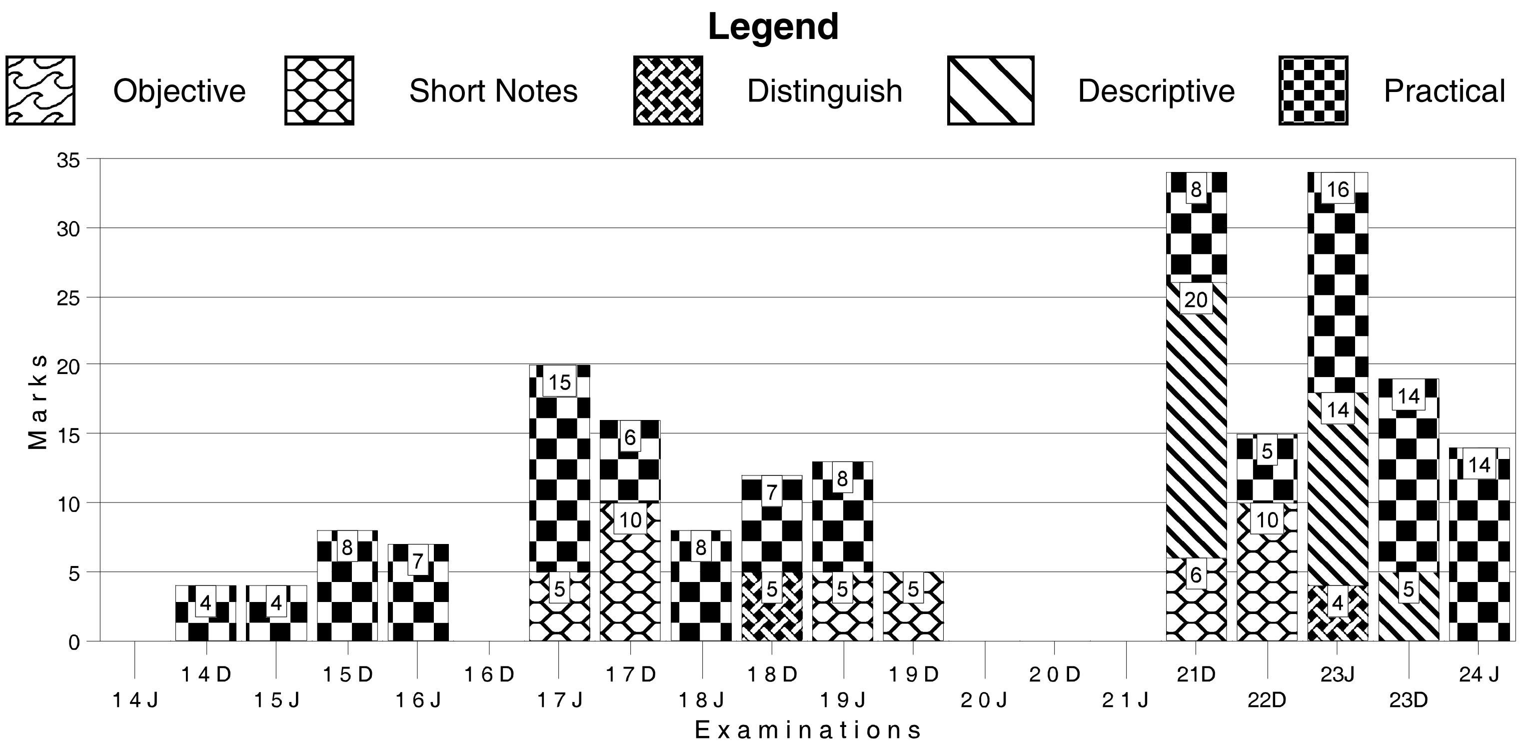
Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



1 ACCOUNTING FUNDAMENTALS

THIS CHAPTER INCLUDES

1. Four Frameworks of Accounting
2. Accounting Principles, Concepts and Conventions
3. Capital and Revenue Transactions
4. Accounting Cycle Charts of Accounts, Accounting Equation, Double Entry System, Books of Original Entry, Subsidiary Books and Finalisation of Accounts.
5. Journal (Day Books Opening Entries, Transfer Entries, Closing Entries, Adjustment Entries, Rectification Entries), Ledger
6. Cash Book, Bank Book, Bank Reconciliation Statement
7. Trial Balance
8. Adjustments and Rectifications

SCAN WITH CAMERA OF YOUR PHONE

Scan QR Code for Additional Material

CHAPTER AT A GLANCE

Accounting Concepts
Accounting Concepts refer to the assumptions and conditions that define the parameters and constraints within which the accounting operates. They lay down the foundation for accounting principles, and ensure recording of financial facts on sound bases and logical considerations.
Accounting Conventions
Accounting Conventions are customs, methods, procedures or guidelines associated with the practical application of accounting principles.

Capital Expenditure
Capital Expenditure refers to that expenditure, benefit from which can be enjoyed by an entity over a number of accounting periods. This type of expenditure happens to be non-recurring in nature. A capital expenditure takes place when an asset or service is acquired or improvement of a fixed asset is affected.
Revenue Expenditure
Revenue Expenditure refers to that expenditure, benefit from which can be enjoyed by an entity in the current accounting period. This type of expenditure happens to be recurring in nature. Revenue expenditures are incurred to carry on the regular course of operations by an organisation.
Capital Receipts
Capital Receipts refer to the receipts which are obtained by an entity from operations other than the regular operations of the entity. Capital receipts do not have any effect on the operating result during the course of a year.
Revenue Receipts
Revenue Receipts refer to the receipts which are obtained by an entity from its regular course of operations. Receipts of money in the revenue nature increase the profits or decrease the losses of a business and must be set against the revenue expenses in order to ascertain the profit for the period.
Capital Profit
Capital Profit refers to a profit which arises out of the non-operating activities of an entity. It is non-recurring in nature. Generally, capital profits arise out of the sale of assets other than inventory, or in connection with the raising of capital or at the time of purchasing an existing business.
Revenue Profit
Revenue Profit refers to a profit which arises out of the regular operating activities of an entity. It is recurring in nature.

