FUNDAMENTALS OF ACCOUNTING

Paper - II

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

www.icmai.in

SYLLABUS - 2016

WORK BOOK

FUNDAMENTALS OF ACCOUNTING

FOUNDATION

PAPER – 2

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Preface

Professional education systems around the world are experiencing great change brought about by the global demand. Towards this end, we feel, it is our duty to make our students fully aware about their curriculum and to make them more efficient.

Although it might be easy to think of the habits as a set of behaviours that we want students to have so that we can get on with the curriculum that we need to cover. It becomes apparent that we need to provide specific opportunities for students to practice the habits. Habits are formed only through continuous practice. And to practice the habits, our curriculum, instruction, and assessments must provide generative, rich, and provocative opportunities for using them.

The main purpose of this volume is to disseminate knowledge and motivate our students to perform better. Thus, we are delighted to inform about the **e-distribution of the first edition of our 'Work book' for Foundation level.**

This book has been written to meet the needs of students as it offers the practising format that will appeal to the students to read smoothly. Each chapter includes unique features to aid in developing a deeper under-standing of the chapter contents for the readers. The unique features provide a consistent reading path throughout the book, making readers more efficient to reach their goal.

Discussing each chapter with illustrations integrate the key components of the subjects. In the second edition, we expanded the coverage in some areas and condensed others.

It is our hope and expectation that this second edition of work book will provide further an effective learning experience to the students like the first edition.

The Directorate of Studies,

The Institute of Cost Accountants of India

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Suggested Marks Distribution from Examination Point of View

Only for Practice Purpose

Total 100 Marks	3 Hours	MCQ = 60 Marks
		Others = 40 Marks

Objective Question

60 Marks (1 Mark each questions)	MCQ
	True/False
	Matching

Short Notes

Minimum Marks for each Questions	4 Marks
Maximum Marks for each Questions	7 Marks

Practical Problem

Minimum Marks for each Questions	6 Marks
Maximum Marks for each Questions	8 Marks

SECTION – A : FUNDAMENTALS OF FINANCIAL ACCOUNTING

Study Note – 1

ACCOUNTING BASICS

Learning Objective: ***This chapter of workbook includes Accounting Principles, Concepts and Conventions; Capital and Revenue transactions - capital and revenue expenditures, capital and revenue receipts; Double entry system, Books of prime entry, Subsidiary Books, Cash Book, Journal, Ledger, Trial Balance; Depreciation - Methods (Straight Line and Diminishing Balance methods); Rectification of Errors; Opening entries, Transfer entries, Adjustment entries, Closing entries; Bank Reconciliation Statements.***

This is actually the first stage of learning accounting and book keeping. The main objective of this chapter broadly is to help students understand fundamental accounting concepts and principles, as well as to develop the capability to perform the basic accounting functions: the recognition, valuation, measurement and recording of the most common business transactions and the preparation of accounting statements. After learning this chapter, the students will be able to gather overall knowledge about the whole accounting cycle and its components.

1. (a) Multiple Choice Questions

(i) Ram purchased a car ₹ 10,000 paid ₹ 3000 as cash and balance amount will be paid in three equal installments due to this ________________.
(a) Total assets increase by ₹ 10,000
(b) Total liabilities increase by ₹ 3000
(c) Assets will increase by ₹ 7000 with corresponding increase in liability by ₹ 7000
(d) Both (b) and (c)

(ii) ___________ are payable within 12 months.
(a) Current Liabilities
(b) Non-current Liabilities
(c) Liquid Liabilities
(d) Contingent Liabilities

(iii) Example of capital expenditure -
(a) Purchase of land, building, machinery or furniture;
(b) Cost of leasehold land and building;
(c) Cost of purchased goodwill;
(d) All of the above

(iv) The art of recording transactions in a set of books is referred to as _________.
(a) Book Keeping
(b) Accounting
(c) Auditing
(d) Writing

(v) Gross working capital is equal to:
(a) Total Capital
(b) Total Assets
(c) Total Current Assets
(d) Current Assets – Current Liabilities

(vi) Business is an economic activity undertaken ___________________.
(a) with the motive of earning profits
(b) to maximize the wealth for the owners.
(c) with the motive of earning profits and to maximize the wealth for the owners.
(d) None of the above

(vii) Accounting is considered as a/an ___________ of the business.
(a) Language
(b) Face
(c) Art
(d) None of the above

(viii) "The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of accounting". This definition was given by ____________________.
(a) American Accounting Association
(b) British Accounting Association
(c) Indian Accounting Association
(d) None of the above

(ix) Which one is the objective of Accounting?
(a) Providing Information to the Users for Rational Decision-making
(b) Systematic Recording of Transactions
(c) Ascertainment of Results of above Transactions
(d) All of the above

(x) The main functions of accounting are as __________________.
(a) Measurement
(b) Forecasting
(c) Both (a) & (b)
(d) None of the above

(xi) ________________ represents expenditure incurred for the purpose of acquiring a fixed asset which is intended to be used over long term for earning profits there from. e. g. amount paid to buy a computer for office use.
(a) Revenue Expenditure
(b) Capital Expenditure
(c) Both (a) & (b)
(d) None of the above

(xii) Which one is the example of Revenue Expenditure?
(a) Repairs
(b) Insurance,
(c) Salary & wages to employees
(d) All of the above

(xiii) ____________ is the discount usually allowed by the wholesaler to the retailer computed on the list price or invoice price.
(a) Cash Discount
(b) Trade Discount
(c) Both (a) & (b)
(d) None of the above

(xiv) __________ is allowed to encourage prompt payment by the debtor. This has to be recorded in the books of accounts. This is calculated after deducting the trade discount.
(a) Cash Discount
(b) Trade Discount
(c) Both (a) & (b)
(d) None of the above

(xv) ____________represent certain types of assets whose usefulness does not expire in the year of their occurrence but generally expires in the near future.
(a) Capital Expenditure
(b) Deferred revenue expenditures
(c) Revenue expenditure
(d) None of the above

(xvi) Capital expenditure forms part of ___________.
(a) Balance Sheet
(b) Profit & Loss
(c) Both (a) & (b)
(d) None of the above

(xvii) If the transaction requires more than one account which is to be debited or more than one account is to be credited, it is known as ________________
(a) Compound Journal
(b) Simple Journal
(c) Both (a) & (b)
(d) None of the above

(xviii) Which financial statement represents the accounting equation Assets = Liabilities + Owner's equity:
(a) Income Statement
(b) Statement of Cash flows
(c) Balance Sheet
(d) None of the above

(xix) The debts written off as bad, if recovered subsequently are
(a) Credited to Bad Debts recovered A/c
(b) Credited to Trade Receivables Account
(c) Debited to Profit And Loss Account
(d) None

(xx) A trial balance will have no balance, if ____
(a) correct entry is posted twice
(b) The purchase on credit basis is debited to purchases and credited to cash
(c) ₹ 500 cash payment to creditors is debited to creditors for ₹ 50 and credited to cash as ₹ 500
(d) None of the above

(xxi) A trial balance shows -
(a) Honesty of accountants
(b) Accuracy of account
(c) Only arithmetical accuracy of accounts
(d) None of these

(xxii) Which of the following is/are objective(s) of Accounting?
(a) Providing Information to the Users for Rational Decision-making
(b) Systematic Recording of Transactions
(c) Ascertainment of Results of above Transactions
(d) All of the above

(xxiii) Which of the following is/are function(s) of Accounting?
(a) Measurement
(b) Forecasting
(c) Decision-making
(d) All of the above

(xxiv) Book-keeping is a mechanical task which involves:
(a) Collection of basic financial information.
(b) Identification of events and transactions with financial character i.e., economic transactions.
(c) Measurement of economic transactions in terms of money.
(d) All of the above

(xxv) Book-keeping is a mechanical task which involves:
(a) Recording financial effects of economic transactions in order of its occurrence.
(b) Classifying effects of economic transactions.
(c) Preparing organized statement known as trial balance.
(d) All of the above

(xxvi) An asset shall be classified as Current when it satisfies any of the following:
(a) It is expected to be realised in, or is intended for sale or consumption in the Company's normal Operating Cycle,
(b) It is held primarily for the purpose of being traded,
(c) It is due to be realised within 12 months after the Reporting Date
(d) All of the above

(xxvii) Current Liabilities means
(a) Liabilities which are payable within 12 months
(b) Liabilities which are payable immediately
(c) Liabilities which payable after one accounting year
(d) Liabilities which are readable within 3 months

(xxviii) An expenditure can be recognized as capital if it is incurred for the following purpose(s):
(a) An expenditure incurred for the purpose of acquiring long term assets (useful life is at least more than one accounting period) for use in business to earn profits.
(b) When an expenditure is incurred to improve the present condition of a machine or putting an old asset into working condition.
(c) If an expenditure is incurred, to increase earning capacity of a business.
(d) All of the above

(xxix) State whether the following is ______________.
Carriage of ₹ 10,000 spent on machinery purchased and installed.
(a) capital expenditure
(b) revenue expenditure
(c) deferred revenue expenditure
(d) deferred capital expenditure

(xxx) All revenue receipts and expenditures are shown in:
(a) Balance Sheet
(b) Trading and Profit and Loss A/c
(c) Cash Flow Statement
(d) Statement of Affairs

Answer:

(i)	(c)	(vi)	(c)	(xi)	(a)	(xvi)	(a)	(xxi)	(c)	(xxvi)	(d)
(ii)	(a)	(vii)	(a)	(xii)	(d)	(xvii)	(a)	(xxii)	(d)	(xxvii)	(a)
(iii)	(d)	(viii)	(a)	(xiii)	(b)	(xviii)	(c)	(xxiii)	(d)	(xxviii)	(d)
(iv)	(a)	(ix)	(d)	(xiv)	(a)	(xix)	(a)	(xxiv)	(d)	(xxix)	(a)
(v)	(b)	(x)	(c)	(xv)	(b)	(xx)	(c)	(xxv)	(d)	(xxx)	(b)

(b) Fill in the Blanks:

(i) The debit balance in a nominal account shows ______
(ii) The allowance made for prompt payment is called __________
(iii) Credit note is sent by ______
(iv) Bad debts written off _____
(v) A transaction recorded on the debit side of cash book is transferred to the ledger ______.
(vi) If a cheque is returned dishonored, it is recorded in ____ .
(vii) Trail balance is statement which shows the _____or the totals of all the accounts.
(viii) ___lists the balance and the title of account in the ledger an given data.
(ix) Closing stock appearing in the trial balance is shown on the ____balance sheet.
(x) The balance of liabilities account will be shown in the ___of the trial balance.
(xi) The amount of depreciation charged on a machinery will be debited to ____ account.
(xii) Profit on sale of machinery is ____ to P & L.
(xiii) The amount charged to depreciation declines in ____ .
(xiv) Formula to calculate rate of depreciation under diminishing balance method____
(xv) Depreciation is a ____ item.
(xvi) The equality of debts and credits can be tested periodically by preparing a _________.
(xvii) Overdraft as per cash book means ____ .
(xviii) ____ prepares bank reconciliation statement.
(xix) The capital contributed by the proprietor is treated as a liability according to ___ .
(xx) GAAP's means ____ .
(xxi) ₹ 3,500 spent on painting new factory is ____ .
(xxii) Extension to building occupied on lease for 5 years ___ .
(xxiii) ₹ 20,000 received from an issue of further shares the expenses of issue being ₹ 2500 _____.

(xxiv) **Depreciation amount is shown as an ________on the _________ of the Profit and Loss Account.**

(xxv) **Rectified entries to be passed in _____**

(xxvi) **If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "__________"**

Answers:

(i) Expenditure
(ii) Cash Discount
(iii) seller
(iv) journal proper
(v) credit side of account
(vi) Bank column on the credit side.
(vii) "balances"
(viii) Trial balance
(ix) asset side of
(x) credit column
(xi) Depreciation
(xii) credited
(xiii) reducing balance method
(xiv) 1- n√(R/C)
(xv) non- cash
(xvi) trail balance
(xvii) credit balance in bank column of the cash book.
(xviii) Business enterprises
(xix) business entity concept
(xx) Generally Accepted Accounting Principles
(xxi) Capital Expenditure
(xxii) Deferred revenue expenditure
(xxiii) Capital receipt ₹ 20,000 and deferred revenue expenditure ₹ 2500
(xxiv) expense; debit side
(xxv) journal proper
(xxvi) errors of commission

(c) True & False:

(i) **When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.**

(ii) **The excess of Revenue Income over expense is called loss.**

(iii) **Bank Reconslation Statement is not a part of the process of Accounts.**

(iv) **Sometimes interest on capital of proprietor or partners is to be provided and treated as business expense. For this, the following adjustment entry is passed.**
Capital Account…….Dr.; To Interest on Capital A/c (of proprietor or partners)

(v) **Wrong balancing in the ledger account is disclosed by trial balance.**

(vi) An asset is purchased for ₹ 25,000, depreciation is to be provided annually according to straight line method useful life if the asset is 10 years and scrap value is ₹ 5000. Is the rate of depreciation is 10%.

(vii) Original cost of a machine was ₹ 2,52,000. Salvage value was ₹ 12,000, Depreciation for 2nd year @ 10% under WDV method is ₹ 21,600.

(viii) Rajan has assets of ₹ 20,000 and liabilities of ₹ 4,000 his capital therefore would be ₹ 16,000.

(ix) Journal is the book of final entry.

(x) Goods worth ₹ 5000 sold to Biplab @ 10% trade discount and 5% sales tax was charged extra. By this transaction the sales account will be credited with ₹ 4500.

(xi) Credit sale of goods – sale invoice and sales book.

(xii) Due to damage of goods Ravi was sent credit note of ₹ 200. It will be recorded in – sale book.

(xiii) Ram has assets of ₹ 20,000 and liabilities of ₹ 4,000 his capital therefore would be ₹ 16,000.

(xiv) Depreciation is one kind of loss.

(xv) Double accounting system owes its origin to Luca Pacioli.

(xvi) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit only the current period.

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

(xviii) Every debit must have its corresponding and equal credit.

(xix) Expenses + Losses + Assets = Revenues + Gains + Liabilities

Answers:

i-T, ii-F, iii-T, iv-F, v-T, vi-F, vii-T, viii-T, ix-F, x-T, xi-T, xii-F, xiii-T, xiv-T, xv-T, xvi-T, xvii-T, xviii-T, xix-T.

