹ 32,000 per sewing machine and 130 sewing machines at ₹ 35,000 per sewing machine. Jatin was entitled to a commission of 5% on total sales value plus one-forth of the amount by which the gross sale proceeds less total commission thereon exceeded the invoice price. The final amount due was settled.

You are required to show the Consignment Account, Jatin's Account and Loss in Transit account in the book of Kush. 7

(b) Mr. Rana purchases a car on Hire Purchase system on 01.01.2021. The Total cash price of the car is ₹ 4,50,000 payable ₹ 90,000 down and three instalments of ₹ 1,70,000, ₹ 1,50,000 and ₹ 1,08,460 payable at the end of 1st, 2nd and 3rd respectively. Interest is charged at 10% p.a.

You are required to calculate interest paid with each instalment. 7

4. Sohan is a small trader and does not maintain his books on double entry system. The details of his business are available as follows:

Particulars	01.04.2022 (₹)	31.03.2023 (₹)
Cash in Hand	--	1,000
Bank Balance	74,000 (Cr)	40,000 (Dr)
Sundry debtors	5,30,000	8,80,000
Sundry Creditors	1,50,000	1,95,000
Stock	1,70,000	1,90,000
Investments	1,20,000	1,35,000
Plant	2,00,000	2,00,000
Furniture	14,000	14,000

Sohan had withdrawn ₹ 3 lakh during the year, and he introduced fresh capital of ₹ 65,000 on 1st October, 2022. A provision to 5% on Sundry debtors is necessary. Write off depreciation on plant at the rate of 15% per annum and on furniture at the rate of 10% per annum. Interest on opening capital to be allowed at the rate of 10% per annum. The manager is entitled for a commission at the rate of 10% on the net profit after charging such commission.

You are required to ascertain Sohan's profit or loss for the year ended 31st March 2023. 14

5. X, Y and Z were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm's Balance Sheet on 31st March, 2023 was as follows:

Liabilities	Amount in (₹)	Assets		Amount in (₹)
Creditors	4,25,000	Cash in Hand		17,000
Bills Payable	1,35,000	Cash at Bank		2,48,000
General Reserve	5,10,000	Debtors	8,70,000	
Capital A/c		Less : Provision for Bad debt	30,000	8,40,000
X	9,70,000	Bills Receivable		1,65,000
Y	7,40,000	Stock in trade		3,15,000
Z	3,80,000	Investments (Market Value ₹ 4,10,000)		3,75,000
		Furniture		4,20,000
		Land & Building		7,80,000
	31,60,000			31,60,000

Y retired on 1st April, 2023 and it was agreed that he should be paid all his dues in full on that date. For this purpose, goodwill was to be calculated on the basis of 4 years' purchase of super profit method.

Other informations are given below:

(i) Average capital employed in the business ₹ 26,10,000.

(ii) Net trading profit of the firm for past 3 years ₹ 6,30,000; ₹ 5,40,000; ₹ 6,75,000.

(iii) Rate of interest expected from capital having regard to the risk involved —10%.

(iv) Fair Remuneration to the partners for their services — ₹ 1,20,000 per annum.

(v) Stock and furniture to be depreciated by 10%.

(vi) A provision of 5% on debtors to be created for doubtful debts and a provision for liability of ₹ 18,000 to be created against bill discounted.

(vii) The value of land and building is appreciated by ₹ 2,35,000 and investment is to be taken at its market value.

(viii) Due to revaluation, the value of assets and liability are not to be altered.

(ix) In order to meet Y's obligation, X and Z bring in additional capital of ₹ 3,50,000 and ₹ 7,20,000 respectively.

(x) The Profit or Loss sharing ratio of X and Y in new firm will be 5 : 3.

You are required to:-

(a) Calculate value of goodwill and show its treatment.

(b) Calculate profit or loss on revaluation of Assets and Liabilities and show its adjustment among the partners.

(c) Show the balances of Partners' Capital account after Y's retirement.

(d) Prepare firm's balance sheet after retirement of Y. 14

6. (a) The Ranu stores of Jaipur has a retail branch at Kota. The goods are invoiced to the branch at selling price which is obtained by adding 50% on cost price. All expenses are paid by head office. The particular are as follows:

Particulars	₹
Balance as on 1st April, 2022	
-Stock at Invoice price	1,20,000
-Debtors	43,200
Goods Sent to Branch (Invoice Price)	18,00,000
Goods returned by Branch (Invoice Price)	24,000
Cash Sales	72,000
Credit Sales	16,32,000
Goods returned by Debtors	12,000
Cash received from Debtors	15,60,000
Discount allowed to Debtors	12,000
Bad Debt	2,400
Branch Expenses paid by Head Office : Rent	19,200
: Salaries	1,01,000
: Misc Expenses	6,000
Balance as on 31st March, 2023	
-Stock at Invoice Price	1,99,200
-Debtors	88,800

