

1A ***ACCOUNTING FRAMEWORKS, PRINCIPLES, CONCEPTS AND CONVENTIONS***

THIS CHAPTER INCLUDES

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| <ul style="list-style-type: none">• Understanding of Four Frameworks of Accounting (Conceptual, Legal, Institutional and Regulatory) and Forms of Organizations | <ul style="list-style-type: none">• Accounting Principles, Concepts and Conventions |
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CHAPTER AT A GLANCE

Definition

As per the definition of American Institute of Certified Public Accountants- Accounting is “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 a financial character and interpreting the results thereof”.

Characteristics(attributes) of Accounting

- (i) Accounting records transactions and events which are of financial nature.
- (ii) Accounting is an art.
- (iii) It involves the following activities: recording, classifying and summarizing
- (iv) Accounting helps in determining the financial position of an enterprise by analysing and interpreting the summarized records

and communicating them to users.

- (v) Accounting information can be manipulated and thus cannot be considered as the true test of performance.
- (vi) It records transactions in terms of money.

Objectives of Accounting

- (i) Maintaining accounting records
- (ii) Ascertaining profit/loss of the enterprise
- (iii) Ascertaining the financial position of the enterprise
- (iv) Providing accounting information to the users.

Functions of Accounting

- (i) Maintaining systematic records
- (ii) Protecting and controlling business properties
- (iii) Ascertaining the operational profit/loss
- (iv) Ascertaining financial position
- (v) Facilitating rational decision making.

Advantages of Accounting

- (i) Provides financial information about the business to interested parties
- (ii) Helps in comparison of financial results
 - Comparison of its own results of different years
 - Comparison of financial results with other firms in the industry
- (iii) Helps in decision making
- (iv) Accounting information can be used as an evidence in legal & Taxation matter
- (v) Helps in valuation of the business
- (vi) Provide information to interested parties

Disadvantages (Limitations of Accounting)

- (i) Accounting ignores non monetary transactions

- (ii) Accounting information is sometimes based on estimates which may be unrealistic
- (iii) Window Dressing may lead to faulty results.
- (iv) Accounting ignores the effect of price level changes as the recordings are done at historical costs. Fixed assets recorded at historical cost.
- (v) Accounting information can be manipulated and thus can not be considered as the true test of performance. i.e. it may be biased. Money as measurement unit changes in value.
- (vi) Accounting Information may be biased. Accounting Information is not without personal influence or bias of accountant.

Book-Keeping

- Book keeping is a branch of knowledge that educates us how the financial records are maintained. Due to clerical in nature it is done by junior employees.
- It is concerned with recording financial data of the business in a significant and orderly manner.
- It is meant to show the effect of all the transactions made during the accounting period on the financial position of the business.
- Book keeping is a clerical work which covers procedural aspects of accounting work and includes record keeping function. It is science and art both.
- Book keeping is mechanical and repetitive.

Accounting Cycle

Steps/Phases of Accounting Cycle:

- (i) **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.
- (ii) **Journal:** The transactions are recorded in Journal chronologically.
- (iii) **Ledger:** All journals are posted into ledger chronologically and in a classified manner.
- (iv) **Trial Balance:** After taking all the ledger account closing balances,

a Trial Balance is prepared at the end of the period for the preparations of financial statements.

- (v) **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.
- (vi) **Adjusted Trial Balance:** An adjusted Trial Balance may also be prepared.
- (vii) **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.
- (viii) **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

Basis of Accounting

(i) Accrual Basis of Accounting

Accrual Basis of Accounting is a method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts for the period in which they accrue. This basis includes consideration relating to deferrals, allocations, depreciation and amortization. This basis is also referred to as mercantile basis of accounting.

(ii) Cash Basis of Accounting

Cash Basis of Accounting is a method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts for the period in which actual receipts or actual payments are made.

Accounting Principles

Generally Accepted Accounting Principles

A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board are called Generally Accepted Accounting Principles (GAAP). These are the common set of accounting principles, standards and procedures that companies use to compile their financial statements.

Accounting Concepts**1. Going Concern Concept**

- It is on this concept that a clear distinction made between assets and expenditure.
- This concept assumes that business shall continue for an indefinite period.
- The proprietor has no intention to close it in the near future and would be able to meet its obligations according to plan.
- Due to this concept :
 - (i) Assets are valued at cost and then depreciated every year.
 - (ii) Expenses and incomes are classified into capital and revenue.

2. Business Entity Concept

- According to this concept, business and its owners are separate entities.
- The owner is treated as the creditor of the company to the extent of capital contributed by him.
- All transactions of the business are recorded in the books of business from the point of view of business.
- This concept keeps the personal affairs of the owner away from the business affairs.
- Income or profit is the property of the business unless distributed among the owners.

3. Money Measurement Concept

- As per this concept, only those transactions which can be expressed in terms of money can be recorded.
- Transactions and events which cannot be expressed in terms of

money, even if they affect the business, are not recorded in the books.

- Income or profit is the property of the business unless distributed among the owners.

Example: Death of the director, disputes within the organisation, strikes, etc. may affect the working and profits of the business, but are not recorded in books of accounts.

- Measuring unit for money is the currency of the ruling country.

Note: Entity and money measurement are considered as the basic concepts on which other procedural concepts depend.

4. Cost concept

- According to this concept, the value at which the various assets shall be recorded in the books shall be the historical cost or acquisition cost.
- This concept says that the assets shall be recorded at cost at the time of its purchase and its value shall be reduced systematically by charging depreciation.
- This concept helps to keep the statements free from personal bias or judgements.
- This concept is not beneficial for new investors as they are more interested in knowing the present worth of the business rather than its historical cost.

5. Dual Aspect Concept

- According to this concept, every transaction has two aspects a debit aspect and a credit aspect.
- Due to these two aspects, the total amount debited is always equal to the total amount credited (i.e. total assets are equal to total liabilities)

Note: Concept of Accounting Equation :

Accounting equation is based on the dual aspect concept.

Assets: These are the resources owned by the business.

Liabilities: These are the claims against the assets.

Liability to owners — capital

Liability to outsiders — liabilities.

6. Realisation concept

- According to this concept, revenue is recognized only when sale is made.
- This concept says that any change in the value of an asset is to be recorded only when business realises it.
- This concept prevents business firms from inflating their profits by showing expected incomes. (which have not yet materialised)
- E.g. An increase in the value of asset cannot be considered as a profit until and unless the asset is sold and profit is realised.

Note : Going concern + Cost Concept + Realization Concept = Valuation criteria

7. Accrual concept

- It is fundamental to the usefulness of financial accounting information.
- According to this concept, a transaction should be recorded at the time when it takes place and not when the cash is realised.
- Every transaction and event effects, one or more or all the three aspects, assets, liabilities and capital.
- They have their impact on both the profit & loss A/c and Balance Sheet.
- This concept implies that income should be measured as a difference between revenue and expenditure.

8. Accounting Period Concept

- This is also known as the concept of periodicity.
- According to this principle, the life of an enterprise is broken into smaller periods (generally one year) known as accounting period.
- The main objective of this concept is to know the performance of the enterprise at regular intervals.
- Accounting period is an interval of time at the end of which the income or revenue statement and balance sheet are prepared in order to show the results of the operations.

9. Matching concept/ Revenue match concept

- Based on accounting period concept
- As per this concept, expenses of a period should be matched with the revenues of that period.
- It says, the cost incurred to earn the revenue should be recognized as expenses in the period when revenue is recognized.
- Matching principle requires that all revenues earned during an accounting year, whether received or not and all cost incurred, whether paid or not, have to be taken into account while preparing Profit/Loss Account. In the same manner all amounts received or paid during the current year but pertaining to the previous year or the next year should be excluded from current year's revenue and cost.
- The term matching means appropriate association of related revenues and expenses.

Accounting Conventions**1. Consistency**

- According to this convention, accounting practices once selected and adopted should be applied consistently year after year.
- This convention helps in comparison of financial statements.
- Consistency does not mean that accounting principles once adopted can never be changed. They can be changed, if the change is desirable.

Example: If a company follows written down value method of depreciation, it shall continue to follow year after year.

2. Disclosure

- This is also known as the "Full disclosure" principle.
- According to this convention, all significant information should be fully and fairly disclosed in the financial statements.
- Ensuring this convention increases the relevance and reliability of financial statements. The companies act make ample provision for disclosure of essential information.

3. Conservatism

- The concept of conservatism states that we should not anticipate a profit but should provide for all possible losses while preparing financial statements.
- It enables the financial statements to show a realistic picture of the state of affairs of the enterprise.
- This convention understates the assets and overestimates the liabilities.
- Financial statement are usually drawn up on a conservative basis.
- Choice between two method of valuing an asset the accountant should choose a method which leads to lesser value.

Example: Valuing stock at lower of cost or market value, making provision for doubtful debts in anticipation of debts becoming bad, are done to comply with the convention of conservatism.

4. Materiality

- According to the convention of materiality, accountant should record only those items which are material and ignore all insignificant items.
- An item is said to be material if it is likely to influence the decision of the users. (like investors etc.)
- Judgement of materiality depends from organisation to organisation and on the basis of professional experience and judgement.

OBJECTIVE QUESTIONS

2009 - June [1] (b) Fill in the blanks :

- (iii) The _____ discount is never entered in the books of accounts.

(1 mark)

Answer:

- (iii) Trade

2009 - Dec [1] (b) Fill in the blanks:

- (ii) Effects of an event must be recognised in the same accounting period in which they are entered as per _____ concept. (1 mark)

Answer:

- (ii) Matching

2010 - June [1] (b) Fill up the banks:

- (i) Debtor is a person who _____ money to the business.
(ii) Every debit has a _____ credit. (1 × 2 = 2 marks)

Answer:

- (i) Owes
(ii) Corresponding

2010 - Dec [1] (c) State the reasons whether the following statements are True or False:

(No marks shall be awarded if reason is not given)

- (i) Prudence is a concept to recognize realized losses and not profits.
(vii) Contingent liability is an unascertained liability but its amount and due date are determinate. (2 × 2 = 4 marks)

Answer:

- (i) **False:** Prudence is a concept to recognize anticipated losses but not anticipated profits.
(vii) **False:** Contingent liability is an unascertained liability and its amount and due date are indeterminate.

2010 - Dec [2] (a) Give one word or phrase that describe the following:

- (i) Making provision for doubtful debts is an application of which Accounting Principle?
(ii) Accounting of a small calculator as an expense and not as an asset is an application of which Accounting Principle?
(iii) Appending notes to the financial statements is an application of which Accounting Principle? (½ × 3 = 1.5 marks)

Answer:

- (i) Prudence
(ii) Materiality

(iii) Full Disclosure

2011 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

- (i) The convention that states that the accounting practice should be followed consistently over the years
- (a) Consistency
 - (b) Conservation
 - (c) Materiality
 - (d) Disclosure
- (viii) Claims against the company not acknowledged as debts are
- (a) Contingent liability
 - (b) Current liability
 - (c) Secured loan
 - (d) Unsecured loan

(1 × 2 = 2 marks)

(b) Fill in the blanks:

- (vi) According to _____ concept all the personal income and expenditure of the owner of a business should be separated from business income and expenditures.

(1 mark)

Answer:

- (a)** (i) **(a)** The consistency
(viii) **(a)** Contingent liability
(b) (vi) Separate Entity

2011 - Dec [1] (c) State with reasons whether the following statement is True or False:

- (v) Capital is treated as internal liability.

(2 marks)

Answer:

True: AS it is the contribution by the owners of company.

2012 - June [1] (b) Fill in the blanks :

- (ii) Closing stock is valued at cost or net realizable value, whichever is less, is based on _____ concept.
(iii) The _____ discount is never entered in the books of accounts.

(1 × 2 = 2 marks)

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(c) State with reasons whether the following statement is True or False:

(ii) Prudence is the concept to anticipate and recognize losses.

(2 marks)

Answer:

(b) (ii) Conservatism

(iii) Trade

(c) (ii) **True:** Profits are not anticipated but losses are provided as a matter of conservatism. The exercise of prudence in selection of accounting policies is to ensure that (i) profits and assets are not overstated (ii) losses and liabilities are not understated.

2012 - June [5] (a) In each of the following one of the alternatives is correct, indicate the correct one :

(i) Which method of costing is used for determination of costs for printing industry?

(a) Process Costing

(b) Operating Costing

(c) Batch Costing

(d) Job Costing

(1 mark)

Answer:

(d) Job Costing

2012 - Dec [1] (c) State whether the following statements are 'True' or 'False':

(v) A sale is recognised when goods are sent to customer.

(vii) A business transaction is always recorded in terms of money.

(1 × 2 = 2 marks)

Answer:

(v) False

(vii) True

QUESTIONS AND ANSWERS OF SEPTEMBER 2014

1. Which of the following concepts, if violated, would make comparison of financial statements over a period of time difficult?
- (a) Cost concept
 - (b) Consistency concept
 - (c) Accounting period concept
 - (d) Accrual concept
- (1 mark)**

Answer: (b)

2. Conservatism concept does not require
- (a) Making provision for doubtful debts
 - (b) Valuing stock at lower of cost or net realisable value
 - (c) Creating provision for discount on creditors
 - (d) Making provision for an unfavourable legal suit
- (1 mark)**

Answer: (c)

3. As per duality concept or accounting equivalence concept, which of the following is correct?
- (a) All increase in liabilities and increase in assets represent sources of funds
 - (b) All decrease in liabilities and decrease in assets represent sources of funds
 - (c) All increase in liabilities and decrease in assets represent sources of funds
 - (d) All increase in liabilities and increase in assets represent uses of funds
- (1 mark)**

Answer: (c)

QUESTIONS AND ANSWERS OF DECEMBER 2014

1. This is more of a convention than a concept, it proposes that while accounting for various transactions, only those which may have material

effect on profitability or financial status of the business should have special consideration for reporting, this concept is known as

- (a) Concept of Consistency
- (b) Concept of Conservation
- (c) Concept of Materiality
- (d) Concept of Disclosure

(1 mark)

Answer: (c)

2. Recording of Fixed Assets at cost ensures adherence of

- (a) Conservatism Concept
- (b) Going Concern Concept
- (c) Cost Concept
- (d) Both (a) and (b) above

(1 mark)

Answer: (c)

QUESTIONS AND ANSWERS OF MARCH 2015

1. Human resources will not appear in the balance sheet according to _____ concept.

- (a) Accrual
- (b) Going concern
- (c) Money measurement concept
- (d) None

(1 mark)

Answer: (c)

2. The ____ concept means that similar items in a set of accounts should be given similar accounting treatment and it should be applied from one period to another.

- (a) Going Concern
- (b) Prudence
- (c) Consistency
- (d) Materiality

(1 mark)

Answer: (c)

3. 'A Limited' purchased goods of ₹ 10,00,000, and sold 90% of goods and remaining goods market value is ₹ 90,000, and closing stock is 10%, but he recorded ₹ 90,000 and not ₹ 1,00,000. Which concept does he follows:

- (a) Materiality concept
- (b) Cost concept
- (c) Entity concept
- (d) Conservatism concept

(1 mark)

Answer: (d)

QUESTIONS AND ANSWERS OF JUNE 2015

1. Omission of Paise and showing the round figures in financial statements is based on:
- (a) Conservatism Concept
 - (b) Consistency Concept
 - (c) Materiality Concept
 - (d) Realization Concept.

(1 mark)

Answer: (c)

QUESTIONS AND ANSWERS OF SEPTEMBER 2015

1. Assets are held in the business for the purpose of:
- (a) Re-sale
 - (b) Conversion into cash
 - (c) Earning reverse
 - (d) None of the above.
2. It is essential to standardize the accounting principles and policies in order to insure:
- (a) Transparency
 - (b) Consistency
 - (c) Comparability
 - (d) All of the above.

(1 mark)

Answer: (c)

(1 mark)

Answer: (d)

3. In the financial statement, contingent liability is:
- (a) Recognized
 - (b) Not Recognized

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- (c) Adjusted
(d) None of the above. (1 mark)

Answer: (b)

QUESTIONS AND ANSWERS OF DECEMBER 2015

1. Rohan purchased goods for ₹ 25,00,000 and sold $\frac{4}{5}$ th of the goods amounting ₹ 18,00,000 and met expenses amounting ₹ 2,50,000 during the year, 2013. He counted net profit as ₹ 3,50,000 which accounting concept was followed by him?
(a) Entity
(b) Periodicity
(c) Matching
(d) Conservation. (1 mark)
Answer: (c)
2. The determination of expenses for an accounting period is based on the principle of:
(a) Objectivity (b) Materiality
(c) Matching (d) Periodicity. (1 mark)
Answer: (c)
3. The concepts of Conservation in balance sheet results in:
(a) Increase in Cash
(b) Decrease in Cash
(c) Decrease in assets
(d) No change in assets. (1 mark)
Answer: (a)

QUESTIONS AND ANSWERS OF MARCH 2016

1. If the going concern concept is no longer valid, which of the following is true?
(a) All prepaid assets would be completely written-off immediately.

- (b) Total contributed capital and retained earnings would remain unchanged.
- (c) Intangible assets would continue to be carried at net amortized historical cost.
- (d) Land held as an investment would be valued at its realizable value.

(1 mark)

Answer : (d)

2. Under which of the following concepts are shareholders created as creditors for the amount they paid on the shares they subscribed to ?
- (a) Cost concept
 - (b) Duality concept
 - (c) Business entity concept
 - (d) Since the shareholders own the business, they are not treated as creditors.

(1 mark)

Answer : (c)

3. Which of the following is not a contingent liability ?
- (a) Claims against the company not acknowledged as debts
 - (b) Debts included on debtors which are doubtful in nature
 - (c) Uncalled liability on partly paid shares
 - (d) Arrears of cumulative fixed dividends.

(1 mark)

Answer : (b)

4. Which of the following is not a contingent liability:
- (a) Debts included in sundry debtors which are doubtful in nature
 - (b) Uncalled liability on partly paid shares
 - (c) Claims against the company not acknowledged as debts
 - (d) Arrears of fixed cumulative dividend.

(1 mark)

Answer : (a)

5. The concept of conservatism will have the effect off:
- (a) Overstatement of Assets
 - (b) Understatement of Assets
 - (c) Overstatement of Liabilities
 - (d) Understatement of Liabilities.

(1 mark)

Answer : (b)

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QUESTIONS AND ANSWERS OF JUNE 2016

1. Recording of Fixed Assets at cost ensure adherence of:
- (a) Conservatism concept
 - (b) Going concern concept
 - (c) Cost concept
 - (d) Both (a) and (b) above. **(1 mark)**
- Answer:** (c)
2. Accounting is a / an _____. **(1 mark)**
- (a) Science
 - (b) Art
 - (c) Subject matter of sociology
 - (d) Subject matter philosophy. **(1 mark)**
- Answer:** (b)

QUESTIONS AND ANSWERS OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:
- (iv) Accounting does not record non-financial transactions because of _____. **(1 mark)**
- (a) entity concept
 - (b) accrual concept
 - (c) measurement concept
 - (d) going concept
- Answer:**
(c) measurement concept
2. State whether the following statement is True or False:
- (i) "Going concern concept" means that the business is assumed to exist for an indefinite period. **(1 mark)**
- Answer:**
(i) True
4. Fill in the blanks:

- (i) Cash discount is allowed to encourage prompt payment by the _____.
- (ii) Closing stock is valued at cost or net realisable value, whichever is less. This is based on _____ concept in accounting.
- (iv) _____ is to be disclosed by way of a note to the financial statements. **(1 × 3 = 3 marks)**

Answer:

- (i) Debtors
- (ii) Conservatism
- (iv) Contingent liability

QUESTIONS AND ANSWERS OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives:
- (i) The determination of expenses for an accounting period is based on the concept of
 - (a) Objectivity
 - (b) Materiality
 - (c) Matching
 - (d) Periodicity **(1 mark)**
 - (ii) Decrease in the amount of creditors results in
 - (a) increase in cash
 - (b) decrease in cash
 - (c) increase in assets
 - (d) no change in assets **(1 mark)**
 - (iii) Accounting does not record non-financial transactions because of
 - (a) Entity Concept
 - (b) Accrual Concept
 - (c) Cost Concept
 - (d) Money Measurement Concept **(1 mark)**
 - (iv) Income tax of the sole trader paid is shown
 - (a) Debited to P & L Account

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- (b) Debited to Trading Account
- (c) Debited to his Capital Account
- (d) None of the above

(1 mark)

Answer:

- (a) (i) (c)
- (ii) (b)
- (iii) (d)
- (iv) (c)

(b) State whether the following statements are True or False:

- (i) Capital is equal to Asset - Liability.
- (vii) Fixed assets are kept in the business for use over a longer period.
- (viii) Ownership expressed in terms of money called Capital Account.

(1 mark each)

Answer:

- (i) True
- (vii) True
- (viii) True

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.
- (i) Which one of the following character is not related to Financial Accounting?
 - (a) Evaluates the financial strength of the whole business.
 - (b) Based on monetary transactions of the enterprise.
 - (c) Reports are always subject to statutory audit.
 - (d) Reports are as per requirement of management.
 - (ii) Which one of the following equation is correct?
 - (a) Owner's Equity = Liability + Asset
 - (b) Owner's Equity = Asset – Liability
 - (c) Liability = Owner's Equity + Asset
 - (d) Asset = Owner's Equity – Liability

(xxii) Fixed Assets and Current Assets are categorized as per concept of

- (a) Separate Entity
- (b) Going Concern
- (c) Consistency
- (d) Time period

(1 mark each)

Answer:

- (i) (d) Reports are as per requirement of management
- (ii) (b) Owner's Equity = Asset – Liability
- (xxii) (b) Going Concern.

QUESTIONS AND ANSWERS OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:

- (i) Accounting does not record non-financial transactions because of
 - (a) Entity concept
 - (b) Accrual concept
 - (c) Cost concept
 - (d) Money measurement concept

(1 mark)

Answer:

- (i) (a)

1. (b) State whether the following statements are *True or False*:

- (i) Accounting is an art of record keeping. (1 mark)
- (ii) Window dressing of accounts means showing more profits to attract more investment. (1 mark)
- (v) It is generally assumed that the business will not liquidate in near forcible future because of business entity concept. (1 mark)
- (vii) Trade discount is allowed for prompt payment. (1 mark)

Answer:

- (i) True
- (ii) True
- (v) False
- (vii) False

QUESTIONS AND ANSWERS OF DECEMBER 2018

1. (a) Choose the correct answer from the given *four* alternatives:
- (x) The valuation procedure for stock is cost or net realisable value, whichever is lower. The procedure follows as per
 - (a) Historical Cost Concept
 - (b) Going Concern Concept
 - (c) Money Measurement Concept
 - (d) Conservatism Concept
 - (xi) When incomes recognised on cash basis and expenditure recognised on accrual basis, the system termed as
 - (a) Accrual basis of accounting
 - (b) Cash basis of accounting
 - (c) Mercantile basis of accounting
 - (d) Hybrid basis of accounting
 - (xiv) Profit and loss account is prepared for a period of one year by following the concept of
 - (a) Consistency Concept
 - (b) Cost Concept
 - (c) Going Concern Concept
 - (d) Periodicity Concept
 - (xxii) _____ is not objective of accounting.
 - (a) Gives accurate information
 - (b) Keeps records in systematic manner
 - (c) Analyses recorded data
 - (d) Ascertain financial position of business
 - (xxviii) Accounting cycle ends with preparation of _____.
 - (a) the journal/ledger
 - (b) the trial balance
 - (c) the financial statement
 - (d) the closing entries record

Answer:

- (x) (d) The Conservatism Concept

- (xi) (d) Hybrid basis of accounting basis of accounting
- (xiv) (d) Periodicity
- (xxii) (a) Giving accurate information
- (xxviii) (d) The Closing Entries record
- (b) State whether the following statements are *True or False*:
 - (xi) Ownership expressed in terms of money is called Capital Account.

Answer:

- (xi) True

QUESTIONS AND ANSWERS OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:
- (ii) Provision for bad debt is made as per the
 - (a) Entity Concept
 - (b) Conservatism Concept
 - (c) Cost Concept
 - (d) Going Concern Concept
 - (x) Which financial statement represents the accounting equation as—
 $Assets = Liabilities + Owner's\ equity?$
 - (a) Income Statement
 - (b) Statement of Cash Flows
 - (c) Balance Sheet
 - (d) Either (a) or (b)
- (1×2 = 2 marks)**

Answer:

- (ii) (b) Conservatism Concept
- (x) (c) Balance Sheet

(b) State whether the following statements are True or False:

- (i) It is generally assumed that the business will not liquidate in the near forcible future because of entity concept. **(1 mark)**

Answer:

- (i) False

QUESTIONS AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
- (xvi) Trade discount is allowed at the time of sale of goods
 - (a) is recorded in sales book.
 - (b) is recorded in cash book.
 - (c) is not recorded in books of accounts.
 - (d) is recorded in journal.
 - (xvii) A debit note issued to a creditor for goods returned is to be recorded in the
 - (a) Purchase return book
 - (b) Journal proper
 - (c) Purchase book
 - (d) Bill receivable book
 - (xviii) The determination of expenses for an accounting period is based on the concept of
 - (a) Consistency concept
 - (b) Periodicity concept
 - (c) Timeliness concept
 - (d) Industry practice
 - (xix) Decrease in the amount of creditors results in
 - (a) Increase in assets
 - (b) Increase in cash
 - (c) Decrease in cash
 - (d) No change in assets
 - (xxi) Which of the following is an accounting equation?
 - (a) $\text{Capital} = \text{Assets} + \text{Liabilities}$
 - (b) $\text{Capital} = \text{Assets} - \text{Liabilities}$
 - (c) $\text{Assets} = \text{Liabilities} - \text{Capital}$
 - (d) $\text{Liabilities} = \text{Assets} + \text{Capital}$
- (1 × 5 = 5 marks)**

Answer:

(xvi) (c)

(xvii) (a)

(xviii) (b)

(xix) (d)

(xxi) (b)

(b) State whether the following statements are 'True' or 'False':

- (i) The policy of 'anticipate no profit and provide for all probable losses' arises due to the convention of conservatism.

(1 mark)

Answer:

(i) True

QUESTIONS AND ANSWERS OF DECEMBER 2022

1. Prepaid insurance premium account is _____

- (a) Tangible assets account
- (b) Liability account
- (c) Nominal account
- (d) Representative personal account

Answer:

(d) Representative personal account

2. A determination of expenses for an accounting period is based on the principle of

- (a) Objectivity
- (b) Morality
- (c) Matching
- (d) Pricing

Answer:

(c) Matching

3. Long term assets without any physical existence but, having a value are known as:

- (a) Investments
- (b) Current assets
- (c) Intangible asset
- (d) Fixed assets

Answer:

- (c) Intangible asset
- 4. Provision for bad debt is made as per the
 - (a) Entity concept
 - (b) Conservatism Concept
 - (c) Cost Concept
 - (d) Going Concern Concept

Answer:

- (b) Conservatism Concept
- 5. Income tax of the sole trader paid is
 - (a) Debited to P & L Account
 - (b) Debited to Trading Account
 - (c) None
 - (d) Debited to his Capital Account

Answer:

- (d) Debited to his Capital Account
- 6. Narration are given of the end of
 - (a) Final accounts
 - (b) Trial balance each ledger account
 - (c) Each journal entry
 - (d) Each ledger accounts

Answer:

- (c) Each journal entry
- 7. Which of the following is an example of Personal Account?
 - (a) Machinery
 - (b) Creditor
 - (c) Cash
 - (d) Rent

Answer:

- (b) Creditor

DESCRIPTIVE QUESTIONS

2012 - June [3] (c) Recognize the accounting concept in the following :

- (i) The transactions are recorded at their original cost.
- (ii) The business will run for an indefinite period.
- (iii) Every transaction has two effects to be recorded in the books of accounts.
- (iv) Accounting treatment once decided should be followed period after period. (1 × 4 = 4 marks)

Answer :

Accounting Concept:

- (i) Historical Cost concept
- (ii) Going Concern concept
- (iii) Dual aspect concept
- (iv) Consistency concept

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

SHORT NOTES

Q.1. Write short note on :

Going concern concept

Answer :

Going Concern Concept : This is the basic accounting concept anticipating the activities of the business entity will operate for the foreseeable future. This is also based on the basic hope of the business to continue and prosper in the years of its existence. On the basis of this concept assets and liabilities are accounted for on historical cost basis and not at market value on disposal. The Companies Act now requires the directors to prepare the accounts based on this concept and to report the same in their directors responsibility statement.

Q.2. Write short note on :

Historical cost concept

Answer :

Historical cost refers to the cost at time of acquisition. Historical cost forms the basis of many accounting valuations. This concept is an idea about the basis on which assets should be valued in the account that was paid for them. In other words, an asset is ordinarily recorded at its cost and this cost becomes the basis for subsequent accounting for that asset. This concept provides uniformity in accounting records under conditions of stable prices. But, under conditions of inflation, there will be an overstatement of the net profit.

DESCRIPTIVE QUESTIONS

Q.1. Discuss in brief any four concepts of Accounting.