(d) Match the followings

1. **Match the following:**

Column A	Column B
1. Memorandum joint venture account	(a) Co-venturers
2. Joint venture account	(b) Memorandum account
3. Partners of joint venture business	(c) Nominal account
4. Under joint bank account method it is not opened	(d) to find out profit or loss

Answers:

1-(d), 2-(c), 3-(a), 4-(b)

2. **Match the following:**

Column A	Column B
1. Opening Entry	(a) All Asset A/c's Dr. To All Liabilities A/c To Owners' Capital A/cs
2. Closing Entry	(b) Closing Stock A/c Dr. To Trading A/c
3. Transfer Entry	(c) Capital A/c Dr. To Drawings A/c
4. Journal Proper	(d) Depreciation A/c Dr. To Machinery A/c

Answers:

1-(a), 2-(b), 3-(c), 4-(d)

3. Match the following:

Column A	Column B
1. Demolition costs	(a) Revenue Receipts
2. Selling and distribution expenses	(b) Capital Receipts
3. Legacies	(c) Revenue Expenditure
4. Locker rent	(d) Capital Expenditure

Answers:

1-(d), 2-(c), 3-(b), 4-(a)

4. Match the following:

Column A	Column B
1. Bandhan Bank	(a) Natural Personal
2. Accrued Rent	(b) Real
3. Laptop	(c) Representative Personal
4. Mr. S. Ganguly	(d) Artificial Personal

Answers:

1-(d), 2-(c), 3-(b), 4-(a)

5. Match the following:

Column A	Column B
1. Land	(a) Technological
2. Copyright	(b) Depletion
3. Mineral deposit	(c) Amortisation
4. Obsolescence	(d) No Depreciation

Answers:

1-(d), 2-(c), 3-(b), 4-(a)

6. Match the following:

Column A	Column B
1. Errors of principle	(a) An amount of ₹ 50 received from Mr. Bikash Das is not credited to his account and the total of the sales book is ₹ 50 in excess.
2. Errors of Omission	(b) A wrong balance is struck.
3. Errors of Commission	(c) Not recording a credit purchase of furniture
4. Compensating Errors	(d) On the purchase of a typewriter, the office expenses account is debited.

Answer:

1-(d), 2-(c), 3-(b), 4-(a)

2. Write a short note on 'Working Capital'.

Answer:

In order to maintain flows of revenue from operation, every firm needs certain amount of current assets. For example, cash is required either to pay for expenses or to meet obligation for service received or goods purchased, etc. by a firm. On identical reason, inventories are required to provide the link between production and sale. Similarly, Accounts Receivable generate when goods are sold on credit. Cash, Bank, Debtors, Bills Receivable, Closing Stock, Prepayments etc. represent current assets of firm. The whole of these current assets from the working capital of a firm which is termed as Gross Working Capital.

Gross Working capital = Total Current Assets = Long term internal liabilities + long term debts + The current liabilities - The amount blocked in the fixed assets.

There is another concept of working capital. Working capital is the excess of current assets over current liabilities. That is the amount of current assets that remain in a firm if all its current liabilities are paid. This concept of working capital is known as Net Working Capital which is a more realistic concept. Working Capital (Net) = Current Assets – Currents Liabilities.

3. Can you explain Trade Discount and Cash Discount with appropriate examples.

Answer:

Trade discount is a discount which is referred to as, discount given by the seller to the buyer at the time of purchase of goods. It is the discount usually allowed by the wholesaler to the retailer computed on the list price or invoice price. e.g. the list price of a TV set could be ₹15000. The wholesaler may allow 20% discount thereof to the retailer. This means the retailer will get it for ₹12000 and is expected to sale it to final customer at the list price. Thus the trade discount enables the retailer to make profit by selling at the list price. Trade discount is not recorded in the books of accounts. The transactions are recorded at net values only. In above example, the transaction will be recorded at ₹12000 only.

Cash Discount is allowed to encourage prompt payment by the debtor. This has to be recorded in the books of accounts. This is calculated after deducting the trade discount. e.g. if list price is ₹ 15000 on which a trade discount of 20% and cash discount of 2% apply, then first trade discount of ₹ 3000 (20% of ₹15000) will be deducted and the cash discount of 2% will be calculated on ₹ 12000 (₹15000 – ₹ 3000). Hence the cash discount will be ₹ 240 (2% of ₹12000) and net payment will be ₹ 11,760 (₹12,000 - ₹ 240).

3. Discuss any five modifying principles of accounting.

Answer:

Consistency Concept
This Concept says that the Accounting practices should not change or must remain unchanged over a period of several years.

Conservatism Concept
In accounting, the **convention of conservatism**, also known as the **doctrine of prudence**, is a policy of anticipating possible future losses but not future gains. Conservatism concept states that when alternative valuations are possible, one should select the alternative which fairly represents economic substance of transactions but when such choice is not clear select the alternative that is least likely to overstate net assets and net income. It provides for all known expenses and losses by best estimates if amount is not known with certainty, but does not recognizes revenues and gains on the basis of anticipation.

Timeliness Concept

Under this principle, every transaction must be recorded in proper time. Normally, when the transaction is made, the same must be recorded in the proper books of accounts. In short, transaction should be recorded date-wise in the books. Delay in recording such transaction may lead to manipulation, misplacement of vouchers, misappropriation etc. of cash and goods. This principle is followed particularly while verifying day to day cash balance. Principle of timeliness is also followed by banks, i.e. every bank verifies the cash balance with their cash book and within the day, the same must be completed.

Industry Practice

As that are different types of industries, each industry has its own characteristics and features. There may be seasonal industries also. Every industry follows the principles and assumption of accounting to perform their own activities. Some of them follow the principles, concepts and conventions in a modified way. The accounting practice which has always prevailed in the industry is followed by it. e.g., Electric supply companies, Insurance companies maintain their accounts in a specific manner. Insurance companies prepare Revenue Account just to ascertain the profit/loss of the company and not Profit and Loss Account. Similarly, non trading organizations prepare Income and Expenditure Account to find out Surplus or Deficit.

Materiality Concept

The materiality could be related to information, amount, procedure and nature. Error in description of an asset or wrong classification between capital and revenue would lead to materiality of information. Say, If postal stamps of ₹ 100 remain unused at the end of accounting period, the same may not be considered for recognizing as inventory on account of materiality of amount. Certain accounting treatments depend upon procedures laid down by accounting standards. Some transactions are by nature material irrespective of the amount involved. e.g., audit fees, loan to directors

4. What is Deferred Revenue Expenditure? Explain with proper illustration.

Answer:

Deferred revenue expenditures represent certain types of assets whose usefulness does not expire in the year of their occurrence but generally expires in the near future. These type of expenditures are carried forward and are written off in future accounting periods. Sometimes, we make some revenue expenditure but it eventually becomes a capital asset (generally of an intangible nature). If one undertakes substantial repairs to the existing building, the deterioration of the premises may be avoided. We may engage our own employees to do that work and pay them at prevailing wage-rate, which is of a revenue nature. If this expenditure is treated as revenue expenditure and the current year's-profit is charged with these expenses, we are making the current year to absorb the entire expenses, though the benefit of which will be enjoyed for a number of accounting years.

The most common example of Deferred Revenue expenditure is advertisement expenses incurred in connection with launch of new product. Let's say the expenditure amounted to ₹ 10 lakhs. The effect of this expense will result in sales of the product for a period of 5 years.

This advertisement expense for launching a new product does not improve the production capacity of the entity. Hence, it is not capital in nature (it is not for purchase of an asset). Hence, it becomes revenue and this promotional strategy will not only create a market for your product as soon as it is launched but also to sustain in the market for a certain period.

5. What are the Functions of Journal? Also mention its advantages.

The functions of journal are as follows:

(i) Analytical Function: Each transaction is analysed into the debit aspect and the credit aspect. This helps to find out how each transaction will financially affect the business.

(ii) Recording Function: Accountancy is a business language which helps to record the transactions based on the principles. Each such recording entry is supported by a narration, which explain, the transaction in simple language. Narration means to narrate – i.e. to explain. It starts with the word – Being …

(iii) Historical Function: It contains a chronological record of the transactions for future references.

The following are the advantages of a journal:

(i) Chronological Record: It records transactions as and when it happens. So it is possible to get a detailed day-to-day information.

(ii) Minimizing the possibility of errors: The nature of transaction and its effect on the financial position of the business is determined by recording and analyzing into debit and credit aspect.

(iii) Narration: It means explanation of the recorded transactions.

(iv) Helps to finalize the accounts: Journal is the basis of ledger posting and the ultimate Trial Balance.

6. (a) Mention the purpose of a Trial Balance.

Answer:

Trial Balance serves the following purposes:

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

(b) Is Trial Balance indispensable?

Answer:

It is a mere statement prepared by the accountants for his own convenience and if it agrees, it is assumed that at least arithmetical accuracy has been done although there may be a lot of errors. Trial Balance is not a process of accounts, but its preparation helps us to finalise the accounts. Since it is prepared on a particular date, as at .... / as on .... is stated.

7. Can you explain the accounting treatment for Outstanding expenses and Prepaid or unexpired expenses?

Answer:

Outstanding expenses

These are the expenses like wages, salaries, rent etc. which have been incurred but not paid at the end of the ear. For example, wages of `4,000 which have become due on 31st March but not paid in the financial year, is termed as outstanding wages.

The adjustment entry is:

Wages Account …..Dr.	4,000	
To Wages outstanding Account		4,000

It will be added in wages shown in the trading Account and will also be shown as a liability in the balance sheet.

Prepaid or unexpired expenses
These are the expenses which are paid in the current accounting year but the benefit of this is to be received in the next accounting year. For example, insurance premium of ₹ 10,000 for one year is paid on 1st Jan. and the accounting year closes on 31st March. This means insurance premium for nine months i.e. for April 1st to Dec…, 31st amounting to ₹ 7,500 has been paid in advance i.e., prepaid. The adjustment entry is:

Prepaid Insurance Account	…..Dr.	7,500	
To Insurance Account			7,500.

As a result of this, ₹ 7,500 will be deducted from insurance premium of ₹ 10,000 in the Profit and Loss Account. It will also be shown as an asset in the Balance sheet at ₹ 7,500 as prepaid (or unexpired) Insurance Premium Account.

8. How to calculate Manager's Commission? (take imaginary figures)

Answer:

Sometimes, the manager is entitled to a commission on profits at a fixed percentage. Such commission is calculated as follows:

(i) Commission on profits before charging such commission:
In such a case, commission is calculated as follows: Profit before commission × Suppose, profit before commission is ₹1,00,000 and commission is payable at 5%, then the amount of commission will be: ₹ 1,00,000 x 5% = ₹ 5,000. Profit after commission will be ₹1,00,000 – 5,000 = 95,000

(ii) Commission on profits after charging such commission: In this case, commission is calculated by the following formula: Profit before commission × Rate of Commission 100+ Rate of Commission.
In the above example, commission will be: ₹ 1,00,000 × 5 100 = ₹ 4,762 (Approx.)
Profit after commission will be ₹1,00,000 – 4,762= ₹ 95,238.

9. Write short note on 'Goods on sale or approval'.

When the goods are sold subject to approval of the customer, there is a possibility that such goods are not approved and returned. In case such goods sold on approval basis are lying with the customers at the close of the accounting year but not yet returned, these should be treated as stock lying with customers.

The following entries are passed.

1. Sales Account …. Dr
   To Debtors Account
   (This entry is at selling price of goods)

2. Stock Account ….. Dr
   To Trading Account
   (This entry is at cost price)

10. What will the accounting adjustment for Goods distributed as free samples?

Answer:

When in order to promote sale of goods, free samples of goods are distributed to potential customers, the cost of free samples is charged to advertisement account. This will also reduce the stock of finished goods.

In the final accounts, it is recorded as follows:
1. In the Trading Account, cost of free samples is deducted from purchases.
2. In the Profit and Loss Account, it is shown as Advertisement Expenses on the debit side.

The entry to record this adjustment is:

Advertisement Account …. Dr.
To Purchases Account

11. Discuss the reasons for Differences between Cash Book and Pass Book

Answer:

The differences are basically of two types:

A. Items appear in Cash Book but not appearing in Pass Book and B. Items appear in Pass Book but not appearing in the Cash Book.

Let us understand these reasons:

(A) Items not appearing in Bank Pass Book -

(1) Cheques issued by business entity not debited by the Bank – This may be because they might not have been Banked by the payee or it may still be under clearance. The entry in Cash Book will be made immediately when the cheque is issued thereby reducing the Bank balance in the books of entity's books of A/cs. Here, Bank balance as per Cash Book will be less, but as per Bank Pass Book it will be more. This is also termed as unpresented cheques.

(2) Cheques deposited but not credited by the Bank – The business entity may receive cheques or draft which is deposited into the Bank for collecting the payment. Again entry in Cash Book will be instant thereby increasing the balance. Here, Bank balance as per Cash Book will be more than the balance as per Bank passbook. This is also called as outstanding cheques.

(3) Errors – The Bank may by mistake miss out entering the debit or credit which results in the difference.

(4) Standing Instructions – The entity may give standing instruction to the Bank for certain regular payments like loan repayment installment, transfer of funds etc. This may get entered in the Cash Book immediately, but Pass Book entry may be delayed.

(B) Items not appearing in the Cash Book -

(1) Bank interest, Bank charges etc. – The Bank will charge interest on overdraft or also charges for services, issue of demand draft, pay orders etc. Here, being the source of transaction, the Bank will record in the Pass Book immediately and send the debit advice slips to the business entity. The entry in the Cash Book may be delayed. Similarly the Bank could credit interest on fixed deposits, which may get entered in business books at a later date.

(2) Direct deposits in Bank account – Sometimes customers or others may directly deposit an amount in the Bank for goods or services rendered. The Bank will enter it immediately, but entry in Cash Book will appear later.

(3) Bills for collection – The Business Entity may send bills of exchange for collection. The Bank will collect the payment and credit the same in the passbook. The entry in Cash Book will be made only after receipt of information from the Bank.

(4) Errors – The records may be missed out by the book-keeper of the Business Entity.

12. What is the need of Bank Reconciliation Statement?

Answer:

Need of Bank Reconciliation Statement:

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

13. How to ensure an efficient BRS?

Answer:

1. Firstly, it's essential to have all the required documentation and information in hand. That means, if all the required documentation and information are at your disposal you get a better view of things.

2. Avoiding common errors, such as:
   a. Error relating to duplication of entries.
   b. Not accounting for a transaction that would cause a difference equal to the missed amount
   c. Errors while entering commas and dots, which cause discrepancies that, could be of significant value. For instance, instead of entering INR 2,401.30, entering INR 240.13.
   d. Transposition errors while entering figures in the books. For instance, instead of entering INR 221,200, entering INR 212,200.

3. Banks can make mistakes too: It is possible that your bank might have committed a mistake. They might debit incorrect amounts from your account, or credit deposits which doesn't belong to you. For this reason, in case you find errors for which you don't find any explanations, or for which you're in doubt, the best thing is to consult your bank.

4. Reconciling items: Listing differences and reconciling them and then forgetting it is possible. In case differences keep on accumulating with no action taken, your bank reconciliation would become meaningless. It is needed that a constant check is kept on the reconciled transactions so that they are reflected in the right way in the bank column of the cash book and in the bank statement.

14. What is Suspense Account?

Answer:

When the trial balance does not tally due to the one-sided errors in the books, an accountant puts the difference between the debit and credit side of the trial balance on the shorter side as the Suspense A/c. As and when we locate and rectify the errors, the balance in the Suspense A/c reduces and consequently becomes zero. Thus, we cannot categorize the Suspense Account. It is a temporary account and can have debit or credit balance depending upon the situation.

