



केन्द्रीय विद्यालय संगठन
Kendriya Vidyalaya Sangathan

ACCOUNTANCY

कक्षा/Class: XI
2024-25

विद्यार्थी अध्ययन सामग्री
Student Support Material





संदेश

विद्यालयी शिक्षा में शैक्षिक उत्कृष्टता प्राप्त करना केन्द्रीय विद्यालय संगठन की सर्वोच्च वरीयता है। हमारे विद्यार्थी, शिक्षक एवं शैक्षिक नेतृत्व कर्ता निरंतर उन्नति हेतु प्रयासरत रहते हैं। राष्ट्रीय शिक्षा नीति 2020 के संदर्भ में योग्यता आधारित अधिगम एवं मूल्यांकन संबन्धित उद्देश्यों को प्राप्त करना तथा सीबीएसई के दिशा निर्देशों का पालन, वर्तमान में इस प्रयास को और भी चुनौतीपूर्ण बनाता है।

केन्द्रीय विद्यालय संगठन के पांचों **आंचलिक शिक्षा एवं प्रशिक्षण संस्थान** द्वारा संकलित यह 'विद्यार्थी सहायक सामग्री' इसी दिशा में एक आवश्यक कदम है। यह सहायक सामग्री कक्षा 9 से 12 के विद्यार्थियों के लिए सभी महत्वपूर्ण विषयों पर तैयार की गयी है। केन्द्रीय विद्यालय संगठन की 'विद्यार्थी सहायक सामग्री' अपनी गुणवत्ता एवं परीक्षा संबंधी सामग्री-संकलन की विशेषज्ञता के लिए जानी जाती है और अन्य शिक्षण संस्थान भी इसका उपयोग परीक्षा संबंधी पठन सामग्री की तरह करते रहे हैं। शुभ-आशा एवं विश्वास है कि यह सहायक सामग्री विद्यार्थियों की सहयोगी बनकर सतत मार्गदर्शन करते हुए उन्हें सफलता के लक्ष्य तक पहुंचाएगी।

शुभाकांक्षा सहित।

निधि पांडे
आयुक्त, केन्द्रीय विद्यालय संगठन

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LINK FOR NCERT E-TEXT BOOKS:

<https://ncert.nic.in/textbook.php>

CBSE CURRICULAM ALONG-WITH LEARNING OUTCOMES (Los) 2024-25
Accountancy (Code No.055)

Course Structure

Class-XI (2024-25)

Theory: 80 Marks 3 Hours
Project: 20 Marks

Units		Periods	Marks
Part A: Financial Accounting-1			
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PART A: FINANCIAL ACCOUNTING – I

Unit-1: Theoretical Frame Work

Units / Topics	Learning Outcomes (Los)
Introduction to Accounting - Accounting- concept, meaning, as a source of information, objectives, advantages and limitations, types of accounting information; users of accounting information and their needs. Qualitative Characteristics of Accounting Information. Role of Accounting in Business. - Basic Accounting Terms- Entity, Business Transaction, Capital, Drawings. Liabilities (Non-Current and Current). Assets (Non-Current, Current); Expenditure (Capital and Revenue), Expense, Revenue, Income,	After going through this Unit, the students will be able to: - describe the meaning, significance, objectives, advantages and limitations of accounting in the modern economic environment with varied types of business and non-business economic entities. - identify / recognise the individual(s) and entities that use accounting information for serving their needs of decision making. - explain the various terms used in accounting and differentiate between different related terms like current and

Profit, Gain, Loss, Purchase, Sales,
Goods, Stock, Debtor, Creditor,
Voucher, Discount (Trade discount and
Cash Discount)

Theory Base of Accounting

- Fundamental accounting assumptions: GAAP: Concept

Basic Accounting Concept: Business Entity, Money Measurement, Going Concern, Accounting Period, Cost Concept, Dual Aspect, Revenue Recognition, Matching, Full Disclosure, Consistency, Conservatism,

- Materiality and Objectivity
- System of Accounting. Basis of Accounting: cash basis and accrual basis
- Accounting Standards: Applicability of Accounting Standards (AS) and Indian Accounting Standards (IndAS) Goods and Services Tax (GST): Characteristics and advantages.

non-current, capital and revenue.

- give examples of terms like business transaction, liabilities, assets, expenditure and purchases.

Explain that sales/purchases include both cash and credit sales/purchases relating to the accounting year.

- differentiate among income, profits and gains.
- state the meaning of fundamental accounting assumptions and their relevance in accounting.
- describe the meaning of accounting assumptions and the situation in which an assumption is applied during the accounting process.
- explain the meaning, applicability, objectives, advantages and limitations of accounting standards.
- appreciate that various accounting standards developed nationally and globally are in practice for bringing parity in the accounting treatment of different items.
- acknowledge the fact that recording of accounting transactions follows double entry system.
- explain the bases of recording accounting transaction and to appreciate that accrual basis is a better basis for depicting the correct financial position of an enterprise.
- Explain the meaning, advantages and characteristic of GST.

Unit-2: Accounting Process

Units / Topics	Learning Outcomes (Los)
Recording of Business Transactions - Voucher and Transactions: Source documents and Vouchers, Preparation of Vouchers, Accounting Equation Approach: Meaning and Analysis, Rules of Debit and Credit. - Recording of Transactions: Books of Original Entry- Journal - Special Purpose books: - Cash Book: Simple, cash book with bank column and petty cashbook - Purchases book - Sales book - Purchases return book - Sales return book - Journal proper Note: Including trade discount, freight and cartage expenses for simple GST calculation. - Ledger: Format, posting from journal and subsidiary books, Balancing of accounts Bank Reconciliation Statement: - Need and preparation, Bank Reconciliation Statement Depreciation, Provisions and Reserves - Depreciation: Meaning, Features, Need, Causes, factors - Other similar terms: Depletion and Amortisation - Methods of Depreciation: - Straight Line Method (SLM) - Written Down Value Method (WDV) Note: Excluding change of method	After going through this Unit, the students will be able to: - explain the concept of accounting equation and appreciate that every transaction affects either both the sides of the equation or a positive effect on one item and a negative effect on another item on the same side of accounting equation. - explain the effect of a transaction (increase or decrease) on the assets, liabilities, capital, revenue and expenses. - appreciate that on the basis of source documents, accounting vouchers are prepared for recording transaction in the books of accounts. - develop the understanding of recording of transactions in journal and the skill of calculating GST. - explain the purpose of maintaining a Cash Book and develop the skill of preparing the format of different types of cash books and the method of recording cash transactions in Cash book. - describe the method of recording transactions other than cash transactions as per their nature in different subsidiary books. - appreciate that at times bank balance as indicated by cash book is different from the bank balance as shown by the pass book / bank statement and to reconcile both the balances, bank reconciliation statement is prepared. - develop understanding of preparing bank reconciliation statement. - appreciate that for ascertaining the position of individual accounts, transactions are posted from

• Difference between SLM and WDV; Advantages of SLM and WDV • Method of recoding depreciation i. Charging to asset account ii. Creating provision for depreciation/accumulated depreciation account • Treatment of disposal of asset • Provisions, Reserves, Difference Between Provisions and Reserves. • Types of Reserves: i. Revenue reserve ii. Capital reserve iii. General reserve iv. Specific reserve v. Secret Reserve Difference between capital and revenue reserve Trial balance and Rectification of Errors • Trial balance: objectives, meaning and preparation (Scope: Trial balance with balance method only) • Errors: classification-errors of omission, commission, principles, and compensating; their effect on Trial Balance. • Detection and rectification of errors; (i) Errors which do not affect trial balance (ii) Errors which affect trial balance preparation of suspense account.	subsidiary books and journal proper into the concerned accounts in the ledger and develop the skill of ledger posting. • explain the necessity of providing depreciation and develop the skill of using different methods for computing depreciation. • understand the accounting treatment of providing depreciation directly to the concerned asset account or by creating provision for depreciation account. • appreciate the method of asset disposal through the concerned asset account or by preparing asset disposal account. appreciate the need for creating reserves and also making provisions for events which may belong to the current year but may happen in next year. • appreciate the difference between reserve and reserve fund. • state the need and objectives of preparing trial balance and develop the skill of preparing trial balance. • appreciate that errors may be committed during the process of accounting. • understand the meaning of different types of errors and their effect on trial balance. • develop the skill of identification and location of errors and their rectification and preparation of suspense account.
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Part B: Financial Accounting - II

Unit 3: Financial Statements of Sole Proprietorship

Units /Topics	Learning Outcomes (Los)
Financial Statements Meaning, objectives and importance; Revenue and Capital Receipts; Revenue and Capital Expenditure; Deferred Revenue expenditure. Opening journal entry. Trading and Profit and Loss Account: Gross Profit, Operating profit and Net profit. Preparation. Balance Sheet: need, grouping and marshalling of assets and liabilities. Preparation. Adjustments in preparation of financial statements with respect to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance, depreciation, bad debts, provision for doubtful debts, provision for discount on debtors, Abnormal loss, goods taken for personal use/staff welfare, interest on capital and manager's commission. Preparation of Trading and Profit and Loss account and Balance Sheet of a sole proprietorship with adjustments. Incomplete Records Features, reasons and limitations. Ascertainment of Profit/Loss by Statement of Affairs method. (Excluding conversion method)	After going through this Unit, the students will be able to: - state the meaning of financial statements the purpose of preparing financial statements. - state the meaning of gross profit, operating profit and net profit and develop the skill of preparing trading and profit and loss account. - explain the need for preparing balance sheet. - understand the technique of grouping and marshalling of assets and liabilities. - appreciate that there may be certain items other than those shown in trial balance which may need adjustments while preparing financial statements. - develop the understanding and skill to do adjustments for items and their presentation in financial statements like depreciation, closing stock, provisions, abnormal loss etc. - develop the skill of preparation of trading and profit and loss account and balance sheet.

Part C: Project Work (Any One)

1. Collection of source documents, preparation of vouchers, recording of transactions with the help of vouchers.
 2. Preparation of Bank Reconciliation Statement with the given cash book and the pass book with twenty to twenty-five transactions.
 3. Comprehensive project of any sole proprietorship business. This may state with journal entries and their ledgering, preparation of Trial balance. Trading and Profit and Loss Account and Balance Sheet.
- ZIET, MYSORE

Expenses, incomes and profit (loss), assets and liabilities are to be depicted using pie chart / bar diagram. This may include simple GST related transactions.

PROJECT WORK

It is suggested to undertake this project after completing the unit on preparation of financial statements. The student(s) will be allowed to select any business of their choice or develop the transaction of imaginary business. The project is to run through the chapters and make the project an interesting process. The amounts should emerge as more realistic and closer to reality.

Specific Guidelines for Teachers

Give a list of options to the students to select a business form. You can add to the given list:

- | | | |
|-------------------------|-------------------------------|--------------------------|
| 1. A beauty parlour | 10. Men's wear | 19. A coffee shop |
| 2. Men's saloon | 11. Ladies wear | 20. A music shop |
| 3. A tailoring shop | 12. Kiddy's wear | 21. A juice shop |
| 4. A canteen | 13. A Saree shop | 22. A school canteen |
| 5. A cake shop | 14. Artificial jewellery shop | 23. An ice cream parlour |
| 6. A confectionery shop | 15. A small restaurant | 24. A sandwich shop |
| 7. A chocolate shop | 16. A sweet shop | 25. A flower shop |
| 8. A dry cleaner | 17. A grocery shop | |
| 9. A stationery shop | 18. A shoe shop | |

After selection, advise the student(s) to visit a shop in the locality (this will help them to settle on a realistic amount different item. The student(s) would be able to see the things as they need to invest in furniture, decor, lights, machines, computers etc.

A suggested list of different items is given below.

- | | |
|--|---|
| 1. Rent | 19. Wages and Salary |
| 2. Advance rent [approximately three months] | 20. Newspaper and magazines |
| 3. Electricity deposit | 21. Petty expenses |
| 4. Electricity bill | 22. Tea expenses |
| 5. Electricity fitting | 23. Packaging expenses |
| 6. Water bill | 24. Transport |
| 7. Water connection security deposit | 25. Delivery cycle or a vehicle purchased |
| 8. Water fittings | 26. Registration |
| 9. Telephone bill | 27. Insurance |
| 10. Telephone security deposit | 28. Auditor's fee |
| 11. Telephone instrument | 29. Repairs & Maintenance |
| 12. Furniture | 30. Depreciations |
| 13. Computers | 31. Air conditioners |
| 14. Internet connection | 32. Fans and lights |
| 15. Stationery | 33. Interior decorations |
| 16. Advertisements | 34. Refrigerators |
| 17. Glow sign | 35. Purchase and sales |
| 18. Rates and Taxes | |

At this stage, proformas of bulk of originality and ledger may be provided to the students and they may be asked to complete the same.

In the next step the students are expected to prepare the trial balance and the financial statements.

Suggested Question Paper Design
Accountancy (Code No. 055) Class
XI (2024-25)

Theory: 80 Marks

3 hrs.

Project: 20 Marks

S N	Typology of Questions	Marks	Percentage
1	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
3	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
4	Analyzing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	TOTAL	80	100%

SOME USEFUL LINKS:

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentType=TextBook

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentType=TextBook

CHAPTER 1: INTRODUCTION TO ACCOUNTING

Meaning of Accounting:

Accounting is the process of identifying, measuring, recording and communicating the required information relating to the economic events of an organization to the interested users of such information. Accounting plays important role in providing quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions.

Definition of Accounting

“Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.” –

American Accounting Association

(AAA)

“Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.” --

Accounting Principles Board of AICPA (U.S.A)

The American Institute of Certified Public Accountants (AICPA) had defined accounting as the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are, in part at least of, financial character and interpreting the results thereof.

Functions of Accounting: -

- 1) **Financial Transactions (Input):** - Represented as a series of icons or symbols for sales, purchases, expenses, etc.
- 2) **Identification:** The first step in accounting is to determine what to record, i.e., to identify the financial events which are to be recorded in the books of accounts. It involves observing all business activities and selecting those events or transactions which can be considered as financial transactions.
- 3) **Measurement:** - In Accounting we record only those transactions which can be measured in terms of terms of money or which are of financial nature. If a transactions or event cannot be measured in monetary terms money or which are of financial nature.
- 4) **Recording:** - A transaction will be recorded in the books of accounts only if it is considered as an economic event and can be measured in terms of money. Once the economic events are identified and measured in financial terms, these are recorded in books of account in monetary terms and in a chronological order. This is known as preparation of Journal.
- 5) **Classifying:** - Once the financial transactions are recorded in journal or subsidiary books, all the financial transactions are classified by grouping the transactions of one nature at one place in a separate account. This is known as preparation of Ledger.
- 6) **Summarizing:** - It is concerned with presentation of data and it begins with balance of ledger accounts and the preparation of trial balance with the help of such balances. Trial balance is required to prepare the financial statements i.e., Trading Account, Profit & Loss Account and Balance Sheet.
- 7) **Analyzing:** - Analyzing financial reports involves examining and interpreting financial data to assess a company's performance, financial health, and trends. Here's a breakdown of how this analysis is typically conducted: a) Review Financial Statements such as Income Statement, assess

revenue, expenses, and profit over a specific period, Balance Sheet for Examine assets, liabilities, and equity at a point in time and Cash Flow Statement to Evaluate cash inflows and outflows from operations, investing, and financing activities.

- 8) **Communication or Reporting (Output):** - The main purpose of accounting is to communicate the financial information the users example stakeholders, regulators, and tax authorities who analyze them as per their individual requirements and to take the financial decision making. Providing financial information to its users is a regular process.

Qualitative Characteristics of Accounting Information: -

- 1) **Reliability:** - Reliability means the users must be able to depend on the information. The reliability of accounting information is determined by the degree of correspondence between what the information conveys about the transactions or events that have occurred, measured and displayed
- 2) **Relevance:** - To be relevant, information must be available in time, must help in prediction and feedback, and must influence the decisions of users by :
 - helping them form prediction about the outcomes of past, present or future events; and/or
 - confirming or correcting their past evaluations.
- 3) **Understandability:** - Understandability means decision-makers must interpret accounting information in the same sense as it is prepared and conveyed to them. The qualities that distinguish between good and bad communication in a message are fundamental to the understandability of the message.
- 4) **Comparability:** - It is not sufficient that the financial information is relevant and reliable at a particular time, in a particular circumstance or for a particular reporting entity. But it is equally important that the users of the general-purpose financial reports are able to compare various aspects of an entity over different time period and with other entities.

Objectives of Accounting

- A. The main objective of the accounting is to keep systematic record of business transactions. That is why, all financial transactions are first recorded in journal and then posted into ledger.
- B. Accounting is helpful in preventing and detecting the errors and frauds.
- C. Accounting plays important role in calculating the profit or loss during a particular period by preparing Trading account and Profit and Loss Account.
- D. Depiction of Financial Position Accounting also aims at ascertaining the financial position of the business concern in the form of its assets and liabilities at the end of every accounting period.
- E. Providing Accounting Information to its Users

Role of Accounting in the modern business world: -

- **As a language:** - it is perceived as the language of business which is used to communicate information on enterprises.
- **As a historical record:** - it is viewed as a chronological record of financial transactions of an organization at actual amounts involved:
- **As current economic reality:** - it is viewed as the means of determining the income of an entity namely the change of wealth over time:
- **As an information system:** - it is viewed as a process that links an information source (the accountant) to a set of receivers (external users) by means of a channel of communication.
- **As a commodity:** - - specialized information is viewed as a service which is in demand in society, with accountants being willing to and capable of providing it.

Branches of Accounting

- 1) **Management Accounting:** - The purpose of management accounting is to assist the management in taking rational policy decisions and to evaluate the impact of its decisions and actions.
- 2) **Cost Accounting:** - The purpose of cost accounting is to analyze the expenditure so as to ascertain the cost of various products manufactured by the firm and fix the prices. It also helps in controlling the costs and providing necessary costing information to management for decision-making.
- 3) **Financial accounting:** - The purpose of this branch of accounting is to keep a record of all financial transactions so that.
 1. The profit earned or loss sustained by the business during an accounting period can be worked out,
 2. The financial position of the business as at the end of the accounting period can be ascertained.
 3. The financial information required by the management and other interested parties can be provided.

Users of financial statements: -

- **Internal users:** - (Owners, shareholders or investors, employees, management.)
- **External users:** - (Regulatory agencies, labor union, stock exchange, public and others)

Accounting as a source of Information: - The main function of accounting is to provide qualitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions. This information is basically required by the users as follows.

- 1) Internal users, mainly management, who need timely information on cost of sales, profitability, etc. for planning, controlling and decision-making and external users who have limited authority, ability and resources to obtain the necessary information and have to rely on financial statements (Balance Sheet, Profit and Loss account).

- 2) Investors and potential investors-information on the risks and return on investment;
- 3) Unions and employee groups-information on the stability, profitability and distribution of wealth within the business.
- 4) Lenders and financial institutions-information on the creditworthiness of the company and its ability to repay loans and pay interest.
- 5) Suppliers and creditors need the accounting information on whether amounts owed will be repaid when due, and on the continued existence of the business.
- 6) Customers-information on the continued existence of the business and thus the probability of a continued supply of products, parts and after sales service.
- 7) Government and other regulators need information on the allocation of resources and the compliance to regulations.
- 8) Social responsibility groups, such as environmental groups-information on the impact on environment and its protection.
- 9) Competitors also need information on the relative strengths and weaknesses of their competition and for comparative and benchmarking purposes.
- 10) Competitors require the information mainly for strategic purposes.

Advantages of Accounting

- 1) **Provide information about financial performance:** - Accounting provides factual information about financial performance during a given period of time Like, profit earned or loss incurred over a period and financial position at a particular point of time.
- 2) **Provide assistance to management:** - Accounting helps management in business planning, decision making and in exercising control. For this, it provides financial information in the form of reports.
- 3) **Facilitates comparative study:** - By keeping systematic records and preparation of reports at regular intervals, accounting helps in making a comparison.
- 4) **Helps in settlement of tax liability:** - Systematic accounting records help in settlement of various tax liabilities. Such as – Income Tax, GST etc.
- 5) **Helpful in raising loan from Banks and Financial Institutions:** -Grant a loan to the firm on the basis of appraisal of the financial statement of the firm.
- 6) **Helpful in decision making:** Accounting provides useful information to the management for taking decisions.
- 7) **Replaces Memory Accounting:** -It helps in maintaining systematic record of the business which may be referred from time-to-time Accounting eliminates the need to remember the transactions

- 8) **Evidence in court:** - Systematic accounting records provide documentary evidence in the court in case of any dispute
- 9) **Helps in the sale of business:** - If the business entity is being sold, then the accounting records helps to determine the proper purchase price

Limitations of Accounting

- 1) **Accounting is not precise:** - Accounting is not completely free from personal bias or Judgment.
- 2) **Accounting is done on historic values of assets:** - Accounting records assets at their historical cost less depreciation. It does not reflect their current market value.
- 3) **Ignore the effect of price level changes:** Accounting statements are prepared at historical cost. So changes in the value of money are ignored.
- 4) **Ignore the qualitative information:** - Accounting records only monetary transactions. It ignores the qualitative aspects.
- 5) **Affected by window dressing:** - Window dressing means manipulation in accounting to present a more favorable position of the business than the actual position.

Basic Terms used in accounting: -

- 1) **Entity:** - Entity means a reality that has a definite individual existence. Business entity means a specifically identifiable business enterprise like Super Bazaar, Hire Jewelers, ITC Limited, etc.
- 2) **Transaction:** - An event involving some value between two or more entities. It can be a purchase of goods, receipt of money, payment to a creditor, incurring expenses, etc. It can be a cash transaction or a credit transaction.
- 3) **Assets:** - Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. Assets are items of value used by the business in its operations. Assets are resources owned by a business or individual that is expected to provide future economic benefits. They are typically classified into different types based on their characteristics and the way they are used. Here are the main types of assets:

1. Current Assets: -

- a) **Cash and Cash Equivalents:** - Highly liquid assets that include cash on hand, bank balances, and short-term investments that can be easily converted into cash within a year.
- b) **Accounts Receivable:** - Money owed to a business by its customers for goods or services delivered but not yet paid for.
- c) **Inventory:** - Goods available for sale, including raw materials, work-in-progress, and finished products.
- d) **Marketable Securities:** - Short-term investments in stocks, bonds, or other financial instruments that can be quickly sold for cash.
- e) **Prepaid Expenses:** - Payments made in advance for services or goods to be received in the future, such as insurance or rent.

2) Non-Current (Fixed) Assets: -

- a) **Property, Plant, and Equipment (PPE):** - Long-term tangible assets used in the production of goods or services, such as land, buildings, machinery, and vehicles. These assets are typically depreciated over their useful lives.
- b) **Intangible Assets:** - Non-physical assets that provide value, such as patents, trademarks, copyrights, and goodwill. These are usually amortized over time.
- c) **Long-Term Investments:** - Investments in stocks, bonds, or other assets that a company intends to hold for more than one year.
- 4) **Liabilities:** - Liabilities are obligations or debts that an enterprise has to pay at some time in the future. They represent creditors' claims on the firm's assets. Both small and big businesses find it necessary to borrow money at one time or the other and to purchase goods on credit.
 - a) **Non-Current Liabilities:** - Long Term Borrowings
 - b) **Current Liabilities:** - Short Term Provisions, short-term Borrowings, Trade Payables Other Current Liabilities.
- 5) **Sales:** - Sales are total revenues from goods or services sold or provided to customers. Sales may be cash sales or credit sales.
- 6) **Revenues:** -These are the amounts of the business earned by selling its products or providing services to customers, called sales revenue. Other items of revenue common to many businesses are commission, interest, dividends, royalties, rent received, etc. Revenue is also called income
- 7) **Expenses:** - Costs incurred by a business in the process of earning revenue are known as expenses. Generally, expenses are measured by the cost of assets consumed or services used during an accounting period. The usual items of expenses are depreciation, rent, wages, salaries, interest, cost of heater, light and water, telephone, etc.
- 8) **Expenditure:** -Spending money or incurring a liability for some benefit, service or property received is called expenditure. Purchase of goods, purchase of machinery, purchase of furniture, etc.
- 9) **Profit:** - The excess of revenues of a period over its related expenses during an accounting year is profit. Profit increases the investment of the owners.
- 10) **Gain:** - A profit that arises from events or transactions which are incidental to business such as sale of fixed assets, winning a court case, appreciation in the value of an asset.
- 11) **Loss:** - The excess of expenses of a period over its related revenues its termed as loss. It decreases in owner's equity. It also refers to money or money's worth loss without receiving any benefit in return, e.g., cash or goods lost by theft or a fire accident, etc.
- 12) **Discount:** - Discount is the deduction in the price of the goods sold. It is offered in two ways. Offering deduction of agreed percentage of list price at the time selling goods is one way of giving discount. Such discount is called 'trade discount'.
- 13) **Voucher:** - The documentary evidence in support of a transaction is known as voucher. For example, if we buy goods for cash, we get cash memo.
- 14) **Goods:** - It refers to the products in which the business unit is dealing, i.e. in terms of which it is buying and selling or producing and selling. The items that are purchased for use in the business are not called goods. For example, for a furniture dealer purchase of chairs and tables is termed as goods
- 15) **Drawings:** - Withdrawal of money and/or goods by the owner from the business for personal use is known as drawings. Drawings reduces the investment of the owners.

- 16) **Purchases:** - Purchases are total amount of goods procured by a business on credit and on cash, for use or sale.
- 17) **Stock:** - Stock (inventory) is a measure of something on hand-goods, spares and other items in a business. It is called Stock in hand. In a trading concern, the stock on hand is the amount of goods which are lying unsold as at the end of an accounting period is called closing stock.
- 18) **Debtors:** - Debtors are persons and/or other entities who owe to an enterprise an amount for buying goods and services on credit. The total amount standing against such persons and/or entities on the closing date, is shown in the balance sheet as sundry debtors on the asset side
- 19) **Creditors:** - Creditors are persons and/or other entities who have to be paid by an enterprise an amount for providing the enterprise goods and services on credit. The total amount standing to the favor of such persons and/or entities on the closing date, is shown in the Balance Sheet as sundry creditors on the liabilities side.

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

1	Which of the following is not a business transaction? a) Bought furniture of Rs.10,000 for business b) Paid for salaries of employees Rs. 5,000 c) Paid son's fees from her personal bank account `Rs 20,000 d) Paid son's fees from the business Rs. 2,000	1
2	Deepti wants to buy a building for her business today. Which of the following is the relevant data for his decision? a) Similar business acquired the required building in 2000 for Rs. 10,00,000 b) Building cost details of 2003 c) Building cost details of 1998 d) Similar building cost in August, 2005 Rs. 25,00,000	1
3	Which is the last step of accounting as a process of information? a) Recording of data in the books of accounts b) Preparation of summaries in the form of financial statements c) Communication of information d) Analysis and interpretation of information	1
4	Which qualitative characteristics of accounting information are reflected when accounting information is clearly presented? a) Understandability b) Relevance c) Comparability d) Reliability	1
5	Use of common unit of measurement and common format of reporting promotes; a) Comparability b) Understandability c) Relevance d) Reliability	1

6	Which of the following is not a step in the process of accounting? (a) Recording transactions in the books of original entry. (b) Posting to Ledger. (c) Preparation of Trial Balance. (d) Payment of Tax.	1
7	A concept that the business will not be liquidated in the near future is known as; (a) Money measurement (b) Going concern (c) Business entity (d) Historical cost	1
8	Which of the following is the primary objective of accounting? a) To record financial transactions b) To prepare tax returns c) To determine the amount of goods produced d) To provide financial information to stakeholders	1
9	Which of the following statements best describes accounting? a) It is a method of recording non-financial transactions. b) It involves only the preparation of financial statements. c) It is the art of recording, classifying, summarizing, and interpreting financial transactions. d) It is used solely for calculating taxes.	1
10	4. Which of the following is not a branch of accounting a) Financial Accounting b) Management Accounting c) Tax Accounting d) Forensic Accounting	1
11	6. Which of the following is a key feature of financial accounting? a) It focuses on future planning and decision-making. b) It is primarily used for internal decision-making. c) It records transactions based on historical costs. d) It provides detailed reports for management use.	1
12	What is the fundamental accounting equation? a) Assets = Liabilities + Revenue b) Assets = Liabilities + Expenses c) Assets = Liabilities + Capital d) Assets = Revenue - Expenses	1
13	The primary qualities that make accounting information useful for decision-making are: (a) Relevance and free from bias (b) Reliability and comparability (c) Comparability and consistency (d) None of the above	1
15	Explain 'Reliability' as qualitative characteristics of accounting information.	1

MCQ ANSKEY

1	(c) Paid son's fees from her personal bank account ` 20,000
2	(a) Similar business acquired the required building in 2000 for ` 10,00,000
3	(c) Communication of information
4	(a) Understandability
5	(a) Comparability
6	(d) Payment of Tax.
7	(b) Going concern
8	(a) To record financial transactions

9	(c) It is the art of recording, classifying, summarizing, and interpreting financial transactions.
10	(d) Forensic Accounting
11	(c) It records transactions based on historical costs.
12	(c) Assets = Liabilities + Capital
13	(b) Reliability and comparability
14	Reliability means the users must be able to depend on the information. The reliability of accounting information is determined by the degree of correspondence between what the information conveys about the transactions or events that have occurred, measured and displayed

ASSERTION (A) AND REASON® QUESTIONS

1	Given below are two statements, one Labelled as Assertion(A) and the other Labelled as Reason® Assertion (A): Mr. Rahul bought a motor cycle of Rs. 40,000 and paid amount by cheque from his saving account, this transaction cannot be recorded in the books of account. Reason ®: Business Entity concept state that business and owner both are separate entities from accounting point of view, so owner personal transactions cannot be recorded in business books of account. In the context of the above statements, which one of the following is correct? (A) Both (A) and ® are correct. (B) (A) is wrong, but ® is correct ® (A) is correct, but ® is wrong (D) Both (A) and ® are wrong	1
2	Assertion (A): Accounting records only the transactions of financial nature. Reason ®: Goods taken from the business by the proprietor for his personal use is not of financial nature and hence will not be recorded. (a) Both (A) and ® are true and ® is the correct explanation of (A). (b) Both (A) and ® are true and ® is not the correct explanation of (A). ® (A) is true, but ® is false. (d) (A) is false, but ® is true.	1

ANSWER KEY FOR ASSERTION (A) AND REASON® QUESTIONS

1	(A) Both (A) and ® are correct.
2	(c) (A) is true, but ® is false

CASE BASED QUESTION

A	Mr. Sunrise started a business for buying and selling of stationery with Rs. 5, 00,000 as an initial investment. Of which he paid Rs.1, 00,000 for furniture, Rs. 2,00,000 for buying stationery items. He employed a sales person and clerk. At the end of the month, he paid ` Rs.5,000 as their salaries. Out of the stationery bought he sold some stationery for Rs.1,50,000 for cash and some other stationery for Rs.1,00,000 on credit basis to Mr. Ravi. Subsequently, he bought stationery items of Rs.1,50,000 from Mr. Peace. In the first week of next month there was a fire accident and he lost	
1	What is the amount of capital with which Mr. Sunrise started business?	1

2	What are the fixed assets he bought?	1
3	What is the value of the goods purchased?	1
4	Who is the creditor and state the amount payable to him?	1
5	What are the expenses?	1
6	What is the gain he earned?	1
7	What is the loss he incurred?	1
8	Who is the debtor?	1
9	What is the total amount of expenses and losses incurred?	1
10	Determine if the following are assets, liabilities, revenues, expenses or none of the these: sales, debtors, creditors, salary to manager, discount to debtors, drawings by the owner.	1

CASE BASED QUESTION ANSWER KEY

1	Rs.5,00,000
2	Rs.1,00,000
3	Rs.2,00,000
4	Mr. Peace, Rs. 1,50,000
5	Rs.5,000
6	Rs.5,000
7	Rs.30,000
8	Mr. Ravi Rs.1,00,000
9	Rs.35,000
10	Assets : debtors; Liabilities : creditors; drawings; Revenues : sales expenses, discount, salary.

NCERT QUESTIONS

Short Answers

1. Define accounting.
2. State the end product of financial accounting.
3. Enumerate main objectives of accounting.
4. Who are the users of accounting information?
5. State the nature of accounting information required by long-term lenders.
6. Who are the external users of information?
7. Enumerate information needs of management.
8. Give any three examples of revenues.
9. Distinguish between debtors and creditors; profit and gain
10. 'Accounting information should be comparable' do you agree with this statement. Give two reasons.

11. If the accounting information is not clearly presented, which of the qualitative characteristic of the accounting information is violated?
12. “The role of accounting has changed over the period of time”- Do you agree? Explain.
13. Giving examples, explain each of the following accounting terms:
 - i. Fixed assets • Revenue • Expenses • Short-term liability • Capital
14. Define revenues and expenses?
15. What is the primary reason for the business students and others to familiarize themselves with the accounting discipline?

2) Long Answers

1. What is accounting? Define its objectives.
2. Explain the factors which necessitated systematic accounting.
3. Describe the informational needs of external users.
4. What do you mean by an asset and what are different types of assets?
5. Explain the meaning of gain and profit. Distinguish between these two terms.
6. Explain the qualitative characteristics of accounting information.
7. Describe the role of accounting in the modern world

SOME USEFUL LINKS:

FOR DEPRECIATION:

[play-collection \(diksha.gov.in\)](https://www.diksha.gov.in) VIDEO

CHAPTER 2: THEORY BASE OF ACCOUNTING

❖ Generally Accepted Accounting Principles:

Generally Accepted Accounting principles refer to the rules or guidelines adopted for recording and reporting of business transactions in order to bring uniformity in the preparation and presentation of financial statements. These principles are also referred to as concepts and conventions. From the practicality view point, the various terms such as principles, postulates, conventions modifying principles, assumptions, etc. have been used interchangeably and are referred to as basic accounting concepts.

❖ Basic Accounting Concepts:

The basic accounting concepts are referred to as the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting and are broad working rules for all accounting activities and developed by the accounting profession. The important concepts are discussed below:

1. Business Entity Concept: This concept assumes that business has distinct and separate entity from its owners. Thus, for the purpose of accounting, business and its owners are to be treated as two separate entities.

2. Money Measurement Concept: The concept of money measurement states that only those transactions and happenings in an organisation, which can be expressed in terms of money are to be

recorded in the book of accounts. Also, the records of the transactions are to be kept not in the physical units but in the monetary units.

3. Going Concern Concept: The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely (for a fairly long period of time) and would not be liquidated in the near future.

4. Accounting Period Concept: Accounting period refers to the span of time at the end of which the financial statements of an enterprise are prepared to know whether it has earned profits or incurred losses during that period and what exactly is the position of its assets and liabilities, at the end of that period.

5. Cost Concept: The cost concept requires that all assets are recorded in the book of accounts at their cost price, which includes cost of acquisition, transportation, installation and making the asset ready for the use.

6. Dual Aspect Concept: This concept states that every transaction has a dual or two-fold effect on various accounts and should therefore be recorded at two places. The duality principle is commonly expressed in terms of fundamental accounting equation, which is:

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

7. Revenue Recognition (Realization) Concept: Revenue is the gross in-flow of cash arising from the sale of goods and services by an enterprise and use by others of the enterprise resources yielding interest royalties and dividends. The concept of revenue recognition requires that the revenue for a business transaction should be considered realised when a legal right to receive it arises.

8. Matching Concept: The concept of matching emphasizes that expenses incurred in an accounting period should be matched with revenues during that period. It follows from this that the revenue and expenses incurred to earn this revenue must belong to the same accounting period.

9. Full Disclosure Concept: This concept requires that all material and relevant facts concerning financial performance of an enterprise must be fully and completely disclosed in the financial statements and their accompanying footnotes.

10. Consistency Concept: This concept states that accounting policies and practices followed by enterprises should be uniform and consistent on the period of time so that results are comparable. Comparability results when the same accounting principles are consistently being applied by different enterprises for the period under comparison, or the same firm for a number of periods.

11. Conservatism Concept: This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.

12. Materiality Concept: This concept states that accounting should focus on material facts. If the item is likely to influence the decision of a reasonably prudent investor or creditor, it should be regarded as material, and shown in the financial statements.

13. Objectivity Concept: The concept of objectivity requires that accounting transaction should be recorded in an objective manner, free from the bias of accountants and others. This can be possible when each of the transaction is supported by verifiable documents or vouchers.

❖ Systems of Accounting:

The systems of recording transactions in the book of accounts are generally classified into two types, Double entry system and Single-entry system.

1. **Double entry system** is based on the principle of 'Dual Aspect' which states that every transaction has two effects, viz. receiving of a benefit and giving of a benefit. Each transaction, therefore, involves two or more accounts and is recorded at different places in the ledger.

Double entry system is a complete system as both the aspects of a transaction are recorded in the book of accounts. The system is accurate and more reliable as the possibilities of frauds and misappropriations are minimised.

2. **Single entry system** is not a complete system of maintaining records of financial transactions. It does not record two-fold effect of each and every transaction. It maintains only cash and personal accounts.

❖ **Basis of Accounting:**

From the point of view the timing of recognition of revenue and costs, there can be two broad approaches to accounting. These are: Cash basis and Accrual basis.

1. Cash basis: Under this entry in the books of accounts are made when cash received or paid and not when the receipt or payment becomes due. **For example,** if salary ₹ 30,000 of February 2024 paid in March 2024 it would be recorded in the books of accounts only in March, 2024.

2. Accrual basis:

Under this system, the monetary effect of a transaction is taken into account in the period in which they are earned rather than in the period in which cash is actually received or paid by the enterprise. This is a more appropriate basis for the calculation of profits as expenses are matched against revenue earned in relation thereto. For example, raw material consumed are matched against the cost of goods sold.

❖ **ACCOUNTING STANDARDS:**

Accounting standards may be defined as written statements issued from time to time by institutions of accounting professionals e.g. ICAI, specifying uniform rules or practices for preparing & presenting financial statements.

Need or Utility or Advantages of Accounting Standards:

- Accounting standards bring uniformity in preparation and presentation of financial statements.
- They ensure the consistency and comparability of different financial statements.
- They significantly reduce the chances of manipulations and frauds.
- To improve the reliability and credibility of financial statements.

Benefits of Accounting Standards:

- Accounting standard helps in eliminating variations in accounting treatment to prepare financial statements.
- Accounting standard may call for disclosures of certain information which may not be required by law, but such information might be useful for general public, investors and creditors.
- Accounting standard facilitate comparability between financial statements of inter and intra companies.

Limitations of Accounting Standards:

- Accounting standard makes choice between different alternate accounting treatments difficult to apply.
- It is rigidly followed and fails to extend flexibility in applying accounting standards.
- Accounting standard cannot override the statute. The standards are required to be framed within the ambit of prevailing status.

❖ Ind-AS

Meaning:

Ind-AS or Indian Accounting Standards are Indianized version of International Financial Reporting Standards (IFRS). IFRS are a set of accounting standards developed by International Accounting Standards Board (IASB) on the basis of which financial statements of enterprises are prepared and presented to its users

Objectives of Ind-AS:

- (i) To ensure uniformity in the preparation and presentation of financial statements.
- (ii) To provide information to the users about the policies adopted in the preparation of financial statements.
- (ii) To remove the effect of diverse accounting policies and practices.
- (iv) To ensure consistency, transparency and comparability of financial statements.
- (v) To improve the reliability and credibility of financial statements.

Merits of Ind-AS:

- (i) **Suitable for Indian Conditions:** They have been framed in such a way that they are most suitable for Indian conditions.
- (ii) **Clear Guidelines for Financial Reporting:** Ind-AS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by Ind-AS, Assets, Liabilities and Equity are clearly defined.
- (iii) **Uniformity in Financial Reporting:** The adoption of Ind-AS brings uniformity, comparability and transparency in financial statements. It improves the standard and quality of financial reporting.
- (iv) **Helpful to Investors:** Investors require high quality, relevant, reliable, transparent and comparable information in financial statements in order to make economic decisions. The use of Ind-AS meets their requirement.
- (v) **Difficult to Commit Fraud and Manipulate the Accounts:** There are tough and rigid rules for the preparation and presentation financial statements under Ind-AS and it is extremely difficult to manipulate the accounts.

❖ GST:

Goods and Service Tax (GST) is an indirect tax levied at prescribed rate on every supply of goods and services except on petroleum and alcohol for human consumption. Supply of goods means sale of goods and supply of services means rendering of services. It is a nation-wide tax seeking to unify several indirect taxes and is based on the principle of 'One Nation one Tax'. GST Act was passed in the Parliament on 24th March, 2017 and it came into effect from 1st July, 2017.

Meaning:

Characteristics: Characteristics of Goods and Service Tax (GST) are as follows:

- (i) **GST is a Comprehensive Indirect Tax:** GST is a comprehensive indirect tax which has replaced all indirect taxes levied by Centre and State Governments except Custom Duty,

electricity, taxes on petroleum, taxes on alcoholic drinks and taxes levied by Local Bodies. All indirect taxes have been merged in a Single Tax i.e. GST.

(ii) Uniform GST Rates: There are uniform rates of GST across all States and Union Territories.

(iii) GST Paid is not a Cost: GST Paid on purchase of goods and services (termed as Input GST) is not a cost for the purchaser but is an Asset because it can be set off against GST Collected (termed as Output GST).

(iv) GST is a Value Added Tax: GST is a value added tax because GST Paid is set off against GST Collected. For example: A purchases goods for ₹ 1,00,000 and sells the same to B for ₹ 1,50,000 and GST rate is 12%, in such a case:

(v)

GST paid by A on Purchase:	12% on ₹ 1,00,000	12,000
GST collected by A from B on sale:	12% on ₹ 1,50,000	18,000
GST now payable by A to Govt.	12% on ₹ 50,000	6,000

₹ 12,000 paid at the time of purchase is set off against ₹ 18,000 collected at the time of sale and balance ₹ 6,000 is payable to the Government. Further, suppose the above-mentioned goods are again sold by B to C for ₹ 1,60,000, the amount payable to the Govt. by B will be 12% on ₹ 10,000 (i.e. on ₹ 1,60,000 - ₹ 1,50,000).

Advantages:

- Introduction of GST has resulted in the abolition of multiple types of taxes in goods and services.
- GST widens the tax base & increased revenue to Centre and State thereby reducing administrative cost for the Government.
- GST has reduced compliance cost and increases voluntary compliance.
- GST has affected rates of tax to the maximum of two floor rates.
- GST has removed the cascading effect on taxation.
- GST will result in enhancing manufacturing & distribution system affecting the cost of production of goods and services and consequently the demand & production of goods and services will increase.
- It will eventually promote economic efficiency & sustainable long-term economic growth as GST is neutral to business processes, business models, organizational structure & geographical location.
- GST would help to extend competitive edge in international market for goods & services produced in the country leading to increased exports.

➤ MCQ's (1 Mark Questions)

1. M/s Future Ltd. has invested ₹ 10,000 in the shares of Melicee Industries Ltd. Current market value of these shares is ₹ 10,500. Accountant of Future Ltd. wants to show ₹ 10,500 as value of investment in the books of accounts, which accounting convention restricts him from doing so?

(a) Full disclosure (b) Consistency (c) Conservatism (d) Materiality

Ans. (c) Conservatism

2. The.....concept states that if straight line method of Depreciation is used in one year, then it should also be used in the next year.

(a) Consistency concept (b) Money Measurement Concept

- (c) Historical cost Concept (d) Dual Aspect Concept

Ans. (a) Consistency concept

3. Due to which Concept qualitative transactions are not recorded in the books:

- (a) Business Entity Concept (b) Money Measurement Concept
(c) Historical cost Concept (d) Dual Aspect Concept

Ans. (b) Money Measurement Concept

4. As per Income Tax Act, accounting period is:

- (a) From 1st January to 31st December (b) From 1st April to 31st March
(c) From 1st July to 30th June (d) From Diwali to Diwali

Ans. (b) From 1st April to 31st March

5. The fact that business is separate and distinguishable from its owner is best exemplified by the.....concept

- (a) Conservatism convention (b) Consistency concept
(c) Business Entity (d) Money measurement concept

Ans. (c) Business Entity

6. Due to which of the following, contingent liabilities are shown in the Balance Sheet:

- (a) Dual Aspect Concept (b) Convention of Full Disclosure
(c) Convention of Materiality (d) Going Concern Concept

Ans. (b) Convention of Full Disclosure

7. Which of the following is not a type of GST?

- (a) IGST (b) CGST (c) SGST (d) KGST

Ans. (d) KGST

8. Omission of paisa and showing the round figures in financial statements is based on.....

- (a) Conservatism convention (b) Consistency concept
(c) Materiality convention (d) Money measurement concept

Ans. (c) Materiality convention

9. Materiality principle is an extension to the 'Full Disclosure Convention'.

- (a) True (b) False (c) Partly true (d) None of these

Ans. (a) True

10. According to the Cost Concept

- (a) Assets are recorded at lower of cost and market value.
(b) Assets are recorded by estimating the market value at the time of purchase.
(c) Assets are recorded at the value paid for acquiring it.
(d) Assets are not recorded

Ans. (c) Assets are recorded at the value paid for acquiring it.

➤ 3 Mark Questions

11. "Revenue earned and cost of earning that revenue should be properly identified for a period." Explain this statement.

Ans. Matching Concept: The concept of matching emphasises that expenses incurred in an accounting period should be matched with revenues during that period. It follows from this that the revenue and expenses incurred to earn this revenue must belong to the same accounting period.

12. "Capital is a liability for the business." Explain this statement with the principle applied.

Ans. Business Entity Concept - This concept assumes that business has distinct and separate entity from its owners. Thus, for the purpose of accounting, business and its owners are to be treated as two separate entities.

13. Discuss the principle based on the premise "do not anticipate profits but provide for all losses."

Ans. Conservatism Concept: This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.

14. Every transaction has debit and credit aspects.' Explain.

Ans. Dual Aspect Concept: This concept states that every transaction has a dual or two-fold effect on various accounts and should therefore be recorded at two places. The duality principle is commonly expressed in terms of fundamental accounting equation, which is:

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

15. How does the matching concept apply to depreciation?

Ans. According to matching concept, all costs which are incurred in an accounting period should be charged against the revenue of that period. Hence depreciation of current year is charged against the current year's revenue. In other words, full cost of the asset is not treated as an expense in the year of its purchase itself rather it is spread over its useful life.

16. Closing stock is valued at lower of cost or realisable value'. Which principle of accounting is applied here?

Ans. Convention of Prudence or Conservatism: This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.

17. X Ltd. gets a contract of ₹100 crore to build a Shopping-Mall to be completed in 3 years. The management of the company wants to ascertain profit or loss on this contract only when the contract is completed. Is the management justified?

Ans. No, the management is not justified. Although the true profit or loss can be ascertained only after the completion of the contract, it will be divided into time intervals of twelve months for the ascertainment of profit as per Accounting Period Concept.

18. Mohan, the owner of a business receives an order for supply of goods worth ₹ 2,00,000. He has also received ₹ 25,000 against this order. Mohan wants to record it as a sale. Is Mohan correct in doing so?

Ans. No, he will not be correct in recording it as sales because the goods have not been delivered as yet and hence the sale is not completed. Mohan has not earned the revenue so far. Under the matching concept, revenue is recognised as earned only when cost incurred to earn that revenue is also recognised as expense that period.

19. What is Double Entry System of Book-Keeping?

Ans. Double entry system refers to a system of accounting in which every transaction affects at least two accounts simultaneously. One of them is debited and other is credited.

20. Give two advantages of accounting standards.

Ans. (i) Accounting Standards improve the reliability and credibility of Financial Statements.
(ii) Accounting Standards ensure the consistency and comparability of Financial Statements.

➤ 4 Mark Questions

21. Identify the values involved in the assumption of going concern.

Ans.

- (i) It is because of this concept that a distinction is made between capital expenditure and revenue expenditure.
- (ii) It is because of this concept that full cost of an asset is not treated as an expense in the year of purchase itself and the cost is spread over the useful life of the asset by charging depreciation on a suitable basis.
- (iii) It is because of this concept that outside parties' purchase shares and debentures of the enterprise.

22. (a) A firm has stationery stock amounting to 400 as at the end of financial year. Accountant of the firm has written it off to Profit & Loss Account. Is he right in doing so?

(b) Why closing stock is valued at cost price or realisable value whichever is less?

Ans.

- a) Yes, the Accountant is right because he has followed the Materiality convention according to which the items having insignificant effect may not be disclosed or in other words, may be written off.
- b) Closing stock is valued at lower of cost price or realisable value according to the Convention of conservatism or prudence.

23. (a) Raja Ltd. purchased securities for ₹ 50 lakh. At the end of the year, the market value of such securities was ₹ 40 lakh. While preparing the financial statements, the company valued the securities at cost i.e. at ₹ 50 lakh. Is it a correct treatment?

(b) Shyam purchased a building for ₹ 20 lakh. After a period of five years, the depreciation charged on the building amounted to ₹ 3 lakh. However, due to boom in the property market, the current market value of the building is ₹ 28 lakh. State the value at which building should be recorded in the books of accounts. Also, give reasons for the same.

Ans.

- (a) No. It is not a correct treatment. The company has violated the convention of prudence according to which current assets are valued at cost price or realisable value whichever is less.
- (b) Building will be shown in the books at ₹ 17 Lakh. This is because of Historical Cost Concept according to which assets are shown in the books at cost less depreciation.

24. Explain advantages of GST. (Any four)

Ans.

- (a) Ease of Doing Business: In a pre-GST period, there were multiple types of indirect taxes such as Excise Duty, Sales Tax, Service Tax etc. and as a result business was required to register itself separately under each such Act. The introduction of GST has eased the doing of business because now it will be registered and administered only under one indirect tax i.e. GST.

- (b) **Developing Common National Market:** GST is levied at the same rate on similar goods and services across all States and Union Territories. For example, electronic goods sold across India are levied at the rate of 18%. It has developed common national market.
- (c) **Reduction in Tax Evasion:** GST is administered through computer system. Electronic return filing and assessment has reduced tax evasion and compliance cost.
- (d) **Goods Becoming Cheaper:** In the pre-GST period, there were many indirect taxes and there was no set off of tax paid (e.g. Excise Duty) against taxes collected. In GST structure, GST Paid (Input GST) is set off against GST Collected (Output GST). As such it does not have cascading effect and goods and services shall become cheaper.

25. State the characteristics of IND-AS.

Ans. Characteristics or Salient Features of Ind-AS:

- (i) Ind-AS are the modified version of IFRS.
- (ii) Ind-AS are comprehensive and cover a wide area comprising revenues, expenses, losses, assets, liabilities and equity.
- (iii) Ind-AS are principle based. Under Ind-AS items are shown in the Balance Sheet as per the principles associated with each item.
- (iv) Ind-AS lay emphasis on transparency and accountability of financial statements.

26. Explain any two of the following Concepts:

- (a) Money Measurement Concept
- (b) Matching Concept

Ans.

- (a) **Money Measurement Concept:** The concept of money measurement states that only those transactions and happenings in an organisation, which can be expressed in terms of money are to be recorded in the book of accounts. Also, the records of the transactions are to be kept not in the physical units but in the monetary units
- (b) **Matching Concept:** The concept of matching emphasizes that expenses incurred in an accounting period should be matched with revenues during that period. It follows from this that the revenue and expenses incurred to earn this revenue must belong to the same accounting period.

27. Explain 2 basis of accounting.

Ans. The two bases of accounting are:

- 1.Cash basis:** Under this entry in the books of accounts are made when cash received or paid and not when the receipt or payment becomes due. **For example,** if salary ₹ 30,000 of February 2024 paid in March 2024 it would be recorded in the books of accounts only in March, 2024.
- 2.Accrual basis:** Under this however, revenues and costs are recognized in the period in which they occur rather than when they are paid. It means it record the effect of transaction is taken into book when they are earned rather than in the period in which cash is actually received or paid by the enterprise. It is more appropriate basis for calculation of profits as expenses are matched against revenue earned in the relation thereto. **For example,** raw materials consumed are matched against the cost of goods sold for the accounting period.

28. Explain 4 merits of IND-AS.

Ans. Merits of Ind-AS are as follows:

- (i) **Suitable for Indian Conditions:** They have been framed in such a way that they are most suitable for Indian conditions.

- (ii) **Clear Guidelines for Financial Reporting:** Ind-AS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by Ind-AS, Assets, Liabilities and Equity are clearly defined.
- (iii) **Uniformity in Financial Reporting:** The adoption of Ind-AS brings uniformity, comparability and transparency in financial statements. It improves the standard and quality of financial reporting.
- (iv) **Helpful to Investors:** Investors require high quality, relevant, reliable, transparent and comparable information in financial statements in order to make economic decisions. The use of Ind-AS meets their requirement.

29. What is meant by Accrual Basis of Accounting? Explain any two advantages of accrual basis of accounting.

Ans.

Accrual Basis of Accounting: Under this basis, incomes are recorded when they are earned or accrued, irrespective of the fact whether cash is received or not, e.g., sales made on credit will be included in the total sales of the period. Similarly, expenses are recorded when they are incurred or become due and not when the cash is paid for them, e.g., rent due to the landlord but not paid will be treated as expense for the period when it is due and not in the period when it is paid. Hence, in accrual basis, profit or loss of a particular period is the result of matching of the revenues earned and expenses incurred during the period. This makes it necessary to consider outstanding expenses, prepaid expenses, accrued incomes, incomes received in advance etc. for the preparation of financial statements. Under the Companies Act, 2013, all companies are required to maintain their accounts according to accrual basis of accounting.

Advantages:

- (i) It discloses true profit or loss for a particular period and also depicts true financial position of the business at the end of a particular period because it takes into account all transactions relating to a particular period and takes into account all adjustments like outstanding expenses, prepaid expenses, accrued income and income received in advance.
- (ii) It follows the matching principle of accounting.

30. Explain any four Characteristics of GST.

Ans. Characteristics of Goods and Service Tax (GST) are as follows:

- a) **GST is a Comprehensive Indirect Tax:** GST is a comprehensive indirect tax which has replaced all indirect taxes levied by Centre and State Governments except Custom Duty, electricity, taxes on petroleum, taxes on alcoholic drinks and taxes levied by Local Bodies. All indirect taxes have been merged in a Single Tax i.e. GST.
- b) **Uniform GST Rates:** There are uniform rates of GST across all States and Union Territories.
- c) **GST Paid is not a Cost:** GST Paid on purchase of goods and services (termed as Input GST) is not a cost for the purchaser but is an Asset because it can be set off against GST Collected (termed as Output GST).
- d) **GST is a Value Added Tax:** GST is a value added tax because GST Paid is set off against GST Collected.

➤ 6 Mark Questions

31. Explain the meaning and merits of Ind-AS.

Ans. Meaning:

Ind-AS or Indian Accounting Standards are Indianized version of International Financial Reporting Standards (IFRS). IFRS are a set of accounting standards developed by International Accounting

Standards Board (LASB) on the basis of which financial statements of enterprises are prepared and presented to its users

Merits of Ind-AS:

- (i) **Suitable for Indian Conditions:** They have been framed in such a way that they are most suitable for Indian conditions.
- (ii) **Clear Guidelines for Financial Reporting:** Ind-AS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by Ind-AS, Assets, Liabilities and Equity are clearly defined.
- (iii) **Uniformity in Financial Reporting:** The adoption of Ind-AS brings uniformity, comparability and transparency in financial statements. It improves the standard and quality of financial reporting.
- (iv) **Helpful to Investors:** Investors require high quality, relevant, reliable, transparent and comparable information in financial statements in order to make economic decisions. The use of Ind-AS meets their requirement.
- (v) **Difficult to Commit Fraud and Manipulate the Accounts:** There are tough and rigid rules for the preparation and presentation financial statements under Ind-AS and it is extremely difficult to manipulate the accounts.

32. Explain the following:

- (i) Dual Aspect Concept
- (ii) Going Concern Concept
- (iii) Cost Concept
- (iv) Accounting Period Concept

Ans.

- (i) **Dual Aspect Concept:** This concept states that every transaction has a dual or two-fold effect on various accounts and should therefore be recorded at two places. The duality principle is commonly expressed in terms of fundamental accounting equation, which is:

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$
- (ii) **Going Concern Concept:** The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely (for a fairly long period of time) and would not be liquidated in the near future.
- (iii) **Cost Concept:** The cost concept requires that all assets are recorded in the book of accounts at their cost price, which includes cost of acquisition, transportation, installation and making the asset ready for the use.
- (iv) **Accounting Period Concept:** Accounting period refers to the span of time at the end of which the financial statements of an enterprise are prepared to know whether it has earned profits or incurred losses during that period and what exactly is the position of its assets and liabilities, at the end of that period.

33. Explain the meaning of any three of the following terms

- (i) Full Disclosure
- (ii) Consistency
- (iii) Materiality
- (iv) Conservatism

Ans.

- (i) **Full Disclosure:** This concept requires that all material and relevant facts concerning financial performance of an enterprise must be fully and completely disclosed in the financial statements and their accompanying footnotes.

- (ii) **Consistency:** This concept states that accounting policies and practices followed by enterprises should be uniform and consistent on the period of time so that results are comparable. Comparability results when the same accounting principles are consistently being applied by different enterprises for the period under comparison, or the same firm for a number of periods.
- (iii) **Materiality:** This concept states that accounting should focus on material facts. If the item is likely to influence the decision of a reasonably prudent investor or creditor, it should be regarded as material, and shown in the financial statements.
- (iv) **Conservatism:** This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.

34. Explain any six points depicting advantages of GST.

Ans. Objectives or Advantages of GST:

- (1) **Decrease in the Cost of Goods:** The Cost of goods will decrease since tax on tax is eliminated in GST regime. In the pre-GST regime, there were many indirect taxes levied by both center and state. For example, Centre charged excise duty on goods manufactured and States charged VAT on the same goods. This led to a tax on tax also known as cascading effect of taxes. GST avoids this cascading effect as the tax is calculated only on the value added at each stage of transfer of ownership.
- (2) **Ease of Doing Business:** In a pre-GST period, there were multiple types of indirect taxes such as Excise Duty, Sales Tax, Service Tax etc. and as a result, a business was required to register itself separately under each such Act. The introduction of GST has eased the doing of business because now it will be registered and administered only under one indirect tax i.e. GST.
- (3) **Developing Common National Market:** GST is levied at the same rate on similar goods and services across all States and Union Territories. For example, electronic goods sold across India are levied at the rate of 18%. It has developed common national market.
- (4) **Reduction in Tax Evasion:** GST is administered through computer system. Electronic return filing and assessment has reduced tax evasion and compliance cost.
- (5) **Goods Becoming Cheaper:** In the pre-GST period, there were many indirect taxes and there was no set off of tax paid (e.g., Excise Duty) against taxes collected. In GST structure, GST Paid (Input GST) is set off against GST Collected (Output GST). As such it does not have cascading effect and goods and services shall become cheaper.
- (6) **Attracting Foreign Investment:** Foreign investment in India was hindered because of multiple indirect taxes. GST has removed this obstruction with the introduction of one single tax. As such, it will help to increase the Foreign Direct Investment (FDI) in India.

