

CA FOUNDATION



MARATHON

JUNE 2024

Accounting: Part 1

By – CA Nitin Goel





CA FOUNDATION MARATHON (SUPER REVISION/ONE SHOT)

ACCOUNTING

S.NO.	CHAPTER NAME
1	Depreciation & Amortisation
2	Final Accounts of Sole Proprietors
3	Accounts from Incomplete Records
4	Financial Statements of Not for Profit Organisation



Depreciation & Amortisation

DEPRECIATION and AMORTISATION

CONCEPT OF DEPRECIATION

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than a period of 12 months.

It is necessary that part of the acquisition cost of the fixed assets is treated or allocated as an expense in each of the accounting period in which the asset is utilized. The amount of fixed assets allocated in such manner to respective accounting period is called depreciation.

Meaning of Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation starts from the day asset is available for use.

Depreciation on components of an assets

Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

An enterprise should allocate the amount initially recognised in respect of an item of asset to its significant parts/components and should depreciate each such part separately based on the useful life and residual value of each particular component.

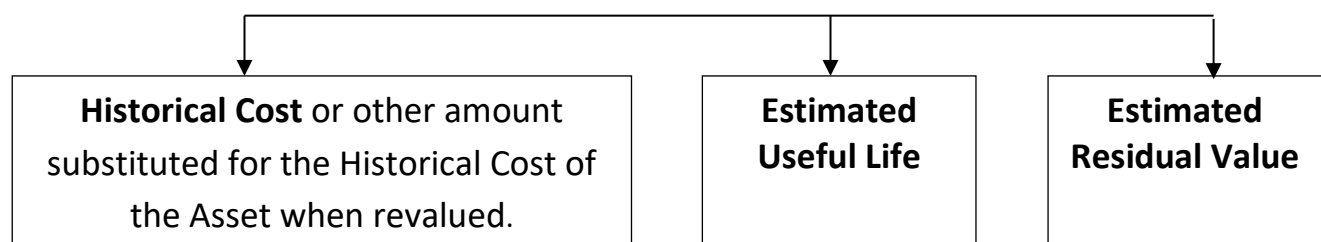
For Example - Aircraft is a classic example of such an asset. The airframe (i.e. the body of the aircraft), the engines and the interiors have different individual useful lives.

OBJECTIVES FOR PROVIDING DEPRECIATION

- ❖ True cost of production
- ❖ Income measurement
- ❖ True Position Statement
- ❖ Funds for replacement

FACTORS FOR DEPRECIATION

Assessment of depreciation & amount of depreciation are usually based on the following three factors



These factors are explained as follows -

1. Historical Cost:

Purchase price (after deducting trade discount)	<i>GST credit ✓ : Cost X</i>	XX
Add : Other Non-refundable taxes & duties	<i>GST credit X : Cost ✓</i>	XX
Add: Any directly attributable cost of bringing the asset to its working condition for its intended use. Example: Costs of site preparation, Initial delivery & handling costs, Installation and assemble costs, professional fees, etc.		XX
Add: Estimated dismantling, restoration costs		XX
Cost of Asset		XX

2. 'Useful Life' is either -

- (a) The period over which a depreciable asset is expected to be used by the enterprise, or
- (b) The number of production or similar units expected to be obtained from the use of the asset by the enterprise.

3. Residual/Scrap Value is the amount likely to be obtained by the disposal of the Fixed Asset at the end of its Useful Life.

DEPRECIABLE AMOUNT

'Depreciable Amount' of a Depreciable Asset is determined as under -

Particulars	Amount
Historical Cost, or other amount substituted for it in the Financial Statements	XX
Less: Estimated Residual Value	(XX)
Depreciable Amount	XX

METHODS OF DEPRECIATION

Methods Available:

The following methods are available for computing and allocating the depreciable amount of an asset over its useful life -

- ❖ Fixed Instalment or Straight Line Method
- ❖ Reducing Balance or Written Down Value (WDV) Method,
- ❖ Sum of Digits of Years Method
- ❖ Machine Hour Method,
- ❖ Production Units Method,
- ❖ Depletion Method,

METHOD 1: FIXED INSTALMENT OR STRAIGHT-LINE METHOD (SLM)

Meaning	<ul style="list-style-type: none"> ➤ An equal amount of depreciation is written off from Asset every year. ➤ Suitable for assets which generate equal utility during each year of its useful life. ➤ At the end of the useful life of the asset, the cost of the asset will be NIL or equal to its Residual Value / Scrap Value. ➤ Total Charge to P&L Account (Depreciation + Repairs & Maintenance): Unequal every year
---------	---

Formula	Straight Line Depreciation = $\frac{\text{Cost of Asset Less Residual Value}}{\text{Useful Life}}$
	SLM Depreciation Rate = $\frac{\text{SLM Depreciation}}{\text{Cost of Asset}} \times 100$
Example	X Ltd purchased a Machine costing ₹ 10 Lakhs, having a useful life of 5 years Its estimated Residual Value is ₹ 1 Lakh. $\text{Dep p.a.} = \frac{10L - 1L}{5} = 180000 \text{ p.a.}$ $\text{Rate} = \frac{180000}{1000000} \times 100 = 18\%$

METHOD 2: REDUCING BALANCE / WRITTEN DOWN VALUE (WDV) METHOD

Meaning	<ul style="list-style-type: none"> ➤ Depreciation Amount for each year is computed by applying a fixed % on the Opening Balance of the Asset (i.e. Diminishing Balance of the Asset.) ➤ The value of the asset will never be extinguished. ➤ Total Charge to P&L Account (Depreciation + Repairs & Maintenance): More or Less Equal/constant/Uniform every year
Formula	WDV Depreciation Rate = $1 - \sqrt[n]{\frac{\text{Residual Value}}{\text{Cost of Asset}}}$, where n = Useful Life.
Example	X Ltd purchased a machine costing ₹ 10 Lakhs, and has ascertained its WDV rate as 10% p.a. Depreciation amounts for the first three years will be as under

Particulars	Year 1	Year 2	Year 3
Cost / Opening WDV	10,00,000	9,00,000	8,10,000
(-) Depreciation 10%	(1,00,000)	(90,000)	(81,000)
Closing WDV	9,00,000	8,10,000	7,29,000

METHOD 3: SUM OF DIGITS OF YEARS METHOD

Meaning	It is a variation of the WDV Method. Under this method, Depreciation Amount for each year is computed by applying the following formula -
Formula	Dep. = Depreciable Amt. x $\frac{\text{No. of years of balance useful life (including current year)}}{\text{Total of Digits of the Useful Life of the Asset (in years)}}$ $\rightarrow \frac{n \times (n+1)}{2}$
Example	X Ltd purchased a machine costing ₹ 78 Lakhs, having a useful life of 5 years, and estimated Scrap Value ₹ 3 Lakhs. Depreciation amounts for the five years will be - $\text{Depreciable Amt.} = 78 - 3 = 75$

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Depreciation amount for the year	$75L \times \frac{5}{1+2+3+4+5}$ $75 \times \frac{5}{15}$ $= 25L$	$75L \times \frac{4}{15}$ $= 20L$	$75L \times \frac{3}{15}$ $= 15L$	$75L \times \frac{2}{15}$ $= 10L$	$75L \times \frac{1}{15}$ $= 5L$

Note: Depreciation is calculated on the Depreciable Amt, i.e. Cost less Residual Value

B.R. / Carrying Amt. after 1 year = $78L - 25L = 53L$

Example: (Sum of Digits of Years Method)

Original cost of Asset 35,00,000. Residual Value 2,00,000. Useful Life 10 Years.
Find book value of asset after 6 years and Depreciation for 7th year.

$$n \times \frac{(n+1)}{2} = 10 \times \frac{11}{2} = 55^2$$

Depreciation**Alt-1**

$$\text{Year 1} = 33,00,000 \times \frac{10}{55} = 6,00,000$$

$$\text{Year 2} = 33,00,000 \times \frac{9}{55} = 5,40,000$$

$$\text{Year 3} = 33,00,000 \times \frac{8}{55} = 4,80,000$$

$$\text{Year 4} = 33,00,000 \times \frac{7}{55} = 4,20,000$$

$$\text{Year 5} = 33,00,000 \times \frac{6}{55} = 3,60,000$$

$$\text{Year 6} = 33,00,000 \times \frac{5}{55} = \frac{3,00,000}{27,00,000}$$

Alt-2

$$\frac{33,00,000}{55} \times (10 + 9 + 8 + 7 + 6 + 5) = 332 \times \frac{45}{55} = 27,00,000$$

Book value after 6 years**Cost - Dep. for 6 years**

$$35L - 27L = 8,00,000$$

Dep. for 7th year =

$$33L \times \frac{4}{55} = 2,40,000$$

METHOD 4: MACHINE HOUR METHOD

Meaning	In this method, Depreciation is computed based on the number of Machine Hours (rather than years). Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for.
Formula	Dep. = Depreciable Amt $\times \frac{\text{No. of Machine Hours during the year}}{\text{Total Machine Hours during the entire useful life}}$
Example	<p>X Ltd purchased a machine costing ₹ 23,00,000, having a Scrap Value of ₹ 2,30,000. The machine has a useful life of 20,700 machine hours distributed as under –</p> <ul style="list-style-type: none"> Years 1 to 3: 2,500 machine hours each, Years 4 to 6: 2,000 machine hours each, and Years 7 to 10: 1,800 machine hours each. <p>In this case, Depreciation Amounts will be computed as under –</p> <p>Depreciable Amt. = 23L - 2.30L = 2070000</p> <p>Year 1 to 3 = $20,70,000 \times \frac{2500}{20700} = 2,50,000 \text{ p.a.}$</p> <p>Year 4 to 6 = $20,70,000 \times \frac{2000}{20700} = 2,00,000 \text{ p.a.}$</p> <p>Year 7 to 10 = $20,70,000 \times \frac{1800}{20700} = 1,80,000 \text{ p.a.}$</p>

$$\frac{20,70,000}{20,700} = 100/\text{hr}$$

METHOD 5: PRODUCTION UNITS METHOD

Meaning	Depreciation is computed based on the production / output quantity.
Formula	Dep. = Depreciable Amt $\times \frac{\text{Production Quantity for the current year}}{\text{Total Estimated Production Quantity from the Machine}}$
Example	<p>X Ltd purchased machine costing ₹25,00,000, having Scrap Value of ₹5,00,000. The machine is expected to produce 10,00,000 units of output as follows –</p> <ul style="list-style-type: none"> • Years 1 & 2: 1,15,000 units each, • Years 3 to 7: 1,00,000 units each, and • Years 8 to 10: 90,000 units each. <p>In this case, Depreciation Amounts will be computed as under –</p> <p style="text-align: right;">$\frac{20\text{L}}{10\text{L}} = 2/\text{unit}$</p> <p>Year (1 & 2) = $20,00,000 \times \frac{1,15,000}{10,00,000} = 2,30,000 \text{ p.a.}$</p> <p>Year (3 to 7) = $20,00,000 \times \frac{1,00,000}{10,00,000} = 2,00,000 \text{ p.a.}$</p> <p>Year (8 to 10) = $20,00,000 \times \frac{90,000}{10,00,000} = 1,80,000 \text{ p.a.}$</p>

METHOD 6: DEPLETION METHOD

Meaning	<p>➤ Depletion means reduction or exhaustion.</p> <p>➤ This method is used in the case of Mines, Quarries, Oil Well, etc. containing only a certain estimated quantity of resources / products.</p> <p>➤ Natural resources include physical assets like mineral deposits, oil and gas resources and timber. These natural resources exhaust by exploitation.</p>
Formula	Dep. = Depreciable Amt $\times \frac{\text{Quantity of Mineral / Oil extracted during current year}}{\text{Total Estimated Quantity from the Mine / Quarry / Well}}$
Example	<p>X Ltd took a quarry on lease by paying ₹ 75,00,000. As per technical estimate, total quantity mineral deposit is 1,00,000 tones. Extraction pattern is given as:</p> <ul style="list-style-type: none"> • Year 1: 6,000 tones, • Years 2 to 5: 15,000 tones each, and • Years 6 & 7: 17,000 tones each. <p>In this case, Depreciation Amounts will be computed as under –</p> <p>Year 1 = $75,00,000 \times \frac{6,000}{1,00,000} = 4,50,000$</p> <p>Year (2 to 5) = $75,00,000 \times \frac{15,000}{1,00,000} = 11,25,000 \text{ p.a.}$</p> <p>Year (6 & 7) = $75,00,000 \times \frac{17,000}{1,00,000} = 12,75,000 \text{ p.a.}$</p>

ACCOUNTING ENTRIES FOR DEPRECIATION

Depreciation can be recorded in the books of account, under 2 approaches -

Method	Method 1 Asset Credit Method	Method 2 Provision for Depreciation Method
Journal Entry	Depreciation A/c Dr. To Fixed Asset A/c Profit and Loss A/c Dr. To Depreciation A/c	Depreciation A/c Dr. To Provision for Depreciation A/c Profit and Loss A/c Dr. To Depreciation A/c
Provision for Depreciation A/c	There is no Provision for Depreciation Account at all.	Depreciation for each year is credited to Provision for Dep. A/c, which shows the Accumulated Dep. on the Asset.
Effect on Asset A/c	Asset A/c is shown at Historical Cost less Depreciation. So, balance in Asset A/c is reduced every year.	Asset shown in books at Original Cost. Net Book Value = Original Cost less Accumulated Depreciation thereon.

Note: The above schemes are applicable to SLM and WDV Methods. The same treatment is also applicable under -

(a) Sum of Digits, (b) Machine Hours, (c) Production Units, and (d) Depletion Methods.

Example:

Original Cost of Machinery 1,00,000. Residual Value 10,000. Useful Life: 10 Years

Method: Straight Line Method

Show Presentation in Balance Sheet as both the approaches for first 2 years.

$$\text{Depreciation p.a.} = \frac{1,00,000 - 10,000}{10} = 9,000 \text{ p.a.}$$

100000	91000
(9000)	(9000)
<u>91000</u>	<u>82000</u>

Approach 1: Asset Credit Method

* Depreciation A/c - Dr. 9000
To Machinery A/c 9000

* P/L A/c - Dr. 9000
To Depreciation A/c 9000

B/s			
Liabilities	Assets	Year 1	Year 2
	Machinery	91000	82000

Approach 2: Provision for Depreciation Method

* Depreciation A/c - Dr. 9000
To Provision for Dep. A/c 9000

* P/L A/c - Dr. 9000
To Depreciation A/c 9000

B/s			
Liabilities	Assets	Year 1	Year 2
	Dr. Machinery	100000	100000
	- Prov. for Dep. Cr.	(9000)	(18000)
		<u>91000</u>	<u>82000</u>

SALE / DISPOSAL OF DEPRECIABLE ASSETS

Sale/Disposal of Depreciable Assets is dealt with in the following manner –

1. Ascertain Depreciation for the year (upto date of disposal) & charge the same for that year.
2. Determine Net Book Value" (or) Written Down Value of the Asset = Historical Cost less Depreciation till date, including depreciation upto the date of disposal.
3. Compare Net Book Value of Asset with its Disposal Value and ascertain Profit / (Loss) on disposal & thereafter transfer the Profit / (Loss) on disposal to the Profit and Loss Account.

CHANGE IN ESTIMATED USEFUL LIFE & SCRAP VALUE

The useful lives & scrap values of major depreciable assets or classes of depreciable assets may be reviewed periodically. The change should be accounted for as a **change in an accounting estimate**. Where there is a revision of the estimated useful life or scrap value of an asset, the unamortised depreciable amount should be charged over the revised estimate. *Prospective Effect*

Example

A Machine costing ₹ 11,00,000 is depreciated on straight line basis, assuming 10 years working life & 1,00,000 residual value, for 3 years. The estimate of remaining useful life after 3rd year was reassessed at 5 years with 70,000 residual value. Calculate depreciation for the 4th year.

$$\text{Depreciation p.a. (For Ist 3 years)} = \frac{11,00,000 - 1,00,000}{10} = 1,00,000 \text{ p.a.}$$

$$\text{Book value after 3 years} = 11,00,000 - (1,00,000 \times 3) = 8,00,000$$

$$\text{Remaining Life} = 5 \text{ years} \quad \text{Residual value} = 70,000$$

$$\text{Depreciation (4th year)} = \frac{8,00,000 - 70,000}{5} = 1,46,000$$

CHANGE IN METHOD OF DEPRECIATION

Whenever any change in depreciation method is made such change in method is treated as **change in accounting estimate** as per Accounting Standards.

Change in method of depreciation is applied with **prospective effect**. Hence, depreciation is recalculated in accordance with the new method from the date method is changed.

Example

A Machine costing ₹ 10,00,000 is depreciated on straight line basis, assuming 10 years working life for 4 years. After 4th year, method of straight line is changed to WDV method & depreciation rate is 12% p.a. Calculate depreciation for 5th year.

$$\text{Depreciation p.a. (For Ist 4 years)} = \frac{10,00,000 - \text{Nil}}{10} = 1,00,000$$

$$\text{Book value after 4 years} = 10,00,000 - (1,00,000 \times 4) = 6,00,000$$

$$\text{Method changed from SLM to WDV}$$

$$\text{Depreciation (5th year)} = 6,00,000 \times 12\% = 72,000$$

REVALUATION OF DEPRECIABLE ASSETS

An enterprise should choose Either Cost model, Or Revaluation model as its accounting policy and should apply that policy to an **entire class of PPE**.

Class of PPE: A class of PPE is a grouping of assets of a similar nature and use in operations of an enterprise.

Examples of separate classes:

(a) Land (b) Buildings (c) Machinery (d) Ships (e) Motor Vehicles (f) Furniture & Fixtures (g) Aircraft (h) Office Equipment

First Revaluation	Upward	Use Revaluation Surplus (R/S)			
	Downward	Use P & L A/c			
Subsequent Revaluation					
	Case	1 st	2 nd	1 st	2 nd
	1	↑	↑	R/S	R/S
	2	↓	↓	P & L	P & L
	3	↑	↓	R/S	Use R/S 1st
	4	↓	↑	P & L	Use P&L 1st

Then P&L A/c
Then Rev- Res.

Example: (ICAI Study Material)

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

Calculate depreciation for the fourth year.

$$\text{Depreciation p.a. (For 1st 3 years)} = \frac{12,00,000 - \text{Nil}}{10} = 1,20,000 \text{ p.a.}$$

$$\text{Book value after 3 years} = 12,00,000 - (1,20,000 \times 3) = 8,40,000$$

$$\text{Revised Book value} = 8,40,000 + 60,000 = 9,00,000$$

$$\text{Remaining Life} = 9 \text{ years}$$

$$\text{Depreciation (4th year)} = \frac{9,00,000}{9} = 1,00,000$$

Question 1: (CA Foundation Jan 2021) (10 Marks)

M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year. Give the motor truck account for two years ending 31st December, 2020.

Question 2: (CA Foundation June 2022) (10 Marks)

The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April, 2020. The Books of Accounts of the Factory are closed on 31st March every year. Depreciation is written off @ 10% per annum under the Diminishing Balance Method. On 1st September, 2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2020 a machine which had cost ₹ 21,87,000 on 1st April, 2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April, 2019 was scrapped on 1st September, 2020 and it realized nothing. Prepare Machinery Account for the year ended 31st March, 2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Show all necessary working notes.

Solution**Plant and Machinery Account for the year ended 31st March, 2021**

		₹			₹
01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000+ 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation	6,60,471
				By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i)	Calculation of loss on sale of machine on 01-09-2020		₹
	Cost on 1-4-2018		21,87,000
	Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
	W.D.V. on 31-03-2019		19,68,300
	Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
	W.D.V. on 31-03-2020		17,71,470
	Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
			16,97,659
	Less: Sale proceeds on 01-09-2020		(3,75,000)
	Loss		<u>13,22,659</u>
(ii)	Calculation of loss on scrapped machine		
	Cost on 1-4-2019		21,85,000
	Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
	W.D.V. on 31-3-2020		19,66,500
	Less: Depreciation @ 10% on ₹ 19,66,500 for 5 months		(81,938)
	Loss		<u>18,84,562</u>
(iii)	Depreciation		
	Balance of machinery account on 1-4-2020		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	<u>19,66,500</u>	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2020		57,62,030
	Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on ₹ 14,44,600 for 7 months		<u>84,268</u>
			6,60,471

Note: The figures are rounded off to nearest rupee.

Question 3: (CA Foundation July 2021) (4 Marks)

The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.

Dep: (FY 1/4/20 to 31/3/21)

$$\text{On Machine sold (1/7)} : 3M = 216000 \times 15\% \times \frac{3}{12} = 8100$$

$$\text{On Balance Machinery (opening)} : (2854000 - 216000) \times 15\% = 395700$$

$$\text{Purchase 1/7} : 9M = (458000 + 22000) \times 15\% \times \frac{9}{12} = 57000$$

$$\text{Purchase 1/11} : 5M = 560000 \times 15\% \times \frac{5}{12} = 35000$$

492800

Question 4: (CA Foundation May 2019) (10 Marks)/ (RTP Nov 2022 & 2023)

A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2018 and spent ₹ 3,000 on its overhauling. On 1st July 2019, another machine was purchased for ₹ 10,000. On 1st July 2020, the machinery which was purchased on 1st January 2018, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2021, the machine which was purchased on 1st July, 2019 was sold for ₹ 2,000. Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2019 and the rate was increased to 15% per annum. The books are closed on 31st December every year. Prepare Machinery account for four years from 1st January, 2018.

Solution

Machine A/c

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
1/1	To Bank A/c (37,000+3,000)	40,000	31/12	By Depreciation A/c	4,000
			31/12	By Balance c/d	36,000
		40,000			40,000

2019			2019		
1/1	To Balance b/d	36,000	31/12	By Depreciation A/c (5,400+750)	6,150
1/7	To Bank A/c	10,000	31/12	By Balance c/d (30,600+9,250)	39,850
		46,000			46,000
2020			2020		
1/1	To Balance b/d	39,850	1/7	By Bank A/c	28,000
1/7	To Bank A/c	25,000	1/7	By Depreciation A/c	2,295
			1/7	By Profit & Loss A/c (Loss on sale)	305
			31/12	By Depreciation A/c (1,388+1,875)	3,263
			31/12	By Balance c/d (7,862+23,125)	30,987
		64,850			64,850
2021			2021		
1/1	To Balance b/d	30,987	1/7	By Bank A/c	2,000
			1/7	By Depreciation A/c	590
			1/7	By Profit & Loss A/c (Loss on sale)	5,272
			31/12	By Depreciation A/c	3,469
			31/12	By Balance c/d	19,656
		30,987			30,987

Working Note:

	Machine 1	Machine 2	Machine 3
Cost of Machinery	40,000	10,000	25,000
Less: Depreciation for 2018	(4,000)		
Written down value as on 31.12.2018	36,000		
Less: Depreciation for 2019	(5,400)	(750) [6 months]	
Written down value as on 31.12.2019	30,600	9,250	
Less: Depreciation for 2020	(2,295) [6 months]	(1,388)	(1,875) [6 months]
Written down value as on 1.7.2020	28,305		
Less: Sale Proceeds	(28,000)		
Loss on Sale	305		
Written down value as on 31.12.2020		7,862	23,125
Depreciation for 6 months in 2021		(590)	
Written down value as on 1.7.2021		7,272	
Sale proceeds		(2,000)	
Loss on sale		5,272	
Depreciation for 2021			(3,469)
Written down value as on 31.12.2021			19,656

Question 5: (ICAI Study Material)

On April 1, 2019 a firm purchased a machinery for ₹ 2,00,000. On 1st October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2020, the machinery purchased on 1st April 2019, having become obsolete was sold off for ₹ 90,000. On October 1, 2021, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on 1st October 2019 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the period of three accounting years ending March 31, 2022.