15. What are the effects of Errors on Financial Statements?

Answer:

Effect of error depends on the nature of effected accounts. If errors relate to nominal account, it will either increase or reduce the profit and rectification will reduce excess profit or Loss. Effect of error on Trading and Profit account ultimately effect the Balance-Sheet of a company too, because reduced profit or excess profit ultimately transferred to capital account, which is a part of the Balance Sheet.

There are some errors, which effect Trading or Profit and Loss account and Balance sheet simultaneously, like entry of depreciation will affect profit as well as value of the Fixed Assets.

Some entry may effect on Balance sheet only like, for instance omission of entry of cash paid to purchase fixed assets will affect Balance Sheet of a firm only.

16. State whether the following are capital, revenue or deferred revenue expenditure.
(i) Carriage of ₹ 7,500 spent on machinery purchased and installed.
(ii) Heavy advertising costs of ₹ 20,000 spent on the launching of a company's new product.
(iii) ₹ 200 paid for servicing the company vehicle, including ₹ 50 paid for changing the oil.
(iv) Construction of basement costing ₹ 1,95,000 at the factory premises.

Solution:

(i) Carriage of ₹ 7,500 paid for machinery purchased and installed should be treated as a Capital Expenditure.
(ii) Advertising expenses for launching a new product of the company should be treated as a Revenue Expenditure. (As per AS-26)
(iii) ₹ 200 paid for servicing and oil change should be treated as a Revenue Expenditure.
(iv) Construction cost of basement should be treated as a Capital Expenditure.

17. State whether the following are capital or revenue expenditure.

(i) Paid a bill of ₹ 10,000 of Mr. Kumar, who was engaged as the erection engineer to set up a new automatic machine costing ₹ 20,000 at the new factory site.
(ii) Incurred ₹ 26,000 expenditure on varied advertisement campaigns under taken yearly, on a regular basis, during the peak festival season.
(iii) In accordance with the long-term plan of providing a well- equipped Labour Welfare Centre, spent ₹ 90,000 being the budgeted allocation for the year.

Solution:

(i) Expenses incurred for erecting a new machine should be treated as a Capital Expenditure.
(ii) Advertisement expenses during peak festival season should be treated as a Revenue Expenditure.
(iii) Expenses incurred for Labour Welfare Centre should be treated as a Capital Expenditure.

18. Classify the following items as capital or revenue expenditure:
(i) An extension of railway tracks in the factory area;
(ii) Wages paid to machine operators;
(iii) Installation costs of new production machine;
(iv) Materials for extension to foremen's offices in the factory;
(v) Rent paid for the factory;
(vi) Payment for computer time to operate a new stores control system,
(vii)Wages paid to own employees for building the foremen's offices. Give reasons for your classification.

Solution:

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.
(ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.
(iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
(iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
(v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit only the current period.
(vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditure because it has been incurred to carry on the normal business.
(vii) Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

19. **Supriyo started business on 1st January 2019. You are required to pass entries, in journal and subsidiary books, post them in ledger and prepare trial balance under totals and balances method for January 2019. His transactions for the month were follows:**

Date	Particulars	Amount (₹)
2019, Jan		
1	Cash brought in by Raju as his capital	2,00,000
	Furniture purchased on credit from Nuluk Furniture Home	25,000
2	Goods purchased from Modi & Sons on credit	61,400
3	Goods purchased for cash	35,000
4	Goods purchased from Delhi Traders on credit	73,300
5	Cash sales	4,600
8	Sold goods to Bhatia & Co. on credit	19,860
11	Purchased stationery for cash	1050
12	Paid Modi & Sons cash to settle account	
	Received 5% discount from the firm	-
13	Received from Bhatia & Co. in full settlement of account	19,800
17	Cash sales	10,700
18	Sold on credit to Ganesh & Co.	5,000
19	Received cash from Ganesh & Co.	1,000
21	Sold on credit to Hoshiar Singh	4,000
23	Purchased goods for cash	26,000
27	Hoshiar Singh becomes insolvent. A first and final dividend of ₹ 3,000 is received from his estate	
31	Ganesh & Co. pays cash	3,900
31	Discount allowed to Ganesh & Co.	100
31	Cash paid for rent	2,800
31	Depreciation on furniture	250
31	Payment to Delhi Traders in full settlement	73,000

Solution:

In the books of Raju
Journal Entries

Dr. Cr.

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
2019 Jan. 1	Furniture A/c Dr. To Nuluk Furniture Home A/c (For furniture purchased on credit from Nuluk Furniture Home)		25,000	25,000
27	Bad Debts Dr. To Hoshiar Singh A/c (Bad debts written off on the insolvency of Hoshiar Singh)		1,000	1000
31	Depreciation A/c Dr. To Furniture A/c (For depreciation provided on Furniture)		250	250
			26,250	**26,250**

Purchases Book
Month: January, 2018

Date	Particulars	Invoice No.	L.F.	Details	Amount (₹)
2019 Jan.					
2	Modi & Sons Goods				61,400
4	Delhi Traders Goods				73,300
	Total				**1,34,700**

Sales Book
Month : January, 2018

Date	Particulars	Invoice No.	L.F.	Details	Amount (₹)
2019 Jan.					
8	Bhatia & Co.				19,860
18	Ganesh & Co.				5,000
21	Hoshiar Singh				4,000
					28,860

Cash Book

Dr. Cr.

Date	Particulars	L.F.	Discount	Amount (₹)	Date	Particulars	L.F.	Discount	Amount (₹)
2019 Jan.					2019 Jan.				
1	To Capital A/c			2,00,000	3	By Purchases			35,000
5	To Sales		60	4,600	11	By Stationery			1,050
13	To Bhatia & Co.			19,800	12	By Modi & Sons			58,330
	To Sales		100	10,700	23	By Purchases		3070	26,000
17	To Ganesh & Co.				31	By Rent			2,800
19	To Hoshiar Singh			1,000	31	By Delhi Traders		300	73,000
27	To Ganesh & Co.			3,000	31	By Balance c/d			46,820
31	To Balance b/d			3,900					
			160	**2,43,000**				**3370**	**2,43,000**
Feb. 1				46,820					

Capital Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan. 31	To Balance c/d		2,00,000	2019 Jan. 1	By Cash A/c		2,00,000
			2,00,000				**2,00,000**
				Feb. 1	By Balance b/d		2,00,000

Furniture Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019	Depreciation		250
Jan. 1	To Nuluk Furniture Home		25,000	Jan.	By Balance c/d		24,750
			25,000	31			**25,000**
Feb. 1	By Balance b/d		24,750				

Nuluk Furniture Home

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan. 31	To Balance c/d		25,000	Jan. 31	By Furniture		25,000
			25,000				**25,000**
				Feb. 1	By Balance b/d		25,000

Modi & Sons

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan. 12	To Cash A/c		58,330	Jan. 2	By Purchases		61,400
	To Discount A/c		3,070				
			61,400				**61,400**

Purchase Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan.				Jan.	By Balance c/d		1,95,700
3	To Cash A/c		35,000	31			
23	To Cash A/c		26,000				
31	To Sundries as per Purchases Book		1,34,700				
			1,95,700				**1,95,700**
Feb. 1	By Balance b/d		1,95,700				

Delhi Traders

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan.	To Cash A/c		73,000	Jan.	By Purchases		73,300
31	To Discount A/c		300	4			
			73,300				**73,300**

Sales Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan.	To Balance c/d		44,160	Jan.			
31				5	By Cash A/c		4,600
				17	By Cash A/c		10,700
				31	By Sundries as per Sales A/c		28,860
			44,160				**44,160**
				Feb. 1	By Balance b/d		44,160

Bhatia & Co.

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan.	To Sales A/c		19,860	Jan.			
8				13	By Cash A/c		19,800
					By Discount A/c		60
			19,860				**19,860**

Stationery Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019				2019			
Jan. 11	To Cash A/c		1,050	Jan. 31	By Balance c/d		1,050
			1,050				**1,050**
Feb. 1	By Balance b/d		1,050				

Ganesh & Co.

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019	To Sales A/c		4,000	2019	By Cash A/c		1,000
Jan.				Jan. 19	By Cash A/c		3,900
18				31	By Discount A/c		100
			4,000				**4,000**

Hosihar Singh

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019	To Sales A/c		4,000	2019	By Cash A/c		3,000
Jan. 21				Jan. 27	By Bad debt A/c		1,000
			4,000				**4,000**

Bad Debt Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan. 27	To Hoshiar Singh		1,000	2019 Jan. 31	By Balance c/d		1,000
			1,000				**1,000**
Feb. 1	By Balance b/d		1,000				

Rent Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan. 31	To Cash A/c		2,800	2019 Jan. 31	By Balance c/d		2,800
			2,800				**2,800**
Feb. 1	By Balance b/d		2,800				

Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan.31	To Furniture		250	2019 Jan. 31	By Balance c/d		250
			250				**250**
Feb. 1	By Balance b/d		250				

Discount Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan. 31	To Sundries for Discount Allowed as per debit side of Cash Book		160	2019 Jan. 31	By Sundries for Discount Received as per credit side of Cash Book		3,370
	To Balance c/d		3,210				
			3,370				**3,370**

Raju's Trial Balance
as on 31st January, 2019

Dr. Cr.

Sl. No.	Particulars	Amount (₹)	Amount (₹)
1	Cash		46,820
2	Capital Account		2,00,000
3	Furniture Account	24,750	
4	Nuluk Furniture Home		25,000
5	Purchases Account	1,95,700	
6	Sales Account		44,160
7	Stationery Account	1,050	
8	Bad Debts Account	1,000	
9	Rent Account	2,800	
10	Depreciation Account	250	
11	Discount Account		3,210
		2,72,370	**2,72,370**

20. **Creative Advertising, owned by Miss. Abida Masood, provides advertising consulting services. During January 2019, the following events occurred;**

Date	Particulars
2019 Jan.	
2	**Owner contributed ₹ 50,000 and a new computer costing ₹ 20,500 to start her business.**
4	**Office supplies were purchased on account for ₹ 4,000.**
10	**Creative Advertising obtained 12% 5 year loan of ₹ 20,000 from the bank.**
12	**Creative Advertising paid the utility bills for ₹ 2,750.**
15	**Paid the ₹ 3,000 in Accounts Payable from the purchase of office supplies on Jan. 4.**
24	**Advertising services completed in January were billed to clients Annies' Flowers at ₹ 18,300.**
27	**Creative Advertising received ₹5,500 from Annies' Flowers, a client, as payment on account.**
30	**Miss. Abida Masood withdrew ₹6,000 of cash for personal use.**

Solution:

In the books of Miss. Abida Masood
Journal Entries

Dr. Cr.

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
2019	Cash A/c Dr.		50,000	
Jan.	Computer A/c Dr.		20,500	
2	To Miss Abida Masood A/c			70,500
	(Started business with cash and computer)			
4	Office Supplies Dr.		4,000	
	To Account Payable A/c			4,000
	(Office Supplies purchase on credit)			
10	Cash A/c Dr.		20,000	
	To Bank Loan A/c			20,000
	(Bank loan obtained)			
12	Utility Bills A/c Dr.		2,750	
	To Cash A/c			2,750
	(Utility bill paid)			
15	Account Payable A/c Dr.		3,000	
	To Cash A/c			3,000
	(Paid partial account payable)			
24	Amies' Flowers A/c Dr.		18,300	
	To Advertising Services A/c			18,300
	(Bill to customer for services earned)			
	Cash A/c Dr.		5,500	
27	To Amies' Flowers A/c			5,500
	(Received cash from customer billed previously)			
	Drawings A/c Dr.		6,000	
30	To Cash A/c			6,000
	(Withdrew of cash by owner)			
	Total		**1,30,050**	**1,30,050**

Advertising Services

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan.	To Balance c/d		20,000	2019 Jan.	By Cash A/c		20,000
			20,000				**20,000**

Bank Loan Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan.	To Balance c/d		18,300	2019 Jan.	By Account Receivable A/c		18,300
			3,370				**18,300**

Utility Bill Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan.	To Cash A/c		2,750	2019 Jan.	By Balance c/d		2,750
			2,750				**2,750**
	By Balance b/d		2,750				

Account Receivable

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan.	To Advertising Services A/c		18,300	2019 Jan.	By Cash A/c		5,500
					By, Balance c/d		12,800
			18,300				**18,300**
	By Balance b/d		12,800				

Drawing Account

Dr. Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2019 Jan.	To Cash A/c		6,000	2019 Jan.	By Balance c/d		6,000
			6,000				**6,000**
	By Balance b/d		6,000				

Trial Balance
as on 31st January, 2019

Dr. Cr.

Sl. No.	Particulars	Amount (₹)	Amount (₹)
1	Cash	63,750	
2	Computer	20,500	
3	Owner's Equity		70,500
4	Office Supplies	4,000	
5	Account Payable		1,000
6	Advertising Services		18,300
7	Bank Loan		20,000
8	Utility Bills	2,750	
9	Account receivable	12,800	
10	Drawing	6,000	
		1,09,800	**1,09,800**

21. Enter the following transactions in a simple cash book;

Date	Particulars	Amount (₹)
2019, Jan		
1	Cash in hand	1,200
5	Received from Ratan	300
7	Paid rent	30
8	Sold goods for cash	300
10	Paid to Parimal	200
27	Purchased furniture	200
31	Salaries paid	100
31	Rent due, not yet paid, for January	30

Solution:

Dr. Cash Book Cr.

Date	Receipts	L.F.	Amount (₹)	Date	Receipts	L.F.	Amount (₹)
2019				2019			
Jan. 1	To Balance b/d		1,200	Jan. 7	By Rent A/c		30
5	To Ratan A/c		300	10	By Parimal A/c		700
8	To Sales A/c		300	27	By Furniture A/c		200
				31	By Salaries A/c		100
				31	By Balance c/d		770
2019			**1,800**				**1,800**
Feb. 1	To Balance b/d		770				

22. Prepare a petty cash book on the imprest system from the following;

Date	Particulars	Amount (₹)
2019, Jan		
1	Petty cash received	100
2	Paid bus fare	0.50
2	Paid cartage	2.50
3	Paid for postage & telegrams	5.00
3	Paid wages for casual labourers	6.00
4	Paid for stationery	4.00
4	Paid tonga charges	2.00
5	Paid for the repairs to chairs	15.00
5	Bus fare	1.00
5	Cartage	4.00
6	Postage and Telegrams	7.00
6	Tonga charges	3.00
6	Cartage	3.00
6	Stationery	2.00
6	Refreshments to customers	5.00

Solution:

Dr. Petty Cash Book Cr.