You are required to prepare Branch Stock account, Branch Debtors Account. Goods sent to Branch Account, Branch Expenses Account, Branch Adjustment Account, Branch Stock Reserve Account and in the books of Head Office. 7

(b) From the following information ascertain consequential loss claim: 7

1. Financial year ends on 31st March, with sales of ₹ 25,00,000.
2. Date of fire 1st September following.
3. Period of interruption — 1st September to 1st February, next year.
4. Indemnity period — 6 months.
5. Net Profit ₹ 2,75,000 plus insured standing charges ₹ 3,00,000.
6. Uninsured Standing Charges ₹ 50,000.
7. Sum Insured ₹ 6,16,000.
8. Standard Turnover for corresponding months (1st September to 1st February in the year preceding the fire ₹ 7,50,000.
9. Turnover in period of interruption ₹ 2,25,000.
10. Annual Turnover (i.e 12 months preceding the fire) ₹ 28,00,000.
11. Incurred additional expenses amounting to ₹ 50,000 with a saving of insured standing charges ₹ 14,000.
12. Reduced turnover avoided through additional expenses ₹ 1,50,000.
13. Special Circumstances clause stipulated:
    (i) Increase in turnover (standard and annual) 10%
    (ii) Increase in rate of gross profit 2%

7. (a) Rukamani Ltd. had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of ₹ 60 crores during the accounting year ended on 31st March, 2023. The draft results for the year prepared on the hitherto followed accounting policies and presented for perusal of the board of directors, showed a deficit of ₹ 15 crores. The board in consultation with the Managing Director decided on the following :

(i) Value year-end inventory at works cost (₹ 75 crores) instead of the hitherto followed method of valuation of inventory at prime cost (₹ 45 crores).

(ii) Not to provide for "after sale expenses" during the warranty period. Till the last year, provision at 2% of sale used to be made under the concept of "matching of cost against revenue" and actual expenses used to be charged against the provision. The Board now decided to account for the expenses as and when actually incurred. Sales during the year ₹ 900 crores.

(iii) Provide for permanent fall in the value of investments, on which fall had taken place over the past 5 years, the provision being ₹ 15 crores.

As Chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2022-2023. 7

(b) What is the objective of Accounting Standard 10? As per AS 10 which are included in bearer plant and which are not? 7

8. (a) State the provisions of Accounting Standard 12, relating to presentation of Government Grants in Financial Statements. 5

(b) On 31st December, 2022, Sundry Debtors and provision for doubtful debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2023, ₹ 3,000 are bad and written off on 30-09-2023. An amount of ₹ 400 was received on account of a Debt which was written off as bad debt last year on 31-12-2023. The debtors left was verified and it was found that Sundry Debtors on 31st December 2023 stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as Bad.

Prepare Bad Debt A/c., Provision for Doubtful Debt A/c, assuming that the same % should be maintained for provision for doubtful debts as it was on 31-12-2022.

Show also Profit & Loss Account (abstract) for the year ended 31-12-2023 and Balance Sheet (abstract) as on that date. 5

(c) What do you mean by piecemeal distribution? Explain it. 4

INTERMEDIATE EXAMINATION

December 2024

P–6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
Wherever necessary, candidates may make appropriate assumption(s) and state the same clearly in the answer.
Workings should form part of your answer.

Section–A

1. Choose the correct alternative: 2×15=30

(i) A Company is a going concern if

(A) its Balance Sheet shows a strong Financial Position.

(B) its Income Statement for the current year shows huge Profit.

(C) there is no evidence that it will or will have to cease operations within foreseeable future.

(D) its a Public Limited company.

(ii) Which of the following errors/omissions are not part of the Bank reconciliation process?

(A) Wrong totalling of Bank column of cash book.

(B) Wrong totalling of cash column of cash book.

(C) Posting wrong amount in Bank column of cash book.

(D) Omission to carry forward balance in the Bank column of the cash book.

(iii) Which of the following is true about financial statements?

(a) Financial Statements give a summary of Accounts.

(b) Financial Statements can be stated as recorded facts.

Select the correct answer.

(A) Statement (a) is correct

(B) Statement (b) is correct

(C) Both (a) and (b) are correct

(D) None of the above.

(iv) X draws a bill on Y for ₹ 1,80,000 for mutual accommodation in the ratio of 2 : 1. X got it discounted for ₹ 1,69,200 and remitted 1/3rd of the proceeds to Y. How much money should be remitted by X to Y at the time of maturity so as to enable Y to honour the bill?

