

# 1

# ACCOUNTING FUNDAMENTALS

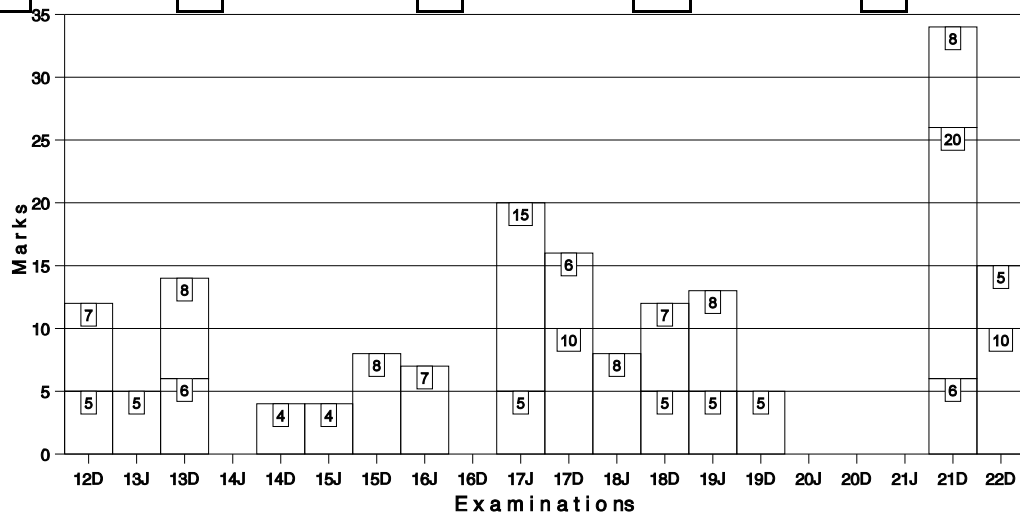
## THIS CHAPTER INCLUDES

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

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

### Legend

Objective  
  Short Notes  
  Distinguish  
  Descriptive  
  Practical



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**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**

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**2012 - Dec [8]** Write short note:

(c) Accounting convention of consistency;

**(5 marks)**

**Answer :**

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

Kohler has talked about three types of consistencies:

- (i) **Vertical consistency:** Consistency maintained within the interrelated financial statements of the same date.
- (ii) **Horizontal consistency:** This enables the comparison of performance of the organization in one year with its performance of previous/next year.

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

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**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.

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**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.

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2. **Substance over form:** It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.
3. **Materiality:** Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

— Space to write important points for revision —

**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***

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**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.

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**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.

— Space to write important points for revision —

**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*.

— Space to write important points for revision —

**2022 - Dec [8]** Write short notes:

(a) Advantages of Double Entry System.

(b) The main objective of Depreciation Policy.

**(5 marks each)**

— Space to write important points for revision —

## **DISTINGUISH BETWEEN**

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

**6.20****Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)****Answer:**

<b>Basis of Discount ion</b>	<b>Fundamental Accounting Assumptions</b>	<b>Accounting Policies</b>
<b>1. Number</b>	There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
<b>2. Disclosure if followed</b>	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
<b>3. Disclosure if not followed</b>	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.
<b>4. Choice</b>	There is no choice.	The firm has a choice to select a particular policy.

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**DESCRIPTIVE QUESTIONS**

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

(ii) State briefly the three fundamental accounting assumptions.

**(2 marks)**

**Answer:**

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

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

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

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

— Space to write important points for revision —

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

**(4 marks)**

**Answer:****Steps/ Phases of Accounting Cycle:**

- (i) **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.
- (ii) **Journal:** The transactions are recorded in Journal chronologically.
- (iii) **Ledger:** All journals are posted into ledger chronologically and in a classified manner.
- (iv) **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.
- (v) **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.
- (vi) **Adjusted Trial Balance:** An adjusted Trial Balance may also be prepared.

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- (vii) **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.
- (viii) **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

— Space to write important points for revision —

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

**Answer:**

Depreciable cost = Cost of asset- Scrap value.

— Space to write important points for revision —

**2021 - Dec [4]** Name the side on which increase in capital is recorded.

(1 mark) [Sec. B - SAQ]

**Answer:**

Credit side.

— Space to write important points for revision —

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

**Answer:**

Prudent concept.

— Space to write important points for revision —

**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.

— Space to write important points for revision —

**2021- Dec [14]** What type of account is a revaluation account?

(1 mark) [Sec. B - SAQ]

**Answer:**

Nominal account.