Capital Loss
Capital Loss refers to a loss which does not arise to an entity in the regular course of its operations.
Revenue Loss
Revenue Loss arise to an entity from the normal course of business.
Charts of Accounts
A Chart of Accounts (COA) is a listing of all accounts in the general ledger, each account accompanied by a reference number.
Double Entry System
Double Entry System of Bookkeeping is an accounting system which recognizes the fact that every transaction has two aspects and both aspects of the transaction are recorded in the books of accounts.
Journal
Journal is the book of original entry in which financial transactions are firstly recorded after their occurrence in chronological order. It is in this book of accounts where the transactions are recorded in the first place.
Ledger
The book of account in which transactions are recorded in respective account, after they have been entered in the journal is called the Ledger. It is the book of account in which the transactions are recorded in a classified and permanent manner. It is the final destination of all the accounts, and hence, it is also called the Book of Final Entry. The process of recording the entry in the ledger is technically known as posting.
Cash Book
The book of account that records all cash receipts and cash payments of an organisation is referred to as cash book. The receipts are entered on the debit side, while the payments are recorded in the credit side of the cash book.

Bank Book
Deviating from the traditional method of keeping an additional column for bank transactions in a double and triple column cash book, today organisations keep a separate subsidiary book similar to cash book to record all receipts and payments made through the bank. This is known as Bank Book or Bank Journal.
Bank Reconciliation Statement
At any point of time, the balances as per cash book (bank column) and pass book should be equal in amount. But, in reality it rarely happens due to certain specific reasons. To reconcile the balances as reflected by these two related books a statement is prepared, which is referred to as the Bank Reconciliation Statement.
Trial Balance
The Trial Balance is a statement drawn up using the ledger balances to test of the arithmetical accuracy of the ledger account. The primary purpose of drafting a Trial Balance is to ensure that there are no arithmetical errors.
Depreciation
The gradual decline in the value of a tangible asset is termed as Depreciation. Thus, it can be stated that depreciation is a part of cost of tangible fixed asset which has expired because of its usage, lapse of time etc.
Amortisation
Amortisation is a gradual and systematic writing-off of intangible asset over its estimated useful life. For example, patents, purchased goodwill, copyrights are amortised over their useful life being intangible assets.
Depletion
Depletion is the value of wasting asset extracted from quarry, mine, etc. Extraction reduces the available quantity of material.

SHORT NOTES

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

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

Answer:

The Accrual Concept :

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

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

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

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

2017 - Dec [8] Write short notes on the following:

(a) Objectives of Accounting

(b) Methods/ Criteria to the selection and application of Accounting policies **(5 marks each)**

Answer:

(a) Objectives of Accounting:

The main objective of Accounting is to provide financial information to stakeholders. This financial information is normally given via financial statements, which are prepared on the basis of Generally Accepted

Accounting Principles (GAAP). There are various accounting standards developed by professional accounting bodies all over the world. In India, these are governed by The Institute of Chartered Accountants of India, (ICAI). In the US, the American Institute of Certified Public Accountants (AICPA) is responsible to lay down the standards. The Financial Accounting Standards Board (FASB) is the body that sets up the International Accounting Standards. These standards basically deal with accounting treatment of business transactions and disclosing the same in financial statement:

The following are the main objectives of accounting:

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

Answer:

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

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

2019 - June [8] Write short note on the following:

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

Answer:

Please refer 2017 - June [8] (a) on page no. 16

2019 - Dec [8] Write short notes on the following:

(a) Users of Accounting information **(5 marks)**

Answer:

Users of Accounting Information

Accounting provides information both to internal users as well as external users. The internal users are all the organizational participants, at all levels of management (i.e. top, middle and lower). Generally top: level management requires information for planning, middle level management which requires information for controlling the operations. For internal use, the information is usually provided in the form of reports, for instance Cash Budget Reports, Production Reports, Idle Time Reports, Feedback Reports, whether to retain or replace an equipment decision reports, project appraisal report, and the like.

The external users (e.g. Banks, Creditors) do not have direct access to all the records of an enterprise, they have to rely on financial statements as the source of information. External users are basically, interested in the solvency and profitability of an enterprise.

2021 - Dec [1] Write short notes on Source documents :

(3 marks) [Sec. C - Six LAQ]

Answer:

Source documents:

Vouchers are the documentary evidence of the transactions so happened. Source documents at the basis on which transactions are recorded in subsidiary books, i.e source documents are the evidence and proof of transactions.

2021 - Dec [2] Write short notes on Error of principle.

(3 marks) [Sec. C - Six LAQ]

Answer:

Error of principle: Entering revenue expenses as capital expense or *vice* versa or entering revenue receipt as capital receipt or *vice versa.*

2022 - Dec [8] Write short notes:
(a) Advantages of Double Entry System.
(b) The main objective of Depreciation Policy. **(5 marks each)**

Answer:

(a) Advantages of Double Entry System

1. In double entry system both the aspects (debit and credit) of all the transactions are recorded.
2. Under double entry system, various subsidiary books such as sales book, purchases book etc. are maintained.
3. In the case of double entry system, there is a ledger which contains personal, real and nominal accounts.
4. Under double entry system, preparation of trial balance is possible. Hence, accuracy of work is certain. There is an easy identification of fraudulent transactions.
5. Under double entry system, Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner.
6. It helps the trade know about his debtors and creditors from to time.
7. It helps the trader who can have a comparative study of working results and financial position over a number of years.
8. It provides ready-made information to be sent to Sales tax and Income Tax Authorities.
   It provides good guidance on which management take new decisions to increase the profit and correct losses into profit.