Answer :

Concepts of accounting :

- (i) **Going concern concept:** The accounts are prepared on the basis that the business of an enterprise is to continue for a long time and as such the assets other than current assets are valued at historical cost and not at their realisable value.
- (ii) **Consistency concept:** The accounting treatment of like items is consistently applied from one period to subsequent periods.
- (iii) **Accrual concept:** Income and expenses are recorded in the books as and when they are earned or incurred without considering the time of actual receipt or payments.
- (iv) **Prudence concept:** A business should not take into cognisance of any income or profit till there is reasonable certainty, but should provide on anticipation of a loss fully irrespective of their difference in time of actual happening of such loss.
- (v) **Dual aspect concept:** Every transaction entered has a double effect while entries are recorded in the accounts.

- (vi) **Money measurement concept:** An event is recorded on money terms and not based on many other economic factors.
- (vii) **Realisation concept:** Profits and gains are recognised only when there is a legal right to receive them.
- (viii) **Business Entity concept:** Business activities would be separated from personal activity of a businessman.

1B

CAPITAL AND REVENUE TRANSACTIONS

THIS CHAPTER INCLUDES

- | | |
|---|-----------------------------------|
| • Capital and Revenue Transactions-
Capital and Revenue Expenditures | • Capital and Revenue
Receipts |
|---|-----------------------------------|

CHAPTER AT A GLANCE

Capital Expenditure

- An expenditure which provides long term benefit to the business is known as a capital expenditure.
- **Features of Capital Expenditure:**
 - (i) Such expenditure results in an increase in earning capacity of business.
 - (ii) It normally yields benefit over a period extending beyond the accounting period.
 - (iii) It is of a non recurring nature.
 - (iv) It involves a fairly large amount.
- Generally the following expenditures are considered as capital expenditures:
 - (i) Acquisition of an asset not for the purpose of resale.
 - (ii) All sums spent to the point an asset is ready for use (e.g.- erection of fixed asset etc).
 - (iii) Expenditure for extension or improvement of fixed asset.
 - (iv) Expenditure incurred to acquire the right to carry on the business [e.g- license etc.)
 - (v) Any other expenditure which procures benefit over several years.

- **Treatment of Capital Expenditure:**

Capital Expenditures lead to a creation of an asset and hence, are shown in the Balance Sheet.

Revenue Expenditure

- Amount spent for running a business is called revenue expenditure.
- **Features of Revenue Expenditure:**
 - (i) Revenue expenditure gives the benefit only for that accounting year in which it is incurred.
 - (ii) It generally involves a small amount.
 - (iii) This expenditure is done to maintain the earning capacity of the business.
 - (iv) It is of a recurring nature (i.e. occurring again and again).
 - (v) It is the expenditure incurred to meet the day to day expenses of the business.
- **Generally the following expenditures constitute revenue expenditure:**
 - (i) Expenses incurred for running the business (like salaries, wages, power etc).
 - (ii) Expenditure for maintaining the fixed assets.
 - (iii) Expenditure incurred for purchase of material and stock.
 - (iv) Charging depreciation on fixed asset.
- **Treatment of Revenue Expenditure:**

These are treated as an expense of regular nature and hence, debited to the Profit/Loss A/c of the year in which it is incurred.

Deferred Revenue Expenditure

- There are certain revenue expenditures whose benefit extends to more than one accounting year. Such expenditures are known as deferred revenue expenditures.
- **Features of Deferred Revenue Expenditures:**
 - (i) It is a type of or a part of revenue expenditure.
 - (ii) It is of a non recurring nature.

- (iii) Deferred Revenue Expenditure is to be written off during the years in which its benefits is to be received.
- (iv) The unwritten portion of deferred revenue expenditure is shown on the asset side of Balance Sheet.
- The following expenditures are considered as deferred revenue expenditure:
 - (i) Large expenses on advertising on introducing a new product.
 - (ii) Cost incurred on experiments, researches.
 - (iii) Amount representing loss of an exceptional nature e.g.- property confiscated in a foreign country, loss on uninsured assets etc.

Receipts

- Amount received in a business is termed as the receipt of the business.
 - Same as in case of expenditure, the treatment of receipt depends upon its nature.
 - Based on nature, receipts can be classified as - Revenue Receipts and Capital Receipts.
- 1. Capital Receipts:**
- Receipts of a capital nature are termed as capital receipts.
 - The following receipts are considered as capital receipts:
 - (i) Payments or contributions into the business by the proprietors, partners or shareholders towards the capital of the firm.
 - (ii) Amount received in the form of loans.
 - (iii) Proceeds of sale of fixed assets.
 - Capital receipts do not affect the Profit/Loss of that accounting period.
 - Amount realised from the sale of a capital asset or investment.
 - Instead of *lump-sum* payment if the payment is received in instalments.
- 2. Revenue Receipts:** If an income received in lump-sum it is a revenue receipt.

- Receipts which have occurred due to normal business activity are known as Revenue Receipts.
- These are the outcomes of firm's activity in the accounting period.
- Revenue receipts are shown in the Profit/Loss A/c and hence, affects the Profit/Loss of that accounting year.
- **Following are considered as revenue receipts:**
 - (i) Amount received from sale of goods
 - (ii) Commission received, fees received, interest received.

Profits

1. Capital Profits:

- Profits of capital nature are termed as capital profits.
- Capital profits are not earned during the ordinary course of business from normal business activities.
- Capital profit arises from the following transactions:
 - (i) Sale of fixed assets
 - (ii) Premium on issue of shares or debentures
 - (iii) Redemption of long term liabilities (like debentures etc.)
- **Treatment of Capital profits:**
 - (i) These are not shown in the Profit/Loss Account as they are not concerned for any particular accounting year.
 - (ii) These are transferred to the Capital Reserve Account which is shown on the liability side of Balance Sheet.
 - (iii) Capital Reserve Account is utilized for meeting capital losses.

2. Revenue Profits:

- Profits earned due to normal business activities are termed as revenue profits and are revenue in nature.
- **Revenue profits can be earned by:**
 - (i) Profits on sale of goods.
 - (ii) Discount received, commission earned, rent received etc.
- **Treatment of Revenue Profits:**

Since they pertain to a particular accounting year and hence, are transferred to the Profit and Loss account.

Losses**1. Capital Losses:**

- Capital nature losses are termed as capital losses.
- Capital Losses arises due to:
 - (i) Selling of fixed assets (if assets are selling at a loss)
 - (ii) Loss on raising capital (issuing of shares etc.)
 - (iii) Loss on redemption of long term liabilities (like debentures etc.)
- **Treatment of Capital Losses:**
 - (i) **If the amount of loss is large:**
 - The loss is spread over a number of years and a part of it is charged in each year.
 - The balance is shown on the asset side of Balance Sheet.
 - (ii) **If the amount of Loss is Small:**
 - They are debited to the Profit/Loss Account of the year in which they occur.

2. Revenue Losses:

- Losses of a revenue nature are termed as revenue losses.
- **They arise on account of:**
 - (i) Trading Loss (i.e. Loss on sale of goods)
 - (ii) Any other loss arising in the normal course of business.
- **Treatment of Revenue Loss:**
Revenue Losses are charged to Profit and Loss Account in the year in which they occur.

OBJECTIVE QUESTIONS

2009 - June [1] (b) Fill in the blanks:

- (ii) Expenditure is called _____ expenditure, if the benefits from it extend to more than one year. **(1 mark)**

Answer:

Deferred Revenue

2010 - Dec [1] (c) State the reasons whether the following statement is **True** or **False**:

(No marks shall be awarded if reason is not given)

- (v) Deferred Revenue Expenditure is current year's revenue expenditure to be paid in later years. **(2 marks)**

Answer:

False: Deferred Revenue Expenditure is later years' revenue expenditure paid in current year.

2011 - Dec [1] (a) In each of the following one of the alternative is correct, indicate the correct one:

- (vii) Festival advance of ₹ 25,000 was given to employees at the time of Deepawali. It is a
(a) Revenue Expenditure
(b) Capital Expenditure
(c) Deferred Revenue Expenditure
(d) Not an Expense **(1 mark)**

(b) Fill in the blanks:

- (iv) Payment of Royalties is _____ expenditure. **(1 mark)**

Answer:

(a) (vii) **(d)** Not an Expense

(b) (iv) Revenue

2012 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one :

- (viii) Which of the following is a deferred revenue expenditure ?
(a) Repairs and maintenance
(b) Free samples of a new product
(c) Office equipment
(d) Rent paid in advance **(1 mark)**

(c) State with reasons whether the following statements are True or False:

- (vii) Temporary shed put up at project site to house material is a capital expenditure. **(2 marks)**

Answer:

- (a) (viii) (b) In some cases, the benefit of a revenue expenditure may be available for a period of more than one year. Such expenditure is known as “**Deferred Revenue Expenditure**” and is written off over a period of a few years and not wholly in the year in which it is incurred.
- Free sample distribution of a new product to capture a position in the market is an example of such expenditure. The benefit of this expenditure will last for quite a few years. It will be better to write off the expenditure in four to five years.
- (c) (vii) **True:** This expenditure is treated as a part of cost of the project.

QUESTION AND ANSWER OF DECEMBER 2014

1. ₹ 8,000 is spent of traveling expenses of the partner to a foreign trip for purchased of an asset to be used for the business is a/an —
- (a) Capital Expenditure
 - (b) Revenue Expenditure
 - (c) Revenue Loss
 - (d) Capital Loss

(1 mark)**Answer:** (a)**QUESTION AND ANSWER OF MARCH 2015**

1. The expenditure ₹ 2,000 incurred on a trial run of newly purchased machine is_____.
- (a) Preliminary expenses
 - (b) Capital expenditure
 - (c) Revenue expenditure
 - (d) Deferred revenue expenditure

(1 mark)**Answer:** (b)

QUESTION AND ANSWER OF JUNE 2015

1. ₹ 8,000 is spent on travelling expenses of the partner to a foreign trip for purchase of an asset to be used for the business is a/an:
- (a) Capital Expenditure
 - (b) Revenue Expenditure
 - (c) Revenue Loss
 - (d) Capital Loss.

(1 mark)

Answer: (a)

QUESTION AND ANSWER OF SEPTEMBER 2015

1. If repair cost is ₹ 20,000, white wash expenses are ₹ 10,000, cost of extension of building is ₹ 3,50,000 and cost of improvement in Electrical wiring system is ₹ 19,000 the amount to be expensed i.e.:
- (a) ₹ 3,99,000
 - (b) ₹ 39,000
 - (c) ₹ 30,000
 - (d) ₹ 49,000

(1 mark)

Answer: (c)

QUESTION AND ANSWER OF DECEMBER 2015

1. Money spent ₹ 20,000 as traveling expenses of the directors on trips abroad for purchase of Capital assets is:
- (a) Capital expenditure
 - (b) Revenue expenditures
 - (c) Deferred revenue expenditures
 - (d) None of the above.

(1 mark)

Answer: (a)

QUESTIONS AND ANSWERS OF JUNE 2016

1. Which of the following is not a revenue expenditure?
(a) Petrol consumed in motor vehicles
(b) Cost of saleable goods
(c) Bad debts
(d) Premium given on lease. **(1 mark)**
Answer: (a)
2. Capital expenses are show in_____.
(a) Balance sheet
(b) Profit and loss A/c
(c) Trading A/c
(d) None of these. **(1 mark)**
Answer: (a)

QUESTIONS AND ANSWERS OF DECEMBER 2016

2. State whether the following statement is True or False:
(vi) Cost of consumable stores is an example of revenue expenditure. **(1 mark)**
Answer:
True
6. State the nature of expenditure (capital/revenue/deferred revenue):
(i) Legal expenses incurred for abuse of trade mark.
(ii) Repair for a motor truck purchased second hand before using the same.
(iii) Amount spent for painting a new factory.
(iv) Amount spent against Research and development.
(v) Commission paid against collection from debtors.
(vi) Salary paid to employees engaged in security job. **(1 × 6 = 6 marks)**

Answer:

- (i) Revenue
- (ii) Capital
- (iii) Capital
- (iv) Revenue
- (v) Revenue
- (vi) Revenue

QUESTIONS AND ANSWER OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives:
- (vi) Life membership fees received by a club is a
 - (a) Revenue Expenditure
 - (b) Capital Expenditure
 - (c) Deferred Revenue Expenditure
 - (d) Capital Receipt **(1 mark)**
 - (vii) Import duty of raw material purchased is a
 - (a) Revenue Expenditure
 - (b) Capital Expenditure
 - (c) Deferred Revenue Expenditure
 - (d) None of the above **(1 mark)**
 - (viii) A bad debt recovered during the year will be
 - (a) Capital Expenditure
 - (b) Revenue Expenditure
 - (c) Capital Receipt
 - (d) Revenue Receipt **(1 mark)**

Answer:

- (vi) (d)
- (vii) (b)
- (viii) (d)

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.
- (xiii) House Building Advance of ₹ 2.00 lakh paid to employees. It is a
- (a) Asset
 - (b) Revenue Expenditure
 - (c) Capital Expenditure
 - (d) Deferred Revenue Expenditure
- (xxiii) An expenditure is in capital nature when
- (a) the receiver of the amount is going to treat it for the purchase of fixed assets.
 - (b) it increase the quantity of fixed assets.
 - (c) it is paid as interests on loans for the business.
 - (d) it maintains a fixed assets. **(1 mark each)**

Answer:

- (xiii) (a) Asset
- (xxiii) (a) The receiver of the amount is going to treat it for the purchase of fixed assets.

QUESTIONS AND ANSWERS OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:
- (iv) ₹ 5,000 incurred for up gradation of computer by installation of 128 MB Ram is
- (a) Revenue expenditure
 - (b) Deferred revenue expenditure
 - (c) Capital expenditure
 - (d) None of the above **(1 mark)**
- (v) Cost of goods purchased for resale is an example of
- (a) Revenue expenditure
 - (b) Capital expenditure
 - (c) Deferred revenue expenditure

- (d) None of the above **(1 mark)**
- (vi) Insurance claim received on account of machinery damaged completely by fire is
- (a) Capital receipt
 - (b) Revenue receipt
 - (c) Capital expenditure
 - (d) Revenue expenditure **(1 mark)**
- (vii) An expenditure is capital in nature when
- (a) The receiver of the amount is going to treat it for the purchase of fixed assets.
 - (b) It increases the quantity of fixed assets.
 - (c) It is paid as interest on loans for the business.
 - (d) It maintains of fixed asset. **(1 mark)**

Answer:

- (iv) (c)
- (v) (a)
- (vi) (a)
- (vii) (b)

- (b) State whether the following statements are *True or False*:
- (iii) Cost of extension of building occupied on lease for five years is deferred revenue expenditure. **(1 mark)**
 - (iv) Freight paid on purchase of machinery is to be treated as revenue expenditure. **(1 mark)**
 - (vi) Gratuity and pension paid to employees after retirement is deferred revenue expenditure. **(1 mark)**

Answer:

- (iii) True
- (iv) False
- (vi) False

QUESTIONS AND ANSWERS OF DECEMBER 2018

1. (a) Choose the correct answer from the given four alternatives:
- (xii) Which one is not considered as capital expenditure?
(a) Depreciation
(b) Architect's fees
(c) Demolition cost
(d) Legal cost for buying property **(1 mark)**
- (xiii) Legal charges paid to defend a suit on firm's factory site is
(a) Capital expenditure
(b) Revenue expenditure
(c) Deferred revenue expenditure
(d) Prepaid expenditure **(1 mark)**
- (xxi) Any revenue expense for which a separate fund is available will be
(a) capitalised and shown in the balance sheet.
(b) debited to income and expenditure account.
(c) debited to the separate fund.
(d) None of the above **(1 mark)**
- (xxiv) Which of the following is capital expenditure?
(a) Repairs of fixed asset
(b) Demolition cost
(c) Locker rent
(d) Annual subscription **(1 mark)**
- (xxv) Advertising expenses for launching a new product of the company is _____.
(a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) Deferred capital expenditure **(1 mark)**

Answer:

- (xii) (c) Demolition cost
(xiii) (c) Deferred Revenue Expenditure

- (xxi) (c) Debited to the separate fund
- (xxiv) (d) Annual Depreciation
- (xxv) (c) Deferred Revenue Expenditure

(b) State whether the following statements are *True* or *False*

- (xii) Renewal fee for patents is revenue expenditure. **(1 mark)**

Answer:

- (xii) True

QUESTIONS AND ANSWERS OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:

- (iii) Capital expenditures are shown in the
 - (a) Balance Sheet
 - (b) Profit & Loss A/c
 - (c) Trading A/c
 - (d) Manufacturing A/c
- (iv) Import duty of raw materials purchased is a
 - (a) Revenue Expenditure
 - (b) Capital Expenditure
 - (c) Deferred Revenue Expenditure
 - (d) None of the above

(1×2 = 2 marks)

Answer:

- (iii) (a) Balance Sheet
- (iv) (a) Revenue Expenditure

(b) State whether the following statements are True or False:

- (ii) Freight paid on purchase of machinery is to be treated as revenue expenditure. **(1 mark)**

Answer:

- (ii) False

2.48

Scanner CMA Foundation Paper-2 (2022 Syllabus)

QUESTIONS AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
- (i) Which of the following item is shown in the Receipt and Payment account?
 - (a) Only items of capital nature
 - (b) Only items of revenue nature which are received during the period of accounts
 - (c) Only items of revenue nature pertaining to the period of accounts
 - (d) Both the items of capital and revenue nature which are received during the period of accounts
- (1 mark)**

Answer:

- (i) (d)

QUESTIONS AND ANSWERS OF DECEMBER 2022

1. Capital expenditures are recorded in the
- (a) Balance sheet
 - (b) Profit and loss A/c
 - (c) Trading A/c
 - (d) Manufacturing A/c

Answer:

- (a) Balance sheet
2. Life membership fees received by a club
- (a) Revenue expenditure
 - (b) Capital expenditure
 - (c) Deferred revenue expenditure
 - (d) Capital receipt

Answer:

- (d) Capital receipt

3. Received from Soloman & co., an invoice for ₹ 1500 for repairs to factory walls
- (a) Revenue expenditure
 - (b) Capital expenditure
 - (c) Deferred revenue expenditure
 - (d) None of these

Answer:

- (a) Revenue expenditure
4. A bad debt recovered during the year will be
- (a) Capital expenditure
 - (b) Revenue expenditure
 - (c) Capital Receipt
 - (d) Revenue Receipt

Answer:

- (d) Revenue Receipt

PRACTICAL QUESTIONS

2010 - June [3] (a) State which item of expenditure would be charged to capital and which to revenue:

- (i) Freight and cartage on the new machine ₹ 150, erection charges ₹ 200.
- (ii) Fixtures of the book value of ₹ 1,500 were sold off at ₹ 600.
- (iii) A sum of ₹ 1,100 was spent on painting the factory.

(1 × 3 = 3 marks)

Answer :

- (i) The expenditure incurred by way of freight and carriage on the new machine ₹ 150 and erection charges ₹ 200 are both a **capital nature**.
- (ii) The loss suffered on sale of fixture amount to (1,500 – 600) ₹ 900 should be taken as **revenue** loss
- (iii) The painting charges are for maintenance of a capital asset, hence they are of a **revenue** nature.

2.50

Scanner CMA Foundation Paper-2 (2022 Syllabus)

2011 - Dec [4] (a) Classify the following expenses into capital and revenue expenditure:

- (i) White-washing of the factory building ₹ 10,000.
- (ii) Re-building expenses incurred for ₹ 25,000.
- (iii) Payment of import duty on purchase of raw material.
- (iv) ₹ 500 paid for removal of stock to a new site.
- (v) Expenses incurred in connection with obtaining a licence to start the factory.
- (vi) An amount of ₹ 5,000 spent as legal charges for abuse of Trade-Mark.
- (vii) The cost of registration of a newly formed company.
- (viii) Amount spent on construction of animal-huts. $\left(\frac{1}{2} \times 8 = 4 \text{ marks}\right)$

Answer :

- (i) Revenue Expenditure
- (ii) Capital Expenditure
- (iii) Revenue Expenditure
- (iv) Revenue Expenditure
- (v) Capital Expenditure
- (vi) Revenue Expenditure
- (vii) Capital Expenditure
- (viii) Capital Expenditure

1C *ACCOUNTING CYCLE, DOUBLE ENTRY SYSTEM, JOURNAL, LEDGER, CASH BOOK, TRIAL BALANCE*

THIS CHAPTER INCLUDES

- | | |
|--|--|
| <ul style="list-style-type: none"> • Accounting Cycle – Charts of Accounts and Codification Structure • Analysis of Transaction – Accounting Equation • Double Entry System, Books of Original Entry • Subsidiary Books and Finalisation of Accounts | <ul style="list-style-type: none"> • Journal (Day Books; Journal Proper – Opening, Transfer, Closing, Adjustment and Rectification Entries), Ledger • Cash Book • Bank Book • Petty Cash Book • Trial Balance |
|--|--|

CHAPTER AT A GLANCE

Double Entry System

It was in 1494 that Luca Pacioli the Italian mathematician, first published his comprehensive treatise on the principles of Double Entry System. The use of principles of double entry system made it possible to record not only cash but also all sorts of Mercantile transactions.

Features of Double Entry System

- (i) Every transaction has two fold aspects, i.e., one party giving the benefit and the other receiving the benefit.

- (ii) Every transaction is divided into two aspects, Debit and Credit. One account is to be debited and the other account is to be credited.
- (iii) Every debit must have its corresponding and equal credit.

Advantages of Double Entry System

- (i) It ensures arithmetical accuracy of the books of accounts, for every debit, there is a corresponding and equal credit. This is ascertained by preparing a trial balance periodically or at the end of the financial year.
- (ii) It prevents and minimizes frauds. Moreover frauds can be detected early.
- (iii) Errors can be checked and rectified easily.
- (iv) The balances of receivables and payables are determined easily, since the personal accounts are maintained.
- (v) The businessman can compare the financial position of the current year with that of the past years.
- (vi) Helps in decision making.
- (vii) It becomes easy for the Government to decide the tax.

Limitations of Double Entry System

- (i) The system does not disclose all the errors committed in the books accounts.
- (ii) The trial balance prepared under this system does not disclose certain types of errors.
- (iii) It is costly as it involves maintenance of numbers of books of accounts.

Types of Accounts

1. **Personal Account:** As the name suggests these are accounts related to persons.
 - (a) These persons could be natural persons like Suresh's A/c, Anil's a/c, Rani's A/c etc.
 - (b) The persons could also be artificial persons like companies, bodies corporate or association of persons or partnerships etc.

(c) There could be representative personal accounts as well.

2. **Real Accounts:** These are accounts related to assets or properties or possessions. Depending on their physical existence or otherwise, they are further classified as follows:
 - (a) **Tangible Real Account:** Assets that have physical existence and can be seen, and touched. e.g. Machinery A/c, Stock A/c, Cash A/c, Vehicle A/c, and the like.
 - (b) **Intangible Real Account:** These represent possession of properties that have no physical existence but can be measured in terms of money and have value attached to them. e.g. Goodwill A/c, Trade mark A/c, Patents & Copy Rights A/c, Intellectual Property Rights A/c and the like.
3. **Nominal Account:** These accounts are related to expenses or losses and incomes or gains e.g. Salary and Wages A/c, Rent of Rates A/c, Travelling Expenses A/c, Commission received A/c, Loss by fire A/c etc.

The Accounting Process

- A. **American approach:** In order to understand the rules of debit and credit according to these approach transactions are divided into the following five categories:
 - (i) Transactions relating to owner, e.g., Capital – These are personal accounts
 - (ii) Transactions relating to other liabilities, e.g., suppliers of goods – These are mostly personal accounts
 - (iii) Transactions relating to assets, e.g., land, building, cash, bank, stock-in-trade, bills receivable – These are basically all real accounts
 - (iv) Transactions relating to expenses, e.g., rent, salary, commission, wages, cartage – These are nominal accounts
 - (v) Transactions relating to revenues, e.g., interest received, dividend received, sale of goods – These are nominal accounts.

B. British Approach or Double Entry System:

When one identifies the account that is getting affected by a transaction and type of that account, the next step is to apply the rules to decide whether the accounting treatment is to debit or credit that account. The Golden Rules will guide us whether the account is to be debited or credited.

Accounting Equation

The whole Financial Accounting depends on Accounting Equation which is also known as Balance Sheet Equation. The basic Accounting Equation is: **Assets = Liabilities + Owner's equity**

Functions of Journal

- (i) Analytical Function
- (ii) Recording Function
- (iii) Historical Function

Advantages of Journal

- (i) Chronological Record
- (ii) Minimizing the possibility of errors
- (iii) Narration
- (iv) Helps to finalize the accounts

Importance of Sub-division of Journals

- (i) The system of recording all transactions in a journal requires
- (ii) Such a system cannot provide the information on a prompt basis.
- (iii) Such a system does not facilitate the installation of an internal check system because the journal can be handled by only one person.
- (iv) The journal becomes huge and voluminous.
- (v) To overcome the shortcomings of the use of the journal only as a book of original entry, the journal is sub-divided into special journal.

Compound Journal

If for a single transaction, only one account is debited and one account is credited, it is known as simple journal. If the transaction requires more than one account which is to be debited or more than one account is to be credited, it is known as Compound Journal.

Cash Book

A Cash Book is a special journal which is used for recording all cash receipts and all cash payments. Cash Book is a book of original entry since transactions are recorded for the first time from the source documents.

Purchase Day Book

The purchase day book records the transactions related to credit purchase of goods only. It follows that any cash purchase or purchase of things other than goods is not recorded in the purchase day book. Periodically, the totals of Purchase day book are posted to Purchase account in the ledger.

Sales Day Book

The sales day book records transaction of credit sale of goods to customers. Sale of other things, even on credit, will not be entered in the sales day book but will be entered in Journal Proper. If goods are sold for cash, it will be entered in cash book.

Trial Balance

Trial balance may be defined as a statement or a list of all ledger account balances taken from various ledger books on a particular date to check the arithmetical accuracy.

According to Rolland, Trial Balance is defined as "The final list of balances, totaled and combined, is called Trial Balance".

Features of a Trial Balance

1. It is a list of debit and credit balances which are extracted from various ledger accounts.
2. It is a statement of debit and credit balances.
3. The purpose is to establish arithmetical accuracy of the transactions recorded in the Books of Accounts.
4. It does not prove arithmetical accuracy which can be determined by audit.
5. It is not an account. It is only a statement of account.
6. It is not a part of the final statements.
7. It is usually prepared at the end of the accounting year but it can also be prepared anytime as and when required like weekly, monthly, quarterly or half-yearly.

Purpose of a Trial Balance

1. To check the arithmetical accuracy of the recorded transactions.
2. To ascertain the balance of any ledger Account.
3. To serve as an evidence of fact that the double entry has been completed in respect of every transaction.
4. To facilitate the preparation of final accounts promptly.

OBJECTIVE QUESTIONS

2009 - June [1] (a) In each of the following one, of them is correct. Indicate the correct answer :

- (iv) The credit purchases of fixed assets are recorded in
- (a) Purchase Book
 - (b) Cash Book
 - (c) Journal Proper
 - (d) Sales Return Book

- (vii) The total of discount column on the debit side of the Cash Book, is posted to the
- (a) Credit of the discount allowed account
 - (b) Debit of the discount received account
 - (c) Credit of the discount received account
 - (d) Debit of the discount allowed account
- (1 x 2 = 2 marks)**
- (c)** State with reasons whether the following statements are true or false.
- (iv) Cash received from Kishor will be debited to his account.
 - (v) Balances on personal accounts are carried forward to the next year.
 - (viii) Wages paid for installation should be debited to wages account.
- (2 x 3 = 6 marks)**

Answer:

- (a)** (iv) **(c)** Journal Proper
- (vii) **(d)** Debit of the discount allowed account
- (c)** (iv) **False:** Cash received from Kishor will be debited to cash account since cash is received and credited to Kishor's account.
- (v) **True:** Personal accounts have closing balances that indicate amount receivable or payable from/to an individual at the end of the period. Hence, such outstanding balances are carried forward as opening balance to the next year.
- (viii) **False:** Wages paid for installation should be debited to the fixed assets account. It is a capital expenditure, hence added to cost of fixed assets.

2009 - Dec [1] (a) In each of the following, one is correct. Indicate the correct answer.

- (viii) The Trial Balance checks:
- (a) Arithmetical Mistake.
 - (b) Honesty of the book keeper.
 - (c) Valuation of Closing Stock.
 - (d) Nature of the business.

(1 mark)

(b) Fill in the blanks:

- (iii) If the current year's depreciation has to be shown in the trial balance, it would be shown in the _____ side of the trial balance.
- (v) On return of goods to the seller by the buyer, the seller issues _____ note to the buyer. **(1 × 2 = 2 marks)**

(c) State with reasons whether the following statements are true or false.