(A) ₹ 1,20,000

(B) ₹ 1,15,200

(C) ₹ 1,16,800

(D) ₹ 1,20,400

(v) A firm had a capital balance of ₹ 1,00,000 at the beginning of a year. At the end of the year the firm has total assets of ₹ 1,50,000 and total liabilities of ₹ 70,000. If the total withdrawals during the period is ₹ 30,000, what was the amount of net profit/ net loss for the year?
(A) ₹ 10,000 Profit
(B) ₹ 20,000 Loss
(C) ₹ 50,000 Loss
(D) ₹ 10,000 Loss

(vi) Depreciation charged to Income Statement ₹ 8,00,000, Depreciation u/s 32 of the Income Tax Act ₹ 20,00,000; unamortised Preliminary Expenditure as per Income Tax records ₹ 1,50,000; Corporate Tax rate is 40%. In this situation, the amount of deferred tax asset / liabilities to be created ________.
It is assumed that there is adequate evidence of future profits sufficiency.
(A) Deferred Tax Assets ₹ 4,20,000
(B) Deferred Tax Liabilities ₹ 4,20,000
(C) Deferred Tax Liabilities ₹ 4,80,000
(D) Deferred Tax Assets ₹ 4,80,000

(vii) Provision for doubtful debt on 1st April 2023 was ₹ 14,000. During the year 2023-24, the Bad Debts was ₹ 9,500. The Sundry Debtors on 31st March 2024 were ₹ 3,25,000. Provision is to be made @ 5% on debtors. If on 31st March 2024, there was additional bad debts of ₹ 2,500, then provision for doubtful debts will be
(A) Debited to Profit and Loss Account by ₹ 16,125
(B) Debited to Profit and Loss Account by ₹ 14,125
(C) Debited to Profit and Loss Account by ₹ 18,125
(D) Debited to Profit and Loss Account by ₹ 2,000

(viii) Cost of Machinery is ₹ 60,000. Useful life of the asset is 5 years. Annual Depreciation on Machine under Straight Line Method is ₹ 10,000. The scrap value of the Machine will be
(A) ₹ 60,000
(B) ₹ 10,000
(C) ₹ 50,000
(D) ₹ 70,000

(ix) A company deals in 3 products X, Y and Z which are neither similar nor interchangeable. At the time of closing of its Accounts for the year 2023-24, historical cost and net realisable values of the items of closing stock are determined as below:

Items	Historical value (₹)	Net Realisable value (₹)
X	20	14
Y	16	16
Z	8	12

What will be the value of closing stock?

(A) ₹ 44

(B) ₹ 42

(C) ₹ 38

(D) None of the above

(x) In case of a club, the excess of expenditure over Income is called as __________.

(A) Surplus

(B) Deficit

(C) Capital Fund

(D) Investment in Fixed Assets

(xi) Which of these statements is not true?

(A) Accumulated Profit and Loss, General Reserve are transferred to old partners capital accounts.

(B) If assets and liabilities are to be shown in the Balance Sheet at old value, Memorandum Revaluation account is to be opened.

(C) Profit on Revaluation is transferred to the capital account of old partners in equal ratio.

(D) A Revaluation Account is a Nominal Account.

(xii) P sends 1,000 bags to Q costing ₹ 400 each at an invoice price of ₹ 500 each. The costs incurred were: P's expenses ₹ 4,000; Q's expenses ₹ 1,000 (non selling) and ₹ 2,000 (selling); 800 bags were sold by Q. What is the value of Consignment Stock at invoice price ?

(A) ₹ 1,01,000

(B) ₹ 1,01,800

(C) ₹ 1,01,400

(D) ₹ 1,02,000

(xiii) X and Y entered into a joint venture to undertake the public issue of ABC Ltd. The company invited applications for allotment of 2,00,000 shares at ₹ 10 per share. The issue was subscribed to the extent of 90% and the remaining were taken by Y. They agreed to share profit and loss in the ratio of 2 : 3. The shares undertaken by X and Y were subsequently sold at a premium of ₹ 40 per share. How many shares were undertaken by X and Y?

(A) 20,000

(B) 25,000

(C) 18,000

(D) 30,000

(xiv) Match the following:

	List 1		List 2
(I)	IND AS16	(a)	Qualifying assets will never include biological assets.
(II)	AS 10	(b)	Government grants as capital contribution are specifically recognized.
(III)	AS 12	(c)	No recognition criteria for fixed assets are laid out.
(IV)	IND AS 23	(d)	PPE acquired in exchange of non monetary assets is recognized at fair value.