35. Explain the following concepts.

- (a) Revenue recognition
- (b) Cash basis
- (c) Double entry system

Ans.

- (a) **Revenue recognition:** Revenue is the gross in-flow of cash arising from the sale of goods and services by an enterprise and use by others of the enterprise resources yielding interest royalties and dividends. The concept of revenue recognition requires that the revenue for a business transaction should be considered realised when a legal right to receive it arises.
- (b) **Cash basis:** Under this entry in the books of accounts are made when cash received or paid and not when the receipt or payment becomes due. **For example,** if salary ₹ 30,000 of February 2024 paid in March 2024 it would be recorded in the books of accounts only in March, 2024.

- (c) Double entry system: It is based on the principle of 'Dual Aspect' which states that every transaction has two effects, viz. receiving of a benefit and giving of a benefit. Each transaction, therefore, involves two or more accounts and is recorded at different places in the ledger. Double entry system is a complete system as both the aspects of a transaction are recorded in the book of accounts. The system is accurate and more reliable as the possibilities of frauds and misappropriations are minimised.

36. Explain any four Characteristics of GST.

Ans. Characteristics of Goods and Service Tax (GST) are as follows:

- e) GST is a Comprehensive Indirect Tax: GST is a comprehensive indirect tax which has replaced all indirect taxes levied by Centre and State Governments except Custom Duty, electricity, taxes on petroleum, taxes on alcoholic drinks and taxes levied by Local Bodies. All indirect taxes have been merged in a Single Tax i.e., GST.
- f) Uniform GST Rates: There are uniform rates of GST across all States and Union Territories.
- g) GST Paid is not a Cost: GST Paid on purchase of goods and services (termed as Input GST) is not a cost for the purchaser but is an Asset because it can be set off against GST Collected (termed as Output GST).
- h) GST is a Value Added Tax: GST is a value added tax because GST Paid is set off against GST Collected.

37. Explain three benefits of Accounting Standards.

Ans. Benefits of Accounting Standards:

- Accounting standard helps in eliminating variations in accounting treatment to prepare financial statements.
- Accounting standard may call for disclosures of certain information which may not be required by law, but such information might be useful for general public, investors and creditors.
- Accounting standard facilitate comparability between financial statements of inter and intra companies.

38. Explain Double entry System and basis of accounting.

Ans.

1. **Double entry system** is based on the principle of 'Dual Aspect' which states that every transaction has two effects, viz. receiving of a benefit and giving of a benefit. Each transaction, therefore, involves two or more accounts and is recorded at different places in the ledger. Double entry system is a complete system as both the aspects of a transaction are recorded in the book of accounts. The system is accurate and more reliable as the possibilities of frauds and misappropriations are minimised.

Basis of Accounting:

1. **Cash basis:** Under this entry in the books of accounts are made when cash received or paid and not when the receipt or payment becomes due. **For example**, if salary ₹ 30,000 of February 2024 paid in March 2024 it would be recorded in the books of accounts only in March, 2024.
2. **Accrual basis:** Under this however, revenues and costs are recognized in the period in which they occur rather when they are paid. It means it record the effect of transaction is taken into book when they are earned rather than in the period in which cash is actually received or paid by the enterprise. It is more appropriate basis for calculation of profits as expenses are matched against revenue earned in the relation thereto. **For example**, raw materials consumed are matched against the cost of goods sold for the accounting period.

39. Explain four Limitations of Accounting Standards.

Ans. Limitations of Accounting Standards: In spite of many benefits derived from accounting standards, there are some limitations also. Some of these limitations are

- (i) **Restrict Initiative:** Since accounting standards are mandatory in nature, they restrict initiative for better presentation and disclosure.
- (ii) **Rigid in Nature:** Accounting standards are rigid in nature. They restrain the accountants from using a more suitable alternative solution to a particular problem.
- (iii) **Based on Historical Costs:** Accounting standards are based on historical cost concept. Assets are shown in the Balance Sheet at historical cost and as such depreciation is also charged on such historical cost. It is for this reason that IFRS (International Financial Reporting Standards) were introduced wherein the assets and liabilities are required to be shown at current or fair value as at the date of Balance Sheet.
- (iv) **Obstruct the Judgement of Auditors:** Accounting Standards obstruct the judgement of the auditors as the standards are mandatory.

40. Explain the meaning of the following concepts:

- (a) Business entity
- (b) Objectivity
- (c) Cost
- (d) Conservatism

Ans.

- (a) **Business entity:** This concept assumes that business has distinct and separate entity from its owners. Thus, for the purpose of accounting, business and its owners are to be treated as two separate entities.
- (b) **Objectivity:** The concept of objectivity requires that accounting transaction should be recorded in an objective manner, free from the bias of accountants and others. This can be possible when each of the transaction is supported by verifiable documents or vouchers.
- (c) **Cost:** The cost concept requires that all assets are recorded in the book of accounts at their cost price, which includes cost of acquisition, transportation, installation and making the asset ready for the use.
- (d) **Conservatism:** This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.

CHAPTER 3: RECORDING OF TRANSACTIONS (INCLUDING I AND II AS PER NCERT)

Business Transactions and Source Documents:

Business transactions are exchanges of economic consideration between parties and have two-fold effects that are recorded in at least two accounts.

Business transactions are usually evidenced by an appropriate document such as Cash memo, Invoice, Sales bill, Pay-in-slip, Cheque, Salary slip, etc. A document which provides evidence of the transactions is called the Source Document or a Voucher.

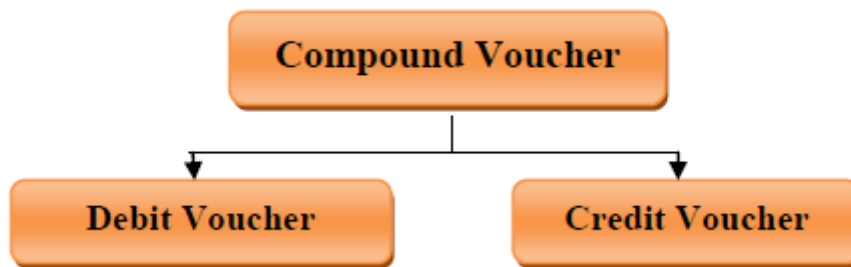
Preparation of Accounting Vouchers:

Accounting vouchers may be classified as cash vouchers, debit vouchers, credit vouchers, journal vouchers, etc. There is no set format of accounting vouchers.

A transaction with one debit and one credit is a simple transaction and the accounting vouchers prepared for such transaction is known as Transaction Voucher.

Voucher which records a transaction that entails multiple debits/credits and one credit/debit is called compound voucher.

Compound voucher may be: (a) Debit Voucher or (b) Credit Voucher;



Specimens of Vouchers:

Transaction Voucher	
Voucher No:	Name of Firm:
Date :	
Debit account:	
Credit account:	
Amount (₹):	
Narration :	
Authorized By:	Prepared By:

Debit Voucher				
Voucher No : _____	Name of Firm: _____			
Credit Account : _____	Date: _____			
Amount : _____				
Debit Accounts				
S. No.	Code	Account Name	Amount ₹	Narration (<u>i.e.</u> Explanation)
Authorized By: _____		Prepared By: _____		

Credit Voucher				
Voucher No : _____	Name of Firm: _____			
Debit Account: _____	Date: _____			
Amount : _____				
Credit Accounts				
S. No.	Code	Account Name	Amount ₹	Narration (<u>i.e.</u> Explanation)
Authorized By: _____		Prepared By: _____		

Journal Voucher				
Voucher No :		Name of Firm:		Date:
Debit Accounts				
S. No.	Code	Account Name	Amount ₹	Narration (i.e., Explanation)
Credit Accounts				
S. No.	Code	Account Name	Amount ₹	Narration (i.e., Explanation)
Authorized By:		Prepared By:		

Transactions with multiple **debts** and multiple **credits** are called complex transactions and the accounting voucher prepared for such transaction is known as **Complex Voucher/ Journal Voucher**.

The design of the accounting vouchers depends upon the nature, requirement and convenience of the business. There is no set format of an accounting voucher. To distinguish various vouchers, different colour papers and different fonts of printing are used. Some of the specimens of the accounting vouchers are given in the earlier pages.

An accounting voucher must contain the following essential elements:

- It is written on a good quality paper;
- Name of the firm must be printed on the top;
- Date of transaction is filled up against the date and not the date of recording of transaction is to be mentioned;
- The number of the voucher is to be in a serial order;
- Name of the account to be debited or credited is mentioned;
- Debit and credit amount is to be written in figures against the amount;
- Description of the transaction is to be given account wise;
- The person who prepares the voucher must mention his name along with signature; and
- The name and signature of the authorised person are mentioned on the voucher.

Recording of transaction- I is a process of accounting transactions of the business in several books of accounts like Cash Book, Journal, Ledger account Final accounts, etc.. The main reason for the recording of the transaction- I, is to ascertain the financial status of an organisation at the end of every financial year.

The recording of transaction – I, involve steps like recognising the transaction to register and prepare the source documents which are registered in the basic step called journal. It is then reported in secondary book called Ledger

For recording transaction, it is important to understand the financial accounting rule. According to dual entry concept, there are two aspects for every transaction ie., a debit and a credit. Every debit has a corresponding credit and vice-versa.

The three rules are:

Traditional rules of accounting are:

- Personal Account- Debit the receiver and credit the giver.
- Real Account- Debit what comes in and credit what goes out.
- Nominal Account- Debit all expenses and losses, credit incomes and gains.

Modern Rules of Debit and Credit

All accounts are divided into five categories for the purposes of recording the transactions:

- (a) Asset
- (b) Liability
- (c) Capital
- (d) Expenses/Losses, and
- (e) Revenues/Gains.

Two fundamental rules are followed to record the changes in these accounts:

- (1) For recording changes in Assets/Expenses (Losses):
 - (i) Increase in asset is debited, and decrease in asset is credited.
 - (ii) Increase in expenses/losses is debited, and decrease in expenses/ losses is credited.
- (2) For recording changes in Liabilities and Capital/Revenues (Gains):
 - (i) Increase in liabilities is credited and decrease in liabilities is debited.
 - (ii) Increase in capital is credited and decrease in capital is debited.
 - (iii) Increase in revenue/gain is credited and decrease in revenue/gain is debited.

Books of Original Entry: Journal

The book in which the transaction is recorded for the first time in the chronological order, as and when they take place. Each transaction is separately recorded after determining the account to be debited or credited. This sequence causes the journal to be called the Book of Original Entry. The source document is required to record the transaction in the journal. This practice provides a complete record of each transaction in one place and links the debits and credits for each transaction. The process of recording transactions in journal is called journalising. Once the Journalising process is completed, the journal entry provides a complete and useful description of the event 's effect on the organisation.

The format of Journal is

Date	Particulars	LF	Debit	Credit
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Specimen Journal Entries

Transactions related to Goods:

Date	Particulars	LF	Debit	Credit
	Goods purchased for cash Purchase A/c Dr To Cash A/c (Being goods purchased for cash)		*****	*****
	Goods purchased from ram on Credit			

Purchase A/c To Ram (Being goods purchased from Ram on credit)	Dr	*****	*****
Goods sold for cash at book value Cash A/C To Sales A/c (Being goods sold for cash)	Dr	*****	*****
Goods sold for cash at profit Cash A/C To Sales A/c To P&L A/c (Being goods sold for cash)	Dr	*****	***** *****
Goods sold for cash at profit Cash A/C P&L a/c To Sales A/c (Being goods sold for cash)	Dr Dr	***** *****	*****
Goods sold on credit Debtors' a/c To Sales A/c (Being goods sold on credit)	Dr	*****	*****
Withdrawal of goods by owner for personal use Drawings A/c To Purchase A/c (Being goods withdrew by owner for personal use)	Dr	*****	*****
Goods distributed as free samples Free Samples A/c To Purchase A/c (Being goods distributed as free samples)	Dr		
Goods given as charity Charity A/c To Purchases A/c (Being goods given as charity)	Dr		
Goods lost by fire/flood/theft etc. Loss by fire/theft A/c To Purchase A/c (Being goods lost by fire/theft)	Dr		
Transactions related to Expenses and Incomes			
Expense paid by bank/ Cash by the Business: Expense A/c	Dr		

To Cash / Bank A/c (Being expense paid by cash/Bank) Expense is outstanding during a Current year Expense A/c Dr To Outstanding Exp. A/c (Being expense is due but not paid) Expense paid in advance: Prepaid Expense A/c Dr To Cash/Bank A/c (Being expense paid in advance by cash/ Bank) Income received in Cash/Bank Cash/Bank A/c Dr To Income A/c (Being Income received in cash / bank) Income due but not received Accrued / Outstanding Income A/c Dr To Income A/c (Being Income due but not received) Income received in cash/Bank in advance Cash/Bank A/c Dr To Prepaid Income A/c (Being income received in advance) Transactions related to Bank Cash deposited into the bank Bank A/c Dr To Cash A/c (Being cash deposited to bank) Cash withdrawn for office use Cash A/c. Dr To Bank A/c (Being cash withdrawn from bank for office use) When cheque is received from customer and deposited into bank same day: Bank A/c Dr To Customer's personal A/c (Being cheques deposited into bank) Cash withdrawn for personal use by owner Drawings A/c Dr To Bank A/c (Being cash withdrawn from bank for personal use)			
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When cheque is received from customer and not deposited into bank same day: Cheque-in-hand A/c To customer's personal A/c (Cheque received from customer but not deposited)	Dr		
When above cheque (Point 5) is deposited later into bank: Bank A/c To cheque-in-hand A/c (Being cheques deposited into bank received from)	Dr		
When expense payment is made through cheque Expenses A/c To Bank A/c (Being payment of expense by cheque)	Dr		
When interest is allowed by the bank Bank A/c To Interest A/c (Being interest allowed by bank)	Dr		
When Bank charges for the services provided: Bank Charges A/c To Bank A/c (Being Bank charges deducted)	Dr		
Transactions Related to Fixed Asset			
When Assets are purchased for cash Furniture A/c To Cash A/c (Being assets purchased for cash)	Dr		
When furniture purchased from on credit Furniture A/c To Creditors A/c (Being assets purchased for cash)	Dr		
Depreciation charged on Assets Depreciation A/c To Assets A/c (Being depreciation charged on assets)	Dr		
When Assets sold for Cash at book value Cash A/c To Assets A/c (Being Assets sold for Cash)	Dr		
When Assets sold for Cash at profit			

Cash A/c To Assets A/c To P&L a/c (Being Assets sold for Cash at profit) When Assets sold for Cash at loss Cash A/c P&L a/c To Assets A/c (Being Assets sold for Cash at loss) Transactions Related to Capital When capital is introduced Cash A/c To Capital A/c (Being capital introduced) When additional capital is introduced Cash A/c To Capital A/c (Being additional capital introduced) Entry for GST transactions Entry for purchase with SGST and CGST Purchase A/c Input CGST A/c Input SGST A/c To Cash A/c (Being goods purchased for cash with CGST and SGST) Entry for purchase with IGST Purchase A/c Input IGST A/c To Cash A/c (Being goods purchased for cash with IGST) Entry for purchase of Assets or payment of expenses with SGST and CGST Assets or Expenses A/c Input CGST A/c Input SGST A/c To Cash A/c (Being purchase of Assets or payment of expenses with SGST and CGST) Entry for purchase of Assets or payment of expenses with IGST Assets or Expenses A/c Input IGST A/c	Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr			
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To Cash A/c (Being purchase of Assets or payment of expenses with IGST) Entry for Sale of Assets or receipt of incomes with CGST and SGST Cash A/c Dr To Assets/Incomes A/c To output CGST A/c To output SGST A/c (Being sale of Assets or receipt of incomes with CGST and SGST) Entry for Sale of goods with CGST and SGST Cash A/c Dr To Sales A/c To output CGST A/c To output SGST A/c (Being sale of Assets or receipt of incomes with CGST and SGST) Entry for Sale of goods with IGST Cash A/c Dr To Sales A/c To output IGST A/c (Being sale of Assets or receipt of incomes with IGST) Entry for Sale of Assets or receipt of incomes with IGST Cash A/c Dr To Assets/Incomes A/c To output IGST A/c (Being sale of Assets or receipt of incomes with IGST)			
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On the basis of the rules the transactions will be analysed and entered in the journal. Every journal should have a narration which will be shown within brackets of each entry.

Journal is subdivided into a number of books of original entry as follows

Types of Entries:

1. **Simple Entry:** It is that entry in which only two accounts are affected i.e. one account is debited and another account is credited with an equal amount.
2. **Compound Entry:** It is that entry in which more than two accounts are involved. Compound Entries can further be classified into single compound entry and double compound entry.
3. **Opening Entry:** The entry passed to record the closing balances of the previous year is called opening entry. While passing an opening entry, all assets' accounts are debited and all liabilities accounts are credited.

Journal is further divided into some number of books of original entry: -

- (a) Journal Proper

(b) Cash book

(c) Other day books:

- (i) Purchases (journal) book
- (ii) Sales (journal) book
- (iii) Purchase Returns (journal) book
- (iv) Sale Returns (journal) book
- (v) Bills Receivable (journal) book
- (vi) Bills Payable (journal) book\

GST

GST is **Goods and Service Tax**. GST is a single, indirect tax levied by the Indian Government. It may be one of the country's most significant tax reforms. The bill is designed to bring together from all indirect taxes, including VAT, Central Excise Tax, Luxury Tax, Service Tax Act, Entertainment Tax and Entry Tax

Types of GST

There are various types of GST which are

1. Central Goods and Services Tax (CGST)

CGST is the tax levied on intrastate service and product distribution. These taxes include the Central Excise Duty, Services Tax, Additional Excise Duty, CVD (Countervailing Duty) & the excise duty on the Medical & Toiletries Preparation Act.

2. Integrated Goods and Services Tax (IGST)

IGST applies to the taxes paid for the international delivery of services & goods. The products are, for example, traded among two states, including Karnataka & West Bengal, the IGST would apply. Besides, IGST is imposed on exports as well as imports of services and products from India.

3. State Goods and Services Tax (SGST)

SGST is the tax levied on goods and services provided within the boundaries of a given state. The act puts the various state taxes, such as luxury tax, state income tax, entry tax, entertainment tax and so on, under one umbrella

Special Purpose Books

As the business grows and number of transactions increase, it becomes necessary for the business to divide the recording work.

Advantages of Maintaining Subsidiary Books: -

- (a) Division of work
- (b) Leads to Specialization
- (c) Easy to maintain Ledger
- (d) Check on frauds

- (e) Easy to fix responsibility
- (f) Quick availability of required information.

Types of Special Purpose Books / Subsidiary Books: -

Purchases Book: -

Purchase book is a type of special purpose subsidiary book which is used for recording only credit purchases of goods. Cash purchases of goods are recorded in the cash book.

Purchase book is also called a book of original entry. Purchase book does not record purchases of other assets. Those entries are recorded in the journal proper.

Entries for credit purchases of goods are recorded from the source documents directly to the purchase book. The source documents are the invoices or bills that are received from the supplier of goods.

The main purpose of preparing a purchase book is to know the amount of credit purchase taking place in a business at a particular point of time.

One important point to note about the purchase books is that, purchase book records credit purchase items that are integral to the core business operations or items that are procured with the purpose of reselling.

Purchase Book Format (Analytical)

Date	Particulars	Invoice No	LF	Details	Cost	Input CGST	Input SCGT	Input IGST	Total
------	-------------	------------	----	---------	------	------------	------------	------------	-------

Or (Simple)

Date	Name of the Suppliers (Account to be credited)	Invoice No	LF	Details	Cost
------	--	------------	----	---------	------

Recording is made on the basis of Bills/ Invoices issued by the Suppliers.

Transactions not recorded in purchases Book:

- Purchases of goods for cash.
- Purchases of Assets meant for long term, not for resale.

Sales Books/ Sales Journal:

Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing. These are meant for regular sale. Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book. This book is also named as sales day book, sold day book, sales journal or sale register.

The preparation of the sales book is similar to that of purchases book. The entries are made in the sales book on the basis of copies of the invoice sent to the customers

Sales Book Format (Analytical)

Date	Particulars	Invoice No	LF	Details	Cost	Output CGST	Output SCGT	Output IGST	Total
------	-------------	------------	----	---------	------	-------------	-------------	-------------	-------

Or (Simple)

Date	Name of the Customers (Account to be Debited)	Invoice No	LF	Details	Cost
------	---	------------	----	---------	------

Transactions not recorded in Sales Book

- Sale of goods for cash
- Sale of Assets.

Purchases Returns/ Returns Outward Book:

This book includes only those transactions which are related to returns of goods bought on credit. The goods may be returned due to various reasons such as goods bought being defective, supply of inferior quality goods etc. Entries in this book are made on the basis of Debit Note.

A **Debit Note** contains the name of the supplier to whom good are returned, details of goods returned. After purchases of goods, the business unit may find that some of the goods are not up to the satisfactory level because of the following reasons:

Goods may be defective or they might have been damaged in transit or quantities delivered may not agree with the invoice or they might have been received quite late (off-season). Or they might not be as per the samples or specifications or there may be a breach of agreement.

Therefore, the buyer may return them to the suppliers.

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as '*returns outward book or returns outward journal*'. This book is prepared like purchases book and details are entered as mentioned in the format given below:

Purchase Returns Book Format

Date	Name of the Suppliers (Account to be Debited)	Debit Note No	LF	Details	Cost	Remarks
------	---	---------------	----	---------	------	---------

Sales Returns Book:

This book includes all the returns by customers of credit sales of goods. The Credit Note is used for recording entries in this book.

The **Credit Note** contains the details of customers and goods returned. Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded. Just as goods may be returned to suppliers, goods may be returned by customers for the following reasons:

Defect in the goods or Delay in the dispatch of goods to the customers or Over-supply of goods or goods not being in accordance with the samples and specifications or Violation of the terms of the contract, etc.

Goods returned by the customers are known as 'returns inwards'.

This book is not concerned with the return of assets or return of goods for which cash is paid.

Sales Returns Book Format

Date	Name of the Customers (Account to be Credited)	Credit Note No	LF	Details	Cost	Remarks
------	--	----------------	----	---------	------	---------

Journal Proper:

A book maintained to record transactions, which do not find place in special journals, is known as Journal Proper or Journal Residual. Following transactions are recorded in this journal:

1. **Opening Entry:** In order to open new set of books in the beginning of new accounting year and record there in opening balances of assets, liabilities & capital, the opening entry is made in the journal.

2. **Adjustment Entries:** In order to update ledger account on accrual basis, such entries are made at the end of the accounting period. Such as Rent outstanding, Prepaid insurance, Depreciation and Commission received in advance.

3. **Rectification entries:** To rectify errors in recording transactions in the books of original entry and their posting to ledger accounts this journal is used.

4. **Transfer entries:** Drawing account is transferred to capital account at the end of the accounting year. Expenses accounts and revenue accounts which are not balanced at the time of balancing are opened to record specific transactions. Accounts relating to operation of business such as Sales, Purchases, Opening Stock, Income, Gains and Expenses, etc., and drawing are closed at the end of the year and their Total/balances are transferred to Trading and Profit and Loss account by recording the journal entries. These are also called closing entries.

5. **Other entries:** In addition to the above-mentioned entries in the point 's number 1 to 4, recording of the following transaction is done in the journal proper

(i) At the time of a dishonour of a cheque the entry for cancellation for discount received or discount allowed earlier. (ii) Purchase/sale of items on credit other than goods. (iii) Goods withdrawn by the owner for personal use. (iv) Goods distributed as samples for sales promotion. (v) Endorsement and dishonour of bills of exchange. (vi) Transaction in respect of consignment and joint venture, etc. (vii) Loss of goods by fire/ theft/ spoilage.

The Ledger

The ledger is the principal book of accounting system. It contains different accounts where transactions relating to that account are recorded. A ledger is the collection of all the accounts, debited or credited, in the journal proper and various special. A ledger may be in the form of bound register, or cards, or separate sheets may be maintained in a loose-leaf binder. In the ledger, each account is opened preferably on separate page or card.

Utility

A ledger is very useful and is of utmost importance in the organisation. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger. For eg., the management on a particular date wants to know the amount due from a certain customer or the amount the firm has to pay to a particular supplier, such information can be found only in the ledger. Such information

is very difficult to ascertain from the journal because the transactions are recorded in the chronological order and defies classification.

FORMAT OF LEDGER

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
------	-------------	----	--------	------	-------------	----	--------

Distinction between Journal and Ledger:

1. The Journal is the book of first entry (original entry); the ledger is the book of second entry.
2. The Journal is the book for chronological record; the ledger is the book for analytical record.
3. The Journal, as a book of source entry, gets greater importance as legal evidence than the ledger.
4. Transaction is the basis of classification of data within the Journal; Account is the basis of classification of data within the ledger.
5. Process of recording in the Journal is called Journalising; the process of recording in the ledger is known as Posting

Illustration 11:

<i>Date</i>	<i>Details</i>	<i>Amt. (₹)</i>
2022		
Dec. 01	Business started with cash	1,20,000
Dec. 02	Opened a bank account with ICICI	4,00,00
Dec. 04	Goods purchased for cash	12,000
Dec. 10	Paid cartage	500
Dec. 12	Goods sold on credit to M/s Lara India	25,000
Dec. 14	Cash received from M/s Lara India	10,000
Dec. 16	Goods returned from Lara India	3,000
Dec. 18	Paid trade expenses	700
Dec. 19	Goods purchased on credit from Taranum	32,000
Dec. 20	Cheque received from M/s Lara India for final settlement and deposited same day into bank	11,500
Dec. 22	Goods returned to Taranum	1,500
Dec. 24	Paid for stationery	1,200
Dec. 26	Cheque given to Taranum on account	20,000
Dec. 28	Paid rent by cheque	4,000
Dec. 29	Drew cash for personal use	10,000
Dec. 30	Cash sales	12,000
Dec. 31	Goods sold to M/s Rupak Traders	11,000

Solution:

Books of Time Zone Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2022 Dec. 01	Cash A/c Dr. To Capital A/c (Business started with cash)		1,20,000	1,20,000
02	Bank A/c Dr. To Cash A/c (Opened a current account with ICICI bank)		40,000	40,000
04	Purchases A/c Dr. To Cash A/c (Goods purchased for cash)		12,000	12,000
10	Cartage A/c Dr. To Cash A/c (Cartage paid)		500	500
12	Lara India A/c Dr. To Sales A/c (Goods sold on credit)		25,000	25,000
14	Cash A/c Dr. To Lara India A/c (Cash received from Lara India)		10,000	10,000
16	Sales Return A/c Dr. To Lara India A/c (Goods returned from Lara India)		3,000	3,000
18	Trade Expenses A/c Dr. To Cash A/c (Trade expenses paid)		700	700
19	Purchases A/c Dr. To Taranum's A/c (Goods purchased on credit)		32,000	32,000
20	Bank A/c Dr. Discount A/c Dr. To Lara India A/c (Cheque received for final settlement)		11,500 500	12,000
22	Taranum's A/c Dr. To Purchase Return's A/c (Goods returned to Taranum)		1,500	1,500
24	Stationery A/c Dr. To Cash A/c (Cash paid for stationery)		1,200	1,200
26	Taranum's A/c Dr. To Bank A/c (Cheque given to Taranum)		20,000	20,000

28	Rent A/c To Bank A/c (Rent paid by cheque)	Dr.	4,000	4,000
29	Drawings A/c To Cash A/c (Cash withdrawn for personal use)	Dr.	10,000	10,000
30	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	12,000	12,000
31	Rupak Trader A/c To Sales A/c (Goods sold on credit)	Dr.	11,000	11,000
	Total		3,14,900	3,14,900

Posting in the Ledger books:

Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023				2023			
Dec. 01	Capital		1,20,000	Dec. 02	Bank		40,000
Dec. 14	Lara India		10,000	Dec. 04	Purchase		12,000
Dec. 30	Sales		12,000	Dec. 10	Cartage		500
				Dec. 18	Trade		700
					Expenses		
				Dec. 24.	Stationery		1,200
				Dec. 29	Drawings		1,000

Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2023			
				Dec.01	Cash		1,20,000

Bank Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023				2023			
Dec.02	Cash		40,000	Dec.26	Taranum's		20,000
Dec.20	Lara India		11,500	Dec.28	Rent		4,000

Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.04	Cash		12,000				
Dec.19	Taranum		32,000				

Cartage Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.10	Cash		500				

Lara India Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.12	Sales		25,000	2023 Dec. 14	Cash		10,000
				Dec. 16	Sales return		3,000
				Dec. 20	Bank		11,500
					Discount		500

Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2023 Dec.12	Lara India		25,000
				Dec.30	Cash		12,000
				Dec.31	Rupak Traders		11,000

Sales Return Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.16	Lara India		3,000				

Trade Expenses Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.18	Cash		700				

Taranum Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.22	Purchase		1,500	2023 Dec.19	Purchase		32,000
Dec.26	Return Bank		20,000				

Discount Paid Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.20	Lara India		500				

Purchases Return Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2023 Dec.22	Taranum		1,500

Stationery Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec.	Cash		1,200				

Rent Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec. 28	Bank		4,000				

Drawings Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec. 29	Cash		10,000				

Rupak Traders Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2023 Dec. 31	Sales		11,000				

MCQ

- 1 The entry which is passed for bringing forward the balances of personal and real accounts as shown in the last year's balance sheet is called _____.
 (a) Closing entry
 (b) Journal entry
 (c) Opening entry
 (d) None of these
- 2 The process of recording a business transaction in the journal is called _____.
 (a) Costing
 (b) Posting
 (c) Balancing
 (d) Journalising
- 3 How many columns are there in a Ledger (on one side) _____.
 (a) Six
 (b) Four
 (c) Five
 (d) Seven\
- 4 The **journal entry to record the sale of services on credit should include:**
 (a) Debit to debtors and credit to capital.
 (b) Debit to cash and Credit to debtors.
 (c) Debit to fees income and Credit to debtors.
 (d) Debit to debtors and Credit to fees income
- 5 **Find the correct statement:**
 (a) Credit a decrease in assets
 (b) Credit the increase in expenses
 (c) Debit the increase in revenue
 (d) Credit the increase in capital
- 6 **Purchase returns book records**
 (a) Cash purchase
 (b) Credit sales
 (c) Return of sold goods
 (d) Return of goods purchased on credit
- 7 **Debit Note is issued for purchased goods returned to**
 (a) Debtors
 (b) Creditor
 (c) Bank
 (d) Customer
- 8 **Which of the following is not a book of original entry.**
 (a) Journal Book
 (b) Ledger
 (c) Purchase book
 (d) Sales book
- 9 **When a customer returns the goods to supplier, which document is sent to him**
 (a) An invoice is sent to him
 (b) A Debit Note is sent to him
 (c) A Credit Note is sent to him
 (d) None of the above.
- 10 **Closing entries are recorded in**
 (a) Cash Book
 (b) Ledger
 (c) Journal Proper ✓

11	(d) Balance Sheet Purchase of fixed assets on credit is originally recorded in
	(a) Purchases book (b) Ledger (c) Cash book (d) Journal proper
12	Goods purchased from Mr. Z, the payment for which is due after two months is recorded in
	(a) Purchase Book (b) Purchase Return Book (c) Journal Proper (d) None
13	A ledger is called a book of.
	(a) Primary entry (b) Final entry (c) Original entry (d) None of the above
14	The process of transferring of items from a journal to their respective ledger accounts is called as.
	(a) Entry (b) Arithmetic (c) Balancing (d) Posting
15	Refer to the left side of the ledger account as.
	(a) Debit side (b) Credit side (c) Footing (d) Balance

ANSWERS TO MCQ

1	(c) Opening entry
2	(d) Journalising
3	(b) Four
4	(d) Debit to debtors and Credit to fees income
5	(d) Credit the increase in capital
6	(d) Return of goods purchased on credit
7	(b) Creditor
8	(b) Ledger Book
9	(c) A Credit Note is sent to him
10	(c) Journal Proper
11	(d) Journal proper
12	(a) Purchase Book
13	(b) Final entry
14	(d) Posting
15	(a) Debit side

3- and 4-marks questions

Q. No 1

- On 1st April 2023, Vinod started business with cash ₹1, 00,000, furniture ₹2, 00,000, and building ₹10, 00,000.
- Sold goods to Mr. Ashish worth ₹50,000 on 12th April and received payment ₹30,000 on 30th April 2023

Pass necessary journal entries

2. Karan Ltd Trivandrum (Kerala) sold goods worth ₹1,00,000 to Krish Ltd., of Coimbatore (TN) charging IGST @ 12% i.e. ₹12,000. For Karan Ltd IGST charged is _____ and for Krish Ltd it is _____

...Karan sold goods to Kiran for Rs 10,000 Kochi (Kerala)

- (a) For Karan Ltd IGST charged is _____ and for Krish Ltd it is _____..
 - a) Output IGST and Input IGST
 - b) Input IGST and Output IGST
 - c) Input CGST and Input SGST
 - d) Output IGST and Input SGST
- (b) For Karan Ltd sales to Kiran ----- will be charged
 - a. Input CGST and SGST will be charged
 - b. Input IGST will be charged
 - c. Output CGST and SGST will be charged
 - d. Output IGST will be charged
- (c) If Kiran Returns the goods to Karan the following entry will be passed
 - a. Sales Return a/c
Output CGST a/c
Output SGST a/c
To Cash a/c
 - b. Sales Return a/c
Output IGST a/c
To Cash a/c
 - c. Sales Return a/c
Output SGST a/c
To Cash a/c
 - d. None of the above

Q No 3. FRCT Ltd. a manufacturing company has now expanded its operations. Its sales are increasing rapidly and the demand for its products is also rising. It is expanding geographically to different states. Initially when the operations were small, its accountant Mr. Kumar maintained only a journal. But as the business expands and the number of transactions becomes large, it becomes cumbersome to journalise each transaction. So now a need is felt to prepare special journals or subsidiary books. So accordingly, Mr. Kumar instructs his subordinates to prepare various subsidiary books.

1. What will be the advantage of preparing these subsidiary books?
 - (a) Quick, efficient and accurate recording of business transactions
 - (b) Time consuming
 - (c) They prove economical and make division of labour possible in accounting work
 - (d) Both (a) and (c)
2. Sales book does not record cash sales of merchandise.
 - (a) True
 - (b) False
 - (c) Can't say
 - (d) Partially true
3. If FRCT Ltd. purchased furniture of Rs 40,000 on credit; Mr. Kumar will record this transaction in
 - (a) Purchases book
 - (b) Cash book
 - (c) Journal proper
 - (d) None of the above Direction

Q No 4 Journalize the following Transactions in the books of Sophia.

1. Telephone charges Rs 4720 (including GST @ 18%)
2. Income Tax Rs 12000 paid by cheque
3. Goods returned to Sohan, Haryana Rs 30,000 which was purchased @ 18% GST extra.
(For practice purpose)

Sol 1

Cash A/c	Dr	1,00,000	
Furniture a/c	Dr	2,00,000	
Building a/c	Dr	10,00,000	
To Capital a/c			13,00,000
(Being business started with Assets)			
Ashish A/c	Dr	50,000	
To Sales A/c			50,000
(Being goods sold on credit to Mr. Ashish)			
Cash a/c	Dr	30,000	
Ashish A/c			30,000
(Cash received from Ashish)			

Sol 2

- 1 (a) Output IGST and Input IGST
- 2 (c) Output CGST and SGST will be charged
- 3 (a) Sales Return a/c
 Output CGST a/c
 Output SGST a/c
 To Cash a/c

- Sol 3**
- 1 (d) Both (a) and (c)
 - 2 (a) True
 - 3 (c) journal proper

6 marks questions

1 Journalise the following transactions

- (a) Rs 1,000 due from Rohit are now bad debts.
- (b) Goods worth Rs 2,000 were used by the proprietor.
- (c) Charge depreciation on machine Rs 30,000.
- (d) Commission paid Rs 50,000.
- (e) Rahul become insolvent, who owed is Rs 2,000 a final dividend of 60 paise in a rupee is received from his estate.
- (f) Withdrew for personal use Rs 10,000

2 Journalise the following transactions

- Dec. 07 Purchased goods for cash Rs10, 000
 Dec. 09 Sold goods to Swathi Rs 5,000
 Dec. 12 Purchased furniture Rs 3,000
 Dec. 18 Cash received from Swati in full settlement Rs 4,000
 Dec. 25 Paid rent Rs 1,000
 Dec. 30 Paid salary Rs1, 500

3 Give journal entries for the following adjustments in final accounts

- (a) Salaries Rs 6,000 outstanding
- (b) Insurance Rs 2,500 is paid in advance
- (c) Commission earned but not received Rs 500.
- (d) Rs 5,000 for rent have been received in advance

Solutions 1

Bad Debts a/c	Dr	1,000	
To Rohit a/c			1,000
(Being amount due from Rohit are now bad debts)			
Drawings A/c	Dr	2,000	
To Purchases A/c			2,000
(Being goods sold on credit to Swathi)			
Depreciation a/c	Dr	30,000	
To Machinery a/c			30,000
(Being Depreciation on machinery charged)			
Commission A/c	Dr	50,000	
To Cash A/c			50,000
(Being rent paid)			
Cash a/c	Dr	1,200	
Bad debt a/c	Dr	800	
To Rahul a/c			2,000
(Being Cash received from Rahul and bad debt incurred)			
Drawings A/c	Dr	10,000	
To Cash a/c			10,000
(Being cash withdrawn for personal use)			

2

Purchases a/c	Dr	10,000	
To Cash a/c			10,000
(Being goods purchased for cash)			
Swathi A/c	Dr	5,000	
To Sales A/c			5,000
(Being goods sold on credit to Swathi)			
Furniture a/c	Dr	3,000	
Cash A/c			3,000
(Cash received from Ashish)			
Cash a/c	Dr	4,000	
Discount a/c	Dr	1,000	
To Swathi a/c			5,000
(Being Cash received from Swathi)			
Rent A/c	Dr	1,000	
To Cash A/c			1,000
(Being rent paid)			
Salary a/c	Dr	1,500	
Cash A/c			1,500
(Being Salary paid)			

3

(a) Salary a/c	Dr	6,000	6,000
To Outstanding salary a/c			
(Being Salary outstanding)			
(b) Prepaid insurance a/c	Dr	2,500	2,500
To Insurance a/c			
(Being insurance pre-paid)			
C) Accrued Commission ac...	Dr	500	500
To Commission a/c			
(Being commission outstanding)			
(d) Rent a/c ...Dr		5,000	5,000
To Pre received rent a/c			
(Being rent pre paid)			

ACCOUNTING EQUATION

MEANING OF ACCOUNTING EQUATION

Accounting equation signifies that the assets of a business are always equal to the total liabilities and capital. The equation reads as follows

$$A = C + L$$

Where:

A=Assets

L= Liabilities

C =Capital

The above equation can also be presented in the following forms as its derivatives to enable the determination of missing figures of Capital (C) or Liabilities (L)

(i) $A - L = C$

(ii) $A - C = L$

Since, the accounting equation depicts the fundamental relationship among the components of the balance sheet, it is also called Balance Sheet Equation. As the name suggests, the balance sheet is a statement of assets, liabilities and capital.

Illustration I

Find the capital of the business if total assets are ₹ 1,70,000 and its liabilities are ₹ 70,000

Solution:

Assets =Liabilities +Capital

So, Capital =Assets -Liabilities

Capital =₹ 1,70,000-₹ 70,000=₹ 1,00,000

Illustration II

X commenced business on 1st April ,2016 with a capital of ₹ 50,000. On 31st March ,2017, his assets were worth ₹ 95,000 and liabilities of ₹ 30,000. Find the capital at the end of the year and profit earned during the year

Solution:

Assets =Liabilities +Capital

So, Capital =Assets -Liabilities

Capital = 95,000 - 30,000 = ₹ 65,000

Profit = Closing capital - Opening capital

Profit = 65,000 - 50,000 = ₹ 15,000

Illustration III

Show the effect of following transaction on the accounting equation:

- Manoj started business with cash ₹2,30,000, Goods ₹1,00,000 and, Building ₹2,00,000
- He purchased goods for cash ₹50,000
- He sold goods (costing ₹20,000) ₹35,000
- He purchased goods from Rahul ₹55,000
- He sold goods to Varun (costing ₹52,000) ₹ 60,000
- He paid cash to Rahul in full settlement ₹53,000
- Salary paid by him ₹20,000
- Received cash from Varun in full settlement ₹ 59,000
- Rent outstanding ₹3,000
- Prepaid Insurance ₹2,000
- Commission received by him ₹13,000
- Amount withdrawn by him for personal use ₹ 20,000
- Depreciation charge on building ₹ 10,000
- Fresh capital invested ₹ 50,000
- Purchased goods from Rakhi ₹ 10,000

Solution: Assets = Liabilities + Capital

S.N	Transactions	Cash	Stock	Building	Debtors	Prepaid Insurance	Creditors	O/S Rent	Capital
a	started business	2,30,000	1,00,000	2,00,000					5,30,000
b	purchased goods for cash	2,30,000 (50,000)	1,00,000 50,000	2,00,000					5,30,000
c	sold goods	1,80,000 35,000	1,50,000 (20,000)	2,00,000					5,30,000 15,000
d	purchased goods from Rahul	2,15,000	1,30,000 55,000	2,00,000					5,45,000
e	sold goods to Varun	2,15,000	1,85,000 (52,000)	2,00,000			55,000		5,45,000 8000
f	paid cash to Rahul in full settlement	2,15,000 (53,000)	1,33,000	2,00,000	60,000 60,000		55,000 (55,000)		5,53,000 2,000
g	Salary paid	1,62,000 (20,000)	1,33,000	2,00,000	60,000				5,55,000 (20,000)
h	Received cash from Varun in full settlement	1,42,000 59,000	1,33,000	2,00,000	60,000 (60,000)				5,35,000 (1,000)
i	Rent outstanding	2,01,000	1,33,000	2,00,000					5,34,000 (3,000)
j	Prepaid Insurance	2,01,000 (2,000)	1,33,000	2,00,000				3,000	5,31,000
k	Commission received	1,99,000 13,000	1,33,000	2,00,000		2,000		3,000	5,31,000 13,000
l	Amount withdrawn by owner	2,12,000 (20,000)	1,33,000	2,00,000		2,000		3,000	5,44,000 (20,000)
m	Depreciation charge on building	1,92,000	1,33,000	2,00,000 (10,000)		2,000		3,000	5,24,000 (10,000)
n	Fresh capital invested	1,92,000 50,000	1,33,000	1,90,000		2,000		3,000	5,14,000 50,000
o	Purchased goods from Rakhi	2,42,000	1,33,000 10,000	1,90,000		2,000		3,000	5,64,000
							10,000		
		2,42,000	1,43,000	1,90,000		2,000	10,000	3,000	5,64,000

Multiple Choice Questions

	Questions
1	During an accounting period, a company's assets increase by ₹ 50,00, 000. Liabilities decreased by ₹ 10,00,000; Capital must be i) Decrease by ₹ 40,00,000 ii) Increase by ₹ 40,00,000 iii) Decrease by ₹ 60,00,000 iv) Increase by ₹ 60,00,000 Answer. iv) Increase by ₹ 60,00,000
2	The accounting equation signifies that: i) Resources are allocated at purchase price ii) Owner's provide money to business iii) Resources available in the business are equal to the sources of business. iv) Resources available in the business are not equal to the sources of business. Answer .iii) Resources available in the business are equal to the sources of business.
3	Decrease in one liability may lead to i) Decrease in an asset ii) Increase in another liability iii) Either (i) or (ii) iv) None of these Answer iii) Either (i) or (ii)
4	Purchase of machine by cash means i) Decrease in asset and decrease in liability ii) Increase in asset and decrease in asset iii) Increase in asset and decrease in liability iv) Decrease in asset and decrease in liability v) Decrease in asset and increase in liability Answer. ii) Increase in asset and decrease in asset
5	Payment to a creditor means i) Increase in asset and decrease in liability ii) Decrease in asset and decrease in liability iii) Decrease in asset and increase in liability iv) Increase in asset and increase in liability Answer ii) Decrease in asset and decrease in liability

Questions for practice:

1	Show the effect of the following transactions on the accounting equations i) Started business with cash ₹ 50,000 ii) Salaries paid ₹ 2,000 iii) Wages outstanding ₹ 200 iv) Rent paid in advance ₹ 100 v) Purchased machinery for cash ₹ 10,000				
	ASSETS		+LIABILITIES		CAPITAL
	Cash	Machinery	Rent paid in advance	Wages outstanding	Capital

a	1,20,000			1,20,000
b	1,20,000 (10,000)	10,000		1,20,000 1,20,000
c	1,10,000 5,000	10,000		1,20,000 5,000
d	1,15,000	10,000	2,000	1,25,000 (2,000)
e	1,15,000 7,000	10,000 (5,000)	2,000	1,23,000 2,000
f	1,22,000	5,000 (500)	2,000	1,25,000 (500)
	1,22,000	4,500	2,000	1,24,500

4 Prepare accounting equation from the following:

- Started business with cash ₹ 2,00,000 and goods worth ₹ 40,000.
- Sold 50% of the above goods at a profit of ₹ 4,000 to Raghunath.
- Raghunath paid 90% of his amount in final settlement.

	Assets			Capital + Liabilities
	Cash	Stock	Debtors	Capital
a	2,00,000	40,000		2,40,000
b	2,00,000	40,000 (20,000)	24,000	2,40,000 4,000
c	2,00,000 21,600	20,000	24,000 (24,000)	2,44,000 (2,400)
	2,21,600	20,000		2,41,600

5 Prepare accounting equation from the following:

- Started business with cash ₹ 50,000 and goods ₹ 30,000
- Purchased goods for cash ₹30,000 and on credit from Karan ₹ 20,000
- Goods costing ₹ 40,000 were sold for ₹ 55,000
- Withdrew cash for personal use ₹ 10,000

	Assets		Liabilities	Capital
	cash	stock	Creditors	capital
a	50,000	30,000		80,000
b	50,000 (30,000)	30,000 50,000	20,000	80,000
c	20,000 55,000	80,000 (40,000)	20,000	80,000 15,000
d	75,000 (10,000)	40,000	20,000	95,000 (10,000)
	65,000	40,000	20,000	85,000

CASH BOOK

Cash book is a book in which all transactions relating to cash receipts and cash payments are recorded. It starts with cash or bank balances at the beginning of the period. Generally, it is made on monthly basis. This is a very popular book and is maintained by all organisations, big or small, profit or not for profit.

Single Column Cash Book:

The single column cash book records all cash transactions of the business in a chronological order, i.e, it is a complete record of cash receipts and cash payments. When all receipts and payments are made in cash by a business organisation only the cash book contains only one amount column on each side.

Format of Single column Cash Book

Dr				Cr			
Date	Receipts	LF	₹	Date	Payments	LF	₹

Illustration I

Enter the following transactions in a single column cash book

- 2023 March 01. Commenced business with cash ₹ 10,000
 02. Bought goods for cash ₹ 2,500
 05. Sold goods for cash ₹ 2,000
 10. Goods purchased from Ravi on credit ₹ 5,000
 13. Paid to Ravi ₹ 3,500
 15. Cash sale ₹ 4,000
 18. Purchased furniture for cash ₹ 3,000
 20. Paid wages ₹ 190
 24. Paid rent ₹ 200
 26. Received commission ₹ 300
 28. Withdrew for personal use ₹ 500
 31. Paid salary ₹ 450

Solution:

Dr				Cr			
Date	Receipts	LF	₹	Date	Payments	LF	₹
2023 March				2023 March			
01	To Capital A/c		10,000	02	By purchases A/c		2,500
05	To Sales A/c		2,000	13	By Ravi's A/c		3,500
15	To Sales A/c		4,000	18	By Furniture A/c		3,000
26	To Commission/c		300	20	By wages A/c		190
				24	By Rent A/c		200
				28	By Drawings A/c		500
				31	By Salary A/c		450
				31	By balance c/d		5960
			<u>16,300</u>				<u>16,300</u>
2017 April 1	To balance b/d		5960				

Double Column Cash Book

In this case the cash book is ruled with two amount columns on either side of the cash book namely, Cash and Bank. Cash columns in such a case will record actual cash received in the debit side and payments in the credit side. Cheques received should be entered on the debit side of the bank column when it is deposited in the bank. The payments by cheques should be entered on the credit in the bank column and also when cash is withdrawn from the bank

Dr					Cr				
Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank

Important Entries: -

1. Contra Entries: These entries affect cash and bank columns both at the same time. To indicate contra entry “c” is mentioned in the L.F. column of the cash book. Following two cases result in Contra entries.

(a) Depositing cash into Bank ₹ 1,000. It will increase bank balance ,so bank column is debited and balance will decrease ,so cash column is credited.

Dr Format of Double column Cash Book

Cr

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
01.04.23	To, Cash A/c			1,000	01.04.23	By, Bank A/c		1,000	

(b) Withdrawn from bank for office use ₹ 1,000. It will increase bank balance ,so bank column is debited and bank balance will decrease ,so bank column is credited

Dr Format of Double column Cash Book

Cr

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
01.04.23	To, Bank A/c		1,000		01.04.23	By Cash A/c			1,000

2.Entries relating to cheques:

(i) When any payment is made by cheque: It will reduce the bank balance and thus bank column will be credited.

(ii) When any receipt is received in cheque and that cheque is deposited into bank on the same day, bank account will be debited.

Illustration 2

Enter the following transactions in a Cash Book with Cash and Bank Columns.

2023		₹
Feb.1	Bank overdraft	12,000
	Cash-in-hand	2,300
5	Purchased goods for ₹ 40,000; Trade discount 15%	
6	Sold goods for ₹ 30,000; Trade discount @10%	
7	Cheque received from Apex Furnitures	4,000
9	Cheque received from Apex Furnitures deposited in bank	
12	Cheque paid to Nimesh Bros.	2,500
	Discount received	50
15	Apex Furnitures cheque dishonoured	
20	Money withdrawn from bank for office use	3,400
23	Fees of children paid by cheque from business account	75
25	Cheque received from Hemendra and endorsed it to Sanjana	4,500
27	Bank Charges	20
31	Paid into Bank the entire balance after retaining ₹ 700 at office	

Solution:

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
2023			₹	₹				₹	₹
Feb1	To, balance b/d		2,300		Feb1	By balance b/d			12,000
6	To Sales A/c			27,000	5	By Purchases A/c			34,000
7	To Apex furniture A/c		4,000		9	By Bank A/c	C	4,000	
9	To Cash A/c	C		4,000	12	By Nimesh Bros.			2,500
20	To Bank A/c	C	3,400		15	By Apex Furnitures			4,000
31	To Cash A/c	C		5,000	20	By Cash A/c	C		3,400
31	To Balance c/d			19,995	23	By Drawings A/c			75
					27	By Bank charges			20
					31	By Bank A/c	C	5,000	
					31	By Balance c/d		700	
			<u>9,700</u>	<u>55,995</u>				9,700	55,995
Mar1	To Balance b/d		700		Mar1	By Balance b/d			19,995

Illustration 3

Following transactions extracted from the Books of Mr. Kashyap for April 2011. Prepare a double column cash Book

Date	Details	₹
September 2022 01	Cash in hand Cash at Bank	3,000 7,000
02	Cash received from Kumar	20,000
05	Cash deposited in the Bank	21,000
10	Furniture purchased and cheque issued	3,000
15	Drew for personal use, office cash	2,000
22	Paid for stationery	500

Solution: Dr**Format of Double column Cash Book****Cr**

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
Sept 2022 01	To, balance b/d		4,000	7,000	Sept 2022				
02	To, Kumar's A/c		20,000	-----	05	By, Bank A/c	C	21,000	-----
05	To, Cash A/c	C	-----	21,000	10	By, Furniture A/c		-----	<u>3,000</u>

					15	By Drawings A/c		2,000	
					22	By, Stationery A/c		500	
					30	By, balance c/d		500	25,000
			24,000	28,000				24,000	28,000
Oct 01	To, balance b/d		500	25,000					

Petty Cash Book:

Business has to incur small expenses which are repetitive in nature. To save the time and efforts of head cashier, business appoints a petty cashier. He is entrusted with the duty of paying these expenses.

Imprest System of Petty Cash Book:

Under this system, Head cashier gives a fixed amount to petty cashier for a definite period. At the end of given period, Head cashier reimburses the amount actually spent by the petty cashier resulting the same with petty cashier which he had in the beginning of the period.

Advantages of Petty Cash Book

- Saving of time and efforts of Head Cashier
- Control on petty expenses
- Less chances of fraud

Illustration 4

Mr. Mohit the petty cashier of M/s Samaira Traders received 2,000 on May 2023 from Head cashier. For the month, details of petty cash expenses are listed below

Date	Details	₹
2017 May 02	Auto fare	55
03	Courier services	40
04	Postal stamps	105
05	Erasers/Sharpeners	225
06	Speed post charges	98
08	Taxi fare	195
08	Refreshments	85
10	Auto fare	60
12	Registered postal charges	42
13	Telegram	34
14	Cartage	25
16	Computer stationery	165
19	Bus fare	24
19	STD Call charges	87
20	Office sanitation	60
22	Refreshments	45
23	Photostatting charges	47
28	Courier charges	40
29	Unloading charges	40
30	Bus fare	15

Solution:

The petty cash book for the month will be prepared as follows:

Amt received	Date	Particulars	Vr No	Amt Paid	Analysis of payments
--------------	------	-------------	-------	----------	----------------------

	2023 May			Post age	Tele- phone & Tele gram	Con Vey- ance	Sta tion- ery	Misc.
2,000	01	To Cash received						
	02	By Auto fare	55			55		
	03	By Courier services	40	40				
	04	By Postal stamps	105	105				
	05	By Erasers/Sharpeners	225				225	
	06	By Speed post charges	98	98				
	08	By Taxi fare	195			195		
	08	By Refreshments	85					85
	10	By Auto fare	60			60		
	12	By Registered postal charges	42	42				
	13	By Telegram	34		34			
	14	By Cartage	25					25
	16	By Computer stationery	165				165	
	19	By Bus fare	24			24		
	19	By STD Call charges	87		87			
	20	By Office sanitation	60					60
	22	By Refreshments	45					45
	23	By Photostating charges	47					47
	28	By Courier charges	40	40				
	29	By Unloading charges	40					40
	30	By Bus fare	15			15		
			1487	325	121	349	390	302
	31	To, balance c/d	<u>513</u>					
2,000			2,000					
513	June 01	To balance b/d						
1487	01	To cash received						

OTHER SUBSIDIARY BOOKS

Enter the following transactions in the Purchase Book, Sales Book, Purchase Returns Book and Sales Returns Book of Abhishek and Co. for the month of January, 2022.

01. Jan. Purchased goods from Raj Traders ₹ 16,400 at 10% trade discount.
03. Jan. Preeti enterprises invoiced goods to us ₹ 17,250.
06. Jan. Sold goods to Vinita Stores Rs 19,000 at 5% trade discount.
09. Jan. Mitesh Associates invoiced goods to us ₹ 17,000 at 2½% trade discount.
12. Jan. Returned goods to Raj traders ₹ 1,650 (Net).
15. Jan. Vinita Traders returned goods to us as they were damaged in transit ₹ 4,000(Gross)
18. Jan. Returned goods to Preeti ₹ 2,550
23. Jan. Placed an order with Novel Stores for goods worth ₹ 29,000.
25. Jan. Novel Stores supplied goods worth ₹ 19,000 only
26. Jan. Returned goods to Novel Stores as they were not as per specification ₹ 2,550.
28. Jan. Sold goods to Deepika ₹ 24,000 at 8% trade discount.
30. Jan. Deepika returned goods of ₹ 4,000 (Gross).

In the Books of Abhishek and Co.

Purchases Book

Date	Particulars	L.F.	Details (₹)	Amount(₹)
2022				
1 Jan	Raj Traders		16,400	
	Less: Trade Discount @ 10%		(1,640)	14,760
3 Jan	Preeti Enterprises			17,250
9 Jan	Mitesh Associates		17,000	
	Less: Trade Discount @ 2.5%		(425)	16,575
25 Jan	Novel Stores			<u>19,000</u>
31 Jan	Purchases A/c Dr.			<u>67,585</u>

Sales Book

Date	Particulars	L.F.	Details (₹)	Amount (₹)
2022				
6 Jan	Vinita Stores		19,000	
	Less: Trade Discount @ 5%		(950)	18,050
28 Jan	Deepika		24,000	
	Less: Trade Discount @ 8%		(1,920)	22,080
31 Jan	Sales A/c Cr.			<u>40,130</u>

Purchase Return Book

Date	Particulars	L.F.	Details (₹)	Amt. (₹)
2022				
12 Jan	Raj Traders		1650	
18 Jan	Preeti Enterprises		2550	
26 Jan	Novel Stores		<u>2550</u>	
31 Jan	Purchases Returns A/c Cr.			<u>6750</u>

Sales Return Book

Date	Particulars	Credit Note No.	L.F.	Details (₹)	Amt. (₹)
Jan 2022					
15 Jan	Vinita Traders			4,000	
	Less: Trade Discount @ 5%			(200)	3,800
30 Jan	Deepika			4,000	
	Less: Trade Discount @ 8%			(320)	3,680
31 Jan	Sales Returns A/c Dr.				<u>7,480</u>

From the following make an opening journal entry: (Journal Proper)

2024
April 1

Cash Rs.1,00,000, Bank Rs.25,000 , Stock Rs.50,000, Machinery Rs.75,000, Furniture Rs.40,000, Land and Buildings Rs.3,00,000, Creditors Rs.60,000 and Loan from SBI Rs.85,000.