- (ii) Balances of personal accounts are carried forward to the next year.
- (iii) Salary paid to Harish will be debited to his personal account.
- (v) Accumulated depreciation can be located in the debit side of the trial balance.
- (viii) Petty Cash in an expense. **(2 × 4 = 8 marks)**

Answer:

- (a) (viii) (a) Arithmetical Mistake.
- (b) (iii) Debit
(v) Credit
- (c) (ii) True
(iii) False
(v) False
(viii) True

2010 - June [1] (a) In each of the following one is correct. Indicate the correct answer:

- (iv) Cash sales at exhibition hall are:
(a) Recorded in Journal Proper
(b) Recorded in Cash Book
(c) Recorded in Sales Book
(d) Not recorded
- (ix) A Capital Reserve is built out of
(a) Recurring profits
(b) Non-recurring profits
(c) Revenue
(d) Reserve Fund

(1 × 2 = 2 marks)

(b) Fill up the banks:

(iii) Cash account never has _____ balance.

(1 mark)

Answer:

- (a) (iv) (d) Not recorded
(ix) (b) Non-recurring profits
(b) (iii) Credit

2010 - Dec [1] (b) Fill in the blanks:

(i) Reserve for discount on creditors has a _____ balance. (1 mark)

(c) State the reasons whether the following statement is True or False:

(viii) Discount columns of the cash book may show *either* debit balance or credit balance. (2 marks)

Answer:

- (b) (i) Credit
(c) (viii) **False:** Discount columns of the cash book are merely totaled but never balanced.

2010 - Dec [2] (a) Give one word or phrase that describe the following:

- (iv) An entry of which credit and debit aspects are simultaneously recorded in the cash book?
(v) The source document used for recording entries in the Returns Outward Book.
(x) The type of accounts which are never balanced but are closed.

($\frac{1}{2} \times 3 = 1.5$ marks)

Answer:

- (iv) Contra
(v) Debit Note
(x) Nominal Accounts

2011 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

- (iii) Wages paid for installation of assets should be debited to
(a) Wages A/c
(b) Assets A/c
(c) Trading A/c
(d) P & L A/c

- (iv) Revenue Reserves are built out of
- (a) Recurring profit
 - (b) Non recurring profit
 - (c) Capital Reserves
 - (d) None of the above
- (1 × 2 = 2 marks)**
- (b)** Fill in the blanks :
- (i) Cash account has always _____ balance.
 - (ii) Journal Folio (J.F.) column stands in _____.
 - (iii) A credit purchases of furniture for ₹ 21,000 is recorded in purchases book. It is a error of _____.
- (1 × 3 = 3 marks)**
- (c)** State with reasons whether the following statement is True or False:
- (iv) A trial balance discloses all types of errors.
- (2 marks)**

Answer:

- (a)** (iii) **(b)** Assets A/c
- (iv) **(a)** Recurring profit
- (b)** (i) Debit
- (ii) Ledger
- (iii) Principle
- (c)** (iv) **False:** Trial balance ensures only arithmetical accuracy. There are certain errors which are not detected by Trial Balance e.g. Error of Omission, Compensating error etc.

2011 - Dec [1] (a) In each of the following one of the alternative is correct, indicate the correct one:

- (ii) A transaction affects three accounts, one account is debited by ₹ 7,500, another account is credited by ₹ 9,000. Third account will be
- (a) Credited by ₹ 7,500
 - (b) Debited by ₹ 9,000
 - (c) Credited by ₹ 1,500
 - (d) Debited by ₹ 1,500

- (iii) Shiva who was a creditor for ₹ 47,000, his account was settled for ₹ 45,850. At the time of settlement, Shiva's account would be debited by
- (a) ₹ 45,850
 - (b) ₹ 47,000
 - (c) ₹ 1,150
 - (d) None of the above
- (iv) Which of the following is a transaction of contra entry ?
- (a) Purchased goods from X ₹ 10,000
 - (b) Cash deposited into Bank ₹ 15,000
 - (c) Paid to Y ₹ 4,800 in full settlement of ₹ 5,000
 - (d) Shop rent of ₹ 6,000, paid by cheque
- (v) Which of the following is not a business transaction ?
- (a) Rent paid to Landlord ₹ 5,000
 - (b) Goods purchased from Z ₹ 20,000
 - (c) Placed an order to Chandra & Co. for purchasing the goods for ₹ 35,000
 - (d) Received interest from Bank ₹ 2,000
- (ix) Cash column of cash book can never have
- (a) Credit balance
 - (b) Debit balance
 - (c) Zero balance
 - (d) None of the above
- (1 x 5 = 5 marks)**

(b) Fill in the blanks:

- (ii) Patent Right is in the nature of _____ Account. **(1 mark)**

(c) State with reasons whether the following statements are True or False:

- (ii) Live Stock Account is a nominal account.
- (iii) Goods lost by fire are debited to Goods Account.

(2 x 2 = 4 marks)

Answer:

- (a)** (ii) **(d)** Debited by ₹ 1,500
(iii) **(b)** ₹ 47,000
(iv) **(b)** Cash deposited into Bank ₹ 15,000

- (v) (c) Placed an order to Chandra & Co. for purchasing the goods for ₹ 35,000
- (ix) (a) Credit balance
- (b) (ii) Real
- (c) (ii) **False:** It is a Real Account.
- (iii) **False:** It is credited to Goods Account.

2012 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one :

- (v) Interest paid on loan taken for purchase of asset should be debited to
- (a) Interest A/c
- (b) Asset A/c
- (c) Profit and Loss A/c
- (d) Trading A/c
- (vi) Identify Personal Account from the following :
- (a) Furniture A/c
- (b) Bank of India A/c
- (c) Rent A/c
- (d) Investment A/c **(1 x 2 = 2 marks)**
- (c) State with reasons whether the following statements are True or False:
- (iii) Agreement of trial balance would also assure accounting accuracy.
- (v) Purchase Book records all purchases of goods.

(2 x 2 = 4 marks)

Answer:

- (a) (v) (b) All the expenses related to purchase of an asset should be capitalised.
- (vi) (b) The accounts which represent persons or organisations are called Personal A/c.
- (c)(iii) **False:** Agreement of trial balance does not guarantee that the entries are correct in all respect. There are certain types of errors that will not affect in tallying of the trial balance like error of omission, compensating errors, error of principle, error of duplication, etc.
- (v) **False:** Purchase book records only credit purchases of goods.

2012 - Dec [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

- (ii) Compound journal entry contains
 - (a) More than one debit entry only
 - (b) More than one credit entry only
 - (c) More than one debit entry or more than one credit entry or both
 - (d) No Narrations
- (iii) Which one of the equation is correct
 - (a) Total Assets - Liabilities = Capital - Profit
 - (b) Total Assets - Liabilities = Capital + Profit
 - (c) Total Assets + Profit = Capital + Liabilities
 - (d) Total Assets + Liabilities = Capital - Profit
- (iv) Journal is a
 - (a) Memorandum record
 - (b) Secondary record
 - (c) Primary record
 - (d) None of the above

(1 x 3 = 3 marks)

(b) Fill in the blanks:

- (i) A transaction without immediate cash settlement is known as _____ transaction. **(1 mark)**

(c) State whether the following statements are 'True' or 'False':

- (iii) If the closing stock appears in the trial balance, it will be shown on credit side of trading account and assets side of the balance sheet. **(1 mark)**

Answer:

- (a)** (ii) **(c)** More than one debit entry or more than one credit entry or both
- (iii) **(b)** Total Assets - Liabilities = Capital + Profit
- (iv) **(c)** Primary record
- (b)** (i) Credit
- (c)** (iii) False

QUESTIONS AND ANSWERS OF SEPTEMBER 2014

1. Which is the correct, if cash sales of ₹ 2000 is omitted to be recorded in cash sales account?
- Debit amount in trial balance has been increased by ₹ 2,000
 - Debit amount in trial balance has been increased by ₹ 4,000
 - Credit amount in trial balance has been increased by ₹ 2,000
 - Credit amount in trial balance has been increased by ₹ 4,000

(1 mark)

Answer: (a)

2. How is the "distribution of goods as free sample" recorded in the Journal?

Debit

Credit

- | | |
|---------------------------|-------------------------|
| (a) Trading Account | Sales Account |
| (b) Advertisement Account | Profit and Loss Account |
| (c) Purchase Account | Advertisement Account |
| (d) Advertisement Account | Purchase Account |

(1 mark)

Answer: (d)

3. Which is the correct equation as per the double entry concept?
- Liabilities = capital + assets
 - Assets + liabilities = capital
 - Capital = assets - liabilities
 - Assets = capital - liabilities

(1 mark)

Answer: (c)

4. Which of the following is not a personal account?

- Capital account
- Pre-paid rent account
- Salary account
- Interest outstanding account

(1 mark)

Answer: (c)

5. From the following, which is not considered as subsidiary book?

- Bills Receivable Book
- Bills Payable Book
- Journal Proper
- Cash Book

(1 mark)

Answer: (d)

6. Journal is a
- (a) Memorandum Record
 - (b) Primary Record
 - (c) Secondary Record
 - (d) All of the above
- Answer:** (b) **(1 mark)**

QUESTION AND ANSWER OF DECEMBER 2014

1. Which of the following is NOT a characteristic of Cash Book?
- (a) It has two identical sides—left hand side, the debit side and right hand side, the credit side
 - (b) It verifies the arithmetic accuracy of posting of entries from the Journal to the Ledger
 - (c) The difference between the total of two sides of cash book shows cash in hand
 - (d) It always shows debit balance. It can never show credit balance
- Answer:** (d) **(1 mark)**
2. Ledger is also called
- (a) Principal book of accounts
 - (b) Cash books
 - (c) Subsidiary book
 - (d) None of these
- Answer:** (a) **(1 mark)**
3. The process of balancing of an account involves equalization of both sides of the account. If the debit side of an account exceeds the credit side, the difference is put on the credit side. The said balance is
- (i) A Debit balance
 - (ii) A Credit balance
 - (iii) An expenditure or an Asset
 - (iv) An Income or a Liability
- (a) Only (ii) above
 - (b) Only (iv) above
 - (c) Both (i) and (iii) above
 - (d) Both (ii) and (iii) above
- (1 mark)**

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Answer: (c)

2. Credit sale is recorded in:

- (a) Sales Book
- (b) Sales Account
- (c) Creditor
- (d) None

(1 mark)

Answer: (a)

QUESTIONS AND ANSWERS OF MARCH 2015

1. If wages are paid for construction of business premises _____ A/c is credited and _____ A/c is debited.

- (a) Wages, Cash
- (b) Premises, Cash
- (c) Cash, Wages
- (d) Cash, Premises

(1 mark)

Answer: (d)

2. Which of the following is not a Real Account?

- (a) Cash A/c
- (b) Investments A/c
- (c) Outstanding rent A/c
- (d) Purchases A/c

(1 mark)

Answer: (c)

3. What is the principle of nominal A/c?

- (a) Debit what comes in, credit what goes out.
- (b) Debit all expenses & losses & credit all incomes & gains.
- (c) Debit the receiver, credit the giver.
- (d) Debit all assets, credit all liabilities.

(1 mark)

Answer: (b)

4. Debit notes issued are used to prepare _____.

- (a) Sales Returns Book
- (b) Purchase Returns Book
- (c) Journal Proper

(d) Purchases Book

(1 mark)

Answer: (b)

QUESTIONS AND ANSWERS OF JUNE 2015

1. The _____ in a ledger helps in locating the accounts contained in it:
 - (a) Folio
 - (b) Pages
 - (c) Serial Number
 - (d) None of these.

(1 mark)

Answer: (a)
2. Purchase of goods on credit:
 - (a) Increases Liabilities
 - (b) Increases Assets
 - (c) Increases both Assets and Liabilities
 - (d) Decreases Assets.

(1 mark)

Answer: (c)
3. An Investment in one asset A/c may lead to:
 - (a) Increase in Liability A/c
 - (b) Decrease in A/c asset
 - (c) Either a or b
 - (d) Both a and b

(1 mark)

Answer: (c)
4. In an account if Debit side > Credit side, the balance is known as the:
 - (a) Negative Balance
 - (b) Debit Balance
 - (c) Positive Balance
 - (d) Credit Balance

(1 mark)

Answer: (b)
5. Which of these transactions will not be recorded in cash book:
 - (a) Cash received from debtors
 - (b) Cash paid to creditors

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- (c) Salary remained outstanding
- (d) Cash deposited with bank. **(1 mark)**

Answer: (c)

6. Revenue is generally recognised as being earned at that point of time when:
- (a) Sale is effected
 - (b) Cash is received
 - (c) Production is completed
 - (d) Debts are collected. **(1 mark)**

Answer: (a)

7. A Customer returning the goods purchased on credit, may inform the seller by sending:
- (a) Debit Note
 - (b) Credit Note
 - (c) Court Notice
 - (d) Return Invoice. **(1 mark)**

Answer: (a)

QUESTIONS AND ANSWERS OF SEPTEMBER 2015

1. Sales of office furniture should be credited to:
- (a) Sales Account
 - (b) Furniture Account
 - (c) Purchase Account
 - (d) Cash Account **(1 mark)**

Answer: (b)

2. Sale or Return Day Book and Sale or ledger Return Ledger are known as:
- (a) Principal books
 - (b) Subsidiary books
 - (c) Memorandum books
 - (d) None of the above **(1 mark)**

Answer: (c)

QUESTION AND ANSWER OF DECEMBER 2015

1. ₹ 1,000 paid as wages for erecting machine should be debited to:

- (a) Repair account
- (b) Machine account
- (c) Capital account
- (d) Furniture account.

(1 mark)

Answer: (b)

QUESTIONS AND ANSWERS OF MARCH 2016

1. The process of balancing of an account involves equalization of both sides of the account. If the debit side of an account exceeds the credit side the difference is put on the credit side. The said balance is :

- (i) A debit balance
- (ii) A credit balance
- (iii) An expenditure or an asset
- (iv) An income or a liability
- (a) Only (ii) above
- (b) Only (iv) above
- (c) Both (i) and (ii) above
- (d) Both (ii) and (iii) above

(1 mark)

Answer : (c)

2. Which of the following is an example of Personal Account?

- (a) Machinery
- (b) Rent
- (c) Cash
- (d) Creditor

(1 mark)

Answer : (d)

QUESTIONS AND ANSWERS OF JUNE 2016

1. Which of the following is not a financial statement?
(a) Profit and loss account
(b) Balance sheet
(c) Funds flow statement
(d) Trial Balance. **(1 mark)**
Answer: (d)
2. Which English alphabet is similar to the shape of an account?
(a) I
(b) T
(c) H
(d) None of the above. **(1 mark)**
Answer: (b)
3. Which column of Cash Book never balanced?
(a) Discount column
(b) Cash
(c) Bank
(d) Petty cash. **(1 mark)**
Answer: (a)
4. The amount payable to a person as consideration for the use of right vested in him is:
(a) Dividend
(b) Royalty
(c) Purchase consideration
(d) Installment. **(1 mark)**
Answer: (b)
5. The closing balance of a petty cash book is a / an_____.
(a) Liability
(b) Gain
(c) Assets
(d) Loss. **(1 mark)**
Answer: (c)

QUESTIONS AND ANSWERS OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:
(iii) Goods bought for ₹ 25,000 passed through sales day book will result in _____.
- (a) decrease in Gross Profit
 - (b) no effect on Gross Profit
 - (c) increase in Gross Profit
 - (d) decrease in Net Profit
- (1 mark)**

Answer:

(c) increase in Gross Profit

2. State whether the following statement is True or False:

(iii) Sale of an asset is recorded in the sales book.

(1 mark)

Answer:

False

QUESTIONS AND ANSWER OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives:
- (v) Narration are given at the end of
 - (a) Final Accounts
 - (b) Each Ledger Account in Trial Balance
 - (c) Each Ledger Account
 - (d) Each Journal Entry
- (1 mark)**
- (ix) Nominal Account represents
 - (a) Profit & Gain
 - (b) Loss/Expenses
 - (c) Both (a) and (b)
 - (d) None of the above
- (1 mark)**

- (x) Prepaid rent is a
(a) Nominal Account
(b) Representative Personal Account
(c) Tangible Assets Account
(d) None of the above **(1 mark)**
- (xi) Purchases book is used to record
(a) All purchases of goods
(b) All credit purchase
(c) All credit purchases of goods
(d) All credit purchases of assets other than goods **(1 mark)**
- (xii) The source document or voucher used for recording entries in Sales Book is
(a) invoice received
(b) invoice sent out
(c) credit notes sent out
(d) debit notes received **(1 mark)**
- (xiii) Trade discount allowed at the time of sale of goods is
(a) recorded in Sales Book
(b) recorded in Cash Book
(c) recorded in Journal
(d) not recorded in Books of Accounts **(1 mark)**
- (xiv) A sale of goods to Ram for cash should be debited to
(a) Ram
(b) Cash A/c
(c) Sales A/c
(d) Capital A/c **(1 mark)**
- (xv) Ledger contains various _____ in it.
(a) transactions
(b) entries
(c) accounts
(d) None of the above **(1 mark)**

- (xxvi) The balance of the Petty Cash is a/an
(a) expense
(b) income
(c) asset
(d) liability **(1 mark)**
- (xxviii) Closing stock appearing in the Trial Balance is shown in
(a) Trading A/c and Balance Sheet
(b) Profit and Loss A/c
(c) Balance Sheet only
(d) Trading A/c only **(1 mark)**

Answer:

- (v) (d)
(ix) (c)
(x) (b)
(xi) (c)
(xii) (b)
(xiii) (d)
(xiv) (b)
(xv) (c)
(xxvi) (c)
(xxviii) (c)

(b) State whether the following statements are True or False:

- (v) Trial Balance is a part of Final Accounts.
(ix) Incomplete record of accounting is also known as Single Entry System.
(xii) Bad debts previously written off, if recovered subsequently is credited to Debtor's Personal Account. **(1 mark each)**

Answer:

- (v) False
(ix) True
(xii) False

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.
- (iii) Identify the 'Personal Account' from the following.
 - (a) Salary Payable Account
 - (b) Taxes Paid Account
 - (c) Investment Account
 - (d) Trademark Account
 - (iv) Which of the following is a transaction of contra entry?
 - (a) Sale goods to Y ₹ 12,500.
 - (b) Godown rent ₹ 7,000 paid by cheque.
 - (c) Received ₹ 12,000 in full settlement of ₹ 12,500.
 - (d) Cash deposited to bank ₹ 9,000.
 - (v) When Trial Balance will not tally/mismatch?
 - (a) Two errors those are compensating each other.
 - (b) A transaction recorded twice.
 - (c) Taking balance to the wrong side in the Trial Balance.
 - (d) If an entry is totally missed.
 - (x) Which balance is not considered for closing entries on the basis of trial balance for transferring to Trading and Profit & Loss Account?
 - (a) Salary and Wages
 - (b) Discount Received
 - (c) Commission Paid
 - (d) Cash in Hand
 - (xxiv) Cash book is a
 - (a) Subsidiary book
 - (b) Subsidiary book and a Ledger account
 - (c) Ledger account
 - (d) None of the above

- (xxv) The periodical total of the Sale Return Book is posted to the
- (a) Debit side of Sales Account.
 - (b) Debit side of Sales Return Account.
 - (c) Credit side of Sales Return Account.
 - (d) Debit side of Debtors Return.

(1 mark each)

Answer:

- (iii) (a) Salary Payable Account
- (iv) (d) Cash deposited to bank ₹ 9,000
- (v) (c) Taking balance to the wrong side in the Trial Balance
- (x) (d) Cash in Hand
- (xxiv) (b) Subsidiary book and a Ledger account
- (xxv) (b) Debit side of Sales Return Account.

QUESTIONS AND ANSWERS OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:
- (ii) Narration is given at the end of
 - (a) Final accounts
 - (b) Trial balance
 - (c) Each ledger account
 - (d) Each journal entry

(1 mark)
 - (iii) Which one of the following is an example of Personal Account?
 - (a) Machinery
 - (b) Rent
 - (c) Cash
 - (d) Creditor

(1 mark)
 - (viii) A withdrawal of cash from business by the proprietor should be credited to
 - (a) Drawing Account
 - (b) Capital Account
 - (c) Cash Account
 - (d) Purchase Account

(1 mark)

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- (ix) Which financial statement represent the accounting equation
_____ Asset = Liability + Owner's equity:
(a) Income statement
(b) Cash flow statement
(c) Balance Sheet
(d) None of the above **(1 mark)**
- (x) A debit note issued to a creditor for goods returned is to be recorded in the
(a) Bills receivable book
(b) Purchase book
(c) Purchase return book
(d) Journal proper **(1 mark)**
- (xi) Cash book is a form of
(a) Ledger
(b) Journal
(c) Trial Balance
(d) All of the above **(1 mark)**
- (xii) A sale of goods to Laxman for cash should be debited to
(a) Laxman A/c
(b) Cash A/c
(c) Sales A/c
(d) Capital A/c **(1 mark)**
- (xiii) The debts written off earlier as bad, subsequently recovered are
(a) Debited to profit and loss A/c
(b) Credited to bad debt recovery A/c
(c) Credited to trade receivable A/c
(d) Credited to debtors A/c **(1 mark)**

Answer:

- (ii) (d)
(iii) (d)
(viii) (c)
(ix) (c)
(x) (c)

- (xi) (a)
- (xii) (b)
- (xiii) (b)

(b) State whether the following statements are *True or False*:

- (viii) The balance in the petty cash book is an asset. **(1 mark)**
- (ix) Profit or Loss has no effect on net worth. **(1 mark)**
- (x) Trail Balance Document is required for bank reconciliation. **(1 mark)**

Answer:

- (viii) True
- (ix) False
- (x) False

QUESTION AND ANSWERS OF DECEMBER 2018

1.(a) Choose the correct answer from the given *four* alternatives.

- (i) Which of the following transaction is not recorded in cash book?
 - (a) Bad debts recovered
 - (b) Prepaid expenses
 - (c) Trade discount allowed
 - (d) Freight paid for acquiring an asset **(1 mark)**
- (ii) Credit purchase of fixed asset is recorded in
 - (a) Journal proper
 - (b) Purchase book
 - (c) Cash book
 - (d) Petty cash book **(1 mark)**
- (vii) When cash received for services rendered in the past
 - (a) Owner's equity increases
 - (b) Current asset increases
 - (c) Profit increases
 - (d) None of the above **(1 mark)**

- (xv) The trial balance checks
- (a) Nature of business
 - (b) Valuation of closing stock
 - (c) Correctness of cash in hand
 - (d) Arithmetical accuracy **(1 mark)**
- (xxvi) _____ does fulfil the function of both a journal and a ledger.
- (a) Purchase book
 - (b) Cash book
 - (c) Sales book
 - (d) Bills Payable book **(1 mark)**
- (xxvii) Which of the following is artificial personal account?
- (a) SBI account
 - (b) Wages paid account
 - (c) Discount received account
 - (d) Drawings account **(1 mark)**
- (xxix) Journal proper uses to record _____.
- (a) bad debts recovered
 - (b) all cash purchases of assets other than goods
 - (c) writing of bad debts
 - (d) purchase of goods on credit **(1 mark)**

Answer:

- (i) (c) Trade Discount Allowed
- (ii) (a) Journal Proper
- (vii) (d) None of the above
- (xv) (d) Arithmetical accuracy
- (xxvi) (b) Cash Book
- (xxvii) (a) SBI Account
- (xxix) (b) All cash purchases of assets other than goods

(b) State whether the following statements are *True* or *False*

- (v) Goods bought for ₹ 25,000 passed through sales day book will result an increase in gross profit. **(1 mark)**

Answer:

- (v) True

QUESTIONS AND ANSWERS OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:
 - (i) Decrease in the amount of creditors results generally
 - (a) increase in cash
 - (b) decrease in cash
 - (c) increase in assets
 - (d) No change in assets
 - (v) Life Insurance Corporation Account is a
 - (a) Nominal Account
 - (b) Artificial Personal Account
 - (c) Representative Personal Account
 - (d) Real Account
 - (vi) Goods taken from business for personal use by the proprietor should be credited to
 - (a) Drawing A/c
 - (b) Capital A/c
 - (c) Sales A/c
 - (d) Purchase A/c
 - (vii) A cash book with discount and bank column is called as
 - (a) Single Column Cash Book.
 - (b) Two Column Cash Book.
 - (c) Three Column Cash Book.
 - (d) Petty Cash Book.
 - (viii) The periodical total of Returns Inward Day Book is posted to
 - (a) Debit of Sales Account.
 - (b) Debit of Sales Return Account.
 - (c) Credit of Sales Return Account.
 - (d) Debit of Debtors Account.
 - (ix) The process of transfer of entries from day book to ledger is called as
 - (a) Balancing
 - (b) Journal Posting
 - (c) Transaction

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(d) Ledger Posting

(1×6 = 6 marks)

Answer:

- (i) (b) decrease in cash
- (v) (b) Artificial Personal Account
- (vi) (d) Purchase A/c
- (vii) (c) Three Column Cash Book
- (viii) (b) Debit of Sales Return Account
- (ix) (d) Ledger Posting

(b) State whether the following statements are True or False:

(iv) Capital Account is a real account in nature.

(1 mark)

Answer:

(iv) False

QUESTIONS AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
- (vi) Which of the following will result in disagreement of Trial balance?
 - (a) Sales return treated as purchase.
 - (b) Purchase return treated as sales.
 - (c) Ram A/c wrongly credited instead of Sham A/c.
 - (d) Under casting cash book by ₹1,100
 - (xxiv) Bills Receivable books is part of the
 - (a) Journal
 - (b) Ledger
 - (c) Profit & Loss Account
 - (d) Balance Sheet

Answer:

- (vi) (d)
- (xxiv) (a)

(b) State whether the following statements are 'True' or 'False':

- (ii) Single entry system records only one aspect either debit or credit.
- (iii) Rent outstanding is real account and shown in asset side of the balance sheet.
- (ix) Closing stock, when it appears in the trial balance is taken only in the trading account.

Answer:

- (ii)** False
- (iii)** False
- (ix)** True

QUESTION AND ANSWER OF DECEMBER 2022

1. When a trial balance totals do not agree, the difference must be entered in
- (a) A Nominal Account
 - (b) The Capital Account
 - (c) A Suspense Account
 - (d) The Profit and Loss Account

Answer:

- (c) A Suspense Account
2. A trial balance shows
- (a) All entry of cash transactions
 - (b) Accuracy of accounts
 - (c) Accuracy of panel entries
 - (d) Only arithmetical accuracy of accounts

Answer:

- (d) Only arithmetical accuracy of accounts
3. A debit note is issued to
- (a) An employee
 - (b) An accountant
 - (c) An creditor
 - (d) An debtor

Answer:

- (c) An creditor
4. Journal proper is meant for recording _____
- (a) Credit purchase of fixed assets
 - (b) Cash purchase of fixed assets
 - (c) Return of goods
 - (d) None of these

Answer:

- (a) Credit purchase of fixed assets
5. Customer personal accounts are shown in the
- (a) Nominal ledger
 - (b) Purchase ledger
 - (c) Sales ledger
 - (d) General ledger

Answer:

- (c) Sales ledger
6. The periodical total of the Purchase Return Book is posted to the
- (a) Credit of Purchase Return Account
 - (b) Credit of Creditors Account
 - (c) Debit of Purchase Return Account
 - (d) Credit of Purchase Account

Answer:

- (a) Credit of Purchase Return Account
7. Which of the following is correct?
- (a) Net profit = Gross profit + Expenses
 - (b) Net profit = Gross profit + Income
 - (c) Gross profit + Net profit = All expenses
 - (d) Gross profit = Net profit + Expenses

Answer:

- (d) Gross profit = Net profit + Expenses
8. Prepaid rent is a
- (a) Nominal A/c
 - (b) Representative personal A/c
 - (c) Tangible assets account
 - (d) None

Answer:

- (b) Representative personal A/c
9. The rent paid to landlord is credited to
- (a) Landlord's A/c (b) Rent A/c
(c) Cash A/c (d) None
- Answer:**
(c) Cash A/c
10. A trial balance will not balance if _____
- (a) Correct entry is posted twice
(b) The purchase on credit basis is debited to purchases and credited to cash
(c) ₹ 500 cash payment to creditors is debited to creditors for ₹ 50 and credited to cash as ₹ 500
(d) None of the above
- Answer:**
(c) ₹ 500 cash payment to creditors is debited to creditors for ₹ 50 and credited to cash as ₹ 500
11. Cash book does not record
- (a) Credit purchases (b) Credit sales
(c) All the above transactions (d) Outstanding expenses
- Answer:**
(c) All the above transactions
12. Trade discount allowed at the time of sale of goods
- (a) Is recorded in Sales Book
(b) Is recorded in Cash Book
(c) Is recorded in Journal
(d) Is not recorded in Books of Accounts
- Answer:**
(d) Is not recorded in Books of Accounts
13. A withdrawal of cash from business by the proprietor should be credited to
- (a) Drawing A/c (b) Capital A/c
(c) Cash A/c (d) Purchase A/c
- Answer:**
(c) Cash A/c

14. Which financial statement represents the accounting equation-

Assets = Liabilities + Owner's equity:

- (a) Income Statement
- (b) Statement of Cash flows
- (c) Balance Sheet
- (d) None

Answer:

- (c) Balance Sheet

DESCRIPTIVE QUESTIONS

2010 - Dec [2] (b) State the basic object of :

- (ii) Preparing the Trial Balance.