— Space to write important points for revision —

**2021 - Dec [15]** What is the traditional function of accounting?

(1 mark) [Sec. B - SAQ]

**Answer:**

Recording of financial transactions.

— Space to write important points for revision —

**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.

— Space to write important points for revision —

**2021 - Dec [18]** On which basis of accounting outstanding expenses are not recorded?

(1 mark) [Sec. B - SAQ]

**Answer:**

Cash basis of accounting.

— Space to write important points for revision —

**2021 - Dec [19]** Name the error committed by violating the rules of accounting.

(1 mark) [Sec. B - SAQ]

**Answer:**

Error of principle.

— Space to write important points for revision —

**2021 - Dec [20]** Define merchandise.

(1 mark) [Sec. B - SAQ]

**Answer:**

Merchandise means goods for resale.

— Space to write important points for revision —

**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.

— Space to write important points for revision —

**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.

— Space to write important points for revision —

**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.

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**PRACTICAL QUESTIONS**

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

**(2 marks)**

**Answer :**

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

— Space to write important points for revision —

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

**6.26****Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

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

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

**Answer :**

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

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

— Space to write important points for revision —

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

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

**(1 × 5 = 5 marks)**



**Answer:**

- (i) As per Para 56 of AS 26, the expenditure incurred on intangible items would have to expense off when they are incurred. So, the Advertisement Expenses is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c. So, ₹ 66,000 consider for revenue expenditure.
- (ii) Revenue expenditure ₹ 8,000
- (iii) Capital expenditure ₹ 15,000
- (iv) Capital expenditure ₹ 5,000
- (v) Capital expenditure = 1,500 + 1,800 = ₹ 3,300.

— Space to write important points for revision —

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

- (i) A trader acquired furniture & fittings for ₹ 10,000 but included the same in purchase account. He paid ₹ 5,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.
- (iii) The company maintains 10% of debtors as provision towards bad debts. It has routed all bad debts through the provision account. The opening balance of provision as on 01.04.2012 was ₹ 68,000. The closing provision i.e. on 31<sup>st</sup> 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 31<sup>st</sup> 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:

**6.28**Scanner **CMA Inter Gr. I Paper 6 (2022 Syllabus)**

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

**(iii) Provision for bad and doubtful debts account**

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

— Space to write important points for revision —

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

- Freight charges of ₹ 12,000 incurred for machinery purchased for ₹ 2,00,000.
- ₹ 90,000 being expenditure incurred for well equipped labour welfare centre.
- Compensation of ₹ 1,50,000 each paid to three employees who were retrenched.
- Purchase of TV set for ₹ 30,000 to be installed in the reception hall.

**(1 × 4 = 4 marks)****Answer:**

- 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.
- Labour welfare centre is a permanent addition and therefore a capital expenditure.

- (iii) Compensation to retrenched employees will not bring any permanent benefit and hence is revenue expenditure.
- (iv) Television set purchased is a capital expenditure unless the person acquiring the same is a dealer of television sets.

— Space to write important points for revision —

**2014 - Dec [2]** Answer the question:

- (b) Pass necessary journal entries to rectify the following errors assuming that the errors were detected after the preparation of final accounts:
  - (i) Return inward book was undercast by ₹ 18,000.
  - (ii) Goods purchased for proprietor's use for ₹ 10,000 debited to purchase account.
  - (iii) ₹ 5,200 paid for freight on machinery was debited to freight account.
  - (iv) No adjustment entry was passed for an amount of ₹ 15,000 relating to outstanding rent.
  - (v) Furniture of ₹ 13,000 purchased from Chandra Furniture House was entered in purchase book.
  - (vi) ₹ 10,000 received from Mohan has been credited to Sohan.

(4 marks)

**Answer:**

	₹	₹
(i) Profit & Loss Adjustment A/c	Dr. 18,000	
To Suspense A/c		18,000
(Under cash of return inward book rectified.)		
(ii) Capital A/c	Dr. 10,000	
To Profit & Loss Adjustment A/c		10,000
(Drawing rectified.)		
(iii) Machinery A/c	Dr. 5,200	
To Profit & Loss Adjustment A/c		5,200
(Wrong debit to freight A/c now rectified.)		
(iv) Profit & Loss Adjustment A/c	Dr. 15,000	

**6.30****Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

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

**2015 - June [2]** Answer the question:

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

- 01.05.2015 — Started business with ₹ 5,00,000 of which 50% amount was borrowed from SBI and 20% amount was borrowed from his sister Patta.
- 05.05.2015 — Purchased goods from Chinu Mart worth ₹ 1,60,000 at 25% trade discount and 40% amount paid in cash.
- 08.05.2015 — Sold goods to Satish ₹ 60,000 at 20% trade discount and received  $\frac{1}{4}$  amount in cash.
- 15.05.2015 — Paid to Chinu Mart ₹ 69,500 in full settlement of A/c.