(b) Objectives of Depreciation policy

The following are the objectives of providing depreciation:

(a) **Knowledge of True Profits:** When an asset is purchased, it is nothing more than payment in advance for an expense. For example, purchasing a building for ₹ 50,00,000 for business purposes will save rent in the future. However, after a certain number of years, the building will become useless. The cost of the building is, therefore, nothing except paying rent in advance for years.
Any paid rent would have been charged as an expense to determine the true profits made by the business during a particular period.

Therefore, the amount paid for the purchase of the building should be charged over the period for which the asset would be serviceable.

(b) **True Financial Position:** The assets depreciate in their value on account of various factors. To present a true state of affairs of the business, the assets should be shown in the balance sheet, at their proper values. In case depreciation is not charged, the balance sheet will not indicate a true view of the state of affairs of the business.

(c) **Replacement of Assets:** The business uses assets to earn revenue. On account of constant use or lapse of time and similar other causes, a stage may come when the assets need to be replaced. Providing depreciation retains a part of the business profits, which can purchase new assets.

(d) **Correct Cost of Production:** Depreciation is a cost of production, and if depreciation is not charged, the cost of production so determined will not be correct.

(e) Description is the allocation of the cost of the asset over its effective life and being 'tax shield' is deductible expense while calculating taxable income of the concern.

(f) To match the cost with revenue, depreciation is necessary to measure the cost incurred during a given period.

DISTINGUISH BETWEEN

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

Answer:

Basis of Discount ion	Fundamental Accounting Assumptions	Accounting Policies
1. Number	There are only three fundamental accounting	There is no single list of accounting policies which are

	assumptions viz. Going Concern, Consistency and Accrual.	applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
2. Disclosure if followed	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
3. Disclosure if not followed	In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statements together with the reasons.	In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.
4. Choice	There is no choice.	The firm has a choice to select a particular policy.

2023 - June [6] (a) Difference between Bad debts and Provision of Bad debts. **(4 marks)**

Answer:

Difference between Bad Debts and Doubtful Debts

Bad Debts	Doubtful Debts
The debts which cannot be realized are known as Bad Debts.	The debts which may or may not become bad are known as Doubtful Debts.
Bad Debts are immediately written off.	Doubtful debts are not written off but provided for.
A bad debt is a known loss.	A doubtful debt is an anticipated loss.

In case of bad debt, the Debtor's Amount is brought down by the amount of bad debt.	In case of doubtful debt, the Debtor's Account remains as it is since, debtor's Account and provision for Doubtful Debts Account are two separate accounts. But provision is made against expected loss.

DESCRIPTIVE QUESTIONS

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

(ii) State briefly the three fundamental accounting assumptions.

(2 marks)

Answer:

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

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

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

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

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

(4 marks)

Answer:

Steps/ Phases of Accounting Cycle:

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

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

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

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

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

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

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

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

2021 - Dec [2] What is a depreciable cost? **(1 mark) [Sec. B - SAQ]**

Answer:

Depreciable cost = Cost of asset- Scrap value.

2021 - Dec [4] Name the side on which increase in capital is recorded. **(1 mark) [Sec. B - SAQ]**

Answer:

Credit side.

2021 - Dec [5] Under which accounting concept provision is made for doubtful debts. **(1 mark) [Sec. B - SAQ]**

Answer:

Prudent concept.

2021 - Dec [8] Why is the capital of the owner shown on the liability side of the balance sheet? **(1 mark) [Sec. B - SAQ]**

Answer:

Due to separate entity concept.

2021- Dec [14] What type of account is a revaluation account?
(1 mark) [Sec. B - SAQ]

Answer:

Nominal account.

2021 - Dec [15] What is the traditional function of accounting?
(1 mark) [Sec. B - SAQ]

Answer:

Recording of financial transactions.

2021 - Dec [17] Should a transaction be first recorded in a journal or Ledger. Why? **(1 mark) [Sec. B - SAQ]**

Answer:

Transactions are first recorded in a journal because it is a book of original entry.

2021 - Dec [18] On which basis of accounting outstanding expenses are not recorded? **(1 mark) [Sec. B - SAQ]**

Answer:

Cash basis of accounting.

2021 - Dec [19] Name the error committed by violating the rules of accounting. **(1 mark) [Sec. B - SAQ]**

Answer:

Error of principle.

2021 - Dec [20] Define merchandise. **(1 mark) [Sec. B - SAQ]**

Answer:

Merchandise means goods for resale.

2021 - Dec [1] Which transactions will:

(i) Decrease the assets and decrease the capital.
(ii) Increase the assets and increase the liabilities.
(iii) Increase the assets and decrease another asset.
(iv) Decrease the assets and decrease the liabilities.

(4 marks) [Sec. C - One LAQ]

Answer:

(i) Drawing or expenses.
(ii) Purchase of an asset on credit.
(iii) Purchase or sale of an asset in cash.
(iv) Payment of liability.

2021 - Dec [2] When you proceed to reconcile the bank account starting with 'credit' cash book Balance, how is the following dealt with and why?

(i) Cheque issued but not presented for payment
(ii) Cheque deposited but not yet credited.
(iii) Bank charges charged by the bank not recorded in the cash book.
(iv) Interest allowed by the bank is not recorded in the cash book.