(1 mark)

Answer :

Trial Balance: This is a statement of Debit and Credit balances derived from ledger amounts in ledger and is expected to tally on a particular date. It facilitates the accountant to prepare the financial statements, viz., Profit and Loss account and Balance Sheet of any business entity. A trial balance may not tally on account of commissions, omissions and offsetting mistakes.

PRACTICAL QUESTIONS

2010 - June [4] (a) Journalise the following transactions in the books of Ramesh:

- (i) Started business with ₹ 10,00,000/-, out of which ₹ 1,00,000 was borrowed from ICICI as loan.
- (ii) Machinery purchased for ₹ 4,00,000/- on credit and Furniture purchased for ₹ 1,50,000 on cash.
- (iii) Deposited cash in Vijaya Bank Current A/c 2,50,000/-

(1 × 3 = 3 marks)

Answer :

In the Book of Ramesh

(i) Cash A/c	Dr.	10,00,000	
To Capital			9,00,000
To Loan from ICICI			1,00,000
(ii) Machinery A/c	Dr.	4,00,000	
To Supplier A/c			4,00,000
Furniture A/c	Dr.	1,50,000	
To Cash A/c			1,50,000
(iii) Vijaya Bank A/c	Dr.	2,50,000	
To Cash			2,50,000

2010 - Dec [3] (a) Show the Accounting equation for the following transactions of Rakesh Bihari Mittal:

- (i) Sold goods costing ₹ 30,000 for ₹ 50,000 to Shyam.
- (ii) Purchased household goods for ₹ 15,000 giving ₹ 5,000 in cash and the balance through a loan.
- (iii) Received ₹ 49,500 from Shyam in full settlement of an account of ₹ 50,000.
- (iv) Paid Salary ₹ 500 and Salary still outstanding ₹ 100.
- (v) Paid Rent-in advance ₹ 200.
- (vi) Withdrew goods for personal use (Cost ₹ 500, Sale Price ₹ 600).

($\frac{1}{2} \times 6 = 3$ marks)

(b) Journalize the following transactions in the books of Anju Mittal:

- (i) Received ₹ 975 from Shyam on his account of ₹ 1,000.
- (ii) Sold goods costing ₹ 40,000 to Anil at a profit of 20% on sales less 20% trade discount and charged 10% Value Added Tax.
- (iii) Vishal Pandey paid ₹ 975 towards a debt of ₹ 1,000 which was written off as bad in the previous year.

(1 × 3 = 3 marks)

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Answer : (a)

Transaction	Assets =	Liabilities +	Capital
(i)	+ 50,000 - 30,000	0	+ 20,000
(ii)	- 5,000	+ 10,000	- 15,000
(iii)	+ 49,500 - 50,000	0	- 500
(iv)	- 500	+ 100	- 600
(v)	- 200 + 200	0	0
(vi)	- 500	0	- 500

Answer: (b)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Cash A/c Dr. To Shyam (Being the cash received from Shyam on account)		975	975
(b)	Anil Dr. To Sales A/c To Value Added Tax A/c (Being the goods sold to Anil on Credit) Cost 40,000 Add : Profit @ 25% on cost 10,000 List price 50,000 Less : Trade discount @ 20% 10,000 Invoice Value 40,000 Add : Vat @ 10% 4,000 44,000		44,000	40,000 4,000
(c)	Cash A/c Dr.		975	

	To Bad Debts Recovered A/c (Being the Bad Debts already w/o, now recovered)			975
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2011 - June [2] (c) Journalise the following transactions in the books of a trader :

2011

- April 1 Goods costing ₹ 600 (sale price ₹ 800) withdrawn for personal use.
- " 5 Goods costing ₹ 2,000 (sales price ₹ 2,500) distributed as free samples.
- " 8 Goods stolen in transit ₹ 2,000 (cost ₹ 1,500).
- " 10 Goods worth ₹ 1,500 stolen by an employee cost of which was ₹ 1,000.
- " 15 Goods used in making of furniture (cost ₹ 2,000 selling price ₹ 2,400). **(2 marks)**

Answer :

Journal

Date	Particulars	(₹)	(₹)
2011 April, 1	Drawings A/c Dr. To Purchases A/c	600	600
April, 5	Free Sample A/c Dr. To Purchases A/c	2,000	2,000
April, 8	Loss in Transit A/c Dr. To Purchases A/c	1,500	1,500
April, 10	Loss by embezzlement A/c Dr. To Purchases A/c	1,000	1,000
April, 15	Furniture A/c Dr. To Purchases A/c	2,000	2,000

2.88**Scanner CMA Foundation Paper-2 (2022 Syllabus)****2011 - June [3]** (b) Pass Journal Entries :

- (1) Started Business with cash ₹ 2,00,000, furniture 80,000 and stock ₹ 20,000.
 (2) Deposited ₹ 1,00,000 in the Bank.
 (3) Paid wages ₹ 20,000 through cheques. **(3 marks)**

Answer :**Journal**

	Particulars		(₹)	(₹)
1	Cash A/c	Dr.	2,00,000	
	Furniture A/c	Dr.	80,000	
	Stock A/c	Dr.	20,000	
	To Cash A/c			3,00,000
2	SBI Bank A/c	Dr.	1,00,000	
	To Cash A/c			1,00,000
3	Wages A/c	Dr.	20,000	
	To Bank A/c			20,000

2011 - Dec [2] (a) Journalise the following transactions in the books of a trader:

2011

- Nov. 1 Mr. Dutta was declared insolvent and a sum of ₹ 5,600 would be received instead of ₹ 8,000.
 Nov. 4 An old machinery was sold to Rakesh for ₹ 15,000.
 Nov. 8 Goods costing ₹ 2,500 (sale price ₹ 3,000) withdrawn from business for personal use.
 Nov. 12 Purchased furniture from Vikas for shop ₹ 25,000.
 Nov. 15 Deposited ₹ 80,000 in SBI account. **(1 × 5 = 5 marks)**

Answer:**In the Books of a Trader**

Date	Particulars		Amount (₹)	Amount (₹)
2011	Cash A/c	Dr.	5,600	
Nov. 1	Bad Debts A/c	Dr.	2,400	

	To Mr. Dutta's A/c			8,000
Nov. 4	Rakesh's A/c To Machinery A/c	Dr.	15,000	15,000
Nov. 8	Drawings A/c To Purchase A/c	Dr.	2,500	2,500
Nov. 12	Furniture A/c To Vikas's A/c	Dr.	25,000	25,000
Nov. 15	Bank Account To Cash A/c	Dr.	80,000	80,000

2012 - June [2] (a) Journalize the following transactions in the books of a trader :

- (i) 1st March 2012, paid quarterly interest on borrowed amount of ₹ 20,000 at 12% p.a.
- (ii) 10th March 2012, Goods destroyed by fire for ₹ 6,000, for which there is no insurance coverage.
- (iii) 15th March 2012, Received commission for ₹ 5,000.
- (iv) 21st March 2012, paid transportation charges for machinery of ₹ 1,000 and installation charges for ₹ 1,500. **(1 × 4 = 4 marks)**

Answer :

		<i>Dr.</i>		<i>Cr.</i>	
Date	Particulars	L.F.	Amount (₹)	Amount (₹)	
(i) 1.3.12	Interest Account To Cash Account (Being the amount paid as quarterly interest on borrowed Amount of ₹ 20,000 @ 12% p.a.)	Dr.	600		600

(ii)	10.3.12	Loss By Fire Account To Purchase Account (Being the goods not insured lost by fire)	Dr.	6,000	6,000
(iii)	15.3.12	Cash Account To Commission Account (Being the commission received)	Dr.	5,000	5,000
(iv)	21.3.12	Machinery Account To Cash Account (Being the transportation and installation charges on Machinery paid in cash)	Dr.	2,500	2,500

2012 - Dec [2] (a) Find out the accounting equation from the following assets and liabilities of Bholu as on 31st March, 2012:

Land and Building	₹ 21,00,000	:	Plant and Machinery	₹ 3,60,000
Investment	₹ 1,00,000	:	Prepaid Insurance	₹ 4,000
Stock	₹ 70,000	:	Debtors	₹ 1,50,000
Creditors	₹ 1,30,000	:	Bank loan	₹ 4,50,000
Cash in hand	₹ 30,000	:	Bills payable	₹ 36,000
Outstanding Salary	₹ 10,000			

(3 marks)

(b) Pass necessary adjustment entries for the following at the end of the accounting year on 31st March, 2012.

- Fire insurance of building paid ₹ 1,500 on 10.1.2012 for the year 2012.
- During the year 2011-12, office rent paid ₹ 19,000 for 10 months.
- Bank loan taken on 1st May, 2011 for ₹ 3,00,000 @ 15 percent interest per annum. Including interest it was unpaid on 31st March, 2012
- On 1st October, 2011 ₹ 50,000 deposited in SBI 5 years fixed deposit scheme, on which interest would be received on maturity @ 9.5 percent per annum.

(4 marks)

Answer:

(a) As per Accounting Equation —

Capital + Liabilities = Assets or, Capital = Assets – Liabilities	
Assets: Land & Building	21,00,000
Plant & Machinery	3,60,000

Investment		1,00,000
Stock		70,000
Debtors		1,50,000
Prepaid Insurance		4,000
Cash in hand		<u>30,000</u>
Total Assets		28,14,000
<i>Less: Liabilities :</i>		
Bank Loan	4,50,000	
Creditors	1,30,000	
Bills Payable	36,000	
Outstanding Salary	<u>10,000</u>	
Total Liability		6,26,000
Capital		<u>21,88,000</u>

Hence, Accounting Equation

Capital ₹ 21,88,000 + Liabilities ₹ 6,26,000 = Assets ₹ 28,14,000

(b)

**In the books of
Journal Entries**

			Dr.	Cr.
Date	Particulars	L.F.	(₹)	(₹)
2012 March, 31				
(i)	Prepaid Fire Insurance A/c Dr. To Fire Insurance A/c (Being the Fire Insurance paid in advance for 9 months, now adjusted)		1,125	1,125
(ii)	Office Rent A/c Dr. To Outstanding Rent A/c (Being the Office Rent outstanding for 2 months, now adjusted)		3,800	3,800

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(iii)	Interest on Bank Loan A/c Dr. To Outstanding Interest on Bank Loan A/c (Being the Interest on Bank Loan is Outstanding for 11 months, now adjusted)		41,250	41,250
(iv)	Accrued Interest A/c Dr. To Interest A/c (Being the Interest on deposit are accrued for 6 months, now adjusted)		2,375	2,375

2012 - Dec [4] (a) Journalise the following transactions in the books of Mahi: 2012

- November 1 : Ashok was declared insolvent and a sum of ₹ 5,600 received instead of ₹ 8,000
 „ 12 : An old machinery was sold to Mukesh for ₹ 15,000
 „ 13 : Goods withdrawn from business for personal use ₹ 2,500
 „ 20 : Purchased furniture from Jatin for shop ₹ 25,000
 „ 26 : Goods worth ₹ 15,000 burnt by fire
 „ 29 : Insurance company accepted the fire insurance claim of ₹ 14,000. **(6 marks)**

Answer:

**In the books of Mahi
Journal Entries**

Date	Particulars	L.F.	Dr.	Cr.
			(₹)	(₹)
2012 Nov, 1	Cash A/c Dr. Bad Debt A/c Dr. To Ashok's A/c (Being the Ashok was insolvent and received a sum of ₹ 5,600)		5,600 2,400	8,000

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- (ii) Machine A/c Dr. 2,500
 To Cash A/c 2,500
 (Being transportation and installation charges paid for new machine)
- (iii) Closing Stock A/c Dr. 2,65,000
 To Trading A/c 2,65,000
 (Being closing stock valued at year end)

2017 - Dec [2] On the basis of following information, prepare Three Column Cash Book in the books of Makkhan:

2017	
November, 1	Opening cash balance was ₹ 13,800 and bank balance was ₹ 2,75,000.
November, 4	Wages paid in cash ₹ 15,000.
November, 5	Received cheque of ₹ 49,800 from L K Enterprise after allowing discount of ₹ 1,200. It was deposited into bank.
November, 7	Paid electricity charges by cheque of ₹ 17,500.
November, 10	Cash of ₹ 12,500 withdrawn from bank.
November, 12	Received a cheque for ₹ 49,500 in full settlement of the account of Badhu & Co. at a discount of 10% and deposited the same into bank.
November, 15	Badhu & Co.' s cheque dishonoured and returned by the bank.

(8 marks)**Answer:****Cash Book**

	Particulars	L.F	Discount	Cash	Bank		Particulars	L.F	Discount	Cash	Bank
1/11	To Balance b/d		—	13,800	2,75,000	4/11	By Wages A/c			15,000	—
5/11	To LK Enterprise		1,200		49,800	7/11	By Electricity charges				17,500
10/11	To Bank	C		12,500		10/11	By Cash	C			12,500

12/11	To Badhu & Co.		5,500		49,500	15/11	By Badhu & Co.				49,500
						15/11	By Balance c/d			11,300	2,94,800
			6,700	26,300	3,74,300					26,300	3,74,300

2018 - Dec [2] Journalize the following transactions in the books of Chandu, 2018:

- October 1 Chandu started business with ₹ 25 Lakh of which 20% amount was borrowed from his friend Shaurabh.
- October 5 Office furniture purchased from Furniture Mart for ₹ 1,25,000 and one Laptop purchased for ₹ 35,500.
- October 6 Goods purchased from KC worth ₹ 4.5 Lakh at 10% trade discount and 40% of the amount was paid in cash.
- October 10 Goods sold to Rajnee for ₹ 3.2 Lakh at 20% trade discount and received one-fifth of the amount in cash.
- October 14 Goods destroyed by fire of ₹ 52,000 which was uninsured.
- October 18 Paid to KC ₹ 1,85,000 and discount received ₹ 3,700.
- October 22 Received from Rajnee ₹ 2 Lakh in full settlement of account.
- October 26 Goods costing ₹ 4,500 (Net selling price ₹ 5,400) taken away by Chandu for personal use. **(8 marks)**

Answer:

**In the Books of Chandu
Journal Entries**

Date	Particulars	L/F	Debit Amount (₹)	Credit Amount (₹)
01/10/2018	Cash A/c Dr. (25,00,000 * 20%) To Loan from Saurabh A/c (Being loan taken from Saurabh for investment in business)		5,00,000 — —	— — 5,00,000

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01/10/2018	Cash A/c Dr. To Capital A/c (25,00,000 * 80%) (Being Capital introduced)		20,00,000 —	— 20,00,000
05/10/2018	Office Furniture A/c Dr. To Furniture Mart A/c (Being furniture purchased on Credit)		1,25,000 —	— 1,25,000
05/10/2018	Laptop A/c / Office Equipment A/c Dr. To Cash A/c (Being Laptop purchased)		35,500 —	— 35,500
06/10/2018	Purchase A/c Dr. (4,50,000 - 10% * 4,50,000) To KC's A/c (4,05,000 * 60%) To Cash A/c (4,05,000 * 40%) (Being goods purchased from KC and part of the total payment made in cash)		4,05,000 — —	— 2,43,000 1,62,000
10/10/2018	Rajnee's A/c Dr. Cash A/c Dr. To Sales A/c (3,20,000 - 20% * 3,20,000)		2,04,800 51,200 —	— — 2,56,000
14/10/2018	Accidental Loss A/c Dr. To Trading Account (Being goods destroyed by Fire)		52,000 —	— 52,000
14/10/2018	Profit and Loss A/c Dr. To Accidental Loss A/c (Being loss caused due to fire as goods were not insured)		52,000 —	— 52,000

18/10/2018	KC's A/c To Cash A/c To Discount Received A/c (Being amount paid to KC)	Dr.	1,88,700 — —	— 1,85,000 3,700
22/10/2018	Cash A/c Discount Allowed A/c To Rajnee's A/c (Being final settlement done with Rajnee)	Dr. Dr.	2,00,000 4,800 —	— — 2,04,800
26/10/2018	Drawings A/c To Purchases A/c (Being goods taken over for personal use recorded at Cost Price)	Dr.	4,500 —	— 4,500
	Total		38,23,500	38,23,500

Notes:

1. For journal entry no 5 and 6 above, trade discount is deducted from gross figure, as it never appears in the books of accounts
2. For journal entry no 8, it is assumed that ₹ 1,85,000 is net payment made after receiving discount of ₹ 3,700. Even after this entry, KC Account will show balance of ₹ 54,300 as final settlement is not done with him.

2019 - Dec [2] Enter the following transactions of Ram Prakash & Sons in appropriate books of original entry.

2019

April 1: Started business with cash ₹2,00,000 and goods	₹1,50,000
April 2: Opened a current account in Punjab National Bank	₹1,00,000
April 4: Purchased goods from Hari	₹90,000
April 6: Sold goods to Mukesh for cash	₹1,25,000
April 8: Sold goods to Ramesh	₹15,000

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April 10: Purchased furniture for shop from National Furniture, he allowed 10% trade discount	₹80,000
April 15: Paid to National Furniture	₹72,000
April 24: Sold goods to Vikram, trade discount 5%	₹70,000
April 29: Ramesh was declared insolvent and a dividend of 40 paise in rupee could be received from him.	
April 30: Withdraw from Bank for office expenses	₹10,000

(8 marks)**Answer:**

**In the books of Ram Prakash & Sons
Journal Entries**

Date	Particulars	L/F	Debit Amount (₹)	Credit Amount (₹)
01/04/2019	Cash A/c Dr. Stock A/c Dr. To Capital A/c (Being Capital introduced)		2,00,000 1,50,000 -----	----- ----- 3,50,000
02/04/2019	Bank A/c Dr. To Cash A/c (Being bank account opened and cash deposited in it)		1,00,000 -----	----- 1,00,000
04/04/2019	Purchase A/c Dr. To Hari's A/c (Being goods purchased on Credit)		90,000	----- 90,000
06/04/2019	Cash A/c Dr. To Sales A/c (Being goods sold to Mukesh)		1,25,000 -----	----- 1,25,000
08/04/2019	Ramesh's A/c Dr. To Sales A/c (Being goods sold on Credit)		15,000	----- 15,000

10/04/2019	Furniture A/c To National Furniture A/c (Being furniture purchased, after getting 10% Trade Discount)	Dr.	72,000 ----- 72,000	----- 72,000
15/04/2019	National Furniture A/c To Cash / Bank A/c (Being payment made)	Dr.	72,000 ----- 72,000	----- 72,000
24/04/2019	Vikram's A/c To Sales A/c (Being goods sold on credit, after allowing 5% Trade Discount)	Dr.	66,500 ----- 66,500	----- 66,500
29/04/2019	Cash/Bank A/c Bad Debts A/c To Ramesh's A/c (Being 40% amount received as full and final settlement)	Dr. Dr.	6,000 9,000 ----- 15,000	----- ----- 15,000
30/04/2019	Office Expenses A/c To Bank A/c (Being Office Expenses paid through bank account)	Dr.	10,000 ----- 10,000	----- 10,000
	Total		9,15,500	9,15,500

1D

BANK RECONCILIATION STATEMENT

THIS CHAPTER INCLUDES

- | | |
|---|---|
| <ul style="list-style-type: none">• Concepts of BRS• Features of BRS• Causes of Disagreement Between Bank Statement and Bank Book | <ul style="list-style-type: none">• Steps in Preparation of BRS |
|---|---|

CHAPTER AT A GLANCE

Bank Reconciliation

In respect of Bank accounts, entries are made in Cash Book (in books of business entity) and in Pass Book (maintained by the Bank). The contents of Bank Pass Book (or Bank statement) are exactly the same as that of Cash Book with a mirror image effect. When cheque is received the entry in books of accounts of business is

Bank A/c Dr
 To Party A/c

For the Bank, this amount is collected through the clearing system and payable to the Business Entity's A/c. The entry in their books will be

Clearing A/c Dr
 To Business Entity's A/c

Hence bank will show it as payable i.e. as a liability. Thus all debits in the Bank column of the Cash Book will correspond to the credit entries in the Bank Passbook and all credits in the Bank column of the Cash Book will correspond to the debit entries in the Bank Passbook. Due to the time differences, these entries may not exactly match at a given point of time.

Therefore, these two statements are reconciled regularly:

1. To identify differences
2. To know the causes for differences
3. To ensure that required entries are entered timely in the books of accounts
4. To ensure that entries are made by the Bank in time.
5. To ensure that there is no misappropriation of cash.

A statement which is prepared to reconcile the difference between Bank Balance as per Cash Book and Bank Balance as per Pass Book/ Bank Statement is known as a Bank Reconciliation Statement (BRS). BRS must be prepared before finalization of accounts.

Features of BRS

1. It is a statement.
2. It is not a part of the Accounting process.
3. It is prepared to reconcile the causes of difference between the Bank balance as per Cash Book and the Bank balance as per Pass Book.
4. It can be prepared at any time during the financial year whenever required.

Reasons for Differences between Cash Book and Pass Book

The differences are basically of two types:

1. Items not appearing in Bank Pass Book but appearing in Cash Book

(i) Cheques issued by business entity not debited by the Bank:

This may be because they might not have been deposited (presented) by the payee or they may still be under clearance. The entry in Cash Book is made immediately when the cheque is issued thereby reducing the Bank balance in the entity's books, but balance in Bank Pass Book is not reduced.

- ###### **(ii) Cheques deposited but not credited by the Bank:** The business entity may receive cheques or drafts which are deposited into the Bank for collecting the payment. Entry in Cash Book will be made immediately, increasing the Bank balance but entry in the Bank passbook is made only when is cleared.

(iii) **Errors:** The Bank may by mistake omit any entry which results in the difference.

(iv) **Standing Instructions:** The entity may give standing instruction to the Bank for certain regular payments like loan installment, insurance premium etc. This will be entered in the Cash Book immediately, but Pass Book entry may be delayed till the time payment is actually made.

2. Items not appearing in the Cash Book

(i) **Bank interest, Bank charges etc.:** The Bank will charge interest on overdraft and charges for services. Here, Bank will record the transactions immediately in the Pass Book. The entry in the Cash Book may be delayed due to lack of information. Similarly, Bank will credit interest on deposits, which may get entered in business books at a later date.

(ii) **Direct deposits in Bank account:** Sometimes customers or other parties may directly deposit an amount in Bank for goods or services rendered. Bank will enter it immediately, but entry in Cash Book will appear later.

(iii) **Bills for collection:** Business Entity may send bills of exchange for collection to the bank. Bank will collect the payment and credit it in the passbook. The entry in Cash Book will be made only on receipt of information.

(iv) **Errors:** The entries may be omitted by the accountant of the Business Entity.

Need of Bank Reconciliation Statement

1. It helps to calculate the actual Bank balance.
2. It helps to identify mistakes in the Cash Book and the Pass Book.
3. It helps to detect and prevent frauds and errors in recording the Banking transactions.
4. It helps to incorporate certain transactions debited or credited by Bank in the books of accounts.

Steps in Preparing Bank Reconciliation Statement

1. Identify the balances and the character thereof. A debit balance in Cash Book means asset whereas a credit balance means a Bank Overdraft (OD). A debit balance in Pass Book means Overdraft and a credit balance means an asset.
2. Start with the balance as per one book and arrive at the balance as per the other book. The items of differences will be added to or deducted from the balance with which the reconciliation is started.
3. The result should be the balance as per the other book.
4. Whether the items of differences should be added or deducted depends on the sequence followed.

Amendment in Cash Book

Sometimes, Cash Book is amended before the preparation of BRS and BRS is prepared by taking the balance shown by the amended Cash Book. Generally two types of transactions are recorded in amended CB

1. Transactions which were not at all recorded in CB.
2. Any error made in the CB.

Step in preparation of Amended Cash Book

- (i) Open the Bank A/c with the Balance as per CB, whether favourable or unfavourable,
- (ii) Rectify the mistakes in CB and record transactions omitted from CB.
- (iii) Close the CB and find out the balance,
- (iv) Prepare Bank Reconciliation Statement by taking the amended CB balance and remaining transactions not adjusted in amended CB.

OBJECTIVE QUESTIONS

2009 - June [1] (b) Fill in the blanks :

- (i) The _____ balance in the bank column of the Cash Book indicates bank overdraft. **(1 mark)**

Answer:

Credit

2010 - June [1] (a) In each of the following one is correct. Indicate the correct answer:

(v) In case of an 'Unpresented Cheque':

- (a) Bank Balance in Cash Book is more than Bank Passbook
- (b) Bank Balance in Cash Book is less than Bank Passbook
- (c) Either (a) or (b)
- (d) No effect in both the books

(1 mark)

Answer:

(b) Bank Balance in Cash Book is less than Bank Passbook

2010 - Dec [1] (a) In each of the following, one is correct, indicate the correct answer.

(iv) In Cash Book Debit balance of ₹ 112 was brought forward as credit balance of ₹ 121. While preparing a Bank Reconciliation Statement taking the balance as per Cash Book as the starting point:

- (a) ₹ 112 to be added
- (b) ₹ 233 to be added
- (c) ₹ 121 to be added
- (d) ₹ 112 to be subtracted

(1 mark)

Answer:

(b) ₹ 233 to be added

2012 - Dec [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

(vi) A cheque of ₹ 5,600 issued by the trader was recorded in debit column of cash book as ₹ 6,500. Assuming that the payment of cheque made by bank, the balance as per pass book of trader should be subtracted from the balance as per bank column of the cash book by

- (a) ₹ 5,600
- (b) ₹ 6,500
- (c) ₹ 12,100
- (d) ₹ 900

(1 mark)

- (c) State whether the following statement is 'True' or 'False':
(iv) The balance as shown by the Bank pass book and the balance as shown by the bank column of cash book are always same.

(1 mark)

Answer:

(a) (vi) (C) ₹ 12,100

(c) (iv) False

QUESTION AND ANSWER OF SEPTEMBER 2014

1. The cash book shows a debit balance of ₹ 2,370 but bank statement gives a different figure. The differences found are: a cheque for ₹ 700 paid to creditors is not entered in the bank pass book and bank charges of ₹ 67 being entered in the cash book as ₹ 76. The balance shown in the pass book is
- (a) ₹ 3,079/- credit
 - (b) ₹ 3,061/-credit
 - (c) ₹ 1,679/- credit
 - (d) ₹ 1,670/- credit

(1 mark)

Answer: (a)

QUESTION AND ANSWER OF DECEMBER 2014

1. If you start with cash book favorable balance in Bank Reconciliation Statement, which item will be added?
- (a) Cheque deposited but not credited by the bank
 - (b) Cheques omitted to be deposited into bank
 - (c) Any amount directly collected by bank on behalf of customer but not recorded in cash book
 - (d) Debit side of cash book was overcast

(1 mark)

Answer: (c)

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QUESTION AND ANSWER OF MARCH 2015

1. Debit balance as per cash book is ₹ 1,500
Cheque deposited, but not cleared ₹ 100
Cheque issued, but not presented ₹ 150
Dividend collected by bank ₹ 50
Interest allowed by bank ₹ 50
Balance as per pass book?

- (a) ₹ 1,550
(b) ₹ 1,650
(c) ₹ 1,600
(d) ₹ 1,950

(1 mark)

Answer: (b)

QUESTION AND ANSWER OF JUNE 2015

1. Which of the following is not a cause of difference in balance as per cash book and balance as per bank pass book:
- (a) Errors in cash book
(b) Errors in pass book
(c) Cheques deposited and cleared
(d) Cheques issued but not presented for payment.

(1 mark)

Answer: (c)

QUESTION AND ANSWER OF SEPTEMBER 2015

1. When the balance as per Cash Book is the starting point, direct deposits by customers are:
- (a) Added
(b) Subtracted
(c) Not required to be adjust
(d) None of these.

(1 mark)

Answer: (a)

QUESTION AND ANSWER OF DECEMBER 2015

1. The cash book showed an overdraft of 1,500 but the pass book made up to the same date showed that cheques of ₹ 100, ₹ 50 and ₹ 125 respectively had not been presented for payments, and the cheque of ₹ 400 paid into account had not been cleared. The balance as per the pass book will:
- (a) ₹ 2,075
 - (b) ₹ 2,175
 - (c) ₹ 1,625
 - (d) ₹ 1,375.

(1 mark)

Answer: (c)

QUESTIONS AND ANSWERS OF MARCH 2016

1. Which of the following statement is true?
- (a) Bank charges increase debit balance shown as per Bank column of the Cash Book.
 - (b) Bank charges increase debit balance as per Bank Pass Book.
 - (c) A cash sale of a non-trading asset is recorded in the journal proper.
 - (d) Cash discount allowed by business will appear on the debit side of the debtor's account.

(1 mark)

Answer : (b)

2. Which of these items are taken into consideration for preparation of adjusted Cash Book:
- (a) Mistake in Cash Book
 - (b) Mistake in Pass Book
 - (c) Cheques issued but not presented for payment
 - (d) Cheques deposited but not cleared.