**(4 marks)****Answer:****Journal of SHIVA**

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

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

Space to write important points for revision

**2015 - Dec [2]** Answer the question.

- (a) Trial Balance of ANKIT LTD. failed to agree and the difference was put into Suspense Account pending investigation which discovered the following:
- (i) Discount received ₹ 1,320 had been debited to Discount allowed as ₹ 132.
  - (ii) Goods of the value of ₹ 200 returned by Kishan were entered in the Sales Day Book and posted therefrom to the credit of Krishan as ₹ 20.
  - (iii) A credit purchase of ₹ 500 from N. Kumar was recorded as sale to M. Kumar for ₹ 50.
  - (iv) A credit sale of machine of P. Dass for ₹ 600 recorded through Sales Day Book as sale to C. Dass for ₹ 60.

**6.32**Scanner **CMA Inter Gr. I Paper 6 (2022 Syllabus)**

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 <span style="float: right;">Dr.</span> 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 <span style="float: right;">Dr.</span> Sales A/c <span style="float: right;">Dr.</span> Sales Return A/c <span style="float: right;">Dr.</span> To Krishan 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 <span style="float: right;">Dr.</span> Purchase A/c <span style="float: right;">Dr.</span> To N. Kumar To M. Kumar (Being the credit purchase recorded as sale, now rectified)	50 500	500 50
(iv)	Sales A/c <span style="float: right;">Dr.</span> P. Dass A/c <span style="float: right;">Dr.</span> To Machinery To C. Dass (Being the credit sale of machine recorded as sale, now rectified)	60 600	600 60

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 Space to write important points for revision
 

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**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.

$$\begin{aligned}\text{Discount} &= \frac{14,000 \times 16,000}{1,00,000} \\ &= 2,240\end{aligned}$$

— Space to write important points for revision —

**2016 - June [3]** (a) The trial balance of M/s SEWADA & CO., on 31<sup>st</sup> 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 30<sup>th</sup> 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.

**6.34**Scanner **CMA Inter Gr. I Paper 6 (2022 Syllabus)**

(b) Prepare suspense account in the book of SEWADA &amp; 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	By P & L Adj. A/c	1,000
			April 30	By Customer A/c	9,385
			April 30	By P & L Adjustment	2,000
		<b>12,385</b>			<b>12,385</b>

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 Space to write important points for revision
 

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**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.

— Space to write important points for revision —

**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)

**6.36****Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

- (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	=	<u>2 lacs</u>
Value of Land	=	<u>5,528 lacs</u>

— Space to write important points for revision —

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

- No adjustment entry was passed for an amount of ₹ 2,000 relating to outstanding rent.
- 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. 34***

— Space to write important points for revision —

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

- (i) A cheque of ₹ 3,456 received from AB Ltd. after allowing it a discount of ₹ 46 was endorsed to CD Ltd. in full settlement for ₹ 3,500. The cheque was finally dishonoured but no entries are passed in the books of account.
- (ii) Goods of the value of ₹ 230 returned by PQ Ltd. were entered in Purchase Day book and posted therefrom to MN Ltd. as ₹ 320.
- (iii) Bad debts aggregating ₹ 505 written off during the year in Sales Ledger but were not recorded in General Ledger.
- (iv) Bill for ₹ 750 received from Z Ltd. for repairs to Machinery was entered in the Inward Invoice Book as ₹ 650.
- (v) Goods worth ₹ 1,234 purchased from Y Ltd. on 28/03/2018 had not been entered in Day book and credited to Y Ltd. but Goods were not delivered till 5<sup>th</sup> 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)**

**6.38**Scanner **CMA Inter Gr. I Paper 6 (2022 Syllabus)****Answer:****Journal Entries**

<b>Date</b>	<b>Particulars</b>	<b>L.F.</b>	<b>Dr. (₹)</b>	<b>Cr. (₹)</b>
	AB Ltd. A/c Dr. Discount Received A/c Dr. 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)		3,502 44	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 <span style="float: right;">Dr.</span> To Trading A/c (Being goods - in - transit were recorded in books)		1,234	1,234
	Machinery A/c <span style="float: right;">Dr.</span> Suspense A/c <span style="float: right;">Dr.</span> To Freight A/c (Being amount paid on Freight on Machinery amounting to ₹ 79 was wrongly debited to Freight A/c as ₹ 97)		79 18	97