	(I)	(II)	(III)	(IV)
(A)	(c)	(b)	(a)	(d)
(B)	(d)	(b)	(c)	(a)
(C)	(d)	(c)	(b)	(a)
(D)	(d)	(c)	(a)	(b)

(xv) State which of the following statements is correct.

(A) Stock Debtors System of maintaining Branch Account is used for independent branch.

(B) The buyer gets immediate possession but not ownership of the asset under Installment Payment.

(C) Unusual items and defective items are separate under insurance claims.

(D) Operation lease is a Revocable contract.

Section-B

Answer *any five* out of *seven* Questions. 14×5=70

2. (a) On comparing the Cash Book of Shivam with the Bank Pass Book for the year ended 31st March, 2024, following discrepancies were noticed:

(i) Cheques of ₹ 85,000 deposited into the bank on 25th March, cheques amounting to ₹ 25,000 were collected on 5th April.

(ii) Cheques amounting to ₹ 38,000 drawn on 28th March, of which a cheque for ₹ 8,000 was presented on 3rd April.

(iii) A cheque for ₹ 4,000 entered in Cash Book but omitted to be banked on 31st March.

(iv) A bill receivable for ₹ 18,000 previously discounted (discount ₹ 90) with the bank had been dishonoured but advice was received on 3rd April.

(v) A cheque of ₹ 20,000 wrongly credited in the Pass Book on 29th March was reversed on 2nd April.

(vi) Bank had wrongly debited ₹ 15,000 in the account on 31st March and reversed it on 10th April, 2024.

Prepare a Bank Reconciliation Statement as on 31st March, 2024, if the Balance as per Cash Book on 31st March, 2024 was ₹ 1,82,500. 7

(b) State with reasons whether the following are Capital Expenditure or Revenue Expenditure: 7

(i) Expenses incurred in connection with obtaining a license for starting the factory were ₹ 10,000.

(ii) ₹ 1,000 paid for removal of stock to a new site.

(iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get full efficiency.

(iv) ₹ 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) ₹ 10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.

(vi) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials.

(vii) A pair of bullocks of ₹ 50,000 was killed by lightning.

3. (a) Indra drew upon Chandra a bill for ₹ 90,000 on April 1, 2024 for 3 months, for mutual accommodation. Chandra accepted the same immediately on receipt. On April 4, Indra got it discounted at 6% p.a. and remitted 1/3rd of the proceeds to Chandra. At maturity, Indra was not able to send the required sums and asked Chandra to receive a 2 months Promissory Note for ₹ 60,900 which Chandra did. Chandra got the Note discounted for ₹ 60,000 and met his acceptance. Indra became insolvent just before his Promissory Note was due for payment. Only 25% was received from his estate. You are required to pass journal entries in the books of Indra. 7

(b) On 1st April,2021, Aarvi Limited purchased a machine on hire purchase system, whose cash price was ₹ 12,00,000. The hire purchase price of the machine was ₹ 15,00,000. ₹ 3,00,000 was payable immediately and the balance was to be paid in three equal annual installments. The books are closed on 31st March each year. The company charge depreciation @ 15% per annum on the reducing balance basis.

Calculate interest included in each installment and prepare Machinery Account for three years in the books of Aarvi Limited. 7

4. Rahul does not maintain a proper books of account. However, he maintains a record of his bank transactions and is also to give the following information from which you are requested to prepare his final accounts for the year 2023-24.

Particulars	31.03.2023	31.03.2024
Debtors	₹ 1,02,500	?
Creditors	?	₹ 46,000
Stock	₹ 50,000	₹ 62,500
Bank Balance	?	₹ 50,000
Fixed Assets	₹ 7,500	₹ 9,000

Details of Bank transactions are as follows:

Particulars	Amount in ₹
Received from Debtors	3,40,000
Additional capital introduced	5,000
Sale of Fixed Assets (book value ₹ 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal Drawings	25,000
Purchase of Fixed Assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60 000. 14

5. Raylink Ltd. agreed to purchase the business of a firm consisting of two brothers, A. Ray and S. Ray as on March 31, 2024. The Balance Sheet of the firm on that date was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Leasehold Premises	1,17,500
A. Ray	1,90,000	Plant & Machinery	70,000
S. Ray	1,45,000	Furniture & Fixtures	17,500
General Reserve	75,000	Stock-in-Trade	1,55,000
Creditors	1,00,000	Debtors	1,37,500
		Cash	12,500
	5,10,000		5,10,000

The company agreed to takeover the liabilities and all the assets, with the exception of cash, the agreed purchase price being ₹ 4,50,000 to be satisfied as to 1/4th in cash and 3/4th by issue of fully paid equity shares of ₹ 10 each at an agreed value of ₹ 12.50 per share.