Solution

↓
When asset is sold
↓
To determine Profit/Loss

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Bank A/c	2,00,000	31.03.2020	By Balance c/d	3,00,000
01.10.2019	To Bank A/c	1,00,000			
		3,00,000			3,00,000
01.04.2020	To Balance b/d	3,00,000	01.10.2020	By Machinery Disposal A/c	2,00,000
			31.3.2021	By Balance c/d	1,00,000
		3,00,000			3,00,000
01.04.2021	To Balance b/d	1,00,000	01.10.2021	By Machinery Disposal A/c	1,00,000
01.10.2021	To Bank A/c	2,50,000	31.3.2022	By Balance c/d	2,50,000
		3,50,000			3,50,000

Provision for Depreciation Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2020	To Balance c/d	25,000	31.03.2020	By Depreciation A/c (20,000 + 5,000)	25,000
		25,000			25,000
01.10.2020	To Machinery Disposal A/c (20,000 + 10,000)	30,000	01.04.2020	By Balance b/d	25,000
31.03.2021	To Balance c/d	15,000	01.10.2020	By Depreciation A/c	10,000
			31.03.2021	By Depreciation A/c	10,000
		45,000			45,000
01.10.2021	To Machinery Disposal A/c (5,000 + 10,000 + 5,000)	20,000	01.04.2021	By Balance b/d	15,000
31.03.2022	To Balance c/d	12,500	01.10.2021	By Depreciation A/c	5,000
			31.03.2022	By Depreciation A/c	12,500
		32,500			32,500

Machinery Disposal Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.10.2020	To Machinery A/c	2,00,000	01.10.2020	By Provision for Dep. A/c	30,000
			01.10.2020	By Bank A/c	90,000
			01.10.2020	By Profit & Loss A/c (Loss on Sale)	80,000
		2,00,000			2,00,000

1.10.2021	To Machinery A/c	1,00,000	01.10.2021	By Provision for Dep. A/c	20,000
1.10.2021	To P & L A/c (Profit on Sale)	5,000	01.10.2021	By Bank A/c	85,000
		1,05,000			1,05,000

Question 6: (CA Foundation June 2023) (10 Marks)

The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	12,00,000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year.

Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

INTANGIBLE ASSETS

An intangible asset is an **identifiable non-monetary asset, without physical substance**, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Examples of intangible assets include:

- (a) Streaming rights of movies / TV shows / web series on platforms like Netflix etc.
- (b) Broadcasting rights of events such as Cricket World Cup, Indian Premier League, etc.
- (c) Landing rights / time slots at airports which permit aircrafts to land or take-off during a particular time frame.
- (d) Patents
- (e) Trademarks
- (f) Copyrights
- (g) Goodwill (purchased)
- (h) Computer Software

Intangible assets can be recognized in the financial statements provided they meet the following conditions:

- (i) The intangible asset is **identifiable**.
- (ii) The enterprise can **exercise control** over such intangible asset.
- (iii) It is probable that the **future economic benefits** attributable to the asset will flow to the enterprise; and
- (iv) The **cost** of the intangible asset **can be measured reliably**.

Difference between Tangible and Intangible Assets

These are assets that have a physical substance i.e., they can be seen and touched, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.	These are identifiable assets that do NOT have a physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
Tangible Assets have a finite life based on expected usage.	Intangible Assets have a finite life based on contractual terms. In some cases, intangible assets could also have an indefinite life e.g. purchased goodwill.
Useful life is based on expected usage, with no presumption laid down for the same.	Useful life of Intangible Assets is presumed not to exceed 10 years unless evidence exists to the contrary
Tangible Assets are depreciated over the useful life. In other words, writing off the value of tangible assets on an annual basis is known as depreciation.	Intangible Assets are amortised over the useful life. In other words, writing off the value of intangible assets on an annual basis is known as amortisation.
<u>Examples</u> incl. Property, Machinery, Vehicles etc.	<u>Examples</u> incl. software, streaming rights, landing rights, trademarks, patents etc.

AMORTISATION

Amortisation can be defined as 'the systematic allocation of the depreciable amount of an intangible asset over its useful life'. The concept of amortisation in case of intangible assets is similar to the concept of depreciation in case of tangible assets.

Useful Life

Amortisation should commence when the asset is available for use. It is presumed that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use unless evidence exists to the contrary.

Question 7: (ICAI Study Material)

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of ₹ 28,00,000 and spent ₹ 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year. Show Patent Account & Amortisation Account for the year 2021 and 2022.

Patent A/c

1/7/21	To Bank A/c (28,00,000 + 2,00,000)	30,00,000	31/12/21	By Amortisation A/c $(\frac{30L}{10}) \times \frac{6}{12}$	1,50,000
				By Balance c/d	28,50,000
1/1/22	To Balance b/d	28,50,000	31/12/22	By Amortisation A/c	3,00,000
				By Balance c/d	25,50,000

Amortisation A/c

31/12/21	To Patent A/c	1,50,000	31/12/21	By P&L A/c	1,50,000
31/12/22	To Patent A/c	3,00,000	31/12/22	By P&L A/c	3,00,000

Question 8: (ICAI Study Material)

Prime Streaming Co. acquired the streaming rights of a movie for ₹ 18,00,000 with the contracted duration of the streaming period being 10 years. At the beginning of the fourth year, based on the decline in viewership, Prime Streaming Co. decided to stream the movie only for the next 5 years. Calculate amortisation for the fourth year.

$$\text{Amortisation Amount p.a.} = \frac{18,00,000}{10} = 1,80,000$$

(For 1st 3 years)

Carrying Amount / Book value after 3 years = $18,00,000 - (1,80,000 \times 3) = 12,60,000$

Remaining Life = 5 years

$$\text{Amortisation Amount (4th year)} = \frac{12,60,000}{5} = 2,52,000$$

Solution 1:

Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
1/1/19	To Balance b/d	3,50,00,000	1/10	By Depreciation A/c (50L x 20% x 9/12)	7,50,000
1/10	To P&L A/c (Profit)	7,50,000		By Bank A/c (claim)	35,00,000
1/10	To Bank A/c	60,00,000	31/12	By Depreciation A/c (50L x 9 x 20%) + (60L x 20% x $\frac{3}{12}$)	93,00,000
				By Bal c/d	2,82,00,000
1/1/20	To Bal b/d	2,82,00,000	31/12	By Depreciation A/c [(50L x 9) + (60L)] x 20%	1,02,00,000
				By Balance c/d	1,80,00,000

Working Note:

Book value on 1/1/19

$$\text{Cost of 10 Trucks (1/7/17)} = 50L \times 10 = 5,00,00,000$$

$$\begin{array}{r} - \text{Dep. for 2017 (6M)} \quad 500L \times 20\% \times \frac{6}{12} = \frac{(50,00,000)}{450,00,000} \end{array}$$

$$\begin{array}{r} - \text{Dep. for 2018 (12M)} \quad 500L \times 20\% \quad \frac{(1,00,00,000)}{350,00,000} \\ \hline 1/1/19 \end{array}$$

Profit / (Loss)

$$\text{B.V. of 1 Truck 1/1/19} = 35,00,000$$

$$\begin{array}{r} - \text{Dep. 9 Months} = \frac{(7,50,000)}{27,50,000} \end{array}$$

$$\text{B.V. 1/10/19}$$

Amount Rel.

Profit

$$27,50,000$$

$$35,00,000$$

$$7,50,000$$

Solution 6:Machinery A/c

1/4/21	To Bal b/d	1200000	1/10	By Machinery Disposal A/c	20000
1/10	To Bank A/c	480000	31/3	By Bal c/d	1480000

Provision for Depreciation A/c

1/10	To Machinery Disposal A/c (20000 + 18000 + 16200 + 7290)	61490	1/4/21	By Bal b/d	465000 ✓
31/3	To Bal c/d	493720	1/10/21	By Depreciation	7290 ✓
			31/3	By Depreciation	82920

Machinery Disposal A/c

1/10	To Machinery A/c	200000	1/10	By Prov. for Dep.	61490
				By Bank A/c	110000
				By P&L A/c (loss)	28510

Working Note

① Cost 1/4/18	200000
- Dep 18-19	<u>(20000) ✓</u>
	180000
- Dep- 19-20	<u>(18000) ✓</u>
	162000
- Dep- 20-21	<u>(16200) ✓</u>
1/4/21	<u>145800</u>
- Dep. (6M)	<u>(7290)</u>
B.V. 1/10/21	138510
Sale	110000
Loss on Sale	28510

②

$$\text{Balance cost} = 12L - 2L = 100000$$

$$\text{Prov for Dep} = 465000 - 54200 = \text{(410800)}$$

or

$$465000 + 7290 - 61490 = \underline{\underline{589200}}$$

W.D.V

OR

$$\text{Opening W.D.V} = 1200000 - 465000 = 735000$$

- W.D.V of asset sold 1/4

$$\text{(145800)}$$

$$\underline{\underline{589200}}$$

Dep. for 21-22

$$\left(589200 \times 10\% \right) + \left(480000 \times 10\% \times \frac{6}{12} \right)$$

$$= 58920 + 24000$$

$$= 82920$$

First time Revaluation

Machinery

Book value = 100000

Fair value
130000

Increase 30000

Machinery A/c - Dr 30000
To Revaluation Reserve 30000

Fair value
80000

Dec: 20000

P&L A/c - Dr 20000
To Machinery 20000

Subsequent Revaluation

First Time Increase of 30000 (Revaluation Reserve)

Machinery

Book value = 110000

Fair value
✓ 145000

Inc: 35000

Machinery A/c - Dr 35000
 ✓
 TO Rev. Res. 35000

Bal. = 65000

Fair value
✓ 90000

Dec: 20000

Rev. Res. A/c - Dr 20000
 TO Machinery 20000

Bal: 30000 - 20000
 = 10000

Fair value
✓ 60000

Dec: 50000

Rev. Res. A/c - Dr 30000
 P&L A/c - Dr 20000
 TO Mach. 50000

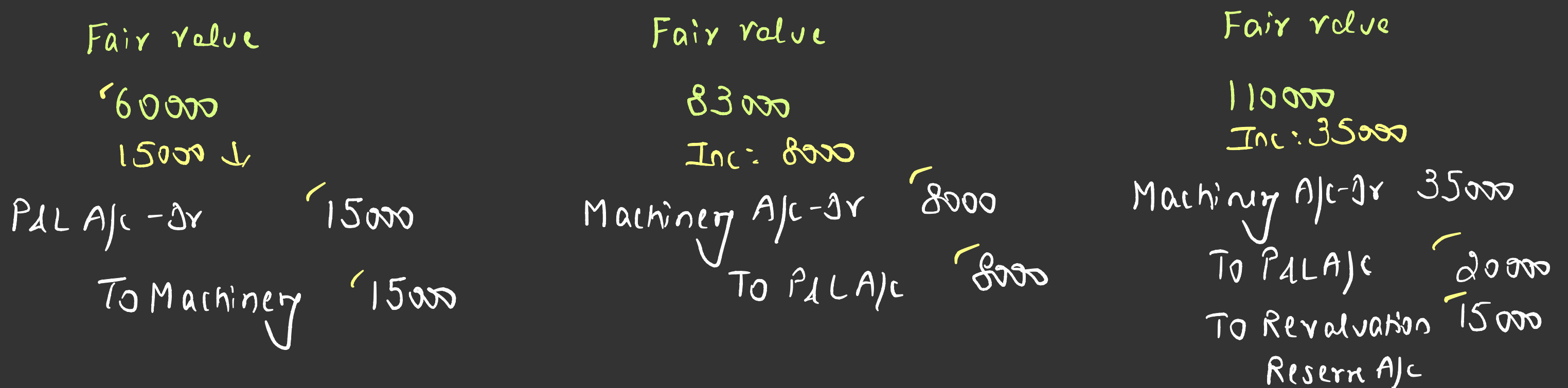
Bal: Nil

Subsequent Revaluation

First Time Decrease of 20000 P&L: 20000

Machinery

Book value = 75000





Final Accounts of Sole Proprietor

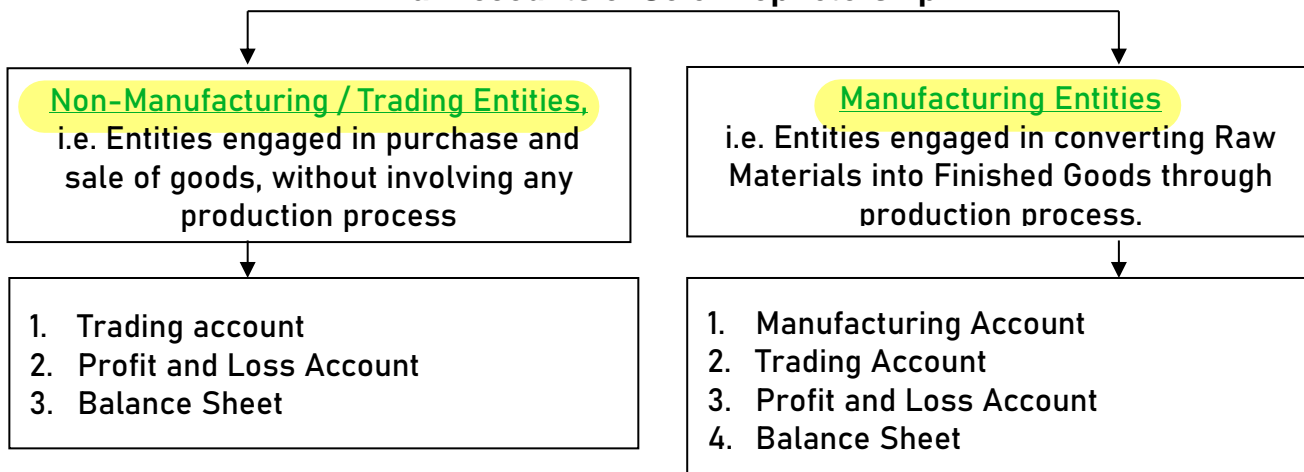
FINAL ACCOUNTS OF SOLE PROPRIETORS

FINANCIAL STATEMENTS

- Financial Statements (also called **General Purpose Financial Statements**) consist of–
 - Statement of Performance – Profit and loss Account
 - Statement of Financial Position – Balance Sheet
- Meaning:** the above terms are explained below –

Item	Description
Statement of Performance	<ul style="list-style-type: none"> This Statement / Account shows the result of operations, i.e. Profit or Loss of the entity for the period. It is also called "Performance Statement" or "Income Statement" Consists of – (i) Manufacturing Account, (ii) Trading Account, and (iii) Profit and Loss Account.
Statement of Financial Position	<ul style="list-style-type: none"> This Statement (not an Account) shows the financial position, i.e. Assets and Liabilities of the entity as on a particular date. It is also called "Position Statement" or "Balance Sheet"

Final Accounts of Sole Proprietorship



TRADING ACCOUNT

The Trading Account shows the surplus of the Sale Value over the Cost of Goods Sold. This is called as Gross Profit.

Trading Account of For the year ended

Particulars	₹	Particulars	₹
To Opening Stock		By Sales (net of returns)	
To Purchases (net of Returns)		By Closing Stock	
To Direct Expenses like Freight Inward, Octroi, Wages, etc.			
To Gross Profit c/d to P/L Account		By Gross Loss c/d to P&L Account	
Total		Total	

Gross Profit = Sales – Cost of Goods Sold

Where Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses – Closing Stock

GP (%) = Gross Profit/ Sales * 100

PROFIT AND LOSS ACCOUNT

Profit and Loss Account of for the year ended

Particulars	₹	Particulars	₹
To Gross Loss b/d (if any)		By Gross Profit b/d from Trading A/c	
To Administrative Expenses		By Other Income items	
To Selling Expenses		By Net Loss, t/d. to Capital A/c	
To Financing Expenses			
To Depreciation			
To Other Items, Adjustments & Prov.			
To Net Profit, transferred to Capital A/c			
Total		Total	

ITEMS IN PROFIT AND LOSS ACCOUNT

	Item	Examples	
1.	Administrative Expenses	<ul style="list-style-type: none"> Salaries of Staff, etc. Rent, Rates and Insurance Printing and Stationery, Repairs & Maintenance of Office building / Furniture, 	<ul style="list-style-type: none"> Telephone Expenses Books and Periodicals Legal Expenses Audit Fees, etc.
2.	Selling and Distribution Expenses	<ul style="list-style-type: none"> Salesman Salaries Agents Commission Advertising & Sales Promotion Carriage / Freight outwards 	<ul style="list-style-type: none"> Bad Debts Repairs and Maintenance of Delivery Vans, vehicles, etc.
3.	Financing Expenses	<ul style="list-style-type: none"> Interest Paid on Term loans, Working Capital Loans, etc. Discount on Bills Discounted with Bank Discount allowed to customers. Bank Charges 	
4.	Depreciation	<ul style="list-style-type: none"> Depreciation on various assets is generally shown as a separate line item in the P&L A/c. 	
5.	Other Items, Adjustments & Provisions	<ul style="list-style-type: none"> Provisions for Bad and Doubtful Debts, Provision for Discount Allowed to Debtors, Provisions for Repairs and Renewals, etc. Items like Loss on Sale of Fixed Assets / Investments, Loss (net of insurance Claim) in respect of abnormally lost goods, etc. 	
6.	Other Income	<ul style="list-style-type: none"> Rent from Properties Interest on Investments in Fixed Deposits Dividend from Shares 	<ul style="list-style-type: none"> Profit on Sale of Fixed Assets Sale of Old Newspapers, Junk Materials, etc. Bad Debts Recovered

BALANCE SHEET

Balance Sheet is a statement of financial position which sets out the Assets and liabilities of an enterprise as at a certain date.

- Assets are shown on Right Hand Side and Liabilities are shown on Left Hand Side.
- It is prepared as at a particular date and not for a period. So, it is a Position Statement, and not a Performance Statement.
- The Balance Sheet is not an account, its two side represent Liabilities and Assets and not the Debit and the Credit sides of an account.

- (d) The Balance Sheet represents the confirmation of the Basic Accounting Equation, i.e. Equity + Liabilities = Assets. Hence, the total of both the sides should agree.
- (e) The Ledger Account Balance of all Personal and Real Accounts will flow into the Balance Sheet.

Balance Sheet of as at

Liabilities	₹	Assets	₹
Capital		Fixed Assets	
Reserves & Surplus		Investments	
Loans		Current Assets:	
Current Liabilities:		Stock	
Sundry Creditors		Debtors	
Outstanding Expenses		Cash at Bank, Cash in Hand	
Total		Total	

ARRANGEMENT OF ASSETS AND LIABILITIES

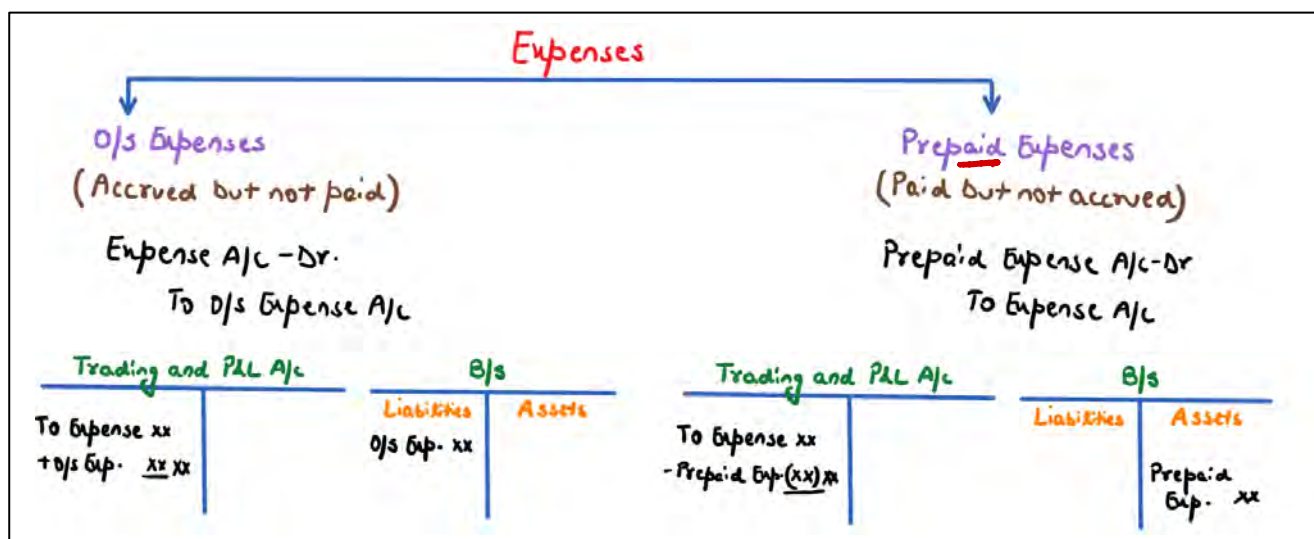
	Method 1: Permanence Approach	Method 2: Liquidity Approach
Assets	<p>Assets which are to be used in the business for a longer span of time and which are not meant for sale, are shown first. These items are followed by Current/Liquid Assets</p> <ol style="list-style-type: none"> Fixed Assets: <ul style="list-style-type: none"> Land and Building Plant & Machinery Current Assets <ul style="list-style-type: none"> Stock Sundry Debtors Bills Receivable Other Investments Cash at Bank Cash in hand 	<p>Assets which are readily convertible into cash are shown first and which are not readily convertible are shown subsequently in the Balance Sheet</p> <ol style="list-style-type: none"> Current Assets <ul style="list-style-type: none"> Cash in hand Cash at Bank Other Investments Bills Receivable Sundry Debtors Stock Fixed Assets <ul style="list-style-type: none"> Plant & Machinery Land and Building
Liabilities	<ul style="list-style-type: none"> Capital Reserves & Surplus Loans Trade Creditors Bills Payable <p>One way is to first show the capital, then long-term liabilities and last of all short-term liabilities</p>	<ul style="list-style-type: none"> Bills Payable Trade Creditors Loans Reserves & Surplus Capital <p>The other way is to start with short-term liabilities and then show long term liabilities and last of all capital</p>

Note: The Permanence Approach is generally adopted for presentation of balance sheet

ADJUSTMENT ENTRIES IN FINAL ACCOUNTS

1. EXPENSES

	Adjustment	Journal entry	Treatment in Trading and P&L A/c	Treatment in Balance sheet
1.	Outstanding or Accrued Expenses	Expenses A/c Dr. To O/s Expenses A/c	Add to Expense on Debit side of Trading/ P&L A/c	Liability Side under "Current Liabilities"
2.	Prepaid Expenses	Prepaid Exp. A/c Dr. To Expenses A/c	Reduce from Expense on Debit side of Trading/ P&L A/c	Assets Side under "Current Assets"



Note:

If O/s Expense, Prepaid Expense appearing in trial balance then effect only in balance sheet as entry has already been passed & respective expense has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	

Adjustments:

- 1) O/s Salary 20000
- 2) Prepaid Rent 8000

P&L A/c

To Salaries 140000 + O/s Sal. 20000 160000	To Rent 90000 - Prepaid (8000) 82000
--	--

Balance sheet

Liabilities	Assets
O/s Salaries 20000	Prepaid Rent 8000

Example: Trial Balance

	Dr.	Cr.
Salaries	140000	
Rent	90000	
O/s Salary		20000
Prepaid Rent	8000	

P&L A/c

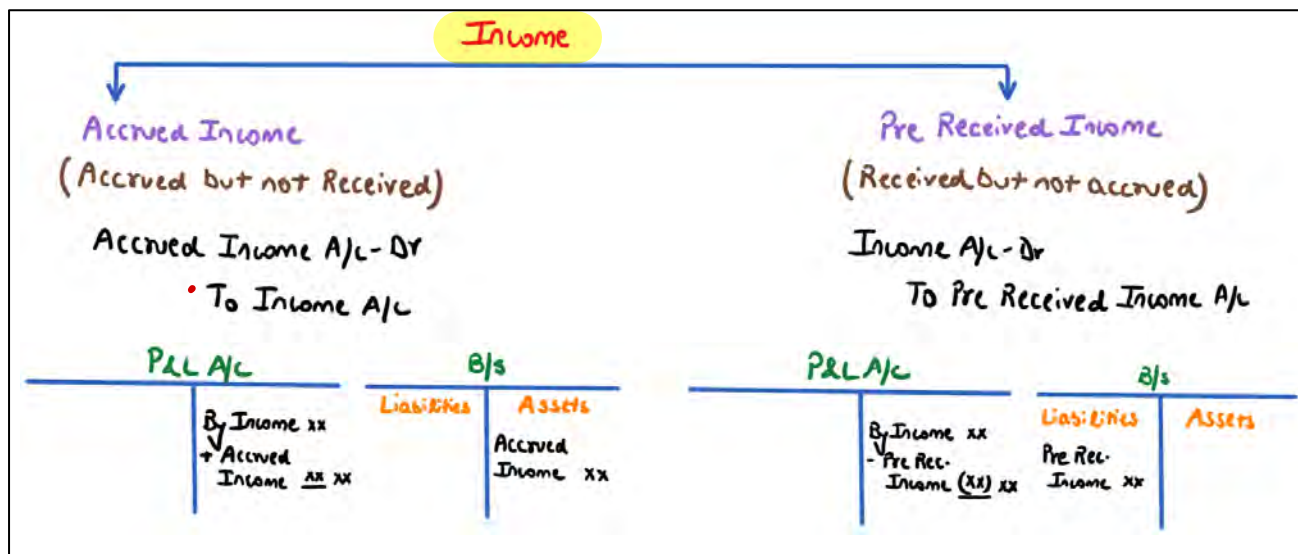
To Salaries 140000 To Rent 90000	
-------------------------------------	--

Balance sheet

Liabilities	Assets
O/s salaries 20000	Prepaid Rent 8000

2. INCOMES

	Adjustment	Journal entry	Treatment in P&L A/c	Treatment in Balance sheet
1.	Accrued Income or Income receivable	Accrued Income A/c Dr. To Income A/c	Add to Income Head on Credit side of P&L A/c	Assets Side under "Current Assets".
2.	Income Received in advance / Unearned Income	Income A/c Dr. To Income recd in advance	Reduce from Income Head on Credit side of P&L A/c.	Liability Side under "Current Liabilities".