Receipts	Date 2018	V. no.	Particulars	Total (₹)	Conveyance (₹)	Cartage (₹)	Stationery (₹)	Postage (₹)	Wages (₹)	Sundries (₹)
100	Jan.									
	1	-	To Cash							
	2	1	By Conveyance	0.50	0.50	-	-	-	-	-
		2	By Cartage	2.50	-	2.50	-	-	-	-
	3	3	By Postage & Telegrams	5.00	-	-	-	5.00	-	-
			By Wages							
		4	By Stationery	6.00	-	-	-	-	6.00	-
	4	5	By Conveyance	4.00	-	-	4.00	-	-	-
		6	By Repairs to furniture	2.00	2.00	-	-	-	-	-
	5	7	By Conveyance	15.00	-	-	-	-	-	15.00
			By Cartage							
		8	By Postage & Telegrams	1.00	1.00	-	-	-	-	-
		9	By Conveyance	4.00	-	4.00	-	-	-	-
	6	10	By Cartage	7.00	-	-	-	-	-	-
			By Stationery							
		11	By General Expenses	3.00	3.00	-	-	-	-	-
		12	By Balance c/d	3.00	-	3.00	-	-	-	-
		13	To Balance b/d	2.00	-	-	2.00	-	-	-
100		14	To Cash	5.00	-	-	-	-	-	5.00
40.00				60.00	6.50	9.50	6.00	12.00	6.00	20.00
60.00				40.00						
	8			100.00						

23. On April 1, 2015 a firm purchased machinery for ₹ 2,00,000. On October 1st in the same accounting year, additional Machinery costing ₹ 1,00,000 was purchased. On October 1, 2016 the machinery purchased on 01.04.2015, having become obsolete, was sold off for ₹ 90,000. On October 1, 2017, new machinery was purchased for ₹ 250000 while the machinery purchased on 1.10.2015 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% p.a. on original cost on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending March, 31, 2018.

Solution:

In the books of ....

Dr. Machinery Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.15	To Bank A/c	2,00,000	31.03.16	By Balance c/d	3,00,000
1.10.15	To Bank A/c	1,00,000			
		3,00,000			**3,00,000**
1.4.16	To Balance b/d	3,00,000	1.10.16	By Bank A/c	90,000
				By Provision for depreciation A/c	30,000
				By P&L A/c [working note 1]	80,000
				By Balance c/d	1,00,000
		3,00,000			**3,00,000**
	To Balance b/d	1,00,000	31.03.17	By Bank A/c	85,000
1.4.17	To Bank A/c	2,50,000	1.10.17	By Provision for depreciation A/c	20,000
1.10.17	To P&L A/c [working note 3]	5,000	31.03.18	By Balance c/f	2,50,000
		3,55,000			**3,55,000**

Dr. Provision for Depreciation Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.16	To Balance c/d	25,000	31.3.16	By Depreciation A/c [working note 1]	25,000
		25,000			**25,000**
1.10.16	To Machinery A/c [working notes]	30,000	1.4.16	By Balance b/d	25,000
			1.10.16	By Depreciation A/c	10,000
31.3.17	To Balance c/d	15,000	31.3.17	By Depreciation A/c	10,000
		45,000			**45,000**
1.10.17	To Machinery A/c	20,000	1.4.17	By Balance b/d	15,000
31.3.18	To Balance c/f	12,500	1.10.17	By Depreciation A/c	5,000
			31.3.18	By Depreciation A/c	12,500
		32,500			**32,500**

Dr. Depreciation Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.16	To Provision for Depreciation A/c	25,000	31.3.16	By P&L A/c	25,000
1.10.16	To Provision for Depreciation A/c	10,000			20,000
31.3.17	To Provision for Depreciation A/c	10,000	31.3.17	By P&L A/c	
		20,000			**20,000**
1.10.17	To Provision for Depreciation A/c	5,000	31.3.18	By P&L A/c	17,500
31.3.18	To Provision for Depreciation A/c	12,500			
		17,500			**17,500**

Workings:

Note 1: Depreciation / Provision for Depreciation

	2015-16	2016-17	2017-18	Remarks
Asset purchased on 1.4.2015	10% of 200000 = 20000	For 6 months up-to 1.10.01 = ½ of 20000 = 10000	-	Tr. to provision ₹ 30000
Asset purchased on 1.10.2015	10% of 100000 for 6 months = 5000	10% of 100000 = 10000	10% of 100000 for 6 months up-to 1.10.02 = 5000	Tr. to provision ₹ 20000
Asset purchased on 1.10.2017	-	-	10% of 250000 (1.10.02 to 31.3.03) = 12500	Balance of provision amount ₹ 12500
Annual Depreciation charged against profits	**25,000**	**20,000**	**17,500**	

Note 2: Profit / Loss on Sale of Machinery purchased on 1.4.2015

	Amount (₹)
Original cost	2,00,000
(-) Total provision for Depreciation	30,000
Depreciation value	**1,70,000**
(-) Price realised	90,000
Profit on Sale on 1.10.16	**80,000**

Note 3: Profit / Loss on Sale of Machinery purchased on 1.10.2015

	Amount (₹)
Original cost	1,00,000
(-) Total provision for Depreciation	20,000
Depreciation value	**80,000**
(-) Price realised	85,000
Profit on Sale on 1.10.17	**5,000**

24. A company charges depreciation on plant and machinery under reducing balance system @ 15% p.a. On 1st April, 2014 the balance in the ledger stood at ₹ 460000. The following particulars are given relating to plant and machinery during the four years ended 31st March, 2018.

Date	Particulars
1.9.14	**A machine purchased for ₹ 20000 (installation expenses ₹ 1000) on 1.5.12 was fully destroyed in an accident.**
1.7.15	**Purchased a new machine costing ₹ 50000 (installation expenses ₹ 2500). A sum of ₹ 30000 was paid on the same day and the balance was paid in May, 16.**
31.8.16	**Plant purchased on 1st April, 1913 for ₹ 30000 (installation expenses ₹ 1500) was disposed of for ₹ 36000.**
1.11.17	**Some old machinery (book value on 1.4.14 ₹ 10000) were sold for ₹ 4000**

Show the Plant & Machinery Account as it would appear in the books of the company for the four years ended 31st March, 2018 assuming depreciation is charged proportionately even if the asset is sold or destroyed.

Solution:

In the books of ……..

Dr. Plant & Machinery Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.14	To Balance b/d	4,60,000	1.9.14	By P&L A/c [accidental loss (note 1)]	14,434
			31.3.15	By Depreciation A/c [note 1]	962
				By Depreciation A/c [note 1]	66,691
			31.3.16	By Balance c/d	3,77,913
		4,60,000			**4,60,000**
1.4.15	To Balance b/d	3,77,913	31.3.16	By Depreciation A/c [note 3]	62,593
1.7.15	To Bank A/c [30000+2500]	32,500		By Balance c/d	3,67,820
1.4.16	To Creditors A/c [50000-30000]	20,000			
		4,30,413			**4,30,413**
31.8.16	To Balance b/d	3,67,820	31.8.16	By Bank A/c	36,000
	To P&L A/c [profit on sale (note 4)]	17,864	31.3.17	By Depreciation A/c [note 4]	1,209
			1.11.17	By Depreciation A/c [note 5]	52,271
				By Balance c/d	2,96,204
		3,85,684			**3,85,684**
1.4.17	To Balance b/d	2,96,204	31.3.18	By Bank A/c	4,000
				By Depreciation A/c [note 6]	537
				By P&L A/c [loss on sale]	1,604
				By Depreciation A/c [note 7]	43,510
				By Balance c/f	2,46,553
		2,96,204			**2,96,204**

Workings:

Note 1: Accidental loss on 1.9.14

Date		Amount (₹)
1.5.89	Original cost	21,000
31.3.90	(-) Depreciation [15% for 11 months]	2,887
	WDV	**18,113**
	(-) Depreciation [15% of 18113]	2,717
	Value on 1.4.14	**15,396**
	(-) Depreciation [15% of 15396 for 5 months]	962
		14,434

Note 2: Depreciation on 31.3.15

Date		Amount (₹)
	WDV as on 1.4.91	4,60,000
	(-) WDV of Asset lost in accident	15,396
	WDV of other assets on 1.4.15	**4,44,604**
31.3.92	(-) Depreciation [15% of 444604] (approx)	66,691
		3,77,913

Note 3: Depreciation on 31.3.16

Date		Amount (₹)
	15% of 377913 (approx)	56,687
	(+) 15% of new purchase for 9 months [5/12 * 52500 * 9/12]	5,906
		62,593

Note 4: Depreciation etc… on Asset sold on 31.8.16

Date		Amount (₹)
1.4.90	Original cost	31,500
31.3.91	(-) Depreciation [15% of 31500]	4,725
	WDV	**26,775**
31.3.92	(-) Depreciation [15% of 26775]	4,016
	WDV	**22,759**
31.3.93	(-) Depreciation [15% of 22759]	3,414
	WDV	**19,345**
31.8.93	(-) Depreciation [15% of 19345 for 5 months]	1,209
31.8.93	**WDV**	**18,136**

So, Profit on sale = Selling price – WDV = 36,000 – 18,136 = 17,864

Note 5: Accidental loss on 1.9.14

Date		Amount (₹)
1.4.93	Balance b/d	3,67,820
1.4.93	(-) Book value of Assets sold later in the year	19,345
	Balance of remaining assets	**3,48,475**

So, Annual Depreciation = 15% of 348475 = ₹ 52271.25 = ₹ 52271

Note 6: Depreciation & loss on sale on 1.11.17

Date		Amount (₹)
1.4.91	Book value	10,000
31.3.92	(-) Depreciation [15% of 10000]	1500
	WDV	8,500
31.3.93	(-) Depreciation [15% of 8500]	1,275
	WDV	7,225
31.3.94	(-) Depreciation [15% of 7225]	1,084
1.4.94	**Book value**	**6,141**
1.11.94	(-) Depreciation [15% of 6141 for 7 months]	537
1.11.94	**WDV**	**5,604**
	Selling Price	4,000
	Loss on Sale	**1,604**

Note 7: Depreciation on 31.3.18

Date		Amount (₹)
1.4.94	Book value b/d	2,96,204
	(-) Book value of asset sold later in the year	6,141
	Balance of remaining assets	**2,90,063**

So, Annual Depreciation = 15% of 290063 = ₹ 43,509.45 = ₹ 43,509

25. How would you rectify the following errors in the book of Raj & Co.

(a) The total to the purchase book has been undercast by ₹ 100.

(b) The returns inward book has been undercast by ₹ 50.

(c) A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.

(d) A payment of ₹ 75 for salaries (to Joy) has been posted twice to Salaries Account

(e) The total of Bills Receivable book ₹ 1500 has been posted to the credit of Bills Receivable Account.

Solution:

(a) The Purchase Account should receive another debit of ₹ 100 since it was debited short previously:
"To undercasting of Purchase Book for the month of ________ ₹ 100

(b) Due to this error the Returns Inward Account has been posted short by ₹ 50:
"To undercasting of Returns Inward Book for the month of _______ ₹ 50

(c) The omission of the debit to the Depreciation Account will be rectified by the entry:
"To omission of posting on ₹ 250"

(d) The excess debit will be removed by a credit in the Salaries Account by the entry:
"By double posting on ₹ 75"

(e) ₹ 1500 should have been debited to the Bills Receivable Account and not credited. So, the Bills Receivable Account should be debited by ₹ 3000 by the entry:
"To wrong posting of Bills Receivable received on ₹ 3000"

26. The following errors were found in the book of Ramkingkar Prasad & Sons. Give the necessary entries to correct them.

(a) ₹ 500 paid for furniture purchased has been charged to ordinary Purchases Account.

(b) Repairs made were debited to Building Account for ₹ 50

(c) ₹ 100 paid for rent debited to Landlord's Account.

(d) Salary ₹ 125 paid to a clerk due to him has been debited to his personal account.

(e) ₹ 100 received from Sundar & Co. has been wrongly entered as from Surindar & Co.

Solution:

Dr. Cr.

Sl. no.	Particulars	L.F.	Amount (₹)	Amount (₹)
(a)	Furniture A/c Dr To Purchase A/c (Correction of wrong debit to purchase a/c for furniture purchased)		500	500
(b)	Repairs A/c Dr. To Building A/c (Correction of wrong debit to building a/c for repairs made)		50	50
(c)	Drawings A/c Dr. To Trade Expenses A/c (Correction of wrong debit to trade expenses a/c for cash withdrawn by the proprietor for his personal use)		100	100
(d)	Salaries A/c Dr. To Clerk's (Personal) A/c (Correction of wrong debit to clerk's personal a/c for salaries paid)		125	125
(e)	Sundar & Co. Dr. To Surindar & Co. (Correction of wrong credit to Surindar & Co. instead of Sundar & Co.)		100	100

27. From the following particulars prepare a Bank Reconciliation Statement to find out the causes of difference in two balances as on January 31st, 2019 for Star (Pvt.) Ltd.

Statements	**Amount (₹)**
Bank Overdraft as per Bank Statement	**17,000**
Check issued but not en-cashed during the January	**2,200**
Dividends on shares collected by banker	**2,300**
Interest charged by the bank recorded twice in the Cash Book	**500**
Check deposited as per Bank Statement not entered in Cash Book	**3,400**
Credit side of the Bank column in Cash Book cast short	**1,000**
Clubs dues paid by bank as per standing instruction not recorded in Cash Book	**1,200**
Un-credited check due to outstation	**3,900**

Solution:

In the books of Star (Pvt.) Ltd.
Bank Reconciliation Statement
As on January 31st, 2019

Dr. Cr.

Particulars	**Amount (₹)**	**Amount (₹)**
Bank overdraft as per Bank Statement (Dr.)		17,000
Add:		
Check issued but not en-cashed	2,200	
Dividends on shares collected by banker	2,300	
Interest charged by the bank recorded twice	500	
Check deposited not entered in Cash Book	3,400	8,400
		25,400

Less: Credit side of the Bank column in Cash Book cast short Clubs dues paid by bank Un-credited check due to outstation	 1,000 1,200 3,900	 (6,100)
Balance as per Cash Book (Cr.)		**19,300**

Workings:

Cash Book (Bank Column Missing)				**Bank Statement (Missing)**			
Dividend Interest error Deposited	**2300** **500** **3400**	Cast short Dues paid	**1000** **1200**	Balance Un-cashed check	**17000** **2200**	Un-credited	**3900**

28. From the following particulars prepare a Bank Reconciliation Statement to find out the causes of difference in two balances as on January 31st, 2019 for Laxmi (Pvt.) Ltd.