The company made the following revaluations of the assets taken over when bringing them to books:

Leasehold Premises	₹ 1,55,000	Stock-in-Trade	₹ 1,45,000
Plant & Machinery	₹ 62,500	Debtors	₹ 1,25,000
Furniture & Fixtures	₹ 12,500		

You are required to:

(a) Pass the necessary journal entries to record the acquisition of the business in the books of the company; and

(b) Prepare the post-acquisition Balance Sheet of Raylink Ltd. 6+8

6. (a) Adhiraj Ltd., Noida, started a branch in Surat on April 1, 2023 to which goods were sent at 20% above cost. The branch makes both credit and cash sales. It is the policy to meet branch expenses from branch cash, and remit the balance money to Head Office (H.O.). The branch does not maintain double entry books of accounts, and necessary accounts relating to the branch are maintained by the H.O.

Particulars	₹	Particulars	₹
Cost of goods sent to Noida Branch	50,000	Cash remitted to H.O.	43,000
Goods received by branch till March 31 (at IP)	54,000	Cash in hand at branch at the end of the year	2,000
Credit sales for the year	58,000	Cash remitted by H.O. to branch during the year	3,000
Closing Debtors	20,800	Closing stock at branch at IP	6,000
Bad debts	200	Expenses incurred at branch	12,000

Show the Surat Branch Account in the books of the Noida H.O. to determine the profit and loss of the branch for the year ended March 31, 2024. 7

(b) On 10th December,2024 a fire occurred in the premises of Chandu. All stock except to the extent of ₹ 28,800 were destroyed. Chandu values the stock at cost less 10 per cent. Stock was insured for ₹ 1,00,000. From the following information, ascertain the amount of claim to be lodged by Chandu:

Particulars	₹
Stock on 1st April,2023	1,44,000
Purchases less returns during 2023-24	5,60,000
Sales less returns during 2023-24	8,00,000
Stock on 31st March,2024	90,000
Purchases less returns from 1st April,2024 to date of fire	5,84,000
Sales less returns from 1st April,2024 to date of fire	6,40,000

7

7. (a) (i) In the context of AS 11, what do you mean by 'Integral Foreign Operation'?

State how the following items of integral foreign operation should be translated:

(I) Salaries & Wages;

(II) Depreciation on Furniture; and

(III) Machineries carried at fair value. 1+3

7. (a) (ii) While clarifying the scope of AS-22 (Accounting for Taxes on Income), explain the meaning of the following terms related to it.

(I) Accounting income (loss)

(II) Taxable income (tax loss)

(III) Tax expense (tax saving) 3

7. (b) (i) As per AS-12, explain the treatment of the following:

(I) A firm acquired a fixed asset for ₹ 850 lakhs on which the Government grant received was 40%.

(II) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant ₹ 900 lakhs, subsidy received ₹ 250 lakhs.

(III) ₹ 225 lakhs received from the local authority for providing medical facilities to the employees. 3

7. (b) (ii) List out comparative provisions between AS 11 and IND AS 21. 4

8. (a) Briefly explain merits of IND AS. 5

(b) Answer the following question:

(i) Profit is earned on sale of fixed asset . What should be the accounting treatment of this profit?

(ii) Why is the full cost of an asset not treated as an expense in the year of its purchase?

(iii) Do you think that the convention of conservatism results creation of secret reserves?

(iv) Goods worth ₹ 1,00,000 were burnt by fire and a claim of ₹ 70,000 has been accepted by the insurance company. How will it be recorded in the final account?

(v) State with the reasons whether the following statement is true or false.

The provision for the discount on Debtors is calculated after deducting the provision for doubtful debts from debtors. 5

(c) Give entries for the following transactions:

(i) Realisation expenses ₹ 8000 were paid by Rana a partner.

(ii) Realisation expenses ₹ 10,000 paid by the firm on behalf of the Dhana (a partner), he has to bear the realisation expenses.

(iii) Realisation expenses ₹ 20,000, out of which 60% to be borne by Mana (a partner) and remaining by the firm.

(iv) Realisation expenses ₹ 10,000 to be borne by Kana, a partner, but paid by Dhana, another partner. 4

INTERMEDIATE EXAMINATION

June 2025

P–6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.
Where necessary, candidate may make appropriate assumptions and clearly state them in the respective answer.
All working notes must form part of the answer.

Answer to Question No. 1 *in section A is compulsory, further answer* any five *from* Question No. 2 *to* Question No. 8 *in section B.*

Section-A

1. Choose the correct option from the four alternatives given: 2×15=30

(i) Which of the following statements is correct?

(A) Financial accounts of an enterprise are treated as evidence in the court of law.

(B) Financial statements prepared by two different accountants will always show identical results.