**Note:**

If Accrued Income, Pre received income appearing in trial balance then effect only in balance sheet as entry has already been passed & respective income has already been adjusted.

Example: Trial Balance

	Dr.	Cr.
Interest on F.D.		70000
Interest on loan given		60000

Adjustments:

- 1) Accrued Interest on F.D. 5000
- 2) Interest on loan received in advance 3000

P&L A/c

By Int on FD 70000	
+ Acc. Int. 5000	75000
By Int on loan 60000	
- Pre Rec. (3000)	57000

Balance sheet

Liability	Assets
Pre Rec. Interest 3000	Accrued Int on FD 5000

Example: Trial Balance

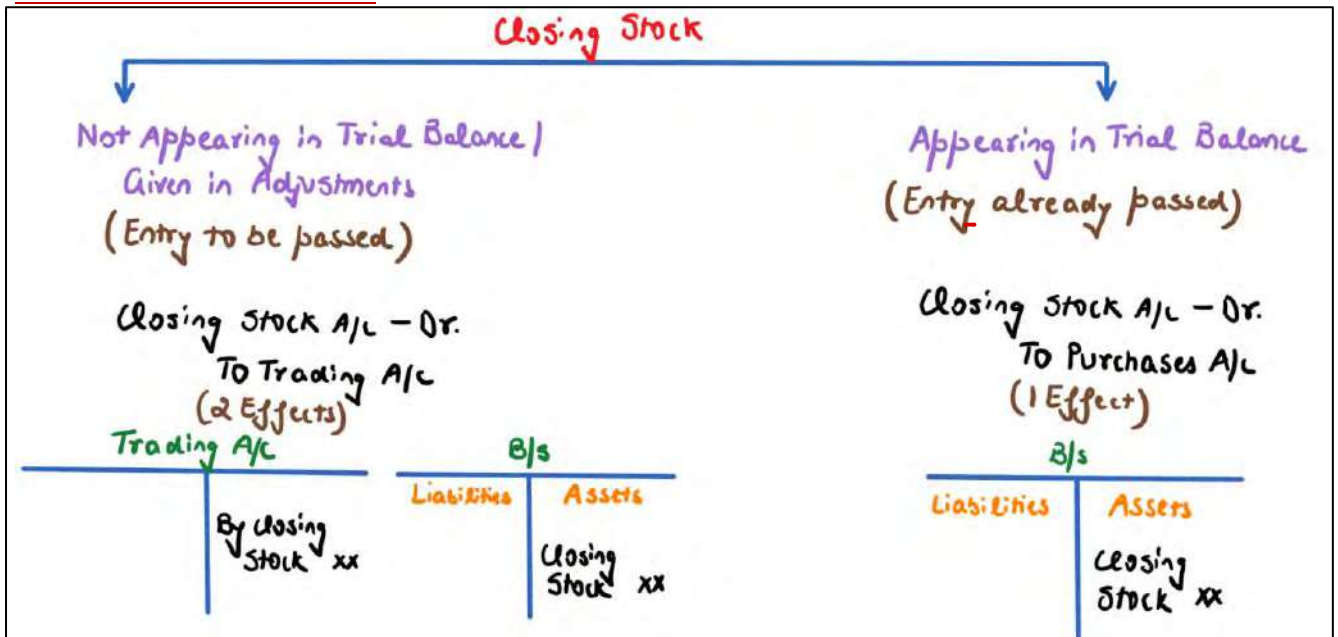
	Dr.	Cr.
Interest on F.D.		70000
Int. on loan given		60000
<u>Acc. Int. on F.D.</u>	5000	
<u>Prerec. Int. on loan</u>		3000

P&L A/c

By Int on FD 70000	
By Int on loan 60000	

Balance sheet

Liability	Assets
Pre Rec. Int. 3000	Acc. Int. 5000

3. CLOSING STOCK

Example: Trial Balance

	Dr.	Cr.
Opening stock	100000	
Purchases	1200000	
Sales		2000000

Adjustments:

Closing stock 200000

Trading A/c

To opening stock 100000	By sales 2000000
To Purchases 1200000	By Clos. stock 200000

Balance sheet

Liabilities	Assets
	Clos. stock 200000

Example: Trial Balance

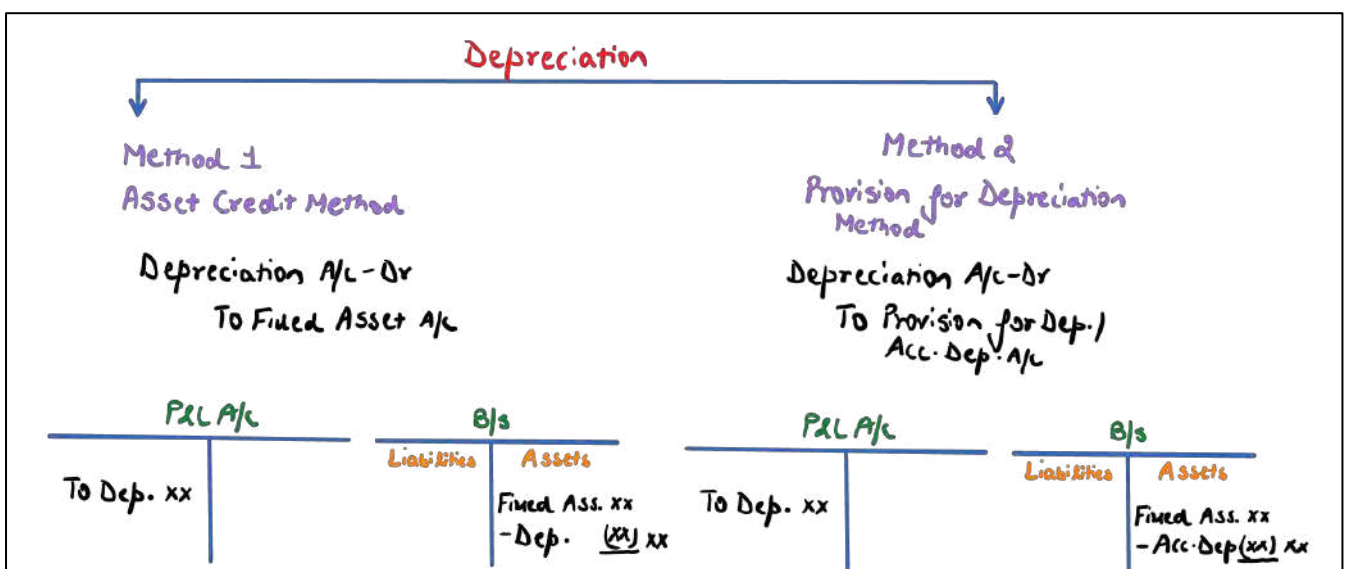
	Dr.	Cr.
Purchases	1200000	
Closing stock	200000	
Sales		2000000

Trading A/c

To Purchases 1200000	By sales 2000000
----------------------	------------------

Balance sheet

Liabilities	Assets
	Closing stock 200000

4. DEPRECIATION

Note:

If Depreciation appearing in trial balance then effect only in P&L Account

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	

Adjustments:Dep. on Machinery 10% p.a.

P&L A/c

To Dep. on Machinery (SL-10%)	50000
-------------------------------	-------

Balance sheet

Liabilities

Assets

Machinery (5L-50000)	4,50,000
----------------------	----------

Example: Trial Balance

	Dr.	Cr.
Machinery	500000	
Dep. on Machinery		50000

To Dep. on Machinery	50000
----------------------	-------

Balance sheet

Liabilities

Assets

Machinery	5,00,000
-----------	----------

Example: Trial Balance

	Dr.	Cr.
Machinery (cost)	600000	
Prov. for Dep.		100000

Adjustments:Dep. on Machinery 10% p.a.
(W.D.V Method)

To Dep. on Machinery (6L-1L) X 10%	50000
------------------------------------	-------

P&L A/c

Balance sheet

Liabilities

Assets

Machinery	600000
- Prov. for Dep. (150000)	
(100000 + 50000)	450000

Example: Trial Balance

	Dr.	Cr.
Machinery	600000	
Prov. for Dep.		100000
Dep. on Machinery	30000	

To Dep. on Mach. 30000	
------------------------	--

P&L A/c

Balance sheet

Liabilities

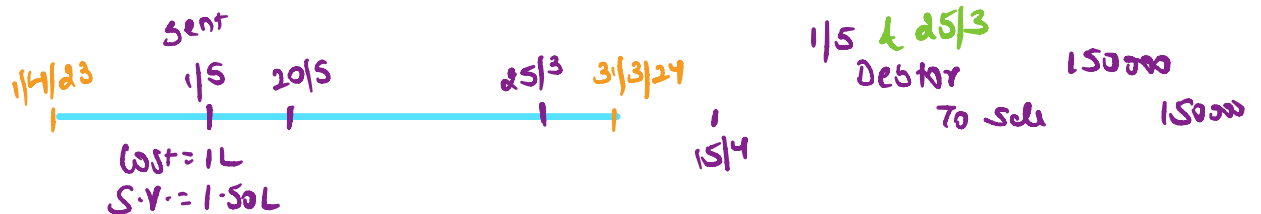
Assets

Machinery	600000
- Prov. for Dep. (100000)	
	500000

5. ABNORMAL LOSS

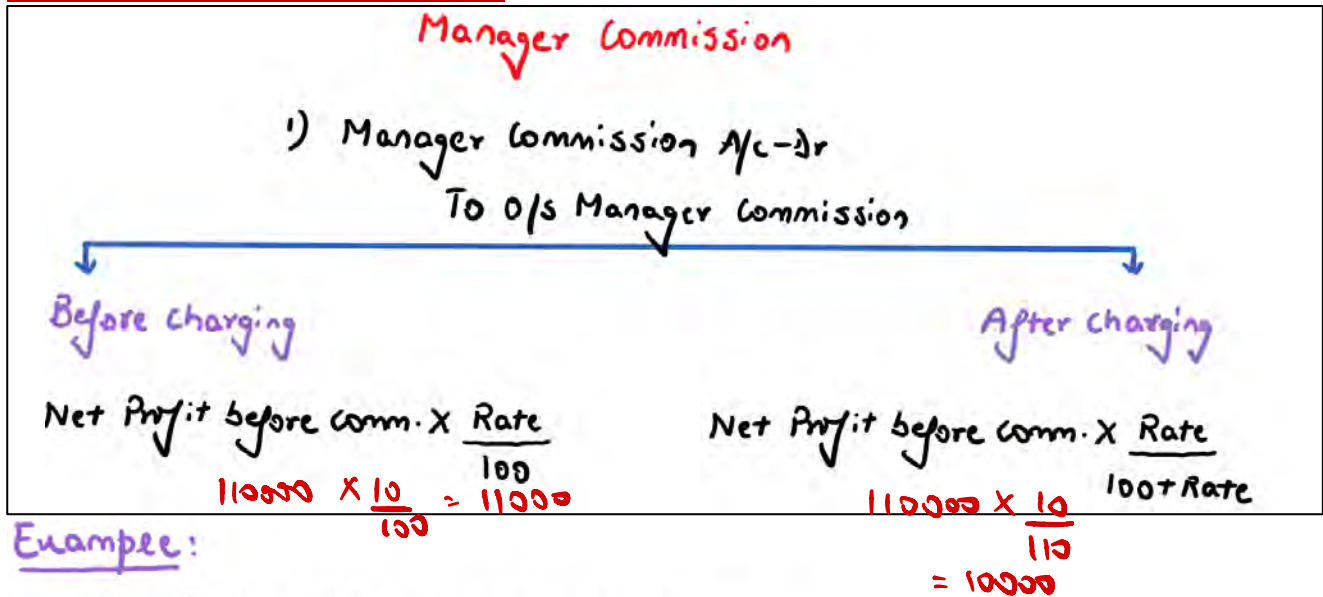
1) Abnormal loss A/c-Dr To Trading A/c	2) Insurance claim Rec. A/c-Dr P&L A/c (loss) -Dr To Abnormal loss A/c
---	--

Trading A/c	P&L A/c	B/s
By Abnormal loss xx	To Abnormal loss xx	Liabilities
		Assets
		Ins. claim Rec. xx

**6. SALE OF GOODS ON APPROVAL OR RETURN BASIS PENDING CONFIRMATION**

1) Sales A/c -Dr To Debtors A/c (At Selling Price)	2) Stock with customers A/c -Dr To Trading A/c (Lower of cost or NRV)
--	---

Trading A/c	Balance sheet
By Sales xx	Liabilities
- Approval Basis (xx) xx	Assets
By closing stock	Debtors xx
In hand xx	- Approval Basis (xx) xx
With customers xx xx	Closing Stock
	In hand xx
	With customers xx xx

7. MANAGER COMMISSION

Net Profit before Commission 110000

Commission

a) 10% of Profits before charging Commission

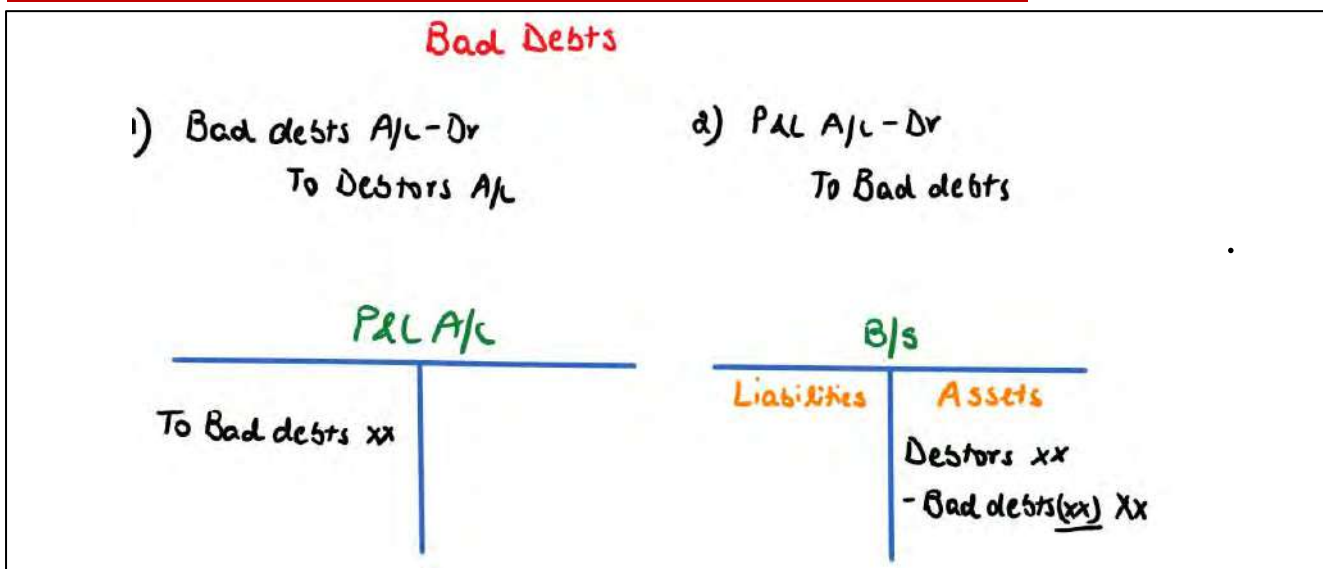
b) 10% of Profits after charging Commission

(a)

NP before Comm: 1,10,000
- Comm. 10% (11,000)
99,000

(b)

NP before Comm: 1,10,000
- Comm. (10,000) ← 10% of 1,10,000
NP after Comm. 1,00,000

8. BAD DEBTS AND PROVISION FOR DOUBTFUL DEBTS

Example: Trial Balance

	Dr.	Cr.
Debtors	400000	

Adjustments:

Bad debts 10000

PL A/c

To Bad debts 10000

Balance sheetLiabilitiesAssets

Debtors 390000
(400000 - 10000)

Example: Trial Balance

	Dr.	Cr.
Debtors	500000	
Bad debts	10000	

Adjustments:

Further Bad debts 15000

PL A/c

To Bad debts 25000
(10000 + 15000)

Balance sheetLiabilitiesAssets

Debtors 485000
(500000 - 15000)

Provision for Doubtful Debts

PL A/c - Dr

To Provision for Doubtful debts A/c

B/s	Provision for Doubtful Debts A/c	PL A/c
<u>Liabilities</u>		
Debtors xx	To Bad debts xx	
- PDD (xx)	To Bal yd xx	To PDD xx
xx		
	<u>By Bal yd xx</u>	
	<u>By PL A/c (B.f.) xx</u>	

Example:

Year 1: Debtors 500000

Create Provision for Doubtful debts @ 2%.

PL A/c

To PDD 10000

$$500000 \times 2\% = 10000$$

PL A/c - Dr 10000

To PDD 10000

Balance sheetLiabilitiesAssets

Debtors 500000
- PDD (10000)
490000

Year 2: Case (a)

Trial Balance

	Dr.	Cr.
Prov. for Doubtful debts		10000
Debtors	1000000	
Bad debts	30000	

Create Provision for Doubtful debts @ 2%.

Prov. for Doubtful debts A/c

To Bad debts	30000	By Bal b/d	10000
To Bal c/d	20000	By P&L A/c (B/f)	40000
(10L x 2%)	=		=

(or)

$$\begin{aligned}
 \text{Actual Bad debts} &= 30000 \\
 + \text{Uos. Prov. for d/d debts} &= 20000 \\
 - \text{opening PDD} &= (10000) \\
 \hline
 &= 40000
 \end{aligned}$$

Alt 1

P&L A/c

To PDD	40000
--------	-------

Balance sheet

Liabilities

Assets

Debtors	10,00,000
- PDD	(20000)
	<u>980000</u>

Alt 2

P&L A/c

To Bad debts	30000
To PDD	10000
(20000 - 10000)	

Year 2: Case (b)

Trial Balance

	Dr.	Cr.
Prov. for Doubtful debts		10000
Debtors	1000000	
Bad debts	30000	

Adjustments:

Further Bad debts 20000
Create Provision for Doubtful debts @ 2%.

Prov. for Doubtful debts A/c

To Bad debts	50000	By Bal b/d	10000
(30000 + 20000)		By P&L A/c (B/f)	59600
To Bal c/d	19600		
(980000 x 2%)	=		=

P&L A/c

To PDD	59600
--------	-------

Balance sheet

Liabilities

Assets

Debtors	980000
(1000000 - 20000)	
- PDD	(19600)
	<u>960400</u>

9. DISCOUNT ALLOWED AND PROVISION FOR DISCOUNT ON DEBTORS

The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors in order to determine the provision for discount on good debtors who make their payment promptly after getting the discount.

Example:

Trial Balance		
	Dr.	Cr.
Bad debts	20000	
Discount Allowed	30000	
Debtors	1000000	
Prov. for Doubtful debt		5000
Prov. for Discount		15000

P&L A/c	
To PDD	45000
To Prov. for Disc.	63500

Balance sheet	
Liabilities	Assets
	Debtors 1000000
	- PDD (30000)
	- Prov. for Disc. (48500)
	<u>921500</u>

Adjustments:

Create Provision for Doubtful debts @ 3%
Create Provision for Discount @ 5%.

Prov. for Doubtful debt A/c

To Bad debts	20000	By Bal b/d	5000
To Bal c/d	30000	By P&L A/c	45000
(10L x 3%)	=	(B/f)	=

Prov. for Disc. A/c

To Disc. All.	30000	By Bal b/d	15000
To Bal c/d	48500	By P&L A/c	63500
(10L - 30000) x 5%	=	(B/f)	=

10. DISCOUNT RECEIVED & RESERVE FOR DISCOUNT ON CREDITORS

Provision for discount on creditors is often not provided in keeping with principle of conservatism

Example:

Trial Balance		
	Dr.	Cr.
Prov. for Disc. on Creditors	15000	
Creditors		500000
Discount Received		25000

Create Provision @ 2%.

P&L A/c

By Prov. for Disc. 20000

Prov. for Disc. on Credit A/c

To Bal b/d	15000	By Disc. Rec.	25000
To P&L A/c	20000	By Bal c/d	10000
(B/f)	=	(5L x 2%)	=

Balance sheet

Liabilities	Assets
Creditors	500000
- Prov.	(10000)
	<u>490000</u>

11. GOODS USED OTHER THAN FOR SALE

	Situation	Journal Entry	Treatment in financial Statement
1.	Goods withdrawn for personal use	Drawings A/c Dr. To Purchases A/c	Reduce from capital in B/ sheet. Purchases reduced in Trading A/c
2.	Goods given away as charity/ donation	Donation / Charity A/c Dr. To Purchases A/c	Add to donation / charity A/c Purchases reduced in Trading A/c
3.	Goods distributed as free sample	Samples/Advertisement Dr. To Purchases A/c	Add to samples/adv. in P/L A/c Purchases reduced in Trading A/c
4.	Goods used for construction of building or machinery	Building/Machinery A/c Dr. To Purchases A/c	Add to Assets Cost in B/ sheet Purchases reduced in Trading A/c

12. OTHER MISC. ITEMS

	Adjustment	Journal entry	Treatment in P&L A/c	Treatment in Balance sheet
1.	Interest on capital	Interest on capital A/c Dr. To Capital	Show in debit side of P&L A/c	Add to capital A/c on the liabilities Side.
2.	Interest on drawings	Capital A/c Dr. To Interest on drawings	Show in credit side of P&L A/c	Reduce from capital A/c on liabilities side

P&L A/c: Net Profit = 50000

↓
Capital A/c

NP = 50000

-IOC (10000) → Cap. A/c
40000 → Cap. A/c

Question 1: (ICAI Study Material)

The following is the Trial Balance of Mr. Wanchoo on 31st March 2023.