Opening Journal Entry:

Date	Particulars	LF	Debit Rs.	Credit Rs.
2024 April 1	Cash a/c	Dr.	1,00,000	
	Bank a/c	Dr.	25,000	
	Stock a/c	Dr.	50,000	
	Machinery a/c	Dr.	75,000	
	Furniture a/c	Dr.	40,000	
	Land and Buildings a/c	Dr.	3,00,000	
	To Creditors a/c			60,000
	To Loan from SBI a/c			85,000
	To Capital a/c			4,45,000
	(Being an opening entry made)			

Multiple Choice Questions

1	Deposit of cash in bank is recorded in a) Debit of bank column and credit of cash column b) Debit of cash column and credit of bank column c) Debit of cash column and also credit of cash column d) Debit of bank column and also credit of cash column Answer. a) Debit of bank column and credit of cash column
2	Contra entry will be recorded in case of a) Cash invested by the owner b) Cash deposited by the customer into the bank c) Cash purchases d) Cash withdrawn from bank for office use Answer d) Cash withdrawn from bank for office use
3	Petty cash book is required to record a) All incomes b) Only incomes of petty nature c) All expenses d) Only expenses of small value paid in cash Answer d) Only expenses of small value paid in cash
4	Goods purchased for cash is recorded in the a) Cash book b) Journal proper c) Purchase book d) Purchase returns book Answer a) Cash book
5	Withdrawal of cash from Bank is recorded in a) Debit of bank column and credit of cash column b) Debit of cash column and credit of bank column c) Debit of cash column and also credit of cash column

d) Debit of bank column and also credit of cash column

Answer. b) Debit of cash column and credit of bank column

Practice Questions

1. Enter the following transactions in simple cash book

Date	Details	₹
Dec 2017 01	Cash in hand	7,750
06	Paid to Sonu	45
08	Purchased goods	600
15	Received cash from Prakash	960
20	Cash sales	500
25	Paid to S.Kumar	1,200
30	Paid rent	600

Solution:

Dr Single Column Cash Book

Cr

Date	Receipts	LF	₹	Date	Payments	LF	₹
Dec 2017 01	To, balance b/d		7,750	Dec 2017 06	By Sonu's A/c		45
				08	By Purchases A/c		600
15	To, Prakash's A/c		960				
20	To, Sales A/c		500				
				25	By, S Kumar's A/c		1,200
				30	By, Rent A/c		600
				31	By balance c/d		6765
			9210				9210
Jan 2018 01	To balance b/d		6765				

2 Record the following transactions in a bank column cash book for December 2023

Date	Details	₹
Dec 2023 01	Started business with cash	80,000
04	Deposited in bank	50,000
10	Received cash from Rahul	1,000
15	Bought goods for cash	8,000
22	Bought goods by cheque	10,000
25	Paid to Shyam by cash	20,000
30	Drew from bank for office use	2,000
31	Rent paid by cheque	1,000

Cash book with bank Column

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
Dec 2023 01	To, Capital A/c		80,000		Dec 2023				
04	To Cash A/c	C		50,000	04	By Bank A/c	C	50,000	
10	To Rahul's A/c		1,000		15	By Purchases A/c		8,000	
					22	By Purchases A/c			10,000
					25	By Shyam's A/c		20,000	
30	To bank A/c	C	2,000		30	By Cash A/c	C		2,000
					31	By Rent A/c			1,000
					31	By balance c/d		5000	37,000
			83,000	50,000				83,000	50,000
Jan 2024 01	To balance b/d		5,000	37,000					

3. Enter the following transaction in a double column cash book of M/s Mohit Traders for January 2022

Date	Details	₹
Jan 2022 01	Cash in hand	3,500
	Bank overdraft	2,300
03	Goods purchased for cash	1,200
05	Paid wages	200
10	Cash sales	8,000
15	Deposited into bank	6,000
22	Sold good for cheque which was deposited into bank same day	2,000
25	Paid rent by cheque	1,200
28	Drew from bank for personal use	1,000
31	Bought goods by cheque	1,000

Double Column Cash Book

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
Jan 2022 01	To Balance b/d		3,500		Jan 2022 01	By Balance b/d			2,300
					03	By purchases A/c		1,200	
10	To sales A/c		8,000		05	By wages A/c		200	
15	To Cash A/c	C	6,000		15	By Bank A/c	C	6,000	
22	To, sales A/c			2,000	25	By rent A/c			1200
					28	By Drawings A/c			1000
					31	By purchases A/c			1,000
	To balance c/d			3500	31	By balance c/d		10,400	
			17500	5,500				17,500	5,500

Feb 2022 01	To, balance b/d		10,400		Feb 2022 01	By balance b/d			3,500
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4.M/s Ruchi traders started their cash book with the following balances on July 2020

Cash in hand ₹1354 and bank balance in current a/c ₹ 7560. He had following transactions in the month of July 2020.

Date	Details	₹
2020 July 03	Cash sales	2,300
05	Purchased goods paid by cheque	6,000
10	Sold goods and received cheque deposited into bank on same day	20,000
18	Purchased motor car by cheque	15,000
20	Cheque received from Manisha and deposited into bank same day	10,000
22	Cash sales	7,000
25	Manisha's cheque dishonoured	
28	Cash withdrawn for personal use	500

Bank Column cash book

Date	Receipts	LF	Cash	Bank	Date	Payments	LF	Cash	Bank
2020 July 01	To balance b/d		1354		2020 July 01	By balance b/d			7560
03	To sales a/c		2,300		05	By purchases a/c			6,000
10	To sales a/c			20,000	18	By motor car a/c			15,000
20	To Manisha's a/c			10,000					
25	To sales a/c		7,000		25	By Manisha's a/c			10,000
					28	By Drawings		500	
31	To balance c/d			8560	31	By balance c/d		10154	
			10654	38560				10654	38560
Aug 2020 01	To balance b/d		10154		2020 Aug 01	By balance b/d			8560

5. From the following particulars, prepare petty cash book for the month of April, 2024

Date	Details	₹
2024 April 01	Drew for petty cash	5,000
03	Paid for storage	300
05	Paid for telephone bill	400
08	Paid for cartage	140
09	Paid for postage	200

12	Paid for sundries	100
27	Paid for stationery	300

Petty Cash Book

Amt received	Date	Particulars	Voucher No	Amt paid	Analysis of transactions		
	2024 April				Postage & telegraph	conveyance	Misc,
5,000	01	To cash received					
	03	By storage		300			300
	05	By Telephone bill		400	400		
	08	By cartage		140		140	
	09	By Postage		200	200		
	12	By sundries		100			100
	27	By stationery		300			300
				1440	600	140	700
	30	By balance c/d					
				3560			
5,000				5000			
	May 01	To balance b/d					
3560							
1440		To cash received					

USEFUL LINK

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CHAPTER: 4 BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement is a record book of the transactions of a bank account. This statement helps the account holders to check and keep track of their funds and update the transaction record that they have made. Bank Reconciliation statement is also known as bank passbook. The balance mentioned in the bank passbook of the statement must tally with the balance mentioned in the cash book. In the statement, all the deposit will be shown in the credit column and withdrawals will be shown in the debit column. However, if the withdrawal exceeds deposit, it will show a debit balance (overdraft).

Importance

While making a comparison between the company's cash book and bank balance, the balance does not tally. Therefore, it is important to determine the cause for the difference and display them in the bank reconciliation statement and then tally the two balances. The bank reconciliation statement helps in explaining the differences in the amount between the company's cash book and bank balance.

The cash book and the bank passbook differences are caused by:

- timing differences on recording of the transactions
- errors made by the business or by the bank.

The difference in timing can be caused by many factors which are:

1. Bank-issued cheque but not yet deposited for payment
2. Paid cheque in the bank but yet not cleared
3. Bank made direct debit from the customer's side
4. Cheque/ amount deposited directly to the bank account
5. Dividends and Interest collected by the bank
6. Bank made direct payment from the customer's side
7. Cheques deposited/bills discounted dishonoured

In a few occasions, the error in two balances can be made from the bank side or in the company's cash book. Few errors are as follows:

1. Errors made while registering the transaction by the company
2. Errors made while registering the transaction by the bank

Types of Bank Reconciliation Statement

The Bank Reconciliation Statement can be prepared in 2 ways:

1. Documenting of bank reconciliation statement without adjusting the cash book balance.
2. . Filing of bank reconciliation statement after adjusting the cash book balance.

Steps to Prepare Bank Reconciliation Statement:

- First, the date on which the statement is recorded is mentioned
- After which the balance displayed in the cash book is mentioned in the statement. Sometimes, the balance mentioned in the passbook can also be mentioned.
- The deposited cheques which are not collected are deducted.
- Then the cheques issued but the deposited for payment, but amount directly deposited in the bank account are recorded.

All the transactions like overdraft interest, amount debited by the bank but not recorded in the cash book, cheques and bills dishonoured are deducted.

- All the credits and profit collected by the company and directly deposited in the bank is added.

- Adjustments of errors are made
- Now the balance between the cash book and statement should be equal or the same.

We may have four different situations while preparing the bank reconciliation statement. These are :

1. When debit balance (favourable balance) as per cash book is given and the balance as per passbook is to be ascertained.
2. When credit balance (favourable balance) as per passbook is given and the balance as per cash book is to be ascertained.
3. When credit balance as per cash book (unfavourable balance/overdraft balance) is given and the balance as per passbook is to be ascertained.
4. When debit balance as per passbook (unfavourable balance/overdraft balance) is given and the cash book balance as per is to be ascertained.

MULTIPLE CHOICE QUESTIONS

Q1. Debit Balance as per Cash book shows:

- a) Bank withdrawals are more than deposits.
- b) Bank withdrawals are less than deposits
- c) Bank deposits are less than withdrawals.
- d) All of the above

Answer: (b)

2. Which of the following is not a part of Double Entry System?

- (a) Cash-book
- (b) Journal
- (c) Trial balance
- (d) Bank reconciliation statement

Answer:(d)

3. A business receives its bank statement showing the closing balance as Rs.8,500 overdrawn. It is found that there were unpresented cheques of Rs.2000 and uncredited deposits of Rs.1,500. Overdraft as per cash book is

- (a) Rs.5,000
- (b) Rs.8000
- (c) Rs.9000
- (d) Rs.12,000

Answer: (c) Rs.9000

4. Which of the following transaction will result in higher balance in the bank column of cash-book in comparison to pass-book?

- (a) Cheques issued but not presented for payment.
- (b) Interest allowed by bank.
- (c) Bank charges entered twice in each book.
- (d) Cheques paid into bank for collection but not yet credited.

Answer:(d)

5. If balance in bank statement shows Rs.3,000 (Dr) and there are deposits of Rs.800 not yet credited and unpresented cheque totaling Rs.500, the balance in cash book should be

- (a) Rs.3,300 (cr)
- (b) Rs. 2,700 (cr)

- (c) Rs.4,300 (cr)
- (d) Rs.1,700 (cr)

Answer: (b)

6. ON THE BASIS OF THE FOLLOWING TWO STATEMENTS, IDENTIFY THE CORRECT OPTION OUT OF THE FOLLOWING:

- a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are correct and Reason (R) is correct explanation of Assertion (A).
- c) Assertion (A) is correct but Reason (R) is not correct.
- d) Assertion (A) is not correct but the Reason (R) is correct.

1. **Assertion (A):** The difference in the balances as per Cash Book and Pass Book may arise due to time gap in recording transactions.

Reason (R): The factors causing time gap include cheques issued but not yet presented for payment in the Bank.

Based on the above statements, which of the above options is correct.

Ans: (a)

2. **Assertion (A):** Favorable bank balance as per the Cash Book will be less than the Bank Pass Book balance when there are unpresented cheques for payment in the bank.

Reason (R): When payments are made by the bank as per the standing instructions of the customer, the balance in the passbook will be more when compared to the Cash Book.

Based on the above statements, which of the above options is correct.

Ans: (C)

3. **Assertion (A):** Cheques issued but not yet presented for payment will reduce the balance as per the Pass Book.

Reason (R): Cheques deposited into bank but not yet collected will result in increasing the balance of the Cash Book when compared to Pass Book.

Based on the above statements, which of the above options is correct.

Ans: (d)

4. **Assertion (A):** Overdraft balance as per Pass Book means negative balance as per Pass Book.

Reason (R): An overdraft balance is treated as negative figure in a Bank Reconciliation Statement.

Based on the above statements, which of the above options is correct.

Ans: (a)

5. **Assertion (A):** Bank Reconciliation Statement is prepared to reconcile bank balance as per Cash Book with the balance as per Bank Pass Book (or Statement), by showing all causes of differences between the two.

Reason (R): Bank Reconciliation Statement is prepared to detect the errors committed by bank.

Based on the above statements, which of the above options is correct.

Ans:(C)

SHORT ANSWER QUESTIONS (3 MARKS)

1. State any three reasons when the cash book balance will be higher than the passbook balance.

1. Cheques paid into bank, but not collected
2. Direct debits made by the bank on behalf of the customers
3. Cheques deposited, dishonoured
4. Direct payment made by the bank on behalf of the customers.

2. From the following particulars, prepare a bank reconciliation statement as of March 31, 2017.

(i) Balance as per cash book ₹ 3,200

(ii) Cheque issued but not presented for payment ₹ 1,800

(iii) Cheque deposited but not collected up to March 31, 2017 ₹ 2,000

(iv) Bank charges debited by bank ₹ 150

Bank Reconciliation Statement As on 31st March, 2024

Particulars	Amt(+items)	Amt (-) items
Credit Balance as per cash book	3,200	
1. Cheques of issued not yet presented for payment	1,800	
2. Cheque deposited into bank but not credited by bank		2000
3. Bank charges		150
Balance as per pass book		2850
	5,000	5,000

3. In the following Bank Reconciliation Statement, determine the missing amounts:

Bank Reconciliation Statement As on 31st March, 2024

Particulars	Amt(+items)	Amt(-) items
Credit Balance as per pass book	30,000	
4. Cheques of Rs.10,000 issued but a cheque of Rs.6,000 not yet presented for payment		---
5. Cheque of Rs.25,000 deposited into bank but cheque of Rs.13,000 not credited by bank	---	
6. Interest credited by bank but not recorded in cash book		425
7. Cheque deposited into bank but not entered in cash book		5000
Debit Balance as per cash book		----
	43,000	43,000

Answer

Bank Reconciliation Statement
As on 31st March,2024

Particulars	Amt(+items)	Amt(-) items
Credit Balance as per pass book	30,000	
1. Cheques of Rs.10,000 issued but a cheque of Rs.6,000 not yet presented for payment		6000
2. Cheque of Rs.25,000 deposited into bank but cheque of Rs.13,000 not credited by bank	13,000	
3. Interest credited by bank but not recorded in cash book		425
4. Cheque deposited into bank but not entered in cash book		5000
Debit Balance as per cash book		31,575
	43,000	43,000

.4. In the following Bank Reconciliation Statement, determine the missing amounts:

Bank Reconciliation Statement
As on 31st March,2024

Particulars	Amt(+items)	Amt(-) items
Balance as per cash book (Dr)	16,000	
1. Cheque of Rs.30,000 deposited into bank but cheque of Rs.17,500 not credited by bank	----	---
2. Cheques of Rs.40,000 issued but a cheque of Rs.21,000 not yet presented for payment	---	----
3. Receipt column of cash book overcast by Rs.500		
4. Interest on Investment collected by bankers	-----	-----
5. Bank charges debited by bank	600	
6. Direct deposit made by customer Rs.400		400
	----	-----
Balance as per pass book	-----	----
	36,000	36,000

Answer:

Bank Reconciliation Statement
As on 31st March,2024

Particulars	Amt(+items)	Amt (-) items
-------------	-------------	---------------

Balance as per cash book (Dr)	16,000	12,500
1. Cheque of Rs.30,000 deposited into bank but cheque of Rs.17,500 not credited by bank		
2. Cheques of Rs.40,000 issued but a cheque of Rs.21,000 not yet presented for payment	19,000	
3. Receipt column of cash book overcast by Rs.500		500
4. Interest on Investment collected by bankers	600	
5. Bank charges debited by bank		400
6. Direct deposit made by customer Rs.400	400	
Balance as per pass book		22,600
	36,000	36,000

5. State two transactions which may be recorded in pass book but not in cash book.

1. Interest allowed or credited by bank
2. Bank charges and commission charged by bank

6. Briefly explain the statement 'wrongly debited by the bank' with the help of an example.

Ans: It means that the bank has debited the amount from the user's account for some invalid reason. The following instance can help in understanding.

Rajesh's account is charged an overdraft of Rs.5000 even though his account has a sufficient credit balance. It can happen when the cashier has done an incorrect entry into the account.

7. Briefly explain the term favourable balance as per cash book

Ans: When the total of the debit column of the Cash Book is more than the total credit column of the Cash Book, it is known as a debit balance or favourable balance. A favourable balance is an asset to an account holder. A favourable balance can also be defined as a surplus of deposits over withdrawals.

8. On March 31, 2017, the cash book showed a balance of ₹ 3,700 as cash at the bank, but the bank passbook made up to the same date showed that cheques for ₹ 700, ₹ 300 and ₹ 180, respectively, had not been presented for payment. Also, a cheque amounting to ₹ 1,200 deposited into the account had not been credited. Prepare a bank reconciliation statement.

Bank Reconciliation Statement As on 31st March, 2024

Particulars	Amt(+items)	Amt(-) items
Balance as per cash book	3,700	
Three cheques not presented	1,180	
Cheque deposited into bank but not credited by bank		1,200
Balance as per pass book		3,680
	4,880	4,880
	=====	=====

9. What is the reason that cheques deposited into bank but dishonoured by the bank are recorded in the amended cash book?

Answer:

Cheques deposited have been recorded on the debit side of bank column of cash book. Since they will never be recorded in pass book due to their dishonour, the entry in the cash book must be reversed and hence should be recorded on the credit side of amended cash book.

10. What is the significance of debit and credit balances of cash book?

Answer:

Debit balance as per cash book means that account holder has that much balance in the bank.

Credit or overdraft balance as per cash book means the amount which has been withdrawn in excess of deposits.

Debit balance means favourable balance, while credit balance means unfavourable balance.

SHORT ANSWER QUESTIONS (4 MARKS)

1. What is a bank reconciliation statement? Why is it prepared?

Ans: A statement that is prepared to rectify or tally the difference that exists between the user passbook and the cashbook of the firm, so that the cause of the difference can be determined and rectified is known as Bank Reconciliation Statement. Following are the reasons for its preparation:

To determine if the balance reported by the company's cashbook is the correct amount.

Rectifying any errors present in the cash book so that proper statements can be generated.

Prevents fraudulent activities like embezzlement and improves accountability.

To discover any errors made by the bank and apply corrective measures.

Helps check the accuracy of information recorded in both books.

2. Prepare Bank Reconciliation Statement from the following particulars on 31st July 2022.

(a) Balance as per Pass Book ₹ 500.

(b) Three cheques for ₹60, ₹ 39.37, and ₹ 15.25 issued in July 2022 were presented for payment to the bank in August 2022

(c) Two cheques of ₹ 50 and ₹ 65 sent to the bank for collection were not entered in the pass book by July 31st, 2022.

(e) The Bank charged ₹ 46 for its commission and allowed interest ₹10 which were not entered in the bank account.

Answer:

Bank Reconciliation Statement as on 31st July 2022

Particulars	Amount (+)	Amount (-)
-------------	------------	------------

Balance as per pass book	500	
Add:		
Cheques deposited into bank but not collected by bank (50+65)	115	
Bank charges	46	
Less:		
Cheques issued but not presented for payment (60+39.37+ 15.25)		114.62
Interest allowed by bank		10.00
Balance as per pass book		536.38
	661.00	661.00
	=====	=====

3. Prepare Bank Reconciliation Statement from the following particulars on 31st December 2021.
 Cash book showed a balance of ₹ 15,000 on 31st December 2021.
 On comparing the same with the balance of Pass Book it was revealed that:
 (a) A cheque of ₹2,000 issued in the month of Dec. 2021 has not been presented for payment to the bank.
 (b) The customer deposited cheque worth ₹3,000 but they have not been collected by the bank.
 (c) The bank had allowed ₹ 200 as interest.
 (d) Bank had charged ₹20 as commission for his service

Answer:

Bank Reconciliation Statement as on 31st December 2021

Particulars	Amount (+)	Amount (-)
Balance as per Cash book	15,000	
Add:		
Cheques issued but not presented for payment	2,000	
Interest allowed by bank	200	
Less:		
Cheques deposited into bank but not collected by bank		3000
Bank charges		20
Balance as per pass book		14,180
	17,200	17,200
	=====	=====

4. The Bank pass book of Mr. X showed an overdraft of Rs. 33,575 on 31st March 2022. On going through the pass book the accountant found the following.
 (a) A cheque of ₹ 1,080 credited in the pass book on March 28 is dishonoured and debited in the pass book on April 1, 2022. There was no entry in the cash book about the dishonour of the cheque until 15th April.
 (b) Bank had credited his account with ₹ 2,800 for interest collected by them on his behalf but the same had not been entered in his pass book.

(c) Out of ₹20,500 paid in by Mr. X in cash and by the cheque on 31st March, cheque amount to ₹7,500 were collected on 7th April.

(d) Out of the cheque amount to ₹7,800 drawn by him on 27th March, a cheque for ₹ 2,500 was encashed on 3rd April.

Prepare a Bank Reconciliation Statement on March 31, 2022.

Answer:

Bank Reconciliation Statement as on 31st March 2022

Particulars	Amount (+)	Amount (-)
Overdraft as per pass book		33,575
Add:		
Cheques paid into bank, but not collected	7,500	
Less:		
Interest collected and credited by bank		2,800
Cheques issued but not encashed		2,500
Overdraft as per cash book	31,375	
	<u>38,875</u>	<u>38,875</u>
	=====	=====

5. Cash Book of Udit & Sons showed a Bank overdraft of Rs.52,100 as on 31st March, 2024. On comparing the cash book with the pass book, the following discrepancies were noted:

(a) During the month, cheques amounting to Rs.28,000 were deposited in the bank but cheques of Rs.6000 were not cleared up to 31st March, 2024.

(b) Cheques amounting to Rs.28,000 were issued but cheques for Rs.9,600 had not been presented for payment up to 31st March, 2024.

(c) As per instructions, the bank on 28th March paid Rs. 10,500 to a creditor but by mistake, the same has not been recorded in the Cash Book.

(d) As per agreement, on 28th March, a debtor directly deposited in the bank Rs.8000 but the same has not been recorded in the cash book.

On the basis of above information, answer the following questions if Bank Reconciliation statement is prepared with starting balance as per Cash book.

- (i) What will be the treatment of first discrepancy?
 - (a) Rs.6000 added
 - (b) Rs.6000 deducted
 - (c) Rs.6000 added and Rs.28,000 deducted
 - (d) Rs.28,000 deducted
- (ii) What will be the treatment of second discrepancy?
 - (a) Rs.9,600 added
 - (b) Rs.9,600 deducted
 - (c) Rs.18,400 added and Rs.6,000 deducted
 - (d) Rs.18,400 deducted
- (iii) What will be the treatment of third discrepancy?
 - (a) Rs.10,500 added
 - (b) Rs.10,500 deducted
 - (c) Rs.2,000
 - (d) No treatment required
- (iv) What will be the treatment of fourth discrepancy?
 - (a) Added
 - (b) Deducted
 - (c) Added and Deducted both
 - (d) No treatment required

Answer: (i) - (a) (ii) - (b) (iii) - (a) (iv) - (b)

6. State four causes of difference that occurred due to time lag.

Ans: The following are the causes of difference that occurred due to time lag

- The cheque issued by the firm is not yet presented for payment.
- The cheque was deposited into the bank but is yet to be realized.
- Direct debits did by the bank on behalf of the customer.
- The amount is deposited directly into the bank account.

7. Bank Reconciliation is prepared on 31s March,2024 starting with debit balance as per cash book. State whether the following transactions will be shown in the Bank Reconciliation statement by adding or deducting from the given balance giving reasons:

- (i) Receipts side of the cash book was overcast by Rs.5000
- (ii) Payments side of the cash book was overcast by Rs.500
- (iii) Receipts side of the cash book was undercast by Rs.10,000
- (iv) Payment side of the cash book was undercast by Rs.10,000

Answer:

- (i) Rs. 5000 will be deducted from the cash book balance since cash book balance is erroneously increased.
- (ii) Rs. 500 will be added to the cash book balance since cash book balance is erroneously decreased
- (iii) Rs. 10,000 will be added to the cash book balance since cash book balance is erroneously decreased
- (iv) Rs. 10,000 will be deducted from the cash book balance since cash book balance is erroneously increased

8. Explain the process of preparing a bank reconciliation statement with an amended cash balance.

Ans: The difference between the cash book and passbook can arise due to some transactions that are recorded in the passbook not being present in the cash book. This can be rectified by recording those transactions in the cash book. The balance thus obtained is called an adjusted balance or amended balance. The following steps describe this process.

Note bank balance as per cash book.

Make corrections for errors committed in the cash book.

Transactions present only on the passbook's credit side must be updated on the debit side of the cashbook

Transactions present only on the passbook's debit side must be updated on the debit side of the cashbook

Calculate the new cash book balance and use it to prepare a Bank Reconciliation Statement.

9.State the need for the preparation of a bank reconciliation statement.

Ans: Preparing a bank reconciliation statement is necessary for:

Helps in identifying the difference between a cash book and a passbook.

It helps in knowing the actual bank balance.

Helps in the detection and prevention of frauds and errors in recording banking transactions

It helps in knowing the actual bank balance.

10. Cash book of Sita shows Rs.8,350 as balance at bank on 31st March,2024. But the balance did not match with the balance as per Bank pass book. On scrutiny the following discrepancies were found.

On 12th March, payment side of the cash book (Bank column) was undercast by Rs.250.

A cheque of Rs.1,500 issued on 23rd March, was recorded as Rs.150 in the Cash column.

On 18th March, a cheque of Rs.1,120 received from a debtor recorded in the cash book but not deposited in the bank for collection

A cheque received from a debtor for Rs.1,120 recorded as Rs.1,210 in the cash column in the cash book

On the basis of the above information, answer the following questions.

What will be the treatment of first discrepancy?

Rs.250 to be added (ii) Rs.250 to be subtracted

(iii) No adjustment is required (iv) None of these

(a) What will be the treatment of second discrepancy?

(i) Rs.1,500 to be added (ii) Rs.1,500 to be subtracted

(iii)Rs.1,350 to be added (iv) Rs.,1,350 to be subtracted

(b) (c) What will be the treatment of third discrepancy?

(j) Rs.1,120 to be added (ii) Rs.1,120 to be subtracted

(iii) No adjustment is required (iv) None of these)

(c) What will be the treatment of fourth discrepancy?

(k) Rs.1,120 to be added (ii) Rs.1,210 to be added

(iii)Rs.90 to be added (iv) Rs.,1,120 to be subtracted

Answer: (a) – (ii), (b)- (ii), (c)- (ii), (d)- (i)

LONG ANSWER QUESTIONS (6 MARKS)

1. Prepare a Bank Reconciliation Statement from the following particulars on 31st March,2024

- | | |
|---|----------|
| 1. Debit balance as per bank column of the cash book | 3,72,000 |
| 2. Cheques issued to creditors but not yet presented for payment | 72,000 |
| 3. Dividend received by bank but not entered in cash book | 5,000 |
| 4. Interest allowed by bank | 1,250 |
| 5. Cheques deposited into bank for collection but not collected by bank up to this date | 15,400 |
| 6. Bank charges | 200 |
| 7. A cheque deposited into bank was dishonoured but no intimation was received | 320 |

8. Bank paid house tax on our behalf but no information received from bank in this connection.

350

Answer:Bank Reconciliation Statement as on 31st March, 2024

Particulars	Amount (+)	Amount (-)
Balance as per cash book	3,72,000	
Add		
Cheques issued but not presented for payment	72,000	
Dividend received by bank but not entered in cash book	5,000	
Interest allowed by bank		
Less	1,250	
Cheques deposited into bank but not collected by bank		15,400
Bank charges not entered in the cash book		200
Cheque deposited into bank but dishonoured		320
Payment of house tax by bank on our behalf, but not entered in cash book		350
Balance as per pass book		
	<u>4,50,250</u>	<u>4,33,980</u>
		4,50,250

2. The balance of cash at bank as shown by the Cash Book of Pan & Co. on 31st December, 2016, was Rs. 7,500. On checking the entries in the Cash Book with the Pass Book, it was ascertained that cheques of Rs. 500 and Rs. 700 respectively paid on 30th December, were not credited until the 2nd January and three cheques of Rs.600, Rs.800 and Rs.1,200 issued on the 28th December were not presented until the 3rd of January. There was a credit of Rs. 125 in the Pass Book in respect of interest under date 31st December, which was not entered in the Cash Book. There were also Bank Charges debited in the Pass Book amounting in all to Rs. 10 which were not entered in the Cash Book.

Prepare a Bank Reconciliation Statement as at 31st December, 2016.

Answer:Bank Reconciliation Statement as on 31st December, 2016

Particulars	Amount (+)	Amount (-)
-------------	------------	------------

Balance as per Cash book	7,500	
Add:		
Cheques issued but not presented for payment (600+800+1200)	2,600	
Interest allowed by bank	125	
Less:		
Cheques deposited into bank but not collected by bank (500 +700)		1,200
Bank charges		10
Balance as per pass book		9,015
	10,225	10,225
	=====	=====

3. On 30th June, 2014, the bank column of Mohan Kapoor's Cash Book showed a debit balance of ₹ 12,000. On checking the Cash Book with bank statement, you find that: -
1. Cheques paid into Bank Rs. 8,000, but out of these only cheques of Rs. 6,500 were cleared and credited by the Bankers up to 30th June.
 2. Cheques of Rs. 9,200 were issued but out of these only cheques of Rs. 7,000 were presented for payment up to 30th June.
 3. The receipt column of the Cash Book has been undercast by Rs.200.
 4. The Pass Book shows a credit of Rs. 330 as interest on investments collected by bankers and debit of Rs. 60 for bank charges.
 5. On 29th June a Customer deposited Rs. 3,000 direct in the bank account but it was entered only in the Pass Book.

Prepare a Bank Reconciliation Statement.

Answer:

Bank Reconciliation as on 30th, June 2014

Particulars	Amount (+)	Amount (-)
Balance as per Cash book	12,000	
Add:		
Cheques issued but not presented for payment (9,200-7000)	2,200	
Receipt column of cash book was undercast	200	
Interest on investment collected by Bank	330	
Amount directly deposited by customer	3,000	
Less:		
Cheques deposited into bank but not collected by bank (8000-6500)		1,500
Bank charges		60
Credit balance as per pass book		16,170
	17,730	17,730
	=====	=====

4. On 30th June 2014, the Cash Book of a trader shows a bank overdraft of Rs. 2,500. Following information's are available: -
1. Cheques amounting to Rs. 14,600 had been paid to the bank, but of these only Rs.12,200 were credited in the Pass Book, up to 30th June, 2014.
 2. He had also issued cheques amounting to Rs.10,000, out of which only Rs. 3,600 had been presented for payment.
 3. A cheque of Rs. 500 which he had debited to the bank account was not sent to bank for collection by mistake.
 4. There is a debit in the Pass Book of Rs. 10 for Bank Charges and Rs. 50 for interest.
 5. A customer directly paid into his bank Rs. 1,000, but it was not shown in the Cash Book.
 6. Bank has paid insurance premium of Rs. 400 according to his instructions, but this is not recorded in the Cash Book.

Prepare a Bank Reconciliation Statement.

Answer:

Bank Reconciliation as on 30th June,2014

Particulars	Amount (+)	Amount (-)
Credit Balance(overdraft) as per cash book		2,500
Add:		
Cheques issued but not presented for payment (10,000-3600)	6,400	
Amount directly deposited by customer	1,000	
Less:		
Cheques deposited into bank but not collected by bank (14,600-12,200)		2,400
Bank charges		10
Bank Interest		50
Cheque not sent to bank for collection		500
Insurance premium paid by bank as per Standing instruction		400
Credit balance as per pass book		1,540
	7,400	7,400
	=====	=====

5.Prepare the Bank Reconciliation Statement from the following particulars for the period ending 31st December, 2023.

- (a) Overdraft as per Pass Book on 31-12-2023 Rs. 7,600.
- (b) Cheques deposited but not collected by the bank Rs. 8,560.
- (c) Incidental charges not recorded in Cash Book Rs. 80.
- (d) Cheques were issued for Rs. 7,800 but only Rs. 4,400 were presented for payment.
- (e) Insurance premium paid by bank not recorded in the Cash Book Rs. 4,200.
- (f) On 31st December, 2023 cash was deposited in bank Rs. 385 but in the cash book bank column was debited with Rs. 485 by mistake.

Answer:

Bank Reconciliation Statement as on 31st December 2023

Particulars	Amount (+)	Amount (-)

Debit Balance(overdraft) as per pass book		7,600
Add:		
Cheques deposited into bank but not collected by bank	8,560	
Incidental charges paid by bank		
Insurance premium paid by bank	80	
Amount wrongly entered in cash book (485-385)	4,200	
	100	
Less:		
Cheques issued but not presented for payment		3,400
Debit balance as per cash book		1,940
	12,940	12,940
	=====	=====

6. On 30th June 2014 Pass Book showed a balance of Rs. 5,200. Prepare Bank Reconciliation Statement from the following particulars: -

I. Out of total cheques amounting to Rs.16,000 deposited, cheques amounting to Rs. 9,000 were credited in June 2014, Cheques amounting to Rs.3,000 were credited in July 2014, and the rest have not been collected so far.

II. Out of total cheques amounting to Rs. 45,000 drawn, cheques amounting to Rs. 7,500 were presented in June 2014, Cheques amounting to Rs.18,000 were presented in July 2014, and the rest have not been presented so far.

III. Amount wrongly credited by bank Rs. 3,400.

IV. Payment side of the Cash Book has been undercast by Rs. 200.

V. Cheques recorded in the Cash Book in June 2014 but sent to bank in July 2014 Rs.2,500.

VI. A cheque of Rs. 20,000 deposited in the bank has been dishonoured but no intimation was received till June 2014.

Answer:

Bank Reconciliation Statement as on 30th June 2014

Particulars	Amount (+)	Amount (-)
Credit balance as per pass book	5,200	
Add:		
Cheques deposited into bank but not collected by bank (16000-9000)	7,000	
Payment side of cash book was undercast	200	
Cheque recorded in cash book but not sent to bank	2,500	
Cheque dishonoured by Bank	20,000	
Less:		
Cheques issued but not presented for payment (45,000 – 7,500)		37,500

Amount wrongly credited by bank		3,400
Credit balance(overdraft) as per cash book	6000	
	<u>40,900</u>	<u>40,900</u>
	=====	=====

7. On 30th June, 2014 the Pass Book of Sh. Mahabir Prashad showed a balance of Rs. 22,000. On comparing the Pass Book with Cash Book the following differences were found: -

1. Mahabir Prashad had paid into the Bank on 26th June four cheques for Rs.3,000; Rs. 6,000; Rs. 8,000 and Rs. 10,000. Of these, the cheque for Rs. 6,000 was credited by the bank in July 2014.
 2. On 23rd June three cheques were drawn for Rs. 12,000; Rs.13,000 and Rs. 16,000. The first two cheques were presented to the bank for payment in June and the third in July 2014.
 3. Cheques amounting to Rs.3,600 were deposited in the bank but no entry was passed in the Cash Book.
 4. Bank charges entered in Cash Book twice Rs. 50.
 5. Cheque received entered twice in the Cash Book Rs. 3,200.
- Prepare a Bank Reconciliation Statement as on 30th June 2014.

Answer:

Bank Reconciliation Statement as on 30th June

Particulars	Amount (+)	Amount (-)
Credit balance as per pass book	22,000	
Add:		
Cheques deposited into bank but not credited	6,000	
Cheque received entered twice in cash book	3,200	
Less:		
Cheques issued but not presented for payment		16,000
Cheque deposited not recorded in cash book		3,600
Bank charges entered twice in cash book		50
Debit balance as per cash book		<u>11,550</u>
	<u>31,200</u>	<u>31,200</u>
	=====	=====

8. Explain the reasons where the balance shown by the bank passbook does not agree with the balance as shown by the bank column of the cash book.

Here are some of the reasons which result in a mismatch between the bank passbook balance and the bank column of the cash book.

Timing Differences:

1. **Cheques issued by the firm but not yet presented for payment:** Cheques issued by the firm to the suppliers or creditors are immediately recorded on the credit side of the cashbook. However, there will be a time gap when the receiving party presents it to the bank. So the bank cannot debit the amount. It will result in changes in the balance amount between the two books.
 2. **Cheques are deposited into the bank but not yet collected:** A firm receives cheques from its debtors/customers, which are then immediately recorded on the debit side of the cashbook. However, when those cheques are deposited in the bank, the bank credits the firm's account only after the cheques are actually realised. It creates a difference between the two balances.
 3. **Direct debits made by the bank on behalf of the customer:** Bank deducts various charges like cheque collection charges, interest on overdraft, and check bounce charges. The firm will not be aware of such debits, and hence these changes will not be reflected in the firm's cash book. Due to this reason, the cashbook will not be in sync with the passbook.
 4. **Amounts directly deposited in the bank account:** When debtors or customers directly deposit money into the firm's bank account, the firm will not be aware of such deposits. Due to this, these entries will not be recorded into the cashbook. This will also create an imbalance between the bank passbook and firm's cashbook.
 5. **Interest and dividends collected by the bank:** The bank collects interest and dividends on behalf of the customer. It will not be known to the customer and hence will not be recorded into the firm's cash book. This creates an imbalance between the bank passbook and the firm's cashbook.
 6. **Direct payments made by the bank on behalf of customers:** When the customers give standing instructions to the bank for making payments to third parties, like paying telephone bill, insurance premium, rent taxes etc., the firm will not be aware of these payments, and hence such transactions will not be recorded in the firm's cashbook. It is also a reason for imbalance.
 7. **Cheques deposited and bills dishonoured:** A cheque deposited by the firm if dishonoured or a bill of exchange drawn by the business firm which is discounted with the bank is dishonoured on the date of maturity, the same is debited to customer's account by the bank. This information is not available to the firm immediately, and it will not be recorded in the firm's cashbook. This will also create an imbalance between the bank passbook and the firm's cashbook.
- II. Differences due to recording errors:** The difference between the two balances could be due to an error of human nature. The following types of errors can occur:

1. Errors committed in recording transactions by the firm: When a wrong recording of transactions relating to incorrect totalling, cheques issued, cheques deposited, etc., are committed by the firm in the cashbook, it will create an imbalance between the bank passbook and the firm's cashbook.

2.Errors committed in recording transactions by the bank: When a wrong recording of transactions related to cheques issued, wrong totalling, cheques deposited, etc., are committed by the bank in the passbook. It will create an imbalance between the bank passbook and the firm's cashbook.

10.Enumerate the steps to ascertain the correct cash book balance.

Differences between cash book and pass book can arise due to some transactions that are recorded in the passbook not being present in the cash book. This can be rectified by recording those transactions in the cash book. The balance thus obtained is called an adjusted balance or amended balance. The following steps describe this process.

1. Note bank balance as per cash book.
- 2: Make corrections for errors committed in the cash book.
- 3: Transactions present only on the passbook's credit side must be updated on the debit side of the cashbook
4. Transactions present only on the passbook's debit side must be updated on the debit side of the cashbook
- 5: Calculate the new cash book balance and use it to prepare a Bank Reconciliation Statement.

CHAPTER: 5 DEPRECIATION PROVISIONS AND RESERVES

Meaning of depreciation:

Depreciation may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets. It is based on the cost of assets consumed in a business and not on its market value. Fixed assets are subject to decline in value and this decline is technically referred to as depreciation. In other words, depreciation may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets

Accounting Standard-6 issued by The Institute of Chartered Accountants of India (ICAI) defines depreciation as “a measure of the wearing out, consumption or other loss of value of depreciable asset arising from use, effluxion of time or obsolescence through technology and market-change. Depreciation is allocated so as to charge fair proportion of depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of assets whose useful life is pre-determined”.

Features of Depreciation

1. It is decline in the book value of fixed assets.
2. It includes loss of value due to effluxion of time, usage or obsolescence.
3. It is a continuing process.
4. It is an expired cost and hence must be deducted before calculating taxable profits
5. It is a non-cash expense. It does not involve any cash outflow.

Depletion:

The term depletion is used in the context of extraction of natural resources like mines, quarries, etc. that reduces the availability of the quantity of the material or asset. **Amortisation**

Amortisation refers to writing-off the cost of intangible assets like patents, copyright, trademarks, franchises, goodwill which have utility for a specified period of time

Causes of Depreciation:

1. Wear and Tear due to Use or Passage of Time
2. Expiration of Legal Rights
3. Obsolescence
4. Abnormal factors such as accidents due to fire, earthquake, floods, etc.

Need for Depreciation:

1. Matching of Costs and Revenue
2. Consideration of Tax
3. True and Fair Financial Position
4. Compliance with Law

Factors Affecting the Amount of Depreciation: The determination of depreciation depends on three parameters, viz. cost, estimated useful life and probable salvage value.

Methods of Calculating Depreciation Amount:

1. Straight Line Method- It is also called fixed instalment method because the amount of depreciation remains constant from year to year over the useful life of the asset. According to this method, a fixed and an equal amount is charged as depreciation in every accounting period during the lifetime of an asset

$$\text{Depreciation} = \frac{\text{Cost of asset} - \text{Estimated net residential value}}{\text{Estimated useful life of the asset}}$$

$$\text{Rate of Depreciation} = \frac{\text{Annual depreciation amount} \times 100}{\text{Acquisition cost}}$$

Advantages of Straight -Line Method:

Straight Line method has certain advantages which are stated below:

- 1.It is very simple, easy to understand and apply. Simplicity makes it a popular method in practice;
- 2.Asset can be depreciated up to the net scrap value or zero value.
- 3.Every year, same amount is charged as depreciation in profit and loss account. This makes comparison of profits for different years easy.
- 4.This method is suitable for those assets whose useful life can be estimated accurately and where the use of the asset is consistent from year to year.

Limitations of Straight-Line Method

Although straight line method is simple and easy to apply it suffers from certain limitations which are given below.

- This method is based on the faulty assumption of same amount of the utility of an asset in different accounting years;
- With the passage of time, work efficiency of the asset decreases and repair and maintenance expense increases.

Hence, under this method, the total amount charged against profit on account of depreciation and repair taken together, will not be uniform throughout the life of the asset, rather it will keep on increasing from year to year.

Written Down Value Method: Under this method, depreciation is charged on the book value of the asset. Since book value keeps on reducing by the annual charge of depreciation, it is also known as 'reducing balance method'

Advantages of Written Down Value Method:

Written down value method has the following advantages:

- 1.This method is based on a more realistic assumption that the benefits from asset go on diminishing (reducing) with the passage of time.
- 2.It results into almost equal burden of depreciation and repair expenses taken together every year on profit and loss account.
- 3.Income Tax Act accept this method for tax purposes.
- 4.As a large portion of cost is written-off in earlier years, loss due to obsolescence gets reduced.
- 5.This method is suitable for fixed assets which last for long and which require increased repair and maintenance expenses with passage of time.

Limitations of Written Down Value Method Although this method is based upon a more realistic assumption it suffers from the following limitations.

- As depreciation is calculated at fixed percentage of written down value, depreciable cost of the asset cannot be fully written-off. The value of the asset can never be zero;
- It is difficult to ascertain a suitable rate of depreciation.

Basis of Difference	Straight Line Method	Written Down Value Method
Basis of charging depreciation	Original cost	Book Value (i.e. original cost less depreciation charged till date)
Annual depreciation charge	Fixed (Constant) year	Declines year after year
Total charge against profit and loss account in respect of depreciation and repairs	Unequal year after year. It increases in later years.	Almost equal every year.

Recognition by income tax law Suitability	Not recognised It is suitable for assets in which repair charges are less, the possibility of and obsolescence is low scrap value depends upon the time period involved.	Recognised It is suitable for assets, which are affected by technological changes and require more repair expenses with passage of time.
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Methods of Recording Depreciation:

In the books of account, there are two types of arrangements for recording depreciation on fixed assets:

- Charging depreciation to asset account or
- Creating Provision for depreciation/Accumulated depreciation account.

Charging Depreciation to Asset account: According to this arrangement, depreciation is deducted from the depreciable cost of the asset (credited to the asset account) and charged (or debited) to profit and loss account.

Journal Entries

- a) Depreciation A/c Dr (with the amount of depreciation)
 To Asset A/c
 (Depreciation on asset charged)
- b) Profit & Loss A/c Dr (For closing depreciation A/c)
 To Depreciation A/c
 (Depreciation transferred to profit & Loss A/c)

Creating Provision for Depreciation Account/Accumulated Depreciation Account:

This method is designed to accumulate the depreciation provided on an asset in a separate account generally called 'Provision for Depreciation' or 'Accumulated Depreciation' account. By such accumulation of depreciation, the asset account need not be disturbed in any way and it continues to be shown at its original cost over the successive years of its useful life

Journal Entries

- c) Depreciation A/c Dr (With the amount of depreciation)
 To Provision for Depreciation A/c
- d) Profit & Loss A/c Dr (For closing depreciation A/c)
 To Depreciation A/c
 (Depreciation transferred to profit & Loss A/c)

MULTIPLE CHOICE QUESTIONS

1. The amount of depreciation goes on decreasing every subsequent year under which method

- Written down value method.
- Straight line method
- both(a) and (b)
- None

Ans: (a)

2. "Allocation of cost of fixed asset over its useful life" is best description of

- Depletion
- Depreciation

- c) Amortisation
- d) Obsolescence

Ans: (b)

3.If the original cost is ₹ 1,36,000, salvage value is ₹ 10,000 and useful life is six years, depreciation will beunder straight line method.

- a) 18,000
- b) 19,000
- c) 21,000
- d) 25,000

Ans:(C)

4.The term 'Depletion' is used for which types of assets?

- (a). Liquid assets
- (b). Fixed Assets
- (c). Wasting assets
- (d). Intangible assets

Ans: (C)

5.Which of the following statement is true?

- a. Depreciation is a charge against profit.
- b. Depreciation is an appropriation to profit
- c. Depreciation is provided only if there is a profit.
- d. In case of loss, depreciation should not be charged.

(Ans. A)

6.Which of the following expenses is not included in the acquisition cost of a plant and equipment?

- a. Cost of site preparation
- b. Repairs
- c. Installation Cost
- d. Freight and transportation charges

(Ans. B)

7.Original Cost of an asset is Rs.3,50,000; its salvage value is Rs 25,000; useful life 5 years.

Annual Depreciation under Straight Line Method:

- a. Rs 65,000
- b. Rs85,000
- c. Rs.35000
- d. Rs.17,500

(Ans. A)

8. Original Cost of an asset is Rs.3,50,000; its salvage value is Rs 25,000; useful life 5 years.

Rate of Depreciation under Straight Line Method:

- a. 18.57 % p.a.
- b. 20 % p.a.
- c. 15 % p.a.
- d. 17 % p.a.

(Ans. A)

9. ON THE BASIS OF THE FOLLOWING TWO STATEMENTS, IDENTIFY THE CORRECT OPTION OUT OF THE FOLLOWING:

- e) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).
Both Assertion (A) and Reason (R) are correct and Reason (R) is correct explanation of Assertion (A).
- f) Assertion (A) is not correct but Reason (R) is correct.
- g) Both Assertion (A) and Reason (R) are incorrect.

Assertion (A) Depreciation is the permanent fall in the market value of Fixed asset.

Reason (R) : Depreciation Accounting is the process of valuation and not allocation.

Ans: (d)

10. Assertion (A): Depreciation is allocation of cost of asset over its estimated useful life.

Reason (R) : By charging depreciation, cost of fixed asset is written off over the estimated useful life of the asset.

Ans: (b)

SHORT ANSWER QUESTIONS (3/4 MARKS)

1. Y Ltd purchased ₹ 7,80,000 and spent ₹66,000 on its installation.

Scrap value is ₹6,000 and useful life is 10 years. Y Ltd., follow Straight-line method.

- a) What is the amount of depreciation?
- b) What will be the rate of depreciation?
- c) If next year Y Ltd. Adopt diminishing balance method, which accounting principle is violated?

Ans:

$$\text{a) Annual Depreciation} = \frac{7,80,000 + 66,000 - 6,000}{10} = 84,000$$

$$\text{b) } \frac{84,000 \times 100}{8,40,000} = 10\%$$

c) consistency

2. Explain determinants of the amount of depreciation.

Ans:

- **Depreciable cost** – This is the cost that remains after deducting both the residual cost and the various costs of the asset. The total depreciation should be equal to the total depreciation charged over the useful life of the asset.
- **Net residual value** – This is the value of the asset's sales after its useful life has ended. It is calculated by deducting all expenses incurred during the disposal of the asset.

- **Various Costs of the Asset** – Aside from the basic purchase cost of the asset, an asset will incur various costs. These expenses can take the form of transportation, commission fees, insurance premiums, and so on. These are the expenses incurred in order to restore the asset to working order.
- **Estimation of useful life** – The useful life of any asset is defined as its actual commercial life. As a result, the concept of the asset's physical life is excluded because it considers the fact that the asset will continue to sustain even after its useful life has ended, which may not be of commercial products for the business.

3. What are the limitations of the Written Down Value Method

Although this method is based upon a more realistic assumption it suffers from the following limitations

- It does not take into consideration the interest on capital invested in the asset.
- It does not provide for the replacement of the asset on the expiry of its useful life.
- The formula to obtain the rate of depreciation can be applied only when there is a residual value of the asset.

4. On 1st April, 2021 Sithara Trading Co. Purchased a machinery for Rs.12,00,000. On 1st October 2023, a part of machinery purchased on 1st April,2021 for Rs.80,000 was sold for Rs.45,000 and a new machinery at a cost of Rs.1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% depreciation on the diminishing balance of the machinery. The Co. maintains Provision for Depreciation A/C

On the basis of the information given above, select the correct option for the following questions:

(A) Book Value of machine sold on the date of sale is

- | | |
|---------------|----------------|
| (a) Rs.64,000 | (b) Rs.62,400 |
| (c) Rs.61,560 | (d) Rs. 64,800 |

(B) Gain/Loss on sale of machinery sold on 1st October,2023 will be

- | | |
|----------------------|---------------------|
| (a) Rs.16,560 (loss) | (b) Rs.16,650(gain) |
| (b) | |
| (c) Rs.15,430 (gain) | (d) Rs.15,430(Loss) |

(C) Accumulated Depreciation on machine sold will be

- | | |
|---------------|---------------|
| (a) Rs.15,400 | (b) Rs.16,400 |
| (c) Rs.18,000 | (d) Rs.18,440 |

(d) Balance of machinery as on 31s March,2024 will be

- | | |
|------------------|------------------|
| (a) Rs.10,78,000 | (b) Rs.12,78,000 |
|------------------|------------------|

(C) Rs. 97,800

(d) Rs.11,70,000

Answer:

A (C), B (a), C (d) D(b)

Calculation of Gain/Loss on sale of Machinery

Original Cost of Machinery (1 st April, 2021)	80, 000
Less: Depreciation @ 10%for 21-22	8,000

Book value on 1 st April2022	72,000
Less: Depreciation @ 10%for 22-23	7,200

Book value on 1 st April2023	64,800
Less: Depreciation @ 10% up to the date of sale (64,800 x 10/100 x 6/12)	3,240

Book value on Date of sale	61,560
Less: sale proceeds	45,000

Loss on sale	16,560
	=====

Accumulated Depreciation on machine sold= 8000+ 7200+ 3240 = 18,440

Closing balance of Machinery, A/c = 12,00,000 + 1,58,000 – 80,000 = 12,78,000

5. On 1st July 2014 Sunil Ltd purchased a machine for Rs.1,08,000 and spent Rs.12,000 on its installation. At the time of purchase, it was estimated that the effective commercial life of the machine will be 12 years and after 12 years, the salvage value will be Rs.12,000.

Pass necessary journal entries in the books of Sunil Ltd. for the first three years.

Date	Particulars	L F	Amt (Dr)	Amt (Cr)
2024 July 1	Machinery A/c Dr To Bank A/c (Being machinery purchased for Rs.1,08,000 and spent Rs.12,000 on installation)		1,20,000	1,20,000
Dec 31	Depreciation A/c Dr To Machinery A/c		4,500	4,500

	(Being depreciation charged to machinery account)		4,500	
Dec 31	Profit and Loss A/c Dr To Depreciation A/c			4,500
	(Being depreciation transferred to profit & loss A/c)		9,000	
2015	Depreciation A/c Dr To Machinery A/c			9,000
Dec 31	(Being depreciation charged to machinery account)		9,000	
	Profit and Loss A/c Dr To Depreciation A/c			9,000
Dec 31	(Being depreciation transferred to profit & loss A/c)		9,000	
	Depreciation A/c Dr To Machinery A/c			9,000
2016	(Being depreciation charged to machinery account)		9,000	
Dec 31	Profit and Loss A/c Dr To Depreciation A/c			9,000
	(Being depreciation transferred to profit & loss A/c)			

$$\text{Depreciation} = 1,08,000 + 12,000 - 12,000 = 9,000$$

For the first year the machine has been used only for half year.

6. Sharath & Sons purchased a machine on 1st October, 2023 for Rs.5,00,000 against cheque and also paid Rs.20,000 for loading/unloading and carriage expenses to bring the machine to factory. The firm further incurred Rs.25,000 for installing the machine. Determine

1. How much amount will be debited to Machinery A/c
2. Pass the Journal Entries

Answer:

Amount to be debited to Machinery A/c

Cost	5,00,00
Add: loading/unloading and carriage expenses	20,000
Installation charges	25,000

	5,45,000

Date	Particulars	L F	Amt (Dr)	Amt (Cr)
------	-------------	--------	----------	----------

2023 Oct1	Machinery A/c To Vendor A/c (Being machinery purchased)	Dr	5,00,000	5,00,000
	Vendor To Bank A/c (Cheque issued to vendor)	Dr	5,00,000	5,00,000
	Machinery A/c To Cash/Bank A/c (Loading/unloading and installation charges paid)	Dr	45,000	45,000

7. B Ltd. Purchased a machinery for Rs.1,80,000 on 1st April, 2023 and Rs.20,000 are spent on its installation. Its estimated useful life is 5 years. Its realizable value at the end of the estimated useful life is Rs.10,000. Determine the amount of annual depreciation and rate of depreciation.

Annual Depreciation = $1,80,000 + 20,000 - 10,000 / 5 = 38,000$

Rate of depreciation = $38,000 / 2,00,000 \times 100 = 19\%$

K Ltd purchased a machinery against cheque for Rs.1,00,000 on 1st April, 2021. Depreciation is charged @ 10% p.a by straight line method. Accounts are closed every year on 31st March. Pass journal entry for the year ended 31st March 2022, when provision for depreciation is maintained.

Date	Particulars	L F	Am t(Dr)	Amt (Cr)
2021 April 1	Machinery A/c To Bank A/c (Being machinery purchased)	Dr	1,00,000	1,00,000
2022 March 31	Depreciation A/c To provision for depreciation A/c (Depreciation charged on machinery)	Dr	10,000	10,000
	Profit & Loss A/c To Depreciation A/c (Depreciation transferred to profit & loss A/c)	Dr	10,000	10,000

8. What are the factors involved for calculating the amount of depreciation

Ans:

1. Original cost of the asset-Cost includes price paid to the vendor, commission or brokerage on purchase, freight and installation charges.
2. Estimated residual or scrap value- It is an estimated realisable value of the asset at the end of its useful estimated life.
3. Useful or Economic life of the asset – It means the period for which the asset is estimated to be productively used.

4. Legal provisions – Law (Company law or Income Tax Act) prescribes the method and rate of charging depreciation.

9. Briefly explain the term Depletion and Amortisation

Depletion:

The term depletion is used in the context of extraction of natural resources like mines, quarries, etc. that reduces the availability of the quantity of the material or asset. **Amortisation**

Amortisation refers to writing-off the cost of intangible assets like patents, copyright, trademarks, franchises, goodwill which have utility for a specified period of time

10. A company purchased a machine on April 1, 2023, for Rs.100,000. The machine is expected to have a useful life of 5 years and a residual value of Rs.10,000. The company follows the straight-line method of depreciation. Prepare the depreciation schedule for the first year.

Answer:

$$\text{Annual Depreciation} = 1,00,000 - 10,000/5 = 18,000$$

Since the machine was purchased on April 1 2023, and the accounting year ends on March 31, 2024 the depreciation for the first year will be for a full year.

Depreciation Schedule:

Year	Depreciation	Accumulated Depreciation	Book Value
2023-24	18,000	18,000	82,000

LONG ANSWER QUESTIONS (6)

Q |1| (Straight Line Method, on the basis of percentage) Evergreen Traders purchased a machine on 1st April, 2012 at a cost of Rs.8,000 and spent Rs.2,000 on its installation. The firm writes off depreciation @ 10% per annum by fixed instalment method.

Show the machine account for 4 years in the books of Evergreen Traders. The books are closed on 31st March every year.

Sol. Dr.

Machinery Account

Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2012 Apr 1	To Bank A/c (8,000+2,000)	10,000	2013 Mar 31	By Deprecation A/c (10% on Rs.10,000)	1,000
			Mar 31	By Balance c/d	9,000

		10,000			10,000
2013 Apr 1	To Balance b/d	9,000	2014 Mar 31	By Deprecation A/c	1,000
		9,000	Mar 31	By Balance c/d	8,000
					9,000
2014 Apr 1	To Balance b/d	8,000	2015 Mar 31	By Deprecation A/c	1,000
		8,000	Mar 31	By Balance c/d	7,000
					8,000
2015 Apr 1	To Balance b/d	7,000	2016 Mar 31	By Deprecation A/c	1,000
		7,000	Mar 31	By Balance c/d	6,000
					7,000
2016 Apr 1	To Balance b/d	6,000			

Q2 (Written Down Value Method) On 1st July 2014, Ashwani purchased a machine for Rs.2,00,000 on credit from Dushyant. Installation expenses Rs.25,000 are paid by cheque. Depreciation is to be charged on written down value method @ 10% per annum. Prepare necessary ledger accounts for first three years, assuming that Ashwani closes his books on 31st December.

Sol. Dr.

Machinery Account

Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 July 1	To Dushyant		2,00,000	2014 Dec 31	By Deprecation A/c		11,250
	To Bank A/c		25,000	Dec 31	By Balance c/d		2,13,750
			2,25,000				2,25,000
2015 Jan 1	To Balance b/d		2,13,750	2015 Dec 31	By Deprecation A/c		21,375
			2,13,750	Dec 31	By Balance c/d		1,92,375
							2,13,750
2016 Jan 1	To Balance b/d		1,92,375	2016 Dec 31	By Deprecation A/c		19,237.5
			1,92,375	Mar 31	By Balance c/d		1,73,137.5
							1,92,375
2017 Jan 1	To Balance b/d		173,137.5				

Dr. **Depreciation Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Dec 31	To Machinery A/c		11,250	2014 Dec 31	By Profit and Loss A/c		11,250
			11,250				11,250
2015 Dec 31	To Machinery A/c		21,375	2015 Dec 31	By Profit and Loss A/c		21,375
			21,375				21,375
2016 Dec 31	To Machinery A/c		19,237.5	2016 Dec 31	By Profit and Loss A/c		19,237.5
			19,237.5				19,237.5

Q3 (More than one machine is being purchased) A machine was purchased on 1st April, 2014 for Rs.10,00,000. On 1st October, 2014. Another machine was purchased for Rs.6,00,000. Estimated scrap values were Rs.40,000 and Rs.20,000 respectively. Depreciation is to be provided @ 10% per annum on the machines under the fixed installment method.