Statements	**Amount (₹)**
The bank overdraft as per cash book on 31st January, 2019	**6,340**
Interest on overdraft for 6 months ending 31st January, 2019 is entered in pass book	**160**
Bank charges are debited in the pass book only	**400**
Cheques issued but not cashed prior to 31st January, 2019	**11,68,000**
Cheques paid into bank but not cleared before 31st January, 2019	**22,17,000**
Interest on investments collected by the bank and credited in the pass book	**12,00,000**

Solution:

In the books of Laxmi (Pvt.) Ltd.
Bank Reconciliation Statement
As on January 31st, 2019

Particulars	Dr. **Amount (₹)**	Cr. **Amount (₹)**
Bank overdraft as per Cash Book Add: Interest debited in the pass book but not yet entered in the cash book Bank charges debited in the pass book but not entered in the cash book Cheques deposited but not yet credited in the pass book Less: Cheques issued but not yet presented Interest collected and credited by bank but not yet entered in cash book	 160 400 22,17,000 11,68,000 12,00,000	6,340 22,17,560 **22,23,900** (23,68,000)
Overdraft balance as per Pass Book		**1,44,100**

Study Note – 2

ACCOUNTING FOR SPECIAL TRANSACTIONS

Learning Objective: *This chapter of workbook includes Bills of Exchange, Consignment (cost price, invoice price, commission & valuation of stock), Joint Venture. The main objective of this chapter broadly is to help students to understand the accounting procedures on the Bills of Exchange, Consignment and Joint Venture areas of accounting. They will also be able to build up a comprehensive knowledge on those areas.*

1. (a) Multiple Choice Questions

He is a person who draws the bill. Here, He is _____________.
(i) Drawer
(ii) Seller
(iii) Creditor
(iv) All of the above

(b) ________________ is used without a trade transaction and is for mutual benefit.
(i) Accommodation bill
(ii) Trade Bill
(iii) Mutual Bill
(iv) None of the above

(c) X bought goods from Y for ₹ 4,000. Y draws a bill on 1.1.2018 for 3 months which was accepted by X for this purpose. On 1.3.2018, X arranged to retire the bill at a rebate of 12% p.a. Show the entries in the books of X and Y. Calculate Rebate Amount.
(i) 46
(ii) 58
(iii) 32
(iv) None
[Hints: Rebate = ₹ 4,000 x 12/100 x 35/365 (1st March to 4th April) = ₹ 46.]

(d) Mohan sold goods on 1st September, 2014 for ₹ 2,00,000/- to Sohan. Sohan immediately accepted a 3 months bill. On the due date Sohan requested for the renewal of the bill for a further period of two months. Mohan agrees to pay interest @ 9% per annum to be included in the new bill. Determine the amount of the new bill.
(i) ₹ 2,03,000
(ii) ₹ 2,03,000
(iii) ₹ 2,03,000
(iv) None of the above

(e) At the time of dishonor of an endorsed bill which one or these accounts would be credited by the drawee -
(i) bill payable account
(ii) drawer
(iii) Bank
(iv) Bill dishonored account

(f) If a bill drawn on 3rd July 2018 for 40 days payment must be made on -
- (i) 16th August, 2018
- (ii) 15th August, 2018
- (iii) 12th August, 2018
- (iv) 14th August, 2018

(g) This is additional commission payable to the consignee for taking over additional responsibility of collecting money from customers. Here, the commission is _______________.
- (i) Ordinary Commission
- (ii) Del Credre Commission
- (iii) Agent Commission
- (iv) Special Commission

(h) When the goods are sent by consignor to the consignee, ___________ sends a 'proforma Invoice'.
- (i) Consignor
- (ii) Consignee
- (iii) Customer
- (iv) Agent

(i) X sends out 100 bags to Y costing ₹ 1000 each. 60 bags were sold at 10% above cost price. Sale value will be
- (ii) 66,000
- (iii) 65,000
- (iv) 60,000
- (v) 65,500

(j) The consignment accounting is made on the following basis
- (i) accrual basis
- (ii) realization basis
- (iii) cash basis
- (iv) All of above

(k) Which of the following statement is true?
- (i) There is no difference between joint venture and partners
- (ii) Consignment and joint venture is same
- (iii) There is not separate act for joint venture
- (iv) In case of joint venture, the number of third party is none only

(l) Which of the following accounts are maintained in the joint venture when separate set of books are maintained -
- (i) Joint bank A/c
- (ii) Joint venture A/c
- (iii) Co-ventruer A/c
- (iv) All of these

Answer:

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
(iv)	(i)	(i)	(iii)	(ii)	(iv)	(ii)	(i)	(ii)	(i)
(k)	(l)								
(iii)	(iv)								

(b) Fill in the Blanks

- **(i)** **To provide a legal evidence of dishonour, the fact of dishonour is to be noted on the bill by_____________.**
- **(ii)** **_____________is not a part of double entry system.**
- **(iii)** **______________ is drawn to settle a trade transaction.**
- **(iv)** **If the due date is a public holiday what will be the due date of the bill _____________.**
- **(v)** **A promissory note contains an ______ to pay.**
- **(vi)** **Bills of exchange is a ____________ instrument**
- **(vii)** **The cash allowance provided by the drawer to the drawee for the pre-payment of the bill is known as ___________________.**
- **(viii)** **Consignment account is ____Account.**
- **(ix)** **A periodic statement furnished by the consignee to consignor is ____________.**
- **(x)** **4. Del credere commission is allowed to cover the risk of ____.**
- **(xi)** **Joint venture does not follow _____basis of accounting.**

Answers:

(i) Notary Public
(ii) Memorandum
(iii) Trade bill
(iv) preceding day
(v) undertaking or promise
(vi) negotiable
(vii) rebate
(viii) nominal
(ix) account sales
(x) bad debts
(xi) Accrual

(c) True & False

- **(i)** **Memorandum joint venture account is a real account**
- **(ii)** **Period between the date of drawing of the bill and the period it becomes due is called Tenure of the Bill.**
- **(iii)** **In case of endorsement of bill endorser debits endorsee and credits B/R account.**
- **(iv)** **In case of consignment, the risk of loss or damage to the goods remains with the consignor till the goods consigned are sold by the consignee.**
- **(v)** **Abnormal Losses arise as a result of natural causes, e.g. evaporation, leakage, breakage etc., and**
- **(vi)** **they are inherent in nature.**
- **(vii)** **Commission will be shared between only consignee.**
- **(viii)** **Joint venture agreement must be registered.**
- **(ix)** **Maximum number of members in joint venture business is 200.**

Answers:

i-F, ii-T, iii-T, iv-T, v-F, vi-T, vii-T, viii-F, ix-F

(d) Match the followings

1. **Match the following:**

Transaction	Journal Entry
1.Contribution of co-venturers	**(a)Joint Venture A/c Dr. To, Co-Venturers A/c**
2.Goods sent by co-venturer out of his own stock	**(b)Joint Venture A/c Dr. To Joint Bank A/c**
3.Expenses paid by co-venturers	**(c)Joint Venture A/c Dr. To, Co-Venturers A/c**
4.Materials purchased out of joint venture funds	**(d)Joint Bank A/c Dr. To, Co-Venturers A/c**

1-(d), 2-(c), 3-(a), 4-(b)

2. **Match the following:**

Column A	Column B
1. Consignment	**(a) Nominal**
2. Co-ventruer	**(b) Personal**
3. Consignment stock	**(c) Real**

1-(a), 2-(b), 3-(c)

2. Write the features of a bill of exchange.

Based on this definition the following features of a bill of exchange are noticed:
(a) It's an instrument in writing;
(b) It contains an unconditional order;
(c) It's signed by the maker;
(d) It's drawn on a specific person ;
(e) There is an order to pay a specific sum of money;
(f) It must be dated and stamp;
(g) It must bear revenue stamp.

3. Write short note on 'Days of grace'.

In case the bill is payable on demand, it becomes due immediately on presentation for payment. In the same way if the bill is not payable on demand becomes due on the third day from the date of maturity. These three days are called Days of Grace. For example, if a bill is drawn on 1.4.2018 for 4 months, the due date or date of maturity will be 4.8.2018. The same can be computed as under:

Example

Date of Drawing	1.4.2018
Add: Period/Tenure 4 months	1.8.2018
Add: Days of Grace	3
Due Date / Date of Maturity	4.8.2018

4. What is need of Accommodation Bill?

Generally a bill of exchange is drawn by a creditor on his debtor to settle a trade debt. A creditor is a person who has sold goods on credit basis and a debtor is a person who has purchased goods on credit basis. Thus, a bill which is drawn by a creditor and accepted by a debtor is known as a trade bill of exchange.

On the other hand, a bill of exchange which is drawn to oblige a friend or to give him a temporary assistance or to provide him a loan or to accommodate one or more parties, is called an "accommodation bill of exchange".

Such a bill is drawn and accepted without any sale and purchase of goods. As the bill is drawn to fulfill the temporary need of money so there is no question of retaining this bill by the drawer until the due date. The bill will be discounted and cash will be received immediately. The drawer before maturity date is required to provide the acceptor with funds so that he may need his acceptance on the due date.

For example, let us suppose A is in need of money, he approaches his friend B and asks him to give him a loan for ₹ 5,000. B also shows his inability but agrees that he will accept a bill of exchange. A draws a bill on B which he accepts at three months. A discounts the bill with his bank and gets the money. After three months but before the due date, A sends ₹ 5,000 to B in order to meet his acceptance. B receives amount and pays his acceptance.

5. Show the accounting treatment of Credit Sales in books of Consignor.

In case consignee sales goods on cash and credit both, the responsibility of collection from customers may be either with consignee or consignor. The risk of non-collection is usually borne by the consignor. If consignor want this to be shouldered by the consignee, additional commission in the form of 'Del Credre' commission is payable. It may be noted that in case of credit sales, the personal accounts of debtors are to be maintained by the consignor and not the consignee.

The entry for credit sales will be:
Consignment Debtors A/c Dr
To Consignment A/c

6. Make difference between Joint Venture and Consignment.

Point of Distinction	Joint Venture	Consignment
Identity of Parties	The parties are called co-venturers.	The parties are called consignor or principal and consignee or agent.
Methods of keeping accounts	Four methods of keeping accounts.	Is only one.
Continuity of Relationship between parties	Is terminated as soon as the venture is over.	Will be there even after one transaction.
Main activity	The business may be concerned with buying or selling or contract work or any other activities.	Consignments are meant for sale of goods alone.
Type of Agreement	It is a temporary partnership.	It is not a partnership. The agent need not be a agent.

7. On 1st August, 2018, VIJAY sold goods to PRITAM for ₹ 10000 on credit. He drew a bill on PRITAM on the same date for the amount to be paid on 1st October, 2018. PRITAM accepted the bill. VIJAY got the bill discounted with the bank on 1st August @ 12% p.a. On the due date, the bill was dishonored and noting charges paid by VIJAY ₹ 50. Pass the necessary journal entry for bills of exchange in the books of VIJAY and PRITAM.

Solution:

Journal Entries in the books of VIJAY

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
2018 1 Aug	PRITAM's A/c Dr. To, Sales A/c (Being goods sold to PRITAM)	10,000	 10,000
2018 1 Aug	Bills Receivable A/c Dr. To, PRITAM's A/c (Being bill drawn on PRITAM and accepted by him)	10,000	 10,000
2018 1 Aug	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Being bill discounted with the bank @ 12%p.a.)	9,800 200	 10,000
2018 1 Oct	PRITAM's A/c Dr. To Bank A/c To Cash A/c (Being bill dishonored and noting charges paid on behalf of PRITAM)	10,050	 10,000 50

Journal Entries in the books of PRITAM

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
2018 1 Aug	Purchases A/c Dr. To VIJAY's A/c (Being goods purchased from VIJAY)	10,000	 10,000
2018 1 Aug	VIJAY's A/c Dr. To Bills Payable A/c (Being bill drawn by VIJAY accepted)	10,000	 10,000
2018 1 Oct	Bills Payable A/c Dr. Noting charges A/c Dr. To VIJAY's A/c (Being bill dishonored and noting charges paid by VIJAY on our behalf)	10,000 50	 10,050

8. On 1st January, 2018 Vilas draws a bill of exchange for ₹ 10000 due for payment after 3 months on Sayantan. Sayantan accepts to this bill of exchange on 4th March, 2018. Sayantan retires the bill of exchange at a discount of 12% p.a. Now, you are request to show the journal entries in the books of Ratan.

Solution:

Journal Entries in the books of PRITAM

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
2018 1 Jan	Bill receivable A/c Dr. To, Sayantan's A/c (Being bill of exchange no.... drawn on Sayantan due for payment on 4th April, 2018)	10,000	 10,000
2018	Bank A/c Dr.	9,900	

4 Mar	Interest A/c (Discount) Dr. To, Bills Receivable A/c (Being retirement of bill of exchange due for maturity on 4th April, 2018 by Sayantan 1 month before maturity, the rebate being given to him at 12% p.a.)	100	 10,000

9. Adarji and Bomanji were partners in a joint venture to prepare a film for the government, sharing profits and losses in the proportion of two-fifths and three-fifth respectively. The government agrees to pay ₹ 1,00,000. Adarji contributes ₹ 10,000 and Bomanji contributes ₹ 15,000. These amounts are paid into a Joint Bank Account. Payments made out of the joint bank account were;

Statements	Amount (₹)
Purchase of equipment	**6,000**
Hire of equipment	**5,000**
Wages	**45,000**
Materials	**10,000**
Office expenses	**5,000**

Adarji paid ₹ 2,000 as licensing fees. On completion the film was found defective and government made a deduction of ₹ 10,000. The equipment was taken over by Bomanji at a valuation of ₹ 2,000. Separate books were maintained. You are requested to prepare necessary ledger accounts.

Solution:

Joint Bank Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
-	To, Adarji	10,000	-	By, Joint Venture A/c -	
-	To, Bomanji	15,000		Purchase of equipment	
-	To, Joint Venture A/c	90,000		Hire of equipment	6,000
				Wages	5,000
				Materials	45,000
				Office expenses	10,000
				By, Adarji	5,000
			-	By, Bomanji	19,600
			-		24,400
		1,15,000			**1,15,000**

Joint Venture Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
-	To, Joint Venture A/c -		-	By, Joint Bank A/c	90,000
	Purchase of equipment	6,000		(100000 – 10000)	
	Hire of equipment	5,000			
	Wages	45,000	-	By, Bomanji	2,000
	Materials	10,000		(Equipment taken)	
	Office expenses	5,000			
-	To, Adarji –				
-	Licensing fee	2,000			
-	To, Profit to –				
	Adarji 7,600				
	Bomanji 11,400	19,000			
		92,000			**92,000**

Adarji's Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
-	To, Joint Bank A/c – Re-payment	19,600	-	By, Joint Bank A/c	10,000
			-	By, Joint venture A/c – Fees	2,000
				– Profit	7,600
		19,600			**19,600**

Bomanji's Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
-	To, Joint venture A/c – Equipment	2000	-	By, Joint bank A/c	15000
-	To, Joint bank A/c – Repayment	24400	-	By, Joint venture A/c – Profit	11400
		26400			**26400**

10. **Laxmi & Sons bought goods of the value of ₹ 7,500 and consigned them to Ganesh & Co. to be sold to them on a joint venture, profit being divided in 2/3 : 1/3. They also paid ₹ 550 for freight, insurance and cartage and drew on Ganesh & Co. for ₹ 3,000 on account. The bill was discounted by Laxmi & Sons for ₹ 2,900. Ganesh & Co. paid ₹ 300 for dock dues, storage, rent etc. The sales realised ₹ 12,500 and the sales expenses ₹ 250 were defrayed by Ganesh & Co. The later forwarded a sight draft for the balance due to Laxmi & Sons after charging their sales commission at 5 percent on the gross proceeds. You are requested to write up the accounts in the books of both the parties. No interest needs to be brought into account. You are required to prepare necessary accounts in the books of Laxmi & Sons.**

Solution:

In the books of Laxmi & Sons
Joint Venture Account

Dr. Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To, Cash – Cost of goods		7,500	By, Ganesh & Co. – Sales proceeds	12,500
To, Cash – Expenses		550		
To, Discount on bill		100		
To, Ganesh and Co. –				
Dock, dues & storage	300			
Sales expenses	250			
Commission	625	1,175		
To, Profit and loss - 2/3 share		2,116.67		
To, Ganesh & Co. - share of profit		1,058.33		
		12500		**12500**

Ganesh & Co.'s Account

Dr. Cr.