Trial Balance on 31st March, 2023

Particulars	Debit (₹)	Credit (₹)
Capital Account		10,00,000
Inventories as on 1 st April, 2022	2,00,000	
Cash in hand	1,44,000	
Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
Total	64,00,000	64,00,000

Value of Closing Inventory on 31st March 2023 was ₹ 2,70,000

Pass closing entries for the above items. Prepare Trading Account, Profit & Loss Account & Balance Sheet.

Question 2: (CA Foundation Nov 2020) (5 Marks)

Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2022. At the start of 2023, the company raised salaries by 10% to ₹ 44,000 per month each. On 1st July, 2023 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

- Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2023.
- Amount actually paid as salaries during 2023.
- Outstanding salaries as on 31st December, 2023.

**Solution**

- Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2023

Employees = $9 \times ₹ 44,000 \times 12 = ₹ 47,52,000$

Trainees = $2 \times ₹ 21,000 \times 6 = ₹ 2,52,000$

Salaries charged to P & L A/c = ₹ 50,04,000

- Amount actually paid as salaries during 2023

Employee = $9 \times ₹ 44,000 \times 11 + 9 \times ₹ 40,000 = ₹ 47,16,000$

Trainees = $2 \times ₹ 21,000 \times 5 = ₹ 2,10,000$

Amount paid as salaries = ₹ 49,26,000

- Outstanding salaries as on 31.12.2023

Employee = $9 \times ₹ 44,000 = ₹ 3,96,000$

Trainees = $2 \times ₹ 21,000 = ₹ 42,000$

Outstanding salaries = ₹ 4,38,000

Question 3: (ICAI Study Material)

Mr. Birla is a proprietor engaged in business of trading electronics. An excerpt from his Trading & P&L account is as follows:

Particulars	Amount	Particulars	Amount
To Cost of Goods Sold	45,00,000	By Sales	C
To Gross Profit c/d	D		
	F		F
To Rent	26,00,000	By Gross Profit b/d	D
To Office Expenses	13,00,000	By Miscellaneous Income	E
To Selling Expenses	B		
To Commission to Manager (on Net Profit before charging such commission)	2,00,000		
To Net Profit	A		
	G		60,00,000

Commission is charged at the rate of 10%.

Selling Expenses amount to 1% of total sales.

You are required to compute the missing figures.

Question 4: (CA Foundation Jan 2021) (5 Marks)

Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2023 has been given below:

On 1st April, 2022 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2022-23 while remaining pertains to year 2023-24- During the year 2022-23 he made cash sales of ₹ 7,50,000.

You are required to compute :

- Total income for the year 2022-23.
- Total money received during the year, if the closing balance as on 31st March, 2023 in Advance from Customers Account is ₹ 2,55,000.

Solution

- (i) **Computation of Income for the year 2022-23:**

	₹
Money received during the year related to 2022-23	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2022-23	<u>9,75,000</u>

Handwritten notes: 300000 (225000) 75000 180000 255000

- (ii) **Advance from Customers A/c**

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2022	By Balance b/d	3,00,000
31.3.23	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		<u>4,80,000</u>			<u>4,80,000</u>

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	<u>9,30,000</u>

Question 5: (CA Foundation Dec 2022) (10 Marks)

The balance sheet of S on 1st April, 2022 was as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

During 2022-23, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following:

- Commission paid to selling agent ₹ 65,000.
- Discount received from creditors ₹ 75,000.
- Purchased a vehicle of ₹ 50,000 on 31st March, 2023.
- Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
- A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2023

But while preparing the Profit and Loss Account he had forgotten to provide for

- 1) prepaid expenses ₹ 15,000 and
- 2) outstanding commission ₹ 35,000.

His current assets and liabilities on 31st March, 2023 were: Inventories ₹ 6,50,000. Trade Receivables 13,00,000 (before provision for doubtful debts), cash at Bank 5,50,000 and Trade Payables ₹ 1,46,000. During the year he introduced further capital of ₹ 3,00,000 into the business. You are required to prepare the balance sheet as at March 31, 2023.

Solution**Balance Sheet of S as on 31st March, 2023**

Liabilities	₹	Assets	₹
Capital	22,00,000	Cash at Bank	5,50,000
Add: Net Profit (WN.1)	<u>6,50,000</u>	Trade receivables 13,00,000	
	28,50,000	Less: Prov. for D/debts (<u>39,000</u>)	12,61,000
Add: Introduction of cap.	<u>3,00,000</u>	Vehicles (WN. 2)	2,70,000
Outstanding commission	35,000	Furniture & Fixtures (WN. 3)	5,85,000
Trade payables	1,46,000	Inventories	6,50,000
		Prepaid expenses	15,000
	<u>33,31,000</u>		<u>33,31,000</u>

Working Note 1**Profit and Loss Account (Revised)**

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	<u>6,85,000</u>		<u>6,85,000</u>

Working Note 2**Vehicles A/c**

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank a/c	50,000	By Balance c/d (b/f)	2,70,000
	<u>3,25,000</u>		<u>3,25,000</u>

Working Note 3**Furniture & Fixtures A/c**

Particulars	₹	Particulars	₹
To Balance b/d	6,50,000	By Depreciation	65,000
		By Balance c/d (b/f)	5,85,000
	<u>6,50,000</u>		<u>6,50,000</u>

Question 6: (RTP Nov 2018) / (RTP May 2021) / (RTP May 2023) (Similar)

The following is the Trial Balance of Hari as at 31st December, 2023:

	Dr. (₹)	Cr. (₹)
Hari's Capital Account	-	76,690
Stock 1st January, 2023	46,800	-
Sales	-	3,89,600
Returns Inwards	8,600	-
Purchases	3,21,700	-
Returns Outwards	-	5,800
Carriages Inwards	19,600	-
Rent & Taxes	4,700	-
Salaries & Wages	9,300	-
Sundry Debtors	24,000	-
Sundry Creditors	-	14,800
Bank Loan @14% p.a.	-	20,000
Bank Interest	1,100	-
Printing and Stationary Expenses	14,400	-
Bank Balance	8,000	-
Discount Earned	-	4,440
Furniture & Fittings	5,000	-
Discount Allowed	1,800	-
General Expenses	11,450	-
Insurance	1,300	-
Postage & Telegram Expenses	2,330	-
Cash Balance	380	-
Travelling Expenses	870	-
Drawings	30,000	-
	5,11,330	5,11,330

The following adjustments are to be made:

- Included amongst the Debtors is ₹ 3,000 due from Ram and included among the Creditors ₹ 1,000 due to him.
- Provision for Bad and Doubtful Debts be created at 5% and for Discount @ 2% on Sundry Debtors.
- Depreciation on Furniture & Fittings @ 10% shall be written off.
- Personal Purchases of Hari amounting to ₹ 600 had been recorded in the Purchases Day Book.
- Interest on Bank Loan shall be provided for the whole year.
- A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
- Credit Purchase Invoice amounting to ₹ 400 had been omitted from the Books.
- Stock on 31.12.2023 was ₹ 78,600.

Prepare:

- Trading & Profit and Loss Account for the year ended 31.12.2023 and
- Balance Sheet as on 31st December, 2023.

Solution**Trading and Profit and Loss Account of Mr. Hari
(for the year ended 31st December, 2023)**

Particulars	Amount	Particulars	Amount
To Opening Stock	46,800	By Sales	3,89,600
To Purchases	3,21,700	Less : Returns	(8,600)
Add: Omitted Invoice	400	By Closing Stock	78,600
Less: Returns	(5,800)		
Less: Drawing	(600)		
To Freight & Carriage	19,600		
To Gross Profit c/d	77,500		
	4,59,600		4,59,600
To Rent and taxes	4,700	By Gross Profit b/d	77,500
To Salaries and wages	9,300	By Discount	4,440
To Bank Interest	1,100		
Add: Due	1,700		
To Printing & Stationery	14,400		
Less: Prepaid	(3,600)		
To Discount allowed	1,800		
To General Expenses	11,450		
To Insurance	1,300		
To Postage & Telegram Expenses	2,330		
To Traveling Expenses	870		
To Provision for Bad Debts (New)	1,150		
To Prov. for Discount on Debtors	437		
To Depreciation on Furn. & Fitt.	500		
To Net Profit tfd. to Capital A/c	34,503		
	81,940		81,940

Balance Sheet of Hari as at 31st December, 2023

Liabilities	Amount	Assets	Amount
Capital	76,690	Furniture and Fittings	5,000
Add: Net Profit	34,503	Less: Dep.	(500)
Less: Drawings	(30,600)	Sundry Debtors	23,000
(Cash 30,000+Goods 600)	80,593	(24,000-1,000)	
		Less: Prov. for D/D	(1,150)
Bank Loan	20,000		21,850
Bank Interest Due	1,700	Less: Prov. for discount	(437)
Sundry Creditors [1]	14,200	Stock	78,600
		Prepaid: Printing & Stationery	3,600
		Bank Balance	8,000
		Cash Balance	380
	1,16,493		1,16,493

Working Note (1):

Sundry Creditors Balance as per Trial Balance	14,800
Less : Set off in respect of Ram	(1,000)
Add : Purchases Invoice which were omitted	400
	14,200

Question 7: (CA Foundation May 2018) (20 Marks)/(RTP May 2020)/(RTP Nov 2023)

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2023, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

	Dr. (₹)	Cr. (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs of Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2022	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 and the Balance Sheet as at that date after making provision for the following:

- Depreciate Building by 5%, Furniture & Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was ₹ 4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2022
- Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2022 to 30.06.2023.

Solution

M/s Raghuram & Associates
Trading and Profit and Loss Account for the year ended 31st March, 2023

Particulars	Amount	Particulars	Amount
To Opening Stock	3,20,000	By Sales	15,00,000
To Purchases	12,00,000	Less: Return	(24,000)
Less: Returns	(18,000)	By Closing Stock	4,10,000
To Freight	62,000		
To Gross Profit c/d	3,22,000		
	18,86,000		18,86,000
To Salaries	72,000	By Gross Profit b/d	3,22,000
To Rent	55,000	By Discount Received	12,000
Add: O/s Rent	5,000		
To Provision for Doubtful Debts (WN-1)	16,200		
To Rent and Taxes	24,000		
To Discount Allowed	7,500		
To Carriage outwards	8,500		
To Printing and stationery	6,000		
To Electricity charges	14,000		
To Insurance premium (W.N. 1)	4,800		
To Depreciation (W.N. 2)	80,000		
To General expenses	11,000		
To Bank Charges	3,800		
To Interest on loan	4,400		
Add: O/s Interest	100		
To Motor car expenses (Repairs)	13,000		
To Net profit tfd to Capital Account	8,700		
	3,34,000		3,34,000

Balance Sheet of M/s Raghuram & Associates
(as at 31st March, 2023)

Liabilities	Amount	Assets	Amount
Capital Account		Land & Building	5,00,000
Opening Balance	14,11,400	Less: Dep.	(25,000)
Add: Profit	8,700	Motor Vehicles	1,00,000
Less: Drawings	(20,000)	Less: Dep.	(20,000)
Less: Prop. Ins Prem.	(42,000)	Office equipment	2,00,000
Loan from Rajan	60,000	Less: Dep.	(30,000)
Add: O/s Interest	100	Furniture & Fixture	50,000
Sundry Creditors	62,000	Less: Dep.	(5,000)
O/s Rent	5,000	Closing Stock	4,10,000
		Sundry Debtors	2,80,000
		Less: Prov. for D/D	(14,000)
		Prepaid insurance (W.N. 1)	1,200
		Cash at Bank	16,000
		Cash in Hand	22,000
	14,85,200		14,85,200

Working Notes:**1. Insurance premium**

Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $(6,000 \times 3/15)$	(1,200)
Transfer to Profit and Loss A/c	4,800

2. Depreciation

On Building (5% of 5,00,000)	25,000
On Motor Vehicles (20% of 1,00,000)	20,000
On Furniture & Fittings (10% of 50,000)	5,000
On Office Equipment (15% of 2,00,000)	30,000
	80,000

3. Interest on Loan

Interest on Loan $(60,000 \times 10\% \times 9/12)$	4,500
Less: Interest as per Trial Balance	(4,400)
Amount Outstanding	100

4. Provision for Doubtful Debts Account

Particulars	Amount	Particulars	Amount
To Bad Debts A/c	12,200	By Balance b/d	10,000
To Balance c/d $(2,80,000) \times 5\%$	14,000	By P&L A/c (Bal. Fig.)	16,200
	26,200		26,200

Question 8: (RTP May 2019) / (RTP Nov 2020) / (RTP Nov 2022) (Similar)

The following is the Trial Balance of T on 31st March, 2023:

Particulars	Dr. (₹)	Cr. (₹)
Capital		6,00,000
Drawings	70,000	
Fixed Assets (Opening)	1,40,000	
Fixed Assets (Additions 01.10.2022)	2,00,000	
Opening Stock	60,000	
Purchases	16,00,000	
Purchases Returns		69,000
Sales		22,00,000
Sales Returns	99,000	
Debtors	2,50,000	
Creditors		2,20,000
Expenses	50,000	
Fixed Deposit with Bank	2,00,000	
Interest on Fixed Deposit		20,000
Bank Overdraft		8,000
Suspense A/c		2,000
Depreciation	14,000	
Rent (17 months upto 31.8.2023)	17,000	
Investments 12% (01.08.2022)	2,50,000	
Cash & Bank Balance	1,69,000	
Total	31,19,000	31,19,000

Stock on 31st March, 2023 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

- ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.
- Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2023, but the goods were included in stock.
- Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.
- Expenses include ₹ 6,000 in respect of the period after 31st March, 2023.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2023.

X ✓
 Drawings 20000 ✓
 To Bank 20000
 ✓
 Expenses 12000 ✓
 Drawings 8000
 To Bank 8000
 ✓
 Credit 1000 ✓
 To Purch. Ret. 1000
 ✓
 Sales Ret. A/c - Dr 1000
 ✓

MANUFACTURING ACCOUNT

अथ Cost of Goods Manufactured.

- ❖ The Manufacturing Account shows the total cost of manufacturing the finished products, with appropriate details and classifications of Cost.
- ❖ This Account is relevant only for Manufacturing Entities, and is not applicable for Trading Entities.

Manufacturing Account offor the year ended.....

Particulars	₹	Particulars	₹
To Raw Material consumed: Opening stock of raw materials Add: Purchases of Raw Materials Less: Closing Stock of Raw Materials Net Balance = Material Consumed		By Closing Stock of WIP By NRV/ Sale Value of By Products (Note: 3) By Net Factory Cost of Production tfd. to Trading A/c (Bal. Fig)	
To Direct Manufacturing Wages			
To Direct Expenses (Note: 1)			
To Production Overheads (Note: 2)			
To Opening Stock of WIP			
Total		Total	

Trading Account offor the year ended.....

Particulars	₹	Particulars	₹
To Opening stock of finished goods		By Sales	
To Manufacturing A/c: Cost of Product		By Closing stock of finished goods	
To Gross Profit c/d to P&L Account			
Total		Total	

Note: 1

Direct Manufacturing Expenses are costs, other than Materials and Wages, which are incurred for a specific product/ service.

Examples: (a) Royalty for use of license/ technology, (b) Hire Charges of Plant / Equipment, if based on units produced.

Note: 2

These are called Factory Overheads/ Production Overheads/ Works Overheads/ Manufacturing Overheads etc.

It is the Total Indirect costs (Indirect Materials + Indirect Labour + Indirect Expenses) which cannot be linked directly to units produced.

Examples: Factory Rent, Depreciation on Machinery, Depreciation on Factory shed, Repair & Maintenance work, Supervisor's Salary, Consumables like Oils, Lubricants, etc.

Note: 3

By-Product is an incidental product, arising during the production operations, having some saleable value. Examples: Molasses is the by-product in sugar manufacturing
Net Realizable Value of By-product is credited to this account.

Question 9: (ICAI Study Material)

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2023.

W.I.P.	- Opening	3,90,000
	- Closing	5,07,000
Raw Materials	- Purchases	12,10,000
	- Opening	3,02,000
	- Closing	3,10,000
	- Returned	18,000
	- Indirect material	16,000
Wages	- Direct	2,10,000
	- Indirect	48,000
Direct expenses	- Royalty on production	1,30,000
Indirect Expenses	- Repairs and maintenance	2,30,000
	- Depreciation on factory shed	40,000
	- Depreciation on plant & machinery	60,000
By-product at selling price		20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2023.

Solution

Books of Mr. Pankaj
Manufacturing Account for the year ended 31st March, 2023

Particulars	Amount	Amount	Particulars	Amount
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By- products (at S.P.)	20,000
Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished goods transferred (Bal. Fig.)	
Less: Return	(18,000)			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Dep. on Factory Shed	40,000			
Dep. on Plant & Machinery	60,000	3,94,000		
		23,08,000		23,08,000

Question 10: (CA Foundation Nov 2020) (10 Marks)

Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2022-23. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		

Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
To Direct Expenses	2,49,000		

Additional Information:

a) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2022 has been omitted, Machinery is chargeable at a depreciation rate of 15%.

b) Wages include the following:

Paid to factory workers	₹ 3,15,000
Paid to labour at office	₹ 50,000

c) Direct expenses included the following:

Electricity charges	₹ 80,000 of which 25% pertained to office
Fuel charges	₹ 25,000
Freight inwards	₹ 32,000
Delivery charges to customers	₹ 22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c.

Solution**Manufacturing A/c**

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		18,32,000

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Bal. fig.)	6,52,000
	15,67,000		15,67,000

(17,44,000 - 2,49,000 - 2,15,000 - 3,65,000)

Working Notes:

- (1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.
 So, depreciation omitted from being charged = $12,00,000 \times 15\% = ₹1,80,000$
 Correct total depreciation expense = ₹ (2,15,000 + 1,80,000) = 3,95,000
- (2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.
- (3) Expenses to be excluded from direct expenses:
 Office Electricity Charges (80,000 X 25%) = 20,000
 Delivery Charges to Customers = 22,000
 Total expenses not part of Direct Expenses = 42,000
 \Rightarrow Revised Direct Expenses = ₹ (2,49,000 - 42,000) = ₹ 2,07,000
 Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(42,000)
Revised balance to be transferred	<u>18,32,000</u>

(5) Creditors A/c

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Raw Materials A/c (Bal. figure)	14,40,000
	30,10,000		30,10,000

Question 11: (CA Foundation June 2022) (20 Marks)

The following is the trial balance of Mr. B for the year ended 31st March, 2023:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad and doubtful debts	7,000
Plant and Machinery	1,05,000	Sales	29,75,000
Investments	87,500	Bank Overdraft	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

- Stock of finished goods at the end of the year was ₹ 3,50,000.
- A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.
- Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.
- Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date.

Solution**Manufacturing Account for the year ended 31st March, 2023**

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods tfd. to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	(17,500)	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent & Rates		70,000		
To Dep. on Machinery		10,500		
		28,28,000		28,28,000

Trading Account for the year ended 31st March, 2023

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	(35,000)	29,40,000
To Gross Profit c/d	1,99,500	By Closing Stock		3,50,000
	32,90,000			32,90,000

Profit and Loss Account for the year ended 31st March, 2023

Particulars		₹	Particulars	₹
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	7,000	77,000		
To Interest Paid	24,500			
Less: Prepaid	(5,250)	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	(7,000)	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		2,95,750		2,95,750

*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

Balance Sheet as at 31st March, 2023

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	(10,500)	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	(70,000)	3,64,000	Less: Depreciation	(3,500)	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	
			Less: Prov. for Bad & Doubtful Debts	(7,000)	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			14,10,500

**If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

Special Point

Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2023 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as on overdraft.

Bank Overdraft 80,000. Find Closing Stock

$$\begin{array}{l}
 \text{Stock} \quad 100 \\
 - 20\% \quad (20) \\
 \hline
 80 \times 80\% = 64\%
 \end{array}$$

$$\begin{array}{l}
 \text{Stock} \\
 x \times 80\% \times 80\% = 80000
 \end{array}$$

$$x = \frac{80000 \times 100}{80} \times \frac{100}{80} = 125000$$

Sol. 1

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To opening stock	200,000	By Sales	500,000
To Purchases	182,000	By Closing stock	27,000
To wages	10,000		
To Gross Profit (B.P.)	225,000		
To Salaries	10,000	By Gross Profit b/d	225,000
To Discount allowed	50,000	By Discount Rec.	30,000
To Office Exp.	60,000		
To Net Profit Trfd. to Capital A/c (B.P.)	63,000		

Balance Sheet as at 31/3/23

Liabilities		Amount	Assets		Amount
Capital	1000000		Cash		144000
+ NP	<u>630000</u>	1630000	Machinery		736000
			Trade Receivables		850000
Creditors		370000	Lossing stock		270000
		<u>2000000</u>			<u>2000000</u>

Closing Entries

		Debit	Credit
1)	Trading A/c - Dr To opening stock To Purchases To wages	✓ 30,20,000	✓ 2,00,000 ✓ 18,20,000 ✓ 10,00,000
2)	Sales A/c - Dr Closing stock A/c - Dr To Trading A/c	✓ 50,00,000 ✓ 2,70,000	✓ 52,70,000
3)	Trading A/c - Dr To P&L A/c	✓ 22,50,000	✓ 22,50,000
(OR)			
	Trading A/c - Dr To Gross Profit Gross Profit A/c - Dr To P&L A/c		

4) P&L A/c - Dr
 To salaries A/c
 To Discount Allowed A/c
 To Office Expenses A/c

✓ 16,50,000

✓ 10,00,000
✓ 50,000
✓ 60,000

5) Discount Received A/c - Dr
 To P&L A/c

✓ 30,000

✓ 30,000

6) P&L A/c - Dr
 To Capital A/c

✓ 630,000

✓ 630,000

(OR)

P&L A/c - Dr
 To Net Profit
Net Profit A/c - Dr
 To Capital A/c

Opening Entry 1/4/23

1/4/23

Cash A/c - Dr

Machinery A/c - Dr

Trade Receivables A/c - Dr

Opening stock A/c - Dr

To Trade Payables A/c

To Capital A/c

Debit

✓ 1,44,000

✓ 7,36,000

✓ 8,50,000

✓ 2,70,000

Credit

✓ 3,70,000

✓ 16,30,000

Sol. 3

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To cost of goods sold	4500000	By sales ($\frac{1000000}{1.1}$)	1,00,00,000
To Gross Profit c/d (B.P.)	5500000		
	<u>10000000</u>		<u>10000000</u>
To Rent	2600000	By Gross Profit b/d	5500000
To Office Expenses	13,00,000	By Misc. Income (B.P.)	5,00,000
To Selling Expenses (B.P.)	100000		
To Commission to Manager	2,00,000		
To Net Profit	1800000		
($\frac{2L}{10+}$) - 2L	<u>6000000</u>		<u>6000000</u>

Sol. 8

Journal Entries

		Debit	Credit
(i)	Expenses A/c -Dr To Drawings A/c	12000	12000 ✓
✓ (ii)	Purchases A/c -Dr To Creditors A/c	16000	16000 ✓
(iii)	Suspense A/c -Dr To Purchase Return To Sales Return	2000	1000 ✓ 1000 ✓
(iv)	Prepaid Expenses A/c -Dr To Expenses	6000	6000 ✓

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To opening stock	60,000	By Sales 220,000	
To Purchases 160,000		- Returns <u>(98,000)</u>	210,200
+ unsold 16,000		(99,000 - 10,000)	
- Returns <u>(70,000)</u>	154,600	By closing stock	100,000
(69,000 + 10,000)			
To Gross Profit (B/f)	<u>59,600</u>		<u>59,600</u>
		By Gross Profit	59,600
To Expenses 50,000		By Int-on Fixed deposit	20,000
+ unsold 12,000		By Int-on Investments	20,000
- prepaid <u>(6,000)</u>	56,000	(250,000 × 12% × $\frac{8}{12}$)	
To Depreciation 14,000			
+ Additional <u>10,000</u>	24,000		
(24 × 10% × 6/12)			
To Rent 12,000			
(17,000 - 5,000)			
To Net Profit (B/f)	<u>54,400</u>		<u>54,400</u>

Balance sheet as at 31/3/23

Liabilities	Amount	Assets	Amount
Capital 600 000		Using stock	100 000
- Drawings (58 000)		Prepaid Expenses	6 000
(7 000 - 12 000)			
+ Net Profit <u>544 000</u>	108 600	Fixed Assets 340 000	
		(140 000 + 200 000)	
Creditors	23 600	- Dep- <u>(10 000)</u>	330 000
(220 000 + 16 000)			
Bank overdraft	800	Fixed deposit	200 000
		Investments	250 000
		Acc. Interest	20 000
		Prepaid Rent	5 000
		Debtors	250 000
		Cash & Bank	169 000
	<u>133 000</u>		<u>133 000</u>

Point to Remember

Provision for Doubtful debts is created on correct Debtors.