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

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Apr 1	To Bank A/c (Mach A)		10,00,000	2015 Mar 31	By Deprecation A/c Mach A 1,00,000 Mach B 30,000 -----		1,30,000
Oct 1	To Bank A/c (Mach B)		6,00,000	Mar 31	By Balance c/d Mach A 9,00,000 Mach B 5,70,000 -----		14,70,000
			16,00,000				16,00,000
2015 Apr 1	To Balance b/d Mach A 9,00,000 Mach B 5,70,000 -----		14,70,000	2016 Mar 31	By Depreciation A/c (WN 1) Mach A 1,00,000 Mach B 60,000 -----		1,60,000
				Mar 31	By Balance c/d Mach A 8,00,000 Mach B 5,10,000 -----		13,10,000
			14,70,000				14,70,000

2016 Apr 1	By Balance c/d Mach A 8,00,000 Mach B 5,10,000 -----	13,10,000		
---------------	---	-----------	--	--

**Balance Sheet (Extract)
as at 31st March, 2016**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
		Machinery A 8,00,000 B 5,10,000 -----	13,10,000

Working note

Deprecation on Machinery A = $10,00,000 \times \frac{10}{100} = \text{Rs.}1,00,000$

Deprecation on Machinery B

(a) For year ended 2015 = $10,00,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs.}30,000$

(b) For subsequent year = $6,00,000 \times \frac{10}{100} = \text{Rs.}60,000$

Q 4 A machine was purchased on 1st April, 2015 for Rs.10,00,000. On 1st October, 2015 another machine was purchased for Rs.6,00,000. Estimated scrap values were Rs.40,000 and Rs.20,000 respectively. Depreciation is to be provided @ 10% per annum on the machines under the reducing balance system.

- (i) Show the machinery account for the year ended 31st March, 2016 and 2017.
- (ii) Show how the machinery account will appear in the balance sheet as at 31st March, 2017.

Sol. Dr.

Machinery Account

Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Apr 1	To Bank A/c (Mach. A)		10,00,000	2016 Mar 31	By Deprecation A/c Mach.A 100,000 Mach B 30,000 -----		1,30,000
Oct 1	To Bank A/c (Mach B)		6,00,000	Mar 31	By Balance c/d Mach.A 9,00,000 Mach B 5,70,000 -----		14,70,000

2016 Apr 1	To Balance b/d Mach.A 9,00,000 Mach B 5,70,000 -----	16,00,000	2017 Mar 31	By Depreciation A/c (WN) Mach.A 90,000 Mach B 57,000 ----- By Balance c/d Mach.A 8,10,000 Mach B 5,13,000 -----	16,00,000
		14,70,000			1,47,000
		14,70,000			13,23,000
2017 Apr1	By Balance c/d Mach.A 8,10,000 Mach B 5,13,000 -----	13,23,000			14,70,000

Working Note

Table showing calculation of depreciation on machinery

Machinery Date of Acquisition	1 st 1 st April, 2015	2 nd 1 st October, 2015	Total Depreciation
Cost	10,00,000	6,00,00	
(-) Depreciation for 2015-16 @ 10% per annum	1,00,00	*30,000	1,30,000
WDV (or book value) on 1 st April, 2016	9,00,000	5,70,000	
(-) Depreciation for 1016/17 @ 10% per annum	90,000	57,000	1,47,000
WDV on 1 st April, 2017	8,10,000	5,13,000	

*Depreciation for half year, i.e., $6,00,000 \times 10/100 \times 6/12 = 30,000$ **Balance Sheet (Extract)
as at 31st March, 2017**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
		Machinery	
		A 8,10,000	
		B 5,13,000	
		-----	13,23,000

Note: In balance sheet, the balance of machinery account as on 31st March, 2017 will be shown:

Students should keep in mind

- When more than one asset is being purchased, then it is preferable to show depreciation and balance of each asset individually.
- When rate of depreciation is given, then scrap value and useful life of an asset should be ignored.

Q 5 On 1st October, 2010 a truck was purchased for Rs.8,00,000 by Laxmi Transport Ltd. Depreciation was provided at 15% per annum on the diminishing balance basis on this truck. On 31st December, 2013 this truck was sold for Rs,5,00,000. Accounts are closed on 31st March, every year. Prepare a truck account for the four years.

Sol. Dr.

Truck Account

Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2012 Oct 1	To Bank A/c		8,00,000	2013 Mar 31	By Deprecation A/c $8,00,000 \times \frac{15}{100} \times \frac{6}{12}$		60,000
				Mar 31	By Balance c/d		7,40,000
			8,00,000				8,00,000
2013 Apr 1	To Balance b/d		7,40,000	2014 Mar 31	By Deprecation A/c $7,40,000 \times \frac{15}{100}$		1,11,000
			7,40,000		By Balance c/d		6,29,000
							7,40,000
2014 Apr 1	To Balance b/d		6,29,000	2015 Mar 31	By Deprecation A/c $6,29,000 \times \frac{15}{100}$		94,350
			6,29,000		By Balance c/d		5,34,650
							6,29,000
2015 Apr 1	To Balance b/d		5,34,650	2016 Mar 31	By Deprecation A/c $5,34,650 \times \frac{15}{100} \times \frac{9}{12}$		60,148
Dec 31	To Profit and Loss A/c (Profit)		25,498		By Bank A/c (Sale Proceed)		5,00,000
			5,60,148				5,60,148

Q6 (When a part of machinery is sold) A company whose accounting year is the calendar year, purchased on 1st April, 2014 machinery costing Rs.30,000. On 1st June, 2016 one third of the machinery which was installed on 1st April, 2014 became obsolete and was sold for Rs.3,000.

Show how the machine account would appear in the books of the company, it being given that machinery was depreciated by fixed installment at 10% per annum.

Sol. Dr.

Machinery Account

Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Apr 1	To Bank A/c (WN1) A 20,000 B 10,000 -----		30,000	2014 Dec 31	By Deprecation A/c A 1,500 B 750 -----		2,250
				Dec 31	By Balance c/d A 18,500 B 9,250 -----		27,750
			30,000				30,000
2015 Jan 1	To Balance b/d A 18,500 B 9,250 -----		27,750	2015 Dec 31	By Deprecation A/c A 2,000 B 1,000 -----		3,000
					By Balance c/d A 16,500 B 8,250 -----		24,750
			27,750				27,750
2016 Jan 1	To Balance b/d A 16,500 B 8,250 -----		24,750	2016 June 1	By Bank A/c(B)		3,000
				June 1	By Depreciation (WN 3)		417
				June 1	By Profit and Loss, A/C (WN 4)		4,833
				Dec 31	By Depreciation A/c (A)		2,000
				Dec 31	By Balance c/d (A)		14,500
			24,750				24,750

Working Notes**WN 1**

Cost of machine = Rs.30,000

Part of machinery sold = $\frac{1}{3}$ rd

$$\square \text{ Cost of machinery sold} = 30,000 \times \frac{1}{3} = \text{Rs.10,000}$$

So, machinery has been split in two parts

30,000

20,000 (A)

10,000 (B)

WN 2

Depreciation on parts of machinery for a period of nine months, i.e., from 1st April to 31st December

$$\text{Depreciation on 'A' Part} = 20,000 \times \frac{10}{100} \times \frac{9}{12} = \text{Rs.1,500}$$

$$\text{Depreciation on 'B' Part} = 10,000 \times \frac{10}{100} \times \frac{9}{12} = \text{Rs.850}$$

WN 3

Depreciation on part sold for a period of 5 months, i.e. from 1st January to 31st May

$$= 10,000 \times \frac{10}{100} \times \frac{5}{12} = \text{Rs.417}$$

WN 4

Book value of asset as on 1 st January, 2016	8250
(-) Depreciation upto the date of sale	417

Book value on the date of sale	7833
(-) Sale proceeds	3000

Loss on sale of assets transferred to profit and loss account	4,833
	=====

Q7 Reliance Ltd purchased a second hand machine for Rs.56,000 on 1st October, 2014 and spent Rs.28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for Rs.6,000 at the end of its useful life of 15 years. Moreover, an estimated cost of Rs.1,000 is expected to be incurred to recover the salvage value of Rs.6,000. Prepare machine account and provision for depreciation account for the first 3 years charging depreciation by fixed installment method. Accounts are closed on 31st December, every year.

Sol. Dr.

Machinery Account

Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Apr 1	To Bank A/c (56,000+28,000)		84,000	2014 Dec 31	By Balance c/d		84,000
			84,000				84,000
2015 Jan 1	To Balance b/d		84,000	2015 Dec 31	By Balance c/d		84,000
			84,000				84,000
2016 Jan 1	To Balance b/d		84,000	2016 Dec 1	By Balance c/d		84,000
			84,000				84,000

Dr. **Provision for Depreciation Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2014 Dec 31	To Balance c/d		1,317	2014 Dec 31	By Depreciation A/c (5267 x 3/12)		1,317
			1,317				1,317
2015 Dec 31	To Balance c/d		6,584	2015 Jan 1	By Balance b/d		1,317
			6,584	Dec 31	By Depreciation A/c		5,267
			11,851				6,584
2016 Dec 3	To Balance c/d		11,851	2016 Jan 1	By Balance b/d		6,584
			11,851	Dec 31	By Depreciation A/c		5,267
							11,851
				2017 Jan 1	By Balance b/d		11,851

Working Note

$$\text{Computation of Depreciation} = \frac{56,000 + 28,000 - 5,000}{15} = \text{Rs.5,267}$$

Q8 (When machinery is sold at the end of the year and provision for depreciation account is maintained)
Sunny Ltd purchased a vehicle for Rs.4,00,000. After 4 years its salvage value is estimated at Rs.40,000. Find out the amount of depreciation to be charges every year based on straight line basis and show how the vehicle account would appear for 4 years assuming, it is sold for Rs.50,000 at the end, when provision for depreciation account is maintained.

Sol. Dr. **Vehicle Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
I year	To Bank A/c		4,00,000	End of the year	By Balance c/d		4,00,000
			4,00,000				4,00,000
II year	To Balance b/d		4,00,000	End of the year	By Balance c/d		4,00,000

4,00,000

4,00,000

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
III year	To Balance b/d		4,00,000	End of the year	By Balance c/d		4,00,000
			4,00,000				4,00,000
IV year	To balance b/d		4,00,000	End of the year	By Asset Disposal A/c		4,00,000
			4,00,000				4,00,000

Dr. **Provision for Depreciation Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
I year	To Balance c/d		90,000	End of the year	By Depreciation A/c		90,000
			90,000				90,000
II year	To Balance c/d		1,80,000	End of the year	By Balance b/d By Depreciation A/c		90,000
			1,80,000				90,000
III year	To Balance c/d		2,70,000	End of the year	By Balance b/d By Depreciation A/c		1,80,000
			2,70,000				90,000
IV year	To Asset Disposal A/c		3,60,000	End of the year	By Balance b/d By Depreciation A/c		2,70,000
			3,60,000				90,000

ASSET DISPOSAL ACCOUNT

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
End of IV year	To Machinery A/c To profit & loss A/c		4,00,000	End of IV year	By Provision for Depreciation A/c By Bank A/c		3,60,000
			10,000				50,000
			4,00,000				4,00,000

Working Note

$$1. \quad \text{Depreciation} = \frac{\text{Cost of Asset} - \text{NRV}}{\text{Life of Asset}} = \frac{4,00,000 - 40,000}{4} = \text{Rs. } 90,000$$

2. Calculation of Profit/Loss on Sale

Book Value as on Date of Sale	4,00,000
(-) Provision for Depreciation	3,50,000

	40,000
(-) Sale Proceeds	50,000

Profit	Rs. 10,000
	=====

9. Differentiate between Straight Line Method and Written Down Value Method

Basis of Difference	Straight Line Method	Written Down Value Method
1.. Basis of charging depreciation	Original cost	Book Value (i.e. original cost less depreciation charged till date)
2. Annual depreciation charge	Fixed (Constant) year	Declines year after year
3. Total charge against profit and loss account in respect of depreciation and repairs	Unequal year after year. It increases in later years.	Almost equal every year.
4. Recognition by income tax law	Not recognised	Recognised
5. Suitability	It is suitable for assets in which repair charges are less, the possibility of and obsolescence is low scrap value depends upon the time period involved.	It is suitable for assets, which are affected by technological changes and require more repair expenses with passage of time.

10. What is depreciation and what are the causes of depreciation.

Depreciation may be described as a permanent, continuing and gradual shrinkage in the book value of fixed assets. It is based on the cost of assets consumed in a business and not on its market value.

Causes of Depreciation

1. Constant use – Constant use of asset leads to wear and tear of asset which results in decline in value of asset.

2. Passage of time – Even if the assets are not put to use, their value decreases due to expiry or passage of time, especially when the assets are exposed to adverse weather, rains etc

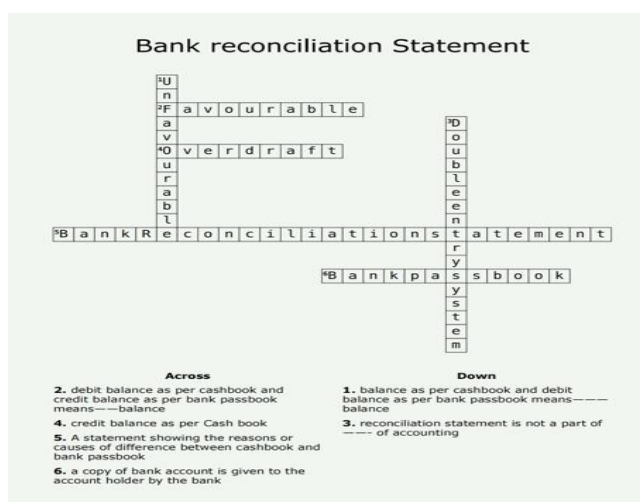
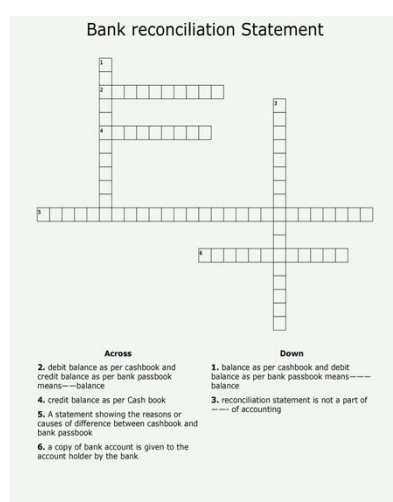
3. Expiry of legal rights – Value of intangible assets like patents, copyrights, trademarks, leases etc becomes nil after a predetermined period. Expiry of legal rights is also referred to as amortisation.

4. **Obsolescence** – It means out of date. When old asset becomes out dated, then it loses value. It can be due to

- (a) Technological changes
- (b) Change in market demand
- (c) Improved production methods
- (d) Legal or other causes

5. **Depletion of assets** – It is the decrease in value of natural assets such as mines, oil-wells etc, due to constant extraction of raw materials from them.

CROSSWORD PUZZLE



ONLINE AUDIO/VIDEO LINKS

Audio lesson on BRS

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentId=do_313356116358897664196

Video on Depreciation

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentId=do_31310770013632102412893

Provisions and Reserves

Provisions

Provision is an amount set aside from the profits for meeting any liability in future, the amount of which is not known accurately at the time of finalisation of statements

In other words, Provision is to be made in respect of a liability, which is certain to be incurred, but its exact amount is not known.

Provision is a charge against its profits, which means that irrespective of the fact whether business enterprises is earning sufficient profit or not, provision has to made in the financial statements

Examples:

ZIET, MYSORE

1. Provisions for depreciation
2. Provisions for bad debts
3. Provisions for tax

Features of Provisions:

1. Provision is made up to meet a known liability.
2. The liabilities are known but the amount of such a liability cannot be determined with reasonable accuracy.
3. Provision is a charge against profits.

Purpose or Importance of Provisions:

1. To ascertain the true net profit of the business.
2. To ascertain the true financial position of the business.
3. To provide for known losses in the future.
4. For the equitable distribution of expenses

Reserve

Reserve means an amount set aside out of profits and other surpluses to meet future uncertainty, in other words a reserve is meant for meeting any unknown liability or loss in the future.

Examples of Reserves:

1. General Reserve
2. Capital Reserve
3. Workman Compensation reserve

Features of Reserves:

1. It is created out of profits
2. Creation of reserve is not legal necessity
3. It is not created to meet any known liability

Purpose or Importance of Reserves

1. Strengthening the financial position
2. Source of internal financing
3. Enhancing the reputation of the business
4. To provide funds for meeting a specific liability

Difference between Provisions and Reserves:

Basis	Provision	Reserve
(i) Basic Nature	To satisfy a known liability, it is formed.	It is formed to satisfy an unknown liability.
(ii) Purpose	It is created to compensate for a particular loss	It is created to strengthen the liquid resources of the business
(iii) accounting treatment	Provisions are recorded on the debit side of Profit and loss account	Reserves are recorded on the debit side of Profit and loss appropriation account

(iv) Presentation in Balance Sheet	It is either seen on the asset side by deduction from the respective asset or on the liabilities side as a separate item	It is seen under the heading 'Reserves and Surplus' under the head liabilities.
(v) Element of Compulsion	Creation of provision is necessary as per law	The creation of reserves is not compulsory as per law
(vi) Use for payment of dividend.	It cannot be used by owners as dividends for shareholders.	It may be used by shareholders as dividends.

Differences between Revenue Reserve and Capital Reserve:

Basis of difference	Revenue Reserve	Capital Reserve
1. Source of creation	It is created out of revenue profits which arise out of normal operating activities of the business and are otherwise available for dividend distribution.	It is created primarily out of capital profit which do not arise out of the normal operating activities of the business and not available for dividend distribution. But revenue profits may also be used for this purpose.
2. Purpose	It is created to strengthen the financial position, to meet unforeseen contingencies or for some specific purposes.	It is created for compliance of legal requirements or accounting practices.
3. Usage	A specific revenue reserve can be utilised only for the earmarked purpose while a general reserve can be utilised for any purpose including distribution of dividend	It can be utilised for specific purposes as provided in the law in force e.g., to write off capital losses or issue of bonus shares.

Types of Reserves:

- 1) Revenue reserves
- 2) General reserves
- 3) Specific reserves
- 4) Capital reserves
- 5) Secret reserves

1. **Revenue Reserve**— It is created out of revenue profit, i.e., revenue earned from normal activities of the business. It can be used for either general purpose or specific purpose. It is of two types:

a. **General Reserve**— When the reserve is created without any specified purpose, then the reserve is called general reserve. It is a free reserve and so can be used for any purpose. It can also be used for future growth and expansion. For example, reserve funds, retained earnings, contingencies reserves, etc.

b. **Specific Reserve**— When a reserve is created for some specific purpose, then the reserve is called a specific reserve.

Examples of specific reserves are given below.

- i. Debenture Redemption Reserve
- ii. Investment Fluctuation Reserve
- iii. Dividend Equalisation Reserve
- iv. Workmen Compensation Fund

2. **Capital Reserve**— It is created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc. It is created to meet the capital loss. It cannot be distributed as a dividend.

The example of capital reserves are given below.

- i. Premium on issue of shares
- ii. Premium on issue of debentures
- iii. Profit on redemption of debentures
- iv. Profit on sale of fixed assets
- v. Profit on reissue of forfeited shares
- vi. Profit prior to incorporation

3. **Secret Reserves**— Reserves that are created by overstating liabilities or understating assets are known as secret reserves. They are not shown in the Balance Sheet. These reduce tax liabilities, as the liabilities are overstated. It is created by management to avoid competition by reducing profit.

Difference between Capital and Revenue Reserve:

Basis of Difference	Revenue Reserve	Capital Reserve
Source	It is created out of revenue profit, i.e., revenue earned from normal activities of business operations.	It is created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc.
Dividend	It can be used for dividends.	It cannot be used for dividend.

Purpose	It is created for strengthening the financial position of the business.	It is created for the purpose laid down in the Companies Act.
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Differences between General Reserve and Specific Reserve:

Points	General Reserve	Specific Reserve
1. Meaning	Reserve created not for any specific and earmarked purpose is known as general reserve.	Reserve created for some specific and earmarked purpose is known as specific reserve.
2. Purpose	General reserve is created to meet some future contingencies and for strengthening financial position of a business concern.	Specific reserve is created for some specific purpose.
3. Utilized	General reserve is utilized to meet any unknown liability.	Specific reserves can be utilized only for the purpose for which they were created.
4. Paying dividend	In case of need, general reserve can be utilized for paying dividend.	Usually, dividend cannot be paid out of the specific reserves.
5. Created from	General reserve is created out of profit and loss appropriation account.	Specific reserve is created out of profit and loss account.

MCQ'S

1) Which of the following is the example of Capital Reserve?

- (a) Workmen's Compensation Fund
- (b) None of these
- (c) Premium Received on issue of shares or debentures
- (d) General Reserve

2) Which of the following is the example of Revenue Reserve?

- (a) Profit on Redemption of Debentures
- (b) Profit on Revaluation of Fixed Assets

- (c) Investment Fluctuation Fund
- (d) Profit on Re-issue of forfeited shares

3) Which of the following statements is NOT true about Provisions?

- (a) It is an appropriation of profit.
- (b) It is a charge against profits.
- (c) It is shown on the liability side of Balance sheet.
- (d) It is not used for distribution as dividend

4) Any reserve which is not apparent on the face of Balance sheet is known |

- (a) Secret reserve.
- (b) General Reserve
- (c) Revenue reserve
- (d) Capital Reserve

5) Provision is a _____ against profits to meet _____ liabilities.

- (a) Charge & unknown
- (b) Appropriation & Known
- (c) Appropriation & unknown.
- (d) Charge & Known

6) _____ is a specific Reserve?

- (a) Workmen's Compensation Fund
- (b) Investment Fluctuation Fund
- (c) Debenture redemption reserve
- (d) All of the above

7) General Reserves are shown in :

- (a) Revaluation Account
- (b) Profit and Loss Account
- (c) None of these
- (d) Balance Sheet

8) Provision is created by debiting:

- (a) Profit and Loss Account
- (b) None of these
- (c) Profit and Loss Appropriation Account
- (d) Trading Account

9) Reserves arising from capital receipts are known as

- (a) Capital Reserve.
- (b) Reserve Fund,
- (c) Any of (a) and (b).
- (d) None of these.

10) Which of the following statements are correct about a “Provision”?

- (i) Provisions are a charge against the profits of an enterprise
- (ii) Provisions are created out of divisible profits
- (iii) Creation of provisions are not necessary for a business
- (iv) Provisions are created to meet a known liability
- (a) (i), (ii) and iii)
- (b) i and (iv) only
- (c) (i), (ii) and (iv)
- (d) (i) and (iv) only

Answers

1	C
2	B
3	A
4	A
5	D
6	D
7	D
8	A
9	A
10	D

3- or 4-Marks questions:

1. Distinguish between ‘provision’ and ‘reserve’.
2. Give four examples each of ‘provision’ and ‘reserves’.
3. Distinguish between ‘revenue reserve’ and ‘capital reserve’.

4. Give four examples each of 'revenue reserve' and 'capital reserves'.
5. Distinguish between 'general reserve' and 'specific reserve'.
6. Explain the concept of 'secret reserve'.

CHAPTER: 6 TRIAL BALANCE AND RECTIFICATION OF ERRORS

Definition:

A trial balance is a statement showing the debit and credit balances of ledger accounts so as to provide arithmetic accuracy.

Trial balance provides proof of the accounting accuracy of recording the transactions.

But one cannot rely on Trial Balance wholly as sometimes it may not be accurate because of errors of complete omission or other errors that cannot be detected easily, but still the debit and credit sides being balanced.

Trial balance is an important statement in the accounting process as it shows the final position of all accounts and helps in preparing the final statements.

Objectives of Preparing Trial Balance:

The trial balance is prepared to fulfil the following objectives:

1. To help in achieving arithmetical accuracy of different ledgers accounts.
2. To help in locating errors while recording transactions.
3. To aid in preparation of the financial statements of the company.

Limitations of the Trial Balance:

Trial balance does not find and evaluate all types of errors, so it doesn't ensure 100% accuracy. Some of the errors which we cannot be detected with the help of a Trial balance are:

- i. When posting the same entries twice by mistake.
- ii. When posting made in the wrong account but the amount is correct.
- iii. When both accounts have the wrong amount posted.
- iv. When a transaction is completely left out and not posted in Journals

Preparation of Trial Balance:

Trial Balances are generally prepared at the end of an accounting year but companies can prepare trial balance at the ends of the different periods to ascertain the accuracy of the accounts.

Preparation of trial balance under balance method

Under this method credit and debit transactions are to be extracted from all ledger accounts, including cashbook and shown in the statement

Format of Trial Balance (Balance method)

Name of A/c	LF.	Debit balance	Credit balance
Cash		xxxxxxx	

Purchases		xxxxxxx	
Advertisement		xxxxxxx	
Drawings		xxxxxxx	
Machineries		xxxxxxx	
Capital			xxxxxxx
Discount received			xxxxxxx
Total		xxxxxxx	xxxxxxx

Rectification of Errors:

Errors are of two types:

- Errors that do not affect the Trial Balance
- Errors that affect the Trial Balance.

Errors that do not affect the Trial Balance:

These are those errors that are being committed in two or more accounts so that it doesn't affect the balances in Trial Balance. To rectify this a rectifying journal entry is passed.

The following are the types of errors that do not affect the Trial Balance:

- Error of Omission:** When the transaction is completely omitted to be recorded in the books of account. For Example, goods sold to Mahesh were omitted to be recorded in the Sales Book.
- Compensating errors:** When the net effects of two or more errors result in nil, it is referred to as compensating errors. For example, if the purchase account has an excess debit of Rs. 12,000 and the Sales Return Account is under cast by the same amount of Rs.12,000
- Errors of Principle:** If any accounting principle is violated while recording the transaction such errors do not affect the Trial balance. For example, an addition to machinery was wrongly debited to Repairs and Maintenance Account considering as revenue expenditure instead of capital expenditure.
- Incorrect account in the original book:** Instead of Rahim's account, Sham's account is maintained.
- Posting to the wrong account:** Instead of posting in the purchase account, the transaction is posted in the sales account.

Errors that affect the Trial Balance:

These are those errors that are being committed in one account and they can be detected by preparing a trial balance.

There are following errors that affects the Trial Balance:

i. Error of Omission: When entry is not recorded in only one account giving rise to under casting or overcasting of the account. For example, Credit Sales to Mohan was recorded in the Sales book but was not posted to Mohan's Account.

ii. Error of Commission: When an error is made while adding, subtracting, or totalling the ledger accounts it affects the Trial Balance and is called as Error of commission.

iii. Wrong Posting: There may be a chance that there is a wrong posting of amount or posting the amount on the wrong side in the ledger account. Sometimes the amount posted in the ledger is correct but while posting to the trial balance itself it is posted wrong. In such situations these errors affect the Trial balance.

Use of Suspense Account in rectification of errors.

There may be instances when the total of the debit column is not matching with that of the credit column. At that time, the difference of the trial Balance is added to a temporary account to avoid delay in the preparation of the financial statements. Such accounts are known as Suspense accounts. A suspense account is a temporary account in a company which contains unclassified debits and credits. If the debit column falls short of the credit column, then the Suspense Account is debited and vice versa.

Illustration 1: Pass Journal Entries to rectify the following errors: -

(a) Total of Return Inward Book Rs. 3,300 posted to Purchase A/c.

Sales Return A/c Dr. 3,300

To Purchases A/c 3,300

(b) Old furniture Sold for Rs. 2,000 was posted to Sales A/c

Sales A/c Dr. 2,000

To Furniture A/c 2,000

(c) An item of Rs. 1,605 entered in the Sales Return Book had been posted to debit of the customer who returned the goods.

Suspense A/c Dr. 1,605

To Customer 1,605

(d) Goods bought from a Mohan for Rs. 660 had been posted to the credit of account as Rs.6,600

Mohan A/c Dr. 5,940

To Suspense A/c 5,940

MCQ's

1) Trial Balance is a list of the balance of

(a) All Accounts.

(b) Only Personal and Real Accounts.

(c) Only Real and Nominal Accounts.

(d) Only Personal Accounts.

2) Goods worth Rs.10, 000 returned by Ram were taken into stock, but no entry was passed. The account which is to be debited here is -----

(a) Ram's account

(b) Sales account

(c) Sales return account

(d) None of the above

3) Purchased goods from Gopal for Rs 3,600 but was recorded in Gopal's A/c as Rs.6, 300. In the rectifying entry, Gopal's Ac will be debited with:

(a) 9,900

(b) 2,700

(c) 3,600

(d) 6,300

4) It is easy to detect _____ than to _____

(a) Frauds, errors.

(b) Mistakes, frauds

(c) Errors, frauds

(d) Errors, mistakes

5) Rs. 2,000 paid as wages for installing a machine should be debited to

(a) Wages Account.

(b) Machinery Account.

(c) Capital Account.

(d) None of these.

6) Which item shows a debit balance in the Trial Balance?

(a) Purchase Return

(b) Salary outstanding

(c) Sales

(d) Prepaid Expense

7) Errors are

(a) Undetected mistakes

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(b) Intentional Mistakes

(c) Frauds

(d) Unintentional Mistakes

8) Rs. 10,000 received from Arora is credited in the account of Peachy. It is an error of

(a) Principle

(b) Omission

(c) Commission

(d) Compensatory

9) Account which is opened to put the different in the trial balance by some name so that trial balance can be tallied.

(a) Personal A/C

(b) Real A/C

(c) Suspense A/C

(d) None of these

10) Suspense account helps in rectifying ----- sided errors.

(a) One

(b) Two

(c) Both

(d) None of these

11) Trial Balance is helpful in locating -----

(a) Errors of Principle.

(b) Errors of omission.

(c) Compensating Errors.

(d) None of the above.

12) Errors of omission permit

(a) Correct totalling of the Balance Sheet.

(b) Correct totalling of the Trial Balance,

(c) The Trial Balance to match.

(d) None of these.

13) Which item is shown as debit balance in the Trial Balance?

(a) Cash in Hand.

(b) Rent Outstanding.

(c) Creditors.

(d) Bank Overdraft.

14) Rs. 550 wrongly entered as Rs.500 in the books is termed as error of:

(a) Omission

(b) Commission

(c) Principle

(d) Compensating

15) Goods destroyed by fire should be credited to ----- account

(a) Suspense account

(b) Loss by fire account

(c) Purchase account

(d) None of the above

Answers

1	A
2	C
3	B
4	C
5	B
6	D
7	D
8	C
9	C
10	A
11	D
12	C
13	A
14	B
15	C

3/4 Mark Question

1) State the meaning of a Trial Balance.

Trial Balance is a list of all general ledger accounts present in the ledger of a business; the main purpose of its creation is to verify the arithmetical accuracy of the accounts. It is carefully prepared after balancing all the

accounts of the ledger. Trial Balance consists of two columns, the debit side consists of all the debit balances, and the credit side contains all the credit balances of the accounts.

2) What is error of commission? Give two examples of errors of commission.

Errors that are committed when transactions are recorded with wrong amounts, improper balancing, wrong posting or wrong carrying forwarding are called errors of commission. Here are two examples of such errors.

1. Goods purchased worth Rs 1,000 on credit are recorded in the Purchases Book as Rs 10,000. This transaction should have been recorded in the Purchases Book with an amount of Rs 1,000; however, it was recorded as Rs 10,000. This is an error due to the wrong recording of the amount.

2. Total of Sales Book is carried forward as Rs 1,000 instead of Rs 100.

In this case, the wrong amount is carried forward from one accounting period to another or from the end of one page to the beginning of another page. This is referred to as an error of carrying forward.

3) What is error of principle? Give two examples of errors of principle.

Errors that are committed when the recording of transactions is done against the accounting principle are known as Errors of principle. Here are some examples of the same.

(i) Wages paid for the construction of the building debited to the Wages Account

In this transaction, wages paid for the construction of the building is a capital expenditure, so the building account should have been debited. However, it is treated as a revenue expenditure and Wages Account is debited. It is not in accordance with the accounting principle and hence is an error.

(ii) Amount spent on repair of machinery debited to Machinery Account

In this transaction, the amount of repair on machinery is a revenue expenditure. It should have been debited as 'Repairs', but it is wrongly debited to the Machinery Account, which is an error of principle.

4) What is a suspense account? Is it necessary that suspense account will balance off after rectification of the errors detected by the accountant? If not, then what happens to the balance still remaining in suspense account?

There may be instances when the total of the debit column is not matching with that of the credit column. At that time, the difference of the trial Balance is added to a temporary account to avoid delay in the preparation of the financial statements. Such accounts are known as Suspense accounts. A suspense account is a temporary account in a company which contains unclassified debits and credits. If the debit column falls short of the credit column, then the Suspense Account is debited and vice versa.

Errors, as soon as detected and rectified, result in Suspense Account being automatically closed (i.e. becoming zero). However, if any difference still exists, then it is transferred to the Balance Sheet. If the Suspense Account shows a debit balance, then it is recorded on the Assets side, and if the Suspense Account shows a credit balance, then it is recorded on the Liabilities side of the Balance Sheet.

5) What kinds of errors would cause difference in the trial balance? Also list examples that would not be revealed by a trial balance?

The errors that lead to the differences in the Trial Balance are termed as one-sided errors. These errors affect only one account. Here are some types of errors that can cause difference in trial balance

If any account is wrongly casted, it is termed as the error of casting.

If balances from previous year's books or from one end of the page to another are wrongly carried forward. These types of errors are termed errors in carrying forward.

If entries are posted on completely wrong side of the accounts.

Posting a wrong amount in the account is termed as an error of posting.

If entries are recorded partially, then due to the error of partial omission the trial Balance does not agree.

Here are a few examples that would not be revealed in a Trial Balance:

Purchases made from Raj, recorded in Rohan's Account, who is another creditor

Wages paid for construction of building, recorded in the Wages Account

6) State the limitations of trial balance.

There are some errors that are not revealed by a Trial Balance. This inadequacy of the Trial Balance is termed as the limitations of Trial Balance. Here are some of the limitations of a trial balance.

It is unable to detect errors known as Errors of Complete Omission which arise when an entry is not recorded in the Journal.

It is unable to detect errors known as Compensatory Errors which is the effect of one error that is cancelled by the effect of another error.

The Trial Balance fails to reflect errors such as if correct amount is posted in the correct side, but in the wrong account and if the wrong amount is posted on the wrong side but in the correct account.

It is unable to detect errors of principle that may take place in the account.

It is unable to detect errors due to wrong entries in accounts, which can lead to errors.

7) What are the different types of errors commonly committed in recording business transactions?

The different types of errors that are usually committed in recording business transactions are:

The Error of Commission: The error of commissions can arise due to the following:

- Posting incorrect transactions into ledger accounts
- Totalling errors
- Improper balancing of accounts
- Posting in wrong subsidiary books
- Posting incorrect amounts in journals

1. The Error of Omission: This type of error takes place during the recording of the transactions in the journal. It can be of two types, namely, partial and complete. The transaction isn't recorded in the journal books in Complete Omission, whereas, in partial omission, part of the transaction is not recorded.
2. The Error of Principle: When recorded transactions violate any accounting principles, it is considered the error of principle.
3. Compensating Error: Compensating errors occur when the net effect of the debit and credit balance errors becomes zero. There is no apparent effect on the trial balance.

8) Rectify the following errors:

- 1) Credit sales to Mohan of Rs 7,000 were not recorded.
- 2) Credit purchases from Rohan of Rs 9,000 were not recorded.
- 3) Goods returned to Rakesh for Rs 4,000 were not recorded.
- 4) Goods returned from Mahesh of Rs 1,000 were not recorded.

Date	Particulars	LF.	Debit ₹	Credit ₹
1	Mohan's Account Dr. To Sales A/c (Credit Sales made to Mohan, now recorded)		7000	7000
2	Purchases Account Dr. To Rohan's A/c (Credit purchases from Rohan, now recorded)		9000	9000

3	Rakesh's Dr. To Purchases Return A/c (Purchases return to Rakesh, now recorded)		4000	4000
4	Sales Return A/c Dr To Mahesh's A/c (Purchases return from Mahesh, now recorded)		1000	1000

9) Rectify the following errors:

- 1) Goods worth Rs 20000 returned by Naresh were taken into stock but no entry was passed in the books
- 2) A credit purchase of goods worth Rs 8200 from Rajan was not passed in day books although the books were
- 3) Goods costing Rs 500 (sale price Rs 600) distributed as free sample were not recorded at all

Date	Particulars	LF.	Debit ₹	Credit ₹
1	Sales return A/c To Naresh A/c (Being goods returned by Naresh not recorded in the books, now recorded)		20000	20000
2	Purchases A/c To Rajan's A/c (Being goods purchased from Rajan not recorded in books, now recorded)		8,200	8,200
3	Advertisement A/c To Purchases A/c (Being free sample distributed were not recorded, now recorded)		500	500

10) Rectify the following errors

- (i) Wages paid for the construction of office debited to the Wages Account, Rs. 5,000.
- (ii) Machinery purchased for Rs. 35,000 was passed through the Purchases Book.
- (iii) Old furniture sold for Rs. 1,000, passed through the Sales Book.
- (iv) Rs.2,000 paid to Mehta Bros. against acceptance were debited to Malhotra Bros. Account

Date	Particulars	LF.	Debit ₹	Credit ₹
1	Building A/c Dr. To Wages A/c (Wages paid for construction of office was debited wrongly to Wages Account, now rectified)		5000	5000

2	Machinery A/c Dr. To Purchases A/c (Purchase of Machinery was recorded wrongly in Invoice Book, now rectified)		35000	35000
3	Sales A/c Dr. To Furniture A/c. (Sale of Old Furniture was passed wrongly to Sales Book, now rectified)		2000	2000
4	Bills Payable A/c Dr. To Malhotra Bros. (Amount paid against acceptance to Mehta Bros was wrongly debited to Malhotra Bros, now rectified)		1000	1000

Model Trial Balance

<i>Account Title</i>	<i>L.F.</i>	<i>Debit Balance ₹</i>	<i>Credit Balance ₹</i>
• Capital			✓
• Land and Buildings		✓	
• Plant and Machinery		✓	
• Equipment		✓	
• Furniture and Fixtures		✓	
• Cash in Hand		✓	
• Cash at Bank		✓	
• Debtors		✓	
• Bills Receivable		✓	
• Stock of Raw Materials		✓	
• Stock of Finished Goods		✓	
• Purchases		✓	
• Carriage Inwards		✓	
• Carriage Outwards		✓	
• Sales			✓
• Sales Return		✓	
• Purchases Return			✓
• Interest Paid		✓	
• Commission/Discount Received			✓
• Salaries		✓	
• Long Term Loan			✓
• Bills Payable			✓
• Creditors			✓
• Advances from Customers			✓
• Drawings		✓	
Total		xxx	xxx

From the following prepare a trial balance:

Accounts Title	Amount ₹
Capital	1,00,000
Drawings	16,000
Machinery	20,000
Sales	2,00,000
Purchases	2,10,000
Sales return	20,000
Purchases return	30,000
Wages	40,000
Goodwill	60,000
Interest received	15,000
Discount allowed	6,000
Bank overdraft	22,000
Bank loan	90,000
Debtors:	
Nathu	55,000
Roopa	20,000
Creditors:	
Reena	35,000
Ganesh	25,000
Cash	54,000
Stock on April 01, 2024	16,000

Solution: **Trial Balance :**

Debit balances	Amount Rs.	Credit balances	Amount Rs.
Drawings	16,000	Capital	1,00,000
Machinery	20,000	Sales	2,00,000
Purchases	2,10,000	Purchase Returns	30,000
Sales Returns	20,000	Interest Received	15,000
Wages	40,000	Bank Overdraft	22,000
Goodwill	60,000	Bank Loan	90,000
Discount Allowed	6,000	Creditors:	
Debtors:		Reena	35,000
Nathu	55,000	Ganesh	25,000
Roopa	20,000		
Cash	54,000		
Stock on April 01, 2024	16,000		
Total	5,17,000	Total	5,17,000

6 marks questions

1. Pass necessary journal entries to rectify the following errors.

(a) A credit purchase of Rs.560 from Arjun was recorded as Rs.650

- (b) A credit purchase of Rs.2,000 from Rakesh was recorded as purchase from Rajesh.
- (c) A credit purchase of Rs. 2,500 from Paul was recorded in the sales book.
- (d) Bill receivable of Rs.1,000 received from Arun was entered in bills payable book
- (e) A credit sale of old furniture for Rs. 5,000 was entered through sales account
- (f) A cash purchase of Rs.560 from Mahesh was recorded as 650.

Solution:

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
(a)	Arjun A/c Dr. To Purchases (Being credit purchase of Rs.560 from Arjun was recorded as Rs.650, now rectified)		90	90
b	Rajesh A/c Dr. To Rakesh (Being credit purchase of Rs.2,000 from Rakesh was recorded as purchase from Rajesh now rectified)		2000	2000
c	Purchases A/c Dr Sales A/c Dr To Paul A/c (Being credit purchase of 2500 from Paul wrongly recorded in sales book, now rectified)		2,500 2,500	5,000
d	Bills receivable A/c Dr Bills payable A/c Dr To Arun A/c (Being bills receivable of 1000 received from Arun wrongly entered in bills payable book now rectified)		1,000 1,000	2,000
e	Sales A/c Dr To Furniture A/c (being credit sale of furniture now rectified)		5,000	5,000
f	Cash A/c Dr. To purchases A/c (Being cash purchase of 560 from Mukesh wrongly recorded as 650 now rectified)		90	90

2) Rectify the following errors:

- (a) Credit sales made to Mohan of Rs 7,000 was posted to Karan's account.
- (b) Credit purchases made from Rohan of Rs 9,000 were posted to Gobind.
- (c) Goods returned to Rakesh for Rs 4,000 was posted to Naresh's account.

(d) Goods returned from Mahesh of Rs 1,000 were posted to Manish.

(e) Cash sales of Rs 2,000 were posted to the commission account.

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
a	Mohan's A/c Dr. To Karan A/c (Credit sales to Mohan, Error rectification recording, erroneously recorded in Karan's account)		7000	7000
b	Gobind's A/c Dr. To Rohan's A/c (Credit purchases from Rohan, Error rectification recording, erroneously recorded in Gobind's account)		9000	9000
c	Rakesh's A/c Dr. To Naresh's A/c (Goods returned to Rakesh, Error rectification recording, erroneously recorded in Naresh's account)		4000	4000
d	Manish's A/c Dr. To Mahesh's A/c (Goods returned from Mahesh, Error rectification recording, erroneously recorded in Manish's account)		1000	1000
e	Commission A/c Dr. To Sales A/c (Cash sales, Error rectification recording, erroneously recorded in commission account)		2000	2000

3) Rectify the following errors

a) A cheque of Rs 1000 received from received from Mahesh was dishonued and has been posted to the debit of sales return account

b) Salary paid Rs 2000 was debited to employee's personal account

c) A cash sale of Rs 500 to Savita was posted to the credit of Kavita

d) An amount of Rs 5000 withdrawn by proprietor for his personal use has been charged to expenses account

e) A credit sale of Rs 1500 to Harpreet was posted to Harjeets Account

f) A credit purchase of machinery from Shravan from Rs 3000 was debited to purchases account

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
a	Mahesh A/c Dr		1000	

	To sales return A/c (Being cheque receive from Mahesh was dishonoured, wrongly debited to sales return account, now rectified)			1000
b	Salary A/c Dr To employee's personal A/c (being salary paid wrongly debited to employee's personal account, now rectified)		2000	2000
c	Kavita's A/c Dr. To Sales A/c (being cash sale of Rs 500 to Savita wrongly credited to Kavita, now rectified)		500	500
d	Drawings A/c Dr To expenses A/c (being an amount of Rs 5000 withdrawn by proprietor for personal use wrongly charged to expense)		5000	5000
e	Harpreet A/c Dr To Harjeet's A/c (Being credit sale of Rs 1500 to Harpreet wrongly posted to Harjeet, now rectified)		1500	1500
f	Machinery A/c Dr To purchases A/c (Being credit purchases of machinery from Shravan wrongly debited to purchases account, now rectified)		3000	3000

4) Rectify the following errors:

(i) Repairs made on Building for Rs 50,000 were debited to Building a/c

(ii) Rent paid Rs 12,000 to Landlord was debited to Landlord a/c.

(iii) Wages paid for installation of Machinery of Rs 7,000 was debited to Wages a/c.

(iv) Salary paid to Accountant (Mr. Ram) on Rs 15,000 was debited to Ram a/c.

(v) Rs 32,000 paid for purchase of Computer was charged to Office Expenses a/c.

(vi) Amount of Rs 7,500 withdrawn by proprietor for personal use was debited to Miscellaneous Expenses a/c.

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
i	Repairs A/c Dr. To Building A/c		50000	50000

	(Being amount paid for repairs wrongly debited to buildings account)			
ii	Rent A/c Dr To Landlord A/c (Being rent paid, wrongly debited to Landlord's A/c, now rectified)		12000	12000
iii	Machinery A/c Dr To wages A/c (Being wages for installation of machinery) purchased, wrongly debited to wages A/c, now corrected		7000	7000
iv	Salary A/c Dr To wages a/c (Being salary paid to Accountant Ram,) wrongly debited to his personal account, now corrected		15,000	15000
v	Computer A/c Dr To office expenses A/c (Being the amount of Computers purchased wrongly debited to Office Expenses A/c now corrected)		32000	32000
vi	Drawings A/c Dr To miscellaneous expenses A/c (Being amount withdrawn by proprietor,) wrongly debited to expenses A/c, now corrected		7500	7500

5) An amount of Rs 1,000 received from Aakash were recorded as Rs 100 and Rs 100 received from Garima were recorded as Rs 1,000.

(ii) Rs 600 paid to Pooja were recorded as Rs 60 and Rs 60 paid to Pankaj were recorded as Rs 600.

(iii) Mohan's Account was debited with Rs 100 instead of Rs 1,000 while Sohan's A/c was debited with Rs 1,000 instead of Rs 100.

Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
i	Garima A/c Dr To Aakash A/c (Being an amount of Rs 1000 received from Aakash wrongly recorded as Rs 100 and Rs100 received from Garima wrongly record as Rs1000 now rectified)		900	900
ii	Poojas A/c Dr. To Pankajs A/c		540	540

	(Being Rs 600 paid to Pooja wrongly recorded as Rs 60 and Rs 65 to Pankaj wrongly recorded as Rs 600 now rectified)			
iii	Mohan' s A/c Dr To Sohan' s A/c (Being Mohan account was debited with Rs 100 instead of Rs 1000 and Sohan account was debited with Rs 1000 instead of Rs 100, now rectified)		900	900

6) Trial Balance of Sumit did not agree. He put the difference of 13,500 to credit of Trial Balance. Subsequently, he located the following errors

- (i) Depreciation charged on the Machinery 5,000 was not posted to Machinery Account.
- ii) Credit purchases from Divya & 2,000 were recorded through sales book. However, Divya' s Account was correctly credited.
- iii) Repairs to Machinery & 150 debited to Machinery Account.
- (iv) Cash Sales & 12,000 were not posted to Sales Account.
- (v) Goods withdrawn by Ramesh for charity Rs 1,000 were not recorded in the books.
- vi) Cheque for 6,500 received from Himanshu in full settlement of his account of 7,000 was dishonoured. No entry was passed in the books.

Give journal entries to rectify the errors and prepare the suspense account.

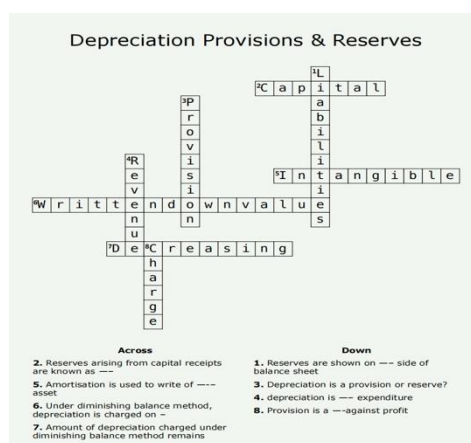
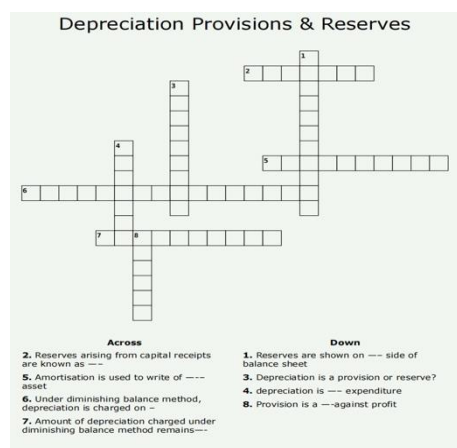
Date	Particulars	LF	Debit (Rs.)	Credit (Rs.)
i	Suspense A/c Dr. To Machinery A/c (Being depreciation on machinery not posted to Machinery A/c, now rectified)		5000	5000
ii	Purchases A/c Dr. Sales A/c Dr. To Suspense A/c (Being credit purchases wrongly recorded in sales book, however Divya account correctly credited, now rectified)		2000 2000	4000
iii	Repairs A/c Dr. To Machinery A/c (Being repairs paid wrongly debited to Machinery account, now rectified)		150	150
iv	Suspense A/c Dr. To Sales A/c (Being cash sales not posted to sales account, now rectified)		12,000	12000
v	Charity A/c Dr. To Purchases A/c (Being goods withdrawn by proprietor for charity not recorded, now recorded)		1000	1000

vi	Himanshu's A/c To Bank A/c To Discount Allowed A/c (Being cheque received 6,500 in full settlement of 7,000, dishonoured but no entry made in books, now rectified)	Dr.	7000	6500 500
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Suspense Account

Date	Particulars	₹	Date	Particulars	₹
	To Machinery A/c	5000		By difference in trial balance	13000
	To Sales A/c	12000		By Purchase A/c	2000
	To Balance A/c	500		By Sales A/c	2000
		17,500			17,500

Crossword puzzle



ONLINE VIDEO/AUDIO LINKS

1.Video on Trial balance and Rectification of errors

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentId=do_313080147413573632110468

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentId=do_313068820634624000111049

3.Video on Depreciation

https://diksha.gov.in/play/collection/do_31310347535505817611436?contentId=do_31310770013632102412893

PART-B
FINANCIAL ACCOUNTING -II
CHAPTER: 7 FINANCIAL STATEMENTS -1

The main objective of business is to communicate the meaningful information to various stake holders of the business so that they can make informed decisions. All users have different objective for joining business and they require different types of information from accounting records.

Users	Type of information required
Current owners	To know the profit and current position of assets& Liabilities of the business.
Prospective owners	Information about the past profits and financial position as indicative of likely future.
Manager	Information in the form of financial statements- Information about both profits and financial position.
Government	Information about the profitability and other information to protect the rights of all stake holders.
Banks	Liquidity position of the business to grant Overdraft and Cash credit. Solvency position of the business to grant long-term loans.

Expenditure

Whenever payment and/or incurrence of an outlay are made for a purpose other than the settlement of an existing liability, it is called expenditure.

The expenditures are incurred with a viewpoint they would give benefits to the business. The benefit of an expenditure may extend up to one accounting year or more than one year.

If the benefit of expense extends up to one accounting period, it is termed as **revenue expenses**. Normally, they are incurred for the day-to-day conduct of the business. An example can be payment of salaries, rent, etc.

If the benefit of expenditure extends more than one accounting period, it is termed as **capital expenditure**. An example can be payment to acquire furniture for use in the business. Furniture acquired in the current accounting period will give benefits for many accounting periods to come. The usual examples of capital expenditure can be payment to acquire fixed assets and/or to make additions/ extensions in the fixed assets.

Following points of distinction between capital expenditure and revenue expenditure are worth noting.

1. Capital expenditure increases earning capacity of business whereas revenue expenditure is incurred to maintain the earning capacity.
2. Capital expenditure is incurred to acquire fixed assets for operation of business whereas revenue expenditures is incurred on day-to-day conduct of business.
3. Revenue expenditure is generally recurring expenditure and capital expenditure is non-recurring by nature.
4. Capital expenditure normally benefits more than one accounting year whereas revenue expenditure normally benefits one accounting year.
5. Capital expenditure (subject to depreciation) is recorded in balance sheet whereas revenue expenditure (subject to adjustment for outstanding and prepaid amount) is transferred to trading and profit and loss A/c.

Deferred revenue expenditure

Sometimes, it becomes difficult to classify the expenditure into revenue or capital category.

In normal usage, the advertising expenditure is termed as revenue expenditure. The heavy expenditure incurred on advertising is likely to benefit the business firm for more than one accounting period. Such revenue expenditure, which are likely to give benefit for more than one accounting period, are termed as DEFERRED REVENUE EXPENDITURE.

It must be understood that expenditure is a wider term and includes expenses. Expenditure is any outlay made/incurred by the business firm. The part of the expenditure, which is perceived to have been used or consumed in the current year, is termed as expense of the current year.

- Revenue expenditure is treated as an expense for the current year and shown in the profit and loss A/c. For example. Salaries paid by the firm.
- Capital expenditures are charged to Income statement and are spread over more than one accounting period.

Receipts

The similar treatment is given to the receipts of the business. If the receipts imply an obligation to return the money, these are capital receipts.

The example can be an additional capital brought in by the owner or a loan taken from the bank. Both receipts are leading to obligations, the first to the owner (called equity) and the other to the outsiders (called liabilities). Another example on a capital receipt can be the sale of a fixed asset like old machinery or furniture.

However, if a receipt does not incur an obligation to return the money or is not in the form of a sale of fixed asset, it is termed as revenue receipt. The examples of revenue receipts sales made by the firm and interest on investment received by the firm.

Financial Statements

It has been emphasized that various users have diverse informational requirements. Instead of generating particular information useful for specific users, the business prepares a set of financial statements, which in general satisfies the informational needs of the users.

The basic objectives of preparing financial statements are:

- (a) To present a true and fair view of the financial performance of the business;
- (b) To present a true and fair view of the financial position of the business; and

For this purpose, the firm usually prepares the following financial statements:

1. Trading and Profit and Loss Account

Trading and Profit and Loss account, also known as Income statement, shows the financial performance in the form of profit earned or loss sustained by the business.

2. Balance Sheet

Balance Sheet shows financial position in the form of assets, liabilities and capital. These are prepared on the basis of trial balance and additional information, if any

Trading and Profit and Loss Account

- Trading and Profit and Loss account is prepared to determine the profit earned or loss sustained by the business enterprise during the accounting period.
- It is basically a summary of revenues and expenses of the business and calculates the net figure termed as profit or loss.
- Profit is revenue less expenses. If expenses are more than revenues, the figure is termed as loss.
- Trading and Profit and Loss account summarizes the performance for an accounting period.
- It is achieved by transferring the balances of revenues and expenses to the trading and profit and loss account from the trial balance.

Concept of Gross Profit and Net Profit

- The trading and profit and loss can be seen as combination of two accounts, viz. Trading account and Profit and Loss account.
- The trading account or the first part ascertains the gross profit and profit and loss account or the second part ascertains net profit.
- The trading account ascertains the result from basic operational activities of the business. The basic operational activity involves the manufacturing, purchasing and selling of goods.

- It is prepared to ascertain whether the selling of goods and/or rendering of services to customers have proved profitable for the business or not.
- Purchases is one of the main constituents of expenses in business organization.
- Besides purchases, the remaining expenses are divided into two categories, viz. direct expenses and indirect expenses.
- Direct expenses mean all expenses directly connected with the manufacture, purchase of goods and bringing them to the point of sale. Direct expenses include carriage inwards, freight inwards, wages, factory lighting, coal, water and fuel, royalty on production, etc.
- Similarly, sales constitute the main item of revenue for the business. The excess of sales over purchases and direct expenses is called gross profit.
- If the number of purchases including direct expenses is more than the sales revenue, the resultant figure is gross loss.

The indirect expenses are transferred to the debit side of the second part, viz. profit and loss account.

All revenue/gains other than sales are transferred to the credit side of the profit and loss account.

If the total of the credit side of the profit and loss account is more than the total of the debit side, the difference is the **net profit** for the period of which it is being prepared.

On the other hand, if the total of the debit side is more than the total of the credit side, the difference is the **net loss** incurred by the business firm.

Relevant Items in Trading Account

Name of the item	Accounting treatment in trading A/c	Accounting treatment in Balance sheet
₹ Opening stock: It is the stock of goods in hand at the beginning of the accounting year. This is the stock of goods which has been carried forward from the	Recorded on debit side of trading A/c	NA
Purchases less returns (Net purchases): Goods, which have been bought for resale appears as purchases on the debit side of the trading account. They include both cash as well as credit purchases	Recorded on debit side of trading A/c	NA

Wages: Wages refer to remuneration paid to workers who are directly engaged in factory for loading, unloading and production of goods	Recorded on debit side of trading A/c	NA
Carriage inwards/Freight inwards: These expenses are the items of transport expenses, which are incurred on bringing materials/goods purchased to the place of business.	Recorded on debit side of trading A/c	NA
Fuel/Water/Power/Gas: These items are used in the production process and hence are part of expenses.	Recorded on debit side of trading A/c	NA
Packaging Materials & Packing charges Packaging materials forms part of the product hence it is a direct expense.	Recorded on debit side of trading A/c	
Sales less returns (net sales): Sales account in trial balance shows gross total sales (cash as well as credit) made during the year. Goods returned by customers are called return inwards and are shown as deduction from total sales.	Recorded on credit side of trading A/c	NA

Relevant Items in Profit and Loss Account

Name of the item	Accounting treatment in profit & loss A/c	Accounting treatment in Balance sheet
------------------	---	---------------------------------------

Salaries: These include salaries paid to the administration, godown and warehouse staff for the services rendered by them for running the business.	Recorded on debit side of Profit and Loss A/c	NA
Other expenses like, rent paid, interest paid, commission paid, Discount allowed, packing charges etc	Recorded on debit side of Profit and Loss A/c	NA
Other incomes: Besides sales and other gains and incomes are also recorded in the profit and loss account. Examples of such incomes are rent received, dividend received, interest received, discount received, commission received, etc	Recorded on credit side of Profit and Loss A/c	NA

CLOSING ENTRIES:

The preparation of Trading & P&L accounts requires that the balances of accounts of all concerned items are transferred to Trading & P& L Accounts.

1. Opening stock, Purchases, Wages, Carriage inwards and other direct expenses are closed by transferring to Debit side of Trading A/c.

Trading A/c.....Dr

To Opening stock

To Purchases

To Wages

To Carriage inwards

To all other direct expenses.

2. Purchases Returns are closed by transferring to Purchases A/c

Purchases Returns A/c.....Dr

To Purchases A/c

3. Sales returns are closed by transferring to Sales A/c

Sales A/c.....Dr

To Sales Returns A/c.