Particulars	Amount (₹)	Particulars		Amount (₹)
To, Joint venture A/c - sales1	12500	By, Bill receivable account		3,000
		By Joint venture account		
		Dock & Storage	300	
		Sales expenses	250	
		Commission	625	1175
		By, Joint venture account		1,058.33
		By, Cash - sight draft		7,266.67
	12500			**12500**

11. On 1st July, 2017 Mohan of Maharastra consigned goods to the value of ₹ 50000 to Pandit of Punjab. This was made by adding 25% on the cost. Mohan paid ₹ 2500 for freight and ₹ 1500 for insurance. During transit 1/10th of the goods was totally destroyed by fire and a sum of ₹ 2400 was realized from the insurance company. On arrival of the goods Pandit paid ₹ 1800 as carriage to godown. During the year ended 30th June, 2018, Pandit paid ₹ 3600 for godown rent and ₹ 1900 for selling expenses 1/9th of the remaining goods were again destroyed by fire in godown and nothing was recovered from the insurance company. Upto 30th June, 2018, Pandit sold half of the original goods for ₹ 30000 and charged a commission of 5% on sales. 30th June 2018, Pandit sent a bank draft to Mohan for the amount so far due from him.

You are required to prepare Consignment Account in the books of Mohan for the year ended 30th June, 2018.

Solution:

In the books of Mohan

Consignment to Punjab Account

Dr. Cr.

Date	Particulars	Amount (₹)	Amount (₹)	Date	Particulars	Amount (₹)	Amount (₹)
1.7.17	To Goods sent on Consignment A/c [at loaded price (note 1)]		50,000	30.6.18	By Loss in Transit A/c [note 2]		4,400
					By Goods lost (in consignment hands)		4,600
1.7.17	To Bank A/c [own expenses]			30.6.18	A/c [note 3]		
					By Pandit A/c [sales]		30,000
	-Freight	2,500			By Stock on Consignment A/c [note 3]		16,800
	-Insurance	1,500	4,000				
30.6.18	To Pandit A/c [expenses]						
	-Carriage to godown	1,800			By Goods sent on Consignment A/c [note 1]		10,000
	-Godown rent	3,600					
	-Selling Expenses	1,900	7,300				
30.6.18	To Pandit A/c [commission @ 5% of ₹ 30000]		1,500				
30.6.18	To Provision on Stock A/c [loading included in stock]		3,000				
			65,800				**65,800**

Additional Accounts Shown [Although not asked for]

Loss in Transit Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment to Punjab A/c	4,400		By Bank A/c [insurance claimed received]	2,400
				By P/L A/c [actual loss]	2,000
		4,400			**4,400**

Goods Lost (In Consignee's Hands) Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
	To Consignment to Punjab A/c	4,600		By P/L A/c [actual loss]	4,600
		4,600			**4,600**

Workings:

Note 1: Goods Sent

Particulars	Amount (₹)
Invoice price (loaded price)	50,000
(-) Loading included @ 25% on coast or 25/125 of loaded price	10,000
Cost price of goods sent	**40,000**

Note 2: Loss in Transit

Particulars	Value (₹)	Loading (₹)
Goods sent	50,000	10,000
Consignor's Expenses (N.R.)	4,000	
	54,000	**10,000**
Loss in Transit [1/10th of Goods Sent]	1/10*54,000	1/10*10,000
	5,400	**10,000**

So, Adjusted amount may be shown as ₹ (5400 – 1000) = ₹ 4400

Note 3: Goods destroyed in consignee's hands

Particulars	Value (₹)	Loading (₹)
Value of goods received by Consignee (carriage to godown)	(54000–5400) 48600	(10000-10000)
(+) Non-recurring expenses paid by consignee [carriage to godown]	1800	9000
Goods received	**50400**	**9000**
Goods destroyed [1/9th of goods received]	(1/9*50400) **5600**	(1/9*9000) **1000**

So, Adjusted amount may be shown as ₹ (5600-1000) = ₹ 4600

Note 4: Valuation of unsold goods

Goods received by consignee = 1-1/10 = 9/10th of original goods
(-) Loss in consignee's hand = 1/9*9/10th of original goods
Remaining portion = 3/10th original goods
(-) Portion sold = ½ of original goods or 5/10th original goods
Portion of unsold stock = 3/10th of original goods

Valuation 8/10th of goods sent = 8/10*₹ 54000 = ₹ 16200 (+) Proportionate non-recurring expenses of consignee [For 9/10 => ₹ 1800 So, 3/10 => ₹ 1800*3/9 = ₹ 600] Loading included = 3/10 of original loading = 3/10*₹ 10000 = ₹ 3,000

Note 5: Profit/Loss on Consignment

Particulars	Amount (₹)
Result as per Consignment	Nil
Net loss in Transit	2,000
Net loss in Consignee's hands	4,600
	6,600

12. **Mr. Dey of Bihar on 15th January, 2018 sent to Mr. Paul of Kolkata a consignment of 250 televisions costing ₹ 10,000 each. Expenses of ₹ 7000 were met by the consignor. Mr. Paul spent ₹ 4,500 for clearance on 30th January, 2018 and the selling expenses were ₹ 500 per television as and when the sale made by Mr. Paul. Mr. Paul sold on 4th March, 2018, 150 televisions at ₹ 14,000 per television and again on 10th April, 2018, 75 televisions at ₹ 14,400 each. Mr. Paul was entitled to a commission of ₹ 500 per television sold plus 1/4th of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated at the rate of ₹ 12,500 per television sold. Mr. Paul the account sale and the amount due to Mr. Dey on 30th April, 2018 by bank demand draft.**

You are requested to show the Consignment Account and Mr. Paul's Account in the books of Mr. Dey.

Solution:

In the books of Mr. Dey
Consignment to Bihar Account

Dr. Cr.

Date 2018	Particulars	Amount (₹)	Date 2018	Particulars	Amount (₹)
15.1	To Goods sent on Consignment A/c	25,00,000	4.3	By Mr. Paul's A/c	
	[250*₹ 10000]		10.4	-Sales 150*₹ 14000	21,00,000
30.1	To Cash A/c [expenses]	7,000		-Sales 75*14400	10,80,000
4.3	To Mr. Paul's A/c				
	-Clearance charges	4,500	30.4	By Stock on Consignment A/c (note 2)	2,51,150
	-Selling expenses [150*₹ 500]	75,000			
10.4	-Selling expenses [75*₹ 500]	37,500			
	-Commission (note 1)	1,63,500			
30.4	To P&L A/c (profit on consignment)	6,43,650			
		34,31,150			**34,31,150**

In the books of Mr. Paul

Dr. Cr.

Date 2018	Particulars	Amount (₹)	Date 2018	Particulars	Amount (₹)
	To Consignment to Bihar A/c	21,00,000		By Consignment to Bihar A/c	4,500
	To Consignment to Bihar A/c	10,80,000		By Consignment to Bihar A/c	75,000
				By Consignment to Bihar A/c	37,500
				By Consignment to Bihar A/c	1,63,500
				By Consignment to Bihar A/c	28,99,500
		31,80,000			**31,80,000**

Workings:

Note 1: Mr. Paul's Commission
Total sales = 21,00,000+10,80,000 = ₹ 31,80,000; Television sold = 150+75 = 225 units
Sales calculated @ ₹ 12500 each = ₹ (225*12500) = ₹ 28,12,500; Ordinary commission = (225*₹ 500) = ₹ 1,12,500

Now, if total commission (ordinary + special) is 'x'
Then 'x' = 112500+1/4[3180000-x-2812500] or, x = 112500+91875-x/4 or, x+x/4 = 204375 or, 5x/4 = 2,04,375
So, x = 204375*4/5 = ₹ 1,63,500
Hence, Total commission is ₹ 1,63,500 comprising of ordinary commission ₹ 1,12,500, special commission ₹ 51,000

Note 2: Stock on Consignment
Television unsold/Television sent = 250-225/250 = 25/250 = 1/10th of goods sent

Particulars	Amount (₹)
Cost price of goods sent	25,00,000
(+) Consignor's expenses	7,000
(+) Non-recurring expenses of consignee (clearance)	4,500
	25,11,500

So, Stock = 1/10th of 25,11,500 = ₹ 2,51,150.

Study Note – 3

PREPARATION OF FINAL ACCOUNTS

Learning Objective: ***To ascertain the results of transactions and the financial position of the business.***

1. What are the objectives of preparing final accounts?

Answer:

a) Ascertaining the operating performance (efficiency) or results of an organisation for an accounting period (Trading and Profit & Loss Accounts).
b) Showing the financial position (list of resources and the funding of the resources i.e. assets and liabilities) of the organisation at the end date of an accounting period (Balance Sheet).

2. Gross profit is the difference between
a) Sales and cost of goods sold
b) Sales and operating expenses
c) Sales and non-operating expenses
d) None of the above

Answer : C

3. Payment to a creditor
a) Reduce an asset, reduce a liability
b) Increase an asset, reduce a liability
c) Only reduce a liability
d) Only reduce an asset.

Answer : a

4. If a company wants to earn a 25% profit on sales, what will be the profit mark up on the cost.
a) 20%
b) 33.33%
c) 30%
d) 25%

Answer : b

5. An increase in the provision for doubtful debt will
a) Increase in net profit
b) Decrease in net profit
c) Increase in liability
d) Non of the above

Answer : b

6. Balance sheet is prepared

a) At a particular date
b) At the close of a day
c) For the close of a period
d) For showing performance of an organisation.

Answer : a

7. The portion of abnormal loss of inventory (Loss occurred by accident) not compensated by the insurance company should be

a) Debited to profit & Loss account
b) Credited to trading account
c) Shown in the asset side of the balance sheet
d) Shown in the liability side of the balance sheet

Answer : a

8. Provision for discount on debtor is created only on

a) Good debtors
b) Bad and doubtful debtors
c) Insolvent debtors
d) None of the above

Answer : a

9. What is closing entries?

Answer:

The entries which have been made in the journal for transferring the various accounts to the trading and profit & loss account is known as closing entries.

10. Unsold stock should not form a part of cost, that's why it is deducted at the time of calculating cost of goods sold. The principle which is governed here is termed as

a) Matching concept
b) Conservatism convention
c) Realization concept
d) Cost concept

Answer : a

11. If closing stock appears in the trial balance, how to treat this item in preparation of final account?

Answer:

The closing stock is then not entered in the trading account. This is because it is already been adjusted in cost of goods sold. It will be shown only in the balance sheet.

12. According to the conceptual framework, the most basic objective of financial reporting is to convey information

a) about the economic resources and obligations of a company.
b) about the liquidity and solvency of a company.
c) about the future cash flows of a company.
d) that enables users to make decisions about a company.

Answer: d

13. **All of the following support the objectives of financial reporting except providing information that**
    - **a) is useful for making investment and credit decisions.**
    - **b) helps management evaluate alternative projects.**
    - **c) concerns enterprise resources and claims to those resources.**
    - **d) helps investors and creditors predict future cash flows.**

    Answer: b

14. **In a period of rising prices, which one of the following inventory methods usually provides the best matching of expenses against revenues?**
    - **a) Weighted average**
    - **b) First-in, first-out**
    - **c) Last-in, first-out**
    - **d) Specific identification**

    Answer: **c**

15. **Assets are listed on the balance sheet in the order of their**
    - **a. purchase date.**
    - **b. adjustments.**
    - **c. liquidity.**
    - **d. balance.**

    Answer: c

16. **Which of the following accounts is *not* closed?**
    - **a. Depreciation Expense**
    - **b. Dividends**
    - **c. Service Revenue**
    - **d. Accumulated Depreciation**

    Answer: d

17. **Which of the following is a position statement?**
    - **(a) Profit and loss account**
    - **(b) Balance sheet**
    - **(c) funds flow statement**
    - **(d) Trial balance**

    Answer : b

18. **Mr. X runs a manufacturing enterprise, which close its books on March, 31 every year. He purchased a machinery on 1st January 2018 at a cost ₹ 1,00,000. Calculate the amount of depreciation for the year 2017-18,if**
    - **(a) machinery is depreciated @ 20% p.a. and**
    - **(b) machinery is depreciated by 20%.**

    Answer:

    (a) ₹ 5,000 [1,00,000 X 20% X 3/12]
    (b) ₹ 20,000 [1,00,000 X 20%]

19. (a) what is mutual indebtedness between debtors and creditors? (b) Write the journal entry of mutual indebtedness.

Answer:

(a) when amount is receivable from and payable to the same person at a particular point of time, this incidence is called mutual indebtedness.

(b) Creditors A/c ……..Dr.
To, Debtors A/c

20. Write the meaning of contingent liability and its treatment.

Answer:

The probable liabilities which may turn into a actual liabilities on the happening or non-happening of any future event.
It is to be shown as a foot note at the end of the Balance sheet.

21. True & False:

1. **Income earned and received are called accrued incomes.**
2. **Octroi is shown on Trading Account.**
3. **The Profit & Loss A/C will give the information regarding the financial position for an particular year.**
4. **Loose Tools would be included in balance sheet as current asset**
5. **Current assets are kept in the business for use over a long period.**
6. **Trade Receivables is a current asset.**
7. **In sole trade, bad debt recovery is recorded as income.**
8. **All nominal accounts are shown in profit & loss account**
9. **Income & Expenditure account is nothing but a consolidated summary of the Cash Book.**
10. **Receipts and payments account is a personal account.**

Answer:

1	False	2	True	3	False	4	False	5	False
6	True	7	True	8	True	9	False	10	False

22. Fill in the blanks:

1. **Pre-received subscription is shown on the ___of the balance sheet**
2. **Goodwill is an _____but not ______asset**
3. **____contains closing balances of real and personal account**
4. **Income due but not yet received are known as ___**
5. **Loss on sale of furniture is shown on debit side of ___**
6. **Amounts are paid to suppliers in advance and goods or services are not received till the balance sheet date,they are to be shown as_______**
7. **________is due to be realised within 12 months after the Reporting Date**
8. **Personal accounts from whom money is receivable is reflected in the _____ side of the balance sheet**
9. **Indirect wages come to the debit side of the _________**
10. **Amortisation represents a fall in the value of a ___________**

Answer:

1.	Liability side	6.	current assets
2.	intangible, fictitious	7.	Current assets
3.	Balance sheet	8.	Assets
4.	Accrued income	9.	Profit & loss A/C
5.	Profit and loss account	10.	Intangible fixed assets

23. How to treat the closing stock if it appears in the adjustment as ₹ 1,00,000 at cost and ₹ 80,000 at its market price.

Answer:

The market price of closing stock of ₹ 80,000 is to be credited to Trading A/c and also to be recorded in the Asset side of the Balance Sheet.