Debtors (given in Trial Balance)

- Sale on Approval basis
- Unpaid Owing
- Former Bad debts
- Former Discount Allowed
- Wrong Amount included in it
- + Correct Amount to be included

xxx
(xxx)
(xxx)
(xxx)
(xxx)
(xxx)
xxx

xxx 100000

Interest on loan

Case 1:

	31/3/24	
	Dr.	Cr.
12% Bank loan (Taken on 1/7/23)		500000
Interest on loan	25000	

$$\text{Interest} = 500000 \times 12\% \times \frac{9}{12} = 45000$$

Paid

(25000)

O/s

20000

Case 2:

	31/3/24	
	Dr.	Cr.
1st Bank loan		500000
Interest	25000	

Bank loan A/c

3/3	To Bal c/d	500000	1/4/23	By Bal b/d	400000
			31/3/24	By Bank	100000

Interest paid includes 7000 paid to
creditor for delayed payments.

Interest on Bank loan

$$400000 \times 12\% = 48000$$

$$- \text{Paid} = (18000)$$

$$(25000 - 7000) \text{ o/s } \underline{\underline{30000}}$$

P&L A/c

Interest	25000	48000
	+ 30000	+ 7000
	<u>55000</u>	<u>55000</u>

B/S

Loan	500000
o/s Int.	30000

Cases of Input & Output GST in Trial Balance

Case 1:

	Dr.	Cr.		<u>Output</u>		
				CGST	SGST	IGST
Input CGST	10000					
Input SGST	10000					
Output CGST		8000		8000	8000	6000
Output SGST		8000	CGST (8000)			(2000)
Output IGST		6000	SGST		(8000)	(2000)
				<u>—</u>	<u>—</u>	<u>—</u>
				x	x	2000

Balance Sheet

Liabilities		Assets
Output IGST	2000	

Case 2:

	<u>Dr.</u>	<u>Cr.</u>
Input CGST	9000	
Input SGST	9000	
Output IGST		15000

Output	15000
- CGST	(9000)
	<u>6000</u>
- SGST	(6000) → Bal: 3000
	<u>x</u>

Balance Sheet

Liabilities	Assets
	Input SGST 3000



Accounts from Incomplete Records

ACCOUNTS FROM INCOMPLETE RECORDS

MEANING OF SINGLE-ENTRY

The term "Single Entry System" is popularly used to describe the problems of accounts from incomplete records.

Very often the small sole proprietorship and partnership businesses do not maintain double entry book keeping system. Sometimes they keep record only of the cash transactions and credit transactions. Sometimes they maintain no record of many transactions. But at the end of accounting period they want to know the performance and financial position of their businesses. This creates some special problems to the accountants.

FEATURES

- | |
|--|
| ➤ It is an inaccurate, unscientific & unsystematic method of recording business transactions. |
| ➤ There is generally no record of real and personal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts. |
| ➤ Cash book mixes up business and personal transactions of the owners. |
| ➤ There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm. |
| ➤ Profit under this system is only an estimate and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet. |

Profitability

Final Accounts Approach



Trading and P&L A/c : NP
&
Balance sheet → (Tally)

(Missing figures from Ledger A/c & information)

Capital Approach



* Finding opening & closing capital

* Making capital A/c or Statement of P&L

→ opening & closing Assets & Liab.

op. & clos. Statement of Affairs

Capital A/c

Particulars	Amount	Particulars	Amount
To Share of Loss	xx	By Bal. b/d (Opening)	xx
To Drawings	xx	By cash / Bank (Additional)	xx
To Interest on Drawings	xx	By Interest on capital	xx
To Bal c/d (Closing)	xx	By Share of Profits	xx

Statement of Profit & Loss

Particulars	Amount
Capital at the end (Closing capital)	xx
Add: Drawings	xx
Add: Interest on Drawings	xx
Less: capital at the beginning (Opening capital)	(xx)
Less: Additional capital	(xx)
Less: Interest on capital	(xx)
Profit / (Loss) (+ve) (-ve)	xx

Bills of Exchange

Sale: 10000

A → B

B 10000
To Sales 10000

Purchases 10000
To A 10000

B/R 10000
To B 10000

A 10000
To B/P 10000

Books of DRAWER (A)

	Held Bill Till Maturity	Discounting with Bank	Endorse to Creditor	Sent to Bank for collection
1) Event	-	Bank 9800 Discount 200 To B/R 10000	Creditor/C 10000 To B/R 10000	BSFC 10000 To B/R 10000
2) Maturity				
a) Honour	Bank 10000 To B/R 10000	-	-	Bank 10000 To BSFC 10000
b) Dishonour (OR) (Noting charges 100)	B 10100 To B/R 10000 To Bank 100	B 10100 To Bank 10100	B 10100 To C 10100	B 10100 To BSFC 10000 To Bank 100

Books of DRAWEE (B)

In all 4 cases, same entries to be passed:

Honour

B/P A/c - Dr 10000
To Bank A/c 10000

Dishonour

B/P A/c - Dr 10000
Noting charges A/c - Dr 100
To A 10100

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By cash A/c	
To Sales (Credit)		By Bank A/c	
To Interest charged		By B/R A/c	
Dishonour of B/R { To B/R (Normal)		By Discount Allowed A/c	
To Bank (Discounted)		By Bad debts A/c	
To Creditors (Endorsed)		By Sales Return A/c	
		By Balance c/d	

Creditors A/c

Particulars	Amount	Particulars	Amount
To Purchase Return A/c		By Balance b/d	
To cash A/c		By Purchases (Credit)	
To Bank A/c		By B/P [Dishonoured]	
To Discount Received		By Noting charges	
To B/P A/c		By Debtors A/c	
To B/R (Endorsed)		[Endorsed B/R Dish.]	
To Balance c/d		By Interest A/c	

Bills Receivable (B/R) A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Bank (Discounted By Discount with Bank)	
To Debtors A/c		By Creditors (Endorsed)	
		By Bank (Payment Rec.)	
		By Debtors (Dishonour)	
		By Balance c/d	

Bills Payable (B/P) A/c

Particulars	Amount	Particulars	Amount
To Bank (Paid)		By Balance b/d	
To Creditors (Dishonour)		By Creditors	
To Balance c/d			

TOPIC 1: CAPITAL COMPARISON / STATEMENT OF AFFAIRS METHOD**Question 1: (ICAI Study Material)**

Rakesh started his business on 1st of April 2022. He invested a capital of ₹ 1,00,000. On 31st March 2023, he has the following information available as per the Single-entry system maintained by him.

Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000
Loan taken from Bank	10,000
Drawings made during the year	24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2023.

Question 2: (ICAI Study Material)

Assets and Liabilities of Mr. X as on 31-03-2022 and 31-03-2023 are as follows:

Particulars		31-03-2022	31-03-2023
Assets	Building	1,00,000	-
	Furniture	50,000	-
	Inventory	1,20,000	2,70,000
	Sundry Debtors	40,000	90,000
	Cash at Bank	70,000	85,000
	Cash in Hand	1,200	3,200
Liabilities	Loans	1,00,000	80,000
	Sundry Creditors	40,000	70,000

Decided to depreciate building by 2.5% & furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2022 & 31-03-2023 and compute profit for the year ended 31-03-2023.

Question 3: (ICAI Study Material)

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020- 2021 and 2021-2022 feels that he has not disclosed full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2020 and 1st April, 2022

1-4-2020	Assets	Cash in Hand	25,500
		Inventory	56,000
		Sundry Debtors	41,500
		Land & Building	1,90,000
		Wife's Jewellery	75,000
	Liabilities	Owing to Moti's Brother	40,000
		Sundry Creditors	35,000
1-4-2022	Assets	Cash in Hand	16,000
		Inventory	91,500
		Sundry Debtors	52,500
		Land & Building	1,90,000
		Motor Car	1,25,000
		Wife's Jewellery	1,25,000
	Liabilities	Loan to Moti's Brother	20,000
		Sundry Creditors	55,000

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared income of the financial years were ₹ 1,05,000 for 2020-2021 & ₹ 1,23,000 for 2021-2022 respectively. State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Solution**Statement of Affairs**

Liabilities	1/4/20	1/4/22	Assets	1/4/20	1/4/22
Owing to Moti's Brother	40,000	-	Cash in Hand	25,500	16,000
Creditors	35,000	55,000	Inventory	56,000	91,500
Capital (Bal. Fig.)	3,13,000	5,65,000	Debtors	41,500	52,500
			Land & Building	1,90,000	1,90,000
			Wife's Jewellery	75,000	1,25,000
			Motorcar	-	1,25,000
			Loan to Moti's Brother	-	20,000
	3,88,000	6,20,000		3,88,000	6,20,000

Particulars	Amount
Capital as on 1/4/2022	5,65,000
Add Drawings during 2020-21 and 2021-22 (4,000×12×2)	96,000
Less Capital as on 1/4/2020	(3,13,000)
Income earned in 2020-21 and 2021-22	3,48,000
Income declared (1,05,000 + 1,23,000)	(2,28,000)
Suppressed Income	1,20,000

Income tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹1,20,000 based on the information available.

Question 4: (CA Inter Nov 2022) (10 Marks)

Ramesh had ₹ 3,30,000 in the bank account on 1st January, 2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:

Particulars	31.3.2021	31.3.2022
Stock	20,900	31,900
Debtors	1,100	3,200
Cash	2,200	3,300
Creditors	5,500	4,300



On and from 1st February, 2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

Particular	Deposits	Withdrawals
1.1.2021 to 31.3.2021	-	2,45,300
1.4.2021 to 31.3.2022	2,53,000	2,97,000

- a) The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31st March, 2021 and from 1st April, 2021 to 31st March, 2022 respectively for the purchase of Machines for the business.
- b) The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.
- c) One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April 2021 to 31st March 2022 given above.

You are required to draw up Statement of Affairs as at 31st March, 2021 & 31st March, 2022 respectively and work out his Profit or Loss for year ended 31st March, 2021 & 31st March, 2022.

Solution**Statement of Affairs as on 31st March, 2021**

Liabilities	₹	Assets	₹
Capital (bal. fig.)	3,23,400	Machinery	2,20,000
Sundry creditors	5,500	Inventory	20,900
		Debtors	1,100
		Cash at bank (W.N.1)	84,700
		Cash in hand	2,200
	3,28,900		3,28,900

Statement of Affairs as on 31st March, 2022

Liabilities	₹	Assets		₹
Sundry Creditors	4,300	Machinery	2,20,000	
Capital (Bal. fig.)	3,60,800	Add: Additions	<u>66,000</u>	2,86,000
		Inventory		31,900
		Debtors (3,200 – 2,700)		500
		Cash at bank (W.N.2)		43,400
		Cash in hand		3,300
	3,65,100			3,65,100

Dep. is Ignored.

Calculation of loss for 3 months (1.1.2021 to 31.3.2021)

	₹
Capital as on 31.3.2021	3,23,400
Add: Drawings for 2 months (770 x 2)	1,540
	3,24,940
Less: Capital as on 1.1.2021	(3,30,000)
Loss for 3 months	5,060

Statement of Profit and Loss for the year ended 31.3.2022

Particulars	₹
Capital as on 31.3.2022	3,60,800
Add: Drawings (₹ 770 x 12)	9,240
	3,70,040
Less: Capital as on 31.3.2021	(3,23,400)
Net profit for the year ended 31.3.22	46,640

Working Notes:

	₹
1. Bank balance as on 31.3.2021	
Balance as on 1.1.2021	3,30,000
Less: Withdrawals during 1.1.2021 to 31.3.2021	(2,45,300)
Balance as on 31.3.2021	84,700
2. Bank Balance as on 31.3.2022:	
Balance as on 1.4.2021	84,700
Add: Deposits during the year (2,53,000 + 2,700)	2,55,700
	3,40,400
Less: Withdrawals during the year	(2,97,000)
Bank Balance as on 31.3.2022	43,400

Bank A/c 2700
 To Debtors 2700

TOPIC 2: FINAL ACCOUNTS METHOD**Question 5: (ICAI Study Material)**

Calculate the bad debts from the below information:

Opening balance of Debtors	5,00,000
Closing balance of Debtors	7,00,000
Amount received in Cash	6,00,000
Discount allowed	10,000
Credit Sales	11,40,000
Bills Receivable	3,00,000
Bad Debts	??

Debtors A/c

To Bal b/d	5,00,000	By Cash A/c	6,00,000
To Sd/s A/c	11,40,000	By Disc. Allowed	10,000
		By B/R A/c	3,00,000
		By Bad debts (B.f.)	30,000
		By Bal c/d	7,00,000

Question 6: (ICAI Study Material)

A. Admajee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2023 is given below:

Receipts	₹	Payments	₹
Bank Balance as on 1st April, 2022	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st Mar, 2023	6,400
		Cash in hand on 31st Mar, 2023	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

Particulars	01-04-2022 (Amount in ₹)	31-03-2023 (Amount in ₹)
Sundry Debtors	14,500	17,600
Sundry Creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Stock	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st March, 2023 after providing depreciation at 10 percent on machinery and furniture and ₹ 800 against doubtful debts.

Question 7: (ICAI Study Material) / (RTP May 2021)

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets & Liabilities	As on 01.04.2022	As on 31.03.2023
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000(Cr.)	80,000(Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's Capital	3,00,000	

Analysis of his bank pass book reveals the following information:

- (a) Payment to creditors ₹ 7,00,000
- (b) Payment for business expenses ₹ 1,20,000
- (c) Receipts from debtors ₹ 7,50,000
- (d) Loan ₹ 1,00,000 taken on 1.10.2022 at 10% per annum
- (e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

Prepare: Trading and Profit & Loss A/c for the year ended 31.3.2023 and Balance Sheet as at 31st March, 2023.

Solution**Trading and P & L A/c for year ended 31/3/2023**

Particulars	Amount	Particulars	Amount
To Opening Stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash	2,40,000
To GP@ 25%	3,10,000	Credit	10,00,000
		By Closing Stock (Bal. Fig.)	1,20,000
	13,60,000		13,60,000
To Salaries	40,000	By G.P. b/d	3,10,000
To Business expenses	1,20,000		
To Interest on Loan (1,00,000*10%*6/12)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet as at 31/3/2023

Liabilities	Amount	Assets	Amount
Loan (incl. interest)	1,05,000	Cash in hand	10,000
Creditors	90,000	Cash at bank	80,000
Capital		Debtors	3,50,000
Opening	3,00,000	Stock	1,20,000
Net profit	1,45,000		
Drawings	(80,000)		
	5,60,000		5,60,000

Working Notes

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,00,000	By Bank	7,50,000
To Credit sales (Bal. Fig.)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bank	7,00,000	By Balance b/d	40,000
To Cash	20,000	By Purchases (Bal. Fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

Cash and Bank A/c

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	10,000	-	By Balance b/d	-	50,000
To Cash (contra)		1,00,000	By Bank (contra)	1,00,000	
To Debtors	-	7,50,000	By Salaries	40,000	
To Ram loan	-	1,00,000	By Creditors	20,000	7,00,000
To Sales (Bal. Fig.)	2,40,000		By Drawings	80,000	-
			By Business expenses	-	1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

Question 8: (RTP Nov 2018) / (RTP May 2023)

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2023 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

	01.04.2022	31.03.2023
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	??
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

- Collections from debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000
- Collections on discounting of bills of exchange, after deduction of discount of ₹ 1,250 by the bank, totalled to ₹ 61,250.
- Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.
- Payment for freight inwards ₹ 30,000.
- Amount withdrawn for personal use ₹ 70,000.

- (vi) Payment for office furniture ₹ 10,000.
- (vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 bonds, Face value ₹ 100 each) on 1st October, 2022 and payment made thereof.
- (viii) Expenses including salaries paid ₹ 95,000.
- (ix) Miscellaneous receipts ₹ 5,000.
- (x) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.
- (xi) Goods costing ₹ 9,000 were used as advertising materials.
- (xii) Goods are invariably sold to show a gross profit of 20% on sales.
- (xiii) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC Enterprises.
- (xiv) Provide at 2% for doubtful debts on closing debtors.

Solution**Trading and P & L A/c for year ended 31/3/2023**

Particulars	Amount	Particulars	Amount
To Opening Stock	80,000	By Sales	6,08,750
To Purchases (4,56,000 – 9,000)	4,47,000	By Closing Stock	70,000
To Freight inwards	30,000		
To G.P. (20% on sales)	1,21,750		
	6,78,750		6,78,750
To Advertisement Expenses	9,000	By GP b/d	1,21,750
To Dep. on Furniture	6,500	By Misc. income	5,000
To Expenses for year (95,000 + 18,000 – 20,000 + 6,000 – 7,000)	92,000	By Interest on Investment (20,000 x 6% x 6/12)	600
To Discount Allowed		By Discount Received	8,000
Debtor 15,000			
B/R 1,250	16,250		
To Provision for doubtful debts	1,455		
To Net Profit	10,145		
	1,35,350		1,35,350

Balance Sheet as at 31/3/23

Liabilities	Amount	Assets	Amount
Creditors	1,50,000	Furniture (60,000+10,000 - 6,500)	63,500
O/s Expenses	18,000	6% Investment at cost	19,000
Capital		Accrued Int. on Investment	600
Opening 1,88,000		Stock	70,000
Net Profit 10,145		Debtors 72,750	
Drawings (91,000)	1,07,145	Less Prov. for D/debts (1,455)	71,295
		Bills Receivable	17,500
		Cash in hand & Bank	26,250
		Prepaid expenses	7,000
	2,75,145		2,75,145

Working Notes:**Balance Sheet as at 1/4/2022**

Liabilities	Amount	Assets	Amount
Creditors	1,10,000	Furniture	60,000
O/s Expenses	20,000	Stock	80,000
Capital (Bal. Fig.)	1,88,000	Debtors	1,60,000
		Cash & Bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

Creditors A/c

Particulars	Amount	Particulars	Amount
To Bills Receivable (Endorsed)	20,000	By Balance b/d	1,10,000
To Bank	3,92,000	By Debtors (Endorsed Bill Dishonoured)	4,000
To Discount Received	8,000	By Credit Purchases (Bal. Fig.)	4,56,000
To Balance c/d	1,50,000		
	5,70,000		5,70,000

Cost of Goods Sold = 80,000 + 4,56,000 - 9,000 + 30,000 - 70,000 = **4,87,000**

GP = 20% on Sales = 25% on COGS = 4,87,000 * 25/100 = 1,21,750

Sales = COGS + GP = 6,08,750

$0.80x = 487000$
 $x = \frac{487000}{0.80}$
 $487000 + 0.20x = x$

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,60,000	By B/R	1,00,000
To Sales	6,08,750	By Bank	5,85,000
To Creditors	4,000	By Disc. Allowed	15,000
		By Balance c/d (Bal. Fig.)	72,750
	7,72,750		7,72,750

Bills Receivable A/c

Particulars	Amount	Particulars	Amount
To Debtors	1,00,000	By Creditors	20,000
		By Bank	61,250
		By Discount	1,250
		By Balance c/d (Bal. Fig.)	17,500
	1,00,000		1,00,000

Cash and Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	12,000	By Freight Inwards	30,000
To Debtors	5,85,000	By Creditors	3,92,000
To B/R	61,250	By Expenses	95,000
To Misc. Income	5,000	By Investment	19,000
		By Furniture	10,000
		By Drawings (70,000+21,000 bal.fig.)	91,000
		By Balance c/d	26,250
	6,63,250		6,63,250

Note: All sales & purchases are assumed to be on credit basis.

Question 9: (CA Inter Nov 2019) (10 Marks)

Archana Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding exp.	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for year ended 31st March, 2023:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand & at Bank on 1st April, 2022	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand & at Bank on 31st March, 2023	1,90,950
	1,39,65,000		1,39,65,000

Additional Information:

- Discount allowed to trade debtors and received from trade creditors amounted to ₹ 54,000 and ₹ 42,500 respectively. (for the year ended 31st March, 2023)
- Annual fire insurance premium of ₹ 9,000 was paid every year on 1st August for the renewal of the policy.
- Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
- The following are the balances as on 31st March, 2023:
 - Stock ₹ 9,75,000
 - Trade debtors ₹ 3,43,000
 - Outstanding expenses ₹ 55,200
- Gross profit ratio of 10% on sales is maintained throughout the year.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March, 2023, and Balance Sheet as on that date.