(4 marks) [Sec. C - One LAQ]

Answer:

(i) Cheques issued but not yet presented for payment are deducted because the bank shows lower overdrawn balance.
(ii) Cheques deposited but not cleared are added because the bank shows a higher overdrawn balance.
(iii) Bank charges are added because the bank shows a higher overdrawn balance.
(iv) Interest allowed is deducted because the bank shows lower overdrawn balance.

2021 - Dec [1] Why is goodwill considered an "Intangible asset" but not a "fictitious asset"? **(2 marks) [Sec. C - Five LAQ]**

Answer:

Goodwill cannot be seen or touched. It can only be felt. Hence, it is treated an intangible asset. But it is not a fictitious asset because fictitious do not have a value. Whereas Goodwill has value and it can be purchased or sold with any other asset.

2023 - June [2] (a) (i) Briefly explain Expenditure. **(1 mark)**

(ii) When an account is said to have a debit balance? **(1 mark)**

(iv) What is Depreciable Cost? **(1 mark)**

Answer:

(i) The payment of cash or incurrence of liability in exchange for goods or services is called Expenditure.

(ii) A debit balance is an account balance where there is a positive balance in the left side of the account. Total of debit side is greater than credit side total. Accounts that normally have a debit balance include assets, expenses, and losses.

(iv) The depreciable cost is the cost of an asset that can be depreciated over time. It is equal to acquisition cost of the asset, minus its estimated salvage value at the end of its useful life.

2023 - June [5] (a) When you proceed to reconcile the Bank Account starting with 'Debit' Cash Book balance, how is the following dealt with and why?

(i) Cheques issued but not presented for payment.

(ii) Cheques deposited but not yet credited.

(iii) Bank charges charged by the Bank not recorded in the Cash Book.

(iv) Interest allowed by the Bank not recorded in the Cash Book.

(4 marks)

Answer:

(i) Cheques issued but not yet presented for payment are added because bank shows higher balance.

(ii) Cheques deposited but not cleared are deducted because bank shows lower balance.

(iii) Bank charges are deducted because bank has already debited the account.

(iv) Interest allowed is added because bank has credited the account.

2023 - June [8] (a) The conceptual framework is a body of interrelated objectives and fundamentals. Explain. **(3 marks)**

Answer:

Conceptual Framework:

The Conceptual Framework is a body of interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported. It states the objectives of General-Purpose Financial Reporting and the information provided by it. Conceptual Framework also guides on the qualitative characteristics that the financial statements must possess. Conceptual Framework often plays an important role in the development of Institutional Framework and assists preparers to develop consistent accounting policies when no accounting standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy.

2023 - June [8] (d) The accounting cycle consists of certain sequential steps. List out those steps. **(4 marks)**

Answer:

Stages of Accounting Cycle:

The accounting cycle consists of the following sequential steps:

1. **Identifying transactions:** The first step in the accounting cycle is to analyze events to determine if they are "transactions". Transactions are the starting point from which the rest of the accounting cycle will follow.
2. **Recording transactions in Books of Original Entry:** The second step in the accounting cycle is to record the identified transactions in the relevant Books of Original Entry as journal entries.
3. **Posting to the ledger:** The next step is to record a summary of the activities in relevant account in the ledger (referred to as posting).
4. **Drafting of Unadjusted Trial Balance:** At the end of an accounting period, data from the ledger accounts may be taken to draft a trial balance. It is prepared for identifying any errors that may have occurred during the initial stages of the accounting cycle. However, this step is not mandatory.
5. **Passing of adjustment entries:** Identification of necessary adjustments and passing of adjusting entries make up the fifth step in the cycle.
6. **Drafting of Adjusted Trial Balance:** Once all adjusting entries are completed, then an Adjusted Trial Balance can be prepared. This happens to be the last step before the preparation of the financial statements.

7. **Closing of books:** In this stage of the accounting cycle, the ledger accounts are closed and balanced (also referred to as “zeroed out”) at the end of every accounting period.
8. **Drafting the Financial Statements:** In the last stage of the accounting cycle, the Income Statement is prepared with the closing balances of the nominal accounts, while the balances of real and personal accounts get reflected in the Balance Sheet.

   Financial statements are prepared in the following order: Income Statement, Statement of Retained Earnings, Balance Sheet and Statement of Cash Flows.

2023 - Dec [8] (b) Explain the following accounting conventions:

(i) Full Disclosure
(ii) Consistency
(iii) Materiality
(iv) Conservatism **(5 marks)**

Answer:

Accounting Conventions

(i) **Full disclosure:** This convention advocates the full disclosure of all material information, whether favorable or otherwise, in the accounting statements of a business enterprise. This convention requires that all accounting statements must be prepared honestly. The convention of disclosure holds greater importance in the case of businesses where the ownership is separate from the management.

(ii) **Consistency:** This convention advocates the continuous observation and application of the rules and practices of accounting. The uniformity and consistency of accounting rules is vital to profit and loss calculations as well as comparisons of company performance. Frequent changes in the treatment of accounts would result in inconsistency and hence, make the accounting information less reliable. It would result in making accounting information truthful, accurate and complete.

(iii) **Materiality:** The convention of materiality advocates the recording and reflection of all material facts (i.e. those pieces of information that can potentially influence the decision of informed investor) in the accounting records and elimination of insignificant information. It should be noted that any item of fact which is considered material by on organization may be treated as unimportant by another organization. In the same way, an item that is considered material during a particular time period may be treated as unimportant in subsequent time periods.

(iv) **Conservatism:** The convention of conservatism essentially assumes an uncertain future and as such, advocates providing for all possible losses, but never for possible future gains. As such, application of this convention would always result in understatement of incomes, profits and thus, resources.