24. Bank overdraft has been obtained from SBI by hypothecation of stock-in-trade. SBI allows the overdraft limit by keeping a margin of 20%. The present bank overdraft balance is reached maximum permissible limit, which appears in trial balance at ₹ 80,000. Ascertain closing stock.

Answer:

Assume value of closing stock be 100.
Margin = 20, Maximum bank overdraft could be raised = 100-20 =80,
Now bank overdraft is ₹ 80,000.
Value of closing stock = 80,000 X 100/80 = ₹ 1,00,000.

25. A company has debtor balance at the end of the year 4,00,000. Bad debts has been shown in the trial balance is ₹ 20,000. Z, a debtor for ₹ 40,000 was declared insolvent, only 40 paise in the rupee was receivable against his estate. Create a provision for bad debts at 5% and provision for Discount on debtors @ 2%.

Answer:

	Z	General Dr.	Total Dr.
Amount Due	40,000	3,60,000	4,00,000
Less: Provision for bad debt	24,000	18,000	42,000
	[40,000 X 60%]	[3,60,000 X 5%]	
	16,000	3,42,000	3,58,000
Less: provision for discount	------------------	6,840	6,840
		[3,42,000 X 2%]	
	16,000	3,35,160	3,51,160

26. From the following information, calculate the amount that will appear as 'stationery' in the Income & Expenditure account for the year ended 31.3.18.

Stock of stationery as on 1.4.2017	**₹ 24,000**
Creditors for stationery on 1.4.17	**50,000**
Stock of stationery as on 31.3.18	**48,000**
Amount paid for stationery during 2017-18	**2,00,000**
Creditors for stationery on 31.3.18	**48,000**

Workings: Purchased for stationery during 2017-18

Creditors for Stationery A/c			
To, Bank A/c	2,00,000	By, Balance B/D	50,000
To, Balance C/D	48,000	By, Stationery A/c (Purchase, B. figure)	1,98,000
	2,48,000		2,48,000

Solution:

Stationery A/c			
To, Balance B/D	24,000	By, Income & Expenditure A/c	1,74,000
To, Creditors for Stationery	1,98,000	[Stationery consumed, B. figure]	
		By, Balance C/D	48,000
	2,22,000		2,22,000

So, Stationery consumed for the year 2017-18, is ₹ 1,74,000.

27. **Prepare income & expenditure account for the year ended 31.12.17 and balance sheet on that date from Receipts & Payments A/c and other following information.**

Receipts & Payments Accounts for the year ended 31.12.2017			
To, Balance B/D	7,000	By, Payments of medicine	30,000
To, Subscription	50,000	By, Honorarium to doctors	10,000
To, Donation	14,500	By, Salaries	27,500
To, Interest on Investment @7% p.a.	7,000	By, sundry expenses	500
To, Charity Show Proceeds	10,000	By, Equipment purchase	15,000
		By, Charity show expenses	1,000
		By, Balance C/D	4,500
	88,500		88,500

Other Information:

	1.1.17	31.12.17
Subscription due	500	1,000
Subscription received in advance	1,000	500
Stock of medicines	10,000	15,000
Amount due to medicine suppliers	8,000	12,000
Value of equipment	21,000	30,000
Value of building	40,000	38,000

Answer:

Income & Expenditure A/C for the year ended 31.12.17			
Expenditure	₹	Income	₹
To, Salary	27,500	By, Subscription (WN)	51,000
To, Sundry expenses	500	By, Interest in Investment	7,000
To, Medicine consumed (WN)	29,000	By, Charity show proceeds	10,000
To, Charity show expenses	1,000	By, Capital Fund (Deficit)	8,000
To, Depreciation (WN)			
Equipment	6,000		
Building	2,000		
To, Honorarium to Doctors	10,000		
	76,000		76,000

Balance Sheet as at 31.12.17				
Liabilities		₹	Assets	₹
Capital Fund on 1.1.17 (WN)	1,69,500		Building	38,000
Add: Donations	14,500		Equipment	30,000
	1,84,000		Investment	1,00,000
Less: Deficit	8,000	1,76,000	Stock in medicine	15,000
			Subscription receivable	1,000
Suppliers of medicine		12,000	Cash & Bank	4,500
Advance Subscription		500		
		1,88,500		1,88,500

Workings:

1. Depreciation on Building & Equipment

	Equipment	Building
Book value on 1.1.17	21,000	40,000
Add: Purchase during 2017	15,000	
	36,000	40,000
Less: Book value on 31.12.17	30,000	38,000
	6,000	2,000

2. Medicine used during 2017

Medicine A/c			
To, Balance B/D	10,000	By, Income & Expenditure A/C	29,000
To, Medicine Suppliers A/C	34,000	[Balancing figure]	
(Purchase of medicine WN 3)		By, Balance C/D	15,000
	44,000		44,000

3. Medicine purchase during 2017

Medicine Suppliers A/c			
To, Bank A/c	30,000	By, Balance B/D	8,000
To, Balance C/D	12,000	By, Medicine A/c	34,000
		[purchase of medicine …B/ Figure]	
	42,000		42,000

4. Subscription for the year2017

Subscription A/c					
1.1.17	To, subscription Receivable A/c	500	1.1.17	By, Advance Subscription A/C	1,000
31.12.17	To, Advance Subscription A/C	500		By, Bank A/C [as per Receipts & Payments]	50,000
	To, Income & Expenditure A/c	51,000		By, Subscription Receivable A/c	1,000
	[Balancing Figure]				
		52,000			52,000

5. Value of investment:
   Interest on investment ₹ 7,000 [Given @ 7% p.a.].
   Value of investment = 7,000 X 100/7 = ₹ 1,00,000

6. Capital fund on 1.1.17

Balance Sheet as at 1.1.17			
Liabilities	₹	Assets	₹
Capital fund [B/Figure]	1,69,500	Building	40,000
Suppliers of medicine	8,000	Equipment	21,000
Advance subscription	1,000	Investment (WN 5)	1,00,000
		Stock of Medicine	10,000
		Subscription Receivable	500
		Cash & Bank	7,000
	1,78,500		1,78,500

28. From the following Trial Balance prepare Trading and Profit & Loss A/c for the year ending 31.12.2018 and a Balance Sheet as on that date.

Debit	₹	Credit	₹
Drawings	10,200	Capital	95,000
Stock (1-1-18)	18,900	Sales	2,02,000
Purchase	1,38,600	Creditors	16,020
Printing & Stationery	2,600	Returns	1,580
		Provident fund	6,550
Debtors	22,800	Interest on deposit with XYZ	450
Freehold Premises	39,000	Outstanding trade expenses	1,600
Deposit with XYZ @10% (from 30-6-18)	18,000	Provision for bad debt	2,200
Salaries (including advance ₹ 3,500)	28,200	Bad debt recovered	700
Returns	890	Suspense A/C	900
Furniture	8,600		
Trade expenses	12,650		
Income Tax	7,900		
Bank Balance	6,950		
Cash in Hand	6,310		
Patent Right	5,400		
	3,27,000		3,27,000

Other information:

1. **Last year closing stock was valued at 10% below cost. It is needed to revert to cost. Stock as on 31.12.18 was valued at ₹ 16,400 (at cost).**
2. **Goods costing ₹ 650 pilfered by a employee and furniture (book value on 1.1.18 ₹ 700) destroyed by an accidental fire on 31.12.18.**
3. **A debtor is included in both debtors and creditors, the amount due from him is ₹ 430 and the amount due to him is ₹ 200.**
4. **New furniture costing ₹ 1,200 was purchased on 31.12.18 on credit but not yet recorded.**
5. **Suspense A/c represents a cheque received from a debtor in full settlement of a claim for ₹ 1,000. The cheque was deposited into bank and duty collected also.**
6. **The employer's contribution to provident fund ₹ 1,240 is yet to be paid.**
7. **Write-off ₹ 400 as bad and maintain provision for bad debt @5% on debtors.**
8. **Depreciation all intangible fixed assets @10% p.a. Patent was acquired in 2018 and annual amortisation equal to 1/10th of the cost stated last year.**
9. **Creditors include supplies of stationery ₹ 200.**

Answer:

In the books of …
Trading and Profit & Loss account for the year ended 31.12.18

To, opening stock		21,000	By, Sales	2,02,000	
To, purchase	1,38,600		Less: Return Inward	890	2,01,110
Less: Goods pilfered	650				
	1,37,950		Closing stock		16,400
Less: Return outward	1,580	1,36,370			
To, profit & Loss A/c		60,140			
		2,17,510			**2,17,510**
To, printing & Stationery		2,600	By, Trading A/c (Gross profit)		60,140
To, salaries	28,200		By, Interest on Deposit with XYZ	450	
Less: Advance	3,500	24,700	ADD: Accrued	450	900
To, Trade Expenses		12,650	By, Bad debt Recovery		700
To, Discount Allowed		100			
To, Abnormal Loss			By, Prov. For bad debt	2,200	
- Goods pilferred	650		Less: New Reserve	1,060	1,140
-Furniture Destroyed	630	1280			
(₹ 700-70)			By, undervaluation of opening stock		2,100
To, Depreciation					
-freehold premises	3900				
-furniture	860				
-patent (₹ 5,400 X 1/9)	600	5,360			
To, Bad Debts		400			
To, Employer's Contribution to P Fund		1,240			
To, Capital A/C (Net Profit)		16,650			
		64,980			64,980

Balance Sheet as an 31.12.18

Capital (1.1.18)	95,000		Freehold premises	39,000	
Add: Net Profit	16,650		Less: Depreciation	3,900	35,100
	1,11,650		Furniture	8,600	
Less: Drawing	10,200		Less: Destroyed	630	
Less: Income Tax	7,900	93,550		7,970	
Sundry Creditors	16,020		Less: Depreciation	860	
Less: suppliers of stationery	200		Add: New furniture	1,200	8,310
	15,820		Deposit with XYZ		18,000
Less: Set-off	200	15,620	Stock in trade		16,400
Suppliers of stationery		200	Sundry Debtors	22,800	
Suppliers of furniture		1,200	Less: Cheque received	1,000	
Provident fund	6,550			21,800	
Add: Current year Contribution	1,240	7,790	less: Set-off	200	
Outstanding trade expenses		1,600		21,600	
			Less: Bad debts	400	
				21,200	
			Less: Prov. for bad debt	1,060	20,140
			patents	5,400	
			Less: Depreciation	600	4,800
			Prepaid salary		3,500

			Accrued interest		450
			Bank balance		6,950
			Cash in hand		6,310
		1,19,960			1,19,960

Working:

1. Since opening stock was undervalued, actual value of opening stock
   ₹ 18,900 X 100/90 = ₹ 21,000
2. Abnormal loss of goods ₹ 650 is to be debited to Profit & Loss A/c, and credited to purchase A/C. Abnormal loss for furniture (700-70) ₹ 630 will appear in debit side of profit & loss and also will be deducted from furniture.
3. Suspense A/C …..Dr. 900
   Discount Allowed A/C …..Dr. 100
   To, Debtors A/C ………………………..1,000
4. ₹ 5,400 is given after charging one year's depreciation of patent, which actually was ₹ 6,000 (5,400 X 100/90) in 2017. Depreciation will be = 5,400 X 1/9 = ₹ 600
5. Provident fund due for this year ₹ 1,240 is to be debited to profit & loss account and added to PF balance of ₹ 6,550 in liability side of the balance sheet.

29. From the following particulars prepare manufacturing account for the year ended 31.3.2017.

Raw materials: 1.4. 2016	**1,00,000**	**Wages: regular worker**	**3,70,000**
31.3.17	**1,20,000**	**Apprentice workers**	**35,000**
Work-in-progress: 1.4.2016	**60,000**	**Depreciation: factory shed**	**55,000**
31.3.2017	**50,000**	**Factory component**	**33,000**
Purchase	**5,20,000**	**Factory furniture**	**22,000**
Return outward	**40,000**		
Factory lighting	**45,000**	**Freight inward**	**60,000**
Salary to factory staff	**1,20,000**	**Sale of scrap**	**30,000**
Salary to factory manager	**90,000**		
Normal loss of material	**4,400**		

Answer:

In the books of……………
Manufacturing Account for the year ended 31.3.2017

To, Raw material consumed			By, Trading A/C (Cost of goods produced transferred)		12,70,000
Opening stock	1,00,000				
Add: purchase	5,20,000				
Freight	60,000				
	6,80,000				
Less: Return Outward	40,000				
	6,40,000				
Less: Closing stock	1,20,000	5,20,000			
To, wages (Regular)		3,70,000			
Prime Cost		**8,90,000**			
To, Factory overhead:					
Salary to factory staff	1,20,000				
Salary to factory manager	90,000				
Factory lighting	45,000				

Depreciation: factory shed	55,000				
Factory component	33,000				
Factory furniture	22,000				
Apprentice workers	35,000				
	4,00,000				
Less: Sale of scrap	30,000				
	3,70,000				
Add: opening working-in-progress	60,000				
	4,30,000				
Less: Closing work-in-progress	50,000	**3,80,000**			
Factory Cost		**12,70,000**			**12,70,000**

SECTION – B : FUNDAMENTALS OF COST ACCOUNTING

Study Note – 4

FUNDAMENTALS OF COST ACCOUNTING

Learning Objective: ***To understand the concepts of Cost Accounting, its significance and relations with financial accounting. To understand the classification of costs and preparation of Cost Sheet.***

Choose the correct answer:

1. Fixed costs are considered as:
(A) fixed per unit of output.
(B) fixed for those cost unaffected by inflation.
(C) fixed, outside the control of management.
(D) fixed in total when production size changes.

2. Prime cost is:
(A) the process cost of a product.
(B) the standard cost of operating a department.
(C) the total of direct costs.
(D) relevant costs incurred in manufacturing a product.

3. Cost centres are:
(A) ascertainment of unit cost of output or service.
(B) locations or functions for which costs are ascertained.
(C) a section of production unit for which budgets are prepared.
(D) amounts of outlay for various activities.