Solution**Trading and Profit and Loss Account for the year ended 31st March, 2023**

Particulars	Amount	Particulars	Amount
To Opening Stock	9,15,000	By Sales	
To Purchases (W.N. 2)	125,97,000	Cash 110,70,000	
To Gross profit c/d (10% of 139,30,000)	13,93,000	Credit (W.N. 1) <u>28,60,000</u>	139,30,000
		By Closing stock	9,75,000
	149,05,000		149,05,000
To Sundry expenses (W.N. 4)	9,18,750	By Gross Profit b/d	13,93,000
To Discount allowed	54,000	By Discount received	42,500
To Depreciation (1,50,000*15%)	22,500		
To Net Profit (b.f.)	4,40,250		
	14,35,500		14,35,500

Balance Sheet of Archana Enterprises as at 31st March, 2023

Liabilities	Amount	Assets	Amount
Capital		Furniture & Fittings 1,50,000	
Opening balance 6,75,000		Less: Depreciation (22,500)	1,27,500
Less: Drawing (3,60,000)		Stock	9,75,000
Add: Net profit 4,40,250	7,55,250	Trade Debtors	3,43,000
Trade creditors (W.N. 3)	8,29,000	Unexpired insurance	3,000
Outstanding expenses	55,200	Cash in hand & at bank	1,90,950
	16,39,450		16,39,450

Working Notes:1. **Trade Debtors Account**

Particulars	Amount	Particulars	Amount
To Balance b/d	3,12,000	By Cash/Bank	27,75,000
To Credit sales (Bal. fig.)	28,60,000	By Discount allowed	54,000
		By Balance c/d	3,43,000
	31,72,000		31,72,000

2. **Memorandum Trading Account**

Particulars	Amount	Particulars	Amount
To Opening stock	9,15,000	By Sales	139,30,000
To Purchases (Balancing fig.)	125,97,000	By Closing stock	9,75,000
To Gross Profit (10% on sales)	13,93,000		
	149,05,000		149,05,000

3. **Trade Creditors Account**

Particulars	Amount	Particulars	Amount
To Cash/Bank	124,83,000	By Balance b/d	7,57,500
To Discount received	42,500	By Purchases (as per W.N 2)	125,97,000
To Balance c/d (bal. fig.)	8,29,000		
	133,54,500		133,54,500

4. **Computation of sundry expenses to be charged to Profit & Loss A/c**

Particulars	Amount
Sundry expenses paid (as per cash and Bank book)	9,31,050
Add: Prepaid expenses as on 31-3-2022	3,000
Less: Outstanding expenses as on 31-3-2022	(67,500)
Add: Outstanding expenses as on 31-3-2023	55,200
Less: Prepaid expenses as on 31-3-2023 (Insurance paid till July, 2023) (9,000 x 4/12)	(3,000)
	9,18,750

Question 10: (CA Inter July 2021) (10 Marks) / (ICAI Study Material) (Similar)

Mr. Arun runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital A/c	5,05,000	Furniture	50,000
Creditors	1,02,500	Closing Stock	3,50,000
		Debtors	1,25,000
		Cash in Hand	35,000
		Cash at Bank	47,500
	6,07,500		6,07,500

You are furnished with following information :

- 1) His sales, for the year ended 31st March, 2023 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.
- 2) Total Sales during the year 2021-22 were ₹ 6,25,000
- 3) Payments for all the purchases were made by cheques only.
- 4) Goods were sold for cash and credit both. Credit customers pay by cheques only.
- 5) Depreciation on furniture is to be charged 10% p.a.
- 6) Mr. Arun sent to the bank the collection of the month at the last date of each month after paying salary of ₹ 2,500 to the clerk, office expenses ₹ 1,500 and personal expenses ₹ 625.

Analysis of bank pass book for the year ending 31st March, 2023 disclosed the following:

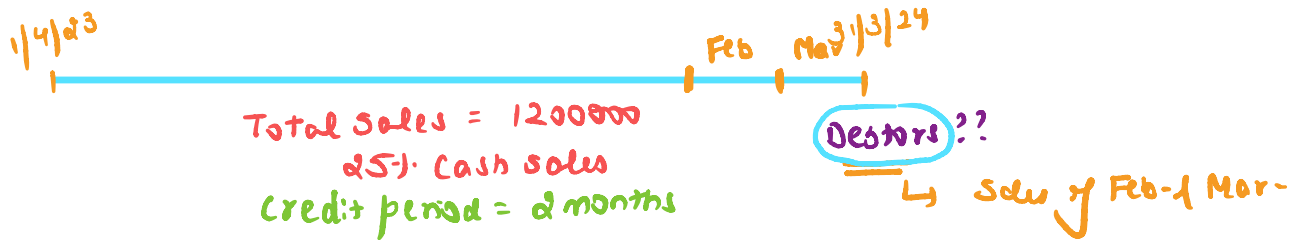
	₹
Payment to creditors	3,75,000
Payment to rent up to 31st March, 2023	20,000
Cash deposited into bank during the year	1,00,000

The following are the balances on 31st March, 2023:

	₹
Stock	2,00,000
Debtors	1,50,000
Creditors for goods	1,82,500

On the evening of 31st March, 2023, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2023 and Balance Sheet as on that date. All the working should form part of the answer.

TOPIC 3: FINAL ACCOUNTS METHOD: TIME LAG / CREDIT PERIOD / **VELOCITY**


$$\text{Credit Sales} = 1200000 \times 75\% = 900000$$

$$\text{Ass. Debtors (2 months sales)} = 900000 \times \frac{2}{12} = 150000$$

↓
(Uniform)

$$\text{Debtors} = \frac{\text{Credit Sales} \times \text{Credit Period}}{12}$$

$$\text{Creditors} = \frac{\text{Credit Purchases} \times \text{Credit Period}}{12}$$

Question 11: (ICAI Study Material)

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2023 is ₹ 1,25,000. Assume that the sale is uniform through out the year. Calculate credit sales and total sales of the company for the year ended 31.03.2023.

$$\text{Debtors} = 125000 \quad \text{Credit Period} = 1.5 \text{ months}$$

$$\text{Credit Sales} = 125000 \times \frac{12}{1.5} = 10,00,000 \rightarrow \text{Ans.}$$

$$\text{Total Sales} = \frac{1000000}{80\%} = 1250000$$

Question 12: (CA Inter Dec 2021) (5 Marks)

A company sold 20% of the goods on cash basis and balance on credit basis. Debtors allowed 1.5 month's credit and their balance as on 31st March, 2023 is ₹1,50,000. Assume that sale is evenly spread throughout the year. Purchase during the year ₹9,50,000. Closing stock is ₹10,000 less than the opening stock. Average stock maintained during year is ₹60,000. Direct expenses amounted to ₹35,000.

Calculate Credit sales, Total sales and Gross profit for the year ended 31st March, 2023.

Solution**Calculation of Credit Sales, Total Sales and Gross Profit**

$$\begin{aligned}
 \text{Credit Sales for the year ended 31st March 23} &= \text{Debtor} \times \frac{12 \text{ months}}{1.5 \text{ months}} \\
 &= 1,50,000 \times \frac{12 \text{ months}}{1.5 \text{ months}} \\
 &= 12,00,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Total Sales for the year ended 2022-23} &= \text{Credit Sales} \times \frac{100\%}{80\%} \\
 &= 12,00,000 \times \frac{100\%}{80\%} = 15,00,000
 \end{aligned}$$

Trading A/c for year ended 31/3/2023

Particulars	Amount	Particulars	Amount
To Opening Stock	65,000	By Sales	15,00,000
To Purchases	9,50,000	By Closing Stock	55,000
To Direct Expenses	35,000		
To Gross Profit (Bal. Fig.)	5,05,000		
	15,55,000		15,55,000

Working Note:

Calculation of opening stock and closing stock

If closing stock is x then opening stock is x+10,000

Average stock 60,000

Average stock = (Opening stock + Closing stock) / 2

Thus Opening stock is 65,000 and closing stock is 55,000.

$$\frac{(x + 10,000) + x}{2} = 60,000$$

Question 13: (CA Inter Nov 2020) (10 Marks)

M/s Rohan & Sons runs a business of Electrical goods on wholesale basis. The Balance Sheet as on 31st March, 2022 is as follows:

Liabilities	₹	Assets	₹
Capital	12,50,000	Fixed Assets	6,50,000
Trade Creditors	1,90,000	Closing stock	3,75,000
Profit & Loss A/c	1,45,000	Trade Debtors	3,65,000
		Cash & Bank	1,95,000
	15,85,000		15,85,000

Management estimates the purchase & sales for year ended 31st March, 2023 as under:

Particulars	Upto 31.01.2023 (₹)	February 2023 (₹)	March 2023 (₹)
Purchases	16,20,000	1,40,000	1,25,000
Sales	20,75,000	2,10,000	1,75,000

All Sales and Purchases are on credit basis. It was decided to invest ₹ 1,50,000 in purchase of Fixed assets, which are depreciated @ 10% on book value. A Fixed Asset of book value as on 01.04.2022; ₹ 60,000 was sold for ₹ 56,000 on 31st March, 2023.

The time lag for payment to Trade Creditors for purchases is one month and receipt, from Trade debtors for sales is two months. The business earns a gross profit of 25% on turnover. The expenses against gross profit amounts to 15% of the turnover. The amount of depreciation is not included in these expenses.

Prepare Trading & profit & Loss Account for the year ending 31st March, 2023 and draft a Balance Sheet as at 31st March, 2023 assuming that creditors are all Trade creditors for purchases and debtors are all Trade debtors for sales and there is no other current assets and liabilities apart from stock and cash and bank balances. Also, prepare Cash & Bank account and Fixed Assets account for the year ending 31st March, 2023.

Solution

Trading and P & L A/c for year ended 31/3/2023

Particulars	Amount	Particulars	Amount
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock (Bal. fig.)	4,15,000
To Gross profit c/d (25%)	6,15,000		
	28,75,000		28,75,000
To Expenses (24,60,000*15%)	3,69,000	By Gross Profit b/d	6,15,000
To Depreciation	80,000	By Profit on sale of Fixed Assets	2,000
To Net Profit (Bal. Fig.)	1,68,000		
	6,17,000		6,17,000

Balance Sheet as at 31/3/2023

Liabilities	Amount	Assets	Amount
Capital	12,50,000	Fixed Assets (Less Dep.)	6,66,000
Profit & Loss Acc (1,45,000+1,68,000)	3,13,000	Stock	4,15,000
Creditors	1,25,000	Debtors	3,85,000
		Cash & Bank	2,22,000
	16,88,000		16,88,000

Working Notes

Cash and Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,95,000	By Expenses	3,69,000
To Debtors (3,65,000+20,75,000)	24,40,000	By Creditors (1,90,000+16,20,000+1,40,000)	19,50,000
To Fixed Assets	56,000	By Fixed Assets	1,50,000
		By Balance c/d (Bal. Fig.)	2,22,000
	26,91,000		26,91,000

Fixed Assets A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	6,50,000	By Cash	56,000
To Profit on sale	2,000	By Depreciation (on sold asset)	6,000
To Bank A/c	1,50,000	By Depreciation (59,000+15,000)	74,000
		By Balance c/d (Bal. Fig.)	6,66,000
	8,02,000		8,02,000

Trading and P&L A/c

To Opening Stock	xx	By Sales	xx
To Purchases xx		- Returns <u>(xx)</u>	xx
- Returns <u>(xx)</u>	xx	By closing stock	xx
To Direct Expenses	xx		
(Carriage Inward, wages, etc.)			
To Gross Profit (B.p.)	xx		
	<u>xx</u>		<u>xx</u>
To Administrative Expenses	xx	By Gross Profit	xx
(Salaries, Rent, Repairs, etc.)		By Other Income	xx
To Selling & Dist. Expenses	xx	(Dividend, Interest, scrap	
(Advertising, Commission, Carriage outwards)		Sale)	
To Interest on loan	xx		
To Depreciation	xx		
To Provisions	xx		
To Net Profit (B.p.)	xx		
	<u>xx</u>		<u>xx</u>

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital		Machinery	xx
Opening xx		Furniture	xx
+ Additional xx		Office Equipment	xx
- Drawings (xx)		Investments	xx
+ Net Profit/(Loss) <u>xx/(xx)</u>	xx	Debtors	xx
Loan	xx	Inventories (Stock)	xx
Creditor	xx	Cash & Bank	xx
Ops Expenses	xx	Prepaid Expenses	xx
	<u>xx</u>		<u>xx</u>

POINTS TO REMEMBER

1) Following Accounts / Working Notes made to ascertain missing Information:

- a) Cash & Bank A/c : Opening / Closing Balance, Cash sales / Purchases, Drawings / Capital, etc.
- b) Debtors A/c : Opening / Closing Balance, credit sales, collection, B/R drawn, etc.
- c) Creditors A/c : Opening / Closing Balance, credit Purchases, Payments, B/P Accepted, etc.
- d) Bills Receivable A/c : Opening / Closing Balance, B/R drawn, collected, Endorsed, etc.
- e) Bills Payable A/c : Opening / Closing Balance, B/P Accepted, Discharged (Payment), etc.
- f) Fixed Assets A/c : Opening / Closing Balance, Purchase, Sale, Depreciation, etc.
- g) Opening Balance sheet: Opening Capital

2) Sales & Purchases

Example (a)

Cash sales = 200000 → 40%

Credit sales = 60% of total sales

$$\text{Total sales} = \frac{200000}{40\%} = 500000$$

$$\text{Credit 60\%} = 300000 \\ (5L \times 60\%)$$

3) Profit Rate

Example GP Rate = 20% on sales

Case 1) Sales Given

Assume Sales = 500000

$$\text{GP} = 5L \times 20\% = 100000$$

Balancing figure can be:

- * Opening stock
- * Purchases
- * Closing stock

(b)

Credit Purchases = 100000

Credit Purchases = 25% of total purchase

$$\text{Total purchase} = \frac{100000}{25\%} = 400000$$

$$\text{Cash (75\%)} = \left[\begin{array}{l} 4L \times 75\% \\ \text{or} \\ 4L - 1L \end{array} \right] = 3L$$

Case 2) Sales not given

Find Cost of Goods sold (COGS)

$$\text{COGS} = \text{Opening stock} + \text{Purchases} + \text{Direct Exp.} - \text{Closing stock}$$

Let sales = x

$$\text{COGS} + 20\% \text{ of } x = x$$

OR

$$\text{COGS} + 25\% \text{ of COGS} = \text{Sales}$$

4) Fixed Assets

Case (a)

	31/3/23	31/3/24
Machinery	100000	100000
Depreciation @ 10% p.a.		

$$\text{Depreciation} = 100000 \times 10\% = 10000 \text{ (P&L A/c)}$$

Balance sheet

$$31/3/23 = 100000$$

$$31/3/24 = 90000$$

Case (b)

	31/3/23	31/3/24
Machinery	100000	90000
Depreciation provided at 10% p.a.		

$$\text{Depreciation} = 10000 \text{ (P&L A/c)}$$

Balance sheet

$$31/3/23 = 100000$$

$$31/3/24 = 90000$$

Case (c)

	31/3/23	31/3/24
Machinery	100000	150000
Dep. 10% p.a. Purchase on 1/7/23.		

$$\text{Purchase} = 150000 - 100000 = 50000 \text{ (Cash & Bank)}$$

$$\begin{aligned} \text{Depreciation} &= (100000 \times 10\%) + (50000 \times 10\% \times 9/12) \\ &= 13750 \text{ (P&L A/c)} \end{aligned}$$

Balance sheet

$$31/3/23 = 100000$$

$$\begin{aligned} 31/3/24 &= 150000 - 13750 \\ &= 136250 \end{aligned}$$

Case (d)

	31/3/23	31/3/24
Machinery	100000	130000
Purchase of Machinery		65000

Machinery A/c			
To Bal b/d	100000	By Dep. (B.p.)	35000
To cash/Bank	65000	By Bal c/d	130000

Case (e)

	31/3/23	31/3/24
Machinery	100000	125000
Purchase of Machinery		60000
Sale of Machinery (Book value 10000) for 7000.		

Machinery A/c			
To Bal b/d	100000	By cash/Bank	7000
To cash/Bank	60000	By loss on sale	3000
		By Dep. (B.p.)	25000
		By Bal c/d	125000

Case (j)

Machinery

31/3/23
✓ 100000

31/3/24
125000

Sale of Machinery on 1/10/23 having Book value 20000 on 1/4/23 at loss of 3000.
Machinery purchased on 1/1/24. Dep. rate: 10% p.a.

Machinery

Sale of Machinery

$$\text{Book value (1/4/23)} = 20000$$

$$\text{Dep. (1/4 to 1/10)} = 20000 \times 10\% \times \frac{6}{12} = 1000$$

$$\text{Book value (1/10)} = 19000$$

$$\text{Loss on sale} = 3000$$

$$\text{Sale value} = 16000 \\ (19000 - 3000)$$

Balance (out of opening)

$$\text{Book value} = 100000 - 20000 = 80000$$

$$\text{Dep. @ 10\%} = 8000$$

$$\text{Closing Book value} = 72000$$

Purchase (1/1/24)

$$\text{Cost} = 125000 - 80000$$

$$= 45000 \quad (100000 - 20000)$$

$$\text{Dep. (3M)} = 45000 \times 10\% \times \frac{3}{12} = 1125$$

$$\text{Closing Book value} = 43875$$

1) Determination of closing capital:

Statement of Affairs (31/3/23)

Liabilities		Assets	
Creditors	12000	Cash	3200
Bank loan	10000	Inventory (stock)	34800
Capital (B.P.)	132000	Debtors	31000
		Machine	85000
	<u>154000</u>		<u>154000</u>
	<u>==</u>		<u>==</u>

Capital A/c

To Drawings	24000	By Bal b/d	xx
		By Cash/Bank A/c	100000
To Bal c/d	132000	By Profit (B.p)	<u>56000</u>
	<u>132000</u>		<u>132000</u>

Alternatively:-

Statement of Profit or Loss

Closing Capital	132000
+ Drawings	24000
- Capital Introduced	(100000)
Profit	<u>56000</u>

2.

Statement of Affairs

Liabilities	31/3/22	31/3/23	Assets	31/3/22	31/3/23
Loan	100 000	80 000	Building	100 000	97 500
Crediton	40 000	70 000	Furninr	50 000	45 000
Capital (B.p.)	241 200	440 700	Inventory	120 000	270 000
			Debtow	40 000	90 000
			Bank	70 000	85 000
			Cash	1200	3200
	<u>381 200</u>	<u>590 700</u>		<u>381 200</u>	<u>590 700</u>

Capital A/c

To Drawings (2000 X 12)	24000	By Bal b/d	241200
		By Cash/Bank A/c	40000
To Bal c/d	440700	By Profit (B/f)	183500
	<u> </u>		<u> </u>

Alternative

Statement of Profit/ (Loss)

Closing Capital	440700
+ Drawings	24000
- Opening Capital	(241200)
- Additional Capital	(40000)
Profit	<u>183500</u>

6.

Trading and P&L A/c for year ended 31/3/23

To opening stock
To Purchases
Cash 12000
Credit 37100

3900

49100

To Gross Profit (B.P.)

14800

(7500 x 10%) To Dep. on Machinery
(1200 x 10%) To Dep. on Furniture

750

120

To Salaries

6500

To General Exp.

2500

To Rent & taxes

1500

To Prov. for Doubtful debts

800

To Net Profit (B.P.)

2830

By Sales
Cash 11000
Credit 51100

62100

By closing stock

5700

By Gross Profit
By Interest on Investments

14800

200

11

Balance sheet as at 31/3/23

Liabilities

Creditors

7900

Capital

Opening 29100

+ Additional 6000

- Drawings (3600)

+ Net Profit 2830

34330

42230

Assets

Debtors 17600

- PDD (800)

16800

Machinery (7500 - 10%)

6750

Furniture (1200 - 10%)

1080

Stock

5700

Investments

5000

Cash

500

Bank

6400

42230

$$\text{Profit} = \underline{\text{20\% on selu}}$$

$$\text{SP} = 100$$

$$P = \frac{(20)}{100}$$

$$\text{Cost} = \underline{80}$$

20% or $\frac{1}{5}$ on selu

$\frac{1}{4}$ on cost or 25% on cost

$$\text{Profit} = 25\% \text{ on cost}$$

$$\text{Cost} = 100$$

$$P = \underline{25}$$

$$\text{SP} = \underline{125}$$

$\frac{1}{4}$ on cost

$\frac{25}{125}$ is $\frac{1}{5}$ on selu

$$\text{Profit} = 33\frac{1}{3}\% \text{ on cost} = \frac{1}{3} \text{ on cost}$$

$$\text{Cost} = 300$$

$$P = \frac{100}{300}$$

$$\text{SP} = \underline{400}$$

$\frac{1}{3}$ on cost

$\frac{1}{4}$ on selu

Working Note

Balance sheet as at 31/3/22 (opening)

Liabilities

Crediton

Capital (B.f.)

5800

29100

Assets

Debtors

14500

Machinery

7500

Furniture

1200

Stock

3900

Investments

5000

Bank

2800

Debtors A/c

To Bal b/d 14500

By Cash/Bank 48000

To Sales (credit) (B.f.) 51100

By Bal c/d 17600

Crediton A/c

To Cash/Bank 35000

By Bal b/d 5800

By Purchases (credit) (B.f.) 37100

To Bal c/d 7900

10.

Trading and P&L A/c for year ended 31/3/23

To opening stock

350000

To Purchases

455000

To Gross Profit (B.p.)

145000

By Sales

Cash 150000

Credit 600000

750000

By closing stock

200000

By Gross Profit

145000

(50000 x 10%) To Dep. on Furniture

5000

To salary

30000

To office Expenses

18000

To Rent

20000

To loss by theft of cash

29500

To Net Profit (B.p.)

42500

Balance sheet as at 31/3/23

Liabilities			Assets	
Capital			Furniture (50000 - 5000)	45000
Opening	505000		Stock	20000
- Drawings	(7500)		Debtors	15000
+ NP	<u>42500</u>	540000	Bank	327500
Creditors		182500		
		<u>722500</u>		<u>722500</u>

Working Notes:

Debtors A/c

To Bal b/d	125000
To Sales	600000
	<u>=</u>

By Bank (B.f.)	575000
By Bal c/d	150000
	<u>=</u>

To Bank	375000
To Bal c/d	182500
	<u>=</u>

Creditors A/c

By Bal b/d	102500
By Purchases (B.f.)	455000
	<u>=</u>

Cash and Bank A/c

	Cash	Bank
To Bal b/d	35000	47500
To Sales A/c	150000	
To Cash A/c		100000
To Debitors		575000
	<u>=</u>	<u>=</u>

	Cash	Bank
By Salary (2500 x 12)	30000	
By Office Exp (1500 x 12)	18000	
By Drawings (625 x 12)	7500	
By Creditors		375000
By Rent		20000
By Bank A/c	100000	
By Loss by theft (B.f.)	29500	
By Bal c/d (B.f.)	<u>=</u>	<u>327500</u>

Sales FY 21-22 = 625000

FY 22-23 = 625000 + 20% = 750000

Cash sales 20% = 150000

Credit sales 80% = 600000

13.

Creditors A/c

To Cash/Bank (B.p.)	1950000	By Bal b/d	190000
* To Bal c/d	125000	By Purchases	1885000
1885000 × $\frac{1}{12}$	=		=

Debtors A/c

To Bal b/d	365000	By Cash/Bank (B.p.)	2440000
To Sales	2460000	By Bal c/d	385000 *
	=	(210000 + 175000)	=



Financial Statements of Not for Profit Organisations

FINANCIAL STATEMENTS OF NOT FOR PROFIT ORGANISATIONS

MEANING

NPO is a legal & accounting entity i.e. operated for the benefit of society as a whole rather than for the benefit of a sole proprietor or group of partners or group of shareholders.

FINANCIAL STATEMENTS OF NPO

I. Receipts & Payments Account

- It is a summary of cash book i.e. all the receipts (capital or revenue) are debited & similarly all the payments (capital or revenue) are credited.
- It starts with Opening Cash & Bank balance and also ends with their closing balances
- Items in this account may relate to any year.

Receipts & Payments A/c			
Receipts		Payments	
To Bal b/d: Cash	✓	By Bal b/d: Bank	✓
Bank	✓		
All Receipts whether Revenue or capital (Any Year)		All Payments whether Revenue or capital (Any Year)	
To Bal c/d: Bank	✓	By Bal c/d: Cash	✓
		Bank	✓

II. Income & Expenditure Account:

- It is equivalent to Profit & Loss Account of a business enterprise.
- It is prepared by following accrual principle.
- It may include non-cash items like depreciation, etc. and it related to current year only.
- Only items of revenue nature are included.