4. Sales A/c is closed by transferring to credit side of the Trading A/c.

Sales A/c.....Dr

To Trading A/c.

5. All indirect expenses are closed by transferring to debit side of P& L A/c.

P/L AccountDr

To Indirect expenses (individually)

To Losses (individually).

6. Items of indirect incomes and gains are closed by following entry:

Incomes (individually)-----Dr

Gains (individually)-----Dr

To P& L Account.

CONCEPT OF GP and NP

Gross Profit= Sales- Cost of goods sold
--

Cost of Goods sold= Opening stock + Purchases+ Direct expenses- Closing stock
--

Net profit = G/P+ Other income- Indirect expenses
--

Operating Profit = GP – Operating Expenses + Operating incomes. OR

Operating Profit = Net-Profit + non-operating expenses – non-operating incomes.

Model Formats of Trading Account

Trading account for the year ended.....

To opening stock	xxx	By Sales	xxxx	
To purchases	xxxx	Less returns	xx	
Less returns	xxx		-----	xxxx
	xxxx	By closing stock		xxx
To Direct expenses:		By gross loss (if loss)		xxx
Carriage inward	xxx			
Freight	xxx			
Octroi	xxx			
Dock dues	xxx			
Excise duty	xxx			
Royalty	xxx			
Motive power	xx			
Coal, gas, water	xxx			
Factory expenses	xxx			
To Gross Profit (if profit)	xxx			
	xxxxxx			xxxxxx

Format for Profit and Loss Account

Profit & Loss Account

(For the year ended...)

Dr.	Particulars	Amount	Cr.	Particulars	Amount
	To Gross loss b/d	Xxx		By Gross Profit b/d	Xxx
	To Salaries	Xxx		By Discount Received	Xxx
	To Office rent, rates and taxes	Xxx		By Commission Received	Xxx
	To Printing & stationery	Xxx		By Bank Interest	Xxx
	To Telephone expenses	Xxx		By Rent received	Xxx
	To Postage & telegram	Xxx		By Dividend on shares	Xxx
	To Discount Allowed	Xxx		By Interest earned on debentures	Xxx
	To Insurance	Xxx		By Profit on sale of asset	Xxx
	To Audit Fees	Xxx		By Net loss	Xxx
	To Electricity charges	Xxx			
	To Repairs & renewals	Xxx			
	To Depreciation	Xxx			
	To Advertisement	Xxx			
	To Carriage Outwards	Xxx			
	To Bad Debts	Xxx			
	To Provision for Bad debts	Xxx			
	To Selling commission	Xxx			
	To Bank Charges	Xxx			
	To Interest on loans	Xxx			
	To Loss on sale of asset	Xxx			
	To Net Profit	Xxx			
		xxx			xxx

Format of Balance Sheet:

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital: Opening Balance xxxx Add: Net Profit xxox (Less: Net Loss) Less: Drawings xxxx Long-term Liabilities: Loan Current liabilities: Income received-in-advance Sundry Creditors Outstanding Expenses Bills Payable Bank Overdraft	xxxxxx	Fixed Assets: Land Building Plant & Machinery Furniture & Fixtures Investment: Current Assets: Closing stock Accrued income Prepaid expenses Sundry Debtors Bills Receivable Cash at Bank Cash in Hand	
Total	xxxxxxx	Total	xxxxxxx

Preparing Balance Sheet

All the account of assets, liabilities and capital are shown in the balance sheet. Accounts of capital and liabilities are shown on the left-hand side, known as Liabilities.

Assets and other debit balances are shown on the right-hand side, known as Assets.

There is no prescribed form of Balance sheet, for a proprietary and partnership firms. (However, Schedule III Part I of the Companies Act 2013 prescribes the format and the order in which the assets and liabilities of a company should be shown). The horizontal format in which

Relevant Items in the Balance Sheet Items which are generally included in a balance sheet are explained below:

- (1) **Current Assets:** Current assets are those which are either in the form of cash or a can be converted into cash within a year.

The examples of such assets are cash in hand/bank, bills receivable, stock of raw materials, semi-finished goods and finished goods, sundry debtors, short term investments, prepaid expenses, etc.

- (2) **Current Liabilities:** Current liabilities are those liabilities which are expected to be paid within a year and which are usually to be paid out of current assets.

The examples of such liabilities are bank overdraft, bills payable, sundry creditors, short-term loans, outstanding expenses, etc.

(3) **Fixed Assets:** Fixed assets are those assets, which are held on a long-term basis in the business. Such assets are not acquired for the purpose of resale, e.g. land, building, plant and machinery, furniture and fixtures, etc.

(4) **Intangible Assets:** These are such assets which cannot be seen or touched. Goodwill, Patents, Trademarks are some of the examples of intangible assets.

(5) **Investments:** Investments represent the funds invested in government securities, shares of a company, etc. They are shown at cost price.

If, on the date of preparation the balance sheet, the market price of investments is lower than the cost price, a footnote to that effect may be appended to the balance sheet.

(6) **Long-term Liabilities:** All liabilities other than the current liabilities are known as long-term liabilities. Such liabilities are usually payable after one year of the date of the balance sheet. The important items of long-term liabilities are long-term loans from bank and other financial institutions.

(7) **Capital:** It is the excess of assets over liabilities due to outsiders. It represents the amount originally contributed by the proprietor/ partners as increased by profits and interest on capital and decreased by losses drawings and interest on drawings.

(8) **Drawings:** Amount withdrawn by the proprietor is termed as drawings and has the effect of reducing the balance on his capital account. Therefore, the drawings account is closed by transferring its balance to his capital account.

However, it is shown by way of deduction from capital in the balance sheet.

Marshalling and Grouping of Assets and Liabilities

A major concern of accounting is about preparing and presenting the financial statement. The information so provided should be decision useful for the users. Therefore, it becomes necessary that the items appearing in the balance sheet should be properly grouped and presented in a particular order.

Marshalling of Assets and Liabilities In a balance sheet, the assets and liabilities are arranged either in the order of liquidity or permanence. Arrangement of assets and liabilities in a particular order is known as Marshalling.

In case of permanence, the most permanent asset or liability is put on the top in the balance sheet and thereafter the assets are arranged in their reducing level of permanence.

In case of liquidity, the order is reversed. The information presented in this manner would enable the user to have a good idea about the life of the various accounts. The assets account of the relatively permanent nature would continue in the business for a longer time whereas the less permanent or more liquid accounts will change their forms in the near future and are likely to become cash or cash equivalent.

Grouping of Assets and Liabilities

The items appearing in the balance sheet can also be properly grouped. The term grouping means putting together items of similar nature under a common heading. For example, the balance of accounts of cash, bank, debtors, etc. can be grouped and shown under the heading of 'current assets and the balances of all fixed assets and long-term investment under the heading of 'non-current assets'

MCQ

1	The heavy expenditure incurred on advertising is likely to benefit the business firm for more than one accounting period is classified as: A Revenue expenditure B Deferred revenue expenditure C Capital expenditure D Expenses Ans: B
2	Which of the following is an example of a capital receipt? A Sales made by the firm B Interest on investment received C Rent received D Sale of furniture Ans: D
3	Mr. Jaspal Singh dealing in electronic goods sold 20 TV sets costing Rs. 30,000 each at Rs. 40,000 each. Out of this Rs.5,00,000 were received in cash and the balance is not yet received. State the amount of revenue. Ans. Rs. 8,00,000 (Rs. 40,000 x 20 TV sets)
4	Net profit of a firm before charging manager's commission is Rs 21,000. If the manager is entitled to 5% commission after charging such commission, calculate the commission payable to the manager. Ans. Rs 1,000 (21000 x 5/105=1000)
5	While calculating operating profit, they _____ are not taken into account. (a) Normal transactions (b) Abnormal items (c) Expenses of a purely financial nature (d) (b) and (c) (e) (a) and (c) Answer: (c) Expenses of a purely financial nature
6	Direct Expenses are entered in _____. (a) Trading Account

	(b) Profit and Loss Account (c) Balance Sheet (d) None of the above Answer: (a) Trading Account
7	Subtracting all expenses from revenue yields _____. (a) Net profit or loss (b) Carrying value (c) Long-term assets (d) Net liabilities Answer: (a) Net profit or loss
8	Which of the following is correct? (a) Operating profit = Operating profit – non-operating expenses – non-operating incomes (b) Operating profit = Net profit + non-operating expenses + non-operating incomes (c) Operating profit = Net profit + non-operating expenses – non-operating incomes (d) Operating profit = Net profit – non-operating expenses + non-operating incomes Answer: (c) Operating profit = Net profit + non-operating expenses – non-operating incomes
9	Profit and loss account discloses _____. (a) Gross profit (b) Gross profit or Gross loss (c) Gross loss (d) None of the above Answer: (b) Gross profit or Gross loss
10	If a person fails to pay his debt, such an amount is considered as _____. (a) Bad debts (b) Bad debts recovered (c) Provision for bad debt (d) None of the above Answer: (a) Bad debts
11	If the insurance premium paid Rs. 1,000 and prepaid insurance Rs. 300. The amount of insurance premium shown in the profit and loss account will be _____. (a) Rs. 1,300 (b) Rs. 1,000 (c) Rs. 300 (d) Rs. 700

	Answer: (d) Rs. 700													
12	Outstanding Expenses are related to _____. (a) Current year (b) Next year (c) Last year (d) None of the above Answer: (a) Current year													
13	Prepaid expenses are shown in _____. (a) Liability side (b) Asset side (c) Assets or Liability side (d) None of the above Answer: (b) Asset side													
14	Charity of goods is _____. (a) Expenses (b) Loss (c) Profit (d) None of the above Answer: (b) Loss													
15	If the rent of one month is still to be paid, the adjustment entry will be _____. (a) Debit outstanding rent account and Credit rent account (b) Debit profit and loss account and Credit rent account (c) Debit rent account and Credit profit and loss account (d) Debit rent account and Credit outstanding rent account Answer: (d) Debit rent account and Credit outstanding rent account													
	3-4 marks questions:													
1	Calculate ‘cost of goods sold’ from the following: <table><tr><td>Particulars</td><td>Amount</td></tr><tr><td>Opening Stock</td><td>40,000</td></tr><tr><td>Net Purchases</td><td>50,000</td></tr><tr><td>Net Sales</td><td>1,90,000</td></tr><tr><td>Wages and salaries</td><td>10,000</td></tr><tr><td>Rent paid</td><td>15,000</td></tr></table>		Particulars	Amount	Opening Stock	40,000	Net Purchases	50,000	Net Sales	1,90,000	Wages and salaries	10,000	Rent paid	15,000
Particulars	Amount													
Opening Stock	40,000													
Net Purchases	50,000													
Net Sales	1,90,000													
Wages and salaries	10,000													
Rent paid	15,000													

		Closing Stock	15,000	
	Ans: Cost of goods sold = Opening stock + Purchases + wages and Salaries __ Closing stock = 40000+50000+10000 - 15000 =85000			
2	Compute Operating Profit from the following: Revenue from operation (Sales) ₹ 44,40,000 Cost of goods sold ₹ 40,00,000 Opening Stock ₹ 4,40,000 Purchases ₹ 40,00,000 Closing Stock ₹ 4,40,000 Selling and distribution expenses ₹ 18,300 Office and Administrative expenses ₹ 3,46,500 (including interest on loans ₹ 22,000; Loss on sale of furniture ₹ 35,000; Donation ₹ 5,100 and Loss by fire ₹ 20,000) Ans: Operating Profit = Gross profit (Revenue from operation – COGS) – Operating Expenses = ₹ 4,40,000 – { (3,46,500-22,000-35,000-5,100-20,000) + (18,300)} = ₹ 4,40,000- {2,64,400+ 18,300} = ₹ 1,57,300			
3	State whether the following are capital expenditure, revenue expenditure or deferred revenue expenditure? ₹ 14,000 spent on white washing of a factory. Advertisement expenditure incurred for launching a new product. ₹ 30,000 custom duty paid on new imported machinery. ₹ 40,000 spent on repairing of various machines during the year. Payment of wages ₹ 10,000 for converting raw material into finished goods. Payment of ₹ 25,000 annual fire insurance premium. Ans: 1) Revenue expenditure. 2) Deferred revenue expenditure. 3) Capital expenditure. 4) Revenue expenditure. 5) Revenue expenditure 6) Revenue expenditure (1/2 mark for each correct answer)			
4	Operating profit earned by M/s Arora and Sachdeva in 2016-17 was ₹ 17, 00,000. Its non-operating incomes were ₹ 1, 50,000 and non-operating expenses were ₹ 3, 75,000. Calculate the amount of net profit earned by the firm. Ans: Net Profit = Operating Profit + Non-operating Income – Non-operating Expenses = 17, 00,000 + 1, 50,000 – 3, 75,000 = ₹ 14, 75,000			

Therefore, the net profit earned by M/S Arora and Sachdeva in 2016–17 is ₹ 14, 75,000.

5 Calculate Gross profit and Operating profit.

	₹
Opening stock	35,000
Sales (Net)	12,00,000
Purchase (Net)	5,00,000
Administrative Expenses	60,000
Selling and Distribution Expenses	75,000
Loss by fire	30,000
Closing Stock	75,000
Rent Received	10,000

Ans:

Sales	12,00,000	
Add: Closing Stock	75,000	
Less: Opening Stock	35,000	
Purchase	5,00,000	
Gross Profit	7,40,000	(2marks)
Less: Administrative Exp .	60,000	
Selling & Dist, Exp	75,000	
Operating profit	6,05,000	(2 Marks)

6 From the following balances obtained from the accounts of Mr. Ranjeet, Prepare the Trading and Profit & Loss Account:

Stock on April 01, 2022	8,000	Bad debts	1,200
Purchases for the year	22,000	Rent	1,200
Sales for the year	42,000	Discount (Dr.)	600
Wages	2,500	Commission paid	1,100
Salaries & Wages	3,500	Sales Expenses	600
Advertisement	1,000	Repairs	600

Closing stock on March 31, 2023, is Rs. 4,500

Ans: Trading & P/L Account

Particulars	Rs.	Particulars	Rs.
To Opening stock	8,000	By Sales	42,000
To Purchases	22,000	By Closing stock	4,500
To Wages	2,500		
To gross profit c/d	<u>14,000</u>		
	<u>46,500</u>		<u>46,500</u>

To Salaries and Wages	3,500	By gross profit b/d	14,000
To Rent	1,200		
To Advertisement	1,000		
To Commission	1,100		
To Discount	600		
To Bad debts	1,200		
To Sales Expenses	600		
To Repairs	600		
To Net Profit (transferred to capital)	4,200		
Total	14,000	Total	14,000

- 7 From the following balances, prepare the final accounts of M/s Mangal & Sons for the year ended 31st March 2018:

Opening Stock	12,500
B/R	2,000
Sales	70,000
Purchases	37,500
Creditors	20,000
Salaries	3,850
Insurance	200
Debtors	32,500
Carriage	1,450
Commission	750
Interest	900
Printing	250
B/P	3,150
Sales Returns	1,300
Purchase Returns	500
Bank	5,250
Rent and Taxes	1,300
Furniture	1,000
Capital	7,100

Closing Stock on 31-3-2018 Rs.15,000

Ans:

Trading & P/L Account for the year ended 31st March 2018

Particulars	Rs.	Particulars	Rs.
To Opening stock	12,500	By Sales	70,000
To Purchases 37,500		By Closing stock	15,000
Less: Returns <u>500</u>	37,000		
To Carriage	1,450		
To Gross profit	<u>32,750</u>		
	<u>83,700</u>		<u>83,700</u>
To Insurance Premium	200		
To Salaries	3,850	By Gross Profit	32,750
To Interest Paid	900		
To Printing	250		
To Rent & taxes	1,300		

To Commission	750		
To Net Profit	25,500		
Total	32,750	Total	32,750

BALANCE SHEET (AS AT 31-03-2018)			
Liabilities	Amount	Assets	Amount
Bills Payables	3,150	Bank	5,250
Creditors	20,000	Bills Receivables	2,000
Capital 7,100		Debtors	32,500
Add: N/P <u>25,500</u>	32,600	Stock	15,000
		Furniture	1,000
Total	55,750	Total	55,750

CHAPTER: 8 FINANCIAL STATEMENTS 2

Need for Adjustments

- According to accrual concept of accounting, the profit or loss for an accounting year is not based on the revenues realized in cash and the expenses paid in cash during that year.
- There may exist some receipts and expenses in the current year which partially relate to the previous year or to the next year.
- Also, there may exist incomes and expenses relating to the current year that still need to be brought into books of account. Such items duly adjusted, the final accounts will not reflect the true and fair view of the state of affairs of the business
- Similarly, adjustments may also become necessary in respect of certain incomes received in advance or those which have accrued but are still to be received.
- Apart from these, there are certain items which are not recorded on day-to-day basis such as depreciation on fixed assets, interest on capital, etc. These are adjusted at the time of preparing financial statements.

The purpose of making various adjustments is to ensure that the final accounts reveal the true profit or loss and the true financial position of the business.

The items which usually need adjustments are:

1. Closing stock
2. Outstanding/expenses
3. Prepaid/Unexpired expenses
4. Accrued income
5. Income received in advance
6. Depreciation
7. Bad debts
8. Provision for doubtful debts
9. Provision for discount on debtors
10. Abnormal loss
11. Goods taken for personal use
12. Staff welfare
13. Manager's commission
14. Interest on capital

It may be noted that when we prepare the financial statements, we are provided with the trial balance and some other additional information in respect of the adjustments to be made. **All adjustments are reflected in the final accounts at two places to complete the double entry.**

Adjustment	Treatment in trading & P/L A/c	Treatment in balance sheet
Closing stock	Credit side of the Trading A/c.	Assets side under current assets
Outstanding Expenses	a) Direct expenses like wages etc shown on debit side of Trading A/c as added to the concerned expense b) Indirect expenses like salaries etc shown on debit side as added item to the concerned expense	Shown on liabilities side under the head current liabilities .
Prepaid/Unexpired expenses like insurance etc	On debit side of the P&L A/c as they are deducted from the concerned expenses on debit side	Shown on Assets side under the head current assets .
Incomes earned but not received like accrued interest, commission etc	On credit side of the P&L A/c as they are Added to the concerned incomes	Shown on Assets side under the head current assets
Incomes received in advance like commission etc.	On credit side of the P&L A/c As they are deducted from the concerned income on debit side	Shown on liabilities side under the head current liabilities
Depreciation	On debit side of the P&L A/c as they are used part of fixed assets	Shown on Assets side of the Balance sheet as a deduction from concerned asset
Bad debts	Debit side of the P& L A/c	As a deduction from concerned asset (from debtors)
Provision for bad and doubtful debts	Debit side of P&L A/c as an addition to bad debts	As a deduction from concerned asset (from debtors)
Interest on capital	Debit side of the P& L A/c	Shown on liabilities side as an addition to capital
Managers commission	Debit side of the P& L A/c	Shown on liabilities side as Outstanding expense under the head current liabilities
Abnormal Loss	Total loss is first Credited to Trading A/c Actual loss is to be debited to P/L A/c as abnormal (non-operating loss)	The Insurance claim receivable should be shown on the asset side of the Balance sheet under Current Assets
Goods taken for personal use	Shown on the debit side of Trading A/c as deduction from Purchases.	Shown on the liability side of the Balance sheet as an addition to drawings.
Goods taken for Staff welfare	Shown on the debit side of Trading A/c as deduction from Purchases	NA

	Shown on the debit side of the P/L Account as an addition to Salary.	
--	--	--

ADJUSTMENT JOURNAL ENTRIES:

Adjustment	Adjustment Entry	Treatment in Trading and Profit and Loss Account	Treatment in Balance Sheet
1. Closing stock	Closing stock, A/c Dr. To Trading A/c	Shown on the credit assets side and profit and loss account	Shown on the assets side
2. Outstanding expenses	Expense A/c Dr. To outstanding expense A/c	Added to the respective expense on the debit side	Shown on the liabilities side
3. Prepaid/ Unexpired expenses	Prepaid expense A/c Dr. To Expenses A/c	Deducted from the respective expense on the debit side	Shown on the assets side
4. Income earned but not received	Accrued income A/c Dr. To Income A/c	Added to the respective income on the credit side	Shown on the assets side
5. Income received in advance	Income A/c Dr. To Income received in advance A/c	Deducted from the respective income on the credit side	Shown on the liability's sides
6. Depreciation	Depreciation A/c Dr. To Assets A/c	Shown on the debit side	Deducted from the value of asset
7. Provision for bad and doubtful debts	Profit and Loss A/c Dr. To Provision for doubtful debts	Shown on the debit side	Shown as deduction from debtors
8. Provision for discount on debtors	Profit and Loss A/c Dr. To Provision for discount debtors	Shown on the debit side	Shown as deduction from debtors
9. Manager's commission	Manager's commission A/c Dr. To outstanding commission A/c	Shown on the debit side	Shown on the liabilities side
10. Interest on capital	Interest on capital A/c Dr. To capital A/c	Shown on the debit side	Shown as addition to capital
11. Further bad debts	Bad debts A/c Dr. To Sundry Debtors A/c	Shown on the debit side	Deducted from debtors

	MCQs
1	If a person fails to pay his debt, such an amount is considered as _____. (a) Bad debts (b) Bad debts recovered (c) Provision for bad debt

	(d) None of the above Answer: (a) Bad debts																								
2	If the insurance premium paid Rs. 1,000 and prepaid insurance Rs. 300. The amount of insurance premium shown in the profit and loss account will be _____. (a) Rs. 1,300 (b) Rs. 1,000 (c) Rs. 300 (d) Rs. 700 Answer: (d) Rs. 700																								
3	Outstanding Expenses are related to _____. (a) Current year (b) Next year (c) Last year (d) None of the above Answer: (a) Current year																								
4	Prepaid expenses are shown in _____. (a) Liability side (b) Asset side (c) Assets or Liability side (d) None of the above Answer: (b) Asset side																								
5	Charity of goods is _____. (a) Expenses (b) Loss (c) Profit (d) None of the above Answer: (b) Loss																								
6	If the rent of one month is still to be paid, the adjustment entry will be _____. (a) Debit outstanding rent account and Credit rent account (b) Debit profit and loss account and Credit rent account (c) Debit rent account and Credit profit and loss account (d) Debit rent account and Credit outstanding rent account Answer: (d) Debit rent account and Credit outstanding rent account																								
3-4 Marks Questions																									
1	Following is the extract from the Trial Balance of a firm as at 31st March, 2023: TRIAL BALANCE As at 31st March, 2023 <table><tr><th>Heads of Accounts</th><th>L.F.</th><th>Dr.()</th><th>Cr. ()</th></tr><tr><td>Sundry Debtors</td><td rowspan="3"></td><td>4,10,000</td><td></td></tr><tr><td>Provision for Doubtful Debts</td><td></td><td>20,000</td></tr><tr><td>Bad Debts</td><td>6,000</td><td></td></tr></table> Additional Information: (i) Additional bad debts ` 10,000. Maintain the Provision for Doubtful Debts @ 10% on sundry debtors. Pass necessary Journal entries. Ans: Journal <table><tr><th>Date</th><th>Particulars</th><th>L.F.</th><th>Dr. (Rs.) (Rs.)</th><th>Cr. (Rs.)</th></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table>	Heads of Accounts	L.F.	Dr.()	Cr. ()	Sundry Debtors		4,10,000		Provision for Doubtful Debts		20,000	Bad Debts	6,000		Date	Particulars	L.F.	Dr. (Rs.) (Rs.)	Cr. (Rs.)					
Heads of Accounts	L.F.	Dr.()	Cr. ()																						
Sundry Debtors		4,10,000																							
Provision for Doubtful Debts			20,000																						
Bad Debts		6,000																							
Date	Particulars	L.F.	Dr. (Rs.) (Rs.)	Cr. (Rs.)																					

2023 March 31	Bad Debts A/c ...Dr. To Sundry Debtors A/c (Being the additional bad debts written off)		10,000	10,000
	Provision for Doubtful Debts A/c ...Dr. To Bad Debts A/c (Being the bad debts transferred to Provision for Doubtful Debts Account)		16,000	16,000
	Profit and Loss A/c ...Dr. To Provision for Doubtful Debts A/c (Being the amount debited to Profit and Loss Account to maintain Provision for Doubtful Debts @ 10% on sundry debtors)		36,000	36,000

Working notes:

Provision for Bad debts required = (Debtors – Further Bad debt) x 10%
 = (4,10,000 - 10,000) = 400000*10/100 = 40,000

Provision for DD to be debited to Profit & Loss a/c = Bad debts + Further Bad debts + New
 Provision required – Old Provision for DD = 6,000 + 10,000 + 40,000 – 20,000 = 36,000

- 2 The following balances appeared in the Trial Balance of Kanpur Mobiles as at 31st March 2023:
- | | |
|-------------------------|------------|
| Sundry Debtors | ₹ 3,05,000 |
| Bad Debts | ₹ 5,000 |
| Provision for bad debts | ₹ 20,000 |
- The firm agreed to record the following adjustments in the books of accounts. Further Bad Debts ₹ 3,000; maintain provision for bad debts 10%. Show the treatment of the above adjustments in Profit & Loss Account and in Balance sheet as on 31st March 2023.

Ans:

Profit & Loss Account (for the year ended 31st March 2023)

Particulars	₹	Particulars	₹
To Provision for Bad Debts A/c:			
Bad Debts	5,000		
+ Further Bad debts	<u>3,000</u>		
	8,000		
+ New Provision	<u>30,200</u>		
	38,200		
-Old Provision	<u>20,000</u>		
	18,200		

Balance Sheet (As on 31st March 2023)

Liabilities	₹	Assets	₹
		Sundry Debtors	3,05,000
		- Further Bad debts	<u>3,000</u>
			3,02,000
		- New Provision	<u>30,200</u>
			(10% of 3,02,000)
			2,71,800

3 Extract of Trial Balance as on 31st March, 2023

Name of Accounts	Debit Balance (Rs)	Credit Balance (Rs)
Wages Paid	66,000	
Salary Paid	16,500	

Additional Information

Wages Rs 6,000 and salary Rs 1,500 are outstanding.

Pass an adjusting entry and show how will this appear in final accounts.

Adjustment Entries

Particulars	LF	Amount (Dr)	Amount (Cr)
Wages A/c.....Dr		6,000	
To Outstanding Wages A/c			6,000
(Being wages due)			
Salary A/cDr		1,500	
To Outstanding Salary A/c			1,500
(Being salary due)			

Effects on Final Account**Trading Account**

Wages	66,000		
Add: Outstanding	6,000	72,000	

P/L Account

Salaries	16,500		
Add: Outstanding	1,500	18,000	

Balance sheet

Outstanding Wages	6,000		
Outstanding salaries	1,500		

6 marks questions

- 1 From the following particulars, you are required to Prepare Trading and Profit & Loss Account for the year ending 31st March, 2022 and Balance Sheet as at that date.

Trial Balance
As at 31st march 2022

Particulars	Dr. Amount	Particulars	Cr. Amount
Cash In Hand	30	Capital	7,670
Purchases	8,990	Sales	11,060
Cash at Bank	885	Creditors	1,890
Fixtures & Fittings	225	Bills Payable	1,875
Freehold Premises	1,500	Discount Received	445
Lighting And Heating	65		
Bills Receivable	825		
Sales Returns	30		
Salaries	1075		
Debtors	5,700		
Opening Stock	3,000		
Printing	225		
Rates And Insurance	190		
Discount Allowed	200		

Total	22,940	Total	22,940
--------------	---------------	--------------	---------------

Adjustment: -

- Stock in hand at the end of the year was valued at Rs.1,800.
- Depreciation Fixtures and Fittings by Rs.25.
- Rs. 35 was due and unpaid in respect of salaries.
- Insurance had been paid in advance to the extent of Rs.40.

Trading and Profit & Loss Account For the year ending 31st March, 2022

Particulars	Amount Rs	Particulars	Amount Rs
Opening stock	3000	Sales	11060
Purchase	8990	Less: Returns	<u>30</u>
Lighting and heating	65	Closing stock	1800
Gross profit	775		
	<u>12830</u>		<u>12830</u>
Salaries	1075	Gross Profit	775
Add: outstanding	<u>35</u>	Discount received	445
Printing			
Rates and Insurance	190		
Less: Prepaid	<u>40</u>		
Discount	200	Net loss	490
Depreciation on furniture and fixture	25		
Total	1710	Total	1710

Balance sheet as on-----

Outstanding salaries	35	Stock in Hand	30
Accounts payable	1875	Stock at Bank	885
Accounts receivable	1890	Closing stock	1800
Capital	7670	Furniture and fixture	225
Less: net loss	<u>490</u>	Less: depreciation	<u>25</u>
	7180	Prepaid insurance	40
		Debtors	5,700
		Reserve	825
		Leasehold premise	1,500
Total	10,980	Total	10,980

2 From the following balance of M/s Keshav Brothers. you are required to Prepare Trading and Profit & Loss Account for the year ending 31st March, 2018 and Balance Sheet as at that date from the following particulars: -

Trial Balance As at 31st March 2018

Total	8,70,430	Total	8,70,430
--------------	-----------------	--------------	-----------------

Adjustment: -

- Provision for bad debts @ 5% and further bad debts Rs. 2,000.
- Rent received in advance Rs. 6,000.
- Prepaid insurance Rs. 200.
- Depreciation on furniture @5%, Plant and Machinery @6% and building @7%.

e. Closing stock is valued at Rs. 70,000.

M/s Keshav Bros.
Trading and Profit & loss Account (For the year ending 31st March 2018)

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	60,000	By Sales	3,00,000
To Purchase	250,000	(-) Returns	2,000
(-) Returns	2,500		2,98,000
To factory Rent	1,450	By Closing stock	70,000
To Wages	1,200		
To Carriage Inwards	500		
To Gross Profit c/d	57,350		
	<u>3,68,000</u>		<u>3,68,000</u>
To Salary	2,500	By Gross profit b/d	57,350
To Interest	2,000	By Rent	
To Carriage Outwards	700	Received	10,380
To Office Rent	2,300	(-) Advance	<u>6,000</u>
To Insurance	780	By Commission Received	16,000
(-) Prepaid	<u>200</u>		
To commission	500		
To old Bad Debts	3,500		
(+) New b/debts	2,000		
(+) New provision	<u>2,400</u>		
	7,900		
(-) old provision for b/d	<u>1,550</u>		
To Depreciation	6,350		
Furniture	1,125		
Plant and Mach.	7,800		
Building	<u>19,600</u>		
Net profit (transferred to cap.)	34,275		
Total	77,730	Total	77,730

3

Prepare Trading and Profit & Loss Account for the year ended on 31st March, 2023 from the following particulars;

Trial Balance
(As on 31st March, 2023)

	Dr. ₹	Cr. ₹
Cash in hand	2,000	
Cash at Bank	18,000	
Purchases and Sales	2,20,000	3,50,000
Return inwards and Return outwards	6,000	7,500
Carriage inwards	4,400	
Carriage outwards	2,100	
Fuel and Power	15,500	

Stock as on 01-04-2022	36,000	
Bad debts	6,200	
Bad debts provision		2,500
Debtors and Creditors	82,000	30,000
Capital		2,17,000
Investments	20,000	
Interest on investments		2,000
Loan from X @ 18%		10,000
Repairs	1,520	
General Expenses	10,600	
Land and Buildings	1,80,000	
Wages and Salaries	18,000	
Sundry receipts		120
Bills Payable		5,200
Stationery	2,000	
	6,24,320	6,24,320

Additional information:

- Closing stock is valued at ₹ 50,000.
- Entire stationery was used by the proprietor for own purpose.
- Write-off ₹ 2,000 as bad debts, and provision for Doubtful Debts is to be maintained at 5% on Debtors.
- Loan from X was taken on 1st August 2022. No interest has been paid so far.
- Included in general expenses is insurance premium ₹ 1,200 paid for one year ending 30th June 2023.
- 1/3rd of Wages and Salaries is to be charged to Trading Account and balance to P/L A/c.

Trading Account and Profit & Loss Account (for the year ended 31st March 2023)

Particulars	₹	Particulars	₹
To opening stock	36,000	By Sales 3,50,000	
To purchases 2,20,000		Less : S Return <u>6,000</u>	3,44,000
Less : P. Return <u>7,500</u>	2,12,500	Closing Stock	50,000
To carriage inwards	4,400		
To Fuel and Power	15,500		
To Wages and Salaries	6,000		
To Gross Profit c/f	1,19,600		
	3,94,000		3,94,000
To Carriage outwards	2,100	By Gross Profit b/f	1,19,600
To Wages and Salaries	12,000	By Interest on investments	2,000
To Repairs	1,520	By Sundry receipts	120
To General Expenses 10,600			
Less: Prepaid Insurance <u>300</u>	10,300		
To Bad-Debts 6,200			
Add : further bad debt 2,000			
Add : new provision <u>4,000</u>			

	12,200			
Less: old provision	<u>2,500</u>	9,700		
To outstanding Interest		1,200		
(10,000*18%*8/12)				
To Net Profit t/t Capital A/c		84,900		
		<u>1,21,720</u>		<u>1,21,720</u>

4	Prepare Profit & Loss Account and Balance Sheet as on 31 st March, 2023 from the following particulars;			
		Dr. ₹	Cr. ₹	
	Capital		3,20,000	
	Building	4,00,000		
	Motor Bike	40,000		
	Gross Profit		2,83,000	
	Bad debts	3,000		
	Bad debts provision		7,000	
	Bank loan		50,000	
	Interest on Bank loan	3,000		
	Commission		9,000	
	Motor Bike expenses	4,000		
	Salaries	44,000		
	Cash in hand	29,200		
	Debtors and Creditors	30,000	20,000	
	Income Tax	12,000		
	Income Tax paid in advance	4,000		
	Interest on advance payment of income tax		200	
	Closing Stock	1,20,000		
		<u>6,89,200</u>	<u>6,89,200</u>	

Additional information:

- Commission includes ₹ 3,000 received in advance.
- Salaries have been paid for 11 months.
- Bank loan has been taken at 10% p.a. interest.
- Depreciate building by 5% and Motorbike by 15%.
 - Write-off ₹ 2,000 as bad debts and provision for Doubtful Debts is to be maintained at 5% on Debtors.

Profit & Loss Account (for the year ended 31st March 2023)

Particulars	₹	Particulars	₹
-------------	---	-------------	---

To Interest on Bank loan	3,000		By Gross Profit b/f	
Add: O/S Interest	<u>2,000</u>	5,000		
To Motor Bike expenses		4,000		
To Salaries	44,000			
Add :O/S Salaries (44000/11*1)	<u>4,000</u>	48,000		
To Depreciation Building	20,000			
Motorbike	<u>6,000</u>	26,000		
To Net Profit t/t Capital A/c		2,06,600		

Balance Sheet (As on 31st March 2023)

Liabilities	₹	Assets	₹
Bank loan	50,000	Cash in hand	29,200
Add: O/s Interest	<u>2,000</u>	Sundry Debtors	30,000
Creditors	20,000	- Further Bad debts	<u>2,000</u>
O/S Salaries	4,000		28,000
Commission received in advance	3,000	-New Provision for BD	<u>1,400</u>
Capital	3,20,000		26,600
Add: Net profit	<u>2,06,600</u>	Closing Stock	
	5,26,000	Motor Bike	40,000
Less : drawings	<u>15,800*</u>	Less: depreciation	<u>6,000</u>
	5,10,800	Building	4,00,000
		Less: Depreciation	<u>20,000</u>
Total	<u>5,89,800</u>	Total	<u>5,89,800</u>

* ₹ 12,000+ ₹ 4,000 – ₹ 200 = ₹ 15,800

- 5 From the following Trial Balance of Mohan, prepare Trading and Profit & Loss Account for the year ending 31st March 2023 and a Balance Sheet on the same date after making necessary adjustments: -

Name of the account	Debit	Credit
Stock on 01-04-2022	40, 000	-----
Capital	---	1, 50, 000
Purchase	80, 000	-----
Sales	----	1 60, 000
Wages	20, 000	-----
Salaries	40, 000	-----
Outstanding Salaries	----	4, 000
Import Duty	2, 000	-----
Carriage Outwards	3, 000	-----
Loan	-----	50, 000
Investment	40, 000	-----
Debtors	62, 000	-----

Creditors	-----	30, 000
Bad debts	3, 000	-----
Provision for doubtful debts	-----	4, 000
Fire Insurance	5, 000	-----
Life Insurance	7, 000	-----
Advertisement	10, 000	-----
Goodwill	8, 000	-----
Machinery	50, 000	-----
Returns Inwards and Return Outwards	3, 000	2, 000
Cash	7, 000	
B/R	15, 000	
Interest on Loan	5, 000	-----
	4, 00, 000	4, 00, 000

Adjustments: -

1. Closing Stock was valued at Rs. 40,000(Market Price Rs. 50,000)
2. Wages were paid for 10 months only.
3. Create a Provision for Bad and Doubtful debts on Debtors @5%.
4. Depreciate Machinery by 12%.

Trading & P/L Account for the year ended 31st March 2024

Particulars	₹	Particulars	₹
To opening stock	40,000	By sales	1,60,000
To purchases	80,000	(-) Returns	<u>3,000</u>
(-) Returns	<u>2,000</u>	By Closing Stock	40,000
To wages	20,000		
(+) O/S Wages	<u>4,000</u>		
To import duty	2,000		
To gross profit	53,000		
	<u>1,97,000</u>		<u>1,97,000</u>
To salary	40,000	By gross profit	53,000
To carriage Outward	3,000		
To Bad debts	3,000		
(+)New provision	<u>3,100</u>		
	6,100		
(-) Old Provision	<u>4,000</u>		
To fire insurance	5,000		
To advertisement	10,000		
To depreciation on Machinery	6,000	By net loss	18,100
To interest on loan	5,000		
	<u>71,100</u>		<u>71,100</u>

Balance Sheet As at 31st March 2023

Liabilities	₹	Assets	₹
loan	50000	Cash	7,000
O/s Wages	4,000	Investment	40,000
O/s Salary	4,000	Debtors	62,000
Creditors	30,000	(-)New Provision.	<u>3,100</u>
Capital	1,50,000	Good will	8,000

(-) Net loss	<u>18100</u>	1,24900	Machinery	50,000	
(-) Drawing	<u>7,000</u>		(-)Dep	<u>6,000</u>	44,000
(LIC premium)			B/R		15,000
Total		2,12900	Closing Stock		40,000
			Total		2,12900

6 From the following balances of R Ltd and adjustments, prepare Trading and Profit & Loss Account for the year ending 31.03.2021 and Balance Sheet as on that date

Particulars	Amount	Particulars	Amount
Opening Stock	15,000	Rent	4,000
Purchases	1,09,000	Rent Outstanding	600
Sales	1,80,000	Provision for Doubtful Debts	1,000
Manufacturing Wages	8,000	Furniture (Includes Purchased on 01.10.2020 for Rs 1,000)	5,000
Fuel, power, light	12,000	Bills Receivable	6,000
Salaries	11,000	Bills Payable	1,600
Bad Debts	500	Machinery	72,000
Income Tax	5,500	Sundry Debtors	28,000
Loan to Manav	5,000	Sundry Creditors	13,000
Interest on Loan to Manav	300	Capital	1,00,000
Commission Received	4,500		
Cash in hand	20,000		

Adjustments

(a) Closing Stock at cost was Rs 35,000. Its net realisable value (market value) was Rs 30,000.

(b) Write off further Rs 500 as bad debt.

(e) Depreciate furniture by 10% p.a

(f) Salaries for the month of March, 2021 were outstanding

Trading A/c and Profit and loss A/c For the year ending 31st march 2021

Particulars	Amount	Particulars	Amount
To Opening Stock	15,000	By Sales	1,80,000
To Purchases	1,09,000	By Closing Stock	30,000
To Manufacturing Wages	1,80,000		
To Fuel, Power and Light	12,000		
To G/P C/d	66,000		
	<u>2,10,000</u>		<u>2,10,000</u>
To Rent	4,000	By G/P B/d	66,000
Bad debt	500	By Interest on Loan	300
Add: Further Bad Debts	<u>500</u>	By Commission	4,500
Less Provision for	1,000		
DD(old)	<u>(1,000)</u>		
To Salaries	11,000		
Add Outstanding	<u>1,000</u>		
To Depreciation on Furniture	450		
To N/P	54350		
	<u>70800</u>		<u>70800</u>

Balance Sheet as on 31/03/2021					
Liabilities		₹	Assets		₹
Capital	1,00,000		Machinery		72,000
Add: NP	54350		Furniture	5,000	
Less: Drawings			Less Depreciation	<u>450</u>	4,550
(Income -Tax)	<u>5,500</u>	1,48,850	Loan to Manav		5,000
Sundry Creditors		13,000	Sundry Debtors	28,000	
B/P		1,600	Less: further bad		
Rent Outstanding		600	debts	<u>500</u>	27,500
Outstanding Salaries		1,000	B/R		6,000
			Closing Stock		30,000
			Cash in hand		20,000
		<u>1,65,050</u>			<u>1,65,050</u>

Rs 1,000 for 6 months

[illegible]

L

ACROSS:

1. Expenses due, but not paid.
3. Income due but not received.
5. ----- is a charge against profit.

Down:

2. ----- is the used part of a fixed asset.
4. When goods are used for personal use ----- is debited.
6. Income received in advance is also known as -----.
7. Adjustments in the financial statements are made to arrive at -----.
8. Expenses paid already, but not related to the current year.
9. ----- is an appropriation of profit.
10. Loss by fire is an ----- loss
11. Capital expenditure is ----- in nature.
12. ----- is an example of direct expense.
13. Writing off intangible assets is called -----.

CHAPTER: 9 ACCOUNTS FROM INCOMPLETE RECORDS – SINGLE ENTRY SYSTEM**Meaning:**

Accounting records that are not maintained according to Double Entry System are known as Accounts from Incomplete Records or Single-Entry System of Accounting.

Definition: “A system of book keeping in which as a rule only records of cash and of personal accounts are maintained, it is always incomplete double entry varying with the circumstances.”

Features of incomplete records:

- (a) It is an unsystematic method of recording transactions.
 - (b) Generally, records for cash transactions and personal accounts are properly maintained and there is no information regarding revenue and/ or gains, expenses and/or losses, assets and liabilities.
 - (c) Personal transactions of owners may also be recorded in the cash book.
 - (d) Different organisations maintain records according to their convenience and needs, and their accounts are not comparable due to lack of uniformity.
-

(e) To ascertain profit or loss or for obtaining any other information, necessary figures can be collected only from the original vouchers such as sales invoice or purchase invoice, etc. Thus, dependence on original vouchers is inevitable.

(f) The profit or loss for the year cannot be ascertained under this system with high degree of accuracy as only an estimate of the profit earned or loss incurred can be made. The balance sheet also may not reflect the complete and true position of assets and liabilities.

Reasons of Incompleteness:

It is observed, that many businessmen keep incomplete records because of the following reasons:

(a) This system can be adopted by people who do not have the proper knowledge of accounting principles.

(b) It is an inexpensive mode of maintaining records. Cost involved is low as specialised accountants are not appointed by the organisations.

(c) Time consumed in maintaining records is less as only a few books are maintained.

(d) It is a convenient mode of maintaining records as the owner may record only important transactions according to the need of the business.

Limitations of incomplete records:

(a) As double entry system is not followed, a trial balance cannot be prepared and accuracy of accounts cannot be ensured.

(b) Correct ascertainment and evaluation of financial result of business operations cannot be made.

(c) Analysis of profitability, liquidity and solvency of the business cannot be done. This may cause a problem in raising funds from outsiders and planning future business activities.

(d) The owners face great difficulty in filing an insurance claim with an insurance company in case of loss of inventory by fire or theft.

(e) It becomes difficult to convince the income tax authorities about the reliability of the computed income.

Ascertaining profits under single entry system:

The profit /Loss in case of single-entry system can be ascertained in two methods viz

- i. statement of Affairs method and
- ii. Conversion method.

Meaning of statement of Affairs method (Net worth Method):

A statement of Affairs is a statement of assets and liabilities. Difference between the amounts of the two sides is taken as capital.

Features:

- Under this single-entry system, it is necessary to prepare statement of affairs at the end of the year and also in the beginning of the year, to determine profit.
- Statement of affairs like balance sheet, has two sides- right –hand side for Assets and left – hand side for liabilities.
- The difference between the total of assets and liabilities is capital, ie

Capital = total assets – liabilities

- For determining the profit, capital in the beginning of the year must be determined by preparing statement of affairs in the beginning of the year and capital at the end is determined by preparing statement of affairs at the end.
- If the capital at the end of the year exceeds that in the beginning, then it is taken as a profit.
- If the capital in the beginning was more than that at the end, then it is a loss.

Format of Statement of Profit or Loss for the year ended....

Particulars	₹
Capital at the end	XXXX
Add: Drawings during the year	XXXX
	XXXX
Less: Additional capital introduced during the year	(XXX)
Adjusted capital at the end	XXXX
Less: capital in the beginning	(XXXX)
Profit or Loss for the year	XXXXX

Procedure for determining Profit or Loss:

- First, prepare the statement of Affairs in the beginning of the period, for calculating capital in the beginning.
- Then, prepare the statement of Affairs at the end of the period in order to calculate the capital at the end.
- Adjust the capital at the end by adding drawings and deducting therefrom capital introduced during the year.
- From the adjusted capital at the end deduct capital in the beginning. This difference is either profit or loss.

Format of Statement of Affairs Statement of Affairs as at.....

Liabilities	Amount in (₹)	Assets	Amount in (₹)
Sundry creditors	XXXX	Cash in hand	XXXX
Bills payables	XXXX	Cash at bank	XXXX
Bank overdraft	XXXX	Sundry debtors	XXXX
Loan	XXXX	Bills receivables	XXXX
Outstanding interest on loan	XXXX	Closing stock	XXXX
Capital (B.F)	XXXX	Investments	XXXX
		Plant & machinery	XXXXX

		Land & Building	XXXXX
TOTAL	XXXXX	TOTAL	XXXXX

MCQs	
1	Capital in the beginning of the accounting year is ascertained by preparing: - Debtors' account - cash account - Opening statement of affairs. - None of these. Answer: (iii) opening statement of affairs.
2	From incomplete records, it is possible to prepare - Ledger accounts - Trial balance - Statement of affairs - None of these. Answer: (iii) statement of affairs.
3	When closing capital is greater than opening capital it means : - Profit - Loss - Profit if additional capital is not introduced - No profit, No loss. Answer: (i) Profit
4	Single entry system can be adopted by: - Small firms - Joint stock companies - Co-operative societies - None of these Answer: (i) small firms.
5	. In case of net worth method of single entry system, profit is ascertained by : - Preparing balance sheet - Preparing profit & loss account - Comparing the capital in the beginning of the accounting period and the capital at the end of the accounting period. - None of these.

	Answer : (iii) Comparing the capital in the beginning of the accounting period and the capital at the end of the accounting period.
	Objective type questions:
6	State whether the following statements are True or False: i. A trial balance can be prepared from books kept under single entry system. ii. This system is not suitable for sole traders or partnership firms doing small size business. iii. One of the main limitations of incomplete record system is that there is no uniformity because this system differs from firm to firm. Answer : (i) false, (ii) false ,(iii) true.
7	Fill in the blanks with appropriate words: i. Only -----accounts and -----book is maintained under single entry system. ii. Under this system the information relates to assets, liabilities -----,-----,is partially recorded. iii. Personal transactions of owners are also recorded in the -----book. Answer : (i) personal, cash (ii) expense, revenue (iii) cash
8	. ASSERTION-REASON
(i)	There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A) (c) Assertion (A) is false, but Reason (R) is true (d) Assertion (A) is true, but Reason (R) is false Assertion (A) : under the single entry system, balance sheet is not prepared, only statement of affairs is prepared. Reason (R) : the assets and liabilities do not stand at real amounts but at estimated amounts. Answer : (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(ii)	Assertion (A) : single entry system generally depends on original vouchers for ascertaining profit or loss or for obtaining other information. Reason (R) : single entry system is a simple method of recording business transaction.

	Answer : Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)													
(iii)	Assertion (A): single entry system is incomplete and unscientific system. Reason (R) : both the aspects of a transactions are recorded in single entry system. Answer : (d) Assertion (A) is true, but Reason (R) is false.													
9	MATCH THE FOLLOWING:													
	<table><tr><th>A</th><th>B</th></tr><tr><td>I. Single entry system</td><td>a. profit</td></tr><tr><td>II. Opening capital</td><td>b. To check arithmetical accuracy</td></tr><tr><td>III. Court accepts this system</td><td>c. statement of affairs in the beginning.</td></tr><tr><td>IV .When closing capital is greater than opening capital</td><td>d. incomplete and unscientific system</td></tr><tr><td>V.Trial balance</td><td>e. double entry system</td></tr></table> A. i-a ii-c iii-b iv-e v-d B. i-c ii-d iii-a iv-b v-e C. i-d ii-c iii-e iv-a v-b D. i-e ii-b iii-c iv-a v-d Answer: i-d ii-c iii-e iv-a v-b	A	B	I. Single entry system	a. profit	II. Opening capital	b. To check arithmetical accuracy	III. Court accepts this system	c. statement of affairs in the beginning.	IV .When closing capital is greater than opening capital	d. incomplete and unscientific system	V.Trial balance	e. double entry system	
A	B													
I. Single entry system	a. profit													
II. Opening capital	b. To check arithmetical accuracy													
III. Court accepts this system	c. statement of affairs in the beginning.													
IV .When closing capital is greater than opening capital	d. incomplete and unscientific system													
V.Trial balance	e. double entry system													
	<u>Very short Answer Type Questions:</u>													
10.	How can closing capital be ascertained from Incomplete records? Answer : closing capital can be ascertained by preparing a statement of Affairs at the end of the accounting period.													
11	. Consider the following information and find out the closing capital: Opening capital Rs.2,50,000 Profit for the year Rs.80,000 Drawings made during the year Rs. 30,000. Answer: profit = closing capital +drawings made during the year –additional capital – opening capital Closing capita = opening capital + profit –drawings 													

	Cash in hand Rs.6,000 , Bank balance Rs.20,000 (Cr) sundry debtors Rs. 1,86,000 sundry creditors Rs. 74,000, loan from wife Rs.35,000 , stock in trade Rs.3,87,000 , fixtures & fittings Rs. 40,000. a) opening capital will be : i. Rs. 4,12,000 ii. Rs.5,24,000 iii.Rs. 415000 iv. Rs. 425000 Answer : (i) Rs. 4,12,000 b) closing capital will be : i. Rs. 5,10,000 ii. Rs. 4,90,000 iii.Rs. 4,75,000 iv. Rs. 4,80,000 Answer : (ii) Rs. 4,90,000 c) profit earned during the year will be : i. 1,23,000 ii. 133000 iii. 1,13,000 iv. 143000 Answer : (iii) Rs. 1,13,000
	HOTS QUESTIONS:
1	Which accounting concept is certainly followed by both single entry as well as double entry system. ? Answer : Money measurement concept.
2	What is the common objective of single entry system and double entry system ? Answer: common objective of both the systems is to calculate the profit or loss of the business.
3	Why statement of assets and liabilities prepared under single entry system at the end of accounting period is called statement of affairs instead of business sheet?. Answer: because value of assets and liabilities shown in statement of affairs are merely the estimates and not the actual values
4	Mohan a vendor keeps his accounts under single entry system,. His capital as on 1st April 2020 was Rs.1,20,000. He sold his land cost Rs.60,000, at 10% premium out of which he invested $\frac{2}{3}$rd into the business and also he sold his scooter for Rs. 45000 and utilised the amount for business. He draws Rs 2000 each month up to to 31st July and he draws Rs.3000 each month for the remaining period., he draws Rs. 15000 for purchasing laptop for his son from business. A) His drawings during the year was: a) Rs. 52,000 b) Rs.48000 c) Rs.49,000 d) Rs.47,000 Answer : d) Rs.47,000 B) His additional capital was:

	a) Rs.87,000 b) Rs.89,000 c) Rs. 85000 d) Rs.79000 Answer: b) Rs. 89,000
5	Murali a vendor does not keep his records under double entry system. His position as on 1st April 2022 was cash in hand Rs. 1,000, cash at bank Rs. 9,000, Debtors Rs. 56,000 , stock Rs.30,000 Furniture Rs. 14,000 ,Machinery Rs.90,000. His position at the end of the year was : cash in hand Rs. 2,500, cash at bank Rs.12,500, Debtors Rs.60,000, stock Rs. 25,000, Furniture Rs 14,000, Machinery Rs.86,000 and creditors Rs.20,000. Murali estimates that 5% of the debtors are doubtful and Rs.2000 are absolutely bad and rate of depreciation on furniture is 10% A) provision for doubtful debts was: a) Rs. 4900 b) Rs.2000 c) Rs.2900 d) Rs.900 Answer : c) 2900 B) depreciation on furniture will be : a) Rs. 1000 b) Rs.1400 c) Rs. 1200 d) Rs.800 Answer :b) 1400
6	Mr. Raman started business on 1st April ,2011 with a capital of Rs.40,000. (Rs.25,000 brought in cash , goods worth Rs. 10,000 and balance in the form of furniture) He keeps his books by single entry system . On 1st October 2011 he introduced Rs.10,000 into the business of which Rs.6000 was borrowed from his wife. His position on 31st March ,2012 was as follows: Assets : cash in hand Rs.5,000, cash at bank Rs.3000 stock Rs.12,000 sundry debtors Rs. 15,000, bills receivables Rs.500, furniture Rs. 5000. Liabilities : sundry creditors Rs.7,000, Loan from wife Rs. 6,000, and outstanding expenses Rs.900. He withdraws Rs.1200 per month for his personal expenses. Furniture to be depreciated at 10% p.a. Interest on wife's loan is to be allowed at 15% p.a. Read the above carefully, and answer the following questions: i) Additional capital introduced by Raman was : a) Rs.16000 b) Rs.10000 c) Rs. 4000 d) Rs. 20000

Answer : Rs.4000

ii) Is additional capital included in wife's loan Rs.6000? yes /No.

Answer: No.

iii) if it is No, Justify your answer.

Answer: Loan from wife is not an additional capital because it is a liability.

iv) Is opening statement of affairs prepared?

Answer: No, it is not prepared.

v) state the reason for not preparing opening statement of affairs.

Answer: if it is first year of the business of a trader, opening statement of affairs is not made because there is no balances of previous accounts and also opening capital is given in the question.

7

From the following statement of Profit or Loss, determine the missing information:

Statement of Profit or Loss for the year ended 31st March ,2024

Particulars	Rs.
Capital as on 31 st March, 2024	1,17,500
Less: capital introduced during the year	-----
Add: Drawings during the year (3,125*10)	1,03,750

Less: Capital as on 1 st April, 2023	1,00,000

Profit during the year	

Solution:

Statement of Profit or Loss for the year ended 31st March ,2024

Particulars	Rs.
Capital as on 31 st March, 2024	1,17,500
Less: capital introduced during the year	13,750
Add: Drawings during the year (3125*10)	1,03,750
	31,250
Adjusted capital	1,35,000
Less: Capital as on 1 st April ,2023	1,00,000
Profit during the year	35,000

LONG ANSWER QUESTIONS

1

Amit does not keep full double entry. His business position as on 1st April 2023 was as follows:

Liabilities	Rs	Assets	Rs.
Creditors	50,000	Cash in hand	1,000
Capital	1,50,000	Cash at bank	9,000
		Debtors	56,000
		Stock	30,000
		Furniture	14,000
		Machinery	90,000
	<u>2,00,000</u>		<u>2,00,000</u>

His position at the end of the year was: cash in hand Rs.2,500, cash at bank Rs 12,500, Debtors Rs.60,000, stock Rs.25,000, furniture Rs.14,000, Machinery Rs.86,000, and creditors Rs.20,000.

He withdrew during the year Rs.1,10,000, out of which he spent Rs.75,000 on the cost of purchasing a scooter for the business.

Calculate the net profit for the year and prepare final statement of affairs as at 31st March, 2024 after making the following adjustments.

Depreciate furniture and scooter at 10%. Rs.2000 written off as bad debts and create 5% on provision for doubtful debts.

Statement of Affairs (before adjustments)
As at March 31, 2024

Liabilities	Rs	Assets	Rs.
Creditors	20,000	Cash in hand	2,500
Capital	2,55,000	Cash at bank	12,500
		Debtors	60,000
		Stock	25,000
		Furniture	14,000
		Scooter	75,000
		Machinery	86,000
	<u>2,75,000</u>		<u>2,75,000</u>

Statement of Profit or Loss
For the year ending March,31,2024

Particulars	Rs.
-------------	-----

Capital at the end (31.03.2024)	2,55,000
Add: Drawings made during the year (1,10,000—Rs 75,000)	35,000

Adjusted capital	2,90,000
Less: capital at the beginning	<u>(1,50,000)</u>
Profit before adjustments	1,40,000
Less: Depreciation on furniture (1400)	
Depreciation on scooter (7500)	
Bad debts (2000)	
Provision for doubtful debts (2900)	
(Rs. 58,000 (60,000-2000))	(13,800)

Net profit	<u>1,26,200</u>

Statement of Affairs (with adjustments) as at March 31,2024

Liabilities	Rs	Assets	Rs.
Creditors	20,000	Cash in hand	2,500
Capital	1,50,000	Cash at bank	12,500
Add: Net profit	<u>1,26,200</u>	Debtors	60,000
	2,76,200	Less: Bad debts	(2000)
Less: Drawings	(35,000)		-----
	-----		58,000
	2,41,200	Less: Prov. Doubtful debts	(2900)

		Stock	25,000
		Furniture	14,000
		Less: Depreciation (1,400)	

			12,600
		Scooter	75,000
		Less: depreciation	<u>(7500)</u>
			67,500
		Machinery	<u>86,000</u>
			<u>2,61,200</u>
	<u>2,61,200</u>		

- 2 On 1st April 2023, Mr. Nirmal started business with a capital of Rs. 5,00,000. He kept his books on single entry basis. Soon after he purchased furniture for Rs.40,000 and purchased goods for Rs.3,00,000. During the year he borrowed Rs. 1,00,000 from his brother and introduced further capital of his own amounting to Rs. 80,000.
- On 31st March 2024, there was sundry debtors amounting to Rs.2,20,000 and creditors amounting to Rs.1,40,000. Stock was valued at Rs.4,50,000. Cash in hand Rs. 15,400 and Bank overdraft Rs.40,000.

During the year Mr. Nirmal withdrew Rs.2000 per week for his personal expenses. Sundry debtors included Rs.5000 is an irrecoverable. He took Rs.4000 worth of goods from business for his sister. Calculate profit or loss during the year.

Solutions: calculation of closing capital.