(1 mark)

Answer : (a)

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Question and Answer of June 2016

1. Debit balance as per bank pass book mean_____.

- (a) Surplus cash
- (b) Bank overdraft
- (c) Terms deposits with bank
- (d) None of these.

(1 mark)

Answer: (b)

QUESTION AND ANSWER OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:

- (i) Overdraft as per cash book means _____.
 - (a) credit balance in the pass-book
 - (b) credit balance in the bank column of the cash book
 - (c) debit balance in the pass-book
 - (d) debit balance in the cash book

(1 mark)

Answer:

(b) credit balance in the bank column of the cash book

QUESTION AND ANSWER OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives:

- (xx) When preparing a bank reconciliation statement, if you start with debit balance as per cash book cheques sent to bank but not collected should be
 - (a) Added
 - (b) Deducted
 - (c) Not required to be adjusted
 - (d) None of the above

(1 mark)

Answer:

(xx) (b)

QUESTION AND ANSWER OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.
- (xii) M/s. A.B. Enterprises has bank balance ₹ 8,800 as per cash book and the followings were found:
- (a) Three cheques deposited in bank for ₹ 5,800 but only one cheque for ₹ 2,000 was cleared.
 - (b) Dividend collected by bank ₹ 1,250 was wrongly entered in cash book as ₹ 1,520. What is balance as per pass book?
 - (a) ₹ 3,480
 - (b) ₹ 4,730
 - (c) ₹ 2,730
 - (d) ₹ 3,750
- (1 mark)**

Answer:

- (xii) (b) ₹ 4,730.

QUESTION AND ANSWER OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:
- (xxi) Difference in Bank Balance as per Pass book and Cash book may arise on account of
- (a) Cheque issued but not presented
 - (b) Cheque issued but dishonoured
 - (c) Cheque deposited not credited by bank
 - (d) All of the above.
- (1 mark)**
- (xxii) Which of these items are taken into consideration for preparation of adjusted cash book?
- (a) Mistake in cash book
 - (b) Mistake in pass book
 - (c) Cheque issued but not presented for payment
 - (d) Cheque deposited but not cleared by bank
- (1 mark)**

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Answer:

(xxi) (d)

(xxii) (a)

QUESTION AND ANSWERS OF DECEMBER 2018

1. (a) Choose the correct answer from the given *four* alternatives.

(xxx) In case of, deposited of cheque into bank but not collected, the balance is less as per _____.

- (a) Cash book
- (b) Pass book
- (c) Pass book overdraft
- (d) Both (a) and (b)

(1 mark)

Answer:

(xxx) (b) Pass Book

(b) State whether the following statement are *True* or *False*

(iii) Favourable bank balance means, debit balance in the pass-book.

(1 mark)

Answer:

(iii) False

QUESTION AND ANSWER OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:

(xvi) From the following details ascertain the adjusted bank balance as per Cash Book- overdraft as per Cash Book ₹ 1,60,000; cheque received entered twice in the Cash Book ₹ 10,000; credit side of bank column cast short by ₹ 1,000; bank charges amounting to ₹ 400 entered twice;

- (a) ₹ 1,68,600
- (b) ₹ 1,71,000
- (c) ₹ 1,70,000
- (d) ₹ 1,70,600

- (xvii) When credit balance as per pass book is the starting point of a Bank Reconciliation Statement then bank charges are
- (a) Subtracted
 - (b) Added
 - (c) Either (a) or (b)
 - (d) None of the above
- (1×2 = 2 marks)**

Answer:

- (xvi) (a) ₹ 1,68,600
(xvii) (b) Added

(b) State whether the following statements are True or False:

- (iii) Bank Reconciliation Statement is a part/component of financial statements.
 - (vii) A credit balance in the pass book indicates excess of deposits over withdrawals.
- (1×2 = 2 mark)**

Answer:

- (iii) False
(vii) True

QUESTION AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
- (xi) Which one of these documents is not required for bank reconciliation?
 - (a) Bank column of cash book
 - (b) Bank pass book
 - (c) Previous year's balance sheet
 - (d) Bank statement
 - (xii) In a overdraft balance as per cash book, a cheque of ₹1,250 deposited into bank but not recorded in cash book will be
 - (a) deducted by ₹1,250.
 - (b) added by ₹1,250.
 - (c) added by ₹2,500.
 - (d) deducted by ₹2,500.

(1×2 = 2 mark)

Answer:

- (xi) (c)
(xii) (a)

QUESTIONS AND ANSWER OF DECEMBERS 2022

1. Pass book of Makkhu is showed an overdraft balance of ₹ 65,000, cheque deposited with bank of ₹ 42,000 but out of these cheque for ₹ 21,000 are not cleared and interest charged by bank ₹ 440 entered in the pass book only. Bank overdraft as per cash book be
- (a) ₹ 43,560 (b) ₹ 44,440
(c) ₹ 85,560 (d) ₹ 22,560

Answer:

- (a) ₹ 43,560
2. When credit balance as per pass book is the starting point bank charges are –
- (a) Subtracted (b) Added
(c) Neither of the two (d) None

Answer:

- (b) Added
3. Debit balance as per bank pass book mean –
- (a) Surplus cash
(b) Bank overdraft
(c) Terms deposits with bank
(d) None of these

Answer:

- (b) Bank overdraft

DESCRIPTIVE QUESTIONS

2010 - Dec [2] (b) State the basic object of :

- (i) Preparing Bank Reconciliation Statement.

(1 mark)

Answer :

To reconcile the Bank Balance as per Cash Book with the Bank Balance as per Pass Book.

PRACTICAL QUESTIONS

2009 - June [2] (a) From the following particulars, prepare a Bank Reconciliation Statement and arrive at the balance as per Cash Book as on 31st March, 2009:

- (i) Credit balance as per Pass Book: ₹ 9,700.
- (ii) Cheques issued on 27th March, 2009, but presented for payment on 3rd April, 2009: ₹ 19,000.
- (iii) Cheques deposited in the Bank on 29th March, 2009, but credited on 2nd April, 2009: ₹ 10,000.
- (iv) Bank debited Bank Charges, but not yet recorded in Cash Book : ₹ 250.
- (v) Dividend on shares collected and credited by Bank, but not yet recorded in Cash Book : ₹ 2,000. **(7 marks)**

Answer :

Bank Reconciliation Statement as on 31st March, 2009

Particulars	(₹)	(₹)
Credit balance as per Pass Book		9,700
<i>Add:</i>		
(i) Cheques deposited into bank but not yet credited	10,000	
(ii) Bank charges debited by bank	250	10,250
		19,950
<i>Less:</i>		
(i) Cheques issued but not yet presented for payment	19,000	
(ii) Dividend on shares collected by Bank	2,000	21,000
Credit balance (Overdraft as per Cash Book)		1,050

2009 - Dec [2] (a) Based on the following information prepare a Bank Reconciliation Statement as on 31st December, 2008 and find the balance as per pass book:

- (i) Bank overdraft as per cash book on 31.12.2008 ₹ 6,340;
- (ii) Interest on overdraft for 6 months ending 31.12.2008 ₹ 160 is entered on pass book;
- (iii) Bank charges amounted to ₹ 30 for the above period were entered in the pass book;
- (iv) Cheques issued but not presented upto 31.12.2008 amounted to ₹ 1,168;
- (v) Cheques sent for collection to the bank but not collected upto 31.12.2008 amounted to ₹ 2,170;
- (vi) Interest on investments collected by the bank and entered in the pass book ₹ 1,200

(6 + 1 = 7 marks)

Answer :

Bank Reconciliation statement as on 31st December, 2008

Particulars	(₹)	(₹)
Overdraft as per cash book		6,340
Add: Interest on O/D		160
Bank Charges		30
Cheques sent for collection		<u>2,170</u>
		8,700
Less: Cheques issued but not presented	1,168	
interest on investments	<u>1,200</u>	<u>2,368</u>
Overdraft as per Pass book		6,232

2011 - June [2] (a) From the following information prepare a Bank Reconciliation Statement as on 31st March, 2011 from the following information :

- (i) The credit balance as per cash book on 31st March, 2011 was ₹ 12,680.
- (ii) Interest on overdraft for 3 months ₹ 320.
- (iii) Bank charges of ₹ 60 were debited by the bank.

- (iv) Cheques issued but not cashed prior to 31st March, 2011, amounted to ₹ 2,336.
 (v) Cheques deposited into bank but not cleared before 31st March, 2011, ₹ 4,340.
 (vi) Interest on investments collected by the bank ₹ 2,400. **(6 marks)**

Answer :

Bank Reconciliation Statement as on 31st March, 2011

Particulars	(₹)	(₹)
Balance as per Cash Book (overdraft/Cr.)		(12,680)
<i>Add:</i> Cheques issued but not yet presented	2,336	
Interest collected by bank on investments	2,400	4,736
		(7,944)
<i>Less:</i>		
Cheques deposited into bank but not yet collected	4,340	
Interest charged by bank on overdraft	320	
Bank charges debited	60	(4,720)
Balance as per Pass Book (Debit/Overdraft)		(12,664)

2012 - June [4] (a) From the following particulars of M/s. Narayan Trading Company, prepare a bank reconciliation statement as on 31.3.2012 :

- (i) Bank balance as per cash book as on 31.3.2012 was ₹ 9,620/-.
 (ii) A cheque amounting to ₹ 1,270/- issued to supplier on 10th March 2012, was entered by mistake as a receipt in the cash book.
 (iii) Out of three cheques deposited in bank for ₹ 18,000, only one cheque of ₹ 6,400 was cleared till 31st March 2012.
 (iv) An amount of ₹ 15,000 transferred to current A/c from matured value of a fixed deposit not entered in the cash book.
 (v) A cheque amounting to ₹ 10,200 issued to a supplier on 28th March 2012, but not presented till 31.3.2012.
 (vi) Dividend collected by bank for ₹ 750 was wrongly entered as ₹ 570 in the cash book. **(6 marks)**

Answer :

Bank Reconciliation Statement as on 31.3.2012

Particulars	(₹)	(₹)
Bank Balance as per cash book as on 31.3.2012		9,620
Add: Cheque issued but not presented till 31.3.2012	10,200	
Transfer from fixed deposit not entered in Cash Book	15,000	
Dividend collected, but short recorded in cash book	180	25,380
		35,000
Less: Cheque issued but recorded as receipt now corrected (with double the amount)	2,540	
Cheque deposited but not credited by bank	11,600	14,140
Balance as per Pass Book as on 31.3.2012		20,860

2012 - Dec [3] (b) State whether the following items will be added or subtracted during the preparation of Bank reconciliation statement, if the pass book's debit balance taken as base:

- Bank charges debited by Bank but not recorded in cash book.
- Interest on investment directly collected by Bank but not intimated to customer.
- Interest on overdraft recorded only in pass book.
- Cheques issued to suppliers but not presented into Bank. **(4 marks)**

Answer:

Added — (ii); (iv)

Subtracted — (i); (iii)

2016 - Dec [7] Answer the question:

- Prepare a bank reconciliation statement as on 30th November, 2016 from the following details and show the balance of Pass Book:
 - Credit balance as per bank column of Cash Book ₹ 4,65,600.
 - Cheques issued but not yet presented for payment ₹ 1,32,000.
 - Cheques deposited into bank but not yet collected ₹ 1,50,000.
 - Bank charges ₹ 2,000 not entered in Cash Book.

- (e) Interest on investment collected by bank which was not entered in Cash Book ₹ 15,000.
- (f) Electricity bills paid directly by bank ₹ 10,000.
- (g) Amount transferred from Fixed Deposit Account into the Current Account ₹ 1,25,000 appeared only in Pass Book. **(8 marks)**

Answer:

Bank Reconciliation Statement as on 30.11.2016

Credit balance as per Cash Bank	4,65,600
Cheques issued but not yet presented	(–) 1,32,000
Cheques deposited but not yet collected	(+) 1,50,000
Bank charges not entered in Cash Book	(+) 2,000
Interest not entered in Cash Book	(–) 15,000
Electricity bills not entered in Cash Book	(+) 10,000
Amount transferred from FD to CA	(–) 1,25,000
Debit Balance as per Pass Book	<u>3,55,600</u>

2017 - June [7] From the following particulars of Jaggu Enterprises, prepare a Bank Reconciliation Statement:

- (i) Bank overdraft as per Pass Book as on 31st March, 2017 was ₹ 88,000.
- (ii) Cheques deposited in Bank for ₹ 58,000, but only ₹ 20,000 were cleared till 31st March.
- (iii) Cheques issued were ₹ 25,000, ₹ 38,000 and ₹ 20,000 during the month. The cheque of ₹ 58,000 is still with supplier.
- (iv) Dividend collected by Bank ₹ 15,200 was wrongly entered as ₹ 12,500 in Cash Book.
- (v) Amount transferred from Fixed Deposit Account into the Current Account ₹ 20,000 appeared only in Pass Book.
- (vi) Interest on overdraft ₹ 8,930 was debited by Bank in Pass Book and the information was received only on 3rd April, 2017.

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- (vii) Direct deposit by M/s Lokesh Traders ₹ 14,000 not entered in Cash Book.
- (viii) Income tax ₹ 15,000 paid by Bank as per standing instruction appears in Pass Book only. **(8 marks)**

Answer:**Bank Reconciliation statement as on 31st March, 2017**

Particulars	(₹)	(₹)
Overdraft as per pass book		88,000
<i>Add:</i>		
(i) Cheque issued but not presented till March 2017	58,000	
(ii) Transfer from fixed deposits	20,000	
(iii) Direct deposit by M/s Lokesh Trader	14,000	92,000
		1,80,000
<i>Less:</i>		
(i) Cheque deposited but not cleared (58,000 - 20,000)	38,000	
(ii) Dividend collected excess recorded in cash book (15,200 - 12,500)	2,700	
(iii) Interest on overdraft debited in pass book only	8,930	
(iv) Income tax paid appeared in Pass book only	15,000	64,630
Overdraft as the cash book		1,15,370

2017 - Dec [4] From the following information, prepare a Bank Reconciliation Statement as on 31st March, 2017:

- (i) The Bank column of the Cash Book showed overdraft of ₹ 1,15,000 on 31st March, 2017.
- (ii) Cheques of ₹ 42,400 issued but not encashed by the customers.
- (iii) Cheques deposited but not cleared ₹ 21,500.

- (iv) Collection charges debited by the Bank not recorded in the Cash Book ₹ 185.
- (v) Bank interest charged by the Bank not recorded in the Cash Book ₹ 4,350.
- (vi) Cheques dishonoured debited by the Bank not recorded in the Cash Book ₹ 45,000.
- (vii) Interest directly received by the Bank not entered in the Cash Book ₹ 11,200.

(8 marks)

Answer:

Bank Reconciliation Statement as on 31.3.2017

Particulars	Amount (₹)
→ Balance as per Cash Book (Overdraft)	1,15,000
→ <i>Less:</i> Cheques issued but not encashed	42,400
→ <i>Add:</i> Cheques Deposited but not cleared	21,500
→ <i>Add:</i> Collection charges not recorded in Cash Bank	185
→ <i>Add:</i> Bank interest not recorded in Cash Bank	4,350
→ <i>Add:</i> Cheques dishonored not recorded in Cash Bank	45,000
→ <i>Less:</i> Interest received not entered in Cash Book	11,200
Balance as per Pass Book	1,32,435

2018 - June [4] From the following particulars of M/s. AB Enterprises, prepare Bank Reconciliation Statement as on 31st March, 2018 when there was overdraft balance of ₹ 17,600 as per Pass Book:

- (i) Three cheques were issued for ₹ 5,000, ₹ 7,600 and ₹ 4,000 during March, 2018. The cheques of ₹ 11,600 are still with the supplier.
- (ii) ₹ 4,000 transferred from fixed deposit A/c into current A/c, appeared only in the Pass Book.
- (iii) Cheques deposited in bank for ₹ 11,600 but only ₹ 4,000 were cleared till 31st March, 2018.
- (iv) Dividend collected by bank ₹ 2,500 was wrongly entered as ₹ 5,200 in Cash Book.

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- (v) Interest on overdraft ₹ 1,860 was debited by bank in Pass Book and the information was received only on 4th April, 2018.
- (vi) Direct deposit by M/s. CD Trading ₹ 800 not entered in Cash Book.
- (vii) Electricity bill ₹ 2,400 paid by bank as per standing instruction appear only in Pass Book. **(8 marks)**

Answer:**Reconciliation Statement**

Bank Balance as per Pass Book (overdraft)	17,600
Add: Cheque issued but not present in bank	11,600
Add: Amount trf to fixed deposit account not shown in cash book	4,000
Less: Cheque deposited in bank but not cleared (11600-4000)	7,600
Less: Interest on overdraft not entered in cash book	1,800
Add: Direct deposit by party not credited in cash book	800
Less: Dividend consider excess(5200-2500)	2,700
Less: Electricity bill paid by bank	2,400
Balance as per cash book	19,500

2018 - Dec [4] Prepare a bank reconciliation statement as on 31st October, 2018 from the following information and show the balance of pass book:

- (a) Credit balance as per bank column of cash book ₹ 3,57,500.
- (b) Three cheques amounting of ₹ 1,20,000 were issued but one cheque for ₹ 28,000 was not presented during the month.
- (c) Cheques deposited into bank for ₹ 1,50,000 but ₹ 1,15,500 not yet collected.
- (d) Gas bill for ₹ 12,000 paid directly by bank.
- (e) Interest on investment for ₹ 15,000 was collected by bank but entered in the cash book as ₹ 51,000.

- (f) Bank charges ₹ 3,000 not entered in the cash book.
 (g) A customer directly deposited ₹ 16,500 into bank for which there was no entry in the cash book.
 (h) A debit of ₹ 7,800 in the pass book in respect of dishonored cheque but no corresponding entry in the cash book. **(8 marks)**

Answer:

**Bank Reconciliation Statement
As on 31st October, 2018**

	Particulars	Amount (₹)	Amount (₹)
	Credit Balance as per Bank Book		3,57,500
<i>Add :</i>	Cheque deposited but not yet collected	1,15,000	
	Gas Bill directly paid by Bank	12,000	
	Interest on investment collected by Bank (Difference amount = ₹ 51,000 - ₹ 15,000)	36,000	
	Bank Charges	3,000	
	Debit entry in passbook not recorded in cashbook	7,800	1,73,800
			5,31,300
<i>Less :</i>	Cheque issued but not presented for payment	28,000	
	Direct deposit into Bank; not recorded in Cash Book	16,500	44,500
	Debit Balance as per Pass Book		4,86,800

2019 - June [4] The bank balance as per bank statement of Agni & Co as on 31st March, 2019, shows a credit balance of ₹ 19,500. On scrutiny with cash book the following point were noted:

- (a) Cheques of ₹ 15,900 deposited on 29.03.2019 but two cheques of ₹ 9,500 credited by the bank on 03.04.2019.

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- (b) Cheques of ₹ 5,900 directly deposited with the bank on 25.3.2019 but not recorded in the cash book.
- (c) As per standing instruction, bank has paid ₹ 2,500 against telephone bill and ₹ 1,200 for electric bill for the month of March, 2019 but intimation received on 3rd April, 2019.
- (d) Some cheques of ₹ 16,000 issued to creditors on 30.03.2019, of those cheques cheque of ₹ 6,200 were presented by 31.03.2019.
- (e) Bank has debited ₹ 500 for issuing cheque books but not recorded in cash book.
- (f) One cheque of ₹ 2,000 deposited with the bank on 15.03.2019 but the bank credited ₹ 1,970 on 20.03.2019.
- (g) An amount of ₹ 11,200 on maturity of fixed deposit transferred to current account but no entry was made in the Cash Book. **(8 marks)**

Answer:**Bank Reconciliation Statement(of Agni & Company)****As on 31st March, 2019**

	Particulars	Amount (₹)	Amount (₹)
	Credit Balance as per Pass Book / Bank Statement		19,500
<i>Add:</i>	Cheques credited on 03.04.2019	9,500	
	Standing Charges (Telephone Bill)	2,500	
	Standing Charges (Electricity)	1,200	
	Cheque book issue charges	500	
	Cheque short credited	30	13,730
			33,230
<i>Less:</i>	Cheques not recorded in cash book	5,900	
	Cheques not presented	9,800	
	Credit entry not made in Cash book	11,200	26,900
	Debit Balance as per Cash Book		6,330

2019 - Dec [4] The bank pass book of Mr. Sunil showed an overdraft of ₹15,000 on 31.03.2019. Prepare the bank reconciliation statement based on the following information:

- (i) Cheques for ₹2,500, ₹3,800 and ₹5,500 were issued during the month but only the cheque for ₹3,800 were presented.
- (ii) Five cheques amounting to ₹16,500 were deposited, out of that one cheque for ₹3,700 was credited on 4th April, 2019.
- (iii) A cheque for an amount of ₹2,400 were dishonoured by bank not recorded in cash book.
- (iv) A bank charge of ₹100 for dishonoured cheque was also not recorded in cash book.
- (v) A cheque for ₹6,500 issued in settlement of a debt was encashed on 30.03.2019 but entered in cash book as ₹8,500.
- (vi) A customer deposited a cheque of ₹6,700 directly to bank but not recorded in cash book.
- (vii) Interest on overdraft ₹500 were charged by bank not entered in cash book.
- (viii) One fixed deposit certificate with matured value of ₹12,000 due to be credited within 31st March but credited by bank on 2nd April, 2019.

(8 marks)

Answer:

**Bank Reconciliation Statement (in the books of Mr. Sunil)
As on 31st March, 2019**

Particulars	Amount (₹)	Amount (₹)
Debit Balance as per Pass Book/Bank Statement (Overdraft)		15,000
<i>Add:</i> Cheque deposited not credited	3,700	
Bank Charge	100	
Excess recording done in cash book	2,000	
Interest on Overdraft	500	

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FD certificate credited by bank after 31.03.2019	12,000	18,300
		33,300
<i>Less:</i> Cheques issued not presented (2500+5500)	8,000	
Cheque dishonoured by bank	2,400	
Cheque deposited directly into Bank Account	6,700	17,100
Credit Balance as per Cash Book (Overdraft)		16,200

1E

ADJUSTMENT ENTRIES AND RECTIFICATION OF ERRORS

THIS CHAPTER INCLUDES

- | | |
|---|--|
| <ul style="list-style-type: none">• Concepts• Features and Categories of Adjustment Entries• Rectification of Errors• Stages of Errors | <ul style="list-style-type: none">• Types of Errors• Effect of Errors on Trial Balance• Process of Rectification of Errors |
|---|--|

CHAPTER AT A GLANCE

Accounting Errors

Accounting Errors are the error committed by the persons responsible for recording and maintaining of a business in the course of accounting process.

Rectification of Errors

- Errors means unintentional omission or commission of accounts or amounts while recording entries.
- Due to errors, the final accounts do not show a true and fair view. So these errors need to be rectified.
- There can be many types of errors, some may effect trial balance while others may not. Even if they do not affect trial balance, there occurrence may distort the true picture of books and accounts.

Types of Errors		
(i) Error of principle (ii) Clerical errors <ul style="list-style-type: none"> • Errors of omission (partial or complete) • Error of commission • Compensating errors 		
Meaning of Error and effect in Trial Balance		
Type of error	Meaning	Effect in Trial Balance
1. Error of principle	When there is an error in complying accounting principles Ex- <ol style="list-style-type: none"> 1. Treating capital expenditure as revenue or <i>vice versa</i>. 2. Recording sale of fixed asset as an ordinary sale. 	No effect in Trial Balance. It will agree.
2. Error of omission <ul style="list-style-type: none"> • Complete omission • Partial omission 	When an entry is totally eliminated from being recorded. When an entry is recorded partially i.e. any one aspect (debit or credit) is not recorded.	No effect on Trial Balance. Trial Balance will be affected. It will not tally
3. Error of Commission	Any type of error committed while recording entries. Ex - <ol style="list-style-type: none"> 1. Writing wrong amount 2. Writing correct amount but on wrong side 3. Wrong casting (totaling) of subsidiary book etc. 	Trial Balance will not agree.

4. Compensating Errors	When two errors are committed such that one compensates with that of another. For e.g.: Rahul's A/c was debited with ₹ 100 instead of ₹ 1,000 while Ajay's A/c was debited with ₹ 1,000 instead of ₹ 100.	Trial Balance will agree.
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Effect of Errors on the Trial Balance

If a Trial Balance is matched then it does not mean that it is free from errors. Thus, errors can be classified into two types.

- (i) Errors which effect the Trial Balance, these errors are disclosed by the Trial Balance.
- (ii) Errors which have no effect on the Trial Balance. These errors are not disclosed by the Trial Balance.

Errors disclosed by Trial Balance

The following are the examples of errors disclosed by Trial Balance.

- Error in casting subsidiary books
- Error in carrying forward total of one page to another
- Error in totaling the trial balance
- Error in balancing an account
- Error in preparation of schedules
- Error in carrying the balance to the trial balance
- Error of partial omission
- Double Posting to an account
- Error of posting from book of subsidiary record to ledger.

Errors not disclosed by Trial Balance

The following errors are not disclosed by trial balance i.e. the trial matches even if the errors are present.

- Error of complete omission i.e. when a transaction has been completely omitted from being recorded

- Errors of commission
- Compensatory errors
- Errors of principle
- Recording wrong amount in subsidiary book
- Errors of duplication

Steps to locate Errors

- First check whether the Trial Balance is agreeing, if not there is an indication of errors.
- Even if the trial balance has agreed still there may be errors (like compensating errors, errors of principle etc.)
- Ensure that cash and bank balances have been transferred to the Trial Balance.
- Balance the ledger accounts again and check whether the right totals have been transferred to trial balance.
- Check the totals of subsidiary books again.
- Check the opening balances.
- Check the postings of nominal accounts first.

All above points will locate the errors which are to be rectified.

Rectification of Errors

- Errors whether affecting the trial balance or not should be rectified.
- The process of rectifying the errors is called rectification of errors.

Need for rectification

- (i) To present correct accounting information
- (ii) Ascertaining actual profit or loss
- (iii) To disclose true financial position of the enterprise.

Stages of rectification

- (i) Before preparation of Trial Balance.
- (ii) After preparation of Trial Balance but before preparation of Final Accounts.

- (iii) In the next accounting period (i.e. After preparation of final accounts)

Rectification before preparation of Trial Balance

- (i) Errors located before preparation of Trial Balance can be one sided errors or two sided errors.
- (ii) There are different rectification treatments for both.
- (i) In case of one sided error :**
- ⇒ These are the errors affecting only one side of an Account.
E.g. The total of debit side was written as ₹ 1,000 instead of ₹ 10,000. This error will affect only the debit side.
 - ⇒ Errors affecting one account may occur on account of following reasons-
 - (i) Wrong casting
 - (ii) Wrong balancing
 - (iii) Wrong posting
 - (iv) Wrong carry forward
 - (v) Omission of an amount in Trial Balance

Rectification of such Errors :

- (i) No journal entry is to be passed.
- (ii) Only the relevant account will be debited or credited.
- (iii) The double entry for this rectification entry will not be complete.

An agreement of Trial Balance does not prove that:

- (i) All transaction have been correctly analyzed and recorded in proper account.
- (ii) All transaction have been recorded in the books of original entry.

(ii) In case of two sided Error :

- ⇒ When there is an error which affects both aspects of a transaction (i.e. debit and credit) it is known as a two sided error. E.g. Complete omission of an entry.
- ⇒ Journal entry is required to be passed for these errors.
- ⇒ Errors which affect two or more accounts are as follows :
 - (i) Error of complete omission
 - (ii) Error in recording subsidiary books

- (iii) Errors in posting to wrong account with or without wrong amount
- (iv) Error of principle.

Rectification after preparation of Trial Balance but before preparation of final accounts

- If errors are located after preparation of Trial Balance, so they can't be rectified using the previous methods because now the ledger accounts have already been closed.
- Like earlier method, these errors can also be - (i) One sided (ii) Two sided.

(i) One sided Errors (Errors affecting one A/c) :

- ⇒ Since the ledger accounts are already closed so one aspect of an entry cannot be rectified by posting it in the respective ledger A/c.
- ⇒ For rectifying such errors Suspense A/c is opened.

Rectification of Errors :

Any difference in trial balance whether debit or credit shall be transferred to the Suspense A/c. This will lead to the agreement of trial balance total and when the error is located, the entry will be reversed and Suspense a/c will be closed.

(ii) In case of two sided Errors

It will be rectified in the same manner as two sided errors before preparation of Trial Balance were rectified.

(i.e. by passing a wrong entry, then right entry and then a rectification entry.)

Rectification of errors after preparation of Final A/c

(1) One sided Errors

- ⇒ When Errors are detected after preparation of final accounts, then they are rectified as follows :
 - (i) **In case of Nominal Accounts:**
 - ⇒ Nominal Account balances are transferred to the P/L A/c

at the year end.

- ⇒ So in the next accounting year, when rectification is to be made, we cannot use these nominal accounts.
- ⇒ For this purpose, a new account Profit and Loss Adjustment A/c is opened which substitutes all nominal accounts of the previous year.
- ⇒ For rectification, if nominal account is to be debited or credited then instead of nominal account, Profit and Loss Adjustment A/c is debited or credited.