Income & Expenditure A/c			
Expenditure		Income	
Revenue Nature	}	Revenue Nature	}
Accrual Basis		Accrual Basis	
Current Year only		Current Year only	
To Surplus (B/f)		By Deficit (B/f)	

III. Balance Sheet:

Liabilities
Capital Fund

Assets

Note:

- 1) NPO registered under section 8 of Companies Act, 2013 are required to prepare their Income & Expenditure A/c and Balance Sheet as per Schedule III to Companies Act.
- 2) Until question specifies, always assume that NPO referred in question is not registered u/s 8 of Companies Act, 2013 & therefore financial statements are prepared in normal manner.

GENERAL EXPENSE ITEMS

S.No	Particulars	Journal Entry
1.	Payment during the year	Expense A/c -Dr To cash & Bank A/c
2.	At the end of the year a) Outstanding b) Prepaid	a) Expense A/c -Dr To O/s Expense A/c b) Prepaid Expense A/c -Dr To Expense A/c
3.	At the beginning of the year a) Outstanding b) Prepaid	a) O/s Expense A/c -Dr To Expense A/c b) Expense A/c -Dr To Prepaid Expense A/c
4.	Transfer to Income & Expenditure A/c	Income & Exp. A/c -Dr To Expense A/c

Computation of Amount to be transferred to Income & Expenditure A/c

Particulars	Amount
Payment during the year	xxx
Add: Outstanding expense at the end of the year	xxx
Less: Outstanding expense at the beginning of the year	(xxx)
Add: Prepaid expense at the beginning of the year	xxx
Less: Prepaid expense at the end of the year	(xxx)
Amount to be transferred to Income & Expenditure A/c	xxx

EXAMPLE

Compute the salaries for the year 2022-2023 from the following information:

Particulars	1.4.2022	31.3.2023
Outstanding salaries	7,500	10,000
Prepaid salaries	2,000	6,500
Salaries paid during 2022-2023 ₹1,50,000		

B/s (Extract)			Inc. & Exp. A/c		
	1/4/22	31/3/23		1/4/22	31/3/23
O/s salaries	7500	10000	Prepaid salaries	2000	6500
Paid		= 150000			
+ closing O/s		10000			
- opening O/s		(7500)			
- closing Prepaid		(6500)			
+ opening Prepaid		2000			
		<u>148000</u>			

To salaries 148000

SUBSCRIPTION (INCOME)

S.No	Particulars	Journal Entry
1.	Received during the year	Cash & Bank A/c -Dr To Subscription A/c
2.	At the end of the year a) Outstanding/Accrued b) Pre-received/Received in Advance	a) O/s Subscription A/c -Dr To Subscription A/c b) Subscription A/c -Dr To Advance Subscription
3.	At the beginning of the year a) Outstanding/Accrued b) Pre-received/Received in Advance	a) Subscription A/c -Dr To O/s Subscription A/c b) Advance Subscription A/c -Dr To Subscription A/c
4.	Transfer to Income & Expenditure A/c	Subscription A/c -Dr To Income & Expenditure A/c

Computation of Amount to be transferred to Income & Expenditure A/c

Particulars	Amount
Subscription received during the year	xxx
Add: Outstanding subscription at the end of the year	xxx
Less: Outstanding subscription at the beginning of the year	(xxx)
Add: Pre received subscription at the beginning of the year	xxx
Less: Pre received subscription at the end of the year	(xxx)
Amount to be transferred to Income & Expenditure A/c	xxx

EXAMPLE

Particulars	1.4.2022	31.3.2023
Outstanding subscription	9,500	7,000
Advance subscription	2,800	5,200

Subscription received during 2022-2023, ₹ 1,48,900. Show relevant extracts in financial statements for the year ending 31st March, 2023.

B/s (Extract)

Inc. & Exp. A/c

	1/4/22	31/3/23	1/4/22	31/3/23	
Advance Subsc.	2800	5200	O/s Subscription	9500	7000
Received =		148900			
+ Closing O/s =		7000			
- Opening O/s =		(9500)			
- Closing Advance =		(5200)			
+ Opening Advance =		2800			
		<u>144000</u>			

Subscription A/c

To O/s Subsc.	9500	By Advance Subsc.	2800
To Inc. & Exp. A/c (B/P)	144000	By Cash/Bank	148900
To Adv. Subsc.	5200	By O/s Subsc.	7000

EXAMPLE

A club has 75 members, each paying annual subscription of	1,000
Subscription received during 2022-2023	80,000
Subscription received in advance as at 31.3.2022	15,000
Subscription received in advance as at 31.3.2023	10,000
Subscription outstanding as at 31.3.2022	26,000
Subscription of 12,000 are still in arrears for the year 2021-2022	

Show relevant extracts in financial statements for the year ending 31st March, 2023.

B/s (Extract)

	1/4/22	31/3/23		1/4/22	31/3/23	
Advance Subsc.	15000	10000	O/s Subsc.	26000	16000 (incl. 12000)	80000 (14000) LY (10000) NY <u>56000</u> CY

Inc. & Exp. A/c

$$\text{Rec. O/s} + \text{Clas. O/s} - \text{Open. O/s} - \text{Clas. Adv.} + \text{Open. Adv.} = \text{Income}$$

By Subscription 75000
(1000 x 75)

$$80000 + \text{Clas. O/s} - 26000 - 10000 + 15000 = 75000$$

$$\text{Clas. O/s} = 75000 - 59000 = 16000$$

EXAMPLE

Club has 200 members with annual subscription of ₹ 3,600 payable by every member.

An analysis of subscriptions received during accounting year ended on 31st March, 2023:

For the year 2021-22	25,200
For the year 2022-23	6,98,400
For the year 2023-24	7,200
	7,30,800

On 31st March, 2023 it was noted that sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2022. Show extracts in financial statements for year ending 31st March, 2023.

B/s (Extract)

	1/4/22	31/3/23		1/4/22	31/3/23	
Advance Subsc.	⊖	7200	O/s Subsc.	28800 (25200 + 3600)	25200 (incl. 3600)	720000 (698400) <u>21600</u> O/s (CY)

Inc. & Exp. A/c

By Subscription 720000
(3600 x 200)

$$730800 + \text{Clas. O/s} - 28800 - 7200 + \text{Nil} = 720000$$

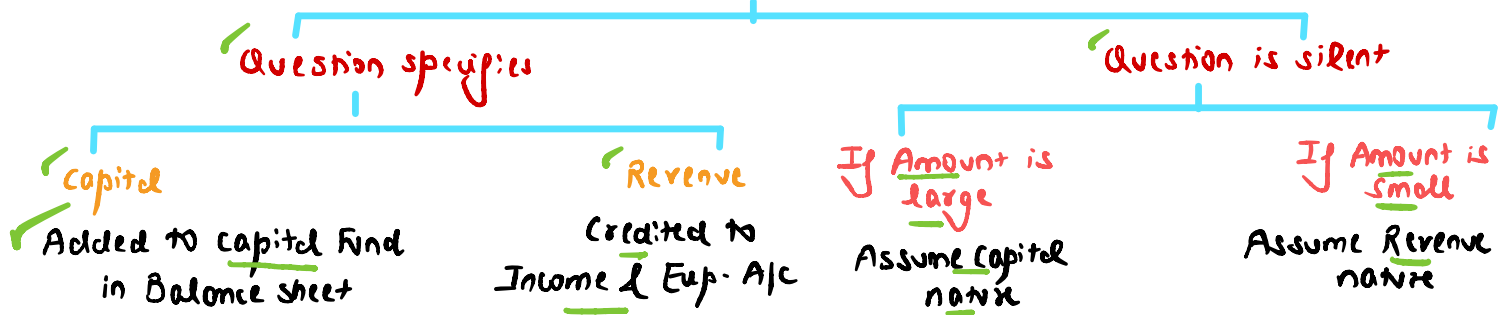
$$\text{Clas. O/s} = 720000 - 694800 = 25200$$

ENTRANCE FEES / ADMISSION FEES

It's an initial amount payable at the time of seeking admission by a person who intends to become member of a club, association, etc.

Since it is payable by a member only once, it is argued that it should be treated as a capital receipt & transferred to capital fund. However when the amount is small it should be treated as income (or revenue receipt) & credited to Income & Expenditure Account. In case question is silent any treatment can be adopted by giving a suitable note.

TREATMENT



EXAMPLE

How will you deal the entrance fees while preparing the final accounts for the year ending on 31st March 2023 in each of the following alternative cases.

(a)	During the year 2022-2023, Entrance fees received ₹ 1,00,000	→ Assumed Rev. or Capital
(b)	During the year 2022-2023 entrance fees received ₹ 1,00,000. The accounting policy of club is to treat entrance fees as of revenue nature.	→ Inc. & Exp. A/c
(c)	During the year 2022-2023 entrance fees received ₹ 1,00,000. The accounting policy the club is to treat entrance fees as of capital nature.	→ Added to capital Fund in B/S
(d)	During the year 2022-2023 entrance fees received ₹ 1,00,000. According to accounting policy of club, 40% of entrance fees is to be capitalized.	

→ Revenue 60% = 60,000
→ Capital 40% = 40,000

DONATIONS

Donations are the amounts which are given to the NPO as gift by the member of the society. It is shown on the receipt side of Receipts & Payments account.

Types	Accounting Treatment
General	<p>When the donor does not lay down any specific condition for using the amount of donation, it is called as general donation.</p> <p>a) <u>Small Amount</u>: Treated as Revenue receipts (credited to Inc. & Exp. A/c)</p> <p>b) <u>Large Amount</u>: Treated as Capital receipts (To be capitalized & added to Capital Fund in Balance Sheet).</p> <p>If nothing is clear any treatment can be adopted by giving a suitable note.</p>
Specific	<p>a) These donations are treated as capital receipts and thus, are transferred to a 'Special Fund A/c' (e.g., building Fund) maintained for the purposes.</p> <p>b) Any Income relating to such 'Special Fund A/c' is added to the respective fund.</p> <p>c) Any revenue expenditure relating to 'Special Fund A/c' is deducted from fund.</p> <p>d) However, any expenditure of capital nature on account of this special fund (e.g., expenditure on the construction of building out of building fund) should be shown on the assets side of the balance sheet and an equal amount should be transferred from that special fund to the capital/general fund.</p>

EXAMPLE

How will you deal with the following items while preparing the final accounts of a club for the year ending on March, 31, 2023

Case a)

Prizes awarded ₹ 3,000, Prize fund as at 31.3.2022, ₹ 15,000, Donations for prizes received during the year 2022-2023 ₹ 4,900.

Balance sheet			
Liabilities		Assets	
<u>Prize Fund</u>			
Opening 15000			
+ Received 4900			
- Prizes Aw. (3000)	16900		

Case b)

Prizes awarded ₹ 3,000. Prizes Fund as at 31.3.2022 ₹ 15,000, Donations for prizes received during the year 2022-2023 ₹ 4,900, 10% Prize fund investments as at 31.3.2022 ₹ 15,000.

Balance sheet			
Liabilities		Assets	
<u>Prize Fund</u>		10% Prize Fund Inv.	15000
Opening 15000			
+ Received 4900			
- Awarded (3000)			
+ Int-on Inv. 1500	18400		

EXAMPLE

Building Fund amount received ₹ 30,00,000, Expenditure on Building incurred 25,00,000 and completed on 31.03.2023.

Balance sheet			
Liabilities		Assets	
<u>Building Fund</u> 3000000		<u>Building</u>	2500000
- Trfd. to Cap Fund (2500000)	500000		
<u>Cap-Fund</u> xxx			
+ Trfd 2500000			

LIFE MEMBERSHIP SUBSCRIPTION & LEGACIES

Life Membership Subscription	Fees received for life membership is usually treated as capital receipt as it is of non-recurring nature & added to Capital Fund in Balance Sheet
Legacies	It is the amount which a NPO will receive as per will of a deceased person. It is shown on debit side of Receipts & Payment account. It should be capitalized being an item of non recurring nature & should be shown on the liabilities side of the Balance sheet.

SALE OF OLD NEWSPAPERS, etc.

The sale proceeds of old newspapers and periodicals are **treated as Revenue Receipts** and thus, are credited to the income & expenditure account.

SALE OF OLD FIXED ASSETS

The sale proceeds of old fixed assets are treated as capital receipts and thus, are credited to the respective fixed asset account. However, the profit or loss on sale of fixed assets is shown in the income & expenditure account.

CONSUMABLES

- Sometimes NPO consume some consumable item e.g. stationery, sports material, medicines, etc.
- A separate stock account is prepared for each consumable item to ascertain the amount of consumable item consumed during the year.
- In such a case, sometimes Trade Creditors account is to be prepared to ascertain the credit purchases (if missing).
- Such amount consumed is to be debited to Income & Expenditure account.

Creditors for Consumable Item A/c

Particulars	Amount	Particulars	Amount
<u>RRP</u> To cash & Bank A/c	✓	By Balance b/d	✓
To Balance c/d	✓	By Purchases (Bal. fig.)	

CONSUMPTION

$$\begin{array}{rcl}
 \text{Opening stock} & & \text{xx} \\
 + \text{Purchases (cash, credit)} & & \text{xx} \\
 - \text{Closing stock} & & (\text{xx}) \\
 \hline
 \text{Consumption} & & \text{xx} \rightarrow (\text{Inc. & Exp. A/c})
 \end{array}$$

EXAMPLE

How will you deal with the following items while preparing the income and expenditure account for the year ending on March 31, 2023 and a balance sheet as on that date?

Particulars	As at 1.4.2022	As at 31.3.2023
Creditors for Sports Materials	2,000	1,200
Stock of Sports Materials	2,100	500

During 2022-2023, the payment made to these creditors was ₹ 10,800.

Creditors A/c

To cash/Bank	10800	By Bal b/d	2000
To Bal c/d	1200	By purchases (B.f.)	10000
	=		=

Consumption

$$\begin{array}{rcl}
 \text{Opening Stock} & = & 2100 \\
 + \text{Purchases} & = & 10000 \\
 - \text{Closing Stock} & = & (500) \\
 \hline
 & & 11600 \rightarrow (\text{Inc. & Exp. A/c})
 \end{array}$$

TREATMENT OF PROFIT / LOSS FROM TRADING ACTIVITIES

1. Sometimes NPO carry on trading activities e.g. restaurant/bar run by a club, chemist shop by a hospital, book shop by a library, etc.
2. In such case, separate Trading account for each of the trading activities is prepared to ascertain the Profit/Loss from each of such trading activities.
3. Such Profit/Loss is transferred to Income & Expenditure Account.

Trading Account

Particulars	Amount	Particulars	Amount
To opening stock		By Sales	
To Purchases		By closing stock	
To Profit (B/L)	(I/E)		

EXAMPLE

How will you deal with the following items while preparing the income and expenditure account for the year ending on March 31, 2023 and a balance sheet as on that date?

Particulars	As at 1.4.2022	As at 31.3.2023
Creditors for Bar Purchases	5,000	8,000
Bar Stock	10,000	18,000

During 2022-2023, payment for bar purchases were 35,000 and total bar receipts / collections were 42,000

Creditors A/c

To Cash/Bank 35000	By Bal b/d 5000
To Bal c/d 8000	By Purchases 38000
=	(B/L)

Trading A/c

To opening stock 10000	By Sales 42000
To Purchases 38000	By closing stock 18000
To Profit (B/L) 12000	=

Alternative

Op. stock =	10000
+ Purchases =	38000
- closing stock =	(18000)
COGS	<u>30000</u>
Sales	<u>42000</u>

] Profit = 12000

EDUCATIONAL INSTITUTIONS

Educational institutions are quite different from other not-for-profit organisations in terms of sources of finance and items of expenditure.

There are 3 main sources through which amounts are collected by the educational institutions. These are:

- (1) Donation from Public;
- (2) Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and
- (3) Grants received from the Government. The Government grants are of four kinds namely Maintenance Grant, Equipment grant, Building Grant and such other grants as may be sanctioned by the Government from time to time.

Receipts & Payments Account for the period ending on ...

Receipts		₹	Payments		₹
To Balance b/d:			By Balance b/d (Bank overdraft)		xxx
Cash	xxx		By Annual Sports Expenses		xxx
Bank	xxx	xxx	By Salaries & Wages		xxx
To Subscription:			By Rent, Rates & Taxes		xxx
For previous year	xxx		By Insurance		xxx
For current year	xxx		By Furniture		xxx
For next year	xxx	xxx	By Sports Equipments		xxx
To Entrance fees		xxx	By Books & Periodicals		xxx
To Donation for Building		xxx	By Audit Fees		xxx
To General Donations		xxx	By Printing & Stationary		xxx
To Life Membership Fees		xxx	By Honorarium		xxx
To Legacy		xxx	By Bank Charges		xxx
To Gran from Govt.		xxx	By Postage & Telegrams		xxx
To Contribution for Annual Dinner		xxx	By Water & Electricity		xxx
To Dividend		xxx	By Conveyance & Travelling		xxx
To Interest		xxx	By Repairs & Maintenance		xxx
To Rent		xxx	By Sundry Expenses		xxx
To Receipt on Annual Sports		xxx	By Annual Dinner Expenses		xxx
To Sale of Old Sports Materials		xxx	By __% Investments		xxx
To Sale of Old Magazines		xxx	By Balance c/d:		xxx
To Sundry Receipts		xxx	Cash	xxx	xxx
To Balance c/d (Bank overdraft)		xxx	Bank	xxx	xxx
		XXX			XXX

Income and Expenditure Account for the year ending on

Expenditure		₹	Income		₹
To Salaries and Wages paid	xxx		By Subscription Received	xxx	
Add: Outstanding at the end	xxx		Add: Outstanding at the end	xxx	
Less: Prepaid at the end	xxx		Less: Advance at the end	xxx	
Add: Prepaid in the beginning	xxx		Add: Advance in the beginning	xxx	
Less: Outstanding in the beg	<u>xxx</u>	xxx	Less: Outstanding in beginning	<u>xxx</u>	xxx
To Rent, Rates and Taxes		xxx	By Entrance Fees (revenue portion)		
To Insurance Premium		xxx	By General Donations/Legacies		xxx
To Depreciation on Furniture and		xxx	By Life membership Fees (revenue		xxx
Sports equipment		xxx	portion)		xxx

To Books and Periodicals	xxx	By Annual Dinner Cont.	xxx
To Audit fees	xxx	Less Expenses	xxx
To Printing & Stationary	xxx	By Profit on Annual sports	xxx
To Honorarium	xxx	(Receipt-expenses)	
To Bank Charges	xxx	By Profit on sale of provisions (Sale	xxx
To Postage & Telegram	xxx	+ closing stock – Purchases-Opening	
To Electricity & Water	xxx	stock)	xxx
To Conveyance & Travelling	xxx	By Dividend & Interest	xxx
To Surplus i.e., excess of income over	xxx	By Deficit i.e. excess of exp. over	xxx
exp.		income	
	XXX		XXX

Balance Sheet of .. as at...

Liabilities	₹	₹	Assets	₹
Capital Fund:			Fixed Assets:	
Opening Balance	xxx		<u>Building</u>	
Add: Surplus (or Less: Deficit)	xxx		Opening Balance	xxx
Add: Entrance Fees	xxx		Add: Additions	xxx
(to the extent capitalized)			Less: Depreciation	xxx
Add: Life Membership subsc.	xxx		<u>Furniture</u>	
(to the extent capitalized)			Opening Balance	xxx
Add: Amt. of Capital exp. tfd from			Add: Additions	xxx
special fund (e.g. Building			Less: Assets sold	xxx
fund)	xxx	xxx	Less Depreciation	xxx
Prize Fund:			<u>Sports Equipment</u>	xxx
Opening Balance	xxx		Less Depreciation	xxx
Add: Donation for prizes	xxx			
Add: Income from Prize Fund			Investments:	xxx
Investments	xxx		Prize Fund Investments	xxx
Less: Expenses	xxx	xxx	Building Fund Investments	xxx
Building Fund:			10% Govt. Securities	xxx
Add: Donation for Building	xxx		Fixed Deposits	
Add: Income from Building				
Fund Investments	xxx		Current Assets:	xxx
Less: Transfer to Capital Fund	xxx		Sports Materials	xxx
Current Liabilities:			Outstanding Subscriptions	xxx
Subscription received in advance		xxx	Accrued Interest	xxx
Outstanding expenses		xxx	Accrued Rent	xxx
Bank overdraft		xxx	Cash in hand	xxx
Creditors		xxx	Cash at bank	
	XXX		XXX	

Question 1: (CA Foundation June 2023) (15 Marks)

Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31-12-2022.

Receipts and Payments Account for the year ended 31-12-2022

Receipts	Amount ₹	Payments	Amount ₹
To Opening cash in hand	12,000	By Medicine supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000
To Interest on Investment (10%)	10,000	By Sundry expenses.	950
To Charity show collection	16,500	By Purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	13,800
	1,28,500		1,28,500

The following is the additional information provided.

	01-01-2022	31-12-2022
	Amount ₹	Amount ₹
Subscription due	2,500	3,100
Subscription received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500
Value of equipment	21,500	37,200
Value of building	65,000	61,750

You are required to prepare Income and Expenditure account, and Balance sheet as on 31-12-2022.

Question 2: (ICAI Study Material) / (RTP May 2018)

Smith Library Society showed the following position on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2023 is given below:

Receipts	₹	Payments	₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank 20,000	
		Cash in hand 11,300	31,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2023 and a balance sheet as at 31st, March, 2023 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate. 75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2022 for ₹ 40,000

Solution**Income & Expenditure A/c**

Expenditure	₹	Income	₹
To Electricity charges	7,200	By Entrance Fee A/c (WN 1)	7,500
To Postage & Stationery	5,000	By Membership subscription (WN 2)	1,90,000
To Telephone Charges	5,000	By Sale of old newspapers	1,500
To Depreciation		By Hire of Lecture Hall	20,000
Books 46,000			
Elec. Fitting 15,000			
Furniture 5,000	66,000		
To Rent (88,000 + 4,000)	92,000	By Interest (WN 3)	8,500
To Salaries (66,000 + 3,000)	69,000	By Deficit (Bal. Fig.)	16,700
	2,44,200		2,44,200

Balance Sheet (As at 31.03.2023)

Liabilities	₹	Assets	₹
Capital Fund 7,93,000	7,76,300	Electrical Fittings	1,35,000
(-) Deficit (16,700)		Furniture	45,000
Entrance fees	22,500	Books	4,14,000
Pre received Membership Subscription	10,000	Cash at Bank	20,000
O/s Expenses		O/s Interest	500
Rent 4,000		Cash in hand	11,300
Salaries 3,000	7,000	Investment	1,90,000
	8,15,800		8,15,800

Working Notes:

WN -1 Entrance Fees:

Entrance fees received	30,000
Entrance fees to be capitalized	30,000 x 75% = 22,500
Entrance fees transferred to Income & Expenditure A/c	30,000 x 25% = 7,500

WN-2 Computation of membership subscription belonging to this year

Membership subscription received	2,00,000
Less: Pre received for 2023-24	(10,000)
	1,90,000

WN -3 Computation of Interest for the year 2022-23

Interest on securities as at 31.3.2023	1,50,000 x 5% = 7,500
Interest on additions made on 1.10.2022 for half year = $40,000 \times 5\% \times \frac{6}{12}$	1,000
Total Interest	8,500
(-) Interest received	(8,000)
O/s Interest	500

WN- 4

Books A/c

Particulars	₹	Particulars	₹
To Balance b/d	4,00,000	By depreciation A/c *	46,000
To Cash A/c	60,000	By Balance c/d	4,14,000
	4,60,000		4,60,000

(*) It is given in question to depreciate books including additions @ 10%

∴ Dep. (₹ 4,00,000 + ₹ 60,000) x 10% = 46,000

WN -5: Computation of Depreciation on Electrical Fittings & Furniture:

	Electrical Fittings	Furniture
Opening Balances	1,50,000	50,000
(-) Depreciation @ 10%	(15,000)	(5,000)
Closing Balances	1,35,000	45,000

Question 3: (CA Foundation Nov 2019) (10 Marks)

From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account, for the year ended 31st March 2023:

Income & Expenditure Account for the year 2022-23

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		25,960

Balance sheet as at 31st March 2023

Liabilities		₹	Assets	₹
Subscription in advance (2023-24)		110	Subscription(outstanding) (2022-2023)	770
Prize fund:			Furniture	9,900
Opening balance	27,500		Ground and Building	51,700
Add: Interest	1,100		Prize Fund Investment	22,000
	28,600		Cash in Hand	2,530
Less: Prizes given	(2,200)	26,400		
General Fund:				
Opening balance	62,062			
Less: Deficit	(2,387)			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

- Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2021-22 were paid in 2022-23
- One fourth of entrance fee has been capitalized by transfer to General Fund
- Subscription outstanding in 2021-22 was ₹ 880 and for 2022-23 ₹ 770.
- Subscription received in advance in 2021-22 was ₹ 220 & in 2022-23 for 2023-24 was 110
- Furniture was purchased during the year.