Statement of Affairs as on 31st March, 2024

Liabilities	Rs	Assets	Rs.
Bank overdraft	40,000	Cash in hand	15,400
Creditors	1,40,000	Sundry debtors	2,20,000
Banker's loan	1,00,000	Less: bad debts	(5000)
Capital (B.F)	4,40,400		2,15,000
		Stock	4,50,000
		furniture	40,000
	<u>7,20,400</u>		<u>7,20,400</u>

Statement of Profit or Loss for the year ended 31st March, 2024

Particulars	Rs.
Capital as on 31 st March ,2024	4,40,400
Add: Drawings made during the year:	1,04,000
In cash ie Rs.2000*52 weeks	
In Goods	4,000
	<u>1,08,000</u>
	5,48,400
Less : Additional capital introduced during the year	<u>(80,000)</u>
	4,68,400
Less: capital as on 31 st March 2024	<u>(5,00,000)</u>
Loss incurred during the year	<u>(31,600)</u>

- 3 Ram Nath is a sole trader who does not operate double entry system of book keeping. The following information are available.

Statement of Affairs as at 1st April 2023.

Liabilities	Rs	Assets	Rs.
Bank overdraft	7,000	Cash in hand	2,000
Creditors	30,000	Bills Receivables	3,000
Capital	1,60,000	Debtors	40,000
		Stock	62,000
		Non-current assets	90,000
	<u>1,97,000</u>		<u>1,97,000</u>

On 31st March, 2024 his position was as follows:

- There was no change in non- current assets.
- Stock was reduced by Rs.5000.
- Debtors were increased by Rs.8000
- The balance of bills receivables was Rs.3,700

v. his cash position improved by Rs. 3000 and bank overdraft was Rs.15,000.

vi. Balance of creditors and bills payable were Rs.30,000 and Rs. 12,500 respectively on 31st March ,2024.

On 31st March ,2024 outstanding salary of an employee was Rs.700 and interest on bank overdraft is to be paid Rs.2,000. Provide 5% for doubtful debts on

Debtors. During the year 2023-24, he withdrew Rs.6000 as drawings.

Prepare statement of Profit or Loss for the year ending 31st March ,2024 and statement of affairs with adjustments.

Solutions:

Statement of Affairs (Before Adjustments) as at March 31, 2024

Liabilities	Rs	Assets	Rs.
Bank overdraft	15,000	Cash in hand	5,000
Creditors	30,000	Bills receivables	3,700
Bills Payables	12,500	Debtors	48,000
Capital (B.F)	1,46,500	Stock	57,000
		Non-Current Assets	90,000
	2,03,700		2,03,700

Statement of Profit or Loss for the year ending 31.03.2024

Particulars	Rs.
Closing capital as on 31 st March ,2024	1,46,200
Add: Drawings made during the year	6,000
Adjusted closing capital	1,52,200
Less : opening capital as on 1 st April ,2023	
Loss incurred during the year	(1,60,000)
Less: outstanding salary	(700)
Outstanding Interest on overdraft	(2000)
Provision for doubtful debts	(2,400)
(5% on Rs.48,000)	(5100)
Net Loss	(12,900)

- 4 Mrs. Kavita started a small tailoring shop. she maintains the accounts under single entry system. On 1st May 2023, she invested capital Rs. 78,000. On March 31, 2024 her incomplete records could provide the following data:
- Amount due to suppliers of raw material Rs.17,500
 - Stock of raw materials Rs. 2000 and finished products Rs.2,500
 - Fixed assets Rs.34,000.
 - Amount due from customers Rs 42,000.

- v. She had withdrawn Rs. 2500 per month for meeting her personal expenses.
 vi. she had introduced Rs 7000 as capital during the year.
 vii. she has cash at bank Rs. 21,000 and cash in hand Rs.1800.
 viii. Outstanding electricity bill Rs. 2,250.
 Calculate the Profit/Loss of her business during the year using statement of affairs method.

Solution:

Statement of Affairs as at 31st March 2024

Liabilities	Rs	Assets	Rs.
Sundry creditors	17,500	Closing stock:	
Outstanding electricity bill	2250	Raw materials	2,000
		Finished goods	2,500
Capital (B.F)	83,550	Fixed assets	34,000
		Sundry debtors	42,000
		Cash in bank	21,000
		Cash in hand	1,800
	<u>1,03,300</u>		<u>1,03,300</u>

Statement of Profit or Loss for the year ending 31st March, 2024.

Particulars	Rs
Capital at the end of the year (31.03.2023)	83,550
Add: Drawings during the year (2500*11)	27,500

	1,11,050
Less: Additional capital introduced during the year.	(7000)
Adjusted capital	<u>1,04,050</u>
Less: capital in the beginning of the year (1.05.2023)	(78,000)
Profit for the period	<u>26050</u>

- 5 Mr. Sanjay has not kept proper books of accounts. From the following details relating to his business, prepare a statement of Profit or Loss for the year ended on 31st March 2023.
- | | | |
|------------------------|----------|------------|
| | 1.4.2023 | 31.03.2024 |
| Machinery | 80,000 | 80,000 |
| Furniture and Fittings | 10,000 | 10,000 |
| Cash in hand | 5,000 | 7,000 |
| Bank balance | 5000(Cr) | 12000(Dr) |
| Sundry debtors | 18000 | 25,000 |
| Stock in trade | 16000 | 19000 |
| Sundry creditors | 9000 | 12000 |
| Bills Receivables | 3000 | 5000 |
| Bills Payables | ----- | 4000 |
| Leasehold land | ----- | 10000 |
| Outstanding expenses | 8000 | 10000 |
- Other information:
 i. Sanjay drew Rs.1000 per month from the business and introduced further capital of Rs.6000 on 1st July 2023.

- ii. Depreciation to be provided on machinery at 10% p.a and on furniture and fittings at 8% p.a.
 iii. Interest on capital is to be allowed at 5% p.a
 iv. Bad debts provision to be maintained at 6% on debtors.

Solution:**Statement of Affairs as at 1st April, 2023**

Liabilities	Rs	Assets	Rs.
Bank overdraft	5000	Machinery	80,000
Sundry creditors	9000	Furniture and fittings	10,000
Outstanding expenses	8000	Cash in hand	5000
Capital (B.F)	1,10,000	Sundry debtors	18000
		Stock in trade	16000
		Bills receivables	3000
	<u>1,32,000</u>		<u>1,32,000</u>

Statement of Affairs (Before adjustments) as at 31st March ,2024

Liabilities	Rs	Assets	Rs.
Sundry creditors	2,000	Machinery	80,000
Bills Payables	4000	Furniture and fittings	10000
Outstanding expenses	0,000	Cash in hand	7000
Capital (bal.fig)	1,42,000	Cash at bank	2,000
		Sundry debtors	25,000
		Stock	9,000
		Bills receivables	5000
		Household land	10000
	<u>8,000</u>		<u>8,000</u>

Statement of Profit or Loss for the year ending 31st March, 2024

Particulars	Rs.
Closing capital as on 31.03.2024	1,42,000
Add: Drawings (1000*12)	12,000
	<u>54,000</u>
Less: Further capital introduced on 01.07.2023	(6000)
Adjusted closing capital	<u>1,48,000</u>
Less: opening capital	(1,10,000)
Profit before adjustments	<u>38,000</u>
Less: Depreciation on Machinery (80000*10/100) (8000)	
Depreciation on furniture (10000*10/100)	(800)
Interest on capital (5500+225)	(5725)
Provision for bad debts (25000*6/100)	(1500)
	<u>(16025)</u>
Net Profit	<u>21975</u>

- 6 Mrs. Vanitha runs a small printing firm. She was maintaining only some records, which she thought, were sufficient to run the business.

On April 01, 2023, available information from her records indicated that she had the following assets and liabilities: Printing Press Rs` 5,00,000, Buildings `Rs 2,00,000, Stock ` Rs.50,000, Cash at bank Rs` 65,600, Cash in hand `Rs 7,980, Dues from customers `Rs 20,350, Dues to creditors ` Rs.75,340 and Outstanding wages Rs.` 5,000.

She withdrew `Rs. 8,000 every month for meeting her personal expenses. She had also introduced ` Rs.15,000 during the year as additional capital.

On March 31, 2024 her position was as follows: Press `Rs. 5, 25,000, Buildings Rs` 2,00,000, Stock `Rs 55,000, Cash at bank `Rs 40,380, Cash in hand ` Rs15,340, Dues from customers `Rs 17,210, Dues to creditors Rs` 65,680.

Calculate the profit made by Mrs. Vanitha during the year using statement of affairs method. Prepare Statement of Affairs as on April 1, 2023 and as on March 31, 2024.

Solution:

Statement of Affairs as at 1st April, 2023

Liabilities	Rs	Assets	Rs.
Creditors	75,340	Printing press	5,00,000
Outstanding wages	5,000	Buildings	2,00,000
Capital (b.f)	7,63,590	Debtors	20,350
		Stock	50,000
		Cash at bank	65,600
		Cash in hand	7980
	8,43,930		8,43,930

Statement of Affairs as at 31st March,2024

Liabilities	Rs	Assets	Rs.
Creditors	65,680	Printing press	5,25,000
Capital (b.f)	7,87,250	Buildings	2,00,000
		Debtors	17,210
		Stock	55,000
		Cash at bank	40,380
		Cash in hand	15,340
Total	8,52,930	Total	8,52,930

Statement of Profit or Loss for the year ended 31st March, 2024

Particulars	Rs.
Capital at the end	7,87,250
Add: drawing during the year	96,000
	8,83,250
Less: Additional capital during the year	(15,000)
	8,68,250
Less: capital at the beginning	(7,63,590)
Profit made during the year	1,04,660

7 amini, a trader, does not keep proper books of account. However, she furnishes you

the following particulars:

Particulars	31 st March 2023	31 st March 2024
Cash at bank	2250	1500
Cash in Hand	150	2,000
Stock	20,000	22,500
Debtors	6,000	10,000
Office equipment	2,500	2500
Sundry creditors	15,000	10,000
Furniture	2,000	2,000

During the year Kamini introduced Rs. 3,000 as further capital and withdrew Rs. 2,000 as drawings. Write off Depreciation on furniture at 10% and on office equipment at 5%.

Prepare a statement showing the Profit or Loss made by her for the year ended 31st March, 2024.

Solution:

Statement of Affairs as at 31st March,2023

Liabilities	Rs	Assets	Rs.
Sundry creditors	15,000	Cash in hand	2,250
Capital (b.f)	17,900	Cash at bank	150
		Stock	20,000
		Debtors	6,000
		Office Equipment	2500
		furniture	2000
	32,900		32,900

Statement of Affairs (After adjustments) as at 31st March,2024

Liabilities	Rs	Assets	Rs.
Sundry creditors	10,000	Cash in hand	1,500
Capital (b.f)	30,175	Cash at bank	2,000
		Stock	22,500
		Debtors	10,000
		Office Equipment 2500	
		Less: depreciation <u>125</u>	2375
		Furniture 2000	
		Less: Depreciation <u>200</u>	1800
	40,175		40,175

Statement of Profit or Loss for the year ended 31st March,2024

Particulars	Rs.
Capital on 31 st March,2024	30,175
Add: Drawings during the year	2000
	32,175
Less: capital introduced during the year	3000
Adjusted capital during the year	29175
Less: capital on 31 st March,2023	17,900
Profit made during the year	11,275

8 Sandeep keeps his books of account on Single Entry System. From the following information given by him, ascertain his profit or loss for the year ended 31st March, 2024:

On 31st March, 2023 his position was:

Machinery 60,000; Stock 10,000; Cash in Hand 200; Debtors 34,000; Loan from Anita 2,000 at 4%

p.a. interest; Bank Overdraft 2,200 and Creditors 24,240.

On 31st March, 2024 he owed to his creditors 18,340 and had paid to Anita Rs.1000 in lieu of his loan on 1st October, 2023 but had paid no interest. He had bought additional Machinery for Rs.26,000. Debtors were 46,000 out of which 1800 he would not be able to collect. The Cash Balance was 8,200. Stock at the end was valued at 9000.

Sandeep withdrew Rs. 16,600 for his personal expenses. He introduced further capital of ₹20,000 during the year.

Solution:

Calculation of opening capital

Statement of Affairs as at 31st March ,2023

Liabilities	Rs	Assets	Rs.
Loan from Anita	2000	Machinery	60,000
Bank overdraft	2200	Stock	10,000
Creditors	24240	Cash in hand	200
Capital (b.f)	75760	Debtors	34,000
Total	1,04,200		1,04,200

Calculation of closing capital:

Statement of Affairs as at 31st March 2024

Liabilities	Rs	Assets	Rs.
Creditors	18,340	Machinery	86,000
Loan from Anita (2000-1000)	1000	Stock	9,000
Interest on loan	60	Cash in hand	8,200
Capital	75760	Debtors	44,200
Add: additional capital	20000	46000	
	-----	Less: Bad debts	
	95,760	<u>1800</u>	
Add: Net profit	<u>48,840</u>		
	1,44,600		
Less: Drawings	16,600		
	1,28,000		
Total	1,47,400	Total	1,47,400

Statement of Profit or Loss for the year ended 31st March, 2024.

Particulars	Rs
Capital as on 31.03.2024	1,28,000
Add: Drawings	16,600
	<u>1,44,600</u>
Less: capital introduced during the year	(20,000)
Adjusted capital	<u>1,24,600</u>
Less: capital in the beginning	(75,760)
	<u>48,840</u>
Profit for the years	

Working Notes: *Interest on Loan from Anita

Rs. 2000 for first 6 months @4% p.a. (2000 *4/100*6/100)=40
Rs. 1000 for next 6months @4% p.a. (1000*4/100*6/12)=20

9Murugan maintains his books of account on Single Entry System and the following information is disclosed from his records:

Particulars	31 st March 2023	31 st March 2024
Balance at Bank	3,150 (Cr)	8400
Stock-in-Trade	22,500	30,000
Sundry Debtors	45,000	42,800
Furniture	7,500	7,500
Investments	7,500	7,500
Cash in Hand	150	600
Sundry creditors	39,000	41,250
Loan from Aakash	-----	4,500

Murugan transferred Rs. 375 every month during the first half of the year and 300 every month for the remaining period from the business to his personal bank account by way of drawings. In addition, he withdrew Rs. 7,500 for his daughter's marriage and ₹3,000 for domestic purposes. In September, 2023, he had received a lottery prize of 6,000, which he invested in the business. He sold his personal car for ₹7,000 and the proceeds were utilised for business. He wants his furniture to be depreciated at 10% and a provision for doubtful debts to be created at 5%. He had not paid two months' salary to his worker @ 225 per month and two months' rent outstanding amounting to 300. Commission earned but not received by him was 3,600. Prepare Statement of Profit or Loss for the year ended 31st March, 2024.

Working Notes: i. Drawings during the year: Rs.375 @6 months (375*6) 2250
Rs. 300@6 months (300*6) 1800
ii. withdrawn for daughter marriage 7500
iii. withdrawn for domestic purposes 3000
Total drawings 14,550

Additional capital: lottery prize invested in the business 6000
Sales proceeds of personal car utilised 7000
Total 13,000

calculation of opening capital

Statement of Affairs as at 1st April,2023

Liabilities	31 st March 2023	31 st March 2024	Assets	31 st March 2023	31 st March 2024
Bank overdraft	3,150	41,250	Cash in hand	150	600
Sundry Creditors	39,000	4,500	Stock	22,500	30,000
Outstanding Salaries		450	Sundry Debtors	45,000	42,800
Outstanding Rent		300	Furniture	7,500	7,500
Capital (B.F)	40,500	53,900	Investments	7,500	7,500
			Cash at bank		8,400
			Accrued commission		3,600
Total	82,650	1,00,400	Total	82,650	1,00,400

Statement of Profit or Loss for the year ended 31st March, 2024

Particulars	Rs
Capital at the end (closing capital)	53,900
Add: Drawings during the year	14,550
	68,450
Less: capital Introduced	(40,500)
Adjusted capital	27,950
Less: opening capital	(13,000)
Profit before adjustment	14,950
Less: Depreciation on furniture (7500*10/100) 750	
Provision for doubtful debts (42,800*5/100) <u>2140</u>	
Net profit for the year	12,060

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SAMPLE QUESTION PAPER - 1
SUBJECT: ACCOUNTANCY (055)
2024-25

TIME 3 HOURS**CLASS- XI****MAX. MARK 80****GENERAL INSTRUCTIONS:**

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Part – A and B are compulsory for all the candidates.
4. Question Nos.1 to 15 and 26 to 30 carries 1 mark each.
5. Questions Nos. 16 to 20 and 31 carries 3 marks each.
6. Questions Nos. from 21 ,22 and 32 carries 4 marks each
7. Questions Nos. from 23 to 25 and 33 to 34 carries 6 marks each
8. There is no overall choice. However, an internal choice has been provided in 7 questions of one mark, 2 questions of three marks, 1 question of four marks and 2 questions of six marks.

1	Cash, goods or Assets invested by the proprietor in the business for earning is called_____	1
	a. Fixed Assets b. Profit c. Capital d. Liabilities	
2	Assertion (A): First step in the accounting process is the identification of business transactions. Reason (R): Business transactions must be evidenced by an appropriate document such as cash memo, purchase invoice etc. (a) Both (A) and (R) are true and (R) is the correct explanation of (A) (b) Both (A) and (R) are true and (R) is not the correct explanation of (A) (c) (A) is true but (R) is false (d) (A) is false but (R) is True	1
3	Which external user of accounting information is most interested in knowing the long-term solvency position of the firm? (a) Employees (b) (b) Management (c) (c) Banks and Financial Institutions (d) (d) Researchers OR Use of common unit of measurement and common format of reporting promotes: (a) Relevance (b) Understandability (c) Comparability (d) Reliability	1
4	A concept that a business enterprise will not be sold or liquidated in the near future is known as _____. a. Going concern b. Business entity c. money measurement d. Materiality	1

5	What is the main objective of Accounting Standard? (a) Maximizing Profit (b) Ensuring Uniformity in Financial Reporting (c) Minimising Expenses (d) Reducing Taxes	1										
6	Sachin of Mumbai sold goods to Rahul of Mumbai of Rs.60,000. If rate of GST is 12%, Sachin will charge..... (a) CGST Rs.3,600; SGST Rs.3,600 (b) (b) CGST Rs.7,200; SGST Rs.7,200 (c) (c) IGST Rs.3600 (d) (d) IGST Rs.7,200 OR The unsold goods of a business on a particular year are called_____ a. Stock/Inventory b. Debtors c. Purchases d. Bad debts	1										
7	Match the following: <table><tr><th>Column I</th><th>Column II</th></tr><tr><td>(a) Rent received</td><td>(i) Personal</td></tr><tr><td>(b) Machinery</td><td>(ii) Personal</td></tr><tr><td>(c) Accrued interest</td><td>(iii) Nominal</td></tr><tr><td>(d) Outstanding salaries</td><td>(iv) Real</td></tr></table> Codes (A) (a)-(i), (b)-(ii), (c)-(iii), (d)-(iv) (B) (a)-(iii), (b)-(iv), (c)-(ii), (d)-(i) (C) (a)-(iv), (b)-(iii), (c)-(i), (d)-(ii) (D) (a)-(iii), (b)-(ii), (c)-(iv), (d)-(i)	Column I	Column II	(a) Rent received	(i) Personal	(b) Machinery	(ii) Personal	(c) Accrued interest	(iii) Nominal	(d) Outstanding salaries	(iv) Real	1
Column I	Column II											
(a) Rent received	(i) Personal											
(b) Machinery	(ii) Personal											
(c) Accrued interest	(iii) Nominal											
(d) Outstanding salaries	(iv) Real											
8	A sole trader took goods costing Rs.10,000 from stock for his personal use. The selling price of the goods is Rs.15,000. Which of the following journal entry would correctly record this? (a) Dr. Drawings A/c and Cr. Purchases A/c by Rs.15,000 (b) Dr. Drawings A/c and Cr. Sales A/c by Rs.15,000 (c) Dr. Drawings A/c and Cr. Purchases A/c by Rs.10,000 (d) Dr. Drawings A/c and Cr. Sales A/c by Rs.10,000	1										
9	When bank directly collects interest and dividend: then, (a) Pass book balance is increased (b) Cash book balance is increased (c) Cash book balance is decreased (d) Pass book balance is decreased	1										

	OR A bank reconciliation statement is prepared by: (a) Customers of the bank (b) Bank (c) Debtors (d) Suppliers	
10	Assertion (A): Bank Reconciliation Statement is prepared with the balance of either cash book or pass book Reason (R): it is prepared to ascertain the causes of difference between the balances as shown by cheque book and pass book. (a) Both (A) and (R) are true and (R) is the correct explanation of (A) (b) Both (A) and (R) are true and (R) is not the correct explanation of (A) (c) (A) is true but (R) is false (d) (A) is false but (R) is True	1
11	A cash book always shows a _____. (a) Debit balance (b) Credit balance (c) Debit or credit balance d) None of these OR (b) A cash book that records minor expenses of a business on a day-to-day basis is a _____: a. Petty cashbook b. Double column cashbook c. Simple cash book 1 d. None of the above	1
12	The entry which affects the cash and bank column of a double column in the cash book is known as _____. (a) Contra entry (b) Compound entry (c) rectification entry (d) Single entry	1
13	The arrangement is made for meeting future uncertainties (a) Provisions (b) Provisions and Reserves (c) Reserves (d) Investments	1
14	Which of the following errors will not affect the Trial Balance? (a) Writing an amount in the wrong account but on the correct side (b) Wrong balancing of an account (c) Wrong totalling of an account (d) Omission of Rs.500 in an account OR (b) A Trial Balance is prepared with the help of (a) Ledger balances (b) Trading Account 1 (c) Balance Sheet (d) All of the above	1
15	Read the paragraph given below and answer the question given below .Renu and Sanju are two friends studying in 11th Commerce class. Their interested subject is Accountancy and they always discuss various aspects of accounting whenever they get time. One day, the friends were intrigued by the different branches of accounting and its widespread application. Renu	1

	said that she finds it interesting that even the employees demand information relating to business. Sanju said he finds more interesting the fact that even competitors want information on the relative strengths and weaknesses of the enterprise and for making comparisons, Sanju further said that even accounting helps owners to compare one year's costs, expenses, and sales with those of other years. However, they were quite shocked by the fact that the management-worker relations were not taken into consideration in the accounting. Meanwhile, Renu and Sanju had an argument at the end of the discussion. Renu was saying that accounting is an art whereas Sanju was saying that accounting is a science. Their teacher came in and said something to them which made them stop the argument. Which limitation of accounting is being talked about by them? (a) Influenced by personal judgments (b) Omission of qualitative information. (c) Incomplete information (d) Based on historical costs	
16	Profit on sale of fixed asset is used to create (a) Specific Reserve (b) General Reserve (c) Capital Reserve (d) None of these OR (b) Depreciation is a charge on: (a) Current Assets (b) Intangible assets (c) Fixed Assets (d) Fictitious Assets	1
17	'Qualitative characteristics are attributes that make the accounting information useful to users.' In the light of the above sentence explain any three such characteristics of accounting information. OR Explain the meaning of any three of the following terms: (i) Assets (ii) Capital (iii) Goods (iv) Revenue	3
18	There are some written statements of uniform accounting rules and guidelines adopted while preparing financial statements. Identify the same and list out any of its two benefits?	3
19	A Provision can be Specific or General. Do you agree? Give reason with an example. OR Differentiate between Provision and Reserve. Explain any three differences.	3
20	State and explain the accounting concepts/conventions involved in each of the following situations: (i) Closing stock is valued at lower of cost or market value (ii) Capital contributed by the proprietor is credited to his capital account	3

	(iii) Financial statements of the firm are prepared every year on 31st March	
21	Prepare accounting equation from the following: (i) Started business with cash Rs.2,00,000 (ii) Purchased goods for cash Rs.40,000 on credit Rs.60,000 (iii) Sold goods for cash Rs.20,000 and on credit Rs.30,000 both at a profit of 20%. (iv) Paid salaries Rs.16,000.	4
22	Pass the journal entries to rectify the following errors detected during preparation of the Trial Balance: (i) Wages paid for construction of office debited to Wages Account Rs.45,000 (ii) Goods (cost Rs.4,500; sales price Rs.5,500) distributed as free samples to prospective customers where not recorded anywhere (iii) Purchases Book is undercast Rs.2,500 (iv) A credit sale of goods Rs2,200 to John Miller has been wrongly passed through the Purchases Book.	4
23	On January 1, 2024, Mr X commence a business with a cash balance of Rs.50,000 in hand and a bank balance of Rs.80,000. During the month of January 2024, the following transactions took place: Jan 3: Purchased goods for cash Rs.20,000 Jan 8: Sold goods for cash Rs.15,000 Jan 12: withdrew cash for office use Rs.10,000 Jan 18: Deposited Rs.25,000 into the bank Jan 25: Received a loan from Mr. Y and deposited it into the bank Rs.30,000 Jan 31: Paid rent by cheque Rs.5,000 Record these transactions in the double column cash book with cash and bank columns and provide the closing balance at the end of January	6
24	On 31st December 2023, pass book shows a debit balance(overdraft) of Rs.10,000. From the following particulars, prepare a Bank Reconciliation statement: (i) Cheques amounting to Rs.8,000 drawn on 25th December of which cheques of Rs.3,000 were cashed with in 31st December (ii) Cheque paid in for collection amounted to Rs.50,000 but cheques of Rs. 22,800 were credited on 2nd January 2024. (iii) Items unticked in the pass book are: a) Incidental charges Rs.25 b) Dividend collected by bank on our behalf Rs.400	6

	(iv) A cheque for Rs.600 debited in the cash book omitted to be banked. (v) A cheque of Rs.750 banked and credited, but omitted to be recorded in cash book OR Prepare a bank reconciliation statement of Universal Sports as on 31st March 2023 on the basis of the following information: (i) Debit balance as per cash book Rs.1,500 (ii) Payment side of cash book has been under cast by Rs.100 (iii) A cheque of Rs.750 deposited in bank has been dishonoured (iv) A cheque of Rs.2,000 issued in favour of Match Hub has not been presented for payment (v) A customer directly deposited Rs.4000 into bank but no entry was made in cash book. (vi) Bank charges debited by bank Rs.200 but was not updated in cash book.	
25	On 1st April 2020 Suraj Ltd. purchased 10 machines of Rs.30,000 each. on 30th June 2021, one machine out of the 10 machines was sold for Rs.24,000 and on 31st December 2022 one more machine was sold for Rs.22,500. A new machine was purchased on 30th September 2023 for Rs.32,000. The company has adopted the practice of providing depreciation at 10% p.a. on original cost of machine. The company closes its books on 31st March every year. You are required to prepare machinery account up to 31st March 2023 OR On 1st April 2019, Sun Ltd purchased a machinery for Rs.3,90,000 on which they spent Rs.5,000 for carriage, Rs.2,000 for brokerage, Rs. 2,500 for installation and Rs.500 for iron pad. On 1st November 2020, they purchased another machinery for Rs.1,00,000 and immediately spent Rs.20,000 on its overhauling. On 30th September 2021, the machinery purchased in 2017 was sold at a loss of Rs.1,27,800. The company charged depreciation @10% on written down value basis. Accounts are closed on 31st March every year. Prepare machinery account up to 31st March ,2022.	6
PART – B FINANCIAL ACCOUNTING - II		
26	Assertion (A): Financial statements are the summarised statements that give information as to the profitability and financial position of the company. Reason (R): Statement of Profit and Loss given the information as to net profit or net loss for the year while Balance Sheet gives information of the financial position of the company as at that date.	1

	Alternatives: a. Both Assertion and Reason are true and Reason is the correct explanation of Assertion. b. Both Assertion and Reason are true and Reason is not the correct explanation of Assertion. c. Assertion is True but Reason is False. d. Assertion is False but Reason is True													
27	Large advertising expenditure to introduce a new product is (a) Capital Expenditure (b) Revenue Expenditure (c) Deferred Revenue Expenditure (d) None of these OR (b) Which type of expenses are shown in Trading Account (a) Indirect Expenses (b) Direct and Indirect Expenses (c) Direct Expenses (d) None of these	1												
28	Calculate the Missing Value in the following case: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 33%;">Cost of Goods Sold (Rs)</th><th style="width: 33%;">Gross Profit (%)</th><th style="width: 33%;">Sales (Rs)</th></tr> <tr> <td style="text-align: center;">?</td><td style="text-align: center;">20% of Sales</td><td style="text-align: center;">5,00,000</td></tr> </table> (a) 3,87,500 (b) 4,00,000 (c) 4,70,000 (d) 2,75,000	Cost of Goods Sold (Rs)	Gross Profit (%)	Sales (Rs)	?	20% of Sales	5,00,000	1						
Cost of Goods Sold (Rs)	Gross Profit (%)	Sales (Rs)												
?	20% of Sales	5,00,000												
29	Profit = Capital at the end + ? - Additional Capital Introduced – Capital in the beginning. (a) Sales (b) Drawings (c) Net Purchase (d) Expense	1												
30	Manager of City Gold is entitled for a commission of 6% on profit and firm's profit after charging commission is 9,40,000. What is the amount of profit before commission? (a) 10,00,000 (b) 9,46,000 (c) 9,34,000 (d) None of these	1												
31	Opening stock ₹15000; Sales ₹48000; carriage inward ₹3000; Sales returns ₹3000; Gross profit ₹18000; Purchases ₹30000; Purchases returns ₹2700. Calculate Closing stock and cost of goods sold	3												
32	The extract of Trial Balance as at 31-3-2023 of Happy Homes gives the following information: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%;">Heads of Accounts</th><th style="width: 25%;">Debit</th><th style="width: 25%;">Credit</th></tr> <tr> <td>Debtors</td><td style="text-align: center;">1,00,000</td><td></td></tr> <tr> <td>Bad debts</td><td style="text-align: center;">1,800</td><td></td></tr> <tr> <td>Provision for Doubtful Debts (1-4-2022)</td><td></td><td style="text-align: center;">3750</td></tr> </table> Additional Information: (i) Write off further bad debts Rs.1000	Heads of Accounts	Debit	Credit	Debtors	1,00,000		Bad debts	1,800		Provision for Doubtful Debts (1-4-2022)		3750	4
Heads of Accounts	Debit	Credit												
Debtors	1,00,000													
Bad debts	1,800													
Provision for Doubtful Debts (1-4-2022)		3750												

- (ii) Provision for Doubtful debts is to be maintained at 5% on Sundry Debtors
 (iii) Create a Provision for discount on Sundry Debtors at 3%.
 Show the above adjustments in the profit and loss account and balance sheet of the firm.

OR

Give Journal entries for the following adjustments in the final accounts:

- (i) Closing stock Rs.80,000
 (ii) Outstanding salaries Rs.21,000
 (iii) Insurance premium amounting to Rs.15,000 is paid in advance
 (iv) Rs.9,000 received for rent related to the next accounting period

- 33 Akshaya started a firm on 1st April 2022 with a capital of ₹10000. On 1st July, 2022 he borrowed from his wife a sum of ₹4000 @9%p.a. (interest not yet paid) for business and also introduced further capital of ₹1500. On 31st March, 2023 his position was Cash ₹600, Stock ₹9400, Debtors ₹7000 and Creditors ₹6000. Ascertain profit or Loss taking into account ₹2000 for his drawings during the year

OR

Maneesh keeps his books under single entry system. His assets and liabilities were as under.

Particulars	31/03/22(₹)	31/03/23(₹)
Cash	1000	900
Sundry Debtors	39000	45000
Stock	34000	32000
Plant and Machinery Sundry	60000	80000
Creditors	15000	19900

During 2022-23 he introduced ₹10000 as additional capital. He withdrew ₹3000 every month for his household expenses. Ascertain his profit for the year ended 31st March 2023.

- 34 The following is the Trial Balance of M & Co. as on 31st March 2023

Account Title	Dr (Rs)	Cr (Rs)
Drawings and Capital	19530	67500
Purchases and Sales	45000	112500
Salaries	25470	
Plant and Machinery	27000	
Furniture	6750	

6

Opening stock	42300	
Insurance premium	4860	
Interest		9000
Bank overdraft		24660
Wages	14445	
Returns	2385	1440
Carriage outwards	1485	
Debtors and Creditors	36000	58500
General expenses	6975	
Investments	41400	
	2,73,600	2,73,600

Adjustments:

- (i) Closing stock was valued at Rs.20,000
- (ii) Wages and Salaries outstanding Rs.35 and Rs.30
- (iii) Provide Depreciation @5% on plant and machinery
- (iv) Make 5% provision for doubtful debts on debtors

Prepare Trading and Profit and Loss account and Balance Sheet of the firm.

**MARKING SCHEME
SAMPLE QUESTION PAPER - 1
SUBJECT: ACCOUNTANCY (055)**

TIME 3 HOURS

CLASS- XI

MAX. MARK 80

1	(c) Capital	1
2	(a) Both (A) and (R) are true and (R) is the correct explanation of (A)	1
3	(c) Banks and Financial Institutions OR (c) Comparability	1
4	(a) Going concern	1
5	(b) Ensuring Uniformity in Financial Reporting	1
6	(a) CGST Rs.3,600; SGST Rs.3,600 OR (a) Stock/Inventory	1
7	(b) (a)-(iii), (b)-(iv), (c)-(ii), (d)-(i)	1
8	(c) Dr. Drawings A/c and Cr. Purchases A/c by Rs.10,000	1
9	(a) Pass book balance is increased OR (a) Customers of the Bank	1
10	(c) (A) is true but (R) is false	1
11	(a) Debit balance OR (a) Petty cash book	1
12	(a) Contra entry	1
13	(c) Reserves	1

14	(a) Writing an amount in the wrong account but on the correct side OR (a) Ledger balances	1
15	(c) Incomplete information	1
16	(c) Capital reserve OR (c) Fixed Assets	1
17	Reliability- Means factual and verifiable Relevance – Unnecessary and irrelevant matters should not be included. Understandability- presented in simple and logical manner. Comparability- should be able compare with past performance (½ mark for each value points; 1 mark for point with proper explanation) OR Assets- the possessions and properties of the business. Capital- amount invested by the proprietor of the business. Goods-things which are purchased for resale or for producing finished products. Revenue- income of a recurring nature from any source. (Any three) (1 mark each for proper explanation)	½ + 1/ 2 = 1 1 * 3
18	Accounting standards Benefits: To ensure uniformity in the preparation and presentation of data To improve the reliability and credibility of financial statements To ensure the consistency and comparability of statements. (Any two)	1 + 2
19	No. I don’t agree (1mark). A provision can only be specific because provision is made to meet a known liability. The liability is known but the amount of such liability cannot be determined with reasonable accuracy.	

21	<table><tr><td>Transactions</td><td>cash</td><td>stock</td><td>debtors</td><td>capital</td><td>creditors</td></tr><tr><td>1</td><td>200000</td><td></td><td></td><td>200000</td><td></td></tr><tr><td>2</td><td>(40000)</td><td>100000</td><td></td><td></td><td>60000</td></tr><tr><td>3</td><td>24000</td><td>(50000)</td><td>36000</td><td>10000</td><td></td></tr><tr><td>4</td><td>(16000)</td><td></td><td></td><td>(16000)</td><td></td></tr><tr><td>Total</td><td>168000</td><td>50000</td><td>36000</td><td>194000</td><td>60000</td></tr></table> ACCOUNTING EQUATION	Transactions	cash	stock	debtors	capital	creditors	1	200000			200000		2	(40000)	100000			60000	3	24000	(50000)	36000	10000		4	(16000)			(16000)		Total	168000	50000	36000	194000	60000	4						
Transactions	cash	stock	debtors	capital	creditors																																							
1	200000			200000																																								
2	(40000)	100000			60000																																							
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4	(16000)			(16000)																																								
Total	168000	50000	36000	194000	60000																																							
22	JOURNAL IN THE BOOKS OF <table><tr><td>PARTICULARS</td><td>LF</td><td>DEBIT</td><td>CREDIT</td></tr><tr><td>Building A/c Dr To Wages A/c (Errors rectified)</td><td></td><td>45000</td><td>45000</td></tr><tr><td>Advertisement A/c Dr To Purchase A/c (errors rectified)</td><td></td><td>4500</td><td>4500</td></tr><tr><td>Purchase A/c Dr. To Suspense A/c (Errors rectified)</td><td></td><td>2500</td><td>2500</td></tr><tr><td>John Miller A/c Dr. To Sales A/c To Purchases A/c (Errors rectified)</td><td></td><td>4400</td><td>2200 2200</td></tr></table>	PARTICULARS	LF	DEBIT	CREDIT	Building A/c Dr To Wages A/c (Errors rectified)		45000	45000	Advertisement A/c Dr To Purchase A/c (errors rectified)		4500	4500	Purchase A/c Dr. To Suspense A/c (Errors rectified)		2500	2500	John Miller A/c Dr. To Sales A/c To Purchases A/c (Errors rectified)		4400	2200 2200	4																						
PARTICULARS	LF	DEBIT	CREDIT																																									
Building A/c Dr To Wages A/c (Errors rectified)		45000	45000																																									
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John Miller A/c Dr. To Sales A/c To Purchases A/c (Errors rectified)		4400	2200 2200																																									
23	DOUBLE COLUMN CASH BOOK (½ Mark for each entry) <table><tr><td>PARTICULARS</td><td>CASH</td><td>BANK</td><td>PARTICULARS</td><td>CASH</td><td>BANK</td></tr><tr><td>To, Bal b/d</td><td>50000</td><td>80000</td><td>By Purchase</td><td>20000</td><td></td></tr><tr><td>To, Sales</td><td>15000</td><td></td><td>Cash C</td><td></td><td>10000</td></tr><tr><td>To, Bank C</td><td>10000</td><td></td><td>Bank C</td><td>25000</td><td></td></tr><tr><td>To, cash C</td><td></td><td>25000</td><td>Rent</td><td></td><td>5000</td></tr><tr><td>To, Y a/c</td><td></td><td>30000</td><td>Balance c/d</td><td>30000</td><td>120000</td></tr><tr><td></td><td>75000</td><td>135000</td><td></td><td>75000</td><td>135000</td></tr></table>	PARTICULARS	CASH	BANK	PARTICULARS	CASH	BANK	To, Bal b/d	50000	80000	By Purchase	20000		To, Sales	15000		Cash C		10000	To, Bank C	10000		Bank C	25000		To, cash C		25000	Rent		5000	To, Y a/c		30000	Balance c/d	30000	120000		75000	135000		75000	135000	6
PARTICULARS	CASH	BANK	PARTICULARS	CASH	BANK																																							
To, Bal b/d	50000	80000	By Purchase	20000																																								
To, Sales	15000		Cash C		10000																																							
To, Bank C	10000		Bank C	25000																																								
To, cash C		25000	Rent		5000																																							
To, Y a/c		30000	Balance c/d	30000	120000																																							
	75000	135000		75000	135000																																							

24

6

BANK RECONCILIATION STATEMENT

PARTICULARS		AMOUNT	
Balance as per Pass Book (OD)		(10,000)	½
Cheque Issued but not Presented Cheque deposited but not credited Debited in Pass book only Credited in Pass Book only		(5,000) 22,800 25 (400)	½ ½ ½ ½
Cheque debited in CB but omitted to Bank		600	1
Cheque deposited but omitted in CB		(750)	1
Balance as per Cash Book		<u>7275</u> <u>23425</u>	1 ½

OR**BANK RECONCILIATION STATEMENT**

PARTICULARS		AMOUNT	
Balance as per Cash Book		1,500	½
Payment side of cash book under cast		(100)	1
A cheque of Rs.750 deposited dishonoured		(750)	1
A cheque issued but not been presented		2,000	1/2
Directly deposited into bank		4000	½
Bank charges debited by bank		(200)	1
		<u>6450</u>	½
Balance as per Pass Book		7500	

25

6

MACHINERY A/C

Particulars	Amount	Particulars	Amount
To Bank	3,00,000	By Depreciation	30,000 2,70,000
		By Balance c/d	
	300000		300000
Balance b/d	270000	By Depreciation	750
		By Bank	4,000
		By P/L	2250
		By Depreciation	27,000 2,16,000
		By Bal c/d	
	270000		270000
Balance b/d	216000	By Depreciation	2250
P/L A/c	750	By bank	22500
		By Depreciation	24,000 1,68,000
		By balance c/d	

		216750		216750																																		
	To Bal	1,68,000	By Depreciation	25,600	1,74,000																																	
	To Bank	32,000	Balance c/d																																			
		2,00,000		2,00,000																																		
OR																																						
MACHINERY A/C																																						
	Particulars	Amount	Particulars	Amount																																		
	To Bank	3,90,000	By Depreciation	40,000	3,60,000																																	
	To Bank Exp		By Balance c/d																																			
		400000		400000																																		
	To Bal	3,60,000	By Depreciation	41,000																																		
	To Bank	1,00,000	36000+5000																																			
	To Bank	20,000	By Bal 3,24,000+115000	4,39,000																																		
		270000		270000																																		
	To Bal	4,39,000	By Bank	1,80,000	16,200																																	
			By Depreciation	1,27,800	11,500																																	
			By P/L		103,500																																	
			By Depreciation																																			
			By Balance																																			
		439000		439000																																		
26	(a) Both (A) and (R) are true and (R) is the correct explanation of (A)					1																																
27	(c) Deferred Revenue Expenditure OR (c) Direct Expenses					1																																
28	(b) 4,00,000					1																																
29	(b) Drawings					1																																
30	(a) 10,00,000																																					
31	Net sales; = 48000-3000=45000 Cost of goods sold=45000-18000=27000 27000=15000+30000-2700+3000- closing stock Closing stock= 18300					3																																
32	<table><tr><td>Particulars</td><td>Amount</td><td>Particulars</td><td>Amount</td></tr><tr><td>Bad Debts Rs 1800 Add</td><td></td><td></td><td></td></tr><tr><td>F. Bad debt 1000</td><td></td><td></td><td></td></tr><tr><td>Add: Provision @5%</td><td></td><td></td><td></td></tr><tr><td>4950</td><td></td><td></td><td></td></tr><tr><td>Less: Old Provision</td><td>4000</td><td></td><td></td></tr><tr><td>3750</td><td></td><td></td><td></td></tr><tr><td>Provision for Discount</td><td>2822</td><td></td><td></td></tr></table>					Particulars	Amount	Particulars	Amount	Bad Debts Rs 1800 Add				F. Bad debt 1000				Add: Provision @5%				4950				Less: Old Provision	4000			3750				Provision for Discount	2822			4
Particulars	Amount	Particulars	Amount																																			
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3750																																						
Provision for Discount	2822																																					
TRADING AND PROFIT AND LOSS A/C																																						
BALANCE SHEET AS ON																																						
	Liabilities	Amount	Assets	Amount																																		

		Debtors	1,00,00	
		Less F. BD	1,000	
		Less Prov DD	4,950	
		Less Prov Dis	<u>2,822</u>	
				91,228

OR
JOURNAL IN THE BOOKS OF

PARTICULARS	LF	DEBIT	CREDIT
Closing stock A/c.. Dr		80000	
To Trading A/c (Closing stock adjustment)			80000
Salaries A/c.. Dr		21000	
To Outstanding salaries A/C (Outstanding salary adjusted)			21000
Prepaid Insurance A/c. .Dr		15000	
To Insurance A/c (Insurance paid in advance)			15000
Rent A/c ... Dr		9000	
To Rent received in advance A/c (rent received in advance)			9000

33

STATEMENT OF AFFAIRS AT 31 MARCH 2023

Liabilities	Amount	Assets	Amount
Creditors	6000	Cash	600
Loan	4270	Stock	9400
Capital	6730	Debtors	7000
	17000		17000

3
+
3
=
6

STATEMENT OF PROFIT AND LOSS

Particulars	Amount
Capital at the end	6730
Add Drawings during the year	2000
Less Additional capital introduced	(1500)
Less Capital at the beginning	(10000)
Loss during the year	(2770)

OR
STATEMENT OF AFFAIRS AT 31 MARCH 2022

Liabilities	Amount	Assets	Amount
Creditors	15000	Cash	1000
Capital	119000	Stock	34000
		Debtors	39000
		Plant & machinery	60000

Liabilities	Amount	Assets	Amount
Creditors	19900	Cash	900
Capital	138000	Stock	32000
		Debtors	45000
		Plant & machinery	80000
	157900		157900

Particulars	Amount
Capital at the end	138000
Add Drawings during the year	36000
Less Additional capital introduced	(10000)
Less Capital at the beginning	(119000)
Profit during the year	45000

Particulars		Amount	Particulars		Amount
To, opening stock		42300	By Sales	112500	
Purchases			Less returns	2385	110115
Less returns	45000	43560			
	1440		Closing stock		20000
Wages					
Add outstanding wages	14445				
Gross profit C/d	35	14480			
		29775			
		130115			130115
Salaries	25470		By G/p b/d		29775
Add outstanding	30	25500	Interest		9000
Insurance premium			Net loss		
Carriage out ward		4860	transferred		3195
General expenses					
Depreciation		1485			
Provision for doubtful debts		6975			
		1350			
		1800			
		41970			41970

$$\begin{array}{r} 4 \\ + \\ 2 \\ = \\ 6 \end{array}$$

BALANCESHEET AS ON 31 ST MARCH 2023

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	58500	Plant and machinery	
Outstanding wages	35	27000	25650
Outstanding salaries	30	Less depre 1350	
Bank overdraft	24660	Furniture	6750
Capital 67500		Investment	41400
Less drawings (19530)	44775	Debtors 36000	
Less net loss (3195)		Less prov 1800	34200
		Closing stock	20000
	128000		128000

SAMPLE QUESTION PAPER - 2
SUBJECT-ACCOUNTANCY (055)
CLASS XI (2024-25)

TIME:3 HOURS**MAX.MARKS 80****GENERAL INSTRUCTIONS:**

1. This question paper is divided into two parts – Part A and Part – B.
2. Part- A: Financial Accounting – I and Part- B: Financial Accounting –II.
3. This question paper contains 34 questions and questions are compulsory.
4. Attempt all parts of a question together and show your working clearly.
5. Question No. 1 to 16 and 27 to 30, carries 1 mark each.
6. Question No. 17 to 20 and 31 to 32, carries 3 marks each.
7. Question No. 21 to 22 and Question No. 33 carries 4 marks each.
8. Question No. 23 to 26 and Question No. 34 carries 6 marks each.

PART –A		
FINANCIAL ACCOUNTING - I		
1.	The vouchers which are prepared for transactions not involving cash, i.e. non-cash transactions, are known as _____ vouchers. a) Token b) Credit c) Transfer d) Unilateral	1

2.	Given below are two statements, one labelled as Assertion and the other labelled as Reason: Assertion (A): Human Resources in a business form are important but are not reflected in the financial statements of the firm Reason (R): Transactions should be recorded from viewpoint of business and not from the view point of businessman/owner a) both (A) and (R) are true and (R) is the correct explanation of (A). b) both (A) and (R) are true but (R) is not the correct explanation of (A) c) Only (R) is correct Both (A) and (R) are incorrect	1
3.	Goodwill account is a: a. Nominal account b. Real account c. None of these d. Personal account	1
4.	What shall be the amount of Capital if Cash is Rs 5,000; Furniture Rs 12,000; Stock Rs 30,000 and creditors Rs 6,000? a. Rs 41,000 b. Rs 43,000 c. Rs 53,000 d. Rs 47,000 (OR) Purchase of machine by cash means: a. increase in asset and decrease in the asset b. none of these c. the decrease in asset and increase in capital d. increase in asset and decrease in liability	1
5.	Source of documents are	1

	a. Cash memo b. Both cash memo and Invoice c. Neither cash memo nor Invoice d. Invoice	
6.	Income statement include a. Profit and Loss account only b. Trial Balance only c. Balance sheet only d. Statement of profit and loss OR Which of the following is not a limitation of accounting? a. Evidence in Legal matters b. Based on accounting conventions c. Incomplete Information d. Omission of Qualitative Information	1
7.	Which of the following correctly differentiates between provision and reserves? i) A provision is a charge against profit whereas reserve is an appropriation of profit ii) Provision is made for a known liability or expense the amount of which is not certain whereas reserve is created for strengthening the financial position of the business. iii) Provision is deducted before calculating taxable profits whereas a reserve is created from profit after tax and therefore it has no effect on taxable profit. iv) All of these a. Option (ii) b. Option (i) c. Option (iii) d. Option (iv)	1
8.	Rule of debit and credit for Impersonal account is a. Dr. the receiver and Cr the giver b. Dr. what goes out and Cr what comes in c. Dr. all expenses and Cr al gains & Dr. what goes out and Cr what comes in d. Dr. all expenses and Cr all gains OR	1

	When a total of the debit side of an account exceeds the total of its credit side, the account is said to have _____. a. Debit balance b. None of these c. Debit as well as credit balance d. Credit balance									
9.	From the following which is not a feature of provision: a) It is created to meet known liability b) Creation of provision is compulsory c) It is never invested outside the business d)It is not shown in the balance sheet	1								
10.	On inter-state sale of goods, which of the following account is credited: (a.) Input IGST A/c (b.) Output CGST A/c (c.) Output IGST A/c (d.) Output SGST A/c OR GST Collected on sales (output GST) is a_____ for the seller a. Cost b. Liability c. Assets d. Income	1								
11.	Match the following: - <table><tr><td>(a) Purchased goods from X on credit</td><td>(i) Return Inwards Book</td></tr><tr><td>(b) Purchased goods from Y for cash</td><td>(ii) Return Outwards Book</td></tr><tr><td>(c) Returned goods to Y</td><td>(iii) Purchase Book</td></tr><tr><td>(d) Goods returned by Z</td><td>(iv) Cash Book</td></tr></table> A. a-(i), b-(iii), c-(ii), d (iv.)	(a) Purchased goods from X on credit	(i) Return Inwards Book	(b) Purchased goods from Y for cash	(ii) Return Outwards Book	(c) Returned goods to Y	(iii) Purchase Book	(d) Goods returned by Z	(iv) Cash Book	1
(a) Purchased goods from X on credit	(i) Return Inwards Book									
(b) Purchased goods from Y for cash	(ii) Return Outwards Book									
(c) Returned goods to Y	(iii) Purchase Book									
(d) Goods returned by Z	(iv) Cash Book									

	B. a-(iii), b-(i), c-(iv), d (ii.) C. a-(iv), b-(iii), c-(i),d (ii.) D. a-(iii), b-(iv), c-(ii), d (i.) OR Which of the following is known as the “Principal Book” a. Journal b. Ledger c. Trial Balance d. Balance Sheet	
12.	The loss on sale of an asset is debited to: a. Reserves b. Depreciation fund c. Profit and Loss Account d. None of these	1
13.	Bank Reconciliation Statement is started with: a. Bank balance of cash book b. Cash balance of cash book c. Pass book balance d. Bank balance of cash book or pass book balance	1
14.	Rs. 3,000 was paid as wages for installing a machine should be debited to: a. Wages Account b. Machinery Account c. Capital Account d. None of these	1
15.	A machinery which costs Rs. 2,00,000 is depreciated at 25% per year using Written Down Value Method. At the end of three years, it will have a net book value of: a. Rs. 1,50,000 b. Rs. 84,375 c. Rs. 1,12,000 d. Rs. 1,00,000	1

16	Suspense Account will give the: a. Debit balance b. Credit balance c. Debit or credit balance, as the case maybe d. None of these	1																								
17	Write any three characteristics of accounting. OR Write any three objectives of accounting.	3																								
18	Write short notes on: i) Consistency Concept ii) Money Measurement Concept	3																								
19.	Journalise the following transactions of M/s Malika Fashion House and post the entries to ledger: <table border="1"><thead><tr><th>Date 2019</th><th>Particulars</th><th>Amount</th></tr></thead><tbody><tr><td>June 05</td><td>Business started with cash</td><td>2,00,000</td></tr><tr><td>June 08</td><td>Opened a bank account with Syndicate bank</td><td>80,000</td></tr><tr><td>June 12</td><td>Goods purchase on credit from M/s Gulmohar Fashion House</td><td>30,000</td></tr><tr><td>June 12</td><td>Purchase office machines, paid by cheque</td><td>20,000</td></tr><tr><td>June 20</td><td>Sale of goods on credit to M/s Mohit bros</td><td>15,000</td></tr><tr><td>June 28</td><td>Received cash from M/s Mohit bros</td><td>10,000</td></tr><tr><td>June 30</td><td>Salary paid in cash</td><td>6,000</td></tr></tbody></table> OR Distinguish between reserves and provisions.	Date 2019	Particulars	Amount	June 05	Business started with cash	2,00,000	June 08	Opened a bank account with Syndicate bank	80,000	June 12	Goods purchase on credit from M/s Gulmohar Fashion House	30,000	June 12	Purchase office machines, paid by cheque	20,000	June 20	Sale of goods on credit to M/s Mohit bros	15,000	June 28	Received cash from M/s Mohit bros	10,000	June 30	Salary paid in cash	6,000	3
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June 28	Received cash from M/s Mohit bros	10,000																								
June 30	Salary paid in cash	6,000																								
20	Prepare Sales book of M/s Akash of Rajasthan from the following transactions: <table border="1"><tr><td>2019</td><td></td></tr></table>	2019		3																						
2019																										

	Aug. 07 Sold to M/s Rahul Bros., Delhi (Invoice No.3620) 25 shirts @Rs300 per shirt 20 pants @ Rs700 per pant Trade Discount @8% Aug.10 Returned 05 Shirts to M/s Rahul Bros., Delhi (Credit Note No. 612) Aug.18 Sold to M/s Kishan Traders, Jaipur (Invoice No.-3621) 10 Jackets @ Rs.900 per Jacket 05 plain shirts @ Rs.400 per shirt Trade Discount @8% GST Rates applicable on Readymade Clothes CGST @2.5% SGST @2.5% IGST @5%													
21	Prepare an Accounting Equation from the following transactions: - (a.) Started business with Cash Rs. 5,00,000, Goods Rs. 80,000 and Furniture Rs. 20,000. (b.) Purchased Goods from Manish for Rs. 48,000, 1/3rd payment made in cash. (c.) Commission Received in Advance, Rs. 4,000. (d.) Paid Rs. 30,000 to Manish in full settlement of his claim.	4												
22	Prepare double column cash book from the following transactions for September 2024 related to M/s Tools India: <table border="1"> <thead> <tr> <th>DATE</th><th>DETAILS</th><th>AMOUNT (RS.)</th></tr> </thead> <tbody> <tr> <td>Sept 01</td><td>Bank Balance</td><td>42,000</td></tr> <tr> <td>Sept 02</td><td>Cash Balance</td><td>15,000</td></tr> <tr> <td>Sept 04</td><td>Purchased goods by cheque</td><td>12,000</td></tr> </tbody> </table>	DATE	DETAILS	AMOUNT (RS.)	Sept 01	Bank Balance	42,000	Sept 02	Cash Balance	15,000	Sept 04	Purchased goods by cheque	12,000	6
DATE	DETAILS	AMOUNT (RS.)												
Sept 01	Bank Balance	42,000												
Sept 02	Cash Balance	15,000												
Sept 04	Purchased goods by cheque	12,000												

	<table> <tr> <td>Sept 08</td><td>Sales of goods for cash</td><td>6,000</td></tr> <tr> <td>Sept 13</td><td>Purchased machinery by cheque</td><td>5,500</td></tr> <tr> <td>Sept 16</td><td>Sold goods and received cheque (deposited on the same day)</td><td>4,500</td></tr> <tr> <td>Sept 17</td><td>Purchase goods from Mridula in cash</td><td>17,400</td></tr> <tr> <td>Sept 20</td><td>Purchase stationary by cheque</td><td>1,100</td></tr> <tr> <td>Sept 24</td><td>Cheque given to Rohit</td><td>1,500</td></tr> <tr> <td>Sept 27</td><td>Cash withdrawn from bank</td><td>10,000</td></tr> <tr> <td>Sept 30</td><td>Rent paid by cheque</td><td>2,500</td></tr> <tr> <td>Sept 30</td><td>Paid salary</td><td>3,500</td></tr> </table>	Sept 08	Sales of goods for cash	6,000	Sept 13	Purchased machinery by cheque	5,500	Sept 16	Sold goods and received cheque (deposited on the same day)	4,500	Sept 17	Purchase goods from Mridula in cash	17,400	Sept 20	Purchase stationary by cheque	1,100	Sept 24	Cheque given to Rohit	1,500	Sept 27	Cash withdrawn from bank	10,000	Sept 30	Rent paid by cheque	2,500	Sept 30	Paid salary	3,500	
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Sept 30	Rent paid by cheque	2,500																											
Sept 30	Paid salary	3,500																											
23	Prepare the bank reconciliation statement as on 31st March, 2023. from the following information Bank statement showed a credit, i.e, favorable balance of Rs. 9,214 - On 29th March, 2023 bank credited a sum of Rs. 1,650 in error. - Cheques totaling Rs. 4,500 issued on 29th March, 2023 was not cleared - Life Insurance Premium of Rs.950, paid by a standing order was not recorded in the Cash Book. - A cheque of Rs. 600 received, deposited and credited by bank was accounted as receipt in the cash column of the cash book - Other cheques for Rs.8,500 were deposited on 27th March 2023 but cheques for Rs. 6,000 were collected by bank on 31st March 2023 and remaining on 2nd April 2023 (OR) On 31st March, 2023, the Cash Book of Mahesh showed a debit balance of Rs.49,000. Bank Statement or Bank Pass Book showed a credit balance of Rs.37,000. Entries in the Cash Book and Bank Pass Book were compared and the following differences were identified:	6																											

	a. Cheques of Shyam Rs.9,000 and of Mohan Rs.15,000 were deposited but were not collected up to 31st March 2023 b. Ramesh, a debtor, deposited a cheque of Rs.8,000 directly into the bank c. Bank allowed an interest of Rs.500 d. Cheque for Rs.10,000 issued to Ramesh was not presented for payment. e. Bank debited Rs.6,000 being insurance premium paid as per standing instructions. f. Bank debited Rs.100 being bank charges. Prepare Bank Reconciliation Statement as on 31st March,2023	
24	Trial balance of Anant ram did not agree. It showed an excess credit of Rs. 16,000. He put the difference to a suspense account. Subsequently the following errors were located: (i) Cash received from Mohit Rs. 4,000 was posted to Mahesh (ii) Rs. 800 received from Khanna, whose account had previously been written off as bad debts, was credited to his account. (iii) Credit sales to Manav for Rs. 5,000 was recorded through the purchases book as Rs. 2,000 (iv) Purchases book undercast by Rs.1,000 (v) Repairs on machinery Rs. 1,600 wrongly debited to machinery account as Rs. 1,000 (vi) Goods returned by Nathu Rs. 3,000 were taken into stock. No entry was recorded into the book.	6