(ii) **In case of Real or personal Accounts :**

The rectification is done through Suspense account and other concerned account affected by the errors.

(2) **Two sided errors :**

(i) **In case of nominal accounts :**

Rectification is done through Profits & Loss Adjustment A/c and the other A/cs affected.

(ii) **In case of real or personal accounts :**

The rectification is carried out through two or more concerned accounts affected by the errors without involving Profit and Loss Adjustment A/c.

Opening Entries

The opening entry is an item which is passed in the Journal proper or General Ledger. The purpose of passing this entry is to record the opening balances of the accounts transferred from the previous year to the New Year. The accounts which are appearing on the assets side of balance sheet are debited in the opening entry while which accounts are appearing in the liabilities side are credited.

Closing Entries

All the expenses and gains or income related nominal accounts must be closed at the end of the year. In order to close them, they are transferred to either Trading A/c or Profit and Loss A/c. Journal entries required for

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transferring them to such account is called a 'closing entry'.

Adjustment Entries

Under accrual basis of accounting, incomes are recognized when these are earned and not when cash is actually received. Similarly, expenses are recognized when these are incurred and not when actual payments are made. This means at the end of the accounting year, there may be certain incomes earned but not received (i.e., accrued income) and incomes received but not earned (i.e. income received in advance). Adjustment entries are passed either before or after preparation of trial balance. But generally adjustments are made after trial balance has been prepared.

OBJECTIVE QUESTIONS

2009 - June [1] (a) In each of the following one, of them is correct. Indicate the correct answer :

- (viii) Goods purchased from Mr. Ajay for ₹ 10,000 passed through the Sales Book. The rectification of error will result in
- (a) Increase in gross profit
 - (b) Decrease in gross profit
 - (c) No effect on gross profit
 - (d) Either A or B
- (1 mark)**

Answer :

- (b)** Decrease in gross profit

2009 - June [1] (c) State with reasons whether the following statement is true or false.

- (ii) The error of principle is caused due to incorrect allocation of expenses.
- (2 marks)**

Answer :

False: Error of principle arises due to incorrect application of principles of double entry system of accounting.

2010 - June [1] (a) In each of the following one is correct. Indicate the correct answer:

(iii) Error of omission means:

- (a) That errors are compensating each other
- (b) That any entry is totally missed
- (c) That there is a wrong entry in the books of accounts
- (d) That a transaction is recorded twice

(1 mark)

(c) State with reasons whether the following is 'True' or 'False':

(ii) Error of Principle affects the Trial Balance.

(2 marks)

Answer :

(a) (iii) **(b)** That any entry is totally missed

(c) (ii) **False:** As it affects only the presentation and not the totals

2010 - Dec [2] (a) Give one word or phrase that describe the following:

(vi) The error which arises when the transaction is recorded ignoring the distinction between the Capital item and Revenue item. **(½ mark)**

Answer :

Error or Principle

2011 - Dec [1] (a) In each of the following one of the alternative is correct, indicate the correct one:

(x) Wages paid for installation of Machinery debited to wages account.

This is an error of

- (a) Omission
- (b) Principle
- (c) Commission
- (d) Duplication

(1 mark)

(c) State with reasons whether the following statement is True or False:

(iv) Rectification entries are passed in ledger.

(2 marks)

Answer :

(a) (x) **(b)** Principle

(c) (iv) **False:** They are passed in Journal Proper.

2012 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one :

- (ii) Which of the following errors is an error of principle ?
- (a) Rent paid ₹ 6,000, posted as ₹ 600
 - (b) Repairs of machinery have been debited to machinery account
 - (c) The total of purchases return book has not been posted to the purchases return account
 - (d) None of the above
- (1 mark)**

Answer:

(b) Error of principle occurs due to lack of knowledge about accounting principles.

2012 - Dec [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

- (vii) Which of the following errors will affect the trial balance
- (a) Sales Book undercasted with ₹ 6,000
 - (b) A credit purchase for ₹ 11,000 entered in sales book
 - (c) Stationery purchased on credit has been recorded in purchases book
 - (d) Goods sold for ₹ 7,000 has been recorded as ₹ 7,900
- (x) If goods worth ₹ 13,800 are destroyed by fire and the Insurance Company admits the claim for ₹ 10,400, the purchases account will be
- (a) Debited with ₹ 13,800
 - (b) Debited with ₹ 3,400
 - (c) Credited with ₹ 13,800
 - (d) Credited with ₹ 3,400
- (1 × 2 = 2 marks)**

(b) Fill in the blanks:

(v) Error of principle will _____ affect trial balance. **(1 mark)**

(c) State whether the following statement is 'True' or 'False':

(ii) Error in carry forward of totals of sales journal/book affects two accounts. **(1 mark)**

Answer:

- (a) (vii) (a) Sales Book undercasted with ₹ 6,000
(x) (c) Credited with ₹ 13,800
(b) (v) Not
(c) (ii) False

QUESTIONS AND ANSWERS OF SEPTEMBER 2014

1. A bill for ₹ 2,75,000 for building extension was treated as repair of building, which rectification entry is correct?

Debit	Credit
(a) Building A/c	Cash A/c
(b) Building Repair A/c	Cash A/c
(c) Building A/c	Building Repair A/c
(d) Profit & Loss A/c	Building Repair A/c

(1 mark)

Answer: (c)

2. What will be effect on the net income for the current year, if the opening stock is understated by ₹ 10,000 and the closing stock is overstated by ₹ 5,000?

- (a) ₹ 15,000 overstated
(b) ₹ 15,000 understated
(c) ₹ 5,000 overstated
(d) ₹ 5,000 understated

(1 mark)

Answer: (a)

QUESTIONS AND ANSWERS OF DECEMBER 2014

1. Which of the following errors is an error of principle?
(a) Total sales figure was taken as ₹ 19,373 instead of ₹ 19,733
(b) A discount of ₹ 30 allowed to Mr. A was not recorded in the discount allowed account

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- (c) Legal charges for acquisition of building for ₹ 500 was entered in the Legal Expenses Account
- (d) ₹ 1,000 received from Mr. X was posted to the credit of Mr. M

(1 mark)

Answer: (c)

2. A is entitled to 10% partner's commission before charging such commission. Find the commission payable to A if the net profit before charging such commission amounted to ₹ 60,000
- (a) ₹ 5,900
 - (b) ₹ 6,000
 - (c) ₹ 5,000
 - (d) ₹ 5,050

(1 mark)

Answer: (b)

QUESTIONS AND ANSWERS OF MARCH 2015

1. If depreciation is excess charged by ₹ 500 and closing stock is understated by ₹ 500, the net profit will be _____ due to these errors.
- (a) Understated by 500
 - (b) Understated by 1000
 - (c) Overstated by 1000
 - (d) No effect

(1 mark)

Answer: (b)

2. Purchase of goods for ₹ 13,500 has been recorded as ₹ 13,000 in the purchases book. This is_____.
- (a) Error of omission
 - (b) Error of commission
 - (c) Error of principle
 - (d) None

(1 mark)

Answer: (b)

3. The cost of the furniture lost by fire is ₹ 18,000. Provision for depreciation on the date of fire is ₹ 2,700. Insurance claim accepted ₹ 12,000. Amount of loss to be debited to P & L A/c is:
- (a) ₹ 6,000
 - (b) ₹ 15,300
 - (c) ₹ 3,300
 - (d) ₹ 18,000
- Answer: (c)** **(1 mark)**

QUESTION AND ANSWER OF DECEMBER 2015

1. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called:
- (a) Error of Omission
 - (b) Error of Commission
 - (c) Error of Principle
 - (d) Compensating Error.
- Answer: (b)** **(1 mark)**

QUESTIONS AND ANSWERS OF MARCH 2016

1. The beginnings inventory of the current year is overstated by ₹ 5,000 and closing inventory is overstated by ₹ 12,000. These errors will cause the net income for the current year by :
- (a) ₹ 17,000 (overstated)
 - (b) ₹ 12,000 (understated)
 - (c) ₹ 7,000 (overstated)
 - (d) ₹ 7,000 (understated)
- Answer : (c)** **(1 mark)**

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2. Which of the following is not correct?
- (a) Errors which affect one account can be errors of posting
 - (b) Errors of omission arise when any transaction is left to be recorded
 - (c) Error of carry forward from one year to another year affect both Personal and Real A/c
 - (d) Errors of commission arises when any transaction is recorded in a fundamentally incorrect manner. **(1 mark)**

Answer : (d)

3. Which of the following shall not be deducted from net profit while calculating managerial remuneration?
- (a) Loss on sale of undertaking
 - (b) Debits considered bad and written off
 - (c) Liability arising from a breach of contract
 - (d) Directors remuneration. **(1 mark)**

Answer : (d)

QUESTION AND ANSWER OF JUNE 2016

1. Which of these errors effects only one account?
- (a) Errors of costing
 - (b) Errors of carry forward
 - (c) Errors of posting
 - (d) All of the three. **(1 mark)**

Answer: (d)

QUESTION AND ANSWER OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives:
(xviii) Goods worth ₹ 272 returned by Lala passed through the books as ₹ 722. In the rectification entry
- (a) Lala will be debited by ₹ 450
 - (b) Lala will be debited by ₹ 272
 - (c) Lala will be credited by ₹ 722
 - (d) Lala will be credited by ₹ 272 **(1 mark)**

(xix) If goods worth ₹ 1,750 returned to supplier is wrongly entered in sales returns book as ₹ 1,570, then

- (a) Net Profit will decrease by ₹ 3,140
- (b) Gross Profit will increase by ₹ 3,320
- (c) Gross Profit will decrease by ₹ 3,500
- (d) Gross Profit will decrease by ₹ 3,320

(1 mark)

Answer:

(xviii) (a)

(xix) (d)

QUESTION AND ANSWER OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.

(vi) An entry of ₹ 1,560 has been debited to a Debtor's Personal Account at ₹ 1,650. It is an error of

- (a) Omission
- (b) Commission
- (c) Principle
- (d) Compensating

(xi) Select correct journal entry to rectify an error "An amount of ₹ 10,000, withdrawn by owner for personal use debited to Trade Expenses Account".

	Debit	Credit
(A)	Drawing Account	Trade Expenses A/c.
(B)	Trade Expenses A/c.	Drawing Account
(C)	Drawing Account	Cash Account
(D)	Trade Expenses A/c.	Cash Account

(1 mark each)

Answer:

(vi) (b) Commission

(xi) (a) Drawing Account Trade Expenses A/c.

(b) State whether the following statements are *True* or *False*:

(viii) Overcasting of purchase book would affect purchase account.

(x) The discount column of the cash book is not posted is an example of error of omission. **(1 mark each)**

Answer:

(viii) True

(x) True.

QUESTION AND ANSWER OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:

(xvii) If a sum of ₹ 1,500 received from Laxman (debtor) has not been recorded in the books, the

(a) Profit would show an increase of ₹ 1,500

(b) Profit would show a decrease of ₹ 1,500

(c) Assets would show a decrease of ₹ 1,500

(d) None of the above. **(1 mark)**

(xviii) If goods worth ₹ 1,750 returned to supplier is wrongly entered in sales returned book as ₹ 1,570 then

(a) Gross profit will decrease by ₹ 3,320

(b) Gross profit will decrease by ₹ 3,500

(c) Gross profit will increase by ₹ 3,320

(d) Net profit will decrease by ₹ 3,140 **(1 mark)**

(xix) Which of the following errors affects the agreement of a trial balance?

(a) Mistake in balancing an account

(b) Omitting to record a transaction entirely in the subsidiary books

(c) Recording of a wrong entry in the subsidiary book

(d) Posting an entry on the correct side but in the wrong account **(1 mark)**

- (xx) Which one of the following is an error of principle?
- (a) ₹ 500 being purchase of raw material debited to purchase account as ₹ 50.
 - (b) ₹ 500 being paid for wages but debited to Stationary account.
 - (c) ₹ 5,000 received from Ram but credited to Shyam.
 - (d) ₹ 5,000 incurred on installation of a new plant but debited to salary a/c.
- (1 mark)**

Answer:

- (xvii) (d)
- (xviii) (a)
- (xix) (a)
- (xx) (d)

QUESTIONS AND ANSWERS OF DECEMBER 2018

1. (a) Choose the correct answer from the given *four* alternatives.
- (iii) Expenses paid but not accrued means
 - (a) Capital expenses
 - (b) Outstanding expenses
 - (c) Prepaid expenses
 - (d) Cash
 - (vi) Goods purchased from Mr. A but wrongly entered in the account of Mr. B. The rectification of error will result in
 - (a) increase in gross profit
 - (b) decrease in gross profit
 - (c) no effect on gross profit
 - (d) either (a) or (b)
 - (xvi) Errors in carry forward of closing balances from one year to another which affects
 - (a) Nominal accounts
 - (b) Real accounts
 - (c) Personal accounts
 - (d) Both (b) and (c)

Answer:

- (iii) (c) Prepaid Expenses
- (vi) (c) No effect on Gross Profit
- (xvi) (d) Both (b) and (c)

(b) State whether the following statements are *True* or *False*

- (ii) Error of omission will not affect trial balance.

Answer:

- (ii) True

QUESTION AND ANSWER OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:
- (xiv) Whenever errors are noticed in the accounting records, they should be rectified
 - (a) at the time of preparation of Trial Balance.
 - (b) without waiting the accounting year to end.
 - (c) after the preparation of final accounts.
 - (d) in the next accounting year.
 - (xv) A purchase of ₹ 49,500 from Shiva was recorded in Purchases Book as ₹ 59,400, the profit would show
 - (a) an increase of ₹ 9,900.
 - (b) a decrease of ₹ 9,900.
 - (c) an increase of ₹ 59,400.
 - (d) Neither an increase nor a decrease **(1 × 2 = 2 marks)**

Answer:

- (xiv) (b) without waiting the accounting year to end.
- (xv) (b) A decrease of ₹ 9,900.

(b) State whether the following statements are **True** or **False**:

- (vi) Total of Purchase Day Book is short by ₹ 10,000 will not affect trial balance. **(1 mark)**

Answer:

- (vi) False

QUESTIONS AND ANSWERS OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
- (v) Goods bought for ₹25,000 passed through sales day book will result in
 - (a) No effect on gross profit
 - (b) Decrease in gross profit
 - (c) Decrease in net profit
 - (d) Increase in gross profit
 - (xiii) Which of these errors affects only one account?
 - (a) Error of casting
 - (b) Error of posting
 - (c) Error of carry forward
 - (d) All of the above
 - (xiv) Which of the following error is an error of principle?
 - (a) ₹4,000 received from Sham credited to Shamu a/c
 - (b) ₹5,000 incurred on installation of new plant debited to salary a/c
 - (c) ₹6,000 paid for wages debited to salary a/c
 - (d) ₹7,000 being purchase of raw material debited to purchase a/c
 - (xxix) Sales of ₹6,570 is recorded in the sales book as ₹6,750. Such Error is known as
 - (a) Error of Principle
 - (b) Error of Omission
 - (c) Error of Commission
 - (d) Compensating Error

(4 × 1 = 4 marks)

Answer:

- (v) (d)
- (xiii) (d)
- (xiv) (b)
- (xxix) (c)

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(b) State whether the following statements are 'True' or 'False':

- (xii) When Credit sales is wrongly posted to the purchase book, it is an error of commission. (1 mark)

Answer:

- (xii) True

QUESTIONS AND ANSWER OF DECEMBERS 2022

1. Errors of carry forward from one year to another affects ___
(a) Personal account (b) Real account
(c) Nominal account (d) Both (a) and (b)

Answer:

- (d) Both (a) and (b)

2. Which of the following errors affects the agreement of a trial balance?
(a) Mistake in balancing an account
(b) Omitting to record a transaction entirely in the subsidiary books
(c) Recording of a wrong entry in the subsidiary books
(d) Posting an entry on the correct side but in the wrong account

Answer:

- (a) Mistake in balancing an account

DESCRIPTIVE QUESTIONS

2010 - Dec [2] (b) State the basic object of :

- (iii) Opening a Suspense Account. (1 mark)
(iv) Using Profit and Loss Adjustment Account in the rectification of errors. (1 mark)

Answer :

- (iii) To avoid the delay in the preparation of final accounts.
(iv) To rectify all errors involving Nominal Accounts in the subsequent year so as not to affect Profit/Loss of that period.

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(iv) Suspense A/c To Purchase Return A/c To Purchases A/c (Being the amount of purchase return wrongly debited to purchase account, now rectified)	Dr.	12,000	6,000 6,000
(v) Building A/c To Repair & Maintenance A/c (Being the amount of expenses related to extension of building that was wrongly debited to Repairs account, now rectified)	Dr.	10,000	10,000

2009 - Dec [4] (b) Pass journal entries in the current year for the rectification of following errors which were located after the final accounts of previous had been prepared. These errors relate to earlier year. Rate of depreciation on fixed assets is 10%:

- (i) Purchase of a second hand scooter was debited to the conveyance account amounting to ₹ 5,000/-
- (ii) Cash received from Mr. Z was wrongly entered in the account of Y, amount being to ₹ 4,000/-
- (iii) Goods purchased from A was recorded in the sales book amounting to ₹ 15,000/-
- (iv) A cheque for ₹ 500/- issued to the Supplier (Creditor) wrongly debited to purchases

(4 marks)**Answer :**

Journal Entries for Rectification		Dr.	Cr.
Fixed Assets A/c To P&L Adj. A/c (Being the amount for purchase of scooter wrongly debited to the conveyance account, now rectified)	Dr.	4,500	4,500
Y A/c To Z A/c (Being the amount of cash received from Mr. Z wrongly entered in the account of Y, now	Dr.	4,000	4,000

rectified)			
P & L Adj. A/c To A A/c (Being the amount of goods purchased from A was wrongly recorded in the sales book, now rectified)	Dr.	30,000	30,000
Supplier A/c To P&L Adj. A/c (Being the amount of a cheque issued to the supplier wrongly debited to purchase A/c. now rectified)	Dr.	500	500

2010 - June [2] (a) Pass necessary journal entries to rectify the following errors:

- (i) Purchase of goods for ₹ 300 from Nathan was wrongly entered in sales book.
- (ii) ₹ 375 paid as salary to cashier Dhawan was debited to his personal account.
- (iii) A bill for ₹ 2,750 for extension of building was debited to building repairs account.
- (iv) Goods of ₹ 500 returned by Raja were taken into stock, but returns were not posted. **(1 × 4 = 4 marks)**

Answer :

- (i) Purchase of goods of ₹ 300 from Nathan was wrongly entered in sales book.

Wrong Entry : Nathan A/c To Sales A/c	Dr.	₹ 300	₹ 300
Correct Entry : Purchase A/c To Nathan A/c	Dr.	₹ 300	₹ 300
Rectification Entry : Purchase A/c Sales A/c To Nathan A/c	Dr. Dr.	₹ 300 ₹ 300	₹ 600

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- (ii) ₹ 375 paid as salary to cashier Dhawan was debited to his personal A/c.

Wrong Entry : Dhawan A/c To Cash A/c	Dr.	₹ 375	₹ 375
Correct Entry : Salary A/c To Cash A/c	Dr.	₹ 375	₹ 375
Rectification Entry : Salary A/c To Dhawan A/c	Dr.	₹ 375	₹ 375

- (iii) A bill of ₹ 2,750 for extension of building was debited to building repairs A/c

Wrong Entry : Building Repairs A/c To Cash A/c	Dr.	₹ 2,750	₹ 2,750
Correct Entry : Buildings A/c To Cash A/c	Dr.	₹ 2,750	₹ 2,750
Rectification Entry : Buildings A/c To Building Repairs A/c	Dr.	₹ 2,750	₹ 2,750

- (iv) Goods of ₹ 500 returned by Raja were taken into stock, but returns were not posted

Wrong Entry : No entry passed A/c Correct Entry : Sales Returns A/c To Raja A/c	Dr.	₹ 500	₹ 500
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2010 - Dec [3] (c) Pass the necessary rectifying entry for the following errors in the subsidiary books of Prarthana Mittal, a dealer in cloth:

- (i) A cash sale of Goods to X ₹ 17 posted as ₹ 71.
- (ii) A credit sale of Goods to Y ₹ 17 posted as ₹ 71.
- (iii) A credit sale of Furniture to Z ₹ 17 posted as ₹ 71.
- (iv) A credit sale of Goods of ₹ 423 to Krishan passed through the Purchase Book as ₹ 432 and posted therefrom to the credit of Krishan as ₹ 423.

(1 × 4 = 4 marks)

Answer :

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Sales A/c Dr. To Suspense A/c (Being posting to Sales A/c, now rectified)		54	54
(b)	Suspense A/c Dr. To X (Being the posting to X's A/c, now rectified)		54	54
(c)	Furniture A/c Dr. To Z (Being error in posting, now rectified)		54	54
(d)	Krishan Dr. Kishan Dr. Suspense A/c Dr. To Sales A/c To Purchase A/c (Being sale recorded as purchase with wrong amount and wrong posting therefrom, now rectified)		423 423 9	423 432

2012 - Dec [3] (c) Pass journal entries to rectify the following errors in the books of a trader:

- Purchase return day book total in a page for ₹ 945 was carried forward in next page for ₹ 954.
- An amount of ₹ 3,500 was received from Amal but credited to Kamal.
- Goods purchased from Shekhar Stores for ₹ 4,500 was entered in sales day book as ₹ 5,400.
- An amount of ₹ 800 received as commission was credited to interest account.

(4 marks)

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Answer: In the book of
Journal Entries

			Dr.	Cr.
	Particulars	L.F.	(₹)	(₹)
(i)	Return outward or Purchase Return A/c Dr. To Suspense A/c (Being the Purchase Return Day Book wrongly carried forward, now rectified)		9	9
(ii)	Kamal's A/c Dr. To Amal's A/c (Being Kamal account wrongly credited in place of Amal account, now rectified)		3,500	3,500
(iii)	Purchase A/c Dr. Sales A/c Dr. To Shekhar Stores A/c (Being wrongly entered in Sales Day Book in place of Purchase Day Book now rectified)		4,500 5,400	9,900
(iv)	Interest A/c Dr. To Commission A/c (Being interest account wrongly credited, in place of commission account, now rectified)		800	800

2016 - Dec [7] Answer the question:

- (iv) The following errors were detected while checking the books of accounts of N. Ram & Sons. Give necessary journal entries with proper narration to rectify them:
- The proprietor withdrew ₹ 20,000 for his personal use, but they were debited to travelling expenses account.
 - Received ₹ 5,000 from Dilip, but the same was wrongly credited to Deepak.

- (c) Paid ₹ 20,000 as salaries to Sunil, but that amount was debited to his personal account.
- (d) Goods worth ₹ 15,000 returned by M/s. Ramesh Bros., but no entry was made in the account books.
- (e) ₹ 15,000 spent on repairs of machinery were debited to the machinery account.
- (f) ₹ 55,000 paid for wages for erection of a plant were entered into wages account.
- (g) An item of ₹ 15,000 written off as bad debt in Dinesh's account has not been debited to bad debts account.
- (h) The year end total of Sales Book was undercast by ₹ 5,000.

(8 marks)

Answer:

	Particulars	Amount (Dr.)	Amount (Cr.)
(a)	Drawings A/c Dr. To Travelling Expenses A/c (Being amount withdrawn for personal use wrongly debited to travelling expenses now rectified)	20,000	20,000
(b)	Deepak A/c Dr. To Dilip A/c (Being amount received from Dilip wrongly credited to Deepak's account now rectified)	5,000	5,000
(c)	Salary A/c Dr. To Sunil A/c (Being salary paid to Sunil wrongly debited to his personal account now rectified.)	20,000	20,000

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(d)	Sales Return A/c To M/s Ramesh Bros. A/c (Being entry related to return of goods omitted earlier, now recorded)	Dr.	15,000	15,000
(e)	Repairs A/c To Machinery A/c (Being repair expenses wrongly debited to Machinery A/c now rectified)	Dr.	15,000	15,000
(f)	Plant A/c To Wages A/c (Being wages paid for erection of plant wrongly debited to wages A/c now rectified)	Dr.	55,000	55,000
(g)	Bad Debt A/c To Suspense A/c (Being amount of bad debt not debited to bad debt A/c now rectified)	Dr.	15,000	15,000
(h)	Suspense A/c To Sales A/c (Being Sales Book Undercast by ₹ 5,000 now rectified)	Dr.	5,000	5,000

2017 - June [5] Give the Journal entries to rectify the following errors:

- (i) Purchases of ₹ 13,000 from Suman passed through Sales Book.
- (ii) Bill received from Sonu for ₹ 15,000 passed through Bills Payable Book.
- (iii) An item of ₹ 11,500 relating to prepaid insurance was omitted to be brought forward from last year.
- (iv) ₹ 4,400 paid to Mohan, against our acceptance was debited to Sohan.

(8 marks)

Answer:

Rectification entries:

Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
(i)	Purchase A/c Dr. Sales A/c Dr. To Suman A/c (Purchase from Suman passed through sales book, now rectified)		13,000 13,000	26,000
(ii)	Bills receivable A/c Dr. Bills payable A/c Dr. To Sonu's A/c (Bill received passed through bills payable A/c) Now rectify		15,000 15,000	30,000
(iii)	Prepaid Insurance A/c Dr. To Suspense A/c (Being prepaid Insurance omitted to bring, now bought into books of account)		11,500	11,500
(iv)	Bills payable A/c Dr. To Sohan A/c (Being the amount wrongly debited to Sohan cancelled)		4,400	4,400

2017 - June [6] Pass the necessary entries to make the following adjustment as on 31st March, 2017:

- (i) Stock on 31st March, 2017 was ₹ 2,12,000.
- (ii) Depreciation at 10% on furniture valued at ₹ 45,000 and 15% on machinery valued at ₹ 7,50,000.
- (iii) Interest accrued on Securities ₹ 6,500.

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- (iv) Make provision for Bad Debts and for Discount on Debtors @ 10% and @ 2% respectively. The Debtors at the end of the year were ₹ 6,35,000. (8 marks)

Answer:

Adjustment Entries

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
2017 March 31	Closing stock A/c Dr. To Trading Account (Being closing stock adjusted)		2,12,000	2,12,000
March 31	Depreciation A/c Dr. To Furniture A/c To Machinery A/c (Being depreciation on furniture adjusted)		1,17,000	4,500 1,12,500
"	Accrued Interest A/c Dr. To Interest A/c (Being accrued interest adjusted)		6,500	6,500
"	Provision for Bad-debt A/c Dr. Discount on Debtor A/c Dr. To Debtors A/c (Being provision on debtor and discount on debtor adjusted)		63,500 11,430	74,930
	Working: Debtor 6,35,000 (-) Provision on @10% <u>63,500</u> 5,71,500 (-) Discount @ 2% on <u>11,430</u> 5,71,500 5,60,070			

2017 - Dec [5] The Trial Balance of a concern has agreed but the following mistakes were detected after the preparation of final accounts.

- (a) No adjustment entry was passed for an amount of ₹ 4,000 relating to outstanding rent.
- (b) Purchase book was overcast by ₹ 3,000.
- (c) An amount of ₹ 4,000 as depreciation on furniture has been omitted to be recorded in the book.
- (d) An amount of ₹ 5,000 received from a customer has been credited to Sales A/c.

State the effect of the above errors in Profit & Loss Account and Balance Sheet. **(8 marks)**

Answer:

The rectification entries and their effect on P & L A/c and Balance Sheet will be:

- (a) Rent A/c Dr. ₹ 4,000
 To Outstanding Rent A/c ₹ 4,000
 P/L A/c will be debited by ₹ 4,000. In Balance Sheet Current liabilities will increase by ₹ 4,000 and Reserves & Surplus will decrease by ₹ 4,000.
- (b) Creditors A/c Dr. ₹ 3,000
 To Purchase A/c ₹ 3,000
 In Profit & Loss A/c, Purchase will be reduced, and hence profit will increase. In Balance Sheet Current liabilities will decrease but Reserves & Surplus will increase by ₹ 3,000.
- (c) Depreciation A/c Dr. ₹ 4,000
 To Furniture A/c ₹ 4,000
 Depreciation will be debited to P/L A/c, while in Balance Sheet, Assets will reduce by ₹ 4,000 and Reserve & Surplus will also reduce by ₹ 4,000.

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(d) Sales A/c Dr. ₹ 5,000
 To Customer A/c ₹ 5,000

In P/L A/c Sales will be reduced by ₹ 5,000 and hence profit will also decrease by ₹ 5,000. In Balance Sheet. Asset side will reduce by ₹ 5,000 as debtor will fall by same amount and Reserve & Surplus will also decrease by ₹ 5,000.

2018 - June [2] Following information have been obtained from the trial balance of Shive & Co.:

Trial Balance as on March 31, 2018

Sl. No.	Name of Accounts	L.F.	Dr. (₹)	Cr. (₹)
1.	Wages		1,54,000	
2.	Salaries		2,52,000	
3.	Rent Received			1,80,000
4.	Repairs		16,000	
5.	Insurance Premium		24,000	
6.	8% Investments		15,00,000	
7.	Interest on Investments			90,000

Adjustments:

- (1) Wages for March, 2018 is outstanding.
- (2) Salaries include prepaid salaries for two months.
- (3) Rent received for 18 months.
- (4) Outstanding repairs ₹ 6,000.
- (5) Only 2/3 of insurance premium is related to current year.
- (6) Interest on investments in accrued for 3 months.