(C) Financial statements need not take into consideration any statutory requirements.

(D) Only credit transactions are recorded in the books of accounts.

(ii) When the closing stock is shown in the trial balance, then at the end of the accounting year, closing entry for it will be required:

(A) Closing Stock A/c Dr. To Trading A/c

(B) Trading A/c Dr. To Closing Stock A/c

(C) Either (A) or (B)

(D) Entry not required

(iii) State which of the following transactions can be classified as foreign currency transactions:

(A) Buying or selling the goods or services priced in foreign currency.

(B) Lending or borrowing when the amount are denominated in a foreign currency.

(C) Acquisition or disposition of fixed assets denominated in foreign currency.

(D) All of the above

(iv) Which of the following is not an accounting convention?

(A) Business entity

(B) Disclosure

(C) Conservatism

(D) Materiality

(v) The following information is given in the trial balance of Rupa Dresses as on 31st March, 2025:

- Bad Debts – ₹ 12,200
- Provision for Bad and Doubtful Debts on 1.4.2024 – ₹ 7,500
- Debtors – ₹ 2,00,000

If further bad debt is ₹ 1,800 and Rupa Dresses makes a provision for bad and doubtful debts @ 5% on Debtors, the amount of such provision to be shown in Balance Sheet as at 31st March, 2025 will be

(A) ₹ 9,910

(B) ₹ 4,210

(C) ₹ 12,000

(D) None of the above

(vi) If capital at the end of the year is ₹ 80,000, capital introduced during the year is ₹ 60,000, drawings for the year are ₹ 40,000, and loss for the year is ₹1,20,000, then the capital at the beginning of the year was

(A) ₹1,80,000

(B) ₹ 1,60,000

(C) ₹ 1,40,000

(D) ₹ 20,000

(vii) State which of the following statements is true.

(A) A joint venture has a definite life.

(B) Financial statements are not comparable.

(C) Sales book is a part of ledger.

(D) Owners Equity = Assets + Liabilities

(viii) On January 1, 2025, goods costing ₹ 1,32,000 were consigned by Mr. Rana of Chennai to his agent Mr. Dhana in Amritsar at a proforma invoice price of 20% above cost. Mr. Rana paid freight charges ₹ 4,000. The consignee was paid ₹ 2,000 per annum towards establishment cost. Mr. Dhana paid ₹ 1,000 as godown rent for 3 months ended 31st March 2025. ¾th of goods were sold at $33\frac{1}{3}\%$ profit on cost.

The value of unsold stock (invoice price) as on 31st March, 2025 is

(A) ₹ 66,000

(B) ₹ 162,400

(C) ₹ 1,54,400

(D) ₹ 40,600

(ix) Rekha draws a BOE on Reba ₹ 20,000 payable in 3 months. On the due date Reba could not make the payment and Reba got it notified from the notary public on payment of noting charges ₹ 100. Reba requested Rekha to draw a fresh bill for another three months at 12% interest. The amount of fresh bill be

(A) ₹ 20,700

(B) ₹ 20,703

(C) ₹ 20,600

(D) ₹ 21,000

(x) State which of the following statements is not true relating to AS 10:

(A) Excludes the accounting for real estate developers.

(B) No recognition criteria for fixed assets are laid out.

(C) Recognises the revaluation of fixed assets.

(D) Does not deal with jointly owned assets.

(xi) B & C entered into a joint venture for export of Indian handicraft goods to overseas customers. B sent goods worth ₹ 2,00,000 to C for export to the U.S.A. C exported goods worth ₹ 1,75,000 to U.S.A. for ₹ 2,10,000 and agreed to take away the remaining stock at the same gross profit rate as in the other exports.

The goods will be valued at

(A) ₹ 25,000

(B) ₹ 30,000

(C) ₹ 22,500

(D) ₹ 27,500

(xii) State which of the following statements is true.

(A) The buyer gets immediate possession but not ownership under installment payment system on signing of contract.

(B) A marine insurance policy is taken to cover the claim for loss.

(C) For independent branch, incorporation of branch trial balance is required.

(D) Short-term lease which is often cancellable is known as Leverage lease.

(xiii) Assertion (A) and Reason (R):

Assertion (A): Goodwill is an intangible asset but not a fictitious asset.

Reason (R): Goodwill does not have any physical existence. Fictitious assets are not realisable whereas goodwill can be purchased or sold.

Choose the correct option:

(A) Both Assertion and Reason are not correct.

(B) Reason is correct but Assertion is not correct.

(C) Assertion and Reason both are correct but Reason is not the correct explanation of Assertion.

(D) Assertion and Reason both are correct and Reason is the correct explanation of Assertion.