25	On April 1, 2022, Z Ltd. Purchased a plant for Rs.5,00, 000.On 1st October in the same year, additional plant costing Rs.2,00,000was purchased. On 1st October 2023, the plant purchased on 1st April 2022, having become obsolete was sold off for Rs.2,65,000. On 1st July 2024, new plant was purchased for Rs.8,00,000 and on the same date plant purchased on 1st October 2022 was sold for Rs.1,70,000. The Firm provides depreciation @10% p.a. on original cost on 31st March every year. You are required to show (i) Plant Account, and (ii) Provision for Depreciation Account for three accounting years ending 31st March, 2025 OR On 1st August 2019, Gadore Ltd. Purchased a machinery for Rs.3,00,000. On 1st November, 2020 another machinery was purchased for Rs.1,80,000. On 1st July 2021, the machine purchased on 1st August, 2019 was sold for Rs.1,68,000 and on the same date a fresh machinery was purchased for Rs.2,00,000. Depreciation was provided @ 10% p.a. on the Reducing Balance Method. Books are closed on 31st March every year You are required to prepare Machinery Account and Provision for Depreciation Account for three years ending 31st March, 2022	6
	PART – B FINANCIAL ACCOUNTING - II	
26	A) Income statement consists of: - Trading account - Trial balance - Balance sheet - All f the above (OR) B) Entries which are made at the end of each accounting period for the purpose of preparing Profit & Loss account: - Adjusting entries - Opening entries - Closing entries - Transfer entries	1

27	Which of the following expenses is shown on the Assets side of Balance sheet: a. Prepaid expenses b. Outstanding expenses c. Both (a) and (b) d. None of the above	1
28	Ravi has added an accrued income of Rs 10,000 into the income in Profit and Loss Account. The assets and liabilities side of this Balance sheet does not tally. Help him in recording the adjustment of accrued income. a. Show accrued income in liabilities side of Balance sheet b. Instead of adding Rs 10,000, deduct Rs 10,000 from income in profit and loss a/c and then show it in liabilities side of Balance sheet c. Show Rs 10,000 in asset side of Balance sheet also. d. Deduct Rs 10,000 from income in profit & Loss account (OR) B) Manjeet purchases a machine costing Rs 90,000 and pays Rs 2,000 as freight and cartage. He is to depreciate the Machinery @10%. The amount of depreciation to be shown in Profit & Loss account is _____	1
29	Which of the following means a statement of assets and liabilities prepared to find out the amount of capital? a. Incomplete records b. Statement of Affairs c. Statement of Profit & Loss d. None of the above	1
30	Opening Stock Rs 15,000; Sales Rs 48,000; Carriage Inwards Rs 3,000; Sales Return Rs 3,000; Gross Profit Rs 18,000; Purchases Rs 30,000; Purchases Return Rs 2,700 Calculate closing Stock and Cost of Goods Sold	3
31	From the following figures calculate operating profit: Net Profit 1,00,000 Rent Received 10,000 Gain on sale of machine 15,000 Interest on loans 20,000	3

	Donation	2,000													
32	Alka started a business with a capital of Rs.5,00,000 on 1st October 2020. She borrowed from her husband a sum of Rs. 2,00,000 @10%p. a (interest not yet paid) for business and brought a further amount of Rs. 1,30,000 as capital. On 31st March 2021, her position was: <table><tr><td>Particulars</td><td>Rs.</td></tr><tr><td>Cash in hand</td><td>40,000</td></tr><tr><td>Bank balance</td><td>1,20,000</td></tr><tr><td>Stock</td><td>5,10,000</td></tr><tr><td>Debtors</td><td>4,50,000</td></tr><tr><td>Creditors</td><td>2,80,000</td></tr></table> She withdrew Rs. 1,20,000 during this period. Calculate profit or loss for the period.		Particulars	Rs.	Cash in hand	40,000	Bank balance	1,20,000	Stock	5,10,000	Debtors	4,50,000	Creditors	2,80,000	4
Particulars	Rs.														
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Bank balance	1,20,000														
Stock	5,10,000														
Debtors	4,50,000														
Creditors	2,80,000														
33	Extract of a Trial Balance as at March 31,2019 is as follows: <table><tr><td>Sundry debtors</td><td>1,02,000</td></tr><tr><td>Bad Debts</td><td>1,400</td></tr><tr><td>Provision for doubtful debts</td><td>3,400</td></tr></table> Additional information: A debtor of Rs 2,000 could not be recovered. it is decided to maintain provision for doubtful debts at @5% pa and provision for discount at @ 2% pa How will these adjustments be shown in Financial Statements? (OR) Differentiate between Trial balance and Balance sheet.		Sundry debtors	1,02,000	Bad Debts	1,400	Provision for doubtful debts	3,400	4						
Sundry debtors	1,02,000														
Bad Debts	1,400														
Provision for doubtful debts	3,400														
34	The following are the balances extracted from the books of Raghunath Ji as on 31st March, 2022. from these balances, prepare his trading and profit & loss account and balance sheet as at that date: <table><tr><td></td><td>DR</td><td>CR</td></tr></table>			DR	CR	6									
	DR	CR													

Opening stock	12,000	
Purchases	40,000	
Sales		86,000
Discount		400
Sale return	6,000	
Buildings	50,000	
Debtors	16,000	
Salaries	2,400	
Office expenses	1,200	
Wages	10,000	
Purchase return		4,000
Interest		800
Traveling expenses	400	
Fire insurance premium	800	
Machinery	20,000	
Carriage on purchases	700	
Commission	400	
Cash in hand	2,300	
Rent and taxes	1,800	
Capital		62,000
Creditors		10,800
	<u>1,64,000</u>	<u>1,64,000</u>

Adjustments:

1. Closing stock was valued at Rs 16,000
2. Wages Rs2,000 and salaries Rs 1,200 are outstanding.
3. Rent for two months at the rate of Rs 500 per month is outstanding.
4. Depreciate buildings by 5% and machinery by 10%
5. Prepaid insurance Rs 200

(OR)

From the following Trial Balance prepare Trading and profit & loss account for the year ended 31st March, 2022 and balance sheet as at that date: -

	Dr	Cr
Stock 1st april 2021	22,300	
Purchase and Purchases return	2,30,000	5,200
Freehold Premises	1,00,000	
Incidental Trade Exp	11,200	
Insurance	1,850	
Audit fee	800	
Commission received		2,700
Interest		1,400
Debtors and Creditors	32,400	24,830
Wages	30,200	
Salaries	15,200	
Capital		1,50,000
Drawings	12,000	
Income tax	3,600	
Investment	8,000	
Discount allowed & Discount received	7,500	4,200
Sale return & Sales	6,400	3,17,400
B/R	5,200	
Office furniture	9,000	
Rent		2,600
Cash in hand	5,080	
Bank Balance	7,600	
	<u>5,08,330</u>	<u>5,08,330</u>

	Adjustments: - 1. Stock at 31st March, 2022 is Rs 70,000. 2. Write off 5% Depreciation on freehold premises and 20% on office furniture. 3. Commission earned but not received Rs 500. 4. Interest earned Rs 600. 5. Rs200 for rent has been received in advance. 6. Charge interest on capital@ 6% and Rs 500 on Drawings	
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SAMPLE QUESTION PAPER - 2
SUBJECT-ACCOUNTANCY (055)
CLASS XI (2024-25)
MARKING SCHEME

	Class 11 Accounts Sample Paper Part A	
1	(C) Transfer	1
2	b) both (A) and (R) are true but (R) is not the correct explanation of (A)	1
3	(B)Real account	1
4	a. Rs.41,000 OR b) increase in asset and decrease in the asset	1
5	(B) both cash memo and invoice	1
6	(D) statement of profit and loss OR (A) evidence in legal matters	1
7	(D) option (iv)	1
8	(C) Dr.all the expenses and the Cr all gains & Dr. what goes out and Cr what comes in OR (A) debit balance	1

9	d) It is not shown in the balance sheet	1
10	c) Output IGST A/c OR b. Liability	1
11	d) a-(iii), b-(iv), c-(ii),d (i) OR a. Journal	1
12	a. Profit and Loss Account	1
13	a. Bank balance of cash book or pass book balance	1
14	a. Machinery Account	1
15	b. Rs. 84,375 Working Notes: 1st Year Depreciation = Rs. 50,000 End of 1st Year Machinery Value = Rs. 1,50,000 2nd Year Depreciation = Rs. 37,500 End of 2nd Year Machinery Value= Rs. 1,12,500 3rd Year Depreciation = Rs. 28,125 End of 3rd Year Machinery Value = Rs. 84,375	1
16	c. Debit or Credit as, the case may be	1
17	Following are the characteristics of accounting:(Any three) 1. Reliability: Reliability means the users must be able to depend on the information. It should be free from error and bias and must be credible. 2. Relevance: To be relevant, information must be available in time, must help in prediction and feedback and must influence the decisions of users. 3. Understandability: Decision makers must interpret accounting information in the same sense as it is prepared and conveyed to them. 4. Comparability: To be comparable, accounting reports must belong to a common period and use a common unit of measurement and format of reporting. OR Following are the objectives of accounting: (Any three) 1. Maintenance of Record of Business Transactions: Accounting is used for the maintenance of a systematic record of all financial transactions in books of accounts. A proper and complete records of all business transactions should be kept regularly. 2. Calculation of Profit and Loss: It is the objective of accounting to ascertain the profit earned or loss sustained by a business during an accounting period.	3

	3. Depiction of Financial Position: Accounting aims at ascertaining the financial position of the business concern in the form of its assets and liabilities and determine its position in the market at the end of every accounting period. 4. Providing Accounting Information to its Users: The accounting information generated by the accounting process is communicated in the form of reports, graphs, etc. to the users who need it for decision making																													
18	i) Consistency Concept: The consistency concept in accounting means that businesses should use the same accounting practices, procedures and policies over time. This principle is important because it helps the users of financial statements make meaningful conclusions from the data. ii) Money Measurement Concept: an accounting principle that states that businesses should only record transactions that can be expressed in monetary terms in their financial statements. This means that any activities, events, or characteristics that cannot be assigned a current monetary value should be excluded from the financial statements.	3																												
19	JOURNAL ENTRIES IN THE BOOKS OF M/S MALIKA FASHION HOUSE <table><tr><th>Date 2019</th><th>Particulars</th><th>Debit (Rs.)</th><th>Credit (Rs.)</th></tr><tr><td>June 05</td><td>Cash A/c Dr. To capital A/c (Business started with cash)</td><td>2,00,000</td><td>2,00,000</td></tr><tr><td>June 08</td><td>Bank A/c Dr. To cash A/c (Opened a current account with syndicate balance)</td><td>80,000</td><td>80,000</td></tr><tr><td>June 12</td><td>Purchases A/c Dr. To Gulmohar Fashion House A/c (Goods purchased on credit)</td><td>30,000</td><td>30,000</td></tr><tr><td>June 12</td><td>Office machines A/c Dr. To bank A/c (Office machines purchased)</td><td>20,000</td><td>20,000</td></tr><tr><td>June 20</td><td>Mohit bros A/c Dr. To sales A/c (Goods sold on credit)</td><td>10,000</td><td>10,000</td></tr><tr><td>June 28</td><td>Cash A/c Dr. To Mohit bros A/c (Payment received in full and final settlement)</td><td>10,000</td><td>10,000</td></tr></table>	Date 2019	Particulars	Debit (Rs.)	Credit (Rs.)	June 05	Cash A/c Dr. To capital A/c (Business started with cash)	2,00,000	2,00,000	June 08	Bank A/c Dr. To cash A/c (Opened a current account with syndicate balance)	80,000	80,000	June 12	Purchases A/c Dr. To Gulmohar Fashion House A/c (Goods purchased on credit)	30,000	30,000	June 12	Office machines A/c Dr. To bank A/c (Office machines purchased)	20,000	20,000	June 20	Mohit bros A/c Dr. To sales A/c (Goods sold on credit)	10,000	10,000	June 28	Cash A/c Dr. To Mohit bros A/c (Payment received in full and final settlement)	10,000	10,000	3
Date 2019	Particulars	Debit (Rs.)	Credit (Rs.)																											
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June 28	Cash A/c Dr. To Mohit bros A/c (Payment received in full and final settlement)	10,000	10,000																											

June 30	Salary A/c To cash A/c (Monthly salary paid)	Dr.	6,000	6,000
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OR

BASIC OF DIFFERENCE	PROVISION	RESERVE
1. Basic nature	Charge Against Profit.	Appropriation of Profit.
2. Purpose	It is Creating for a Known liability or expense pertaining to the current accounting period, the amount of which is not certain.	It is made for strengthening the financial position of the business. Some reserves are also mandatory under law.
3. Effect on taxable profits.	It reduces taxable profits.	It has no effect on taxable profits.
4. presentations in balance sheet	It is shown either (i) by way of deduction from the item on the asset side for which it is created, or (ii) in the liabilities side along with current liabilities.	It is shown on the liabilities. side after capital amount
5.elements of compulsion	creation of the provision is necessary to ascertain true and fair profit or loss in compliance 'prudence' or	Generally, creation of a reserve is at the discretion of the management. Reserve cannot be created unless there are profits
	'Conservatism' concept. it must be made even if there are no profits.	However, in certain cases law has stipulated for the creation of specific reserves such as 'debenture' 'redemption' reserves.
6. Use for the payment of dividend	it cannot be used for dividend distribution.	it can be used for dividend distribution

20

SALES BOOK OF M/S AKASH OF RAJASTHAN

Date	Invoice	name of customer	Detail	Total (₹)	Sales	CGST	SGST	IGST
2019 Aug-07	3620	M/s Rahul Bros., Delhi 25 Shirt @ ₹300 Per shirt 20 Pants @ ₹700 per Pant Less: Trade Discount @ 8% Add: IGST @ 5%	7,500					
			14,000					
			21,500 (1,720)					
			19,780 989					
				20769	19,780			989
Aug-18	3621	M/s Kishan Traders, Jaipur 10 Jackets @ ₹900 Per Jacket 5 Plain Shirt @ ₹400 Per Pant Less: Trade Discount @ 8% Add: CGST @ 2.5% SGST @ 2.5%	9,000					
			2,000					
			11,000 (880)					
			10,120					
			253 253					
				10,626	10,120	253	253	
Aug. 31	Total			31,395	29,900	253	253	989

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4

ACCOUNTING EQUATION

Transactions	Asset =	Liabilities + Capital
	Cash + Stock + Furniture =	Creditors + Unearned income + Capital
1.Started business with Cash Rs. 5,00,000, Goods Rs. 80,000 and Furniture Rs. 20,000	5,00,000 + 80,000 + 20,000 =	0 + 0 + 6,00,000
Equation	5,00,000 + 80,000 + 20,000 =	0 + 0 + 6,00,000
2. Purchased goods From Manish for Rs. 48,000, 1/3rd payment made in Cash.	(16,000) + 48,000 + 0 =	32,000 + 0 + 0
New Equation	4,84,000 + 1,28,000 + 20,000 =	32,000 + 0 + 6,00,000
3. Commission received in advance Rs. 4,000.	4,000 + 0 + 0 =	0 + 4,000 + 0
New Equation	4,88,000 + 1,28,000 + 20,000 =	32,000 + 4,000 + 6,00,000
4. Paid Rs. 30,000 to Manish in full settlement of his claim	(30,000) + 0 + 0	(32,000) + 0 + 2,000
Final Equation	4,58,000 + 1,28,000 + 20,000	0 + 4,000 + 6,02,000

22

CASH BOOK OF M/S TOOLS INDIA AS ON 30TH SEPTEMBER 2019

6

Date	Receipts	L F	Cash	Bank	Date	Payments	L F	Cash	Bank
2019 Sept					2019 Sept				

	01	Balance b/d		15,000	42,000	04	Purchase			12,000
	08	Sales		6,000		13	Machine			5,500
	16	Sales			4,500	17	Purchase		17,400	
	27	Bank	c	10,000		20	Stationery			1,100
						24	Rohit			1,500
						27	Cash	c		10,000
						30	Rent			2,500
						30	Salary			3500
						30	Balance c/d		10,100	13,900
				31,000	46,500				31,000	46,500
	OCT									
	01.	Balance b/d		10,100	13,900					

23	Bank Reconciliation Statement as on March 31, 2023 <table><tr><td>Particulars</td><td>Amount</td><td>Amount</td></tr><tr><td>Balance as per Bank Statement (Cr.)</td><td></td><td>9,214</td></tr><tr><td>Add: Life insurance premium as per standing instructions not recorded in the cash book</td><td>950</td><td></td></tr><tr><td>Cheques deposited but not cleared</td><td>2,500</td><td>3,450</td></tr><tr><td>Less: Amount wrongly credited by Bank</td><td>1,650</td><td></td></tr><tr><td>Cheque deposited but wrongly debited in Cash column of Cash Book</td><td>600</td><td></td></tr><tr><td>Cheques issued but not presented for payment</td><td>4500</td><td>6,750</td></tr><tr><td>Balance as per Cash Book (Dr.)</td><td></td><td>5,914</td></tr></table> (OR) Bank Reconciliation Statement as on March 31, 2023 <table><tr><td>Particulars</td><td>Amount</td><td>Amount</td></tr><tr><td>Balance as per Cash Book (Dr.)</td><td></td><td>49,000</td></tr></table>	Particulars	Amount	Amount	Balance as per Bank Statement (Cr.)		9,214	Add: Life insurance premium as per standing instructions not recorded in the cash book	950		Cheques deposited but not cleared	2,500	3,450	Less: Amount wrongly credited by Bank	1,650		Cheque deposited but wrongly debited in Cash column of Cash Book	600		Cheques issued but not presented for payment	4500	6,750	Balance as per Cash Book (Dr.)		5,914	Particulars	Amount	Amount	Balance as per Cash Book (Dr.)		49,000	6
Particulars	Amount	Amount																														
Balance as per Bank Statement (Cr.)		9,214																														
Add: Life insurance premium as per standing instructions not recorded in the cash book	950																															
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Cheques issued but not presented for payment	4500	6,750																														
Balance as per Cash Book (Dr.)		5,914																														
Particulars	Amount	Amount																														
Balance as per Cash Book (Dr.)		49,000																														

	Add: Cheque directly deposited by Ramesh, not recorded in Cash Book Interest allowed by bank, not recorded in cash book Cheques issued but not yet presented for payment (Ramesh)			8,000 500 10,000	18,500
	Less: Cheques deposited but not yet collected Shyam 9000 Mohan 15,000 Insurance premium paid by the bank, not recorded in the cash book Bank charges debited by bank but not recorded in cash book			200 24,000 6000 100	67,500 30,100
	Balance as per Bank Pass Book (Cr.)				37,400
24	RECTIFIED JOURNAL ENTRIES AS ON 31st MARCH				6
	Particulars	Debit	Credit		
i	Mahesh's A/c Dr. To Mohit's A/c (Cash received from Mohit Rs. 4,000 wrongly posted to Mahesh now rectified)	4,000	4,000		
ii	Khanna's A/c Dr. To Bad debts recovered A/c (Bad debts recovered wrongly credited to Khanna's account, now rectified)	800	800		
iii	Manav's A/c Dr. To purchases A/c To sales A/c (Credit sales to Manav Rs. 5,000 wrongly recorded through purchases book as Rs. 2,000, now rectified)	7,000	2,000 5,000		
iv	Purchases A/c Dr. To suspense A/c (Purchases book undercast by Rs. 1,000)	1,000	1,000		
v	Repairs A/c Dr. To Machinery A/c To Suspense A/c (Repairs on machinery Rs. 1,600 wrongly debited to machinery account as Rs. 1,000, now rectified)	1,600	1,000 600		

vi	Sales return A/c Dr. To Nathu's A/c (Sales return from Nathu's not recorded)	3,000	3,000
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PLANT ACCOUNT

Date	Particulars	Amt	Date	Particulars	Amt
2022 Apr 1 Oct 1	To Bank A/c To Bank A/c	Rs 5,00,000 2,00,000 <u>7,00,000</u>	2022 Mar 31	By Balance c/d	Rs 7,00,000 <u>7,00,000</u>
2023 Apr 1	To Balance b/d	7,00,000	2023 Oct 1 Oct 1 Oct 1 2014 Mar 31	By Bank A/c By Provision for Depreciation A/c By Statement of Profit & Loss By Balance c/d	2,65,000 75,000 1,60,000 2,00,000 <u>7,00,000</u>
2024 Apr 1 Jul 1 Jul 1	To Balance b/d To Bank A/c To Statement of Profit & Loss	2,00,000 8,00,000 5,000 <u>10,05,000</u>	2024 Jul 1 Jul 1 2025 Mar 31	By Bank A/c By Provision for Depreciation A/c By Balance c/d	1,70,000 35,000 8,00,000 <u>10,05,000</u>

PROVISION FOR DEPRECIATION ACCOUNT

Date	Particulars	Amt	Date	Particulars	Amt
2023 Mar 31	To Balance c/d	Rs <u>60,000</u>	2023 Mar 31	By Depreciation	Rs <u>60,000</u>
2023 Oct 1	To Plant A/c	75,000	2023 Apr 1 Oct 1	By Balance b/d By Depreciation A/C	60,000 25,000
2024 Mar 31	To Balance c/d	30,000 <u>1,05,000</u>	2024 Mar 31	By Depreciation A/c	20,000 <u>1,05,000</u>

2024 Jul 1	To Plant A/c	35,000	2024 Apr 1 Jul 1	By Balance b/d By Depreciation A/c	30,000 5,000
2025 Mar 31	To Balance b/d	60,000	2025 Mar 31	By Depreciation A/c	60,000
		<u>95,000</u>			<u>95,000</u>

Working Notes:

		Rs	
(i) Original Cost of the Plant on 1st Apr 2022		5,00,000	
Less: Sale proceeds	2,65,000		
Depreciation on Rs.5,00,000 for 1 year & 6 months. up to 1st Oct.2023	<u>75,000</u>	<u>3,40,000</u>	
Loss on sale of Plant		<u>1,60,000</u>	
(ii) Original Cost of the Plant on 1st Oct 2022		2,00,000	
Less: Sale proceeds	1,70,000		
Depreciation on Rs.2,00,000 for 1 year & 9 months. up to 1st July,2024	<u>35,000</u>	<u>2,05,000</u>	
Profit on the sale of Plant		<u>5,000</u>	

OR**MACHINERY ACCOUNT**

Date	Particulars	Amt	Date	Particulars	Amt
2019 Aug 1	To Bank A/c	Rs <u>3,00,000</u>	2020 Mar31	By Balance c/d	Rs <u>3,00,000</u>
2020 Apr 1 Nov 1	To Balance b/d To Bank A/c	3,00,000 1,80,000 <u>4,80,000</u>	2021 Mar 31	By Balance c/d	4,80,000 <u>4,80,000</u>

2021 Apr 1 Jul 1	To Balance b/d To Bank A/c	4,80,000 2,00,000	2021 Jul 1 Jul 1 Jul 1 2022 Mar 31	By Bank A/c By Provision for Depreciation A/c By Statement of Profit & Loss (3,00,000-1,68,000-54,300) By Balance c/d	1,68,000 54,300 77,700 3,80,000 <u>6,80,000</u>
		<u>6,80,000</u>			

PROVISION FOR DEPRECIATION ACCOUNT

Date	Particulars	Amt	Date	Particulars	Amt
2020 Mar 31	To Balance c/d	Rs. <u>20,000</u>	2020 Mar 31	By Depreciation A/c (On Rs.3,00,000 for eight months)	<u>20,000</u>
2021 Mar 31	To Balance c/d	55,500	2020 Apr 1 2011 Apr 1	By Balance b/d By Depreciation A/c On 1 st Machinery 28,000 On 2 nd Machinery <u>7,500</u>	20,000 35,500 <u>55,500</u>
2021 Jul 1 2012 Mar 31	To Machinery A/c To Balance c/d	54,300 39,750 <u>94,050</u>	2021 Apr 1 Jul 1 2012 Mar 31	By Balance b/d By Depreciation A/c (Dep. On 1 st Machine) By Depreciation A/c On 2 nd Machinery 17,250 On 3 rd Machinery 15,000	55,500 6,300 32,250 <u>94,050</u>

Working Notes:

1)

	Book Value	Accumulated Depreciation
Original Cost as on 1 st August ,2019	3,00,000	
Less: Depreciation for 2019-20 for 8 months @ 10% p.a	(20,000) <u>2,80,000</u>	20,000
Less: Depreciation for 2020-21 (@10% on 2,80,000)	(28,000) <u>2,52,000</u>	28,000
Less: Depreciation for 2021-22 (@10% on 2,52,000 for 3 months)	(6,300) <u>2,45,700</u>	6,300 <u>54,300</u>

2)

Rs.

Calculation of depreciation on 2nd machinery:

Original Cost as on 1 st November, 2020	1,80,000
Less: Depreciation for 2020-21 @10% p.a on Rs. 1,80,000 for 5 months	(7,500)
	<u>1,72,500</u>
Depreciation for 2021-22 @ 10% p.a on Rs.1,72,500	17,250

26	<u>PART B</u> A. a) Trading Account OR B. c) Closing Entries	1
27	a. Prepaid expenses	1
28	A. (c) Show Rs 10,000 in asset side of Balance sheet also. OR B. Rs 9,200	1
29	(b) Statement of Affairs	1
30	Net Sales = Sales – Sales Return = Rs 48,000 – Rs 3,000 = Rs 45,000 Cost of Goods Sold = Net Sales – Gross Profit = Rs 45,000 – Rs 18,000 = Rs 27,000 Cost of Goods Sold= Opening Stock + Purchases – Purchases Return + Carriage Inwards - Closing Stock Rs 27,000 = Rs 15,000 + Rs 30,000 – Rs 2,700 + Rs 3,000 – Closing Stock Closing Stock = Rs 45,000 – Rs 27,000 = Rs 18,300.	3

31	Opening Profit = Net Profit - Non operating income + Non-operating expenses Opening Profit = Net Profit (-) rent Received (-) Gain on sale of machine (+) Interest on Loans (+) Donation = Rs. 1,00,000 - Rs. 10,000 - Rs. 15,000 + Rs. 20,000 + Rs. 2,000 = Rs. 97,000	3																																												
32	STATEMENT OF AFFAIRS AS AT 31ST MARCH,2021 <table><tr><td>Liabilities</td><td>Amount</td><td>Assets</td><td>Amount</td></tr><tr><td>Creditors</td><td>2,80,000</td><td>Cash in hand</td><td>40,000</td></tr><tr><td>Husband’s Loan 2,00,000</td><td>2,10,000</td><td>Bank balance</td><td>1,20,000</td></tr><tr><td>Interest Outstanding 10,000</td><td></td><td></td><td></td></tr><tr><td>Capital (Balancing figure)</td><td>6,30,000</td><td>stock</td><td>`5,10,000</td></tr><tr><td></td><td></td><td>Debtors</td><td>4,50,000</td></tr><tr><td></td><td><u>11,20,000</u></td><td></td><td><u>11,20,000</u></td></tr></table> STATEMENT OF PROFIT OR LOSS <table><tr><td>Particulars</td><td>Rs</td></tr><tr><td>Closing capital as on 31st March 2021</td><td>6,30,000</td></tr><tr><td>Add: Drawings</td><td>1,20,000</td></tr><tr><td></td><td>7,50,000</td></tr><tr><td>Less: Further Capital Introduced</td><td>1,30,000</td></tr><tr><td></td><td>6,20,000</td></tr><tr><td>Less: Opening Capital as on 1st October,2020</td><td>5,00,000</td></tr><tr><td>Profit for the period</td><td><u>1,20,000</u></td></tr></table>	Liabilities	Amount	Assets	Amount	Creditors	2,80,000	Cash in hand	40,000	Husband’s Loan 2,00,000	2,10,000	Bank balance	1,20,000	Interest Outstanding 10,000				Capital (Balancing figure)	6,30,000	stock	`5,10,000			Debtors	4,50,000		<u>11,20,000</u>		<u>11,20,000</u>	Particulars	Rs	Closing capital as on 31st March 2021	6,30,000	Add: Drawings	1,20,000		7,50,000	Less: Further Capital Introduced	1,30,000		6,20,000	Less: Opening Capital as on 1st October,2020	5,00,000	Profit for the period	<u>1,20,000</u>	4
Liabilities	Amount	Assets	Amount																																											
Creditors	2,80,000	Cash in hand	40,000																																											
Husband’s Loan 2,00,000	2,10,000	Bank balance	1,20,000																																											
Interest Outstanding 10,000																																														
Capital (Balancing figure)	6,30,000	stock	`5,10,000																																											
		Debtors	4,50,000																																											
	<u>11,20,000</u>		<u>11,20,000</u>																																											
Particulars	Rs																																													
Closing capital as on 31st March 2021	6,30,000																																													
Add: Drawings	1,20,000																																													
	7,50,000																																													
Less: Further Capital Introduced	1,30,000																																													
	6,20,000																																													
Less: Opening Capital as on 1st October,2020	5,00,000																																													
Profit for the period	<u>1,20,000</u>																																													
33	Profit and loss account for the year ended 31st march,2019	4																																												

	3	TYPES OF ACCOUNTS	All types of accounts whether personal, real or nominal, must be written in it .	Only personal and real accounts are included in it.
	4	ADJUSTMENTS	It can be prepared without making adjustments for outstanding expenses, prepared accrued incomes etc.	It cannot be prepared without making adjustments for outstanding expenses, prepared expenses, accrued incomes etc.

34	TRADING AND PROFIT & LOSS ACCOUNT for the year ending 31st march,2022 <table><tr><th>PARTICULARS</th><th>AMOUNT</th><th>PARTICULARS</th><th>AMOUNT</th></tr><tr><td>To opening stock</td><td>12,000</td><td>By sales 86,000</td><td></td></tr><tr><td>To purchase 40,000</td><td></td><td>Less: sales return (6,000)</td><td>80,000</td></tr><tr><td>Less: purchase return (4,000)</td><td>36,000</td><td>By closing stock</td><td>16,000</td></tr><tr><td>To wages 10,000</td><td></td><td></td><td></td></tr><tr><td>Add: outstanding 2,000</td><td>12,000</td><td></td><td></td></tr><tr><td>To carriage on purchase</td><td>700</td><td></td><td></td></tr><tr><td>To gross profit c/d</td><td>35,300</td><td></td><td></td></tr><tr><td></td><td><u>96,000</u></td><td></td><td><u>96,000</u></td></tr><tr><td>To salaries 2,400</td><td></td><td>By gross profit b/d</td><td>35,300</td></tr><tr><td>Add: outstanding 1,200</td><td>3,600</td><td>By discount</td><td>400</td></tr><tr><td>To office expenses</td><td>1,200</td><td>By interest</td><td>800</td></tr><tr><td>To travelling expenses</td><td>400</td><td></td><td></td></tr><tr><td>To fire insurance</td><td></td><td></td><td></td></tr><tr><td>Premium 800</td><td></td><td></td><td></td></tr><tr><td>Less: prepaid 200</td><td>600</td><td></td><td></td></tr><tr><td>To commission</td><td>400</td><td></td><td></td></tr><tr><td>To rent and taxes 1,800</td><td></td><td></td><td></td></tr><tr><td>Add:</td><td>2,800</td><td></td><td></td></tr><tr><td>outstanding 1,000</td><td></td><td></td><td></td></tr><tr><td>To depreciation account</td><td></td><td></td><td></td></tr><tr><td>Machinery 2,000</td><td>4,500</td><td></td><td></td></tr><tr><td>Buildings 2,500</td><td>23,000</td><td></td><td></td></tr><tr><td>To net profit c/d</td><td></td><td></td><td></td></tr><tr><td></td><td><u>36,500</u></td><td></td><td><u>36,500</u></td></tr></table>				PARTICULARS	AMOUNT	PARTICULARS	AMOUNT	To opening stock	12,000	By sales 86,000		To purchase 40,000		Less: sales return (6,000)	80,000	Less: purchase return (4,000)	36,000	By closing stock	16,000	To wages 10,000				Add: outstanding 2,000	12,000			To carriage on purchase	700			To gross profit c/d	35,300				<u>96,000</u>		<u>96,000</u>	To salaries 2,400		By gross profit b/d	35,300	Add: outstanding 1,200	3,600	By discount	400	To office expenses	1,200	By interest	800	To travelling expenses	400			To fire insurance				Premium 800				Less: prepaid 200	600			To commission	400			To rent and taxes 1,800				Add:	2,800			outstanding 1,000				To depreciation account				Machinery 2,000	4,500			Buildings 2,500	23,000			To net profit c/d					<u>36,500</u>		<u>36,500</u>	6
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BALANCE SHEET as at 31st march, 2022

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	10,800	Cash in hand	2,300
Outstanding liabilities		Debtors	16,000
Wages 2,000		Closing stock	16,000
Salaries 1,200		Prepaid insurance	200
Rent 1,000	4,200	Machinery 20,000	
Capital 62,000		Less: depreciation	
Add: net profit 23,000	85,000	@ 10 % 2,000	18,000
		Buildings 50,000	
		Less: depreciation	
		@ 5% 2,500	47,000
	<u>1,00,000</u>		<u>1,00,000</u>

(OR)
TRADING AND PROFIT & LOSS ACCOUNT
for the year ending 31st march,2022

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
-------------	--------	-------------	--------

To Opening stock	22,300	By Sales	3,17,400	
Purchases To		Less: Sales return	(6,400)	3,11,000
2,30,000		By Closing stock		7,00,000
Less: Purchases return (5,200)	2,24,800			
To Wages	30,200			
To Gross profit c/d	1,03,700			
	3,81,000			3,81,000
To Incidental trade expenses	11,200	By Gross profit b/d		
To Insurance	1,850	By Commission	2,700	1,03,700
To Audit fees	800	Add: Accrued Commission	500	
		By interest	1,400	3,200
To Salaries	15,200	Add: Accrued interest	600	
To Discount Allowed	7,500	By Discount received		2,000
To Depreciation:		By Rent	2,600	4,200
Freehold premises	5,000	Less: Received in Advance	200	
Office furniture	<u>1,800</u>	By Interest on Drawings		2,400
	6,800			500
To Interest on capital	9,000			
To Net Profit c/d	63,650			
	<u>1,16,000</u>			<u>1,16,000</u>

BALANCE SHEET as at 31st March, 2022

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	24,830	Cash in hand	5080
Rent in advance	200	Bank Balance	7600
Capital	1,50,000	B/R	5200
Add: interest on capital	9,000	Debtors	32,400
	1,59,000	Closing stock	70,000
Add: net profits	63,650	Accrued incomes	
	2,22,650	commissions	500
Less: Drawings (12,000)		interest	600
Add: Interest	500	Investments	8000
Income tax 3,600	16,100	Office furniture	9,000
	2,06,550	Less: depreciation (1,800)	7200
		Freehold premises	1,00,000
		Less: depreciation	<u>5,000</u>
	<u>2,31,580</u>		95,000
			<u>2,31,580</u>

SAMPLE QUESTION PAPER 3 (2024- 2025)

SUBJECT- ACCOUNTANCY (055)

CLASS XI (2024-2025)

TIME ALLOWED: 3 HOURS

MAXIMUM MARKS: 80

GENERAL INSTRUCTIONS:

1. This question paper contains **34** questions. All questions are compulsory.
2. This question paper is divided into two parts, Part - **A** and Part - **B** and both are compulsory for all the candidates
5. Question Nos. **1 to 16** and **26 to 29** carries **1** mark each.
6. Questions Nos. **17 to 20, 30** and **31** carries **3** marks each.
7. Questions Nos. from **21, 32 and 33** carries **4** marks each
8. Questions Nos. from **22 to 25** and **34** carries **6** marks each
9. There is no overall choice. However, an internal choice has been provided in **7** questions of **one mark**, **2** questions of **three marks**, **1** question of **four marks** and **2** questions of **six marks**.

	PART - A (Financial Accounting - I) (Theoretical Framework and Accounting Process)																					
1	Identify the correct sequence (a) Identifying, , Recording, Measuring , classifying, summarizing, analysing and interpreting and communicating the results to its users (b) Identifying, Measuring, Recording, , summarizing, classifying analysing and interpreting and communicating the results to its users (c) Identifying, Measuring, Recording, classifying, summarizing, communicating the results to its users and analysing and interpreting (d) Identifying, Measuring, Recording, classifying, summarizing, analysing and interpreting and communicating the results to its users (or) _____ means manipulation of accounts in a manner that vital facts are concealed and presenting the financial statements in a better position than facts actual. (a) Accounting is not fully exact (b) Unrealistic information (c) Accounting may lead to Window Dressing (d) Accounting ignores the qualitative elements	(1)																				
2	Expenditure of the revenue nature that gives benefit for more than one accounting period is categorised as _____. (a) Deferred Revenue Expenditure (b) Capital Expenditure (c) Revenue Expenditure (d) Both (a) and (b)	(1)																				
3	Which of the following is correct? <table><tr><td></td><td>Assets (Rs.)</td><td>Liabilities (Rs.)</td><td>Capital (Rs.)</td></tr><tr><td>(a)</td><td>5,00,000</td><td>2,00,000</td><td>2,00,000</td></tr><tr><td>(b)</td><td>4,50,000</td><td>1,50,000</td><td>3,00,000</td></tr><tr><td>(c)</td><td>4,00,000</td><td>1,00,000</td><td>3,50,000</td></tr><tr><td>(d)</td><td>5,00,000</td><td>2,50,000</td><td>2,75,000</td></tr></table>		Assets (Rs.)	Liabilities (Rs.)	Capital (Rs.)	(a)	5,00,000	2,00,000	2,00,000	(b)	4,50,000	1,50,000	3,00,000	(c)	4,00,000	1,00,000	3,50,000	(d)	5,00,000	2,50,000	2,75,000	(1)
	Assets (Rs.)	Liabilities (Rs.)	Capital (Rs.)																			
(a)	5,00,000	2,00,000	2,00,000																			
(b)	4,50,000	1,50,000	3,00,000																			
(c)	4,00,000	1,00,000	3,50,000																			
(d)	5,00,000	2,50,000	2,75,000																			
4	Assertion (A) : Capital and Bank balance will decrease if the proprietor will withdraw for his personal use. Reason (R) : As per Modern concept cash will be credited, if decrease and capital will be debited, if increase.	(1)																				

- a) Both A and R are correct, and R is the correct explanation of A.
 b) Both A and R are correct, but R is not the correct explanation of A.
 c) A is correct but R is incorrect.
 d) A is incorrect but R is correct.

5

SHLOK TRADING COMPANY LIMITED
Nehru Road, Mumbai

No. _____ Date _____

To _____

We hereby inform you that we have debited your account with Rupees _____ only.

For the goods returned by us as under :

Qty.	Particulars	Invoice No.	Rate (₹)	Amount (₹)

E& O. E. For Shlok Trading Co. Ltd.

Prepared by _____ SD _____ Signature _____

Identify the above document

(a) Invoice (b) Debit Note (c) Credit Note (d) Pay-slip

6

Goods costing Rs. 50,000 sold to Rithu at a profit of 25% less trade discount @10%. Prepare journal entry.

	Date	Particulars	L.F.	Rs.	Rs.
(a)		Cash A/c Dr. To Sales (sold to <u>Rithu</u> at a profit of 25% less trade discount @10%.	-	50,000	50,000
(b)		<u>Rithu</u> A/c Dr. To Sales (sold to <u>Rithu</u> at a profit of 25% less trade discount @10%.	-	50,000	50,000
(c)		<u>Rithu</u> A/c Dr. To Sales (sold to <u>Rithu</u> at a profit of 25% less trade discount @10%.	-	63,750	63,750
(d)		Cash A/c Dr. To Sales (sold to <u>Rithu</u> at a profit of 25% less trade discount @10%.	-	63,750	63,750

(or)

The allowance made for prompt payment is called _____.

(a) Rebate (b) Trade Discount (c) Cash Discount (d) All of the above

7

Expenses accounts have _____ balances, whereas capital account has _____ balance.

(a) Debit and Debit (b) Credit and Credit
 (c) Credit and Debit (d) Debit and Credit

(or)

	_____ is fundamental for the preparation of Trail Balance. (a) Journal (b) Ledger (c) Final A/c (d) Balance Sheet																																					
8	Match the following: <table border="1"> <thead> <tr> <th></th><th>(A)</th><th>(B)</th></tr> </thead> <tbody> <tr> <td>(I)</td><td>Contra</td><td>(o) Bank (Cr.)</td></tr> <tr> <td>(II)</td><td>Received cheques</td><td>(p) Increase in cash and decrease in bank</td></tr> <tr> <td>(III)</td><td>Deposited cheques</td><td>(q) Cheques-in-hand</td></tr> <tr> <td>(IV)</td><td>Dishonored cheques</td><td>(r) Bank (Dr.)</td></tr> </tbody> </table> (a) (I) – (p); (II) –(q); (III) – (r) and (IV) – (o) (b) (I) – (p); (II) –(r); (III) – (q) and (IV) – (o) (c) (I) – (p); (II) –(q); (III) – (o) and (IV) – (r) (d) (I) – (q); (II) –(p); (III) – (r) and (IV) – (o)		(A)	(B)	(I)	Contra	(o) Bank (Cr.)	(II)	Received cheques	(p) Increase in cash and decrease in bank	(III)	Deposited cheques	(q) Cheques-in-hand	(IV)	Dishonored cheques	(r) Bank (Dr.)	(1)																					
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(III)	Deposited cheques	(q) Cheques-in-hand																																				
(IV)	Dishonored cheques	(r) Bank (Dr.)																																				
	Read the following hypothetical situation and answer Q. 9 and 10. Mr. Neeraj has started a business in the name of M/s. Neeraj Furnitures on 1 st April, 2023 with Rs. 5,00,000. On 2 nd April, 2023, He purchased machinery for Rs. 3,00,000. On 3 rd April, 2023, he purchased 10 chairs @ Rs. 1,000 each from PSM Ltd. and on 10 th April, 2023 he sold 8 chairs @ Rs. 2,000 each after 10 % trade discount.																																					
9	How much amount is debited in Purchase A/c ? (a) Rs. 10,000 (b) Rs. 3,10,000 (c) Rs. 40,000 (d) Rs. 14,400	(1)																																				
10	How much amount is debited in Sales A/c ? (a) Rs. 10,000 (b) Rs. 3,10,000 (c) Rs. 40,000 (d) Rs. 14,400	(1)																																				
11	Cash balance shown in the Trial balance is the balance as per _____ (a) Cash Book (b) Pass Book (c) Either (a) (or) (b) (d) Both (a) (or) (b) (or) Bank Reconciliation Statement is prepared with the balance of _____. (a) Pass Book (b) Cash Book (c) Either (a) (or) (b) (d) Both (a) (or) (b)	(1)																																				
12	Find out the balancing figure: <table border="1"> <thead> <tr> <th>Particulars</th><th>Dr. (Rs.)</th><th>Cr. (Rs.)</th></tr> </thead> <tbody> <tr> <td>Cash</td><td>10,00,000</td><td></td></tr> <tr> <td>Sales</td><td></td><td>10,00,000</td></tr> <tr> <td>Purchase</td><td>5,00,000</td><td></td></tr> <tr> <td>Salary</td><td>2,00,000</td><td></td></tr> <tr> <td>?</td><td>-</td><td>?</td></tr> <tr> <td>Total</td><td>17,00,000</td><td>17,00,000</td></tr> </tbody> </table> (a) Drawings- Rs. 7,00,000 (b) Capital Rs. 7,00,000 (c) Creditor – Rs. 7,00,000 (d) Accrued Interest Rs. 7,00,000 (or) Find out the balancing figure: <table border="1"> <thead> <tr> <th>Particulars</th><th>Dr. (Rs.)</th><th>Cr. (Rs.)</th></tr> </thead> <tbody> <tr> <td>Sales</td><td></td><td>12,00,000</td></tr> <tr> <td>Output CGST @ 6%</td><td></td><td>?</td></tr> <tr> <td>Output SGST @ 6%</td><td></td><td>?</td></tr> <tr> <td>Total</td><td>17,00,000</td><td>17,00,000</td></tr> </tbody> </table> (a) Rs. 12,000 (b) Rs. 72,000 (c) Rs. 36,000 (d) Rs. 48,000	Particulars	Dr. (Rs.)	Cr. (Rs.)	Cash	10,00,000		Sales		10,00,000	Purchase	5,00,000		Salary	2,00,000		?	-	?	Total	17,00,000	17,00,000	Particulars	Dr. (Rs.)	Cr. (Rs.)	Sales		12,00,000	Output CGST @ 6%		?	Output SGST @ 6%		?	Total	17,00,000	17,00,000	(1)
Particulars	Dr. (Rs.)	Cr. (Rs.)																																				
Cash	10,00,000																																					
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Sales		12,00,000																																				
Output CGST @ 6%		?																																				
Output SGST @ 6%		?																																				
Total	17,00,000	17,00,000																																				
13	The Machinery book value is Rs. 40,000. After three years, the book value is Rs. 28,000. Find out the rate of depreciation under straight line method.	(1)																																				

	(a) 10% (b) 20% (c) 25% (d) 30%	
14	Which reserve is not shown in the Balance Sheet? (a) Capital Reserve	

19	ABC Manufacturing Ltd. is a company that produces electronic appliances. The company has been in operation for the past 10 years and has maintained a stable financial position. The management of ABC Manufacturing Ltd. is concerned about some potential financial risks that could affect the company's profitability in the coming years. The following information pertains to the company's financial year ending March 31, 2024: (a) The company has outstanding trade receivables of ₹5,00,000. Based on past experiences, the company estimates that 5% of these receivables may turn out to be bad debts. (b) The board of directors decided to strength the financial position Recommend what should do for the above two situations.	(3)
20	DEF Traders found the following errors during the preparation of their trial balance: 1. Commission received of ₹1,000 was wrongly credited to the Sales Account. 2. Purchase of furniture worth ₹4,500 was recorded in the Purchases Account. 3. Cash received from a debtor, ₹2,200, was recorded as ₹2,020 in the Cash Book. Pass the necessary journal entries to rectify the above errors.	(3)
21	Find out profit of Syed from the following transactions by using Accrual Basis of accounting. Total sales during the year Rs. 2,00,000, out of which Rs. 50,000 cash received during the year. There was prepaid expenses Rs. 20,000 and unearned Interest Rs. 5,000.	(4)
22	Prepare a Double Column Cash Book from the following transactions for the month of Apr 2024: Apr 1: Started business with cash ₹50,000 and bank balance ₹30,000. Apr 3: Purchased goods for cash ₹15,000. Apr 5: Paid rent by cheque ₹5,000. Apr 7: Sold goods for cash ₹20,000. Apr 10: Received a cheque from Mr. X for ₹8,000 and deposited it in the bank. Apr 12: Paid ₹3,000 in cash for office expenses. Apr 15: Withdrew ₹10,000 from the bank for personal use. Apr 18: Paid salaries ₹12,000 (₹6,000 by cash and ₹6,000 by cheque). Apr 20: Deposited ₹15,000 of cash into the bank. Apr 22: The cheque received from Mr. X on Apr 10 for ₹8,000 was dishonored. Apr 25: Sold good to Ilakkia Rs. 5,000 Apr 28: Paid electricity bill ₹2,000 by cheque	(6)

23	Prepare a Bank Reconciliation Statement as on 31st December, 2023, from the following information: Bank Statement showed a debit (unfavorable) balance of ₹5,000. On 28th December, 2023, a bank credited ₹2,000 by mistake. Cheques totaling ₹3,200 were issued on 30th December, 2023, but were not cleared. A Rent Payment of ₹1,200, made by standing order, was not recorded in the Cash Book. A cheque of ₹800, received, deposited, and credited by the bank, was not recorded in the Cash Book. Other cheques amounting to ₹4,000 were deposited on 29th December, 2023, but out of these, cheques for ₹1,500 were collected by the bank on 31st December, 2023, and the remaining on 2nd January, 2024.	(6)
24	Identify the following concepts and briefly define it. If the owner of a business invests ₹1,00,000 of personal funds into the business, under the business entity concept, this amount is recorded as a capital contribution by the owner, not as the owner's personal funds. If a company purchases a piece of land for ₹10,00,000, this transaction is recorded in the financial statements because it can be measured in monetary terms. However, the value of a skilled workforce or customer loyalty, though important, is not recorded because it cannot be measured in money. If a business takes out a loan of ₹50,000, this transaction will increase the company's assets (cash) by ₹50,000 and also increase its liabilities (loan payable) by ₹50,000, keeping the accounting equation balanced. (or) Identify the following concepts and briefly define it. If a company is deciding whether to invest in a new project, the projected future cash flows and profitability of the project are relevant information that will help the company make a decision. Similarly, past financial performance, such as profit trends, is relevant for predicting future performance. If a company reports that it has ₹1,00,000 in cash, this amount should be accurately verified through bank statements or physical cash counts. Users should trust that this figure truly represents the company's cash balance without any manipulation. If a company changes its method of depreciation, it should disclose the change and its impact, allowing users to compare the financial results with previous years. This ensures that users can make meaningful comparisons of financial data over different periods or with other companies in the same industry.	(6)
25	On 1st April 2023, the following balances appeared in the books of M/s. Shiva: Machinery Account: Rs. 70,000 Provision for Depreciation Account: Rs. 42,000 On 1st April 2023, M/s. Shiva decided to dispose of a piece of machinery for Rs. 9,000 which was purchased on 1st April 2020 for Rs. 20,000. The depreciation was charged at 10% per annum on the cost using the Straight-Line Method.	(6)

You are required to prepare the following accounts for the year ended 31st March 2024:

Machinery A/c

Dr.				Cr.			
Date	Particulars	J F	Rs.	Date	Particulars	J F	Rs.
1.4.2023	Balance b/d	-	70,000	1.4.2023	Machinery Disposal A/c	-	?
				31.3.2024	Balance c/d	-	?
			70,000				70,000
1.4.2024	Balance b/d	-	?				

Provision for Depreciation A/c

Dr.				Cr.			
Date	Particulars	J F	Rs.	Date	Particulars	J F	Rs.
1.4.2023	Machinery Disposal A/c	-	?	1.4.2023	Balance b/d	-	42,000
31.3.2024	Balance c/d	-	?	31.3.2024	Depreciation A/c	-	?
			47,000				47,000
				1.4.2024	Balance b/d	-	?

Machinery Disposal A/c

Dr.				Cr.			
Date	Particulars	J F	Rs.	Date	Particulars	J F	Rs.
1.4.2023	Machinery A/c	-	20,000	1.4.2023	Bank A/c	-	?
				1.4.2023	Provision for Depreciation A/c	-	?
				1.4.2023	P&L A/c (Loss)	-	?
			20,000				20,000

PART - B
(Financial Accounting - II)
(Financial Statements of Sole Proprietorship from Complete and Incomplete Records)

26	Identify the capital expenditure. (i) Purchased goods from Mr. Senthil Rs. 2,00,000 (ii) Bought Machinery from Ms. Mini Rs. 3,00,000 (iii) Purchased land and building Rs. 5,00,000 (a) Only (ii) (b) Both (i) and (ii) (c) Both (ii) and (iii) (d) All of these (or) Which of the following is correct? (a) Sales = Cost of Goods Sold - Gross profit (b) Sales = Cost of Goods Sold + Gross profit (c) Sales = Gross profit - Cost of Goods Sold (d) Sales = Gross profit - Net Profit	(1)																				
27	When closing stock is given inside the Trail Balance, the treatment is_____ (a) Debit – Trading A/c (b) Credit – Trading A/c (c) Show only in Assets side of balance sheet (d) Show in Trading A/c Credit side and Balance sheet assets side	(1)																				
28	Calculate closing stock. <table><tr><th>Particulars</th><th>Rs.</th><th>Particulars</th><th>Rs.</th></tr><tr><td>Purchase</td><td>80,000</td><td>Sales</td><td>1,00,000</td></tr><tr><td>Carriage Inwards</td><td>2,000</td><td>Carriage Outwards</td><td>5,000</td></tr><tr><td>Wages</td><td>5,000</td><td>Salaries</td><td>10,000</td></tr><tr><td>Gross Profit</td><td>3,000</td><td></td><td></td></tr></table> (a) Rs. 10,000 (b) Rs. 13,000 (c) Rs. 1,18,000 (d) Rs. 1,00,000	Particulars	Rs.	Particulars	Rs.	Purchase	80,000	Sales	1,00,000	Carriage Inwards	2,000	Carriage Outwards	5,000	Wages	5,000	Salaries	10,000	Gross Profit	3,000			(1)
Particulars	Rs.	Particulars	Rs.																			
Purchase	80,000	Sales	1,00,000																			
Carriage Inwards	2,000	Carriage Outwards	5,000																			
Wages	5,000	Salaries	10,000																			
Gross Profit	3,000																					
29	Assertion (A) : Though, statement of affairs shows the assets and liabilities, yet it is not a Balance Sheet. Reason (R) : The amount shown in Statement of Affairs are not strictly the balances drawn from the accounts. a) Both A and R are correct, and R is the correct explanation of A. b) Both A and R are correct, but R is not the correct explanation of A. c) A is correct but R is incorrect. d) A is incorrect but R is correct. (or) Find the profit. <table><tr><th>Particulars</th><th>Rs.</th></tr><tr><td>(i) Opening capital</td><td>2,00,000</td></tr><tr><td>(ii) Closing capital</td><td>3,00,000</td></tr><tr><td>(iii) Drawings</td><td>1,00,000</td></tr><tr><td>(iv) Additional Capital</td><td>2,00,000</td></tr></table> (a) Rs.1,00,000 (b) Rs. 2,00,000 (c) Rs. 3,00,000 (d) Nil	Particulars	Rs.	(i) Opening capital	2,00,000	(ii) Closing capital	3,00,000	(iii) Drawings	1,00,000	(iv) Additional Capital	2,00,000	(1)										
Particulars	Rs.																					
(i) Opening capital	2,00,000																					
(ii) Closing capital	3,00,000																					
(iii) Drawings	1,00,000																					
(iv) Additional Capital	2,00,000																					
30	ABC company provided the following information: - Gross Profit: Rs. 500,000 - Selling and Distribution Expenses: Rs. 120,000 - Administrative Expenses: Rs. 80,000 - Other Operating Income: Rs. 30,000 - Loss on Sale of Asset: Rs. 15,000	(3)																				

	Calculate the Operating Profit of ABC Company.																												
31	On 1 st October, 2023 Bought goods from Sathana & Co. for Rs. 2,00,000. Unfortunately, on 31 st December, 2023, destroyed by fire Rs. 20,000 valuable goods. These goods already insured with AFC Insurance Co. and on 5 th January, 2024 Rs. 15,000 claims admitted by AFC Insurance Co. Prepare journal entry for it. (or) Debtors at the beginning of the year: Rs. 400,000 Bad debts written off during the year: Rs. 15,000 Provision for doubtful debts: 10% of debtors Prepare journal entries for the above adjustments.				(3)																								
32	Mr. Suresh’s Trail Balance as on 31 st March, 2021 gives the following information: <table border="1"><thead><tr><th>Heads of Accounts</th><th>L.F.</th><th>Dr. (Rs.)</th><th>Cr. (Rs.)</th></tr></thead><tbody><tr><td>10% Investment</td><td>-</td><td>2,00,000</td><td>-</td></tr><tr><td>Interest Received</td><td>-</td><td>-</td><td>5,000</td></tr></tbody></table> Show how the above items would appear in the Profit and Loss Account and Balance Sheet. (or) Mr. Palanisamy ’s Trail Balance give the following information: <table border="1"><thead><tr><th>Heads of Accounts</th><th>L.F.</th><th>Rs.</th><th>Rs.</th></tr></thead><tbody><tr><td>Furniture</td><td>-</td><td>1,00,000</td><td>-</td></tr><tr><td>Building</td><td>-</td><td>2,00,000</td><td>-</td></tr></tbody></table> Depreciation is provided @ 10% p.a. on the fixed assets. Show how the above items would appear in the Profit and Loss Account and Balance Sheet.				Heads of Accounts	L.F.	Dr. (Rs.)	Cr. (Rs.)	10% Investment	-	2,00,000	-	Interest Received	-	-	5,000	Heads of Accounts	L.F.	Rs.	Rs.	Furniture	-	1,00,000	-	Building	-	2,00,000	-	(4)
Heads of Accounts	L.F.	Dr. (Rs.)	Cr. (Rs.)																										
10% Investment	-	2,00,000	-																										
Interest Received	-	-	5,000																										
Heads of Accounts	L.F.	Rs.	Rs.																										
Furniture	-	1,00,000	-																										
Building	-	2,00,000	-																										
33	Following information is supplied to you by a shopkeeper: <table border="1"><thead><tr><th>Particulars</th><th>1st Apr, 2023</th><th>31st March, 2024</th></tr></thead><tbody><tr><td>Cash</td><td>6,000</td><td>7,000</td></tr><tr><td>Sundry Debtors</td><td>68,000</td><td>64,000</td></tr><tr><td>Stock</td><td>59,000</td><td>87,000</td></tr><tr><td>Furniture</td><td>15,000</td><td>13,500</td></tr><tr><td>Sundry Creditors</td><td>20,000</td><td>18,000</td></tr><tr><td>Bills Payable</td><td>15,000</td><td>11,000</td></tr></tbody></table> During the year, he withdrew Rs. 2,500 per month for domestic purposes. He also borrowed from a friend at 10% a sum of Rs. 30,000 on 31 st December, 2023. He has not yet paid the interest. A provision of 5% on debtors for doubtful debts is to be made. Ascertain the profit or loss made by him during the period.				Particulars	1st Apr, 2023	31st March, 2024	Cash	6,000	7,000	Sundry Debtors	68,000	64,000	Stock	59,000	87,000	Furniture	15,000	13,500	Sundry Creditors	20,000	18,000	Bills Payable	15,000	11,000	(4)			
Particulars	1st Apr, 2023	31st March, 2024																											
Cash	6,000	7,000																											
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Furniture	15,000	13,500																											
Sundry Creditors	20,000	18,000																											
Bills Payable	15,000	11,000																											

34

From the following Trial Balance and other information, prepare Trading and Profit and Loss Account for the year ended 31st March, 2024 and Balance Sheet as at that date:

(6)

Particulars	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	3,50,000	-
Stock on 1st Apr, 2023	2,50,000	-
Cash in Hand	400	-
Cash at Bank	18,000	-
Plant and Machinery	2,00,000	-
Sundry Creditors	-	1,20,000
General Expenses	12,000	-
Sales	-	14,50,000
Salaries	25,000	-
Carriage Inwards	5,000	-
Rent	10,000	-
Bills Payable	-	80,000
Purchases	12,50,000	-
Discounts	11,000	-
Premises	4,00,000	-
Capital on 1st Apr, 2018	-	8,50,000
Insurance	1000	-
Commission Received	-	32,400
Total	25,32,400	25,32,400

Additional Information:

1. Closing stock Rs. 25,000
2. Provide bad debts Rs. 12,000 and create provision for doubtful debts @ 5%
3. Charge depreciation @ 10% on Plant and Machinery
4. There is prepaid insurance of Rs. 500
5. Outstanding rent Rs. 1,000

(or)

Trial Balance of Mr. X as on 31st March, 2024

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases	3,00,000	
Sales		3,60,000
Returns Inward	10,000	
Returns Outward		10,000
Carriage Inwards	2,000	
Salaries	55,000	
Rent	36,000	
Insurance	12,000	
Machinery	2,00,000	
Furniture	50,000	

Sundry Debtors	1,20,000	
Sundry Creditors		80,000
Capital		4,00,000
Cash in Hand	10,000	
Cash at Bank	25,000	
Drawings	30,000	
Total	8,50,000	8,50,000

Adjustments:

1. Closing Stock on 31st March, 2024 was Rs. 60,000.
2. Depreciation on Machinery @ 10%
3. Bad debts Rs. 3,000. Create a provision for doubtful debts @ 10% on debtors.
4. Goods costing Rs. 5,000 were taken by the proprietor for personal use.