Answer: 1. (D), 2. (C), 3. (B)

4. Which of the following are fixed and variable costs?
(A) Depreciation on delivery vehicles (Straight line basis)
(B) Direct material costs
(C) Machine rental costs
(D) Royalties payable on units produced

Answer:

Fixed cost [Depreciation on delivery vehicles, Machine rental costs]
Variable cost [Direct material costs, Royalties payable on units produced]

5. A company manufactures and retails designed garments. Determine correct classification of cost for the purpose of ascertaining cost of units produced, Classifications are as follows:
(i) direct materials
(ii) direct labour
(iii) direct expenses
(iv) indirect production overhead
(v) research and development costs
(vi) selling and distribution costs
(vii) administration costs
(viii) finance costs

1. Royalty payable on number of units of garments produced
2. Audit fees
3. Performing Rights Society charge for music broadcast throughout the factory
4. Wages of security guards for factory
5. Wages of operatives in the cutting department
6. Chief accountant's salary
7. Postage cost of parcels sent to customers
8. Cost of painting advertising slogans on delivery vans
9. Road fund licences for delivery vehicles
10. Cost of developing a new product in the laboratory
11. Lubricant for sewing machines
12. Market research undertaken prior to a new product launch
13. Interest on bank overdraft
14. Pen drive for general office computer
15. Wages of storekeepers in materials store
16. Wages of fork lift drivers who handle raw materials
17. Telephone rental
18. Cost of fabric purchased
19. Annual maintenance contract for general office photocopying machine
20. Cost of advertising products on television
21. Insurance of the company's premises
22. Branch office expenses

Answer:

1	iii	5	ii	9	vi	13	viii	17	vii
2	vii	6	vii	10	v	14	vii	18	i
3	iv	7	vi	11	iv	15	iv	19	vii
4	iv	8	vi	12	vi	16	iv	20	vi
21	vii	22	vi						

6. True or False:

1. Replacement cost is the current market cost of replacing an asset or a material.
2. Cost accounts provide information for determination of profit or loss.
3. Bad debts, legal charges for recovery of debts are considered as selling & distribution expenses.
4. Imputed costs are hypothetical cost
5. Main objective of cost accounting is to control cost.
6. Godown rent, warehouse expenses, depreciation etc. are overhead cost.
7. Direct cost are directly related to a cost centre or cost unit.
8. Indirect costs are also known as overheads.
9. Semi variable cost are also known as step costs or slab cost.
10. Controllable costs are not influenced by managerial action and are within their control.
11. General principal of ascertaining cost is the same in every method of costing.
12. The cost system should be independent of the financial accounting system.
13. Cost accounting is a post-mortem of past cost.
14. Cost accounting facilitates in price fixation.
15. Operation costing is also known as job costing.
16. In automobile industry, multiple costing is used.
17. In batch costing, the cost of a group of products is ascertained.
18. cost accounting records both monetary and physical units.
19. cost accounting is based on estimated figures.
20. Sunk cost is relevant for decision- making.

21. Period cost is not assigned to products.
22. Semi-variable costs are partly variable and partly fixed in relation to output.
23. An opportunity costs are does not involve cash outlays.
24. Variable costs change proportionately with change in output.
25. Fixed costs per unit increase with increase in output.
26. Out of pocket costs involve payment to outsiders.
27. Rent on own building is imputed cost.
28. Tender is an estimation of selling price.

Answer:

1	True	2	False	3	True	4	True	5	True
6	True	7	True	8	True	9	True	10	False
11	True	12	False	13	False	14	True	15	False
16	True	17	True	18	True	19	True	20	False
21	True	22	True	23	True	24	True	25	False
26	True	27	True	28	True				

7. Fill in the blanks:

1. Spare-parts manufacturing industry use _____ costing method.
2. Surplus or loss on sale of factory plant and machinery is an item of ______accounting.
3. Royalties paid on patents is to be treated as _________ expenses.
4. Carriage and freight outward are the item of _______________ overhead.
5. ______ cost is a cost chargeable to a budget or cost centre, which can be influenced by the actions of the person in whom control of the centre is vested.
6. ______ is the achievement of real and permanent reductions in the unit cost of goods manufactured or services rendered without impairing their suitability for the use intended.
7. Cost of rectification of defective articles are _______ .overhead.
8. ___ is used in those concerns which produce a group of similar products of small values covering short duration at own premises as per specific order of the customers.
9. _______ is used in those concerns which produce a number of component parts of specific orders through different processes or operations and subsequently assembled into final product.
10. In _______ costing all costs are charged to the cost centres or cost units.
11. Contract costing, process costing are ______ of costing.
12. The cost centres are known as __________ centres.
13. Fringe benefits to workers are _______ labour.
14. Wages for abnormal idle time are not included in the cost of product or job and charged to _______.
15. Differential costing is a ________ of costing.

Answer:

1.	Batch	9.	Composite costing
2.	Financial	10.	Absorption costing
3.	Direct	11.	methods
4.	distribution	12.	Responsibility
5.	Controllable	13.	Direct
6.	Cost reduction	14.	Costing Profit & Loss A/c
7.	Production	15.	techniques
8.	Batch Costing		

8. **Royal Manufacturing produces water bottle. For the year just ended, Royal produced10,000 bottle with the following total costs:**

Direct materials ₹ 20,000; Direct labour 35,000; Overhead 10,000; Selling expenses 6,250; Administrative expenses 14,400; During the year, Royal sold 9,800 units for ₹12 each. Beginning finished goods inventory consisted of 630 units with a total cost of ₹ 4,095. There was no beginning or ending inventories of work in process.

1. **Calculate the unit costs for the following: direct materials, direct labour, overhead, prime cost, and conversion cost.**
2. **Prepare schedules for cost of goods manufactured and cost of goods sold.**

Answer:

1. Unit direct materials =₹ 20,000/10,000 =₹ 2.00,
   Unit direct labour =₹ 35,000/10,000 =₹ 3.50
   Unit overhead =₹ 10,000/10,000 =₹ 1.00
   Unit prime cost =₹ 2.00 + ₹ 3.50 =₹ 5.50
   Unit conversion cost =₹ 3.50 + ₹ 1.00 =₹ 4.50

2. Statement of cost of goods manufactured:

Direct materials used	₹ 20,000
Direct labour	35,000
Overhead	10,000
Total manufacturing costs	₹ 65,000
Add: Beginning work in process	0
Less: Ending work in process	0
Cost of goods manufactured	₹ 65,000

Cost of goods sold schedule:

Cost of goods manufactured	₹ 65,000
Add: Beginning finished goods	4,095
Less: Ending finished goods*	(5,395)
Cost of goods sold	₹ 63,700

Units in ending finished goods inventory = 10,000 + 630 – 9,800 = 830;
830 X (₹ 2.00 +₹ 3.50 + ₹ 1.00) =₹ 5,395.

9. **Which of the following costs would be charged to the product as a prime cost?**
A) Supervisor wages
B)Consumable stores
C) Primary packing materials
D) Component parts

Answer: C,D

10. **Classify the following labour costs as either direct or indirect.**
(a) The basic pay of direct workers (cash paid, tax and other deductions).
(b) The basic pay of indirect workers.
(d) Bonus payments under a group bonus scheme.
(e) Employer's State Insurance contributions.
(f) Idle time of direct workers, paid while waiting for work.

Answer: a) Direct; b) Indirect c) Indirect d) Indirect e) Indirect

11. **Bajaj Ltd. is considering its options with regard to a machine which cost ₹140,000 four years ago. If sold, it would generate scrap proceeds of ₹170,000. If kept, this machine would earn net income of ₹200,000. The current replacement cost of this machine is ₹230,000.What is the relevant cost of the machine?**
A ₹140,000
B ₹170,000
C ₹200,000
D ₹230,000

Answer: C) ₹ 200,000

12. **Whether the following statement is true or false.**
(a) Cost accounting is mainly concerned with the preparation of management accounts for internal managers of an organisation. Financial accounts are prepared for individuals external to an organisation e.g. shareholders, customers and so on.
b) A fixed cost is a cost which tends to vary with the level of activity.

Answer: a) True b) False

13. **Fill in the blanks:**

a) A…… is a unit of product or service to which costs can be related. It is the basic control unit for costing purposes.

(b) A …… acts as a collecting place for certain costs before they are analysed further.

Answer:

(a) Cost unit
(b) Cost centre

14. **Choose the correct words from those highlighted.**

In practice, most cost accounting systems use historical cost/economic cost/ economic value/cost value as a measurement basis.

Answer: Historical cost

15. **Which of the following would be classified as indirect labour?**

A)A stores assistant in a factory store
B)Assembly workers in a company manufacturing unit
C)An audit clerk in a auditors' firm.
D)Masons in a construction company

Answer: A) A stores assistant in a factory store

16. **Which of the following options describes the value of a benefit sacrificed when one course of action is chosen in preference to an alternative?**

A)Sunk cost
B) Differential cost
C) Opportunity cost
D)Relevant cost

Answer: C) Opportunity cost

17. A factory produces and sells 1000 units of a product in July, 2018 for which the following particulars are available:

Stock of direct materials on 1st July 2018	**₹ 6000**
Purchases and receipts of direct materials in July	**1,44,000**
Direct wages paid in cash in July (which includes ₹ 3000 on account of June, 2017 and an advance of ₹ 2000 for August,2018)	**55,000**
Works overhead charges for the month	**60,000**
Stock of direct materials on 31st July, 2018	**10,000**
Administration and selling overhead	**₹ 25 per unit**
Sales price	**₹ 300 per unit**

From the above particulars you are required to (a) prepare a cost statement for July, 2018.

Answer:

1. Direct material/Raw material		
Opening stock	6,000	
Add: Purchase & receipts of materials	1,44,000	
Less: Closing stock of materials	10,000	1,40,000
2. Direct Labour		
Direct wages paid	55,000	
Less: Paid for last month (June)	3,000	
Less: Prepaid for next month (August)	2,000	50,000
Prime cost		1,90,000
3. Works overhead		60,000
Work cost		2,50,000
4. Administrative & selling overhead (@ ₹ 25 per unit for 1000 units)		25,000
Cost of sales		2,75,000
5. Profit (Balancing figure)		25,000
Total sales (@ ₹ 300 per unit for 1,000 units)		3,00,000

18. Give reasons, whether the following items are to be dealt within cost accounting, explain whether and how any of these items are to be included in the total cost.
(i) Cash discount received from suppliers of raw materials
(ii) Royalties received for allowing others to use own patents.
(iii) Royalties paid on patents of other party used in own manufacturing process.
(iv) Surplus realised on sale of factory plant & machinery.

Answer:

(i) It is an item of financial accounting and not forming any part in the cost structure of a product or services. Therefore, it is to be excluded from cost of material purchased.
(ii) Royalties received from other is to be considered as an income and excluded from ascertaining cost. It is an item of financial accounting.
(iii) Royalties paid on patents is to be treated as direct expense. It is to be charged to prime cost.
(iv) Surplus or loss on sale of factory plant and machinery is an item of financial accounting.

19. (a) From the following particulars, prepare a statement showing cost of production and profit or loss assuming that LIFO method is followed for valuation of closing stock of finish goods.

	1st April 2017 (₹)	31st March 2018 (₹)
Stock of raw material	50,000	62,500
Work-in-progress	62,500	87,500
Stock of finish goods	90,000 (2000 units)	₹ (2500 units)
Raw material purchased		2,00,000
Direct labour		1,37,000
Chargeable expenses		50,000
Machine hour rate		₹ 20 per hour
Machine hour worked		5,000 hours
Office and administrative overhead		₹ 12 per unit
Selling and distribution overhead		₹ 7.50 per unit
Sales (12000 units)		₹ 65 per unit

b) What would be the profit and loss if the firm follows FIFO method for valuation of closing stock of finish goods?

c) What would be the profit and loss if the firm follows Simple-average method for valuation of closing stock of finish goods?

Answer:

	₹	Per unit
Raw material: opening stock	50,000	
Add: purchase	2,00,000	
Less: closing stock	62,500	
Raw material consumed	1,87,500	15
Add: productive labour	1,37,500	11
Chargeable expenses	50,000	4
Prime cost	3,75,000	30
Add: Factory overhead (5,000 hours X ₹ 20 per hour)	1,00,000	8
Gross work cost	4,75,000	38
Add: Opening work in progress	62,500	5
Less: Closing work in progress	87,500	7
Work cost	4,50,000	36
Add: General office overhead (12,500 units X ₹ 12 per unit)	1,50,000	12
Cost of production	6,00,000	48
Add: Opening finish stock	90,000	
Less: Closing finish stock [90,000 + (₹48 X 500 units)]	1,14,000	
Cost of goods sold	5,76,000	48
Add: selling & distribution overhead (12,000 units X ₹ 7.50)	90,000	7.50
Cost of sales	6,66,666	55.50
Add: Profit (Balancing figure)	1,14,000	9.50
Sales (12,000 units X ₹ 65)	7,80,000	65.00

Note:

(a) Closing stock of finish goods (LIFO) = ₹ [90,000 + (500 X 48)] = 1,14,000

(b) Value of closing stock under FIFO method = 2,500 X48 = ₹ 1,20,000. If the firm follows FIFO method, the difference in value of stock of finish goods = ₹ (1,20,000 – 1,14,000) = ₹ 6,000. Therefore, revised profit will be = (1,14,000 + 6,000) = ₹ 1,20,000.

(c) Value of closing stock under Simple average method = 2,500 X (45 + 48)/2= ₹ 1,16,250. The difference in value of stock of finish goods = ₹ (1,16,250 – 1,14,000) = ₹ 2,250. Therefore, revised profit will be = (1,14,000 + 2,250) = ₹ 1,16,250.

20. From the following information, compute the raw material purchased.

Opening stock of raw material	**20,000**
Closing stock of the raw material	**30,000**
Direct wages	**2,10,000**
Factory overhead	**60% of direct wages**
General overhead	**10% of works cost**
Cost of production	**6,88,600**

Answer:

Cost of production	6,88,600
Less: General overhead (office & Administrative) [10% of work cost, i.e., 10/110 of cost of production, 10/110 X 6,88,600)	62,600
Work cost	6,26,000
Less: Factory overhead (60% of direct wages) [60% X 2,10,000]	1,26,000
Prime cost	5,00,000
Less: Direct Wages	2,10,000
Raw material consumed	2,90,000
Add: Closing stock of raw material	30,000
	3,20,000
Less: Opening stock of raw material	20,000
Purchase of raw material	3,00,000

Note:
1. The purchase of raw material is computed by back calculation method starting from cost of production.
2. Material consumed = op. Stock + Purchase – Closing stock , Alternatively
   Purchase = Material consumed + closing stock – Opening stock = 2,90,000 + 30,000 – 20,000 = 3,00,000.

21. Write the classification of fixed costs.

Answer:

Fixed cost can be classified by the following four ways

(a) Committed costs:
These costs are the result of inevitable consequences of commitments previously made or are incurred to maintain certain facilities and cannot be quickly eliminated. The management has little or no discretion in such type of costs e.g., rent, insurance, depreciation on building or equipment purchased.

(b) Policy and Managed costs:
Policy costs are incurred for implementing some management policies as executive development, housing etc. and are often discretionary. Managed costs are incurred to ensure the operating existence of the company e.g., staff services.

(c) Discretionary costs:
These costs are not related to the operation but can be controlled by the management. These costs arise from some policy decisions, new researches etc. and can be eliminated or reduced to a desirable level at the discretion of the management.

(d) Step Costs:
Such costs are constant for a given level of output and then increase by a fixed amount at a higher level of output.

22. Base for selection of suitable costing method and cost unit:

Name of industry	Method of costing	Suitable cost unit
Sugar Industry	Process Costing	Cost per quintal/tone
Steel or cement	Process Costing	Cost per tone
Hospital	Service/ Operating	Cost per bed per patient per day
Building	Contract Costing	Cost per sq. feet
Education Institution	Operating/ service	Cost per student per year
Pharmaceuticals	Process costing	Cost per strip/bottle of different size
Soft drinks	Process costing	Cost per case(24)/ bottle of different sizes
Canteen	Operating/ service	Cost per meal

23. What is a cost object?

Answer:

A cost object is anything for which an organisation needs a separate measurement of cost. Examples include a product, a service, a project, a customer, a brand category, an activity, and a department.

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