(xiv) D, E, F are partners in a firm sharing profits in the ratio of 1:1:1. They decided to share profits in the ratio 2:3:5. The goodwill of the firm was valued at ₹ 1,80,000.

F's Capital Account will be

(A) credited by ₹ 24,000.

(B) credited by ₹ 6,000.

(C) credited by ₹ 60,000.

(D) debited by ₹ 30,000.

(xv) Mr. Ranabir is admitted into partnership for ¼ share of profit. The total capital of the old partners stood at ₹ 45,000 after adjustments of goodwill, revaluation of fixed assets and liabilities and transfer of reserves.

1. What amount should be brought in by the new partner as his share of capital at the time of admission?

2. If Mr. Ranabir brings ₹ 20,000 as capital for ¼ share of profits and the partners decide to adjust their capital in accordance with their profit-sharing ratio, what should be the total capital of the firm?

(A) ₹ 15,000 , ₹80,000

(B) ₹ 11,250, ₹ 65,000

(C) ₹ 12,250 , ₹ 56,000

(D) ₹ 10,000 , ₹ 60,000

SECTION-B

Answer any 5 out of 7 Questions.
Each question carries 14 marks. 14×5=70

2. (a) (i) As per AS-10, the amount of depreciation charged to the Statement of Profit and Loss depends on certain factors. List out those factors with brief explanation.

(ii) ABC Ltd. purchased a motor vehicle costing ₹ 70 lakh on 1st April, 2024. The major components of the motor vehicle consist of Main Body costing ₹ 20 lakh, Seating Arrangement and Furnishing costing ₹ 30 lakh, and Engine costing ₹ 20 lakh. The expected useful life of these components is: Main Body– 5 years, Seating Unit – 6 years and Engine – 10 years. Compute the depreciation for the year ending 31st March, 2025. 7

(b) (i) State briefly the difference between Purchase Day Book and Purchase Account.

(ii) Rectify the following errors:

1. Credit sales to Barun ₹ 7,000 were recorded as ₹ 7,200.
2. Credit purchase from Raman ₹ 9,000 was recorded as ₹ 9,900.
3. Goods returned to Chaya ₹ 4,000 were recorded as ₹ 4,040.
4. Goods returned from Paresh ₹ 1,000 were recorded as ₹ 1,400. 7

3. (a) On 30th March, 2025, fire occurred in the premises of M/S Rajesh & Co. The concern had taken an insurance policy of ₹ 1,20,000 subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March, 2025:

(i) Stock as per Balance Sheet at 31st December, 2024: ₹ 1,91,200

(ii) Purchases (including purchase of machinery costing ₹ 60,000): ₹ 3,40,000

(iii) Wages (including ₹ 6,000 for installation of machinery): ₹ 1,00,000

(iv) Sales (including goods sold on approval basis amounting to ₹ 99,000): ₹ 5,50,000 (No approval has been received in respect of 2/3rd of the goods sold on approval.)

(v) Average rate of gross profit is 20% of sales

(vi) Value of salvaged goods: ₹ 24,600

You are required to compute the amount of the claim to be lodged to the insurance company. 7

(b) Sumon Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}$%. From the following particulars, prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account in the books of the Head Office :

- Stock at commencement at Branch (Invoice Price): ₹ 3,60,000
- Stock at close at Branch (Invoice Price): ₹ 2,88,000
- Goods sent to Branch during the year (at invoice price, including goods invoiced at ₹ 48,000 but not yet received by Branch before closing of the year): ₹ 24,00,000
- Return of goods to Head Office (Invoice Price): ₹ 1,20,000
- Credit Sales at Branch: ₹ 1,20,000
- Invoice value of goods pilfered: ₹ 24,000
- Normal loss at Branch (at Invoice Price): ₹ 36,000
- Cash Sales at Branch: ₹ 21,60,000

Sumon Ltd. closes its book on 31.03.2025. 7

4. The following information relates to the business of ABC Enterprises. Prepare a Trading and Profit & Loss Account for the year ended 31st March, 2025 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on

	1.04.24	31.03.25
Furniture	₹ 60,000	₹ 63,500
Stock	₹ 80,000	₹ 70,000
Sundry Debtors	₹ 160,000	?
Sundry Creditors	₹ 110,000	₹ 150,000
Prepaid Expenses	₹ 6,000	₹ 7,000
Outstanding Expenses	₹ 20,000	₹ 18,000
Cash in hand and Bank Balance	₹ 12,000	₹ 26,250

(b) Cash transactions during the year:

(i) Collection from Debtors after allowing discount of ₹15,000 amounted to ₹5,85,000.

(ii) Collection on discounting Bills of Exchange, after deduction of discount ₹ 1,250 by bank totalled ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement.