Prepare Final account for the above.

MARKING SCHEME OF SAMPLE QUESTION PAPER 3 ALONG WITH QUESTIONS

CLASS 11 ACCOUNTANCY

TIME ALLOWED: 3 HOURS

MAXIMUM MARKS: 80

GENERAL INSTRUCTIONS:

1. This question paper contains **34** questions. All questions are compulsory.
2. This question paper is divided into two parts, Part - **A** and Part - **B** and both are compulsory for all the candidates
5. Question Nos. **1** to **16** and **26** to **29** carries **1** mark each.
6. Questions Nos. **17** to **20**, **30** and **31** carries **3** marks each.
7. Questions Nos. from **21**, **32** and **33** carries **4** marks each
8. Questions Nos. from **22** to **25** and **34** carries **6** marks each
9. There is no overall choice. However, an internal choice has been provided in **7** questions of **one mark**, **2** questions of **three marks**, **1** question of **four marks** and **2** questions of **six marks**.

Q. No.	PART - A (Financial Accounting - I) (Theoretical Framework and Accounting Process)	Marks
1	Identify the correct sequence (a) Identifying, , Recording, Measuring , classifying, summarizing, analysing and interpreting and communicating the results to its users (b) Identifying, Measuring, Recording, , summarizing, classifying analysing and interpreting and communicating the results to its users (c) Identifying, Measuring, Recording, classifying, summarizing, communicating the results to its users and analysing and interpreting (d) Identifying, Measuring, Recording, classifying, summarizing, analysing and interpreting and communicating the results to its users (or) _____ means manipulation of accounts in a manner that vital facts are concealed and presenting the financial statements in a better position than facts actual. (a) Accounting is not fully exact (b) Unrealistic information (c) Accounting may lead to Window Dressing (d) Accounting ignores the qualitative elements	(1)
2	Expenditure of the revenue nature that gives benefit for more than one accounting period is categorised as _____. (a) Deferred Revenue Expenditure (b) Capital Expenditure (c) Revenue Expenditure (d) Both (a) and (b)	(1)

3	Which of the following is correct?	(1)																														
	<table><tr><td></td><td>Assets (Rs.)</td><td>Liabilities (Rs.)</td><td>Capital (Rs.)</td></tr><tr><td>(a)</td><td>5,00,000</td><td>2,00,000</td><td>2,00,000</td></tr><tr><td>(b)</td><td>4,50,000</td><td>1,50,000</td><td>3,00,000</td></tr><tr><td>(c)</td><td>4,00,000</td><td>1,00,000</td><td>3,50,000</td></tr><tr><td>(d)</td><td>5,00,000</td><td>2,50,000</td><td>2,75,000</td></tr></table>		Assets (Rs.)	Liabilities (Rs.)	Capital (Rs.)	(a)	5,00,000	2,00,000	2,00,000	(b)	4,50,000	1,50,000	3,00,000	(c)	4,00,000	1,00,000	3,50,000	(d)	5,00,000	2,50,000	2,75,000											
	Assets (Rs.)	Liabilities (Rs.)	Capital (Rs.)																													
(a)	5,00,000	2,00,000	2,00,000																													
(b)	4,50,000	1,50,000	3,00,000																													
(c)	4,00,000	1,00,000	3,50,000																													
(d)	5,00,000	2,50,000	2,75,000																													
4	Assertion (A) : Capital and Bank balance will decrease if the proprietor will withdraw for his personal use. Reason (R) : As per Modern concept cash will be credited, if decrease and capital will be debited, if increase. a) Both A and R are correct, and R is the correct explanation of A. b) Both A and R are correct, but R is not the correct explanation of A. c) A is correct but R is incorrect. d) A is incorrect but R is correct.	(1)																														
5	SHLOK TRADING COMPANY LIMITED Nehru Road, Mumbai No. _____ Date_____ To_____ We hereby inform you that we have debited your account with Rupees_____ only. For the goods returned by us as under : <table><tr><th>Qty.</th><th>Particulars</th><th>Invoice No.</th><th>Rate (₹)</th><th>Amount (₹)</th></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table> E& O. E. _____ For Shlok Trading Co. Ltd. Prepared by _____ SD _____ Signature _____ Identify the above document (a) Invoice (b) Debit Note (c) Credit Note (d) Pay-slip	Qty.	Particulars	Invoice No.	Rate (₹)	Amount (₹)						(1)																				
Qty.	Particulars	Invoice No.	Rate (₹)	Amount (₹)																												
6	Goods costing Rs. 50,000 sold to Rithu at a profit of 25% less trade discount @10%. Prepare journal entry. <table><tr><td></td><td>Date</td><td>Particulars</td><td>L.F.</td><td>Rs.</td><td>Rs.</td></tr><tr><td>(a)</td><td></td><td>Cash A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.</td><td>-</td><td>50,000</td><td>50,000</td></tr><tr><td>(b)</td><td></td><td>Rithu A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.</td><td>-</td><td>50,000</td><td>50,000</td></tr><tr><td>(c)</td><td></td><td>Rithu A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.</td><td>-</td><td>63,750</td><td>63,750</td></tr><tr><td>(d)</td><td></td><td>Cash A/c Dr. To Sales</td><td>-</td><td>63,750</td><td>63,750</td></tr></table>		Date	Particulars	L.F.	Rs.	Rs.	(a)		Cash A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.	-	50,000	50,000	(b)		Rithu A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.	-	50,000	50,000	(c)		Rithu A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.	-	63,750	63,750	(d)		Cash A/c Dr. To Sales	-	63,750	63,750	(1)
	Date	Particulars	L.F.	Rs.	Rs.																											
(a)		Cash A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.	-	50,000	50,000																											
(b)		Rithu A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.	-	50,000	50,000																											
(c)		Rithu A/c Dr. To Sales (sold to Rithu at a profit of 25% less trade discount @10%.	-	63,750	63,750																											
(d)		Cash A/c Dr. To Sales	-	63,750	63,750																											

		(sold to Rithu at a profit of 25% less trade discount @10%.																			
Working Note: = Rs. 50,000 *25/100 *110/100 = Rs. 63,750 (or) The allowance made for prompt payment is called _____. (a) Rebate (b) Trade Discount (c) Cash Discount (d) All of the above																					
7	Expenses accounts have _____ balances, whereas capital account has _____ balance. (a) Debit and Debit (b) Credit and Credit (c) Credit and Debit (d) Debit and Credit (or) _____ is fundamental for the preparation of Trail Balance. (a) Journal (b) Ledger (c) Final A/c (d) Balance Sheet					(1)															
8	Match the following: <table border="1"><tr><td></td><td>(A)</td><td>(B)</td></tr><tr><td>(I)</td><td>Contra</td><td>(o) Bank (Cr.)</td></tr><tr><td>(II)</td><td>Received cheques</td><td>(p) Increase in cash and decrease in bank</td></tr><tr><td>(III)</td><td>Deposited cheques</td><td>(q) Cheques-in-hand</td></tr><tr><td>(IV)</td><td>Dishonored cheques</td><td>(r) Bank (Dr.)</td></tr></table> (a) (I) – (p); (II) –(q); (III) – (r) and (IV) – (o) (b) (I) – (p); (II) –(r); (III) – (q) and (IV) – (o) (c) (I) – (p); (II) –(q); (III) – (o) and (IV) – (r) (d) (I) – (q); (II) –(p); (III) – (r) and (IV) – (o)						(A)	(B)	(I)	Contra	(o) Bank (Cr.)	(II)	Received cheques	(p) Increase in cash and decrease in bank	(III)	Deposited cheques	(q) Cheques-in-hand	(IV)	Dishonored cheques	(r) Bank (Dr.)	(1)
	(A)	(B)																			
(I)	Contra	(o) Bank (Cr.)																			
(II)	Received cheques	(p) Increase in cash and decrease in bank																			
(III)	Deposited cheques	(q) Cheques-in-hand																			
(IV)	Dishonored cheques	(r) Bank (Dr.)																			
Read the following hypothetical situation and answer Q. 9 and 10. Mr. Neeraj has started a business in the name of M/s. Neeraj Furnitures on 1 st April, 2023 with Rs. 5,00,000. On 2 nd April, 2023, He purchased machinery for Rs. 3,00,000. On 3 rd April, 2023, he purchased 10 chairs @ Rs. 1,000 each from PSM Ltd. and on 10 th April, 2023 he sold 8 chairs @ Rs. 2,000 each after 10 % trade discount.																					
9	How much amount is debited in Purchase A/c ? (a) Rs. 10,000 (b) Rs. 3,10,000 (c) Rs. 40,000 (d) Rs. 14,400 Working Note: = 10 * Rs. 1,000					(1)															
10	How much amount is debited in Sales A/c ? (a) Rs. 10,000 (b) Rs. 3,10,000 (c) Rs. 40,000 (d) Rs. 14,400 Working Note: = 8 * Rs. 2,000 * 90/100 = Rs. 14,400					(1)															
11	Cash balance shown in the Trial balance is the balance as per_____ (a) Cash Book (b) Pass Book (c) Either (a) (or) (b) (d) Both (a) (or) (b) (or) Bank Reconciliation Statement is prepared with the balance of _____. (a) Pass Book (b) Cash Book (c) Either (a) (or) (b) (d) Both (a) (or) (b)					(1)															
12	Find out the balancing figure: <table border="1"><tr><th>Particulars</th><th>Dr. (Rs.)</th><th>Cr. (Rs.)</th></tr><tr><td>Cash</td><td>10,00,000</td><td></td></tr><tr><td>Sales</td><td></td><td>10,00,000</td></tr><tr><td>Purchase</td><td>5,00,000</td><td></td></tr></table>					Particulars	Dr. (Rs.)	Cr. (Rs.)	Cash	10,00,000		Sales		10,00,000	Purchase	5,00,000		(1)			
Particulars	Dr. (Rs.)	Cr. (Rs.)																			
Cash	10,00,000																				
Sales		10,00,000																			
Purchase	5,00,000																				

	Salary	2,00,000							
	?	-	?						
	Total	17,00,000	17,00,000						
(a) Drawings- Rs. 7,00,000 (b) Capital Rs. 7,00,000									
(c) Creditor – Rs. 7,00,000 (d) Accrued Interest Rs. 7,00,000									
Explanation:									
A firm would be started with the capital, hence the balancing amount Rs. 7,00,000 denotes capital.									
(or)									
Find out the balancing figure:									
	Particulars	Dr. (Rs.)	Cr. (Rs.)						
	Sales		12,00,000						
	Output CGST @ 6%		?						
	Output SGST @ 6%		?						
	Total	17,00,000	17,00,000						
(a) Rs. 12,000 (b) Rs. 72,000 (c) Rs. 36,000 (d) Rs. 48,000									
Working Note:									
= Rs. 12,00,000 * 6% each									
= Rs. 72,000 each									
13	The Machinery book value is Rs. 40,000. After three years, the book value is Rs. 28,000. find out the rate of depreciation under straight line method. (a) 10% (b) 20% (c) 25% (d) 30% Working Note: = Rs. 40,000 – Rs. 28,000 = Rs. 12,000 = Rs. 12,000 /3 years Amount of depreciation = Rs. 4,000 The rate of depreciation = Amount of depreciation / Cost of the asset * 100 = Rs. 4,000 / Rs. 40,000 * 100 = 10%								
14	Which reserve is not shown in the Balance Sheet? (a) Capital Reserve (b) Revenue Reserve (c) General Reserve (d) Secret Reserve								
15	Treating revenue expenses as capital expenses is an error of _____. (a) Principle (b) Compensating (c) Omission (d) Commission								
16	Credit purchases from Ravi Rs. 5,000 were posted to the debit of Ravin as Rs. 5,500. How will be rectified? (a) Dr. Ravin A/c with Rs. 11,000 (b) Cr. Ravin A/c with Rs. 11,000 (c) Dr. Ravin A/c with Rs. 5,500 (d) Cr. Ravin A/c with Rs. 5,500								
17	Prepare Accounting Equation for the following transactions: <table><tr><td>1.</td><td>Commenced business with the cash Rs. 2,00,000</td></tr><tr><td>2.</td><td>Paid rent in advance Rs. 5,000</td></tr><tr><td>3.</td><td>Unearned Interest Rs. 2,000</td></tr></table> Solution: Working Note: (1/2 mark for each correct entry)			1.	Commenced business with the cash Rs. 2,00,000	2.	Paid rent in advance Rs. 5,000	3.	Unearned Interest Rs. 2,000
1.	Commenced business with the cash Rs. 2,00,000								
2.	Paid rent in advance Rs. 5,000								
3.	Unearned Interest Rs. 2,000								
	Particulars	Assets	Liabilities						

		Cash	Prepaid Rent	Capital	Unearned Interest	
	1. Commenced business	2,00,000	-	2,00,000	-	
	2. Prepaid rent	(5,000)	5,000	0	-	
	New Eq.	1,95,000	5,000	2,00,000		
	3. Unearned Interest	2,000			2,000	
	New Eq.	1,97,000	5,000	2,00,000	2,000	
	Solution:					
	Assets = Liabilities			(1/2 mark)		
	Assets = Capital + Liabilities					
	Cash + Prepaid Rent = Capital + Unearned Interest					
	Rs. 1,97,000 + Rs. 5,000 = Rs. 2,00,000 + Rs. 2,000			(1 mark)		
18	Prepare Purchase Book of M/s. Dhamu Handloom, Tamil Nadu from the following transactions for the month of February 2024:					(3)
	Feb 1	Purchased from M/s. Ragavi & Co. 20 Bed Sheets @ Rs. 500 each 20 Blankets @ Rs. 800 each Trade Discount @ 10%				
	Feb 2	Purchased from M/s. Ishwarya & Co. 30 Towels @ Rs. 100 each 40 Cushion covers @ Rs. 200 each Trade Discount @10 %				
	Feb 3	Purchased from M/s. Sandhya & Co. 10 Tables @ Rs. 1000 each				
	Feb 4	Purchased from M/s. Murali & Co. 20 Towels @ Rs. 150 each Packing charges Rs. 200				
	Solution:					
	Date	Particulars	Invoice No.	L.F.	Details Rs.	Cost (Rs.)
	1.1.2024	M/s. Ragavi & Co. Purchased from M/s. Ragavi & Co. 20 Bed Sheets @ Rs. 500 each 20 Blankets @ Rs. 800 each Total Less: Trade Discount @ 10% Net T	-	-	10,000 16,000 26,000 (2,600) 23,400	23,400
	Feb 2	M/s. Ishwarya & Co. 30 Towels @ Rs. 100 each 40 Cushion covers @ Rs. 200 each Total Less : Trade Discount @10 %	-	-	3,000 8,000 11,000 (1,100) 9,900	9,900
	Feb 4	M/s. Murali & Co. 20 Towels @ Rs. 150 each Add: Packing Charges	-	-	3,000 200 3,200	3,200
	Feb29, 2024	Purchase A/c	-	-	-	36,500

(or)

XYZ Enterprises maintains an Analytical Petty Cash Book to record small payments. On April 1, 2024, the petty cashier received an imprest amount of ₹25,000 to cover the expenses for the month. The following transactions occurred during April:

April 2: Paid ₹1,000 for postage.

April 6: Paid ₹500 for stationery.

April 10: Paid ₹4,000 for wages.

April 15: Paid ₹1,200 for carriage.

April 18: Paid ₹900 for conveyance.

April 22: Paid ₹2,500 for travelling expenses.

April 26: Paid ₹1,000 for office cleaning.

April 28: Paid ₹600 for courier.

Prepare an Analytical Petty Cash Book for the month of April 2024 using the information provided.

Solution:

Receipts	Date		Particulars	V.No.	L.F.	Total Amount	Postage	Stationery	Wages	Carriage	Others
Rs.	2024					Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
25,000	Apr	1	Cash Received								
	Apr	2	Postage			1,000	1,000				
	Apr	6	stationery			500		500			
	Apr	10	Wages			4,000			4,000		
	Apr	15	Carriage			1,200				1,200	
	Apr	18	conveyance			900					900
	Apr	22	Travelling expenses			2,500					2,500
	Apr	26	office cleaning			1,000					1,000
	Apr	28	Courier			600					600
						11,700	1,000	500	4,000	1,200	5,000
	Apr	30	Balance c/d			13,300	2,000				
25,000						25,000					
	2024										
13,300	May	1	Balance b/d								
11,700	May	1	To Cash A/c								

19 ABC Manufacturing Ltd. is a company that produces electronic appliances. The company has been in operation for the past 10 years and has maintained a stable financial position. The management of ABC Manufacturing Ltd. is concerned about some potential financial risks that could affect the company's profitability in the coming years. The following information pertains to the company's financial year ending March 31, 2024:

(c) The company has outstanding trade receivables of ₹5,00,000. Based on past experiences, the company estimates that 5% of these receivables may turn out to be bad debts.

(3)

	(d) The board of directors decided to strengthen the financial position Recommend what should do for the above two situations. Answer: (a) The management wants to create a provision for doubtful debts. (1 ½) (b) The management wants to create reserves (1 ½)															
20	DEF Traders found the following errors during the preparation of their trial balance: 1. Commission received of ₹1,000 was wrongly credited to the Sales Account. 2. Purchase of furniture worth ₹4,500 was recorded in the Purchases Account. 3. Cash received from a debtor, ₹2,200, was recorded as ₹2,020 in the Cash Book. Pass the necessary journal entries to rectify the above errors. Solution: 1. Since the Commission Received should be in the Commission Received Account, the rectification entry would be: Sales Account Dr. ₹1,000 To Commission Received Account ₹1,000 (Commission received wrongly credited to Sales Account, now rectified) 2. The purchase of furniture should be capitalized, not treated as an expense in the Purchases Account: Furniture Account Dr. ₹4,500 To Purchases Account ₹4,500 (Purchase of furniture wrongly debited to Purchases Account, now rectified) 3. Since cash received was recorded as ₹2,020 instead of ₹2,200, the difference needs to be corrected: Cash Account Dr. ₹180 To Debtor Account ₹180 (Cash received from debtor was understated, now rectified)	(3)														
21	Find out profit of Syed from the following transactions by using Accrual Basis of accounting. Total sales during the year Rs. 2,00,000, out of which Rs. 50,000 cash received during the year. There was prepaid expenses Rs. 20,000 and unearned Interest Rs. 5,000. Solution: <table><tr><th>Particulars</th><th>Rs.</th></tr><tr><td>Incomes:</td><td></td></tr><tr><td> Sales</td><td>2,00,000</td></tr><tr><td> Unearned Interest</td><td>5,000</td></tr><tr><td>Less: Expenses</td><td></td></tr><tr><td> Prepaid expenses</td><td>20,000</td></tr><tr><td>Profit</td><td>1,85,000</td></tr></table>	Particulars	Rs.	Incomes:		Sales	2,00,000	Unearned Interest	5,000	Less: Expenses		Prepaid expenses	20,000	Profit	1,85,000	(4)
Particulars	Rs.															
Incomes:																
Sales	2,00,000															
Unearned Interest	5,000															
Less: Expenses																
Prepaid expenses	20,000															
Profit	1,85,000															
22	Prepare a Double Column Cash Book from the following transactions for the month of Apr 2024: Apr 1: Started business with cash ₹50,000 and bank balance ₹30,000. Apr 3: Purchased goods for cash ₹15,000. Apr 5: Paid rent by cheque ₹5,000. Apr 7: Sold goods for cash ₹20,000.	(6)														

Apr 10: Received a cheque from Mr. X for ₹8,000 and deposited it in the bank.

Apr 12: Paid ₹3,000 in cash for office expenses.

Apr 15: Withdrew ₹10,000 from the bank for personal use.

Apr 18: Paid salaries ₹12,000 (₹6,000 by cash and ₹6,000 by cheque).

Apr 20: Deposited ₹15,000 of cash into the bank.

Apr 22: The cheque received from Mr. X on Apr 10 for ₹8,000 was dishonored.

Apr 25: Sold good to Ilakkia Rs. 5,000

Apr 28: Paid electricity bill ₹2,000 by cheque

Solution: (1/2 mark for each)

Double Column Cash Book as on 30 Apr 2024

Dr.					Cr.				
Date	Particulars	L.F.	Cash	Bank	Date	Particulars	L.F.	Cash	Bank
			Rs.	Rs.				Rs.	Rs.
2024					2024				
Apr-01	To Capital A/c		50,000	30,000	Apr-03	By Purchases A/c		15,000	
Apr-07	To Sales A/c		20,000		Apr-05	By Rent A/c			5,000
Apr-10	To Mr. X (Cheque)			8,000	Apr-12	By Office Expenses A		3,000	
Apr-25	To Mr. Y		5,000		Apr-15	By Drawings A/c		10,000	
Apr-20	To Cash A/c (Deposit)			15,000	Apr-18	By Salaries A/c		6,000	6,000
					Apr-20	By Bank A/c	-	15,000	
					Apr-22	By Mr. X (Cheque Dishonoured)			8,000
					Apr-28	By Electricity Bill A			2,000
					Apr-30	By Balance c/d		26,000	32,000
			75,000	53,000				75,000	53,000
2024									
May-01	Balance b/d		26,000	32,000					

23 Prepare a Bank Reconciliation Statement as on 31st December, 2023, from the following information: **(6)**

- vii. Bank Statement showed a debit (unfavorable) balance of ₹5,000.
- viii. On 28th December, 2023, a bank credited ₹2,000 by mistake.
- ix. Cheques totaling ₹3,200 were issued on 30th December, 2023, but were not cleared.
- x. A Rent Payment of ₹1,200, made by standing order, was not recorded in the Cash Book.
- xi. A cheque of ₹800, received, deposited, and credited by the bank, was not recorded in the Cash Book.
- xii. Other cheques amounting to ₹4,000 were deposited on 29th December, 2023, but out of these, cheques for ₹1,500 were collected by the bank on 31st December, 2023, and the remaining on 2nd January, 2024.

Solution: (1 each)

Particulars	Rs.	Rs.
Balance as per Bank Statement (Debit)		5,000
Add: (v) Cheque received but not recorded in the Cash Book	800	
(ii) Bank credited by mistake	2,000	
(iii) Cheques issued but not cleared	3,200	6,000
		11,000
Less:		
(iv) Rent Payment not recorded in Cash Book	(1,200)	

	(vi) Cheques deposited but not yet cleared	(2,500)	(3,700)		
	Balance as per Cash Book (Credit)		7,300		
24	Identify the following concepts and briefly define it. (d) If the owner of a business invests ₹1,00,000 of personal funds into the business, under the business entity concept, this amount is recorded as a capital contribution by the owner, not as the owner's personal funds. (e) If a company purchases a piece of land for ₹10,00,000, this transaction is recorded in the financial statements because it can be measured in monetary terms. However, the value of a skilled workforce or customer loyalty, though important, is not recorded because it cannot be measured in money. (f) If a business takes out a loan of ₹50,000, this transaction will increase the company's assets (cash) by ₹50,000 and also increase its liabilities (loan payable) by ₹50,000, keeping the accounting equation balanced. Answer: (2Marks Each) 1. Business Entity Concept: The Business Entity Concept states that the business and its owner(s) are treated as separate entities. All financial transactions are recorded from the business's perspective, not the owners. 2. Money Measurement Concept: The Money Measurement Concept states that only those transactions that can be measured in monetary terms are recorded in the accounting books. Non-monetary transactions, such as employee satisfaction or brand reputation, are not recorded. 3. Dual Aspect Concept: If a company purchases a piece of land for ₹10,00,000, this transaction is recorded in the financial statements because it can be measured in monetary terms. However, the value of a skilled workforce or customer loyalty, though important, is not recorded because it cannot be measured in money. (or) Identify the following concepts and briefly define it. (d) If a company is deciding whether to invest in a new project, the projected future cash flows and profitability of the project are relevant information that will help the company make a decision. Similarly, past financial performance, such as profit trends, is relevant for predicting future performance. (e) If a company reports that it has ₹1,00,000 in cash, this amount should be accurately verified through bank statements or physical cash counts. Users should trust that this figure truly represents the company's cash balance without any manipulation. (f) If a company changes its method of depreciation, it should disclose the change and its impact, allowing users to compare the financial results with previous years. This ensures that users can				(6)

make meaningful comparisons of financial data over different periods or with other companies in the same industry.

Answer: (2 Marks each)

(a) Relevance : Relevance refers to the ability of accounting information to influence the decision-making process of users. Information is relevant if it helps users predict future outcomes (predictive value) or confirm past events (confirmatory value).

(b) Reliability : Reliability means that the information is free from material error and bias and can be depended upon by users. It should faithfully represent the financial position and performance of the business.

(c) Comparability: Comparability allows users to identify similarities and differences between two sets of financial information. It requires that financial statements be prepared using consistent accounting methods over time and across companies.

25 On 1st April 2023, the following balances appeared in the books of M/s. Shiva:

Machinery Account: Rs. 70,000

Provision for Depreciation Account: Rs. 42,000

On 1st April 2023, M/s. Shiva decided to dispose of a piece of machinery for Rs. 9,000 which was purchased on 1st April 2020 for Rs. 20,000. The depreciation was charged at 10% per annum on the cost using the Straight-Line Method.

You are required to prepare the following accounts for the year ended 31st March 2024:

Machinery A/c

Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1.4.2023	Balance b/d	-	70,000	1.4.2023	Machinery Disposal A/c		?
				31.3.2024	Balance c/d		?
			70,000				70,000
1.4.2024	Balance b/d		?				

Provision for Depreciation A/c

Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1.4.2023	Machinery Disposal A/c	-	?	1.4.2023	Balance b/d	-	42,000
31.3.2024	Balance c/d		?	31.3.2024	Depreciation A/c	-	?
			47,000				47,000
				1.4.2024	Balance b/d		?

Machinery Disposal A/c

Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1.4.2023	Machinery A/c	-	20,000	1.4.2023	Bank A/c	-	?
				1.4.2023	Provision for Depreciation A/c	-	?
				1.4.2023	P&L A/c (Loss)		?
			20,000				20,000

Solution: (1+2+3)

Machinery A/c

Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1.4.2023	Balance b/d	-	70,000	1.4.2023	Machinery Disposal A/c		20,000
				31.3.2024	Balance c/d		50,000
			70,000				70,000
1.4.2024	Balance b/d		50,000				

Provision for Depreciation A/c

Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1.4.2023	Machinery Disposal A/c	-	6,000	1.4.2023	Balance b/d	-	42,000
31.3.2024	Balance c/d		41,000	31.3.2024	Depreciation A/c	-	5,000
					(Rs. 50,000 * 10/100)		
			47,000				47,000
				1.4.2024	Balance b/d		41,000

Machinery Disposal A/c

Dr.				Cr.			
Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
1.4.2023	Machinery A/c	-	20,000	1.4.2023	Bank A/c	-	9,000
				1.4.2023	Provision for Depreciation A/c	-	6,000
				1.4.2023	P&L A/c (Loss)		5,000
			20,000				20,000

Working Note:

= Rs. 20,000 * 10/100 * 3 years

= Rs. 6,000

PART - B

(Financial Accounting - II)

(Financial Statements of Sole Proprietorship from Complete and Incomplete Records)

26	Identify the capital expenditure. (iv) Purchased goods from Mr. Senthil Rs. 2,00,000 (v) Bought Machinery from Ms. Mini Rs. 3,00,000 (vi) Purchased land and building Rs. 5,00,000	(1)
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	(a) Only (ii) (b) Both (i) and (ii) (c) Both (ii) and (iii) (d) All of these Explanation: (i) Purchased goods from Mr. Senthil Rs. 2,00,000 is revenue nature/expenses and remaining two are capital nature / expenses. (or) Which of the following is correct? (a) Sales = Cost of Goods Sold - Gross profit (b) Sales = Cost of Goods Sold + Gross profit (c) Sales = Gross profit - Cost of Goods Sold (d) Sales = Gross profit - Net Profit																					
27	When closing stock is given inside the Trail Balance, the treatment is _____ (a) Debit – Trading A/c (b) Credit – Trading A/c (c) Show only in Assets side of balance sheet (d) Show in Trading A/c Credit side and Balance sheet assets side Explanation: It implies that closing entry is already passed for it and it has been deducted from Purchases A/c.	(1)																				
28	Calculate closing stock. <table><tr><th>Particulars</th><th>Rs.</th><th>Particulars</th><th>Rs.</th></tr><tr><td>Purchase</td><td>80,000</td><td>Sales</td><td>1,00,000</td></tr><tr><td>Carriage Inwards</td><td>2,000</td><td>Carriage Outwards</td><td>5,000</td></tr><tr><td>Wages</td><td>5,000</td><td>Salaries</td><td>10,000</td></tr><tr><td>Gross Profit</td><td>3,000</td><td></td><td></td></tr></table> (a) Rs. 10,000 (b) Rs. 13,000 (c) Rs. 1,18,000 (d) Rs. 1,00,000 Working Note: =Sales – Purchase – Carriage Inwards – Wages – Gross Profit = Rs. 1,00,000 – Rs. 80,000 – Rs. 2,000 – Rs. 5,000 – Rs. 3,000 = Rs. 10,000	Particulars	Rs.	Particulars	Rs.	Purchase	80,000	Sales	1,00,000	Carriage Inwards	2,000	Carriage Outwards	5,000	Wages	5,000	Salaries	10,000	Gross Profit	3,000			(1)
Particulars	Rs.	Particulars	Rs.																			
Purchase	80,000	Sales	1,00,000																			
Carriage Inwards	2,000	Carriage Outwards	5,000																			
Wages	5,000	Salaries	10,000																			
Gross Profit	3,000																					
29	Assertion (A) : Though, statement of affairs shows the assets and liabilities, yet it is not a Balance Sheet.	(1)																				

Reason (R) : The amount shown in Statement of Affairs are not strictly the balances drawn from the accounts.

a) Both A and R are correct, and R is the correct explanation of A.

b) Both A and R are correct, but R is not the correct explanation of A.

c) A is correct but R is incorrect.

d) A is incorrect but R is correct.

(or)

Find the profit.

Particulars	Rs.
(v) Opening capital	2,00,000
(vi) Closing capital	3,00,000
(vii) Drawings	1,00,000
(viii) Additional Capital	2,00,000

(a) Rs.1,00,000 (b) Rs. 2,00,000 (c) Rs. 3,00,000 (d) Nil

30 ABC company provided the following information:

- Gross Profit: Rs. 500,000
- Selling and Distribution Expenses: Rs. 120,000
- Administrative Expenses: Rs. 80,000
- Other Operating Income: Rs. 30,000
- Loss on Sale of Asset: Rs. 15,000

Calculate the Operating Profit of ABC Company.

Solution:

Particulars	Amount (Rs.)
Gross Profit	5,00,000
Selling and Distribution Expenses	-1,20,000
Administrative Expenses	-80,000
Operating Expenses	-2,00,000
Operating Profit before Other Operating Income and Loss on Sale of Asset	3,00,000
Other Operating Income	30,000
Loss on Sale of Asset	-15,000
Operating Profit	3,15,000

31 On 1st October, 2023 Bought goods from Sathana & Co. for Rs. 2,00,000. Unfortunately, on 31st December, 2023, destroyed by fire Rs. 20,000 valuable goods. These goods already insured with AFC Insurance Co. and on 5th January, 2024 Rs. 15,000 claims admitted by AFC Insurance Co. Prepare journal entry for it.

Solution:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2024 Dec 31	Loss of Stock by Fire A/c Dr. To Purchase A/c (Loss of stock by fire)	-	20,000	20,000
2024 Jan 5	AFC Insurance Co. A/c Dr. P&L A/c Dr. To Loss of Stock by Fire A/c (AFC Insurance Co. admitted claim for Rs. 15,000)	- -	15,000 5,000	20,000

(or)

Debtors at the beginning of the year: Rs. 400,000

Bad debts written off during the year: Rs. 15,000

Provision for doubtful debts: 10% of debtors

Prepare journal entries for the above adjustments.

Solution:

Bad debts A/c Dr. 15,000 To Debtors 15,000 (1 ½ Marks)

P&L A/c Dr. 38,500 To Provision for doubtful debts A/c 38,500 (1 ½M)

32. Suresh's Trail Balance as on 31st March, 2021 gives the following information:

(4)

Heads of Accounts	L.F.	Dr. (Rs.)	Cr. (Rs.)
% Investment	-	2,00,000	-
Interest Received	-	-	5,000

Show how the above items would appear in the Profit and Loss Account and Balance Sheet.

Solution:

Profit and Loss A/c of Mr. Suresh				
for the year ended _____				
Dr.				Cr.
Particulars	Rs.	Particulars	Rs.	
		Interest	5,000	
		Add: Accrued Interest	15,000	20,000
Balance sheet of Mr. Suresh				
for the year ended _____				
Liabilities	Rs.	Assets	Rs.	Rs.
		Investment	2,00,000	
		Add: Accrued Interest	15,000	2,15,000

½ for each)

(or)

Palanisamy's Trail Balance give the following information:

Heads of Accounts	L.F.	Rs.	Rs.
Furniture	-	1,00,000	-
Building	-	2,00,000	-

Depreciation is provided @ 10% p.a. on the fixed assets.

Now how the above items would appear in the Profit and Loss Account and Balance Sheet.

Solution:

Profit and Loss A/c of Mr. Palanisamy's					
for the year ended _____					
Dr.					Cr.
Particulars	Rs.	Rs.	Particulars		Rs.
<u>Depreciation</u>					
Furniture -	10,000				
Building	20,000	30,000			
Balance sheet of Mr. Palanisamy's					
for the year ended _____					
Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Furniture	1,00,000	
			Less: Depreciation @10%	<u>-10,000</u>	90,000
			Building	2,00,000	
			Less: Depreciation @10%	<u>-20,000</u>	1,80,000

(1 ½ for each)

33 Following information is supplied to you by a shopkeeper:

(4)

Particulars	1st Apr, 2023	31st March, 2024
Cash	6,000	7,000
Sundry Debtors	68,000	64,000
Stock	59,000	87,000
Furniture	15,000	13,500
Sundry Creditors	20,000	18,000
Bills Payable	15,000	11,000

During the year, he withdrew Rs. 2,500 per month for domestic purposes. He also borrowed from a friend at 10% a sum of Rs. 30,000 on 31st December, 2023. He has not yet paid the interest. A provision of 5% on debtors for doubtful debts is to be made.

Ascertain the profit or loss made by him during the period.

Solution: (1+2+1)

Statement of Affairs as on 1st Apr 2023					
for the year ended _____					
Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry Creditors		20,000	Cash		6,000
Bills Payable		15,000	Sundry Debtors		68,000
Capital (Beginning)		1,13,000	Stock		59,000
			Furniture		15,000

		1,48,000			1,48,000
Statement of Affairs as on 31st March,2024					
for the year ended _____					
Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Sundry Creditors		18,000	Cash		7,000
Bills Payable		11,000	Sundry Debtors	64,000	
Loan	30,000		Less: Provision for doubtful debts	<u>3,200</u>	60800
Add: Outstanding Interest	<u>750</u>	30,750	Stock		87,000
Capital (End)		1,39,300	Furniture		13,500
		1,68,300			1,68,300
Statement of Profit and Loss					
As on 31 st Marc,2024					
Particulars	Rs.				
Capital (end)	1,12,500				
Add: Drawings	30000				
Adjusted capital	1,42,500				
Less: Capital (Beg.)	<u>113000</u>				
Profit	29,500				

34 From the following Trial Balance and other information, prepare Trading and Profit and Loss Account for the year ended 31st March, 2024 and Balance Sheet as at that date:

(6)

Particulars	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	3,50,000	-
Stock on 1st Apr, 2023	2,50,000	-
Cash in Hand	400	-
Cash at Bank	18,000	-
Plant and Machinery	2,00,000	-
Sundry Creditors	-	1,20,000
General Expenses	12,000	-
Sales	-	14,50,000
Salaries	25,000	-
Carriage Inwards	5,000	-
Rent	10,000	-
Bills Payable	-	80,000
Purchases	12,50,000	-
Discounts	11,000	-
Premises	4,00,000	-
Capital on 1st Apr, 2018	-	8,50,000
Insurance	1000	-
Commission Received	-	32,400
Total	25,32,400	25,32,400

Additional Information:

6. Closing stock Rs. 25,000
7. Provide bad debts Rs. 12,000 and create provision for doubtful debts @ 5%
8. Charge depreciation @ 10% on Plant and Machinery
9. There is prepaid insurance of Rs. 500
10. Outstanding rent Rs. 1,000

Solution:

Trading and Profit and Loss Account for the year ended 31st March, 2024					
Dr.					Cr.
Particulars	(Rs.)	(Rs.)	Particulars	(Rs.)	(Rs.)
To Opening Stock		2,50,000	By Sales		14,50,000
To Purchases		12,50,000	By Closing Stock		25,000
To Carriage Inwards		5,000	By Gross Loss (Transfer to P&L A/c)		30,000

		15,05,000			15,05,000
To Gross Loss		30,000	By Commission		32,400
To General Expenses		12,000	By Net Loss (Transfer to capital)		1,06,000
To Salaries		25,000			
To Bad Debts		12,000			
To Provision for Doubtful Debts		16,900			
To Depreciation on Plant & Machinery		20,000			
To Rent	10,000				
Add: Outstanding Rent	<u>1,000</u>	11,000			
To Insurance	1000				
Less: Prepaid Insurance	<u>-500</u>	500			
To Discounts		11,000			
		1,38,400			1,38,400

Balance Sheet for the year ended 31st March, 2024

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	8,50,000		Sundry Debtors	3,50,000	
Less: Net Loss	<u>1,06,000</u>	7,44,000	Less: Bad Debts	12,000	
Sundry Creditors		1,20,000	Less: Provision for Doubtful debts	<u>16,900</u>	3,21,100
Bills Payable		80,000	Closing Stock		25,000
			Cash in Hand		400
Outstanding Rent		1,000	Cash at Bank		18,000
			Plant and Machinery	2,00,000	
			Less: Depreciation	<u>20,000</u>	1,80,000
			Prepaid Insurance		500
			Premises		4,00,000
Total		9,45,000	Total		9,45,000

(or)

Trial Balance of Mr. X as on 31st March, 2024

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases	3,00,000	
Sales		3,60,000
Returns Inward	10,000	
Returns Outward		10,000
Carriage Inwards	2,000	
Salaries	55,000	
Rent	36,000	
Insurance	12,000	
Machinery	2,00,000	
Furniture	50,000	
Sundry Debtors	1,20,000	
Sundry Creditors		80,000
Capital		4,00,000
Cash in Hand	10,000	
Cash at Bank	25,000	

Drawings	30,000	
Total	8,50,000	8,50,000

Adjustments:

1. Closing Stock on 31st March, 2024 was Rs. 60,000.
2. Depreciation on Machinery @ 10%
3. Bad debts Rs. 3,000. Create a provision for doubtful debts @ 10% on debtors.
4. Goods costing Rs. 5,000 were taken by the proprietor for personal use.

Prepare Final account for the above.

Solution:**Trading and Profit and Loss Account for the year ended 31st March, 2024**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By Sales	3,60,000	
To Purchases	3,00,000		Less: Returns Inward	<u>10,000</u>	3,50,000
Less: Drawings	5,000		By Closing Stock		60,000
Less: Return Outwards	<u>10,000</u>	2,85,000			
To Carriage Inwards		2,000			
To Gross Profit		1,23,000			
		4,10,000			4,10,000
To Salaries		55,000	By Gross Profit		1,23,000
To Rent		36,000	By Net Loss		14,700
To Insurance		12,000			
To Depreciation on Machinery		20,000			
To Bad Debts		3,000			
To Provision for Doubtful Debts		11,700			
		1,37,700			1,37,700

Balance Sheet as at 31st March, 2024

Liabilities	Amount (Rs.)	Amount (Rs.)	Assets	Amount (Rs.)	Amount (Rs.)
Capital	4,00,000		Sundry Debtors	1,20,000	
Less: Drawings	-35,000		Less: Bad Debts	3,000	
Less: Net Loss	<u>-14,700</u>	3,50,300	Less: Doubtful debts	11,700	1,05,300
Sundry Creditors		80,000	Stock		60,000
			Cash in Hand		10,000
			Cash at Bank		25,000
			Machinery	2,00,000	
			Less: Depreciation	<u>20,000</u>	1,80,000
			Furniture		50,000
Total		4,30,300	Total		4,30,300

UNSOLVED SAMPLE PAPER QUESTION PAPER
SUBJECT: ACCOUNTANCY

2024-25

CLASS: XI TIME: 3 HRS M. MARKS: 80

General Information:

1. This question paper contains 34 questions. All Questions are compulsory.
2. This question paper is divided into two parts. Part A and B
3. Question Nos 1 to 16 and 26 to 29 carries 1 mark each.
4. Question Nos 17 to 20, 31 and 32 carries 3 mark each.
5. Question Nos 21,32 and 33 carries 4 mark each.
6. Question Nos 22 to 25 and 34 carries 6 mark each
7. There is no overall choice. However, an internal choice has been given provided in few questions in each of the parts.

PART-A
(FINANCIAL ACCOUNTING)

Q.NO	Questions	Marks
1.	Which a qualitative characteristic of accounting information is reflected when the accounting information is free from errors? a) Understand ability b) Relevance c) Comparability d) Reliability.	1
2.	Which of the following is not a business transaction? a) Bought furniture for personal use of ₹ 1,000 b) Bought furniture of ₹ 3,000 for business. c) Paid for salaries of employees ₹ 2,000 d) Paid rent for office building of ₹ 4,000 OR Which of the following is not an external user of financial statements? a) Owners b) Government c) Consumers d) Creditors	1
3.	Assertion: Accounting information refers to only events which are concerned with business firms Reason: Accounting information is presented in financial statements. a). (A) is correct but (R) is wrong b) Both(A) and(R) are correct, but (R) is not correct explanation of (A) c) (A) is incorrect but (R) is correct d) Both(A) and(R) are correct, and (R) is correct explanation of (A)	1
4.	Suspense account in the Trail balance will be entered in to the a) Manufacturing a/c b) P&L a/c c) Trading a/c d) Balance sheet	1
5	Which of the following errors will not affect the trail balance? a) Errors of complete omission b) Wrong balancing of a ledger a/c c) Compensating errors d) All of the above	1
6.	Which of the following equations is correct? (a) Assets+ Liabilities=Capital (b) Assets- Liabilities =Capital (c) Assets=Capital-Liabilities (d) Liabilities=Capital +Assets	1

7.	A concept that a business enterprise will not be sold or liquidated in near future is known as: a) Dual aspect b) Economic entity c) Matching d) Going concern or IFRS are based on a) Principles b) Rules c) Neither (a) or (b) d) Both a & b	1								
8	Match the items under A with the correct terms under B <table><tr><th>A</th><th>B</th></tr><tr><td>1.Assets having physical existence</td><td>a. Liability</td></tr><tr><td>2.Excess of total expenses over total revenue</td><td>b. Tangible assets</td></tr><tr><td>3.Amount owed by business to outsiders</td><td>C. Loss</td></tr></table> a)1-b, 2-c, 3-a b) 1-c, 2-b, 3-a c) 1-b, 2-a, 3-c d) 1-a, 2-c, 3-b	A	B	1.Assets having physical existence	a. Liability	2.Excess of total expenses over total revenue	b. Tangible assets	3.Amount owed by business to outsiders	C. Loss	1
A	B									
1.Assets having physical existence	a. Liability									
2.Excess of total expenses over total revenue	b. Tangible assets									
3.Amount owed by business to outsiders	C. Loss									
9.	On intra-state sale of goods, which of the following GST is Levied? a) IGST b) CGST c) SGST d) Both CGST and SGST Or According to the companies Act 2013, all the companies are required to maintain their accounts according to: a) Cash basis b) Accrual basis c) Either a or b d) Neither a or b	1								
10.	Which of the following is the first step of accounting? a) Summarising b) communicating information to users c)Identification of financial transactions and events d)analysis an interpretation of financial transactions	1								
11.	If a cheque dishonoured by bank, then it will be recorded in the cash book in: a) credit side of cash column b) debit side of cash column c) credit side of bank column d) debit side of cash column	1								
12.	Bank reconciliation statement is prepared a) To Know the payments made through cheques b) To know the errors in the cash book c) To compare the cash book with pass book and ascertaining the differences. d) To Know the receipts made through cheques Or Overdraft as per cash book is ₹10,000. Cheque deposited but not credited ₹ 2,500. Cheques issued but not encased ₹3,500. What is the balance as per pass book? a) Balance ₹9,000 b) Overdraft ₹ 9,000 c) Overdraft ₹11,000 d) Balance ₹11,000	1								
13.	Bank Reconciliation Statement prepared by a) creditors b) Debtors c) Bank d) Account holders	1								
14	Under diminishing balance method, depreciation is charged on _____of fixed assets. a) original cost b) Scrap value c) Market value d) Written down value	1								

15.	The term "Imprest System" is used in relation to a) Cash book b) Petty cash book c) Purchase book d) Sales book	1									
16.	Which of the following statements is correct? i) Depreciation is charge against profit. ii) Depreciation is provided in the books only when there is profit iii) Depreciation is a non- cash expense. iv) Depreciation is an appropriation of profit a) i, iii b) i, iv c) i, ii d) i, iii	1									
17.	Prepare Trail balance from the following information: Cash in hand ₹3,000, Stock ₹43,000, Goodwill ₹17,000, Capital ₹60,000, Creditors ₹ 20,000, Debtors ₹ 82,000, Sales ₹70,000, Bills receivable ₹ 5,000.	3									
18.	Distinguish between Provision and Reserve on the basis of a) Nature b) purpose iii) Effect on profit Or State briefly the necessity of providing depreciation. (Three points)	3									
19..	Show the effect of the following transactions on the accounting equation: (a) Started business with cash ₹ 50,000 (b) Salaries paid ₹ 2,000 (c) Wages Outstanding ₹ 200 (d) Rent paid in advance ₹ 150 Or Journalize the following transactions. a) Goods given as charity Rs 500 b) Loss of stock by fire Rs 1,000 c) Salaries due to staff Rs 15,000	3									
20.	Rectify the following errors. a) A payment of Ankit of ₹ 780 was recorded as 870 b) Sales return book under cast by ₹ 100 c) Purchase return book has been under cast by ₹ 500	3									
21.	Explain any four objectives of accounting. Or Explain in brief the following accounting concepts a) Dual aspect concept b) Revenue recognition concept c) Cost concept d) Business entity concept	4									
22.	From the following transactions, prepare a cash book with cash and bank columns: <table border="1" data-bbox="268 1839 1289 2007"> <thead> <tr> <th>Date</th><th>Transactions</th><th>Amount</th></tr> </thead> <tbody> <tr> <td>2024</td><td>Balance of cash in hand</td><td>24,000</td></tr> <tr> <td>Oct1</td><td>Bank</td><td>20,000</td></tr> </tbody> </table>	Date	Transactions	Amount	2024	Balance of cash in hand	24,000	Oct1	Bank	20,000	6
Date	Transactions	Amount									
2024	Balance of cash in hand	24,000									
Oct1	Bank	20,000									

23

6	Received cash from Rajeev 1,000 and allowed discount 30	
10	Paid into bank	2,000
15	Paid to karan by cheque 320 in full settlement of his account for 350	
18	Received cash from sales and by cheque	275 350
20	Purchases by cheque	645
25	Paid by cheque of Sagar 725 in full settlement of 800	
28	Drew from bank for office use and Personal use	900 100

6

24

On 31st Dec. 2022 the Cash Book on Jain works showed an overdraft of ₹5,600 from the following particulars make out a bank reconciliation statement.

(a) Cheque drawn but not cashed before 31st Dec. 2022 amounted to ₹3,946.

(b) Cheque paid into bank but not collected and credited before 31st December amount to ₹4,891.

(c) A bill received for ₹520 previously discounted with the bank had been dishonoured and debited in the pass book.

(d) Bank charges debited in the pass book amounted to ₹55.

(e) Debit is made in the pass book for ₹120 on account of interest on overdraft.

(f) The bank has collected interest on investment and credited ₹760 in the pass book.

6

25

Prepare proper subsidiary books from the following transactions.

Date	Particulars
2024 Jan 1	Purchased from Ambika traders: 10 dozen note books @ ₹120 per dozen 32 Registers @ ₹25 per register Trade discount @10% CGST and SGST @6 % each
5	Sold to Raman stationery 40 dozen pen @ ₹50 per dozen 20 dozen pencils @ ₹50 per dozen Trade discount @10% CGST and SGST @6 % each

6

Kanitkar had purchased a machinery for ₹1,00,000 on 1st October, 2016. Another machine was purchased for ₹60,000 by cheque on 1st April, 2018. Depreciation is charged @ 10% p.a. by the Straight-Line Method. Accounts are closed every year

26.	on 31st March. You are required to prepare machinery account and Depreciation a/c for the year ending march, 2017, 2018, and 2019 Or On 1st October, 2015, Ram & Bros. purchased a second-hand machine for ₹1,80,000 and spent ₹20,000 on its repair and installation. On 30th September, 2018, the machinery was sold for ₹1,40,000 and an amount of ₹4,000 was paid as dismantling charges. The books are closed on 31st March every year and depreciation is charged @ 10% p.a. on the written down value. Show Machinery Account from the date of purchase of machinery till the date of sale of machinery.	1
27.	Part-B Financial Accounting-II Trade Expenses are shown in a) Balance sheet b) Trading a/c c) P& L a/c d) None of these or Salaries and wages is shown in a) P& L a/c b) Trading a/c c) Balance sheet d) None of these Choose the correct chronological order of ascertainment of the following profits from the trading and profit and loss account; a) Operating profit, Net profit, Gross profit b) Operating profit, Gross profit, Net profit c) Gross profit, Operating profit, Net profit d) Gross profit, Net profit, Operating profit or Opening stock ₹70,000, Closing stock ₹25,000, purchases ₹90,000 and gross profit is 10% of sales. The gross profit is : a)18,500 b)15,000 c) 20,0000 d) 13,500	1
28.	Profit= Capital at the end +? -Capital introduced-Capital in the beginning a) Sales b) Drawings c) Purchases d) None of these.	1
29.	If opening capital 55,000, Closing capital 90,000, Drawings 12,000, capital introduces during the year 7,000. Calculate profit or loss. a)35,000 b) 40,000 c) 45,000 d) 30,000	3

31	From the following balances information Calculate a. Gross profit b. Operating profit Opening Stock Rs 50,000, Net Sales Rs 11, 00,000, Direct expenses Rs 60,000, Net Purchases Rs 6,00,000 Administrative expenses Rs 45,000, Selling and distribution expenses Rs 65,000, Loss due to fire Rs 20,000, Closing stock Rs 70,000	3								
32..	Calculate gross profit and cost of goods sold from the following information: Opening stock Rs 25,000, Credit purchases Rs 7, 50,000, Cash purchases Rs 3,00,000, Credit sales Rs 12,00,000 Cash sales Rs 4,00,000 , Wages Rs 1,00,000 , Salaries Rs 1,40,000, Closing stock Rs 30,000 , Sales return Rs 50,000, Purchase return Rs 10,000	4								
33.	Distinguish between Balance sheet and Statement of affairs (any four).	4								
34.	Manish started business with capital of ₹ 3,00,000 on 1st January, 2023. During the year, He sold his private car ₹70,000 and invested this amount into business. He withdrew from the business ₹1,000 p.m. up to 31st July and thereafter, ₹ 1,500 p.m. as drawings. If capital at the end is ₹4,20, 000. Prepare statement of profit or loss for the year ending 31st 2023. The following Balances have been extracted from the trial Balance of M/s, Rahul & Sons. You are required to prepare the Trading and Profit & loss account and Balance sheet as on December 31,2022 from the particulars. <table><tr><td>Account Title</td><td>Amount (₹)</td><td>Account Title</td><td>Amount (₹)</td></tr><tr><td></td><td></td><td></td><td></td></tr></table>	Account Title	Amount (₹)	Account Title	Amount (₹)					6
Account Title	Amount (₹)	Account Title	Amount (₹)							

Opening stock	50,000	Sales	3,50,000
Purchases	1,25,500	Return outwards	2,500
Drawings	10,000	Creditors	25,000
Buildings	86,000	Bills Payable	1,71,700
Motor van	10,500	Interest	2,000
Return Inwards	2,000	Capital	3,00,000
Trade expenses	2,000	Rent	5,000
Power	3,900		
Salary and wages	5,400		
Bad debts	2,000		
Cash in hand	21,200		
Cash at bank	12,000		
Sundry debtors	32,500		
General Expenses	2,000		
Insurance	12,400		
Machinery	34,500		
Carriage	100		
Loan @15%	3,000		
(01.09.2022)	1,200		
Light & Water	3,20,000		
Freehold Land	1,20,000		
Patent			
	8,56,200		8,56,200

The following additional information is available:

1. Stock on Dec.31.2022 ₹ 40,000
2. Depreciation is to be charged on building @ 4% and Machinery @ 5% respectively.
3. Make Provisions of @ 5% on sundry debtors
4. Salary ₹ 500 and Trade expenses ₹ 300 due.

OR

From the following figures prepare Trading and Profit and Loss Account for the year ended 31st March, 2020.

Particulars	Amount ₹
Capital	86,800
Drawing	15,000
Investments	14,000
Cash	8,000
Rent and Insurance	3,000
Opening Stock	36,600
Purchases	1,86,000
Sales	3,05,000
Sales return	5,000
Wages	22,000
Carriage	4,200
Bad debts	700
Bad debts provision	2,100
Sundry debtors	40,400
Sundry creditors	25,700
Furniture	8,000
Plant and machinery	50,000

Salaries	11,000
Advertisement	4,400
Goodwill	6,000
Freight	6,300
Commission (Cr.)	1,000

Adjustments:

1. Stock on 31st march 2020 was Rs. 31,500
2. Salary and wages for March 2020 were unpaid.
3. Rent outstanding amounted to Rs. 600 and insurance unexpired amounted to Rs. 400.
4. Commission amounting to Rs. 200 has been received in advance.
5. Write off Rs. 400 as bad debts, create provision for doubtful debts at 5% on sundry debtors and provide 2% provision for discount on debtors and creditors.
6. Depreciate furniture and plant and machinery by 10%

FEW ANSWERS / HINTS FOR THE ABOVE UNSOLVED QUESTION PAPER:
PART - A

Q.. No

16-x 1= 16

1. d) Reliability.
2. a) Bought furniture for personal use of ₹ 1,000 or a) Owners
3. d) Both(A) and(R) are correct, and (R) is correct explanation of (A)
4. d) Balance sheet
5. a) Errors of complete omission
6. (b) Assets- Liabilities =Capital
7. d) Going concern
8. a)1-b, 2-c, 3-a b)
9. d) Both CGST and SGST or b) Accrual basis
10. c) Identification of financial transactions and events
11. a) credit side of cash column
12. c. To compare the cash book with pass book and ascertaining the differences
b) Overdraft ₹ 9,000
13. d) Account holders
14. d) Written down value
15. b) Petty cash book
16. a)i, iii
17. Total Trial balance 1,50,000
18. Three differences between Provision and Reserve on the basis of

3

i) Nature , ii) purpose and iii) Effect on profit **or** $3 \times 1 = 3$

Need for providing depreciation: (any 3)

- a) To ascertain the true profit or loss
- b) To show a true and fair view of the financial position
- c) To ascertain correct cost of production
- d) To meet the legal requirements

19. Accounting equation 48,000. **Or**

- a. Charity a/c Dr, To Purchase a/c 500 $3 \times 1 = 3$
- b) Loss of stock by fire a/c Dr, To Purchase a/c 1,000
- c) Salary a/c Dr, To salary outstanding 15,000

20. i) Cash a/c Dr ,To ankit a/c 90., $3 \times 1 = 3$
 ii) Sales return a/c Dr , To Suspense a/c 100,
 iii) Suspense a/c Dr, To Purchase return a/c 500

21. Objectives of accounting: $4 \times 1 = 4$

- a) To maintain systematic record of business transactions
- b) To ascertain of profit or loss
- c) To determine financial position
- d) To provide information to users
- e) To assist management.

Or

Explanation of four concepts.

22. Cash balance 24,175 Bank Balance 19,535 6

23. Overdraft balance as per pass book 6,480 $6 \times 1 = 6$

24. Purchase book $2000 - 200 = 1800 + 108 + 108 = 2016$ (3)

Sales book $3,000 - 300 = 2700 + 162 + 162 = 3,024$ (3)

25. Machinery a/c

March 2017 $95000 + 5000 = 1,00,000$ $4 + 2 = 6$

March 2018 $85000 + 1000 = 95,000$

March 2017 $75000 + 54,000 + 10,000 + 6,000 = 1,45,000$

Depreciation a/c :

March 2017 5000

March 2018 1000

March 2017 $10,000 + 6,000 = 16000$

Or

Machinery a/c

March 2016 $1,90,000 + 10,000 = 2,00,000$

March 2017 $1,71,000 + 19,000 = 1,90,000$

March 2018 $1,53,900 + 17,100 = 1,71,000$

Sept 2018 $1,36,000 + 17,900 = 1,53,900$

Part-B Financial Accounting-II

26. c) P& L a/c or a) P& L a/c 1
27. c) Gross profit, Operating profit, Net profit or b) 15,000 1
28. b) Drawings 1
29. b) 40,000 1
30. Gross profit 4,60,000 Operating profit 3,50,000 $1.5 \times 2 = 3$
31. Gross profit 4,15,000 Cost of goods sold 11,35,000 $1.5 \times 2 = 3$
32. Four (any) Differences between Balance sheet and statement of affairs $4 \times 1 = 4$
33. Profit $= 4,20,000 + 14,500(1,000 \times 7) + (1,500 \times 5) - 70,000 - 3,00,000 = 64,500$ $4 \times 1 = 4$
34. Gross profit 2,11,000, Net profit 1,85,560 Balance sheet 6,73,060, $2+2+2$
- OR
- Gross Profit 74,400 Net profit 48,554 $3+3$

=====

THE END