Give necessary entries for above adjustments.

(8 marks)

Answer:

**In the books of Shiva & Co.
Journal Entries**

Date	Particular	LF	DR Amount	CR Amount
31 March 2018	Wages Dr. To O/s Wages (Being o/s wages for march 2018 trf to o/s wages)		14,000	14,000
31 March 2018	Prepaid salary Dr. To Salary (Being prepaid salary for 2 months trf to prepaid account)		36,000	36,000
31 March 2018	Rent Received Dr. To Advance Rent Received (Being rent received for 18 months)		60,000	60,000
31 March 2018	Repairs A/c Dr. To O/s Repairs A/c (Being repair o/s trf to repair account)		6,000	6,000
31 March 2018	Prepaid insurance Dr. To Insurance A/c (Being prepaid insurance trf to expenses account)		16,000	16,000
31 March 2018	Accrued interest Dr. To Interest on investment (being interest accrued for 3 months)		30,000	30,000

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2018 - June [5] Mr. X closed his books of accounts on 31st March, 2018 in spite of a difference in the trial balance. The difference was carried forward in a suspense account. The following errors were detected subsequently.

- (i) The total of return inward book for July, 2017 ₹ 1,240 was not posted in the ledger.
- (ii) Freight paid on a machine ₹ 5,600 was posted to the freight account as ₹ 6,500.
- (iii) While carrying forward the total of purchase account to the next page ₹ 65,590 was written as ₹ 56,950.
- (iv) A sale of machine on credit to Mr. Sun for ₹ 9,000 at the beginning of the year was not entered in the books at all. The book value of the machine was ₹ 7,500. The firm has the practice of writing off depreciation @ 10% on the balance at the end of the year.
- (v) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customer account in the sales ledger.
- (vi) Closing stock was over casted by ₹ 10,000 in the schedule of inventory.

Pass the rectification Journal Entries with proper Narration in the books of Mr. X. **(8 marks)**

Answer:

Journal Entries

31 July 2018	P/L Adjustment A/c To Suspense A/c (Being purchase booked)	Dr. Dr.	1,240 900	1,240 6,500
	Machinery A/c Suspense A/c To P/L Adjustment A/c (Bring freight a/c debited by mistake instead of machinery now reverse)			

	P/L Adjustment A/c To Machinery A/c (Being Depreciation @ 10% changed on freight capitalized)	Dr.	560	560
	Suspense A/c To P/L Adjustment A/c (correction of wrong amount C/F in purchase A/c to)	Dr.	8,640	8,640
	Mr. Sun To Machinery To P and L Adjustment A/c (Being machinery sold entry not made..now transfer)	Dr.	9,000	6,750 2,250
	Debtors A/c To suspense A/c (Entry in Debtor's A/c by wrong amount now rectified)	Dr.	90	90
	P & L Adjustment A/c To Suspense A/c (Being stock overcast now rectified)	Dr.	10,000	10,000

2018 - Dec [5] The debit side of the trial balance of JP & Associates showed ₹ 5,500 less than credit side. Difference of the trial balance was put in the suspense account. Later the following errors were detected:

- Goods returned by a customer for ₹ 3,000 entered in the customer's account but not entered in the sales return account.
- Goods sold to Nayan on credit for ₹ 7,000 was entered in the sales book but not posted to his account.
- ₹ 5,800 paid by Mohan Traders was credited to their account as ₹ 580.
- ₹ 2,600 due from Virat was not entered in the schedule of sundry debtors.

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(e) Purchase book was overcast by ₹ 1,880.

Pass the necessary rectification entries without giving narration and prepare Suspense Account. **(8 marks)****Answer:**

**In the Books of JP & Associates
Journal Entries**

Sr. No.	Particulars	L/F	Debit Amount (₹)	Credit Amount (₹)
(a)	Sales Return A/c Dr. To Suspense A/c		3,000 —	— 3,000
(b)	Nayan's A/c Dr. To Suspense A/c		7,000 —	— 7,000
(c)	Suspense A/c Dr. To Mohan's A/c		5,220 —	— 5,220
(d)	Sundry Debtors / Virat's A/c Dr. To Suspense A/c		2,600 —	— 2,600
(e)	Suspense A/c Dr. To Purchase A/c		1,880 —	— 1,880
	Total		19,700	19,700

Suspense Account

Debit			Credit		
Sr. no.	Particulars	Amount (₹)	Sr. no.	Particulars	Amount (₹)
	To Balance b/d (Opening Balance)	5,500	(a)	By Sales Return A/c	3,000
(c)	To Mohan's A/c	5,220	(b)	By Nayan's A/c	7,000
(e)	To Purchase A/c	1,880	(d)	By Sundry Debtors / Virat's A/c	2,600
	Total	12,600		Total	12,600

2019 - June [2] ABC Ltd. presented the following particulars as on 31st March, 2019, pass the necessary closing entries:

Particulars	₹
1. Sales	1,50,000
2. Return Inward	15,000
3. Purchase	75,000
4. Wages	7,500
5. Return Outward	7,500
6. Salaries	12,000
7. Rent	6,000
8. Bad Debts	1,500
9. Closing Stock	22,500
10. Discount Received	4,500
11. Discount Allowed	6,000
12. Interest Received	4,500
13. Opening Stock	15,000
14. Sale of scrap items	1,000
15. Abnormal loss of material	2,000
16. Profit on sale of old furniture	4,000

(8 marks)

Answer:

**In the books of ABC Limited
Journal Entries**

Sr. No.	Particulars	L/F	Debit Amount (₹)	Credit Amount (₹)
1	Sales Account Dr. To Trading Account		1,50,000 -----	----- 1,50,000
2	Trading Account Dr. To Return Inward Account		15,000 -----	----- 15,000

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3	Trading Account To Purchases Account	Dr.	75,000 ----- -----	----- 75,000
4	Trading Account To Wages Account	Dr.	7,500 ----- -----	----- 7,500
5	Return Outward Account To Trading Account	Dr.	7,500 ----- -----	----- 7,500
6	Profit and Loss Account To Salaries Account	Dr.	12,000 ----- -----	----- 12,000
7	Profit and Loss Account To Rent Account	Dr.	6,000 ----- -----	----- 6,000
8	Profit and Loss Account To Bad Debts Account	Dr.	1,500 ----- -----	----- 1,500
9	Closing Stock Account To Trading Account	Dr.	22,500 ----- -----	----- 22,500
10	Discount Received Account To Profit and Loss Account	Dr.	4,500 ----- -----	----- 4,500
11	Profit and Loss Account To Discount Allowed Account	Dr.	6,000 ----- -----	----- 6,000
12	Interest Received Account To Profit and Loss Account	Dr.	4,500 ----- -----	----- 4,500
13	Trading Account To Opening Stock Account	Dr.	15,000 ----- -----	----- 15,000
14	Scrap Sale Account To Profit and Loss Account	Dr.	1,000 ----- -----	----- 1,000
15	P/L A/c To Purchase A/c	Dr.	2,000 ----- -----	----- 2,000
16	Profit sale of old Furniture A/c To Profit and Loss Account	Dr.	4,000 ----- -----	----- 4,000

2019 - Dec [5] Pass necessary journal entries to rectify the following errors:

- (i) Purchase of goods of ₹3,000 from Nail was wrongly entered in sales book.
- (ii) Goods returned of ₹1,500 by Mr. Sethi were taken into stock but return was not posted.
- (iii) One page of sales book was under cast ₹1,000.
- (iv) Pre-paid rent of ₹450 was omitted to be brought forward from last year.
- (v) A builder's bill of ₹10,700 for erection of a factory shed was debited to repair account.
- (vi) A cheque for ₹975 received from Ramlila was credited to the account of Ramlata and debited to cash account.
- (vii) A credit sale of ₹2,500 has been credited to the sales and also to the trade receivable account.

(8 marks)

Answer:

**In the books of
Journal Entries**

Sr. No.	Particulars	L/F	Debit Amount (₹)	Credit Amount (₹)
(i)	Sales A/c Dr. To Purchase A/c (Being wrong sales recording, now rectified)		3,000 -----	----- 3,000
(ii)	Sales Return A/c Dr. To Mr. Sethi's A/c (Being Sales Return now accounted for)		1,500 -----	----- 1,500
(iii)	Suspense A/c Dr. To Sales A/c (Being short recording of sales, now rectified)		1,000 -----	----- 1,000
(iv)	Suspense A/c Dr. To Prepaid Rent A/c (Being omitted c/f, now done)		450 -----	----- 450

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(v)	Building A/c To Repair A/c (Being wrong capitalization of expenses, now rectified)	Dr.	10,700 -----	----- 10,700
(vi)	Bank A/c To Cash A/c (Being cheque received wrongly debited to Cash Account, now rectified)	Dr.	975 -----	----- 975
	Ramlata's A/c To Ramlila's A/c (Being wrong entry rectified)	Dr.	975	----- 975
(vii)	Trade Receivable A/c To Suspense A/c (Being Credit correctly transferred to Debit, with double amount)	Dr.	5,000 -----	----- 5,000
	Total		23,600	23,600

1F

DEPRECIATION

THIS CHAPTER INCLUDES

- | | |
|---|--|
| <ul style="list-style-type: none">• Concepts of Depreciation• Causes of Depreciation• Methods of Providing Depreciation | <ul style="list-style-type: none">• SLM• WDV• Method• Methods of Recording Depreciation |
|---|--|

CHAPTER AT A GLANCE

Depreciation

Depreciation means gradual decrease in the value of an asset due to normal wear and tear, obsolescence etc.

AS 10 states that “Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.”

Amortization

Intangible assets such as goodwill, trademarks and patents are written off over a number of accounting periods covering their estimated useful lives. This periodic write off is known as Amortization and is similar to depreciation of tangible assets.

Depletion

This method is specially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character. In this method, the cost of the asset is divided by the total workable deposits of the mine etc.

Obsolescence

The term 'Obsolescence' refers to loss of usefulness arising from such factors as technological changes, improvement in production methods, change in market demand for the product output of the asset or service or legal or medical or other restrictions.

Dilapidation

Dilapidation means a state of deterioration due to old age or long use. This term refers to damage done to a building or other property during tenancy.

Nature of Depreciation

Depreciation implies gradual decrease in the value of an asset due to normal wear and tear, obsolescence etc. It makes a part of the cost of assets chargeable as an expense in P/L account of the accounting periods in which the assets helped in earning revenue.

Causes of Depreciation**1. Internal Causes**

- (i) Wear and tear
- (ii) Depletion (or exhaustion)

2. External or Economic Causes

- (i) Obsolescence
- (ii) Inadequacy

3. Time element**4. Abnormal occurrences****Characteristics of Depreciation**

1. A charge against profit.
2. Indicates diminution in service potential.
3. An estimated loss of the value of an asset but not an actual loss.
4. Depends upon different assumptions.
5. Process of allocation and not of valuation.

6. Arises mainly from internal causes like wear and tear or depletion and is treated as an expense charged against profit.
7. Restricted to the working life of the asset.
8. Charged on tangible fixed assets but not on current assets.
9. Depreciation of intangible fixed assets is called amortization.

Objective of and necessity for providing Depreciation

1. Correct calculation of cost of production
2. Correct calculation of profits
3. Disclosure of fixed assets at appropriate value
4. Provision of replacement cost
5. Maintenance of capital
6. Compliance with technical and legal requirements

Measurement of Depreciation

Measurement of depreciation is dependent on following factors:

1. The actual cost of asset.
2. The additions, if any, made to the assets during the year taking into consideration the date of purchase.
3. The expected amount of interest of opportunity loss.
4. The estimated life of the asset.
5. The scrap, break-up or the residual value of asset.
6. Obsolescence, i.e. the chance of the asset going out of fashion.
7. The renewals and repairs of the asset.
8. The legal provisions relating to the depreciation.

Methods of Providing Depreciation

1. Fixed/Equal Installment OR Straight Line Method

Features:

- (i) A fixed portion of the cost of a fixed asset is allocated and charged as periodic depreciation.
- (ii) Such depreciation becomes an equal amount in each period.
- (iii) The formula for calculation of depreciation is:

$$\text{Depreciation} = (V-S)/n$$

2. Reducing / Diminishing Balance Method OR Written Down Value Method

Features

Depreciation is calculated at a fixed percentage on the original cost in the first year. But in subsequent years it is calculated at the same percentage on the written down values gradually reducing during the expected working life of the asset.

Methods of Recording Depreciation

1. When a provision for Depreciation Account is maintained:

In case of this method, the amount of depreciation to be charged in a particular year is debited to Depreciation A/c and credited to Provision for Depreciation Account.

2. When a provision for Depreciation Account is not maintained:

In case a Provision for Depreciation Account is not maintained, the amount of depreciation is debited to the Depreciation Account and credited to the Asset Account.

Meaning of Provision

The term 'provision' means any amount written off or retained by way of providing depreciation, renewals or diminution in the value of assets or retained by way of providing for any known liability the amount of which may not be determined with substantial accuracy.

Meaning of Reserve

Any sum which is appropriated out of profit and loss appropriation account is not meant to cover up liability, contingency, commitment. Or reduction in the value of an asset is a reserve. It is provided for meeting prospective losses or liabilities, creation of reserves to increase the working capital in the business, strengthen its financial position to equalize the dividend during the period of inadequate profit and to comply with legal requirements. Sometimes the amount is not kept in the business as additional working capital but is invested in the purchase of outside securities, then it is called reserve fund and not a reserve. Reserve may

be (i) capital reserve and (ii) revenue serve.

Computation of Depreciation

$$\frac{[\text{Cost} - (\text{Residual Value at the end of useful life})]}{\text{Estimated useful life in No. of years}}$$
 Cost of depreciable assets is the total cost spent in connection with the acquisition; installation and commissioning of the assets as well as for add item or improvement of the depreciable assets. "Useful Life" of a depreciable asset is the period over which the assets are expected to be used by the enterprise, which is generally shorter than the physical life.

OBJECTIVE QUESTIONS

2009 - June [1] (a) In each of the following one, of them is correct. Indicate the correct answer :

- (iii) The amount of yearly depreciation under diminishing balance method
- (a) Remains constant over the years
 - (b) Decreases year after year
 - (c) Increases year after year
 - (d) Fluctuates

(1 mark)

Answer:

- (b) Decreases year after year

2010 - Dec [1] (a) In each of the following, one is correct, indicate the correct answer.

- (vi) Date of purchase 1.7.2009, Purchase Price of an old Machine ₹ 80,000, Repairs ₹ 15,000, Installation Charges ₹ 5,000, Residual Value ₹ 20,000, Useful life 4 years, Accounting year—financial year. Date when Machine was put to use—1.10.2009. Depreciation for the year 2009-2010 will be:
- (a) ₹ 20,000
 - (b) ₹ 15,000

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(c) ₹ 10,000

(d) None of these

(1 mark)

(b) Fill in the blanks:

(ii) WDV Rate of Depreciation = _____.

(1 mark)

(c) State the reasons whether the following statement is **True** or **False**:

(ii) Straight Line Method of Depreciation is followed to have a uniform charge for depreciation and repairs together. (2 marks)

Answer:

(a) (vi) (c) ₹ 10,000

(b) (ii) $[1 - n\sqrt{S/C}] \times 100$

(c) (ii) **False:** Written Down Value Method of Depreciation is followed to have a uniform charge for depreciation and repairs together.

2010 - Dec [2] (a) Give one word or phrase that describe the following:

(viii) Nature of Provision for Depreciation Account.

(½ mark)

Answer:

Real Account

2011 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

(ii) Reduction in the value of assets due to its continuous use is treated as :

(a) Loss

(b) Profit

(c) Appreciation

(d) Depreciation

(1 mark)

(c) State with reasons whether the following statement is True or False:

(i) Depreciation measures wear and tear of fixed assets. (2 marks)

Answer:

(a) (ii) (d) Depreciation

(c) (i) **False:** Depreciation is a method of allocating the cost of a tangible asset over its useful life.

2011 - Dec [1] (c) State with reasons whether the following statement is True or False:

(vii) Depreciation increases the value of asset. **(2 marks)**

Answer:

False: It reduces the value due to wear and tear, extrusion or passage of time.

2012 - Dec [1] (c) State whether the following statement is 'True' or 'False':

(i) Written down value method of depreciation is followed to have a uniform charge for depreciation, repairs and maintenance together.

(1 mark)

Answer:

(i) True

QUESTION AND ANSWER OF SEPTEMBER 2014

1. Which one of the following is considered as a depreciable asset?

- (a) Land
- (b) Live stock
- (c) Building
- (d) Forest and Plantation

(1 mark)

Answer: (c)

QUESTIONS AND ANSWERS OF DECEMBER 2014

1. Amount of Depreciation on fixed assets will be fixed in nature if calculated under which of the following method?

- (a) Straight line method
- (b) Reducing balance method
- (c) Sum of year's digits method
- (d) Double declining method

(1 mark)

Answer: (a)

2. X Purchased a new plant and machinery for ₹ 50,000 on 01.01.2012. The machinery was received in the factory on 10.01.2012 and was installed and put to use on 18.01.2012. Depreciation on the plant and machinery will commence from
- (a) 01.04.2011
 - (b) 01.04.2012
 - (c) 01.01.2012
 - (d) 18.01.2012
- (1 mark)**
- Answer:** (d)
3. A second hand car is purchased for ₹ 2,00,000 and sold at ₹ 1,40,000 after two years. If depreciation is charged @ 10% on SLM method, find the profit or loss on sale of the car.
- (a) ₹ 20,000 Loss
 - (b) ₹ 20,000 Profit
 - (c) ₹ 10,000 Loss
 - (d) ₹ 10,000 Profit
- (1 mark)**
- Answer:** (a)
4. The accounting process of gradually converting the unexpired cost of fixed assets into expenses over a series of accounting periods is
- (a) Depreciation
 - (b) Physical deterioration of the asset
 - (c) Decrease in market value of the asset
 - (d) Valuation of an asset at a point of time
- (1 mark)**
- Answer:** (a)
5. Schedule II of the Companies Act, 2013 specifies _____ as useful life for depreciation on ship fishing vessels.
- (a) 10 Years
 - (b) 15 Years
 - (c) 20 Years
 - (d) 25 Years
- (1 mark)**
- Answer:** (a)

QUESTION AND ANSWER OF MARCH 2015

1. A machine was purchased on 1-4-2010 for ₹ 14,400 and installation charges amounted to ₹ 1,600. Expected lifetime is 8000 hours. During the year 2010-11, the machine worked for 2500 hours. The depreciation for the year will be _____.
- (a) ₹ 4,500
(b) ₹ 5,000
(c) ₹ 3,200
(d) ₹ 6,250
- (1 mark)**
- Answer:** (b)

QUESTIONS AND ANSWERS OF JUNE 2015

1. Schedule II of the Companies Act, 2013 specifies _____ as useful life for depreciation on ship fishing vessels.
- (a) 10 Years
(b) 15 Years
(c) 20 Years
(d) 25 Years
- (1 mark)**
- Answer:** (a)
2. Which of these is an example of accelerate method of depreciation
- (a) Written down value method
(b) Straight line method
(c) Sinking fund method
(d) Annuity method.
- (1 mark)**
- Answer:** (a)
3. Under which method of depreciation annual depreciation fluctuate with the volume of production:
- (a) Sum of Year's Method
(b) Production Method
(c) Written Down Value Method
(d) None of the above.
- (1 mark)**
- Answer:** (b)

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4. Profit and Loss on Depreciation Investment Fund A/c is transferred to:
- (a) Profit and Loss A/c
 - (b) General Reserve A/c
 - (c) Trading A/c
 - (d) Capital Reserve A/c
- (1 mark)**
- Answer:** (a)

QUESTION AND ANSWER OF SEPTEMBER 2015

1. The portion of the acquisition cost of the asset, yet to be allocated is known as:
- (a) Written down value
 - (b) Accommodated Value
 - (c) Salvage value
 - (d) Realizable value
- (1 mark)**
- Answer:** (a)

QUESTION AND ANSWER OF DECEMBER 2015

1. Original cost = 1,26,000, Salvage value = 6,000 Depreciation for 2nd year by units of production 50,000.
- (a) ₹ 10,000
 - (b) ₹ 11,250
 - (c) ₹ 12,600
 - (d) ₹ 12,000.
- (1 mark)**
- Answer:** (d)

QUESTIONS AND ANSWERS OF MARCH 2016

1. A second hand car is purchased for ₹ 2,00,000 and sold at ₹ 1,40,000 after two years. If depreciation is charged @ 10% on WDV method find the profit or loss on sale of the second hand car?

- (a) Loss of ₹ 20,000
- (b) Loss of ₹ 22,000
- (c) Loss of ₹ 11,000
- (d) Profit of ₹ 11,000

(1 mark)

Answer : (b)

2. How does depreciation effect basic accounting equation:
- (a) Leads to decreases in assets and shareholders equity
 - (b) Leads to decrease in asset only
 - (c) Leads to increase in liability and decrease in assets
 - (d) Leads to decrease in shareholder equity.

(1 mark)

Answer : (a)

3. Total depreciation of an asset cannot exceed its:
- (a) Scrap value
 - (b) Residual value
 - (c) Market value
 - (d) Depreciable value

(1 mark)

Answer : (a)

QUESTIONS AND ANSWERS OF JUNE 2016

1. Total depreciation of an asset cannot exceed its:
- (a) Scrap Value
 - (b) Residual Value
 - (c) Market Value
 - (d) Depreciable Value.

(1 mark)

Answer: (a)

2. Which of the following is an external cause of depreciation?
- (a) Routine repair and maintenance
 - (b) Misuse
 - (c) Obsolescence
 - (d) Wear and tear.

(1 mark)

Answer: (c)

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3. Which of the following methods of depreciation results in fixed per unit cost of depreciation?
- (a) Straight line
 - (b) Reducing balance
 - (c) Sinking fund
 - (d) Production unit. (1 mark)
- Answer:** (d)

QUESTION AND ANSWER OF DECEMBER 2016

2. State whether the following statement is True or False:
- (ii) A sinking fund is created, to replace an asset of depreciable nature. (1 mark)

Answer:

- (ii) True

QUESTIONS AND ANSWERS OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives:
- (xvi) Purchase price of Machine ₹ 8,90,000, Freight and Cartage ₹ 7,000, Installation charges ₹ 30,000, Insurance charges ₹ 20,000, Residual value is ₹ 40,000, estimated useful life 5 years. The amount of annual depreciation under straight line method will be
 - (a) ₹ 1,77,400
 - (b) ₹ 1,81,400
 - (c) ₹ 1,97,400
 - (d) ₹ 1,77,900 (1 mark)
 - (xvii) The value of an asset after deducting depreciation from the historical cost is known as
 - (a) Fair value
 - (b) Market value
 - (c) Net realizable value
 - (d) Book value (1 mark)

Answer:

- (a) (xvi) (a)
(xvii) (d)

(b) State whether the following statement is True or False:

- (vi) Under W.D.V. method, the depreciation of an asset decreases every year. **(1 mark)**

Answer:

- (b) (vi) True

QUESTION AND ANSWER OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.

- (viii) Reduction in value of asset due to its continuous use is treated as
(a) Appreciation
(b) Depreciation
(c) Loss
(d) Profit **(1 mark)**

Answer:

- (a) (viii) (b) Depreciation

(b) State whether the following statements are True or False:

- (ix) In case of mineral resources, depreciation is not provided but depletion is charged. **(1 mark)**

Answer:

- (b) (ix) True.

QUESTIONS AND ANSWERS OF JUNE 2018

1. (a) Choose the correct answer from the given four alternatives:

- (xiv) Which one of the following is an external cause for depreciation
(a) Over use
(b) Abnormal occurrence

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- (c) Time element
(d) Obsolescence (1 mark)
- (xv) Original cost of a machine is ₹ 1,50,000, residual value ₹ 10,000, if depreciation is charged @ 10% per annum under WDV method then depreciation for 3rd year will be
(a) ₹ 12,240
(b) ₹ 11,340
(c) ₹ 12,150
(d) ₹ 14,000 (1 mark)
- (xvi) On which of the following asset, depreciation is charged on 'Depletion method'
(a) Goodwill
(b) Plant and Machinery
(c) Land and Building
(d) Wasting asset like mine and quarries (1 mark)

Answer:

- (xiv) (d)
(xv) (c)
(xvi) (d)

QUESTION AND ANSWER OF DECEMBER 2018

1. (a) Choose the correct answer from the given *four* alternatives:
(v) The amount of yearly depreciation under written down value method
(a) remains same over the years
(b) decreases year by year
(c) increases year by year
(d) fluctuates (1 mark)

Answer:

- (b) Decreases year by year

- (b) State whether the following statement are *True* or *False*
(viii) Accumulated depreciation account can be located in the debit side of the trial balance.

Answer:

- (viii) False

QUESTIONS AND ANSWERS OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:
- (xi) In case the depreciable asset is revalued, the provision for depreciation is based on
 - (a) Market Value of the Asset.
 - (b) Historical Cost of the Asset.
 - (c) Depreciated Value of the Asset.
 - (d) The revalued amount over the estimate of the remaining useful life of such asset.
 - (xii) The Depreciation Account is closed at the end of the year by transfer to the
 - (a) General Reserve A/c
 - (b) Profit and Loss A/c
 - (c) Provision for Depreciation A/c
 - (d) Fixed Asset A/c
 - (xiii) The original cost of the machine is ₹ 19,00,000; machine installation charges are ₹ 1,00,000; working life of the machine is 5 years and residual value is ₹ 40,000. If the depreciation is charged on Straight Line basis then 4th year's depreciation will be
 - (a) ₹ 3,72,000
 - (b) ₹ 4,00,000
 - (c) ₹ 3,92,000
 - (d) ₹ 3,52,000 (1 × 3 = 3 marks)

Answer:

- (xi) (d) The revalued amount over the estimate of the remaining useful life of such asset
(xii) (b) Profit and Loss A/c
(xiii) (c) ₹ 3,92,000

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- (b) State whether the following statements are True or False:
(v) Under straight line method of depreciation, the cost of the asset written off in equal proportion during its economic life.

(1 mark)

Answer:

- (v) True

QUESTION AND ANSWER OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
(xv) In case the depreciable assets are revalued, the provision for depreciation is based on
(a) Market value of the assets.
(b) Historical cost of the asset.
(c) Written down value of the asset.
(d) The revalued amount over the estimate of the remaining useful life of such asset.

(1 mark)

Answer:

- (xv) (d)

QUESTIONS AND ANSWERS OF DECEMBER 2022

1. Depreciation is not provided for which of the following asset?
(a) Goodwill (b) Land
(c) Inventory of goods (d) Both (b) & (c)
2. Accumulated depreciation is an example of
(a) A liability (b) An expense
(c) An income (d) An unrecorded revenue

Answer:

- (a) A liability

SHORT NOTES

2009 - June [2] (b) Write a note on ' Objectives of Providing Depreciation'.
(3 marks)

Answer

Objectives of providing depreciation:

- (i) ascertain the correct profit;
- (ii) present true and fair financial position of the business
- (iii) make provision for replacement of assets used in business
- (iv) compute accurate cost of products;
- (v) ensure uniform rate of return;
- (vi) derive tax benefit; and
- (vii) Keep the funds invested, intact.

DESCRIPTIVE QUESTIONS

2009 - Dec [3] (d) Discuss the effects of not providing depreciation. Only two points needs be given.
(2 marks)

Answer :

Effects of not providing depreciation:

- (i) Income statement will give wrong results
- (ii) Assets will be overstated.

PRACTICAL QUESTIONS

2009 - Dec [4] (c) The cost of the machinery in use with a firm as on 1st April, 2008 was ₹ 2,50,000 against which depreciation provision stood at ₹ 1,05,000 on that date, the firm provides depreciation at 10% p.a. on SLM basis. On 01.10.2008 two machines costing ₹15,000 and ₹ 12,000 each, both purchased on 1st Oct. 2005 had to be discarded and had to be replaced by two machines costing ₹ 20,000 & 15,000 each on the same date.

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One of the discarded machine realised ₹ 8,000/- and the other is expected to realise ₹ 3,000/- . Prepare the following Accounts:

- (i) Machine A/c
- (ii) Machine Disposal A/c and
- (iii) Provision for Depreciation A/c for the year ended 31st March, 2009.