Solution**Receipts & Payment Account for the year ended 31st March, 2023**

Receipts	Amount	Payment	
To Balance b/d (Bal. Fig)	16,126	By Upkeep of Ground 11,000 Add: Opening O/s 660	11,660
To Subscriptions (W.N. 1)	19,052	By Printing A/c 1,100 Add: Opening O/s 264	1,364
To Sale of News Papers (old)	286	By Salaries A/c	11,100
To Lectures (fee)	1,650	By Rent A/c	1,660
To Entrance fee (715 × 4/1)	2,860	By Furniture A/c (9,900+1100)	11,000
To Misc. income	440	By Prizes given	2,200
To Interest on Prize fund Inv.	1,100	By Balance c/d	2,530

		41,514			41,514
Subscription Account					
Date	Particulars	Amount	Date	Particulars	Amount
2022 April,1	To O/s Subscription A/c	880	2022 April,1	By Advance Subscription A/c	220
2023 March,31	To Income & Expenditure A/c	19,052	2023 March,31	By Cash (Receipts and Payment A/c) (B/F)	19,052
March,31	To Advance Subscription A/c	110	March,31	By O/s Subscription A/c	770
		20,042			20,042

Question 4: (RTP May 2019) / (RTP Nov 2021) (Similar)

The Receipts & Payments account of Trustwell Club prepared on 31st March, 23 is as follows.

Receipts and Payments Account

Receipts		₹	Payments	₹
To Balance b/d		450	By Expenses (including payment for sports material ₹ 2,700)	6,300
To Annual income from subscription	4,590		By Loss on sale of furniture (cost price ₹ 450)	180
Add: Outstanding of last year received this year	<u>180</u> 4,770			
Less: Prepaid of last year	(90)	4,680		
To Other fees		1,800	By Balance c/d	90,450
To Donation for building		90,000		
		96,930		96,930

Additional information:

Trustwell club had balances as on 1.4.2022:

Furniture ₹ 1,800; investment at 5% ₹ 27,000; Sports material ₹ 6,660;

Balance as on 31.3.2023;

Subscription receivable ₹ 270; Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above receipts and payments account? If not, prepare correct receipts and payments account and income and expenditure account for the year ended 31st March, 2023 and balance sheet as on that date.

Question 5: (CA Foundation Dec 2021) (10 Marks) / (ICAI Study Material)

The Income and Expenditure Account of the Women Club for the year ended on December 31, 2023 is as follows:

To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for annual dinner	10,000
To Secretary's Honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationery & Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest & Bank Charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		95,000

This account had been prepared after the following adjustments:

Subscription outstanding at the end of 2022	6,000
Subscription received in Advance on 31st December, 2022	4,500
Subscription received in advance on 31st December, 2023	2,700
Subscription outstanding on 31st Dec., 2023	7,500

Salaries Outstanding at the beginning and the end of 2023 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2023 is as yet unpaid. During 2023 audit fee for 2022 was paid amounting to ₹ 2,000.

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2023 valued at ₹ 26,000. At the end of the year, after depreciation, this equipment amounted to ₹ 27,000. In 2022, the Club has raised a bank loan of ₹ 20,000. This was outstanding throughout 2023. On 31st December, 2023 cash in hand amounting to ₹ 16,000. You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2023 and Balance Sheet as on that date.

Solution**Balance Sheet as at 1st January, 2023**

Liabilities	₹	Assets	₹
Capital Fund (Bal. Fig.)	1,15,400	Freehold Land	1,00,000
O/s Salaries	4,000	Sports Equipments	26,000
O/s Audit Fees	2,000	O/s Subscription	6,000
Bank Loan	20,000	Cash	13,900
Pre received Subscriptions	4,500		
	1,45,900		1,45,900

Receipts & Payments A/c

Receipts	₹	Payments	₹
To Balance b/d (Bal. Fig.)	13,900	By Salaries	47,000
To Subscription	71,700	By General Expenses	5,600
To Entrance Fees	2,500	By Audit Fee	2,000
To Contribution for annual dinner	10,000	By Secretary's Honorarium	10,000
To Annual sports meet Receipts	7,500	By Stationery & Printing	4,500

		By Annual Dinner expenses	15,000
		By Interest & Bank Charges	1,500
		By Equipments	4,000
		By Balance c/d	16,000
	1,05,600		1,05,600

Balance Sheet as at 31st December, 2023

Liabilities	₹	Assets	₹
Capital Fund 1,15,400		Freehold Ground	1,00,000
(+) Surplus <u>6,000</u>	1,21,400		
O/s Salaries	4,500	Sports Equipments	27,000
O/s Audit Fees	2,500	O/s Subscriptions	7,500
Bank Loan	20,000	Prepaid Insurance	600
Pre received Subscriptions	2,700	Cash	16,000
	1,51,100		1,51,100

Working Notes:

1. Salaries paid during the year

Salaries for the year 2022	47,500
(+) Outstanding salaries as at 31.12.2022	4,000
(-) Outstanding salaries as at 31.12.2023	(4,500)
	47,000

2. General Expenses Paid

General Expenses for 2023	5,000
(+) Prepaid Insurance	600
	5,600

3. Computation of sports equipments purchased during the year

Closing Balance	27,000
(+) Depreciation	3,000
	30,000
(-) Opening Balance	(26,000)
	4,000

26,000	3,000
<u>4,000</u>	27,000

4. Subscriptions received during the year

Subscriptions for the year 2023	75,000
(+) O/s Subscription as at 31.12.2022	6,000
(-) O/s Subscription as at 31.12.2023	(7,500)
(+) Pre received subscriptions as at 31.12.2023	2,700
(-) Pre received subscription as at 31.12.2022	(4,500)
	71,700

5. Audit fee for 2023 is not paid. Thus, it will be shown in the balance sheet as at 31.12.2023 as outstanding expenses of ₹ 2,500. In 2023, audit fee for 2022 is paid (which is ₹ 2,000). thus, this amount will stand in the balance sheet as at 31.12.2022 as an O/s expense of ₹ 2,000 (Assuming there is no other outstanding audit fee)

Question 6: (CA Foundation June 2022) (10 Marks)

The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2023:

Receipt and Payment Account of Mumbai Club

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per PassBook		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary(2021-22)	40,000
Contribution to Club night	10,000	Balance at Bank as per PassBook	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	78,000	Cash in hand	25,000
	6,62,000		6,62,000

You are given the following additional information (All figures are in ₹)

	01.04.22	31.03.23
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unrepresented being payment for repairs	30,000	25,000
Interest not yet entered in the Passbook	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2023, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March, 2023 and the Balance Sheet as at that date.

Solution**Income and Expenditure Account of Mumbai Club for the year ending 31st March, 2023**

Expenditure	₹	Income	₹
To Groundsman's fee	75,000	By Donations and Subscription (W.N.2)	2,45,000
To Rent of Ground	25,000	By Receipts from bar room	20,000
To Club night Expenses 38,000		By Proceeds of club night	78,000*
Less: Contribution (10,000)	28,000*	By Interest (5,000+2,000)	7,000
To Printing & Office Expenses (W.N. 3)	28,000		
To Repairs to Equipment (W.N.4)	45,000		
To Dep. on Machinery (W.N. 5)	52,000		
To Honorarium to Secretary	60,000		
To Bonus to Groundsman	20,000		
To Excess of Income over Expenditure	17,000		
	3,50,000		3,50,000

* Alternatively, the profits from club night can be shown as the net amount of ₹ 50,000 (₹ 78,000 - ₹ 28,000) on the credit side of Income and Expenditure Account.

Balance Sheet of Mumbai Club as on 31st March, 2023

Liabilities		₹	Assets	₹
Outstanding Expenses:			Cash in hand	25,000
Groundsman Bonus		20,000	Cash in Saving A/c	2,04,000
Printing		8,000	Subscription Receivable	10,000
Honorarium (40,000+20,000)		60,000	Interest Due	2,000
Bank Overdraft (25,000- 20,000)		5,000	Machinery & Equipment's	1,75,000
Capital Fund: Opening	2,88,000			
Add: Surplus for the year	17,000			
Add: Entrance Fees	<u>18,000</u>	3,23,000		
		<u>4,16,000</u>		<u>4,16,000</u>

Working Note 1

Balance Sheet as on 1st April, 2022

Liabilities	₹	Assets	₹
Outstanding Expenses		Cash in hand	20,000
Printing	10,000	Cash in Saving A/c	1,93,000
Honorarium to Secretary	40,000	Cash in Current A/c	30,000
Capital Fund (Balancing Figure)	2,88,000	Subscription Receivable	15,000
		Machinery & Equipment's	80,000
	<u>3,38,000</u>		<u>3,38,000</u>

Working Note 2: Calculation of Donations and Subscriptions

Donations and Subscriptions as per Receipt & Payments A/c	2,50,000
Add: Outstanding as on 31.03.23	10,000
Less: Outstanding as on 01.04.22	<u>(15,000)</u>
	<u>2,45,000</u>

Working Note 3: Printing and Office Expenses

Printing and Office Expenses as per Receipt & Payments A/c	30,000
Add: Outstanding as on 31.03.23	8,000
Less: Outstanding as on 01.04.22	<u>(10,000)</u>
	<u>28,000</u>

Working Note 4: Repairs to Equipment

Repairs as per Receipt and Payments	50,000
A/c Add: Outstanding as on 31.03.23 <i>using ledger</i>	25,000
Less: Outstanding as on 01.04.22 <i>opening chq--</i>	<u>(30,000)</u>
	<u>45,000</u>

Working Note 5: Depreciation on Machinery and equipment

Balance as on 01.04.22	80,000
Add: Purchases during the year	1,55,000
Less: Sale of Equipment	(8,000)
Less: Balance as on 31.03.23	<u>(1,75,000)</u>
	<u>52,000</u>

Question 7: (CA Foundation Nov 2020) (10 Marks)

From the following balances and particulars of AS College prepare Income & Expenditure Account for the year ended March, 2023 and a Balance Sheet as on the date:

	Dr.	Cr.
Security Deposit-Students		1,55,000
Capital fund		13,08,000
Building Fund		19,10,000
Tuition Fee received		8,10,000
Government Grants		5,01,000
Interest & Dividends on Investments		1,75,000
Hostel Room Rent		1,65,000
Mess Receipts (Net)		2,05,000
College Stores-Sales		7,60,000
Outstanding expenses		2,35,000
Stock of-stores and Supplies (opening)	3,10,000	
Purchases-Stores & Supplies	8,20,000	
Salaries-Teaching	8,75,000	
Salaries-Research	1,25,000	
Scholarships	85,000	
Students Welfare expenses	37,000	
Games & Sports Expenses	52,000	
Other Investments	12,75,000	
Land	1,50,000	
Building	15,50,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	5,40,000	
Motor Vehicle	2,40,000	
Provision for Depreciation		
Building		4,90,000
Plant & Equipment		5,05,000
Furniture & Fittings		3,26,000
Cash at Bank	3,16,000	
Library	3,20,000	
	75,45,000	75,45,000

Adjustments:

(i)	Materials & Supplies consumed (From college stores)	
	Teaching	52,000
	Research	1,45,000
	Students Welfare	78,000
	Games or Sports	24,000
(ii)	Tuition fee receivable from Government for backward class Scholars	82,000
(iii)	Stores selling prices are fixed to give a net profit of 15% on selling price	
(iv)	Depreciation is provided on straight line basis at the following rates:	
	a) Building	5%
	b) Plant & Equipment	10%
	c) Furniture & Fixtures	10%
	d) Motor Vehicle	20%

Solution**Income and Expenditure Account for the year ending 31st March, 2023**

Expenditure	₹	₹	Income	₹
To Salaries: Teaching		8,75,000	By Tuition & other fee 81,000 + 82,000	8,92,000
Research		1,25,000	By Govt. Grants	5,01,000
To Material & Supplies Consumed			By Income from Investments	1,75,000
-Teaching		52,000	By Hostel room Rent	1,65,000
-Research		1,45,000	By Mess Receipts	2,05,000
To Sports & Games Expenses			By Profit-stores sales	1,14,000
-Cash	52,000			
-Materials	<u>24,000</u>	76,000		
To Students Welfare Expenses				
-Cash	37,000			
-Materials	<u>78,000</u>	1,15,000		
To Scholarships		85,000		
To Depreciation:				
-Building 155,000 × 5%		77,500		
-Plant & Equipment 85,000 × 10%		85,000		
-Furniture 54,000 × 10%		54,000		
-Motor Vehicle 24,000 × 20%		48,000		
To Excess of Income over Expenditure (8,800)		<u>3,14,500</u>		
		20,52,000		20,52,000

Balance Sheet as on 31st March, 2023

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
Add: Excess of Income over Expenditure	<u>3,14,500</u>	16,22,500	Building Cost	15,50,000	
Building Fund		19,10,000	Less: Dep.	<u>(5,67,500)</u>	9,82,500
Current Liabilities:			Plant & Machinery Cost	8,50,000	
Outstanding Expenses		2,35,000	Less: Dep.	<u>(5,90,000)</u>	2,60,000
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	<u>(3,80,000)</u>	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	<u>(48,000)</u>	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			39,22,500

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			<u>8,20,000</u>
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	Provisions for Depreciation	Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	<u>77,500</u>	<u>85,000</u>	<u>54,000</u>
	Closing Balance	<u>5,67,500</u>	<u>5,90,000</u>	<u>3,80,000</u>

Question 8:

From the following information of M/s. Officers Sports Club (A non-profit organization) calculate (i) the total cost of sports material consumed and (ii) Sale value of sports material during the year 2022-23

	₹
Opening balance of sports material as on 1-4-2022	56,800
Closing balance of sports material as on 31-3-2023	32,900
Sports material purchased in cash	23,500
Payment made to creditors of sports material	64,300
Creditors for sports materials	
Opening	23,200
Closing	29,400

Out of the total sports material used during the year 40% was consumed by the club and the remaining was sold at a profit of 20% of cost.

Sol. 1

Income and Expenditure A/c

Expenditure

To Medicine consumed (WN3)	34750
To Dep. on Equipment (WN4)	9300
To Dep. on Building (65000 - 61750)	3250
To Honorarium to Doctors	15000
To Salaries	36000
To sundry Exp.	950
To surplus (B/f.)	15500

Income

By subscription (WN2)	66000
By Donations (assuming Revenue)	25000
By Int. on Investments	10000
By charity show coll. (net) (16500 - 2750)	13750

Balance sheet as at 31/12/22

Liabilities

Advance subscription
 Creditors of Medicine
 Capital Fund
 Opening 199700
 + surplus 15500

1400

16500

215200

233100

Assets

O/S subscription 3100
 Stock of Medicine 17250
 Equipment 37200
 Building 61750
 Instruments (~~10000~~/10+) 10000
 Cash 13800

233100

Working Note: 1)

Balance sheet as at 1/1/22 (Opening)

Liabilities		Assets	
Advance subscription	1800	O/s subscription	2500
Creditors for Medicine	12000	Stock of Medicines	12500
Capital Fund (B.f.)	199700	Equipment	21500
		Building	65000
		Cash	12000
		Instruments	100000

2) Subscription

Received	=	65000
+ closing O/s	=	3100
- opening O/s	=	(2500)
- closing Adv.	=	(1400)
+ opening Adv.	=	1800
		<u>66000</u>

3) Creditors A/c

To Bank	35000	By Bal b/d	12000
To Bal b/d	16500	By Purchases (B.f.)	39500
	<u>51500</u>		<u>51500</u>
Op. stock	=	12500	
+ Purchases	=	39500	
- closing stock	=	(17250)	34750

4)

Equipment A/c

To Bal b/d 21500

To Bank 25000

By Dep. (B.p.) 9300

By Bal c/d 37200

Sol. 4

Corrected Receipts & Payments A/c

Receipts		Payments	
To Bal b/d	450	By Expenses ($6300 - 2700$)	3600
To Subscription (NN2)	4500	By sports Material	2700
To other fees	1800		
To Donation for Building	90000		
To Sale of Furniture ($450 - 180$)	270	By Bal c/d (Bal. fig.)	90720
	<u>4500</u>		<u>90720</u>

Income & Expenditure A/c

Expenditure		Income	
To Expenses	3600	By Subscription	4590
To sports material consumed ($6660 + 2700 - 1800$)	7560	By other fees	1800
To loss on sale of Furn.	1800	By Int. on Investments ($2700 \times 5\%$)	1350
	<u>13040</u>	By Deficit (B.f.)	3600
			<u>3600</u>

Balance sheet as at 31/3/23

Liabilities

Advance subscription

90

Building Fund

90000

Capital Fund

Opening 36000

- Deficit (3600)

32400

122490

Assets

O/s subscription

270

Stock of sports material

1800

Furniture (1800 - 450)

1350

5-yr Investments

27000

Accrued Interest

1350

Cash & Bank

90720

122490

Working Note: 1)

Balance sheet as at 1/4/22 (Opening)

Liabilities

Advance subscription

90

Capital Fund (B.f.)

36000

Assets

Cash & Bank

450

O/s subscription

180

Stock of sports Material

6660

Furniture

1800

5-yr Investments

27000

2) Subscription

$$\text{Received} + \text{clos. Ops} - \text{open. Ops} - \text{clos. Adv} + \text{open. Adv} = \text{Income}$$

$$\text{Received} + 270 - 180 - 90 + 90 = 4590$$

$$\text{Retained} = 4590 - 90 = 4500$$

Solution Q7

Trading A/c

To Opening stock	310000	By Sales	760000
To Purchases	820000	By Consumption	299000
To Profit (760000 x 15%)	114000	By closing stock (B/f)	185000
	<u>1244000</u>		<u>1244000</u>

Sol. 8

Creditors A/c

(R1P) To cash & Bank	64300	By Bal b/d	23200
To Bal c/d	29400	By Purchases (B/d)	70500
	<u> </u>		<u> </u>

$$\begin{array}{rcl} \text{Opening stock} & = & 56800 \\ + \text{Purchases} & & 94000 \\ \hline & & 150800 \\ \text{(R1P) } \swarrow (23500 + 70500) & & \\ - \text{closing stock} & & (32900) \\ \hline & & 117900 \\ \hline \end{array}$$

Consumed : 40%

47160
(Inv. & Exp. A/c)

Sale : 60%

$$\begin{array}{rcl} \text{Cost} & = & 70740 \\ + \text{Prjt.} + 20\% & & 14148 \text{ (I \& E)} \\ \hline \text{Sale} & & 84888 \text{ (R1P)} \\ \hline \end{array}$$

Entrance Fees

Case 1:

Rec. & Payment A/c

To Entrance fees 100000

Consider 40% as Revenue

Income & Exp. A/c

By Entrance fees 40000
(1k x 40%)

Balance Sheet

Capital Fund

+ Ent. fees 60000

Case 2.

✓ Income & Exp. A/c

By Entrance fee 300,000
(60%)

Receipts & Payment A/c

To Entrance fee 500,000
(3L/60%)

Consider 40% as capital nature.

Balance Sheet

Capital Fund

+ Ent fee 200,000
(5L x 40%)

Case 3:

Rec. & Payment A/c

To Entramu Donation	100000
---------------------	--------

1/4/23: (opening)

Entramu donation received
pending membership 100000

- * 50% of entramu donation to be capitalised. No pending membership on 31/3/24
- * Sum of 20000 received in Oct 2023 to be refunded as applicant not fulfilled the requisite qualification. Refund made on 3/6/24.

Entramu Donation

Opening	100000
+ Received	100000
	<hr/>
	200000
- To be Refunded	(20000)
	<hr/>
	180000
	<hr/>

B/s: Lids-side.

50% : 90000 Inc. & Exp.

50% : 90000 : Capital Fund

Fined Assets : Cases discussed in Accounts from Incomplete Records chapter.

Extra case

	1/4/23	31/3/24
Fined Assets	240000	-

Depreciation shown in Income & Exp. A/c 13000

Dep. rate 5% p.a. of new Fined Assets purchased on 1/10/23

Solution

$$\text{Dep. on Opening Fined Assets} = 240000 \times 5\% = 12000$$

$$\text{Dep. on new Asset} = 13000 - 12000 = 1000$$

$$x \times 5\% \times \frac{6}{12} = 1000$$

$$x = \frac{1000 \times 2 \times 100}{5} = 40000$$

B/s

$$\begin{aligned} &240000 + 40000 - 13000 \\ &= 267000 \end{aligned}$$

Investments

Case 1:

	1/4/23	31/3/24
10-1- Investments	₹ 500000	₹ 500000

Receipts & Payments A/c	
To Interest on Investments	20000

Income & Exp. A/c

By Int. on Inv. (5L x 10%)	50000
-------------------------------	-------

Balance Sheet 31/3/24

Liabilities	Assets
	10-1- Investments 500000
	Acc. Interest 30000 (50000 - 20000)

Case 2:

	1/4/23	3/3/24
10-1 Investments	500000	-

Receipts & Payments A/c	
To Interest on Investments	20000
Investments Purchased on 1/10/23	200000

Income & Exp. A/c

By Interest on Inv. 60000 *

$$500000 \times 10\% = 50000$$

$$2L \times 10\% \times \frac{6}{12} = \underline{10000}$$
$$\underline{60000}$$

Balance Sheet 3/3/24

Liabilities

Assets

10-1 Investments	700000
Acc - Interest (60000 - 20000)	40000

Case 3:

	1/4/23	31/3/24
10% Investments	500000	500000
(Face value = 600000)		

Receipts & Payments A/c	
To Interest on Investments	20000

Income & Exp. A/c

By Interest on Investments (6L x 10%)	60000
--	-------

Balance Sheet 31/3/24

Liabilities

Assets

10% Investments	500000
Acc. Interest (60000 - 20000)	40000

Case 4:

	1/4/23	31/3/24
10% Investments	500000	250000
	(Face value = 600000)	

50% Investments sold at 80% of face value on 1/4/23.

Income & Exp. A/c

To Loss on sale of Inv.	10000	By Int. on Inv.	30000
		(3L x 10%)	

Balance Sheet 31/3/24

Liabilities	Assets
	10% Investments 250000
	Acc. Interest 30000

Sale

Face value of Inv. sold = $6L \times 50\% = 3L$

Sale proceeds = $3L \times 80\% = 240000$

Cost of Inv. sold = $5L \times 50\% = 250000$

$6L \rightarrow 5L$

$3L \rightarrow \frac{5L}{6L} \times 3L = 2.50L$

Loss on sale = 10000

(250000 - 240000)



THANK YOU