PRACTICAL QUESTIONS

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

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

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

(2 marks each)

Answer:

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

The Journal Entries are:

Particulars		₹	₹
Furniture & Fittings A/c	Dr.	10,000	
To Purchase A/c			10,000
[Being error in purchase A/c being rectified]			
Sundry Creditors A/c	Dr.	5,000	
To Cash A/c			5,000
[Being the omission to record the transaction now being recorded]			

(iii) Provision for bad and doubtful debts account

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

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

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

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

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

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

(1 × 4 = 4 marks)

Answer:

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

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

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

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

2014 - Dec [2] Answer the question:

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

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

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

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

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

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

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

(4 marks)

Answer:

			₹	₹
(i)	Profit & Loss Adjustment A/c	Dr.	18,000	
	To Suspense A/c			18,000
	(Under cash of return inward book rectified.)			
(ii)	Capital A/c	Dr.	10,000	
	To Profit & Loss Adjustment A/c			10,000
	(Drawing rectified.)			
(iii)	Machinery A/c	Dr.	5,200	
	To Profit & Loss Adjustment A/c			5,200
	(Wrong debit to freight A/c now rectified.)			

(iv)	Profit & Loss Adjustment A/c	Dr.	15,000	
	To Outstanding Rent A/c			15,000
	(Adjustment entry for outstanding rent passed.)			
(v)	Furniture A/c	Dr.	13,000	
	To Profit & Loss Adjustment A/c			13,000
	(Furniture wrongly entered in purchase book now rectified)			
(vi)	Sohan's A/c	Dr.	10,000	
	To Mohan's A/c			10,000
	(Wrong credit to Sohan's A/c rectified.)			

2015 - June [2] Answer the question:

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

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

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

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

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

(4 marks)

Answer:

Journal of SHIVA

Date	Particulars	L. F.	Amount ₹	Amount ₹
1.5.15	Cash A/c Dr.		5,00,000	
	To Capital A/c			1,50,000
	To Loan from Patta A/c			1,00,000
	To Loan from SBI A/c			2,50,000
	(Being business started)			

5.5.15	Purchases A/c Dr. To Cash A/c To Chinu Mart A/c (Being goods purchased and trade discount received)		1,20,000	 48,000 72,000
8.5.15	Satish A/c Dr. Cash A/c Dr. To Sales (Being goods sold and trade discount allowed)		36,000 12,000	 48,000
15.5.15	Chinu Mart A/c Dr. To Cash A/c To Discount A/c (Being payment made to Chinu Mart in full settlement of his account)		72,000	 69,500 2,500

2015 - Dec [2] Answer the question.

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

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

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

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

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

Required:

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

Answer:

In the books of ANKIT LTD.
Journal Entries

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

2015 - Dec [5] Answer the question.

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

Discuss whether the accounting entry passed by the accountant of the company is correct? **(4 marks)**

Answer:

The accounting entry passed by the accountant of the company is incorrect as it does not depict the original transaction. Sales should be shown at the gross amount and thereafter, entry of sales return should be passed.

The goods returned cost 14,000 on which discount was availed which needs to be reversed.

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

$$= 2{,}240$$

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

(i) ₹ 1,000 allowed as cash discount to a trade debtor was not debited to the discount account.

(ii) Credit sale of ₹ 4,850 was posted to the credit of the customer's account as ₹ 4,535.

(iii) Machinery purchased for ₹ 50,000 in cash was posted to the Purchases Account in the ledger.

(iv) Sales Book was overcast by ₹ 2,000 in February, 2016.

Required:

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

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

(5 + 2 = 7 marks)

Answer :

(a)

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

Suspense A/c

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

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

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

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

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

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

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

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

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

Answer:

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

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

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

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

Answer:

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

Answer:

(b)

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

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

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

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

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

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

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

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

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

Answer:

Please refer 2017 - June [2] (b) on page no. 36

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

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

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

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

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

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

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

Pass the necessary Journal Entries to rectify the above mentioned errors. **(8 marks)**

Answer:

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	AB Ltd. A/c	Dr.		3,502	
	Discount Received A/c	Dr.		44	

	To CD Ltd. A/c To Discount Given A/c (Being cheque received from AB Ltd. was endorsed to CD Ltd. However, the cheque was later dishonoured)			3,500 46
	Sales Return A/c Dr MN Ltd. A/c Dr To Purchase A/c To PQ Ltd. A/c To Suspense A/c (Being goods returned by PQ Ltd. were wrongly recorded in purchase book and from thereon wrongly posted to MN Ltd.)		230 320	 230 230 90
	Bad debts A/c Dr. To Suspense A/c (Being Bad debts written off in Sales Ledger but not yet recorded in General Ledger, now recorded)		505	 505
	Repairs A/c Dr. To Purchase A/c To Z Ltd. (Being repair of machinery amounting to ₹ 750 wrongly entered in Inward book as ₹ 650)		750	 650 100
	Goods - in - Transit A/c Dr. To Trading A/c (Being goods - in - transit were recorded in books)		1,234	 1,234

Machinery A/c Dr.			79	
Suspense A/c Dr.			18	
To Freight A/c				97
(Being amount paid on Freight on Machinery amounting to ₹ 79 was wrongly debited to Freight A/c as ₹ 97)				

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

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

You are required to:

(i) State the errors giving reasons,

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

Answer:

(i) (I) Stock on 31st March, 2018, will not appear in the Trial balance because it represents a part of the goods purchased but not yet sold. As the total purchases have been included in the Trial balance, there is no need of including the Closing Stock again.

(II) Machinery is an asset and thus will appear in the debit column.

(III) Wife's loan to the business is a liability. It will appear in the credit column.

(IV) Discount allowed, being an expense, will appear in the debit column.

(V) Drawings made by the proprietor is a decrease of capital (i.e., decrease of proprietor's claim from the business). It will appear in the debit column.