— Space to write important points for revision —

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

Heads of Accounts	Dr. Balance (₹)	Cr. Balance (₹)
Furniture	20,000	—
Capital	—	2,00,000
Debtors	2,00,000	—
Stock (1 <sup>st</sup> April, 2017)	1,04,000	—
Creditors	—	80,000
Trade Expenses	50,000	—
Sales	—	8,58,000
Wages	30,000	—
Stock (31 <sup>st</sup> March, 2018)	98,000	—
Machinery	—	50,000
Purchases	6,25,000	—
Wife's loan to the business	50,000	—
Discount Allowed	—	4,000

**6.40****Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)**

Drawings made by the Proprietor	—	45,000
Motor Van	60,000	—
<b>Total</b>	<b>12,37,000</b>	<b>12,37,000</b>

You are required to:

- (i) State the errors giving reasons,
- (ii) Redraft the Trial Balance correctly. **(7 marks)**

**Answer:**

- (i) (I) Stock on 31<sup>st</sup> 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 31<sup>st</sup> March, 2018**

<b>Heads of Accounts</b>	<b>L.F.</b>	<b>Dr. Balance (₹)</b>	<b>Cr. Balance (₹)</b>
Furniture		20,000	—
Capital		—	2,00,000
Debtors		2,00,000	—
Stock (1 <sup>st</sup> 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	—
<b>Total</b>	<b>11,88,000</b>	<b>11,88,000</b>

Space to write important points for revision

**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 Krishan as ₹ 3,000.
- (v) A Cash Sale of goods of ₹ 3,000 to Krishan posted to the credited of Krishan 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.
- (viii) Sales included a sale of furniture having a book of value of ₹ 900 for ₹ 850 on 31<sup>st</sup> March, 2018.

**(8 marks)**

6.42

Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)

Answer:

## Journal

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

Or,

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

Or.

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



(v)	Kishan A/c To Sales A/c To Suspense A/c (Being wrong posting, now rectified)	Dr.   	30,000	3,000 27,000
(vi)	Mohan A/c Machinery A/c To Sohan A/c To Purchases A/c To General Expenses A/c (Being purchase of old machinery recorded the Purchases Book and repairing charges debited to General Expenses A/c, now rectified)	Dr. Dr.    	71,000 20,000	17,000 71,000 3,000
(vii)	Bills Receivable A/c Bills Payable A/c Meena A/c To Meenu A/c To Suspense A/c (Being B/R drawn recorded in B/P Book, now rectified)	Dr. Dr. Dr.   	30,000 3,000 300	30,000 3,300
(viii)	Sales A/c Loss on Sale of Furniture A/c To Furniture A/c (Being the sale of furniture recorded as sales, now rectified)	Dr. Dr.  	850 50	900

Space to write important points for revision

**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]**

**6.44****Scanner CMA Inter Gr. I Paper 6 (2022 Syllabus)****Answer:**

$$\begin{aligned} \text{Operating Profit} &= 1,00,000 - 10,000 - 15,000 \\ &\quad + 18,000 + 4,000 = 97,000 \end{aligned}$$

$$\therefore \text{Operating Profit} = ₹97,000$$

— Space to write important points for revision —

**2021 - Dec [1]** Ruma Ltd. purchased a plant on 1<sup>st</sup> April, 2015 for ₹ 2,40,000. It bought another plant on 1<sup>st</sup> July, 2016 for ₹1,60,000. On 1<sup>st</sup> January 2018 Plant bought on 1<sup>st</sup> 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.

1<sup>st</sup> January 2018 ₹40,000.

1<sup>st</sup> January 2019 ₹48,000.

1<sup>st</sup> 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 1<sup>st</sup>, 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:**

$$\begin{aligned} 40,000 + 48,000 - 8,000 + 44,000 - 4,000 \\ = 1,20,000 \end{aligned}$$

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

$$\begin{aligned} \text{WDV on 1.1.2018} \quad 2,40,000 - 24,000 - 21,600 - 14,580 \\ = 1,79,820 \end{aligned}$$

$$\text{Loss} = 1,79,820 - 1,60,000 = 19,820$$

(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**

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

$$= 1,17,000$$

— Space to write important points for revision —

**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 31<sup>st</sup> 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)**

— Space to write important points for revision —

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