(iv) Freight Inward paid: ₹ 30,000.

(v) Drawings: ₹ 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 2024 and payment made thereof.

(viii) Expenses including salaries paid: ₹95,000.

(ix) Miscellaneous Receipts: ₹5,000.

(c) Additional Information:

- Bills drawn ₹ 1,00,000, of these ₹ 20,000 endorsed to creditors and an endorsed bill of exchange of ₹ 4,000 was dishonoured.
- Goods worth ₹9,000 used as advertising material.
- Gross Profit is always 20% on Sales.
- Cash Book difference treated as Drawing/Capital introduced.
- Provide 2% for Doubtful Debts on closing Debtors. 14

5. A and B are partners in a firm sharing profits and losses in the ratio of 3:2. Their financial position as at 31st March, 2025 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in Hand	30,000
A's Capital	24,000	Sundry Debtors (₹ 46,000 – Prov. ₹2,000)	44,000
B's Capital	60,000	Stock-in-Trade	21,500
		Fixtures and Fittings	500
		Profit and loss	8,000
Total	1,04,000	Total	1,04,000

On 1st April, 2025, C is admitted under the following terms:

(a) New profit-sharing ratio A:B:C = 5:3:2.

(b) Goodwill is valued at ₹ 16,000; C brings in cash for goodwill (half retained in business).

(c) ₹ 4,000 bad debts are to be written off; Provision for Bad Debts to be raised to 10%.

(d) Stock-in-trade is revalued at ₹ 28,000.

(e) Fixtures and fittings are to be reduced to ₹ 300.

(f) C is to bring cash to make his capital equal to 1/5th of combined adjusted capitals of A and B.

Prepare: Revaluation Account, Partners' Capital Accounts, and New Balance Sheet of the firm as on 1st April, 2025. 14

6. (a) Ram of Patna consigns goods to Shyam of Delhi for sale at invoice price or above. Terms are:

- Commission to Shyam: 5% on Invoice Price + 25% on any surplus realized.
- Ram draws a bill on Shyam at 90 days sight for 80% of invoice price as security money.

- Shyam remits balance proceeds after sales, deducting commission by sight draft.

Details:

- Goods costing ₹ 20,900 (including freight) invoiced at ₹28,400.
- Sales made by Shyam: ₹ 26,760.
- Unsold goods (invoice price): ₹ 6,920 (original cost including freight ₹ 5,220).
- Sight draft received up to 31st December: ₹ 6,280 (others in transit). Prepare Consignment Account, Shyam Accounts in Ram's books. 7

(b) Y purchased a machine under the hire purchase system. As per the agreement, ₹ 40,000 was to be paid on signing the contract. The balance was to be paid in four instalments of ₹ 25,000 each plus interest. The cash price was ₹ 1,40,000. Interest is chargeable on outstanding balance at 20% per annum. Find interest for each year and the instalment amount. 7

7. (a) What is the basic difference between Accounting Standards (AS) and Indian Accounting Standards (Ind AS)? 7

(b) List out the comparative provisions between Ind AS 23 and AS 16. 7

8. (a) (i) Explain, in short, the relevant disclosure of Accounting Policies as per AS 1.

(ii) Kanan Ltd. has provided the following information:

Particulars	₹
Depreciation as per Accounting Records	2,50,000
Depreciation as per Tax Records	5,50,000
Unamortised Preliminary expenses as per Tax Records	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax Assets / Liability should be recognised as transition adjustment where the tax rate is 50%? 5

(b) (i) "Profit and Loss is a Point Statement, whereas a Balance Sheet is a Period Statement." Do you agree? Give reasons.

(ii) From the following particulars, compute how the subscription item will appear in the Income and Expenditure Account for the year 2024-25?

	₹
Subscription received during the year 2024-25	4,000
Subscription outstanding on 31-3-25	180
Subscription outstanding on 1-4-2024	400
Subscription received in advance on 31-3-24	100
Subscription received in advance on 31-3-2025	80

5

(c) A and B were partners sharing profits in the ratio of 5:3. On 1st April, 2023, the firm was dissolved. Assets (other than cash) and liabilities were transferred to Realisation Account.

Information:

(a) Creditor for ₹ 1,80,000 accepted Debtors of ₹ 1,50,000 at 4% discount; balance paid by cheque.

(b) Another creditor for ₹ 1,20,000 took over Stock (Book Value ₹ 50,000) at ₹ 40,000 and Investments of ₹ 76,000.

(c) Another creditor for ₹ 3,00,000 accepted Land & Building at ₹ 5,00,000 and paid balance to the firm by cheque.

(d) Loss on dissolution was ₹ 24,000.

Pass necessary Journal Entries in the books of the Firm. 4