(ii) Trial balance as on 31st March, 2018

Heads of Accounts	L.F.	Dr. Balance (₹)	Cr. Balance (₹)
Furniture		20,000	–
Capital		–	2,00,000
Debtors		2,00,000	–
Stock (1st April, 2017)		1,04,000	–
Creditors		–	80,000
Trade Expenses		50,000	–
Sales		–	8,58,000
Wages		30,000	–
Machinery		50,000	–
Purchases		6,25,000	–
Wife's loan to the business		–	50,000

Discount Allowed		4,000	–
Drawings made by the Proprietor		45,000	–
Motor Van		60,000	–
Total		**11,88,000**	**11,88,000**

2019 - June [2] (a) Rectify the following errors:

(i) A Credit Sale of goods to X ₹ 3,000 posted as ₹ 30,000.

(ii) A Cash Sale of goods to Y ₹ 3,000 posted as ₹ 30,000.

(iii) A Credit Sale of furniture to Z ₹ 3,000 posted as ₹ 30,000.

(iv) A Credit Sale of goods of ₹ 3,000 to Krishan entered in the purchases book as ₹ 30,000 and posted therefrom to the credit of Kishan as ₹ 3,000.

(v) A Cash Sale of goods of ₹ 3,000 to Krishan posted to the credited of Kishan as ₹ 30,000.

(vi) A Credit Purchase of old machinery from Sohan for ₹ 17,000 was entered in the Purchases Book as purchase from Mohan for ₹ 71,000. ₹ 3,000 paid as Repair Charges of this Machinery debited to General Expenses Account.

(vii) A Bill drawn on Meenu for ₹ 30,000 was passed through bills payable book with ₹ 3,000 and posted therefrom to the credit of Meena as ₹ 300.

(viiii) Sales included a sale of furniture having a book of value of ₹ 900 for ₹ 850 on 31st March, 2018. **(8 marks)**

Answer:

Journal

Date	Particulars		Dr.(₹)	Cr. (₹))
(i)	Suspense A/c	Dr.	27,000	
	To X A/c			27,000
	(Being wrong posting now rectified)			

Or,

	Sales A/c	Dr.	27,000	
	To X A/c			27,000
	(Being credit sale of ₹ 3,000 wrongly posted as ₹ 30,000, now rectified)			
(ii)	Sales A/c	Dr.	27,000	
	To Suspense A/c			27,000
	(Being wrong posting now rectified)			

Or.

	Sales A/c	Dr.	27,000	
	To, Cash A/c			27,000
	(Being, cash sale of ₹ 3,000 wrongly posted as ₹ 30,000, now rectified)			
(iii)	Furniture A/c	Dr.	27,000	
	To Z A/c			27,000
	(Being wrong posting, now rectified)			
(iv)	Krishan A/c	Dr.	3,000	
	Kishan A/c		3,000	
	Suspense A/c		27,000	
	To Sales A/c			3,000
	To Purchases A/c			30,000
	(Being sale recorded as purchase with wrong amount and wrong posting therefrom, now rectified)			
(v)	Kishan A/c	Dr.	30,000	
	To Sales A/c			3,000
	To Suspense A/c			27.000
	(Being wrong posting, now rectified)			

(vi)	Mohan A/c	Dr.	71,000	
	Machinery A/c	Dr.	20,000	
	To Sohan A/c			17,000
	To Purchases A/c			71,000
	To General Expenses A/c			3,000
	(Being purchase of old machinery recorded the Purchases Book and repairing charges debited to General Expenses A/c, now rectified)			
(vii)	Bills Receivable A/c	Dr.	30,000	
	Bills Payable A/c	Dr.	3,000	
	Meena A/c	Dr.	300	
	To Meenu A/c			30,000
	To Suspense A/c			3,300
	(Being B/R drawn recorded in B/P Book, now rectified)			
(viii)	Sales A/c	Dr.	850	
	Loss on Sale of Furniture A/c	Dr.	50	
	To Furniture A/c			900
	(Being the sale of furniture recorded as sales, now rectified)			

2021 - Dec [2] From the following particulars calculate operating profit.
Net profit. ₹1,00,000
Rent received. ₹10,000
Gain on the sale of machines. ₹15,000
Interest on loan paid. ₹18,000 Donation
paid. ₹4,000 **(2 marks) [Sec. C - Two LAQ]**

Answer:

Operating Profit = 1,00,000 – 10,000 – 15,000
+ 18,000 + 4,000 = 97,000

∵ Operating Profit = ₹97,000

2021 - Dec [1] Ruma Ltd. purchased a plant on 1st April, 2015 for ₹ 2,40,000.It bought another plant on 1st July, 2016 for ₹1,60,000. On 1st January 2018 Plant bought on 1st April 2015 was sold for ₹1,60,000 and a fresh plant was purchased on the same date. Payment of this plant will be made as under.

1st January 2018 ₹40,000.

1st January 2019 ₹48,000.

1st January 2020 ₹44,000.

Payments made in 2019 and 2020 include interest of ₹ 8,000 and ₹ 4,000, respectively. Depreciation is charged at 10% P.a. on the diminishing balance method.

From the above particulars, Find out.

(i) Cost of plant bought on January 1st, 2018.

(ii) Loss on sale of plants.