(1+2+2 = 5 marks)**Answer :**

**Machine A/c
for the year ended 31.03.2009**

		(₹)			(₹)
01/04/08	To Bal. b/d	2,50,000	01/10/08	By Mach Disposal A/c	27,000
01/10/08	To Bank A/c	35,000	31/03/09	By Balance c/d	2,58,000
		2,85,000			2,85,000

**Machine Disposal A/c
for the year ended 31.03.2009**

		(₹)			(₹)
01/10/08	To Machinery A/c	27,000	01/10/08	By Provision for Dep	8,100
			01/10/08	By Cash A/c	8,000
			01/10/08	By P&L A/c	7,900
			03/03/09	By Balance c/d	3,000
		27,000			27,000

**Provision for Depreciation
A/c for the year ended 31.03.2009**

		(₹)			(₹)
01/10/08	To Mach. Disposal A/c	8,100	01/04/08	By Bal. b/d	1,05,000
31/03/09	To Bal. C/d	1,22,300	31/03/09	By P & L A/c	25,400
		1,30,400			1,30,400

2010 - June [3] (b) A plant is purchased for ₹ 20,000. It is depreciated @ 5% per annum on reducing balance for five years, when it becomes absolute due to new methods of production and is scrapped. The scrap produces ₹ 5,385. Show the plant account in the ledger **(5 marks)**

Answer :

Plant Accounting

Year	Particulars	(₹)	Year	Particulars	(₹)
1st Year	To Bank	20,000	1st Year	By Depreciation	1,000
	Purchase of Plant			By Bal. c/d	19,000
		20,000			20,000
2nd Year	To Bal b/d	19,000	2nd Year	By Depreciation	950
				By Bal. c/d	18,050
		19,000			19,000
3rd Year	To Bal b/d	18,050	3rd Year	By Depreciation	902
				By Bal. c/d	17,148
		18,050			18,050
Year	Particulars	(₹)	Year	Particulars	(₹)
4th Year	To Bal /b/d	17,148	4th Year	By Depreciation	857
				By Bal. c/d	16,291
		17,148			17,148
5th Year	To Bal b/d	16,291	5th Year	By Depreciation	815
				By Cash	5,385
			(Scrapped Value)		
			By Profit & Loss A/c		
			(Loss on Sale)	10,091	
		16,291			16,291

2011 - June [4] (c) Purchase price of machine ₹ 4,45,000; Freight and Cartage ₹ 3,500; Installation charges ₹ 15,000; Insurance charges ₹ 10,000; Residual Value of the machine is ₹ 20,000; Estimated useful life 5 years. Calculate the amount of annual depreciation under straight line method.

(1 mark)

2.184**Scanner CMA Foundation Paper-2 (2022 Syllabus)****Answer :**

$$\text{Annual Depreciation} = ₹ \frac{4,45,000 + 3,500 + 15,000 - 20,000}{5} = ₹ \frac{4,43,500}{5}$$

$$= ₹ 88,700$$

2012 - June [2] (b) Purchases price of a machine ₹ 1,80,000; Freight charges ₹ 30,000; Installation charges ₹ 10,000; Residual value ₹ 16,000; and useful life 5 years. Calculate the depreciation for third year under the straight line method. **(2 marks)**

Answer :

Under Straight Line method, the depreciation for each year
 = $\frac{\text{Cost of machines} + \text{Repairs} + \text{Installation} - \text{Residual value}}{\text{Useful life in years}}$

Hence, the depreciation for the third year

$$= \left[\frac{1,80,000 + 30,000 + 10,000 - 16,000}{5} \right] = ₹ 40,800$$

2012 - June [3] (b) A company purchased some machineries for ₹ 1,00,000 on 1st April 2007. It charges depreciation @ 10% p.a. on reducing balance method every year. On 30th September 2011, a part of machinery was sold for ₹ 14,000, the original cost of the machine was ₹ 20,000. Calculate the Profit or Loss on Sale of Machinery. **(3 marks)**

Answer :

Particulars	Amount (₹)	Amount (₹)
Original cost of the machines as on 1.4.2007		20,000
Less: Depreciation for the year 2007-08	2,000	
2008-09	1,800	
2009-10	1,620	
2010-11	1,458	
2011-12 (upto 30.9.2011)	656	7,534
Written Down value as on 30-9-2011		12,466
Sales Price		14,000
Profit on Sale of Machinery		1,534

2012 - Dec [3] (a) Purchase price of machine ₹ 8,90,000; freight and cartage ₹ 7000; Installation charges ₹ 30,000; Insurance charges ₹ 20,000; Residual value ₹ 40000 and estimated useful life 5 years. Calculate the annual depreciation under straight line method. (2 marks)

Answer:

Annual Depreciation

$$= \frac{\text{Purchase Price} + \text{Freight} + \text{Installation} - \text{Residual Value}}{\text{Life of Machine}}$$

$$= \frac{₹8,90,000 + ₹7,000 + ₹30,000 - ₹40,000}{5}$$

$$= ₹1,77,400 \text{ per annum.}$$

2012 - Dec [4] (b) On 1st January, 2009 the Shiva Transport Company purchased a truck for ₹ 12,00,000. On 1st July, 2010 this truck was involved in an accident and was completely destroyed and ₹ 8,00,000 was received from Insurance company as a claim. On the same date, another truck was purchased by the company for ₹ 15,00,000.

The company write off 20 percent depreciation per annum on written down value method. Prepare the truck account upto 31st March, 2011, when books are closed on 31st March every year. (4 marks)

Answer:

**In the books of Shiva Transport Co.
Truck Account**

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.09	To Bank A/c	12,00,000	31.03.09	By Depreciation A/c (12,00,000 × $\frac{20}{100} \times \frac{3}{12}$)	60,000
			"	By Balance c/d	11,40,000
		12,00,000			12,00,000

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01.04.09	To Balance c/d	11,40,000	31.03.10	By Depreciation A/c (11,40,000 × $\frac{20}{100}$)	2,28,000
			"	By Balance c/d	9,12,000
		11,40,000			11,40,000
01.04.10	To Balance b/d	9,12,000	01.07.10	By Insurance Co. [or. on date of Receipt Bank A/c]	8,00,000
01.07.10	To Bank A/c	15,00,000	31.03.11	By Depreciation A/c – On Old Truck (9,12,000 × $\frac{20}{100}$ × $\frac{3}{12}$)	45,600
				– On New Truck (15,00,000 × $\frac{20}{100}$ × $\frac{9}{12}$)	2,25,000
			"	By Profit & Loss A/c (Loss on truck destroyed)	66,400
			"	By Balance c/d	12,75,000
		24,12,000			24,12,000

Working :

	₹
W. D. V. on 01.04.2010	9,12,000
Depreciation	
(9,12,000 × 20% × $\frac{3}{12}$)	<u>45,600</u>
Balance on the date of Accident	8,66,400
Less: Insurance claim	<u>8,00,000</u>
Loss on Truck Destroyed	<u>66,400</u>

2017 - June [2] A company purchased a machinery costing ₹ 30,00,000 on 1st July, 2014. It also purchased the 2nd machinery on 1st January, 2015 costing ₹ 20,00,000 and 3rd machinery on 1st October, 2015 for ₹ 10,00,000. On 1st April, 2016, 50% of the 1st machine that was purchased on 1st July, 2014 got damaged and sold for ₹ 6,00,000. Show how Machinery Account up to 31st March, 2017, would appear in the Books of the company, taking depreciation @ 10% p.a. on Straight Line Method. Account Books are closed on 31st March in every year. **(8 marks)**

Answer:

Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
2014 July 1	To Bank A/c	30,00,000	2015 March 31	By Depreciation 2,25,000 (9 months) 50,000 (3 months)	2,75,000
2015 Jan 1	To Bank A/c	20,00,000	"	By Balance c/d	47,25,000
		50,00,000			50,00,000
2015 April 1	To Balance b/d	47,25,000	2016 March 31	By Depreciation A/c 3,00,000 2,00,000 <u>50,000</u>	5,50,000
Oct 1	To Bank A/c	10,00,000	March 31	By Balance c/d	51,75,000
		57,25,000			57,25,000
2016 April 1	To Balance b/d	51,75,000	2016 April 1	By bank A/c (sale)	6,00,000
			"	By Profit & Loss (loss)	6,37,500
			2017 March 31	By Depreciation 1,50,000 2,00,000 <u>1,00,000</u>	4,50,000
			March 31	By Balance c/d	34,87,500
		51,75,000			51,75,000
2017 April 1	To Balance b/d	34,87,500			

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2017 - Dec [3] On 1st January, 2015 the K C Transport Company purchased a truck for ₹ 8,00,000. On 1st July, 2016 this truck was involved in an accident and was completely destroyed and ₹ 6,50,000 were received from the Insurance Company in full settlement. On the same date another truck was purchased by the company for ₹ 10,00,000.

The company writes off 15% depreciation per annum on written down value method. Prepare the Truck Account and Depreciation Account for the years ended 31st March, 2015, 2016 and 2017. **(8 marks)**

Answer:

Truck A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.15	To Bank A/c	8,00,000	31.12.15	By Depreciation A/c	1,20,000
			31.12.15	By Balance c/d	6,80,000
		8,00,000			8,00,000
1.1.16	To Balance b/d	6,80,000	1.7.16	By Depreciation A/c	51,000
1.7.16	To P/L A/c	21,000		By Insurance Co. A/c	6,50,000
	To Bank A/c	10,00,000	31.12.16	By Depreciation A/c	75,000
				By Balance c/d	9,25,000
		17,01,000			17,01,000
1.1.17	To Balance b/d	9,25,000	31.12.17	By Depreciation A/c	1,38,750
			31.12.17	By Balance c/d	7,86,250
		9,25,000			9,25,000

Depreciation A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.15	To Truck A/c	1,20,000	31.12.15	To P/L A/c	1,20,000
		1,20,000			1,20,000

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1.7.16	To Truck A/c	51,000	31.12.16	To P/L A/c	1,26,000
31.12.16	To Truck A/c	75,000			
		1,26,000			1,26,000
31.12.17	To Truck A/c	1,38,750	31.12.17	To P/L A/c	1,38,750
		1,38,750			1,38,750

2018 - June [3] N.R. & Sons purchased a second hand machine on 1st April, 2015 and paid ₹ 1,40,000 for it. On its repairs and installations he spent ₹ 20,000. On 1st October, 2015 another machine costing ₹ 80,000 was purchased. On 1st October, 2017 the machine purchased on 1st April, 2015 was disposed off for ₹ 1,04,000 and a new machine costing ₹ 2,00,000 was purchased. Depreciation was provided @ 15% per annum by Straight Line Method on year ending 31st March. Prepare Machinery Account for 3 years.

(8 marks)

Answer:

Machinery Account

1 Apr 2015	To Cash	1,40,000	31 Mar 2016	By Deprecation (24,000 + 6,000)	30,000
	To Cash	20,000		By Balance c/d (1,36,000+ 74,000)	2,10,000
1 Oct 2015	To Cash	80,000			
	Total	2,40,000			2,40,000
1 Apr 2016	To Balance b/d	2,10,000		By Deprecation (24,000 + 12,000)	36,000
				By Balance c/d	1,74,000
	Total	2,10,000			2,10,000
1 Apr 2017	To balance b/d	1,74,000	1 Oct 2017	By Cash	1,04,000
1 Oct 2017	To cash	2,00,000	1 Oct 2017	By Depreciation	12,000

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1 Oct 2017	To P/L A/c	4,000			
			31 March 2018	By Depreciation	27,000
			31 March 2018	By Balance c/d	2,35,000
	Total	3,78,000		Total	3,78,000

2018 - Dec [3] Kush Ltd. Purchased a second hand machinery on 01.04.2015 for ₹ 65,000, paid ₹ 12,400 for its overhauling and ₹ 5,500 for its installation which was completed by 30.06.2015 : The company provides depreciation on its machinery at 15% per annum on the basis of diminishing value method from the date it is put to use and closes its books on March 31 every year. On 01.10.2016, a repair work was carried out on the machine and ₹ 4,000 were paid for the same. The machine was sold on 31.01.2018 for a sum of ₹ 52,000 and an amount of ₹ 462 was paid as dismantling charges. Prepare Machinery Account from 2015-16 to 2017-18. **(8 marks)**

Answer:

**In the books of Kush Limited
Machinery Account**

Debit			Credit		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01/04/2015	To Cash / Bank A/c	65,000.00	31/03/2016	By Depreciation A/c (82,900 * 15% * 9 / 12)	9,326.25
30/06/2015	To Cash / Bank A/c (Overhauling)	12,400.00	31/03/2016	By Balance c/d	73,573.75
30/06/2015	To Cash / Bank A/c (Installation Charges)	5,500.00			

	Total	82,900.00		Total	82,900.00
01/04/2016	To Balance b/d	73,573.75	31/03/2017	By Depreciation A/c (73,573.75 * 15%)	11036.06
			31/03/2017	By Balance c/d	62,537.69
	Total	73,573.75		Total	73,573.75
01/04/2017	To Balance c/d	62,537.69	31/01/2018	By Depreciation A/c	7,817.21
			31/01/2018	By Cash / Bank A/c (Net Sale Proceeds)	51,538.00
			31/01/2018	By Loss on Sale of Machinery A/c	3,182.48
	Total	62,537.69		Total	62,537.69

Working Note:

Calculation of Profit / Loss on Sale of Machinery

Opening WDV of the Machinery (as on 01/04/2017) : ₹ 62,537.69

Depreciation for the period 01/04/2017 to 31/01/2018
(62537.69 * 15% * 10 / 12) : ₹ 7,817.21

Closing WDV of the Machinery (as on date of sale) : ₹ 54,720.48

Less: Net Sale Value of the Machinery (₹ 52,000.00 -
₹ 462 Charges) : ₹ 51,538.00

Loss on Sale of Machinery : ₹ 3,182.48

Note:

Repair Work carried out on the Machinery on 01/10/2016 amounting to ₹ 4,000/- is assumed to be revenue expenditure for maintaining the performance of the Machinery. Hence, it is not capitalized.

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2019 - June [3] On 1st July, 2017 KC Limited purchased a machine for ₹ 13,30,000. Expenses incurred on its freight ₹ 45,000 and installation ₹ 1,25,000. On 1st May, 2018 another machine was purchased and installed for ₹ 15,60,000. The machine purchased on 1st July, 2017 was sold on 31st May, 2018 for ₹ 12,20,000. Depreciation is charged by the company @ 15% per annum on written down value basis.

Prepare Machinery Account for the years 2017-18 and 2018-19, if the books are closed on 31st March in every year. **(8 marks)**

Answer:

**In the books of KC Limited
Machinery Account**

Debit			Credit		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01/07/2017	To Cash/Bank A/c	13,30,000.00	31/03/2018	By Depreciation A/c (15,00,000*15%*9/12)	1,68,750.00
	To Cash / Bank A/c (Freight)	45,000.00	31/03/2018	By Balance c/d	13,31,250.00
	To Cash / Bank A/c (Installation Charges)	1,25,000.00			
	Total	15,00,000.00		Total	15,00,000.00
01/04/2018	To Balance b/d	13,31,250.00	31/05/2018	By Cash / Bank Account	12,20,000.00
01/05/2018	To Cash / Bank A/c	15,60,000.00	31/05/2018	By Loss on Sale	77,968.75
			31/03/2019	By Depreciation A/c (15,60,000*15%*11/12)	2,14,500.00
			31/03/2019	By Balance c/d	13,78,781.25
	Total	28,91,250.00		Total	28,91,250.00
01/04/2019	To Balance b/d	13,78,781.25			

Working Note:

Calculation of Profit / Loss on Sale of Machinery

Opening WDV of the Machinery (as on 01/04/2018)	:	₹ 13,31,250.00
Depreciation for the period 01/04/2018 to 31/05/2018 $(13,31,250.00 \times 15\% \times 2/12)$:	₹ 33,281.25
Closing WDV of the Machinery (as on date of sale)	:	₹ 12,97,968.75
Less: Net Sale Value of the Machinery	:	₹ 12,20,000.00
Loss on Sale of Machinery	:	₹ 77,968.75

2019 - Dec [3] A manufacturing company closes its books of account on 31st March every year, purchased a machine for ₹3,00,000 on 1st April, 2015. Additional machine was purchased for ₹2,00,000 on 30th September, 2016 and for ₹1,00,000 on 1st April, 2018. One machine which was purchased on 30th September, 2016 was sold for ₹1,36,000 on 30th September, 2018. Prepare the Machinery account for the year ending 31st March, 2019 taking into account depreciation at 10% per annum on the written down value.

(8 marks)**Answer:**

**In the books of Manufacturing Company
Machinery Account**

Debit			Credit		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01/04/2015	To Cash/Bank A/c	3,00,000	31/03/2016	By Depreciation A/c (3,00,000×10%)	30,000
			31/03/2016	By Balance c/d	2,70,000
	Total	3,00,000		Total	3,00,000
01/04/2016	To Balance b/d	2,70,000	31/03/2017	By Depreciation A/c (2,70,000×10%)+ (2,00,000×10%×6/12)	37,000
30/09/2016	To Cash/Bank A/c	2,00,000	31/03/2017	By Balance c/d	4,33,000
	Total	4,70,000		Total	4,70,000

01/04/2017	To Balance b/d	4,33,000	31/03/2018	By Depreciation A/c (2,43,000×10%)+ (1,90,000×10%)	43,300
			31/03/2018	By Balance c/d	3,89,700
	Total	4,33,000		Total	4,33,000
01/04/2018	To Balance b/d	3,89,700	30/09/2018	By Cash/Bank A/c	1,36,000
01/04/2018	To Cash/Bank A/c	1,00,000	30/09/2018	By Profit & Loss Account (Loss on Sale of Machinery)	26,450
			31/03/2019	By Depreciation A/c (2,18,700×10%)+ (1,00,000×10%)	31,870
			31/03/2019	By Balance c/d	2,95,380
	Total	4,89,700		Total	4,89,700
01/04/2019	To Balance b/d	2,95,380			

Working Note:

Calculation of Profit / Loss on Sale of Machinery

Opening WDV of the Machinery (as on 01/04/2018) : ₹ 1,71,000.00

Depreciation for the period 01/04/2018 to 30/09/2018

(1,71,000×10%×6/12) : ₹ 8,550.00

Closing WDV of the Machinery (as on date of sale) : ₹ 1,62,450.00

Less: Net Sale Value of the Machinery : ₹ 1,36,000.00

Loss on Sale of Machinery : ₹ 26,450.00

1G

BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

THIS CHAPTER INCLUDES

- | | |
|--|--|
| <ul style="list-style-type: none">• Concept of Provisions• Good Debts• Bad Debts• Doubtful Debts• Provision for Doubtful Debts | <ul style="list-style-type: none">• Recovery of Bad Debts• Presentation of Provision for Doubtful Debt• Discount Allowed and Provision for Discount on Debtors |
|--|--|

CHAPTER AT A GLANCE

Concept of Provisions

A provision is defined as a charge against profit for the purpose of providing for any liability or loss. The anticipated liability or loss is expected but may or may not be ascertained with reasonable accuracy. It is an internal non-cash expense. If the amount of a known liability or loss can be ascertained with substantial accuracy, it should be treated as a liability and not a provision. A provision is created for any of the following purposes:

- (a) For liabilities and charges
- (b) Valuation adjustment for fixed assets
- (c) Valuation adjustment for current assets

Good Debts

This represents the debts which are likely to be realised in full.

Bad Debt

This represents the debt which are confirmed to be uncollectible or irrecoverable. This is a confirmed loss.

Doubtful Debt

This represents the debt the collectability of which is not certain due to factors such as the customer's becoming insolvent.

Provision for Doubtful Debt

Since, bad debt is a confirmed loss, the same is charged to Profit and Loss A/c along with a reduction of the receivables (i.e., Debtors). However, as doubtful debts are not confirmed loss, they cannot be debited to Profit and Loss A/c until they are confirmed to be so. Therefore, this is an anticipated liability or loss which is expected but not ascertainable with reasonable accuracy on the date of reporting. Hence, it requires a provision. Such a provision also justifies the conservatism principle which advocates providing for all possible losses.

Hence, Provision for Doubtful Debt is the amount charged against the profit by an entity to provide for the possible collection loss from customers

Recovery of Bad Debt

Bad debt written off in any earlier year(s), if recovered during the current year is directly credited to Profit and Loss A/c.

Presentation of Provision for Doubtful Debt

The Provision for Doubtful Debt is shown as a deduction from the Sundry Debtors in the Balance Sheet of the entity.

Discount Allowed and Provision for Discount on Debtors

It is a common practice of the entities to allow cash discount to its customers for prompt settlement of receivables. Discount allowed during the year is deducted from Debtors and the same is debited to Profit and

Loss A/c as an expense. However, for any discount expected to be allowed on the balance amount of receivable, it would be prudent to create a provision so that the profit is not inflated. This provision is known as Provision for Discount on Debtors.

Accounting for Discount Allowed and Provision for Discount on Debtors

The accounting for discount Allowed and Provision for Discount on Debtors is similar to what has been discussed in case of Bad Debt and Provision for Doubtful Debt.

Provision for discount on debtors is calculated on the balance of sundry debtors after adjusting bad debts (after Trial Balance), provision for doubtful debts and discount allowed.

OBJECTIVE QUESTIONS

2009 - June [5] (a) In each of the following, one of them is correct . Indicate the correct answer :

(ii) Bad Debts are included as :

- (a) Direct expenses
- (b) Cost of production
- (c) Selling overhead
- (d) Distribution overhead

(1 mark)

Answer:

(c) Selling overhead

2010 - June [5] (a) In each of the following, one is correct, indicate the correct answer:

(v) Bad debts are treated as:

- (a) Direct Expenses
- (b) Cost of Production
- (c) Selling Overheads
- (d) Distribution Overheads

(1 mark)

Answer:

(c) Selling Overheads

2010 - Dec [1] (a) In each of the following, one is correct, indicate the correct answer.

(vii) H's Trial Balance contains the following information:

	₹
Bad debts	3,000
Discount allowed	3,000
Provision for discount on debtors	3,200
Provision for Doubtful debts	3,500
Sundry Debtors	50,000

At the end of the year, it is desired to maintain a provision for Doubtful debts at 10% and provision for discount on debtors at 4%. Sundry Debtors will appear in the Balance Sheet at a figure of:

(a) ₹ 43,200

(b) ₹ 39,744

(c) ₹ 44,700

(d) None of these

(1 mark)

Answer:

(a) ₹ 43,200

2010 - Dec [2] (a) Give one word or phrase that describe the following:

(ix) Nature of Provision for Doubtful Debts Account.

(1 mark)

Answer:

(ix) Personal Account

2011 - June [1] (a) In each of the following one of the alternatives is correct, indicate the correct one:

(vii) Amount set apart to meet loss due to bad-debts is a

(a) Provision

(b) Reserve

(c) Appropriation

(d) None of the above

(1 mark)

Answer:

(a) Provision

2012 - June [1] (c) State with reasons whether the following statements are True or False:.

(viii) The debts written off as bad, if recovered subsequently, are credited to debtor's personal account. **(2 marks)**

Answer:

False: Recovery of bad-debts is credited to bad-debts recovered account and not to debtor's personal account.

QUESTION AND ANSWER OF DECEMBER 2014

1. Which of the following is (are) characteristic(s) of Bad Debt?

- (a) It is a definite loss to the business
- (b) It must be shown in Profit & Loss Account
- (c) No provision is necessary for it
- (d) All of the given options

(1 mark)

Answer: (d)

QUESTIONS AND ANSWERS OF MARCH 2015

1. Provision for discount on debtors is calculated on the amount of debtors.

- (a) Before deducting provision for doubtful debts.
- (b) After deducting provision for doubtful debts.
- (c) Before deducting actual debts and provision for doubtful debts.
- (d) After adding actual bad and doubtful debts.

(1 mark)

Answer: (b)

2. The debts written off as bad, subsequently collected by the proprietor and retained by him for his personal use. What is the accounting treatment for this transaction?

- (a) Debit Drawings A/c & Credit Debtors A/c
- (b) Debit Cash A/c & Credit Bad debts recovered A/c

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- (c) Simply ignore the Transaction
- (d) Debit Drawings A/c & Credit Bad debts recovered A/c (1 mark)

Answer: (d)

QUESTION AND ANSWER OF SEPTEMBER 2015

1. A decrease in the provision for doubtful debts would result in:
- (a) An Increase in liabilities
 - (b) A decrease in working capital
 - (c) A decrease in net profit
 - (d) A increase in net profit. (1 mark)
- Answer:** (d)

QUESTION AND ANSWER OF MARCH 2016

1. Which of the following statement is/are not correct?
- (a) Provision for bad debts appears as a liability on the balance sheet
 - (b) The provision for bad debts is owned to the proprietor
 - (c) Bad debt could be less than the provision for bad debts
 - (d) Bad debts could exceed the provision for bad debts. (1 mark)
- Answer :** (b)

QUESTIONS AND ANSWERS OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:
- (ii) Amount set apart to meet losses due to bad debt is a _____.
- (a) appropriation
 - (b) provision
 - (c) reserve
 - (d) depreciation (1 mark)
- (vi) Sundry debtors ₹ 13,20,000; If provision is to be made for doubtful debts and discount on debtor @ 5% and 2% respectively, then the amount of provision for discount will be _____.
- (a) ₹ 26,400
 - (b) ₹ 66,000
 - (c) ₹ 25,080
 - (d) ₹ 27,720 (1 mark)

Answer:

- (ii) **(b)** provision
- (vi) **(c)** ₹ 25,080

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.
- (vii) Amount set apart to meet loss due to bad debt is a
 - (a) Provision
 - (b) Appropriation
 - (c) Reserve
 - (d) Commission
 - (ix) What happens when a bad debt is recovered?
 - (a) Current asset decreases
 - (b) Debtor's balance decreases
 - (c) Profit increases
 - (d) Owner's fund decreases
 - (xxvi) The debts written off as bad, if recovered subsequently are
 - (a) Credited to Bad Debts recovered A/c
 - (b) Credited to Trade receivables Account
 - (c) Debited to Profit and Loss Account
 - (d) None of the above
- (1 mark each)**

Answer:

- (vii) (a) Provision
- (ix) (c) Profit increases
- (xxvi) (a) Credited to Bad Debts recovered A/c.

QUESTION AND ANSWER OF JUNE 2019

1. (a) Choose the correct answer from the given four alternatives:
- (xxvii) At the time of preparation of financial accounts, balance of Bad Debts Recovered Account will be transferred to
 - (a) Debtor's Personal A/c
 - (b) Profit & Loss A/c

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(c) Bad Debts A/c

(d) Profit & Loss Appropriation A/c

(1 mark)

Answer:

(b) Profit and Loss A/c

QUESTION AND ANSWER OF DECEMBER 2019

1. (a) Choose the correct answer from the given four alternatives:
(xxvii) At the end of the year Bad Debts Recovered Account is
- (a) Debited to Debtors Account
 - (b) Credited to Debtors Account
 - (c) Credited to Profit & Loss Account
 - (d) Debited to Profit & Loss Account

(1 mark)

Answer:

(c) Credited to Profit & Loss Account

QUESTION AND ANSWER OF DECEMBER 2022

1. Consider the following data and find out the amount which will be debited to Profit and Loss Account, Bad debts ₹ 11,600, provision for doubtful debts (old) ₹ 12,000, current year's provision (new) ₹ 11,800.
- (a) ₹ 11,000
 - (b) ₹ 11,200
 - (c) ₹ 11,400
 - (d) ₹ 11,600

Answer:

(c) ₹ 11,400

PRACTICAL QUESTIONS

2009 - Dec [3] (c) From the following information determine amounts to be transferred to the Profit & Loss Account:

(₹)

- (i) Sundry Debtors as on 31.03.2009 50,000
- (ii) Provisions for debt as on 01.04.2008 4,000
- (iii) Bad debts written off during the year 2008-09 1,000
- (iv) Recovery of bad debts earlier written off 1,000
- (v) Provision for bad and doubtful debts is maintained @ 5%

(2 marks)

Answer :

Provision for bad and Doubtful A/c

To Bad Debts	1,000	By Bal b/d	4,000
To P&L A/c	500		
To Bal. c/d	2,500		
	4,000		4,000

Credit to P&L A/c = 500 + 1,000 (Old recovery) = ₹ 1,500.

2010 - June [2] (c) The provision for doubtful Debts A/c shows a balance of ₹ 5,000 on 1st January, 2009. The Bad Debts during the year 2009 amounted to ₹ 3,000. The Sundry Debtors on 31st December, 2009 are ₹ 50,000. On 31st December, 2009, there is an additional Bad Debts of ₹ 3,000. Create a new Provision for Bad Debts @ 10% on Debtors.

You are required to show how the different items will appear in the firm's Profit and Loss A/c and Balance Sheet.

(3 marks)

Answer :

FARM

Profit and Loss Account

For the year ended 31st December, 2009

Dr.		Cr.
Particulars	(₹)	(₹)
To Bad Debts	3,000	
Add: Additional Bad Debts	3,000	
	6,000	
Add: New Provision for Bad Debts		

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$(50,000 - 3,000) \times 10\%$	4,700	
	10,700	
<i>Less: Old Provision for Bad Debts</i>	<u>5,000</u>	5,700

Balance Sheet
As on 31st December, 2009

Liabilities	(₹)	Assets	(₹)	(₹)
		Sundry Debtors	50,000	
		<i>Less : Additional Bad Debts</i>	3,000	
			47,000	
		<i>Less: New Provision for Bad Debts</i>	4,700	42,300