(iii) Closing balance of plant 2 and plant 3 as on 31-3-2018

(6 marks) [Sec. C - Four LAQ]

Answer:

(i) **Cost of Plant:**

40,000 + 48,000 – 8,000 + 44,000 – 4,000

= 1,20,000

(ii) **Loss on sale of Plant:**

WDV on 1.1.2018 2,40,000 – 24,000 – 21,600 – 14,580

= 1,79,820

Loss = 1,79,820 – 1,60,000 = 19,820

(iii) **Closing balance of Plant:**

Plant 2

$$1,60,000 - \left(1,60,000 \times \frac{10}{100} \times \frac{9}{12}\right)$$

– 14,800 = 1,33,200

Plant 3

$$1,20,000 - 1,20,000 \times \frac{10}{100} \times \frac{3}{12}$$

= 1,17,000

2022 - Dec [7] (b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹ 4,00,000. As on 31st March, 2021 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'. Show the treatment of machine in the books of ABC Ltd. **(5 marks)**

Answer:

Since the said Machine was never put to use, it's cost (₹ 4,00,000/-) cannot be capitalized. Hence, this entire cost of ₹ 4,00,000/- needs to be written off to Profit and Loss Account. Entire cost shall be written off because it does not have any scrap value. A liability will be created in books of ₹ 4 lakhs for payment to be made to XYZ Ltd.

2023 - June [3] (a) Rectify the following errors identified in the books of Sunil. The Trial Balance showed ₹ 250 as debit excess. The difference has been posted to the Suspense Account.

(i) Total of debit side of Expenses Account has been cast in excess of ₹150.

(ii) Sales Account has been totalled short by ₹ 200.

(iii) One item of purchase of ₹ 25 has been posted from the Purchases Book to the Ledger as ₹ 350.

(iv) Sales return of ₹ 200 from a party has not been posted to that account, though the Party's Account has been credited.

(v) A cheque of ₹ 600 issued to the Supplier's Account (shown under Sundry Creditors) towards his dues had been wrongly debited to the Purchases Account.

(vi) Credit sale of ₹ 100 has been credited to the sales and also to the Sundry Debtors Account.

Required: Pass the necessary journal entries for correcting the above and prepare a Suspense Account as it would appear in the ledger. **(8 marks)**

Answer:

S. no.	Particulars	Debit ₹	Credit ₹
(i)	Suspense Account Dr.	150	
	To Expenses Account		150
	(Being the error in totaling of an Expense Account, now rectified)		
(ii)	Suspense Account Dr.	200	
	To Sales Account		200
	(Being the mistake in totaling of sales Account, now rectified)		
(iii)	Suppliers Account Dr.	325	
	To Suspense Account		325
	(Being the mistake in posting purchase book to the ledger , now rectified)		
(iv)	Sales Return Account Dr.	200	
	To Suspense Account		200
	(Being the sales return to the party not posted in sales return , now rectified)		
(v)	Sundry Creditors Account Dr.	600	
	To Purchase Account		600
	(Being the wrong debit given to purchase account , now rectified)		
(vi)	Sundry Debtors Account Dr.	200	
	To Suspense Account		200

Suspense Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
To Expenses Account	150	By Debit Excess (TB)	250
To Sales Account	200	By Suppliers Account	325
To Bal. c/d	625	By Sales Return Account	200
		By Sundry Debtors Account	200
	975		975

2023 - June [5] (d) Entity A purchased an asset on 1st January, 2019 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.
On 1st January, 2023, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.
Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis. **(5 marks)**

Answer:
Purchase Price of an Assets = ₹ 1,00,000
Estimated useful life =10 years.
Residual Value = NIL
Depreciation = (Purchase Price-Residual Value)/Estimated useful life
So, (₹ 1,00,000-0)/₹ 10 = ₹ 10,000 per Year
4 years Depreciation = ₹ 40,000
Value of the Assets on 1st January, 2023 = 1,00,000 - 40,000 = ₹ 60,000
Now, the revised estimated useful life will be 4 years
Depreciation per year will be: ₹ 60,000/4 i.e. ₹ 15,000 per year.

2023 - June [6] (b) Following is the extract from the Trial Balance of a firm as at 31st March, 2023:
TRIAL BALANCE as at 31st March, 2023

Heads at of Accounts	Dr.(₹)	Cr.(₹)
Sundry Debtors	4,10,000	—
Provision for Doubtful Debts	—	20,000
Bad Debts	6,000	—

Additional Information:

(i) Additional Bad Debts ₹ 10,000.

(ii) Maintain Provision for Doubtful Debts @ 10% on Sundry Debtors.

Pass necessary Journal entries and show relevant accounts (including Final Accounts). **(3 marks)**

Answer:

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31st March, 2023	Bad Debts A/c Dr. To Sundry Debtors A/c (Being the additional Bad debts recorded)		10,000	10,000
	Provision for Doubtful Debts A/c Dr. To Bad Debts A/c (Being Bad Debts Transferred to Provision for Doubtful Debts Account)		16,000	16,000
	Profit & Loss A/c Dr. To provisions for Doubtful Debts A/c (Being the amount debited to Profit & Loss Account to maintain Provision for Doubtful Debts @10% on Sundry Debtors)		36,000	36,000

Sundry Debtors A/c

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
31st March, 2023	To Balance B/d		4,10,000	31st March, 2023	By Bad Debts A/c		10,000
					By Balance c/d		4,00,000
			4,10,000				**4,10,000**

Bad Debts A/c

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
31st March, 2023	To Balance B/d		6,000	31st March, 2023	By Provisional for Doubtful Debts A/c		16,000
	To Sundry Debtors A/c		10,000				
			16,000				**16,000**

Provisional for Doubtful Debts A/c

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
31st March, 2023	To Bad Debts A/c		16,000		By Bal B/d		20,000
31st March, 2023	To Bal c/d 10% of (4,10,000- ₹ 10,000)		40,000		By Profit & Loss A/c (Balancing Figure)		36,000
			56,000				**56,000**

Profit & Loss A/c

Particulars		₹	Particulars	₹
To Bad Debts	6,000			
Add: Further Bad Debts	10,000			
	16,000			
Add: Provision for Doubtful Debts	40,000			
	56,000			
Less: Old Provision	20,000			
		36,000		

Balance Sheet

Liabilities	₹	Assets		₹
		Sundry Debtors	4,10,000	
		Less: Further		
		Bad Debts	10,000	
			4,00,000	
		Less: Provision for Doubtful Debts	40,000	36,000

2023 - Dec [2] (a) On 30th September, 2023, Shri Sachin Chatterji's Cash Book shows that he had an overdraft of ₹ 400 on his current account at the bank. On checking the Cash Book with Bank Statement, you find the following:

(i) Cheques issued ₹ 1,500 had been entered in the Cash Book but had been presented into Bank ₹ 1,000.

(ii) Dividend amounting to ₹ 150 had been directly deposited into bank.

(iii) Bank had credited interest on Bank Deposit of ₹ 170 but the same had been debited in the Cash Book on 6th October, 2023.

(iv) Bank charge of ₹ 50 shown in the bank statement but the same had not been entered in the Cash Book.

(v) A cheque is issued to N.K. Chatterjee for ₹ 50 was replaced when out of date. It was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unpresented cheques shown above.

(vi) The receipt side of the Cash Book had been overcast by ₹ 20.

(vii) A cheque for ₹ 20 had been entered as a receipt in the Cash Book instead of as a payment.

(viii) A cheque drawn for ₹ 8 had been incorrectly entered in the Cash Book as ₹ 88.

You are required to prepare:

(I) Adjusted Cash Book; and

(II) Bank Reconciliation Statement as on 30.9.2023. **(7 marks)**

Answer:

Adjusted Cash Book

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
30.09.23	To Dividend A/c		150	30.9.23	By Balance b/d		400
	To Interest A/c		170		By Bank charges A/c		50
	To Error A/c		80		By Overcasting error		20
					By Party A/c		40
	To Bal - c/d		110				
			510				510

Bank Reconciliation Statement 30.9.23

Particulars	Amount (in ₹)
Balance as per Adjusted Cash Book	(110)
Add: Cancelled Cheque issued	50
Cheque issued but not presented	500
Balance as per pass Book	440

2023 - Dec [2] (b) From the following details, prepare an Adjusted Trial Balance as at 31-3-23.

	₹		₹
Purchase	65,000	Sundry Creditors	35,000
Carriage Inward	1,000	Plant and Machinery	10,000
Wages	6,000	Buildings	5,000
Salaries	10,000	Furniture	3,000
Rent, rates and taxes	1,800	Bills Receivable	10,000
Insurance	1,500	Sundry Debtors	40,000
Interest paid	1,000	Capital	66,000
Sales	95,000	Sundry Expenses	5,000
Cash and Bank	21,500	Opening Stock	21,000
Bills Payable	5,800		

Notes:

(i) Salaries and wages due to be paid ₹ 2,000 and ₹ 1,000 respectively.

(ii) Insurance was paid to the extent of ₹ 300 advance.

(iii) A sum of ₹ 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.

(iv) Sundry expenses include ₹ 2,000 spent for the personal purpose of the proprietor.

(v) Sales for the period include ₹ 500 worth of goods (cost price) taken by the proprietor for personal consumption. He has also taken goods worth ₹ 1,000 (cost price) for personal consumption which has not been recorded in the books.

(vi) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

(vii) Closing Stock ₹ 20,000 **(7 marks)**

Answer:

Trial Balance as at 31.3.23

Particulars	Dr. ₹	Cr. ₹
Purchases	43,500	
Carriage inward	1,000	
Wages	7,000	
Salaries	12,000	
Rent Rates and taxes	1,800	
Insurance	1,200	
Interest Paid	1,000	
Sales		94,500
Cash and Bank	21,500	
Bills Payable		5,800
Sundry creditors		35,000
Plant and machinery	9,000	

Buildings	4,750	
Furniture	2,700	
Bills receivable	10,000	
Sundry Debtors	39,000	
Capital		66,000
Sundry expenses	3,000	
Opening stock	21,000	
Outstanding salaries		2,000
Outstanding wages		1,000
Drawings	3,500	
Prepaid Insurance	300	
Bad-Debts	2,450	
Provision for bad debts		1,950
Depreciation	1,550	
Closing stock	20,000	
Total	**2,06,250**	**2,06,250**

2024 - June [2] (a) On 31st March, 2023 in the Trial Balance of Singhania Brothers, balance of the Machinery Account appears as ₹ 19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at ₹ 4,50,000 was disposed of on 30th November, 2022 in exchange of new machinery costing ₹ 3,50,000.

You are required to calculate:

(i) Total depreciation to be charged in the Profit and Loss Account

(ii) Profit or loss on exchange of machine

(iii) Book value of machinery in Balance Sheet as on 31.03.2023

(7 marks)

2024 - June [2] (b) The Trial Balance of Rajesh Brothers on 31st March, 2023 did not agree. In order to close the books, the accountant placed the difference for ₹ 26,700 (Dr) to Suspense Account for necessary adjustment in the next period. On 25th April, 2023 the following errors, arising in 2022-23 were detected:

(i) ₹ 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.

(ii) Credit Sale of ₹ 6,550 was posted to the credit of the customer's account as ₹ 5,650.

(iii) Machine purchased on 1st October, 2022 for ₹ 50,000 in cash was posted to the Purchase Account in the ledger. Rate of Depreciation was applicable on machine 15% per annum.

(iv) Sales book was overcast by ₹ 10,000 in February 2023.

Give Journal entries to rectify the errors and prepare Suspense Account.

(7 marks)

Repeatedly Asked Questions		
No.	**Question**	**Frequency**
1	Write short note on the following: The Accrual concept 17 - June [8] (a), 19 - June [8] (a)	2 Times